

**TSKB**

*Türkiye Sınai Kalkınma Bankası*

**ANNUAL  
REPORT**

**2016**

# ORDINARY GENERAL ASSEMBLY MEETING AGENDA DATED 23.03.2017

1. Commencement, constitution of the Meeting Presidency in accordance with the Articles of Association of the Bank and delegation of authority to the Meeting Presidency for the execution of the minutes of the General Assembly.
2. Review and discussion of the Annual Reports of the Board of Directors, Declaration of Compliance with the Corporate Governance Principles and Independent Auditor Reports regarding the accounts and transactions of the Bank within the year of 2016.
3. Review, discussion and approval of the balance sheet and profit and loss statements of the Bank for the year of 2016.
4. Approval of the appointment of the members of the Board of Directors substituting the members leaving their post during the year.
5. Release of the Members of the Board of Directors.
6. Adoption of a resolution regarding the determination and allotment of the profit to be distributed, determination of the dividend allotment date.
7. Determination of allowance for the Members of the Board of Directors.
8. Election of the Independent Audit Firm.
9. Approval of the Amendment of the 5th Article of the Articles of Association captioned capital which is certified by the Capital Markets Board, Banking Regulation and Supervision Agency and Ministry of Customs and Trade.
10. Presentation of the information regarding the donations made within the year and determination of the upper limit for donations to be made within the year 2017.
11. Authorization of the Members of the Board of Directors for the transactions depicted in Articles 395 and 396 of the Turkish Commercial Code.
12. Presenting information regarding the transactions within the scope of Article 1.3.6. of the Corporate Governance Principles of the Capital Markets Board.

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## **GLOSSARY**

## CORPORATE PROFILE

## TSKB DELIVERS CORPORATE BANKING, INVESTMENT BANKING AND CONSULTANCY SERVICES TO SUPPORT TURKEY'S SUSTAINABLE DEVELOPMENT.

### AN IMPORTANT PLAYER IN TURKEY'S DEVELOPMENT AND GROWTH

Established in 1950 in Istanbul as Turkey's first private development and investment bank, TSKB works towards sustainable growth and creates value for all stakeholders, specifically for the national economy. Delivering operations from its Head Office in Findıklı, Istanbul, and its branches in Ankara and Izmir, TSKB delivers corporate banking, investment banking and consultancy services, to support Turkey's development process.

As of December 31, 2016, TSKB ranks the second among development and investment banks with an asset size of TL 24 billion.

### REPUTED POSITION BEFORE INTERNATIONAL FINANCIAL INSTITUTIONS

In its 66-year history, TSKB has assumed a key role in helping many companies from various industries make their investments through the long-term funds it obtained from international financial institutions and extended through either direct lending or APEX banking. TSKB works in close cooperation with key international financial institutions to financially support the investment and entrepreneurship potentials of the private sector and extends funds for investment projects and working capital needs of companies in various sectors, mainly in the fields of renewable energy, energy and resource efficiency, industry, utilities and finance.

TSKB enjoys a high level of brand recognition and reputation in international development finance platforms. Most reputed development finance institutions

including the World Bank (IBRD), the European Investment Bank (EIB), the German Development Bank (KfW), the Council of Europe Development Bank (CEB), the International Finance Corporation (IFC), the European Bank for Reconstruction and Development (EBRD), the Japan Bank for International Cooperation (JBIC), the French Development Agency (AFD), and the Islamic Development Bank (IDB) are among TSKB's global business partners.

### THE PIONEER IN SUSTAINABILITY

Placing its sustainability philosophy at the core of its values and business model in order to ensure economic growth while protecting the environment and the society's quality of life, TSKB employs its innovative perspective to lead not only the banking industry but also the entire country. More than half of the Bank's portfolio consists of sustainability investments. The Bank has a deserved place among the leading banks supporting Turkey's transition to a low-carbon production level. TSKB shapes all its operations within the framework of the principle of sustainability and measures the environmental and social impact of all investment projects it extends loans to.

Having published the first GRI-approved Sustainability Report in the banking industry, the Bank took subsequent steps to offset its carbon footprint every year to become Turkey's first carbon-neutral bank. In 2016, TSKB issued the "Green/SRI Bond" to break another new ground in Turkey. The Bank's sustainability operations have so far been crowned with awards by many prestigious international organizations. The Green/SRI

Bond issued by TSKB received the EMEA "Green/SRI Bond Deal of the Year" award from the GlobalCapital in addition to SRI award from IFR.

### A STRONG PORTFOLIO OF SUBSIDIARIES

TSKB is an integrated services group incorporating financial subsidiaries that operate in the fields of brokerage, real estate and sustainability and have leading positions in their respective industries. Through various fields of business they operate in, TSKB's subsidiaries diversify the product and service range the Bank offers to customers and allow for offering and cross-selling complementary services.

### A STABLE STOCK PERFORMANCE

Traded on BIST 50, TSKB stocks closed the year with an approximate market value of TL 2.9 billion to mark a 10.7% increase and thus performed 1.6% better than BIST-100 and 2.4% better than BIST Banking Index.

TSKB, the pioneer of sustainable banking in Turkey, retains its position on BIST Sustainability Index. Furthermore, TSKB stocks are now traded on FTSE4Good Emerging Markets Index, which was established in December 2016.

50.7% of TSKB shares are held by Isbank Group of Turkey. 39.1% of the Bank's shares are traded on BIST Star Index with the symbol "TSKB".

Detailed information on TSKB's stock performance is provided on page 11 of the report.



A photograph of a large industrial facility, likely a refinery or chemical plant. The image shows a complex network of blue-painted steel structural beams and numerous large, horizontal and vertical pipes. Some pipes are wrapped in yellow insulation. The scene is set against a bright, slightly hazy sky. A semi-transparent red geometric shape, resembling a stylized 'T' or a large triangle, is overlaid on the right side of the image, serving as a background for the text.

**TSKB, WHICH IS THE PIONEER OF  
SUSTAINABLE BANKING IN TURKEY,  
WAS INCLUDED IN FTSE4GOOD  
EMERGING MARKETS INDEX IN 2016  
WHILE MAINTAINING ITS PLACE IN  
BIST SUSTAINABILITY INDEX.**

## OUR MISSION, VISION, RESOURCES & GOALS

WITH ITS DEVELOPMENT BANKING MISSION, TSKB AIMS TO SUPPORT PRIVATE SECTOR INVESTMENTS.

### OUR MISSION

FOR TURKEY'S SUSTAINABLE DEVELOPMENT: SUPPLY ENTREPRENEURS WITH MEDIUM- AND LONG-TERM FINANCING, BROKERAGE AND ADVISORY SUPPORT, PLAY A CONTINUOUS ROLE IN THE DEVELOPMENT OF CAPITAL MARKETS IN TURKEY, CREATE INCREASINGLY MORE ADDED VALUE FOR OUR SHAREHOLDERS, CUSTOMERS, EMPLOYEES, AND ALL OTHER STAKEHOLDERS.

### OUR VISION

TO BE THE PIONEERING BANK IN TURKEY'S SUSTAINABLE DEVELOPMENT.

### OUR STRENGTHS

- » SOLID CAPITAL STRUCTURE AND STRONG PARTNERS,
- » A REPUTATION AS AN INSTITUTION THAT IS TRUSTED BY THE INTERNATIONAL AND SUPRANATIONAL FINANCIAL INSTITUTIONS THAT PROVIDE FUNDING,
- » AN ABILITY TO ACCESS LOW-COST, LONG-TERM FUNDING AND TO PUT SUCH FUNDING TO WORK,
- » PROFESSIONAL AND EXPERIENCED HUMAN RESOURCES WHO ARE EQUIPPED WITH INTERNATIONAL-CLASS KNOWLEDGE AND EXPERIENCE,
- » AN ABILITY TO REACH AN EXTENSIVE CUSTOMER BASE WITH LOW OPERATIONAL COSTS,
- » RELIABLE AND ADVANCED TECHNOLOGICAL INFRASTRUCTURE.

## OUR GOALS





## TSKB'S PORTFOLIO OF PRODUCTS AND SERVICES

WITH ITS LOAN FACILITIES AND ADVISORY SERVICES, TSKB CONTINUES TO REINFORCE ITS CONTRIBUTION FURTHER TO TURKISH ECONOMY AND EMPLOYMENT.

### CORPORATE BANKING

#### PRODUCTS AND SERVICES THAT CONTRIBUTE TO TURKISH ECONOMY AND LABOR FORCE

##### CORPORATE LOANS

- » INDUSTRIAL INVESTMENTS
- » ENERGY AND RESOURCE EFFICIENCY
- » ENVIRONMENT FRIENDLY INVESTMENTS
- » RENEWABLE ENERGY
- » SUSTAINABLE TOURISM
- » HEALTH AND EDUCATION INVESTMENTS

##### PROJECT FINANCE

- » POWER GENERATION AND DISTRIBUTION
- » HOTELS, SHOPPING MALLS AND COMMERCIAL REAL ESTATE
- » LOGISTICS
- » TRANSPORTATION/INFRASTRUCTURE
- » PUBLIC-PRIVATE PARTNERSHIP PROJECTS
- » MERGERS & ACQUISITIONS

##### OTHER LOANS

- » WHOLESALE BANKING
- » SME FINANCE
- » EXPORT FINANCE
- » FOREIGN TRADE FINANCE
- » COUNTRY (ECA) LOANS
- » WORKING CAPITAL FINANCE
- » FINANCIAL LEASING

### INVESTMENT BANKING

#### PRODUCTS AND SERVICES THAT SUPPORT TO IMPROVE CLIENTS ASSETS

##### CORPORATE FINANCE

- » EQUITY PUBLIC OFFERINGS AND TRANSACTIONS
- » DEBT SECURITY OFFERINGS AND TRANSACTIONS
- » MERGERS & ACQUISITIONS
- » ASSET PURCHASES & SALES ADVISORY
- » PRIVATIZATION ADVISORY

##### CAPITAL MARKETS\*

- » EQUITIES BROKERAGE SERVICES
- » FIXED INCOME SECURITIES BROKERAGE SERVICES
- » FX TRANSACTIONS
- » WARRANT TRANSACTIONS
- » REPO TRANSACTIONS
- » FOREIGN DERIVATIVE TRANSACTIONS
- » FOREX AND LEVERAGED TRANSACTIONS
- » LOANS AGAINST SECURITIES
- » PORTFOLIO MANAGEMENT
- » INVESTMENT CONSULTANCY

##### DERIVATIVES

- » FORWARDS
- » OPTIONS
- » CAPS & FLOORS
- » SWAPTIONS
- » SWAP TRANSACTIONS
  - » FOREX
  - » INTEREST RATE
  - » CROSS CURRENCY

### CONSULTANCY

#### TAILOR-MADE PRODUCTS AND SERVICES THAT ADD VALUE TO THE BANK'S CLIENTS' OPERATIONS

##### STRATEGIC CONSULTANCY

- » COMPANY, BRAND AND LICENSE APPRAISAL
- » VALUATION AND FEASIBILITY ANALYSIS
- » FINANCIAL STRUCTURING
- » STRATEGIC ROADMAPS
- » SECTOR ANALYSIS
- » PROJECT FINANCE CONSULTANCY

##### REAL ESTATE APPRAISAL\*

- » REAL ESTATE APPRAISAL
- » MACHINERY AND EQUIPMENT APPRAISAL
- » BIDDING CONSULTANCY
- » THE HIGHEST AND BEST-USE ANALYSES
- » COLLATERAL APPRAISAL
- » FEASIBILITY AND PROJECT MONITORING
- » SECTOR ANALYSIS AND MARKET RESEARCH REPORT
- » GREEN BUILDING ANALYSIS
- » URBAN TRANSFORMATION CONSULTANCY
- » CONCEPT DEVELOPMENT CONSULTANCY

##### SUSTAINABILITY\*

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

\* TSKB provides a part of its service in investment banking and advisory within the scope of cooperation with its subsidiaries namely Yatırım Finansman Securities, TSKB Real Estate Appraisal and Escarus TSKB Sustainability Consultancy.





TL 24 BILLION

**WITH ITS TL 24 BILLION ASSETS AS OF  
2016 YEAR-END, TSKB RANKS SECOND  
WITHIN THE DEVELOPMENT AND  
INVESTMENT BANKS**

## KEY INDICATORS AND RATIOS

TSKB'S LOAN PORTFOLIO SURGED BY 26.7% TO REACH TL 17.3 BILLION. WITH AN NPL RATIO OF 0.3%, THE BANK MAINTAINED ITS ASSET QUALITY.

KEY INDICATORS (TL MILLION)	2012	2013	2014	2015	2016
Assets	10,290	12,911	15,701	20,735	24,002
Loan Book	6,895	9,177	10,981	13,675	17,322
Shareholders' Equity	1,755	1,885	2,288	2,489	2,928
Net Profit	307	326	369	407	476

(%)	2012	2013	2014	2015	2016
Average Return on Equity	19.7	17.9	17.7	17.0	17.6
Average Return on Assets	3.1	2.8	2.6	2.2	2.1
Capital Adequacy Ratio	20.4	18.2	18.1	14.9	14.3

### ASSETS (TL MILLION)



### LOAN BOOK (TL MILLION)





#### SHAREHOLDERS' EQUITY (TL MILLION)

2014	2,288
2015	2,489
2016	2,928

#### NPL RATIO (%)

2014	0.2
2015	0.4
2016	0.3

#### ASSETS COMPOSITION (%)

	2014	2015	2016
Liquid Assets	27	31	25
Loans	70	66	72
Other	3	3	3



#### INCOME BREAKDOWN (%)

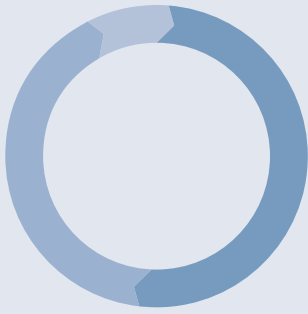
	2014	2015	2016
Net Interest Income	88	88	93
Net Commissions	2	1	1
Other Income	10	11	6



## OWNERSHIP STRUCTURE, CREDIT RATINGS AND TSKB STOCK PERFORMANCE

TSKB STOCK, 39.1% OF WHICH IS TRADING ON THE BIST STAR INDEX, OVERPERFORMED BIST-100 BY 1.6% AND BIST BANKING INDEX BY 2.4% IN 2016.

### TSKB OWNERSHIP STRUCTURE (%)



T. İş Bankası Group 50.65  
Türkiye Vakıflar Bankası T.A.O. 8.38  
Free Float and Other 40.97

Türkiye İş Bankası A.Ş., the main shareholder of TSKB, holds direct or indirect authority over the management and auditing of the Bank.

TSKB's paid-in capital is TL 2,050 million, and its ownership structure is presented in the chart above.

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

### RATINGS

#### Fitch Ratings

Fitch Ratings has affirmed TSKB's ratings and outlook on 18<sup>th</sup> of October 2016.

#### Foreign Currency

Long Term	BBB-
Outlook	Negative
Short Term	F3

#### Local Currency

Long-term	BBB-
Outlook	Negative
Short-term	F3

#### Other

Support Rating	2
Support Rating Floor	BBB-
National Long Term Rating	AAA(tur)
Outlook	Stable

#### Moody's Investors Service

TSKB's ratings were revised by Moody's on September 26, 2016. Baseline Credit Assessment has affirmed as "ba2".

Baseline Credit Assessment Rating	ba2
Long-Term Foreign Currency Issuer Rating	Ba1
Long-Term Local Currency Issuer Rating	Ba1
Outlook	Stable
Short-Term Foreign Currency Issuer Rating	NP
Short-Term Local Currency Issuer Rating	NP



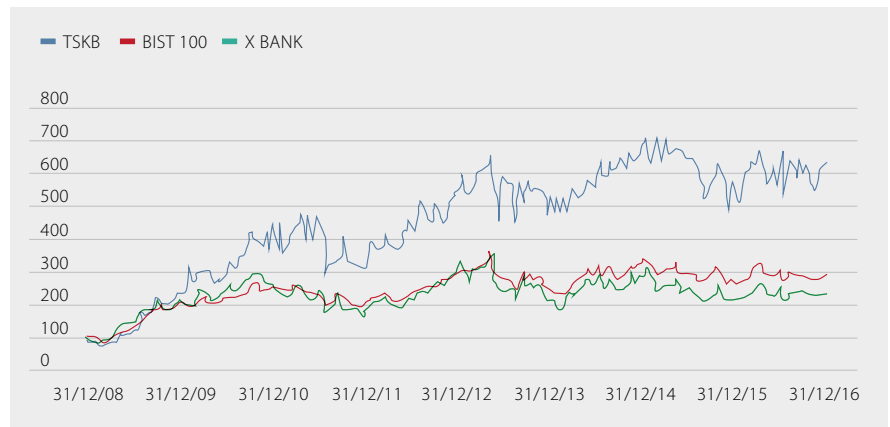
## 2016 TSKB STOCK PERFORMANCE

Despite the appreciation of USD and the rising interest rates in global markets, a positive outlook dominated world stock exchanges in 2016. Continued supportive monetary policies by the European and Japanese Central Banks, improved growth expectations and recovering commodity prices all stood out as the drivers of this positive outlook.

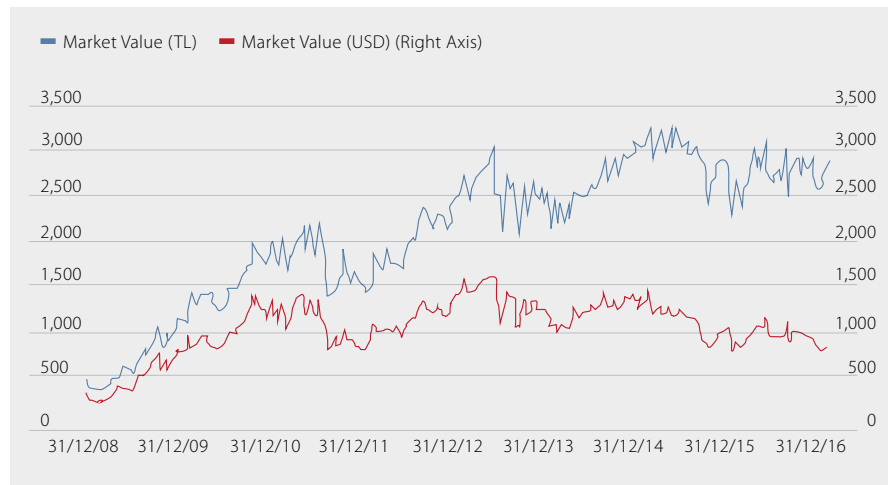
In domestic markets, soaring terrorist attacks, the coup attempt of 15 July and the declaration of a state of emergency, coupled with the downgrading of Turkey's credit ratings by S&P and Moody's led to a rise in USD/TL rate. During the second half of the year, the two-year benchmark bond interest offset the loss in the first half of the year and the positive outlook was maintained despite the fluctuations in the stock market. A stronger USD and the capital outflow in the last two months of the year enabled the USD/TL rate to rise to 3.52 with an increase of 21%. Simplification steps by the Central Bank and the slight recession in inflation from food prices led to a decrease from 10.86% to 8.44% in the two-year benchmark bond interest, which closed the year at 10.63%.

BIST-100 Index started off an upward trend in mid-February at 69,000 and peaked at 87,000 in April before dropping to 70,400 in the aftermath of 15 July. The index began to recover at this level and closed the year at 78,139 with an annual return of 9%. Industrial stocks, the primary metal industry stocks in the first place, emerged as the driver for the recovery in BIST-100 Index. In 2016, Primary Metal Industry index rose by 52% while BIST Industrial Index grew by 15%. Dragging behind the Industrial Index due to the depreciation in TL and the rise in interest rates, the Banking Index closed the year at 129,549 with an increase of 8%. TSKB stocks rose by 11% in 2016, performing 2.4% better than BIST Banking Index and 1.6% better than BIST-100 Index. The total market value of the Bank which stood at USD 915 million by the end of 2015 but varied within a range of USD 740 million and USD 1.1 billion during 2016. As of December 30, 2016, the Bank's total market value stood at USD 818 million.

TSKB continues to capture investors' interest. To this end, the number of brokerage houses monitoring the Bank's stocks was 15 as of December 31, 2016.



Source: Matriks



Source: Matriks

	2014	2015	2016
Closing price for TSKB stocks (TL)*	1.42	1.27	1.41
Change (%)**	30.9	-10.0	10.7
BIST Bank Index relative (%)	0.4	19.3	2.4
BIST 100 relative (%)	3.6	7.5	1.6
BIST Bank Index	158,940	119,917	129,549
Change (%)**	30.4	-24.6	8.0
BIST 100 Index	85,721	71,727	78,139
Change (%)**	26.4	-16.3	8.9

Source: BIST Daily Bulletin

\*Retrospective closing prices are adjusted in line with the cash dividends and capital increase through bonus issues after the relevant dates.

\*\*Year-to-date change

## MILESTONES FROM 1950 TO 2016

TSKB, WHICH HAS UNDERTAKEN CRITICAL ROLES IN THE DEVELOPMENT OF TURKEY FOR 66 YEARS, CONTINUES TO CREATE ADDED VALUE FOR ITS STAKEHOLDERS IN LINE WITH ITS MISSION.



**1950s**

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



**1970s**

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



**1990s**

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



**1960s**

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

Moreover, TSKB became the first Turkish company to be audited by an internationally recognized independent auditing firm, thus spearheading an approach to transparency and accountability in capital markets. TSKB provided investment financing for Turkey's leading manufacturing facilities as well as financial support for the local manufacture of numerous products. These included the first Turkish-made buses and automobiles, automotive tires, LPG canisters, high-voltage cables, batteries, cardboard, plastics and acrylic fibers.



**1980s**

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



## 2000s

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

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

## 2010s

TSKB began to focus on renewable energy and energy efficiency projects in the 2010s. TSKB has played an instrumental role in combatting climate change and meeting Turkey's ever-increasing demand for energy.

After the 2008 global financial crisis, interest rates fell sharply across the world, creating a need for new banking products and services. Thanks to its vast experience in this area, TSKB began to provide clients an array of new, competitive investment instruments, such as capital-protected and guaranteed products. Meanwhile, the Bank continued to add value for its stakeholders by taking on key roles in Turkey's electricity distribution privatizations, asset purchase & sale financing, acquisition financing, bond issues, and public offerings. During this time, TSKB introduced new types of loans under the themes of sustainable tourism and resource efficiency.

Undertaking ongoing initiatives and improvements to ensure full compliance with all applicable international laws and regulations, TSKB is one of three companies to have received awards from the Corporate Governance Association of Turkey (TKYD) every year since 2011 under the Corporate Governance Awards. To date, TSKB has won three first place, two second place, and one third place prizes. The Bank signed the 2015 Climate Change Summit (COP21) final declaration for transition to low-carbon economy of ELTI (European Long-Term

Investors Association) and IDFC (International Development Finance Club), of which TSKB is the only member from Turkey. Moreover, TSKB was included in the BIST Sustainability Index, which is made up of companies traded on Borsa Istanbul and that perform well in terms of sustainability.

TSKB, who continued its pioneering role in the scope of sustainability in 2016, became the first Turkish bank to issue "Green/Sustainable Bond" in the international markets. Bank's USD 300 million bond with 5 year maturity was oversubscribed by 13 times. The best sustainability practices of the Bank was also captured the attention of the international indices, resulting in the inclusion of the TSKB's stock in the FTSE4Good Emerging Markets Index by December 2016. Moreover, the Bank and AFD signed a loan agreement amounting to Euro 100 million that focuses on investments targeting to improve gender diversity in the work place as well as occupational health and safety investments.

## FIRSTS & INNOVATIONS

SINCE ITS INITIATION IN 1950, TSKB HAS UNDERSIGNED SEVERAL FIRST BEST PRACTICES SECURING ITS PIONEERING ROLE IN TURKEY'S DEVELOPMENT.



### 1950s

- » Provide technical advisory services to project sponsors
- » Provide medium- and long-term finance to private sector projects



### 1960s

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



### 1970s

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



### 1980s

- » Develop short-term econometric model of the Turkish economy
- » Develop cash-flow model of Turkish financial sector
- » Extend hedged foreign currency investment loans
- » Issue its own bonds in international capital markets
- » Conduct manufacturer surveys among various sectors
- » Provide export insurance loans from European and Japanese financial institutions
- » Offer advisory services in textile and other sectors in cooperation with international advisors
- » Offer advisory services for the privatization of public cement factories
- » Issue its short term bonds as well as guarantee and market those of its clients
- » Prepare Turkey's first privatization master plan
- » Realize the first public offering as an underwriter
- » Intermediary in the investment of Islamic Development Bank funds in companies as shareholders



### 1990s

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





## 2000s

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



## 2010s

- » UNEP FI and Global Compact membership
- » First and only Turkish bank to be granted a membership in Long-Term Investors’ Club (LTIC)
- » Issue 16 thematic mutual funds between 2009 and 2012
- » Secure the first EBRD loan which aims to finance SME projects for the agricultural industry in Turkey
- » First Turkish Bank to be qualified for ISO14064-1 Greenhouse Gas Verification Certificate
- » Sign a restricted mudaraba agreement with the Islamic Development Bank to finance renewable energy and energy efficiency projects
- » Become the founder member of International Development Finance Club (IDFC)
- » First loan agreement with KfW without any guarantee of the Republic of Turkey Prime Ministry Undersecretariat of Treasury
- » The first A+ Level Sustainability Report approved by GRI (Global Reporting Initiative) in the sector
- » The “first carbon-neutral concert” within the scope of the IKSİ Istanbul Music Festival
- » Support for IDFC (International Development Finance Club)’s climate pledge
- » Assistance for ELTI (European Long-Term Investors Association)’s transition to low-carbon economy pledge
- » Establishment of TSKB Sustainability Committee
- » Eliminating individual carbon footprints of corporate stakeholders
- » First green/sustainable bond of Turkey

## AWARDS & ACHIEVEMENTS

WITH THE PRESTIGIOUS AWARDS GRANTED BOTH IN THE INTERNATIONAL AND LOCAL ARENA, TSKB CONTINUES ON ITS SUCCESSFUL PATH.

### BANKING AWARDS

» **BEST INFRASTRUCTURE PROJECT KIZILDERE 3 GEOTHERMAL (2016)**  
EMEA FINANCE

» **BEST NATIONAL RESOURCE PROJECT FINANCE/YENİKÖY KEMERKÖY (2015)**  
BONDS, LOANS & SUKUK TURKEY

» **BEST STRUCTURED FINANCE PROJECT/ETLİK PPP (2015)**  
BONDS, LOANS & SUKUK TURKEY

» **BEST ENERGY INFRASTRUCTURE DEAL IN EUROPE (2011)**  
EUROMONEY

» **BEST HYDROELECTRIC PROJECT IN EUROPE (2011)**  
EUROMONEY

» **BEST EQUITY HOUSE (2011)**  
EMEA FINANCE

» **BEST CLEAN TECHNOLOGY AND NEW ENERGY INVESTOR (2011)**  
THE NEW ECONOMY MAGAZINE

» **BEST SOLUTION PARTNER IN WIND POWER IN TURKEY (2011)**  
TIREC

» **EUROPEAN GEOTHERMAL DEAL OF THE YEAR (2008)**  
EUROMONEY

» **INFRASTRUCTURE DEAL OF THE YEAR (2008)**  
PFI

» **PROJECT FINANCE DEAL OF THE YEAR (2008)**  
EUROMONEY

» **BEST CORPORATE MERGER AND ACQUISITION (2005)**  
EUROMONEY

» **BEST LOCAL BUSINESS PARTNER (2004)**  
EUROMONEY

» **BEST INVESTMENT BANK IN TURKEY (1997, 1998, 1999)**  
EUROMONEY

» **HIGHEST RATING GIVEN TO A BANK - DEVELOPING COUNTRIES CATEGORY (1998)**  
THOMSON BANKWATCH

» **BEST RESEARCH INSTITUTION IN TURKEY (1997)**  
EMERGING MARKETS INVESTOR MAGAZINE

## SUSTAINABILITY AWARDS

» **SUSTAINABLE BOND  
ISSUANCE OF THE YEAR  
(2016)**  
IFR

» **GREEN/SUSTAINABLE  
BOND ISSUANCE OF THE  
YEAR (2016)**  
GLOBAL CAPITAL

» **LOW CARBON HERO  
(2015)**  
SUSTAINABILITY  
PRODUCTION AND  
CONSUMPTION  
ASSOCIATION

» **CLIMATE DISCLOSURE  
LEADERSHIP (2015)**  
CDP

» **CLIMATE CHANGE  
LEADERSHIP (2013)**  
CDP TURKEY

» **ONE OF THE TOP THREE  
BANKS IN SUSTAINABLE  
BANKING IN EUROPE  
(2011, 2013)**  
FT & IFC

» **BRONZE AWARD -  
SUSTAINABILITY REPORT  
CATEGORY (2012)**  
ASTRID AWARDS

» **SUPPORTER OF  
SUSTAINABLE ECO-  
FRIENDLY PRODUCTS  
AND PRACTICES  
ISTANBUL CHAMBER OF  
INDUSTRY (2010)**  
(ISO)

» **SUSTAINABLE BANK OF  
THE YEAR IN EASTERN  
EUROPE (2008, 2009,  
2010)**  
FT & IFC

## CORPORATE GOVERNANCE AWARDS

» **COMPANY WITH THE  
SECOND HIGHEST  
CORPORATE  
GOVERNANCE RATING  
SCORE (2015)**  
(TKYD)

» **HIGHEST SCORE IN  
MULTI-STAKEHOLDER  
APPROACH FOR  
TRANSPARENCY IN  
CORPORATE REPORTING  
(2015) TRANSPARENCY  
INTERNATIONAL TURKEY**

» **COMPANY WITH THE  
HIGHEST CORPORATE  
GOVERNANCE RATING  
SCORE (2011, 2013, 2014)**  
(TKYD)

» **HONOR AWARD FOR BEST  
ANNUAL REPORT - PRINT  
CATEGORY (2011) STEVIE  
BUSINESS AWARDS**

## CHAIRMAN'S MESSAGE

TSKB HAD ANOTHER SUCCESSFUL YEAR IN 2016. SINCE 1950 WHEN IT WAS FOUNDED, THE BANK HAS ALWAYS ACTED ON AN AWARENESS AND RESPONSIBILITY FOR SUPPORTING TURKEY'S GROWTH IRRESPECTIVE OF THE CIRCUMSTANCES OF THE DAY.

Esteemed Stakeholders,

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

On domestic front, the fiscal discipline that is maintained and the budget deficit which was curbed to hover slightly over 1% in 2016, indicate an improved outlook ahead. Moreover, specific incentives and measures introduced by the authorities to support consumption and investment expenditures towards the end of the year, points out to an increase in the economic activity in 2017 and a growth of 3-3.5% in Turkish economy.

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

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

Turkish banks maintained their robust performance despite rising risks and volatility in international markets in 2016 and extended an uninterrupted support to economy. Syndicated loans were renewed during the year and this emerged as an indicator of the international confidence in the Turkish banking industry. Furthermore, the European Commission has resolved that the regulatory and supervisory framework of our banking sector is in harmony with the European Union legislation, a highly positive development offering Turkish banks the prospective opportunity to access funds and enjoy cost advantage.

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

Despite challenging domestic and international circumstances, TSKB had another successful set of results in 2016 thanks to the dynamic and proactive policies it pursued. Since 1950 when it was founded, TSKB has always acted on an awareness and responsibility for supporting Turkey's growth irrespective of the circumstances of the day. We consider it a fundamental priority to assume strategic roles with respect to satisfying the long-



**ADNAN BALI** CHAIRMAN OF THE BOARD

term funding requirements of many companies from various industries and offer sustainable added value in Turkey's development journey as it has been the case so far.

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

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

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

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

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

We will maintain our determined approach and use our well-established corporate culture rising on transparency and accountability as well as our strong shareholding structure and highly-qualified human resources as leverage for progress as a financial service provider leading every aspect of our country's development.

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

Sincerely,

**ADNAN BALI**  
Chairman of the Board



A low-angle photograph of two tall, silver, cylindrical industrial distillation columns. The columns are surrounded by a complex network of blue metal scaffolding, walkways, and orange safety railings. The sky in the background is blue with scattered white clouds. A semi-transparent red geometric shape, resembling a stylized 'A' or a large triangle, is positioned on the right side of the image, serving as a background for the text.

USD 2.1 BILLION

**TSKB'S SUPPORT TO REAL ECONOMY  
VIA CASH AND NON-CASH LOANS  
REACHED USD 2.1 BILLION IN 2016.**



## MESSAGE FROM THE CEO

OUR FINANCIAL INDICATORS POINT OUT TO ONE OF THE MOST SUCCESSFUL PERIODS IN TSKB'S HISTORY IN TERMS OF SUPPORTING DEVELOPMENT.

Esteemed Shareholders,  
Customers,  
Business Partners,

Valuable Members of the TSKB Family...

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

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

As a bank that has adopted the mission to support Turkey's development since 1950, we take this belief as the basis for continuing to fulfill our responsibilities today as it has been the case so far. Having left a challenging year behind, the financial results we delivered are significant in displaying not only the strengthened position and reputation of our Bank but also our mobilization of the funds we have for the growth of our economy.

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

limit our nonperforming loan ratio to 0.3%, way below the industry average.

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

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

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

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

### SHAREHOLDERS' EQUITY

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

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

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

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

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

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



SUAT İNCE CEO AND BOARD MEMBER

With two recent themed funds, each worth EUR 100 million, we secured from the French Development Agency (AFD) and the Council of Europe Development Bank (CEB), total amount of themed funds that is secured from development finance institutions in 2016 reached USD 733 million. Therefore, the total foreign currency funds that we obtained from international markets as well as our green/SRI bond issuance and syndicated loan that was rolled over with 107% mounted to USD 1.3 billion.

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

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

To this end, we obtained a loan of EUR 100 million from the French Development Agency (AFD) to finance investments on occupational health and safety in Turkey in addition to the investments by firms that observe gender equality in working environment and support women's employment. The mentioned fund is a key development as it offers a solution to issues in Turkey regarding access to funds in this area.

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

#### BUILDING THE FUTURE TODAY

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

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

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

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

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

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

Sincerely,

SUAT İNCE  
CEO  
Board Member

## MACROECONOMIC AND SECTORAL EVALUATION

MARKETS SURVIVED THE IMPACT OF THE BREXIT REFERENDUM ONLY THROUGH SHORT-TERM FLUCTUATIONS THANKS TO THE HELP OF POST REFERENDUM MONETARY POLICIES.

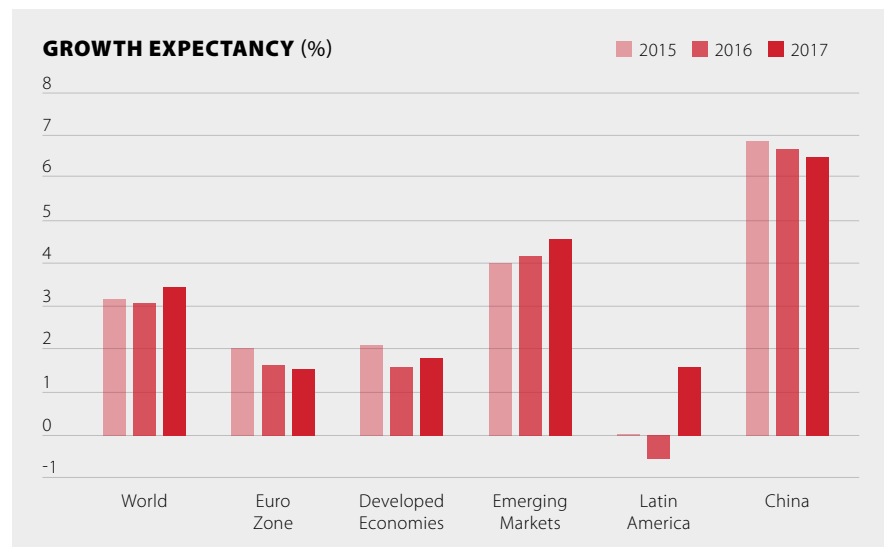
### MODERATE GLOBAL GROWTH CONTINUES

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

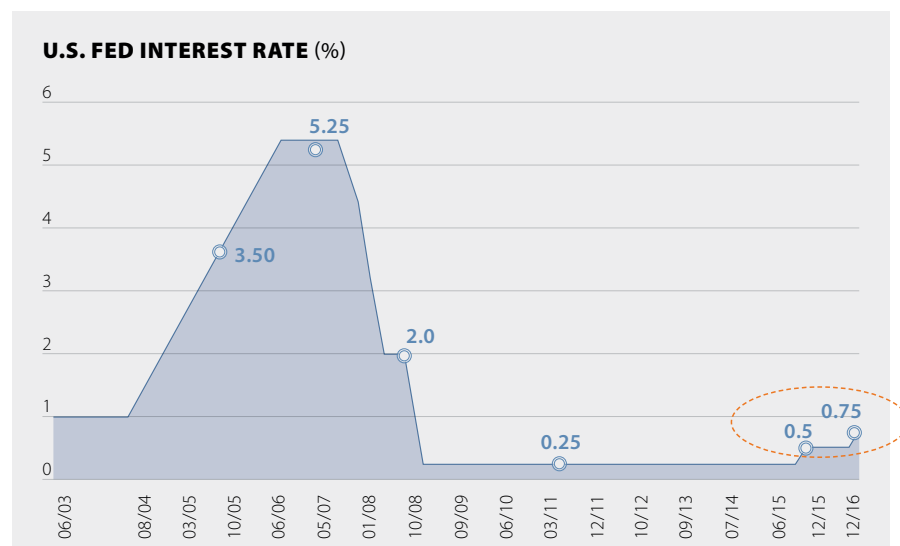
### CHANGING TRENDS IN FINANCIAL MARKETS

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

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



Source: IMF



Source: Federal Reserve



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

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

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

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

November and USD 3 billion in December was recorded.

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

### OIL PRODUCTION CUT LED TO A PRICE INCREASE

Oil has been a key factor in markets in 2016. Starting the year with a decline to USD 27, the lowest in the last 12 years, the Brent Crude surged from this level to USD 52 by June. This was under the impact of an expected postponement of the Fed's rate hike and the shrinking production led by low prices. Following a fall in prices again, OPEC and non-OPEC producers drafted a production cut plan at an unofficial meeting at the end of September. This plan was

finalized during the official meeting on 30<sup>th</sup> of November. OPEC countries agreed to cut down total production by a daily 1.2 million barrels to 32.5 million barrels as of January 2017 (a decision supported by non-OPEC producers). Influenced by such developments, the oil price stood at USD 56 at 2016 year-end with an increase of 50%.

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

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

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

In the third quarter of 2016, Turkish economy contracted by 1.8%, resulting in a growth rate of 2.2% in the first three quarters. In terms of expenditures, the

## CHANGE IN USD RATE (2016)

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

Source: Reuters

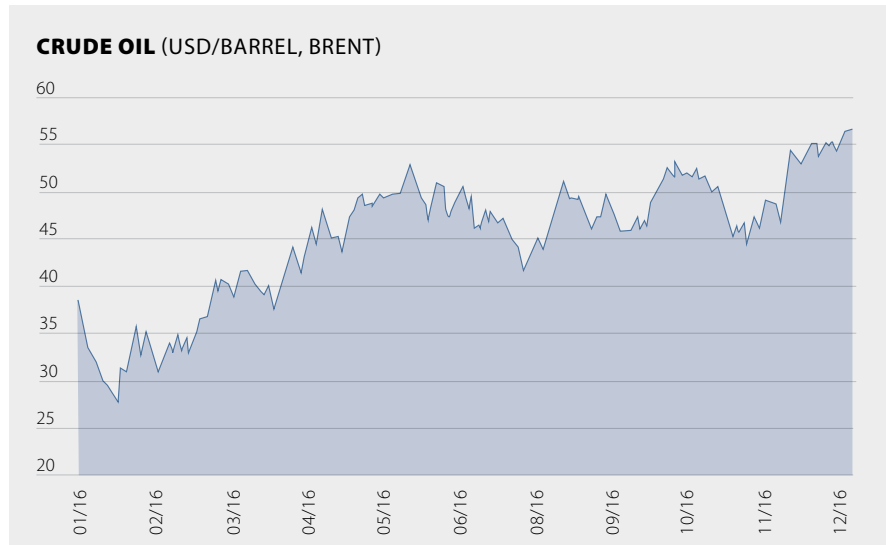
## MACROECONOMIC AND SECTORAL EVALUATION

THE STOCK EXCHANGES OF DEVELOPING COUNTRIES ROSE BY 9% ON AVERAGE: THE U.S. S&P ROSE BY 10%, WHILE THE EUROPEAN STOCK EXCHANGES FELL BY NEARLY 3%.

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

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

Data for the last quarter of the year points out to an economic recovery. The increase in industrial production rose from 0.2% in October to 4.6% in November 2016. In December, automotive production increased by 24% and white goods production rose by 14%, both proof that industrial production may grow strongly in December as well. Although retail data and developments in



Source: Matriks



Source: Matriks

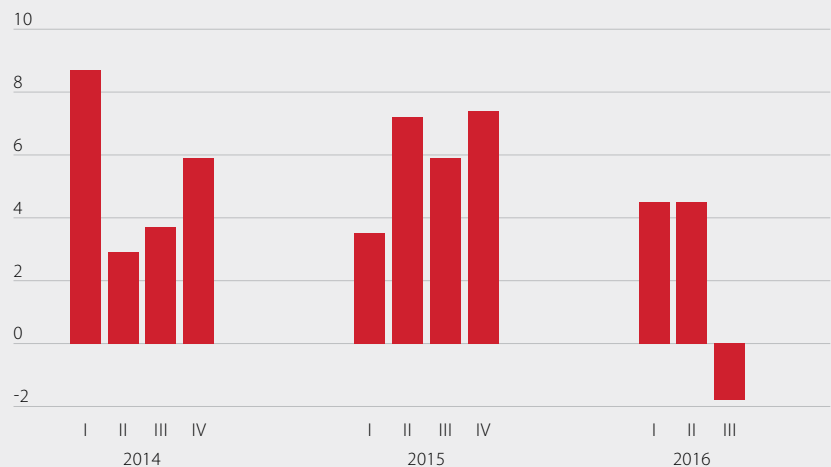
foreign trade cannot be reckoned as signs of recovery in domestic and foreign demand, public investments will be able to support growth on expenditures side. Such data is indicative of an expected 2.3% growth in the last quarter of 2016 and an expected 2.2% annual growth.

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

In the last two years, foreign trade deficit followed a downward trend under the impact of low commodity and oil prices but the developments in global markets in 2016 signalled the end of this two-year period. The surge in oil price from USD 27 to USD 56 and the rise in commodity prices, specifically in metals, following the U.S. elections boosted imports while the decline in exports continued (despite the recovery in exports to Iran, Iraq and Russia). In 2016, exports stood at USD 143 billion with a decline of 0.9%, imports decreased by 4.2% to USD 199 billion and the foreign trade deficit fell by 11.7% to USD 56 billion.

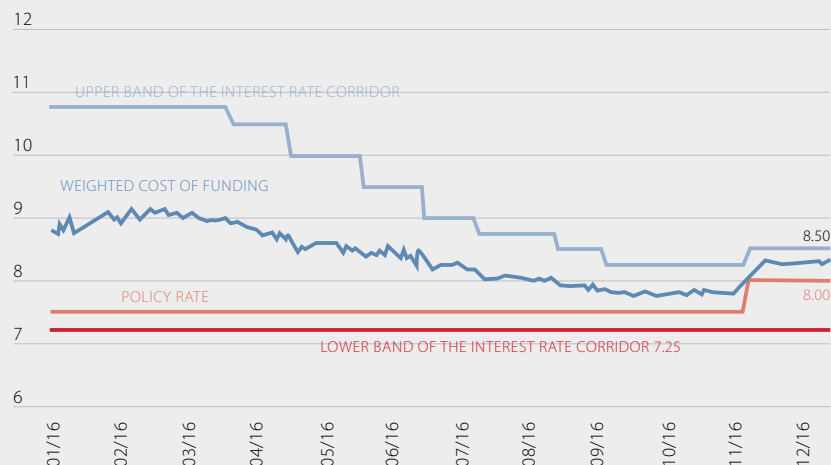
The decelerating decline in foreign trade deficit due to rising oil prices and the loss in tourism revenues amounting to an approximate USD 10 billion put an end to the downward trend observed in current accounts deficit for the last 2.5 years. In 2016, current accounts deficit rose by 2% to USD 32.6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

#### GROWTH BY QUARTERS (%)



Source: TÜİK

#### CENTRAL BANK INTEREST RATES (%)



Source: Central Bank

## MACROECONOMIC AND SECTORAL EVALUATION

CURRENT ACCOUNT DEFICIT ROSE BY 2% TO USD 32.6 BILLION IN 2016. IT IS ESTIMATED THAT THE CURRENT ACCOUNTS DEFICIT/GDP RATIO IS AROUND 3.8% BY 2016 YEAR-END.

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

Consumer prices saw 2016 off with a rise of 8.53% above both the 7.5% the projection of the Central Bank, and the 6.5%, the target in the Medium-Term Plan (MTP). The reasons behind a high inflation rate were the tax adjustments in automotive and fuel products as well as alcoholic beverages and tobacco products as opposed to the declining food prices and the negative impact of the increase in exchange rate left over from 2015. Annual inflation rates for food, alcoholic beverages and tobacco products, and transportation stood at 5.7%, 32% and 12% respectively. It is projected that the inflation rate may rise to two digits in the first half of 2017 under the influence of the devaluation of TL in the last two months of the year, the rising oil prices following the OPEC agreement and the increase in commodity prices before launch of growth incentives policies expected in the aftermath of the U.S. elections. For the second half of the year, a downward trend is expected under the base effect and the annual inflation is estimated to be over 8%.

In addition to international developments, domestic markets also survived an extraordinary agenda. Downgrading of ratings by S&P and Moody's and the developments in domestic and foreign policies hit the top of the agenda in markets. At Borsa Istanbul, BIST-100 index completed the year at 78,138 with a rise of 9%. Simplification steps by the Central Bank in monetary policies and the slight recession in inflation from food prices led to a decrease from 10.86% to 10.63% in the two-year benchmark bond interest rate. A stronger USD abroad and the capital outflow in the last two months of the year caused the USD/TL rate to rise to 3.52 with an increase of 21%.

### CBRT CONTINUED TO TAKE SIMPLIFICATION STEPS

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

### ANNUAL INFLATION (%)

Overall	8.5
Food and Soft Drinks	5.7
Alcoholic Beverages and Tobacco	31.6
Clothing and Shoes	4.0
Housing, Water, Electricity, Gas and Other	6.4
Furniture, Home Appliances and Home Care Services	6.2
Healthcare	9.7
Transportation	12.4
Communication	3.2
Entertainment and Culture	5.9
Education	9.5
Restaurant and Hotels	8.6
Miscellaneous Goods and Services	11.1

Source: TÜİK



## TURKISH BANKING SECTOR

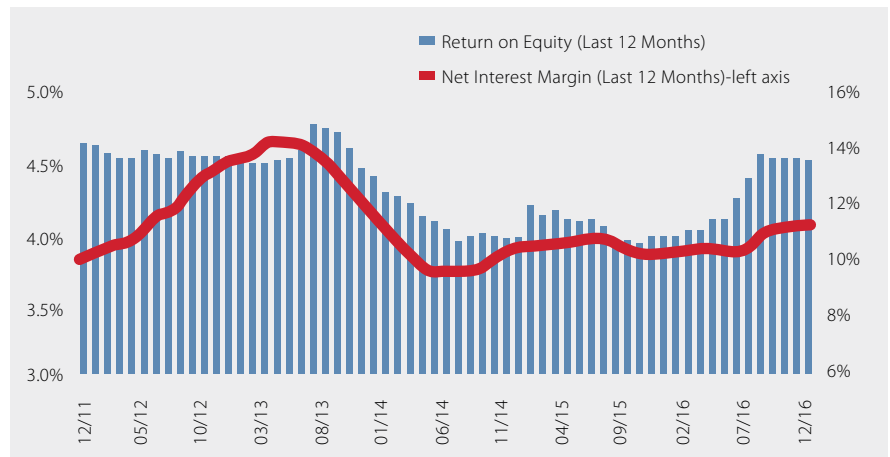
### SUCCESSFUL SECTOR PERFORMANCE SUSTAINED IN 2016

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

Loans constituted 63% of total assets and rose by 17% in 2016 following a 20% growth in 2015. In 2016, TL loans grew by 12% while foreign currency loans increased by 6% on a USD basis. Loan growth on fx adjusted basis stood at 12% in 2015 and rose by 10% in 2016. Making up about one fourth of all loans, retail loans grew by 9% in 2016. SME loans, on the other hand, also constituted for one fourth of all loans and rose by 9% in 2016 after a 17% increase in 2015.

Deposits constituted half of the total liabilities in the banking sector and increased by 17% in parallel to the growth in loans in 2016. TL deposits grew by 18% while foreign currency deposits contracted by 5% on a USD basis. The increase in deposits on FX-adjusted basis stood at 8%. The total loan-to-deposit ratio in the sector rose to 118.6% during the year but receded to 117.4% as of December. When other main FX sources are considered, the ratio of loans to FX funds stand at 85.4%.

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



Source: BRSA

The sector used new resources essentially to finance the loan growth and the increase in securities portfolio remained at 1.2%. The asset quality in the sector deteriorated at a similar rate to 2015. An increase of 22% was observed in non-performing loans (NPL) and the percentage of NPLs in the sector rose to 3.21%. Moreover, 0.20 percent of the total non-performing loans was written off from the balance sheet. While the nominal amount of non-performing loans picked up by 16.2%, second group loans increased by 32.9%, bringing the second group loans to total loans ratio from 3.47% to 4.24%. The ratio of the restructured loans went up to 3.12% from 2.62% in the first nine months of the year. The coverage ratio for problematic loans of the sector is maintained a high level of 77.4%.

### RETURN ON EQUITY ROSE COMPARED TO PREVIOUS YEAR

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

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

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

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

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



## AN EVALUATION OF 2016: STRATEGIES, ACQUIREMENTS AND PROJECTIONS

IN 2016, TSKB DISBURSED TOTAL LOANS OF USD 1.8 BILLION INCLUDING APEX LOANS TO ITS CLIENTS.

### HIGHLIGHTS

#### ROBUST GROWTH OF ASSETS

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

#### A LOAN PORTFOLIO SIZE POWERING REAL ECONOMY

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

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

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

#### A CASH LOAN DISBURSEMENT OF USD 1.8 BILLION

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

#### AN ASSET QUALITY ENABLING GROWTH TARGETS

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

#### AN INCREASE OF 24.3% IN NET INTEREST INCOME

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

#### A SUSTAINABLE NET PROFIT INCREASE

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

#### A KEY PLAYER IN DEVELOPMENT AND INVESTMENT BANKING

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

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

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

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

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

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

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### MEDIUM AND LONG-TERM LOANS HAVE A SHARE OF 86% IN TSKB'S LOAN PORTFOLIO

TSKB extends medium-term and long-term loans to its customers in line with its vision to be the leading bank in Turkey's sustainable development. As of end-2016, an analysis of TSKB's loan portfolio indicates that

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

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

### BANK'S NON-PERFORMING LOAN RATIO IS WELL BELOW SECTOR AVERAGE

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

### WELL ROUTED EXPERTISE IN PROJECT FINANCING

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

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

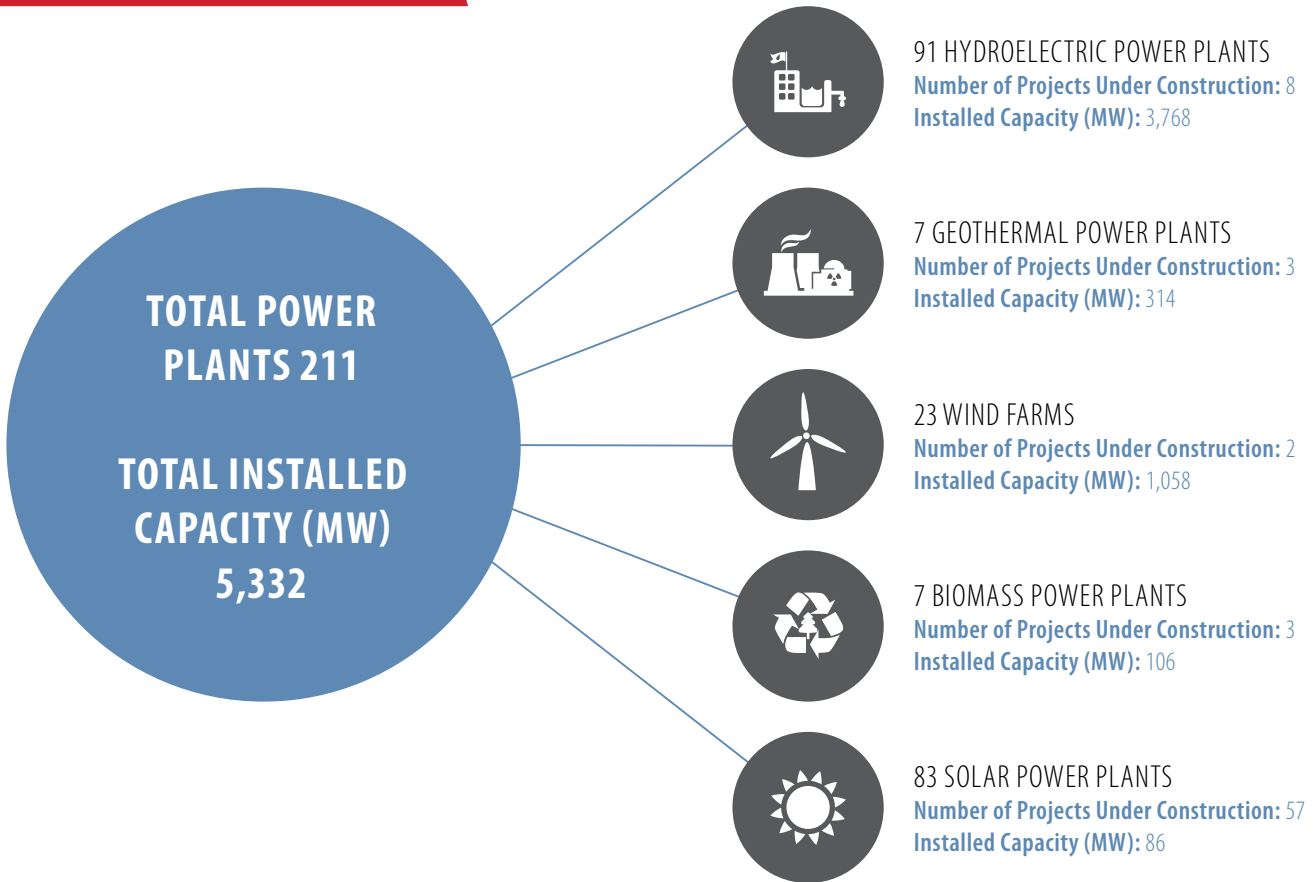
In addition to long-term investment loans, 2016 operations also included working capital loans on short-term and medium-term maturities to meet the operational needs of project finance customers.

### SECTORAL BREAKDOWN OF LOAN PORTFOLIO (%)



## AN EVALUATION OF 2016: STRATEGIES, ACQUIREMENTS AND PROJECTIONS

SINCE 2002 THE TOTAL ESTIMATED INSTALLED CAPACITY FOR THE 211 PROJECTS FINANCED STOOD AT 5,332 MW, WHICH REPRESENTS 15% OF TURKEY'S TOTAL INSTALLED CAPACITY IN RENEWABLE ENERGY.



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

### INDUSTRIES/AREAS THAT TSKB PROVIDES PROJECT FINANCE

#### Energy

- » Electricity power plants
- » Electricity distribution projects
- » Natural gas distribution projects
- » Environment, energy and resource efficiency projects

#### Real Estate

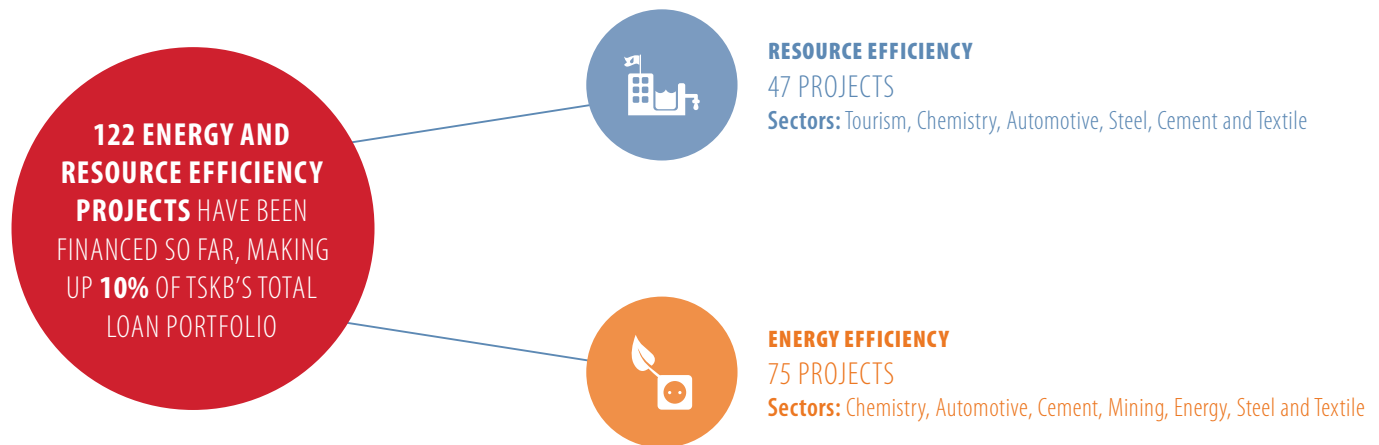
- » Tourism and hotel investments projects
- » Commercial real estate and shopping mall investments

#### Infrastructure/Transportation

- » Logistics, transportation
- » Telecommunication Public-private partnership (PPP)s
- » Integrated healthcare campuses

#### Public Private Partnership Projects (PPP)

- » Integrated Health Campuses



#### RENEWABLE ENERGY SECTOR AND TSKB

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

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

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

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

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

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

#### FINANCING FOR RESOURCE EFFICIENCY

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

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

In 2017, the Bank aims to continue funding investments that will support sustainable development in the first place, including

but not limited to energy and resource efficiency investments of firms operating in any branch of industry, investments backing women employment, and environmental projects and occupational health and safety investments, while expanding its client base with a priority for the SME segment.

#### SUPPORT FOR SMES

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

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

## AN EVALUATION OF 2016: STRATEGIES, ACQUIREMENTS AND PROJECTIONS

TSKB SIGNED FUNDING AGREEMENTS FOR SPECIFIC THEMES WITH A TOTAL OF USD 733 MILLION IN 2016 AS A RESULT OF ITS SUCCESSFUL EFFORTS TO OBTAIN NEW FUNDING FROM DEVELOPMENT FINANCE INSTITUTIONS.

### ALWAYS STANDING BY THE REAL ECONOMY

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

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

### A BALANCED NON-CASH LOAN PORTFOLIO

Intermediating letter of guarantee, import and other foreign trade transactions required by investment and infrastructure projects, TSKB provided its clients with a total non-cash loan of USD 614 million with an increase of 14%. Throughout the year, the Bank focused on responding to the non-cash loan needs of its clients in energy distribution, electricity production, metal and machinery.

### A CLOSE COOPERATION WITH DEVELOPMENT FINANCE INSTITUTIONS

As one of the most reputed Turkish banks on international financial markets, TSKB works in close cooperation with many institutions including but not limited to the World Bank (IBRD), the European Investment Bank (EIB), the Council of Europe Development Bank

(CEB), the German Development Bank (KfW), the Islamic Development Bank (IDB), the French Development Agency (AFD), the International Finance Corporation (IFC) and the European Bank for Reconstruction and Development (EBRD).

Throughout 2016, TSKB successfully continued its efforts for obtaining new funds from development finance institutions. The total amount of agreements for funding on a specific theme that are signed during the year stood at USD 733 million. The details for the aforementioned funds are provided below:

#### THE WORLD BANK (IBRD) - LOAN FOR THE GEOTHERMAL DEVELOPMENT PROJECT IN TURKEY (USD 150 MILLION)

A loan of USD 150 million is obtained from the World Bank (IBRD) for the Geothermal Development Project in Turkey in order to finance future geothermal energy investments by private sector companies around Turkey.

#### GERMAN DEVELOPMENT BANK (KFW) - LOAN FOR RENEWABLE ENERGY, RESOURCE AND ENERGY EFFICIENCY, ENVIRONMENT INVESTMENTS

TSKB concluded an agreement with the German Development Bank (KfW) to secure a "Credit Line for Combat Against Climate Change" worth of EUR 150 million. The Bank aims to make the said loan obtained on a 15-year maturity available for the financing of renewable energy, environment, resource and energy efficiency investments around Turkey.

#### EUROPEAN INVESTMENT BANK (EIB) - SME-MIDCAP LOAN (EUR 100 MILLION) + ENERGY AND ENVIRONMENT (EUR 100 MILLION)

A loan of EUR 100 million is secured from the European Investment Bank (EIB) to be extended to private sector SMEs and midcaps around Turkey for their working capital needs and investment projects.

Similarly, a loan of EUR 100 million that serves as a follow-up for the energy and environment loan agreement signed back in 2014 is secured from the European Investment Bank (EIB) to finance renewable energy and energy efficiency projects as well as small and medium-scale investments that would significantly improve the environmental efficiencies of industrial processes around Turkey.

#### EUROPEAN INVESTMENT FUND (EIF) - INNOVFIN GUARANTEE AGREEMENT (EUR 20 MILLION)

The InnovFin SME Guarantee Agreement is signed between TSKB and the European Investment Fund (EIF) for a maximum loan portfolio of EUR 20 million to facilitate the access of innovative private sector SMEs and small mid-caps in Turkey to funds.





#### **FRENCH DEVELOPMENT AGENCY (AFD) - LOAN TO SUPPORT WOMEN'S EMPLOYMENT AND OCCUPATIONAL HEALTH AND SAFETY IN TURKEY (EUR 100 MILLION)**

A loan of EUR 100 million is obtained from the French Development Agency (AFD) to finance investments on occupational health and safety in Turkey in addition to the investments by firms that observe gender equality in working environment and support women's employment. The loan aims to support the occupational health and safety investments of firms operating in Turkey and finance the investments by firms that observe gender equality in working environment and provide opportunities for women to find employment.

#### **COUNCIL OF EUROPE DEVELOPMENT BANK (CEB) - APEX (EUR 100 MILLION)**

An APEX funding agreement worth EUR 100 million is signed with the Council of Europe Development Bank to finance future investments of micro, small and medium-sized companies around Turkey. The loan will be extended via leasing companies and the Bank extends this loan to support investments of micro, small and medium-sized companies around Turkey which create new employment opportunities and maintain current level of employment.

#### **STRONG RELATIONS WITH INTERNATIONAL FINANCIAL INSTITUTIONS**

Throughout 2016, TSKB has performed up to its goal to diversify and deepen its existing relations with international financial institutions. Relevant operations are elaborated on below.

##### **SYNDICATED LOAN**

On June 28, 2016, TSKB signed a syndicated loan agreement of USD 274 million with the world's leading banks. A total of 16 banks from 10 countries participated in TSKB's syndicated loan. The participant banks included not only those that TSKB has strong partnerships with but also those that participated in the Bank's syndicated loan for the first time. The syndicated loan is extended on a 367-day maturity and comprised of two different tranches, one in EUR and the other in USD.

#### **TURKEY'S FIRST GREEN BOND**

TSKB has broken yet another ground to become the first Turkish bank to issue a "Green/Sustainable Bond" on international markets. Allocating resources to Turkish private sector for its transition to low-carbon economy, TSKB achieved huge success when the Bank's bond issuance worth USD 300 million on a 5-year maturity attracted a demand of more than 13 folds of the planned amount. The funds from this issuance which was coordinated by the seven banks authorized by TSKB will be earmarked exclusively for the financing of green and sustainable projects. This bond issuance by TSKB enabled the Bank to receive the "EMEA Green/SRI Bond Deal of the Year" award during the Sustainable and Responsible Capital Markets Forum held by Euromoney and GlobalCapital last year in addition to the "SRI Bond of the Year" award by the IFR.

#### **POLICY ISSUANCES AND BILATERAL BORROWING AGREEMENTS**

As part of cash flow management, funds totaling USD 52.5 million are secured based on trade finance throughout the year.

## LONG-TERM FUNDS SECURED BY TSKB 2011-2016

### 2011

#### World Bank EFIL IV - Additional Loan for the Fourth Export Finance Intermediation Project

Amount: USD 180 million and EUR 87.8 million  
Maturity: 28 years

#### EIB - Loan for SMEs

Amount: EUR 75 million  
Maturity: 12 years

#### World Bank - Additional Loan for Private Sector Renewable Energy and Energy Efficiency Project

Amount: USD 100 million and EUR 69.3 million  
Maturity: 28 years

#### EBRD - Turkey Agribusiness SME Financing Facility (TurAFF)

Amount: EUR 50 million  
Maturity: 5 years

#### EBRD - Resource Efficiency Loan

Amount: EUR 50 million  
Maturity: 7 years

#### TSKB Eurobond

Amount: USD 350 million  
Maturity: 5 years

#### KfW - Resource Efficiency and Environmental Measures in Industry Loan

Amount: EUR 150 million  
Maturity: 12 years

#### OeEB - Renewable Energy and Energy Efficiency Loan

Amount: EUR 20 million  
Maturity: 12 years

#### EIB - TSKB Energy and Environment Loan/A

Amount: EUR 100 million  
Maturity: 12 years

### 2012

#### IFC - Renewable Energy and Energy Efficiency Loan

Amount: USD 75 million  
Maturity: 7 years

#### EIB - TSKB Loan/B for Medium Sized Enterprises and SMEs

Amount: EUR 75 million  
Maturity: 12 years

#### IDB - Restricted Mudaraba

Amount: USD 100 million  
Maturity: 10 years

#### KfW - Renewable Energy and Energy Efficiency Loan

Amount: USD 125 million  
Maturity: 12 years

### 2015

#### JBIC - Renewable Energy and Energy Efficiency Loan

Amount: USD 150 million  
Maturity: 12 years

#### EIB - Loan for SMEs and Mid-Caps

Amount: EUR 100 million  
Maturity: 8 years

#### TSKB Eurobond

Amount: USD 350 million  
Maturity: 5 years

#### IFC - Renewable Energy, Resource and Energy Efficiency Loan

Amount: USD 75 million  
Maturity: 7 years

### 2013

#### EIB - Sustainable Tourism and Energy Efficiency Loan

Amount: EUR 100 million  
Maturity: 10 years

#### IFC - Environment and Resource Efficiency Loan

Amount: USD 75 million  
Maturity: 7 years

#### CEB - APEX Loan

Amount: EUR 100 million  
Maturity: 7 years

#### KfW - Resource Efficiency Loan in Industry

Amount: EUR 100 million  
Maturity: 10 years

#### EIB - TSKB Loan II for SMEs, Mid-Caps & Other Priorities

Amount: EUR 150 million  
Maturity: 8 years

### 2016

#### IBRD-Loan for Geothermal Projects

Amount: USD 150 million  
Maturity: 28 years

#### KfW-Renewable Energy, Resource and Energy Efficiency, Environment Loan

Amount: EUR 150 million  
Maturity: 15 years

#### EIB - Loan for SMEs and Mid-Caps

Amount: EUR 100 million  
Maturity: 8 years

#### EIB - Energy, Environment Loan

Amount: EUR 100 million  
Maturity: 12 years

#### AFD-Loan for Women Employment, Occupational Health and Safety

Amount: EUR 100 million  
Maturity: 10 years

#### CEB - APEX Loan

Amount: EUR 100 million  
Maturity: 7 years

#### TSKB Green/Sustainable Bond

Amount: USD 300 million  
Maturity: 5 years

### 2014

#### IDB - Restricted Mudaraba

Amount: USD 220 million  
Maturity: 15 years

#### World Bank - Loan for Innovative Access to Finance Project Loan

Amount: USD 190 million and EUR 44.1 million  
Maturity: 28 years

#### Citibank - OPIC - Energy Efficiency and Renewable Energy Loan

Amount: USD 40 million  
Maturity: 4-8 years

#### AFD - Sustainable Tourism and Innovative Energy Projects Loan

Amount: EUR 60 million  
Maturity: 10 years

## TSKB'S DEVELOPMENT FINANCE MODEL

### FUNDS (2016)



### LOANS (2016)

## AN EVALUATION OF 2016: STRATEGIES, ACQUIREMENTS AND PROJECTIONS

TSKB HAS PROVIDED LOANS TO 649 COMPANIES THROUGH EFIL LOANS AND TO 1,114 SMES THROUGH OTHER APEX LOANS, SUPPORTING THE CREATION OF NEW EMPLOYMENT FOR ABOUT 5,781 PEOPLE, SO FAR.

### LEADER IN APEX BANKING IN TURKEY

TSKB is the leader for APEX banking in Turkey. In 2016 operating period, the Bank continued to extend to its customers the international funding it procured mainly from the World Bank's EFIL loan programs. In addition to its existing cooperation with leasing companies and commercial banks under APEX banking, TSKB has also started to work with participation banks and factoring companies for the first time in Turkey within the scope of "Innovative Access to Finance Project Loan" obtained from the World Bank in 2014. So far, TSKB has carried out effective business processes in cooperation with 30 intermediary institutions under APEX banking.

In 2016, the total of loans extended via APEX banking reached USD 65 million and the share of such loans within the total portfolio stood at 7%. TSKB is the World Bank's preferred business partner in our country in terms of EFIL loan programs. As of the end of 2016, TSKB was actively involved in 4 EFIL programs and extended a total loan of USD 1,208 million to 649 companies. EFIL loans aim to not only support operations to boost exports by firms but also create new business areas and increase employment.

Under other APEX loans, TSKB works via commercial banks and leasing companies to extend SME loans that contribute to increasing employment. To this end, the Bank extended a total loan of USD 503 million to 1,114 SMEs, contributing to the creation of new employment for 5,781 people.

Under the guarantee of Republic of Turkey Prime Ministry Undersecretariat for Treasury, the Bank signed an "Innovative Access to Finance Project Loan" (IA2F) agreement with the World Bank to extend such loans to SMEs and export-oriented mid-caps in the private sector around Turkey and extended a total loan of USD 140 million to 153 companies in 2016. The said funding is the first loan extended by the World Bank in Turkey via participation banks and factoring companies.

### A SUBSTANTIAL PLAYER IN CORPORATE FINANCE

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

## MAIN INDICATORS FOR TSKB'S APEX LOANS

NAME OF PROGRAM	YEAR	AMOUNT AGREED (AS OF 2016 YEAR-END)	NUMBER OF BENEFICIARY COMPANIES	CURRENT STATUS OF THE PROGRAM
<b>SME and Export Support</b>				
Innovative Access to Finance Project Loan (IA2F)	2014	USD 250 million	186	Ongoing
<b>Export Support</b>				
EFIL IV Supplementary Loan	2011	USD 300 million	137	Completed
EFIL IV	2008	USD 300 million	133	Completed
EFIL III	2005	USD 305 million	168	Completed
EFIL II	2004	USD 303 million	211	Completed
<b>SME</b>				
CEB IV APEX	2013	EUR 100 million	416	Completed
CEB III APEX	2009	EUR 100 million*	223	Completed
KfW APEX	2004	EUR 7.7 million	54	Completed
EIB APEX	2005	EUR 150 million	343	Completed

\*Part of the agreed amount (EUR 90.9 million) is extended as an APEX loan.

### ECONOMIC RESEARCH ACTIVITIES

TSKB has key experience in evaluating the sectoral structure of the economy and inter-sectoral relations as well as single industry analysis, corporate positioning and market analysis and regularly issues bulletins, reports and periodic comments for its customers. In addition to such products provided externally thanks to the Bank's 66-year sectoral know-how, TSKB also extends direct and indirect support to marketing and funding operations within the Bank. It monitors the basic strategic documents from the public sector and policy-makers and provides opinions pertaining to such documents. Furthermore, the Bank engages in cooperation with public, academic and sectoral institutions and organizations on various platforms. Moreover, efforts are in place to integrate intellectual capital into the country's common sense and shared wisdom through university lectures and joint projects with academic institutions. In 2017, the Bank will continue to deliver such activities both internally and externally.

### ESSENTIAL EXPERIENCE IN CAPITAL MARKETS...

2016 stood out as a year when extraordinary domestic and international developments and their impact on markets, coupled with volatile prices, were felt to a maximum extent. It is expected that the great differences in monetary policies implemented by developed countries in global markets and their negative implications on developing countries will continue in upcoming years. Under such circumstances, TSKB employed a prudent portfolio management approach to adapt its balance sheet to the new era and thus implemented a resilient management strategy to take advantage of the opportunities emerging in the market.

Spot/forward foreign exchange swap transactions as well as TL-FX placement and borrowing transactions were successfully concluded with domestic and international financial institutions on over-the-counter or organized markets. Furthermore, structured derivatives transactions were diversified. Under highly challenging market conditions, TSKB attained its income goal and simultaneously delivered up to the goal of expanding product diversity and customer portfolio.

For 2017, TSKB maintains its enthusiasm to take market conditions into consideration, engage in portfolio management and liquidity management, increase the number of customer transactions and diversify product range and aims to sustain policies to observe a robust growth.



## AN EVALUATION OF 2016: STRATEGIES, ACQUIREMENTS AND PROJECTIONS

IN 2016, TSKB LAUNCHED INFRASTRUCTURE AND INTEGRATION PROJECTS FOR INFORMATION TECHNOLOGIES TO SUPPORT THE BANK'S EFFICIENCY AND GROWTH TARGETS.



### INFORMATION TECHNOLOGIES

In 2016, TSKB delivered projects that introduced improvements in corporate performance, customer satisfaction, service quality, process efficiency and compliance within the framework of the goals stated in the strategic plan as well as the enterprise architecture principles. Process improvement and the transformation of application infrastructure remained as the focus of all projects.

To this end, a series of improvements were introduced in the performance management system in order to extend and roll out corporate goals across the organization. The projects completed also included those aiming to improve loan contract and extension processes, carry out system-wise monitoring of financial limitations and ensure efficiency in the funding process. APEX lending and infrastructure improvement efforts continued throughout the year in addition to process and infrastructure arrangements to improve the effectiveness of procurement processes. Infrastructure work was delivered for loan and project data analysis, and reporting platforms were established. Level of automation for legal reporting was raised, and integration work with external organizations were delivered.

Furthermore, TSKB launched infrastructure and integration projects for information technologies to support the Bank's

efficiency and growth targets in 2016. Below are some of the projects completed with respect to IT application infrastructure, hardware infrastructure and information security:

- » Improvement of data back-up and emergency center infrastructure
- » Infrastructure integration for the management of central logs and information security
- » Establishment of an integrated communication infrastructure
- » Renovation of virtualization platform servers

In line with the Bank's strategic plan, TSKB will continue to perform significant work on banking processes in addition to IT hardware and application infrastructure in 2017. To this end, the infrastructure and process improvement efforts led through the project "A Prospective Glance" will remain a core item on the agenda. Other priority matters will be the infrastructure work to ensure efficiency of the lending process, the efforts for IRB, IFRS 9 transition and compliance with RCAP, and the restructuring of management and decision support reporting. In addition, planned work includes improvement and renewal of the Bank's network infrastructure, infrastructure work to improve business continuity, security solutions for preventing information leaks, and solutions concerning database servers.



### INVESTOR RELATIONS

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

In 2016, BIST-100 Index and BIST Banking Index rose by 8.9% and 8% respectively while TSKB stocks rose by 10.7%. From the beginning of the year until the year-end, the Bank's stocks performed 1.6% better than BIST-100, and 2.4% better than BIST Banking Index. As of December 31, 2016, the Bank's market value reached almost TL 2.9 billion. Foreign investors' share in TSKB's publicly-held shares stood at 59.5% as of the year-end. The list of shareholders obtained from the Central Securities Depository (CSD) in March 2016 indicates that the U.S., UK, Luxembourg and Norway-based funds own about 33%, 21%, 12% and 10% of publicly-held shares respectively.



#### EFFORTS TO EXPAND INVESTOR BASE

Investor base is continuously expanded through participation in international conferences and roadshows under investor relations activities. In 2016, a total of 131 investor relations meetings including 99 meetings abroad were held. Almost 15% of these investors are new investors. Under investor relations, the practice of holding teleconferences after the announcement of financial results for analysts and investors continued in 2016. In such events, investors and analysts were explicitly informed on the Bank's performance and their questions were answered in detail.

For 2017, there are plans to replicate the relevant efforts from the previous year and have a minimum of two teleconference meetings following the announcement of financial results and continue with the work to expand the investor base by attending conferences and roadshows as anticipated at the beginning of the year. Furthermore, the current effective communication with analysts and investors will be sustained while performing up to legal requirements under the legislation.

#### FULL COMPLIANCE WITH CORPORATE GOVERNANCE

Aiming to be among the leading organizations since 2009 when it had its first rating done in the field of corporate governance, TSKB continues to make improvements as required. The Bank's corporate governance rating rose from 9.52% to 9.53% over 10 as a result of the assessment performed by Saha Rating on October 21, 2016, enabling the Bank to anchor a well-established place among organizations with the highest corporate governance ratings.

#### TSKB'S CORPORATE RATINGS

MAIN ITEMS	WEIGHT	RATING
Shareholders	0.25	9.49
Public Disclosure and Transparency	0.25	9.67
Stakeholders	0.15	9.85
Board of Directors	0.35	9.32
<b>TOTAL</b>		<b>9.53</b>

## TSKB'S SUBSIDIARIES

TSKB CONTINUES TO PROVIDE CUSTOMERS WITH A DIVERSE RANGE OF PRODUCTS AND SERVICES IN SYNERGY WITH ITS SUBSIDIARIES.

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

Yatırım Finansman Menkul Değerler A.Ş. (Yatırım Finansman Securities), Turkey's first capital market institution, was founded on October 15, 1976 by 13 major banks led by Isbank and the Industrial Development Bank of Turkey (TSKB).

Earning a reputed place in capital markets thanks to the rapid and stable progress it attained since the day it was founded, Yatırım Finansman is one of the leading players in the market and emerges as a symbol of trust. It offers high quality, reliable and rapid service to access capital markets to personal and corporate investors from Turkey and the world through its robust and widespread network of branches around the country, and its online and mobile applications.

Fueled by the experience of a 40-year history in the finance industry and a strong shareholding structure, Yatırım Finansman uses its know-how and expertise to create added value for customers. Yatırım Finansman celebrated its 40<sup>th</sup> anniversary in 2016 and continues to make a difference in service to customers via its experience and status as a "Broadly Authorized Intermediary Institution" under the capital markets law and relevant communiques and specifically the investments it makes in technical infrastructure and technology.

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

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

In 2016, Yatırım Finansman continued to support the development of financial literacy through the seminars it organized. During such regular seminars, investors were informed on the products traded on the Derivatives Market as well as the functioning of the market.

As an organization aiming to create trends rather than following them, Yatırım Finansman is one of the leaders in digital transformation and is driven by the excitement of celebrating its 40<sup>th</sup> anniversary in 2016 to sustain and improve its investments in technology and human resources in addition to the existing customer-based service approach.

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

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

Established in 2006, TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. (TSKB REIT) is a real estate company that aims to establish and develop a profitable real estate portfolio. TSKB has a participation share of 70.84% at TSKB REIT, which is powered by the Bank's 66-year corporate know-how and experience. As a capital market institution, TSKB REIT can invest in real estate, real estate projects, real estate rights and capital market instruments,

establish ordinary partnerships to realize certain projects, and deliver other operations allowed by the relevant communique of the Capital Markets Board (CMB) of Turkey. The basic values of TSKB REIT are consistency, transparency, quality, social responsibility, customer orientation and teamwork while its investment strategy is based on a growth through project development, sustainability and risk management. TSKB REIT was established with an initial capital of TL 10 million. The size of the company's assets reached TL 438 million through the investments it made and the gross leasable area under its management rose to 66,000 m<sup>2</sup> from 3,000 m<sup>2</sup> as of December 31, 2016.

### Real estate portfolio of TSKB REIT

Fueled by the know-how, expertise and corporate approaches of TSKB, its main shareholder, TSKB REIT seeks to provide investors with a solid and reliable real estate portfolio. The company makes strides to establish an investment bundle diversified according to the types and geographical locations of investments. TSKB REIT's investment operations mainly focus on commercial real estate but sometimes also cover investment opportunities in housing and similar fields.

The company pursues an investment strategy that develops a project from the very first phase of gestation, organizes all required efforts during the process, concludes the project to ensure sufficient commercial efficiency and provides for growth through project development. This approach contributes greatly to the sustainability of projects. Another key part of the approach

is to do the right planning and deliver effective risk analyses. Therefore, TSKB REIT runs a meticulous planning process before starting the construction of a project and takes measures to minimize potential risks. A breakdown of TSKB REIT's real estate investments on the basis of appraisal value shows that the portfolio consists of office buildings, shopping malls and hotels at corresponding rates of 50%, 34% and 16% respectively. The company's real estate portfolio includes Pendorya Shopping Mall, which is located by E-5 Highway in Pendik, Istanbul, is commissioned on December 17, 2009 and has an approximate indoor area of 80,648 m<sup>2</sup> and a leasable area of 30,504 m<sup>2</sup>; two office buildings with an indoor space of 17,827 m<sup>2</sup> in Fındıklı, Istanbul; Tahir Han in Karaköy, Istanbul; Divan Adana Hotel, which is located in Adana city center and is commissioned in September 2015, as well as the moiety of the hotel's independent units.

#### TSKB REIT and capital markets

It is among the goals of TSKB REIT to enable real estate investments to earn a place in capital markets as a liquid and robust investment alternative. TSKB REIT is an investment company subject to Turkey's capital markets legislation. As stipulated by the legislation, it established its real estate portfolio and satisfied other requirements before completing the initial public offering process and enabling its stocks to be traded on Borsa Istanbul's Collective Investment Products and Structured Products Market since April 2010 with the symbol "TSGYO".

#### Expectations for 2017

In line with its investment strategy to increase the current rental revenues and diversify its portfolio, TSKB REIT announced on November 18, 2016 that a decision had been made to start negotiations for a merger with İş Gayrimenkul Yatırım Ortaklığı A.Ş. The negotiation process is currently under way. Furthermore, the company aims to sustain efforts for increasing the rental revenues from Pendorya Shopping Mall and use its competitive advantage in the region where Divan Adana Hotel is located to boost profitability in 2017.

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

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

Established in 2002 to deliver real estate appraisal services, TSKB Gayrimenkul Değerleme A.Ş. (TSKB Real Estate Appraisal) takes the foundations of its know-how from TSKB's experience in real estate, machinery and equipment valuation accumulated in more than half a century. TSKB Real Estate Appraisal provides independent and impartial services up to international standards (IVSC) on valuation, consultancy, valuation of machinery and equipment as well as ships and other tangible fixed assets, most efficient and best use analysis, feasibility analysis, market research and sectoral analysis, tender consultancy and process management, urban transformation consultancy, construction progress and investment monitoring consultancy, concept development consultancy, review of valuation reports and green valuation and always observes the principle of confidentiality in its operations. TSKB has a participation share of 99.9% in TSKB Real Estate Appraisal, which has assumed a mission of guiding investment decisions through the reports it prepares on the basis of sectoral data and developments it continuously follows. The company also uses market research services to support investors in order for them to take accurate and robust steps in their real estate investments.

TSKB Real Estate Appraisal represents deep-rooted know-how and expertise in the valuation and appraisal industry and offers consultancy services in all phases of projects via its strong organizational structure and appraisal experts across Turkey. Chartered appraisal experts, mostly CMB-accredited, working at TSKB Real Estate Appraisal determine the market value of a wide range of property including but not limited to land, business centers, factories, shopping malls, hotels, logistics plants and seaports.

Since the day it was founded, TSKB Real Estate Appraisal has been utilizing the power of its experienced and expert staff to offer independent and impartial reporting services up to international standards to a wide range of customers including but not limited to companies subject to the capital markets legislation, the leading companies of Turkish industry making it to the First 500 List of Istanbul Chamber of Commerce and foundations. As of 2016 year-end, the number of reports issued by the company reached almost 40,000.

In 2015, TSKB Gayrimenkul Değerleme A.Ş. was given the "Best Real Estate Appraisal Company in Turkey" award under "Consultancy" category by the UK's Euromoney. The company was further awarded by Euromoney as the "Best Real Estate Consultant in Turkey" and the "Best Real Estate Appraisal Company in Turkey" under the "Real Estate Consultancy" category in 2008 and 2014 while it was awarded as the "Best Real Estate Consultant in Turkey" in 2005.

TSKB Real Estate Appraisal has two main departments for valuation services, namely "Security Valuation" and "Special Projects". Considering the importance of appraising the "accurate value" in real estate-based loan collateralization, Security Valuation Department was established in 2010 and mainly serves financial institutions. Special Projects Department, on the other hand, provides services on special-purpose valuation requests such as domestic and international project valuation, feasibility, most efficient and best use survey, project goodwill, machinery and equipment park valuation, tender consultancy and sectoral research. In 2016, the company aimed to expand its customer base by retaining the corporate image and strength of the brand and touching more customers through the issuance of higher quality and comprehensive reports in both special projects and security valuation operations and thus established the Corporate Quality and Business Development Department.

Included among the appraisal companies accredited by the Capital Markets Board in February 2003, TSKB Real Estate Appraisal is also one of the first companies to obtain the authority to deliver services for the "Valuation of Real Estate, Real Estate Projects or Rights and Benefits Pertaining to a Real Estate" through the resolution of the Banking Regulation and Supervision Board No. 3469 of December 17, 2009. In addition to CMB and BRSA licenses, the company obtained the RICS license granted by the Royal Institution of Chartered Surveyors offering international service guarantee and emerged as a leading company in Turkey that delivers services with three licenses.

TSKB Real Estate Appraisal is the first real estate appraisal company in Turkey to obtain the ISO 9001:2008 Quality Certificate granted by BSI Eurasia Yönetim Sistemleri Belgelendirme Ltd. Şti., a UK certification company.



## TSKB'S SUBSIDIARIES

## TSKB REAL ESTATE APPRAISAL HAS EXPERTS CERTIFIED BY THE APPRAISAL INSTITUTE.

TSKB Gayrimenkul Değerleme A.Ş. became a member of the U.S. Green Building Council (USGBC) in February 2016. It is also the first company to provide valuation services to green building investments in Turkey via its staff holding LEED Green Associate certificates who are competent and qualified in relation to the LEED certificate that certifies their energy efficiency. TSKB Real Estate Appraisal also has appraisal experts certified by the Appraisal Institute.

Adopting a vision to be the industry leaders and reference point in valuation and consultancy, TSKB Gayrimenkul Değerleme A.Ş. issued a 3-year Strategic Plan covering the years 2017 to 2019 in line with this vision. TSKB Real Estate Appraisal will celebrate its 15<sup>th</sup> anniversary in 2017 and has designed its Strategic Plan on the basis of growth via the work of the Special Projects Department.

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

### ESCARUS-TSKB SUSTAINABILITY CONSULTANCY

Established in April 2011, TSKB Sustainability Consultancy - Escarus is a TSKB subsidiaries that aims to develop sustainability solutions with its experienced and professional staff to deliver consultancy services and integrate internationally recognized environmental and sustainable approaches into the Turkish business world. TSKB has a participation share of 80.6% at Escarus, which has a capital of TL 1,240,000.

The mission of Escarus is to offer consultancy services to ensure "sustainable development". To this end, the main goals of the company are provided below:

- » To offer solutions that improve the competitiveness of its customers,
- » To support effectiveness and innovation,
- » To provide consultancy support to the private sector in its efforts to gain access to funds,
- » To offer innovative products/services with a focus on sustainability,

- » To function in synergy with TSKB and its subsidiaries and thus create added value,
- » To raise awareness on the effects of climate change,
- » To establish a visionary, fair and transparent working environment where knowledge is valued and personal development is supported.

Escarus delivers services under four main themes:

- » Sustainability Consultancy Services
- » Technical, Environmental and Social Due Diligence and Monitoring
- » Sustainability/Operational Efficiency
- » Sustainability Management System

Escarus aims to become the leading consultancy company in supporting sustainable development. In 2017, the company will continue to create both economic and social value for our country, standing by the public and private sector through tailored and innovative sustainability solutions.

[www.escarus.com](http://www.escarus.com)

The following table provides summary information on TSKB's subsidiaries falling within the Isbank Group:

COMPANY	SECTOR	CAPITAL (TL MILLION)	TSKB'S SHARE (%)	WEB SITE
İş Finansal Kiralama A.Ş.	Finance	600.3	29.46	<a href="http://www.isleasing.com">www.isleasing.com</a>
İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.	Finance	74.7	16.65	<a href="http://www.isgirisim.com">www.isgirisim.com</a>
İş Faktoring A.Ş.	Finance	63.5	21.75	<a href="http://www.isfactoring.com">www.isfactoring.com</a>



57%

**THE SHARE OF SUSTAINABILITY  
INVESTMENTS WITHIN THE LOAN  
PORTFOLIO REACHED 57%.**

## FINANCING AND MANAGEMENT OF SUSTAINABILITY

ANNUAL CARBON EMISSIONS IN TURKEY WERE REDUCED BY 13 MILLION TONS THANKS TO THE RENEWABLE ENERGY, ENERGY EFFICIENCY AND RESOURCE EFFICIENCY INVESTMENTS FUNDED BY TSKB.

### MEASURING ENVIRONMENTAL AND SOCIAL RISKS IN LENDING PROCESSES

Adopting the sustainability principles in all projects it funds, TSKB applies the Environmental and Social Risk Evaluation Tool (ERET) Model, which was structured in 2006, to all investment projects irrespective of the investment amount.

Under the ERET Model, scores are assigned to firms in accordance with certain questions focusing on environmental and social matters. The model evaluates the answers to 45 questions for 5 criteria. Last year, the model was used to evaluate 79 firms and 79 projects. The model incorporates a scoring system covering project evaluation, funding and investment monitoring stages as well as risk categories A, B+, B- and C, thus presenting a structure that goes beyond the internationally-recognized classification. The model enables a detailed risk measurement for all projects including corporate loans.

### TURKEY'S FIRST CARBON NEUTRAL BANK OBTAINING ISO 14001 ENVIRONMENTAL MANAGEMENT SYSTEM CERTIFICATE

Leaders of financing sustainability in Turkey, TSKB has been setting strategies since 2005 to measure and reduce, through the Sustainability Management System it established, all environmental impact arising from its operations. At the end of 2006, TSKB emerged as the first Turkish bank to get

an ISO 14001 Environmental Management System certificate and has been offsetting its carbon footprint since 2008 to become the first carbon neutral bank in Turkey. In 2012, the Bank also obtained the ISO 14064-1 Certificate specifying the control and verification of greenhouse gas emissions and became the first bank to have this certificate in the sector.

Since the day it started Environmental Management System activities, TSKB has reduced its power consumption by 36%, natural gas consumption by 45%, paper consumption by 46% and water consumption by 49%.

### A SUSTAINABILITY MANAGEMENT APPROACH ENCOMPASSING ALL BUSINESS PROCESSES

Delivering all sustainability work across its organizational structure through the Sustainability Committee, which is comprised of two Board Members and two Executive Vice Presidents, and the Sustainability Subcommittee, which is comprised of active members from various departments, TSKB makes systematic efforts to integrate sustainability approaches into all business processes and ensure they are internalized by the Bank's employees.

### NATIONAL AND INTERNATIONAL INITIATIVES TSKB COOPERATES WITH IN THE FIELD OF SUSTAINABILITY

- » The first Turkish bank to become a member of UNEP FI
- » Involvement in the Carbon Transparency Initiative since its foundation
- » One of the first two financial institutions from Turkey to emerge as a signatory for the Water Disclosure Project
- » The first Turkish development and investment bank to become a member of the United Nations Global Compact
- » An organizational member of the Global Reporting Initiative (GRI)
- » One of the two financial institutions to sit at the Board of Global Compact Network of Turkey
- » A member of the Long Term Investors Club (LTIC)
- » A member of the Sustainable Development Association (SKD)

### THE FIRST FINANCIAL INSTITUTION TO ISSUE A GRI\*-APPROVED SUSTAINABILITY REPORT

TSKB broke a new ground in Turkish banking industry in 2009 when it published its Sustainability Report and brought the performance results under its sustainability strategies to the attention of its stakeholders via the fifth Sustainability Report, which covered 2015 operational periods.

*\* Global Reporting Initiative*

**TSKB performs all banking operations within a mission to support Turkey's sustainable development.**

The projected total installed capacity for a total of 211 renewable energy projects funded by TSKB is around 5,332 MW. This represents 15% of Turkey's total installed capacity for renewable energy.

As of 2016 year-end, the energy saved in 122 energy and resource efficiency projects funded by TSKB was enough to cover heating requirements of a city with a population of 2.4 million.

Annual carbon emissions in Turkey were reduced by 13 million tons thanks to the renewable energy, energy efficiency and resource efficiency investments funded by TSKB.



In 2016, TSKB funded various projects in sectors such as energy efficiency, resource efficiency, renewable energy, power distribution, food and infrastructure. More than 57% of the Bank's loan portfolio consists of sustainable investment projects.

TSKB offers the Turkish private sector not only financial support for transition to a low-carbon and more efficient level of production but also relevant consultancy services through its engineering team or via Escarus, an subsidiaries of the Bank.

#### SYNERGY WITH SUBSIDIARIES IN SUSTAINABILITY

TSKB delivers best practices in sustainability via its subsidiaries. Escarus, which is established in order to provide sustainability consultancy services, Yatırım Finansman Securities, the first carbon neutral brokerage house in Turkey, and TSKB Real Estate Appraisal, the first to offer services for 'Valuation of Green Buildings' in Turkey, all bring in a significant added value for TSKB's sustainability services.

#### SUSTAINABILITY AWARDS TSKB RECEIVED

- » SRI Bond of the Year-IFR (2016)
- » Green/SRI Bond Deal of the Year-GlobalCapital (2016)
- » Low Carbon Hero Award-Sustainable Production and Consumption Association (Süt-D) (2016)
- » Climate Disclosure Leadership Award-CDP Turkey (2015)
- » Highest Score in the Survey on Transparency in Corporate Reporting-BIST Corporate Governance Index (2015)

- » Low Carbon Hero Award-Sustainable Production and Consumption Association (Süt-D) (2015)
- » Highest-Rated Organization in Corporate Governance-Corporate Governance Association of Turkey (TKYD) (2011, 2013, 2014)
- » Finalist for "Sustainable Bank of the Year" in Europe-FT&IFC (2011-2013)
- » Highest score in "Transparency" and "Performance" categories for "Climate Change Leaders" award-CDP Turkey (2013)
- » "Sustainable Bank of the Year" in Eastern Europe-FT&IFC (2008-2009-2010)



## CORPORATE SOCIAL RESPONSIBILITY

TSKB RUNS SOCIAL RESPONSIBILITY PROJECTS TO RAISE SUSTAINABILITY AWARENESS IN COLLABORATION WITH THE TURKISH BUSINESS WORLD AS WELL AS UNIVERSITIES THAT BRING UP THE MANAGERS OF THE FUTURE.

### “Environment: Our Priority” since 2007

TSKB's main projects delivered so far under “Environment: Our Priority” project are provided below:

- » Supporting excavations at the ancient city of Patara, a highly remarkable cultural asset in our country
- » Offsetting the annual individual carbon footprints of stakeholders
- » Sustainability meetings bringing together employees, suppliers and subsidiaries
- » [www.cevreciyiz.com](http://www.cevreciyiz.com), Turkey's most comprehensive sustainability portal, and social media channels
- » First carbon neutral concerts during IKSİV Istanbul Music Festival
- » Energy efficiency portal – [www.tskbenerjiverimiligi.com](http://www.tskbenerjiverimiligi.com)
- » “Sustainability Workshops”, a literacy program for sustainability at universities
- » Various sponsorships regarding environment, energy and sustainability
- » The book project called Rüzgarın Kanatları (“The Wings of the Wind”), tracing the trails of wind energy in Turkey
- » A Day to Meet the Nature, organized in collaboration with NGOs
- » Sculpture Contest in cooperation with Mimar Sinan University

### CORPORATE SOCIAL RESPONSIBILITY

TSKB mainly runs social responsibility projects to raise awareness on combatting climate change as well as energy and carbon management. The Bank engages in fruitful collaborative work with the business world and universities in order to boost social responsibility projects with a broader impact.

Major social responsibility projects by TSKB are as follows:

#### ENVIRONMENT: OUR PRIORITY

Positioning itself as a model corporate citizen, TSKB launched “Environment: Our Priority”, Turkey's most comprehensive social responsibility project on the environment so far, in the light of its corporate competences and strong stakeholder communication. The

project has been launched back in 2007 and aims to elevate the social awareness level on sustainability, specifically that of the business world and universities in the first place.

#### CEVRECIYIZ.COM

Launched under “Environment: Our Priority” project, [cevreciyiz.com](http://cevreciyiz.com) is Turkey's most comprehensive web portal on the environment, with regularly updated contents. Backed by a mobile infrastructure as well, [cevreciyiz.com](http://cevreciyiz.com) web site and social media pages highlight the environmental and sustainability agenda as well as providing inspirational sustainability ideas, nature-friendly designs and globally-acclaimed best practices.

Actively sharing contents on social media platforms such as Facebook, Twitter and Instagram, [cevreciyiz.com](http://cevreciyiz.com) has more than 50,000 followers on Facebook as of 2016 year-end.

The web portal [tskbenerjiverimiligi.com](http://tskbenerjiverimiligi.com) is another project launched by TSKB to support sustainable development processes. A reflection of the Bank's social responsibility approach, the portal provides information on recent developments in energy efficiency technologies, current legislation and examples of the Bank's energy efficiency projects.

#### FIRST LITERACY PROGRAM ON SUSTAINABILITY LITERACY: TSKB SUSTAINABILITY WORKSHOP

TSKB is a groundbreaking bank in corporate social responsibility as well. The Bank attaches huge importance to raising broader social awareness on sustainability and has thus launched TSKB Sustainability Workshop, the first literacy work on sustainability in Turkey since 2012. The workshop is held at a different university each year and aims to raise awareness among university students, the potential managers of the future. During workshops, students build various teams to do case studies separately while the Bank's representatives act as team coaches. Experienced private sector participants also attend the workshop.

Measurement, multidimensional point of view and teamwork are just some of the competences the Sustainability Workshops focus on. More than 300 students in addition to sectoral representatives and academics have attended the workshops so far.



#### EXPERIENCE SHARING

The event called "Experience Sharing" enhances TSKB's dialogue with stakeholders and significantly improve the awareness level of participants with respect to sustainability.

In 2016, TSKB backed 7 events as a corporate sponsor and TSKB representatives delivered a total of 18 speeches on various platforms.

#### SUPPORT FOR CULTURE AND ART

Performing all operations and activities in line with the principle of creating value and engaging in key partnerships to do this, TSKB has been sponsoring concerts during the Music Festival organized by Istanbul Foundation for Culture and Arts (IKSV) since 1990.

During the 44<sup>th</sup> Istanbul Music Festival, the Bank sponsored the Concert for Homage to Edith Piaf by accordionist Richard Galliano and guitarist Sylvain Luc on the evening of 22 June at the French Palace Garden, winning the hearts of art lovers once again. As of 2014, TSKB started to regularly offset the carbon footprint arising from

the organization of concerts it sponsored, the travels of relevant artists and the transportation of music fans to the concert hall, thus breaking yet another new ground that brings together art and sustainability on a common platform.

#### TSKB SPONSORS EXCAVATIONS AT THE ANCIENT CITY OF PATARA

TSKB displayed ownership of the traces of the past for a sustainable future and has started sponsoring archaeological excavations at the ancient city of Patara along with Isbank of Turkey and Şişe ve Cam Fabrikaları A.Ş.

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

#### THE BANK THAT OFFSETS THE INDIVIDUAL CARBON FOOTPRINT OF ITS STAKEHOLDERS

TSKB pays great attention to delivering stakeholder communication work with a focus on sustainability. Two years ago, the Bank launched a project to send GOLD Standard VER Certificates\* issued "in the name of" its business partners and customers for the New Year, thus offsetting, for a year, the "individual carbon footprints" of its stakeholders from essential and vital needs such as transportation, heating and energy.

*\* This certificate is based on a Voluntary Emission Reduction Project, which is developed in line with the rules and methodologies set by the International Gold Standard Foundation and is approved by independent organizations accredited as per the United Nations Framework Convention on Climate Change (UNFCCC).*

## INVESTMENT IN HUMAN RESOURCES

TSKB CONSIDERS ITS HIGHLY QUALIFIED AND COMPETENT WORKFORCE TO BE A CRITICALLY IMPORTANT FACTOR THAT RENDERS ITS SUCCESSFUL PERFORMANCE SUSTAINABLE.

TSKB considers its highly qualified and competent workforce to be a critically important factor that renders its successful performance sustainable. The Bank carries out regular activities in a myriad of fields ranging from recruitment to professional and management training programs in order to make business processes more effective.

TSKB recruited 19 management trainees through the "7<sup>th</sup> Career Workshop by TSKB", which was held in April 2016, in addition to 34 experienced employees recruited for various departments, making a total of 53 new employees joining the TSKB family.

The Development Workshop Program targets the Bank's group managers and managers. The first group activity was successfully completed in 2016 and 70 participants graduated from the program. Similarly, the second group of the workshop started in 2016 with 45 participants. Furthermore, 161 participants joined the training catalog which is prepared on the basis of TSKB Core Competences and comprised of 9 different main subjects in integration with the performance assessment process in order to support those employee competences that present a room for improvement.

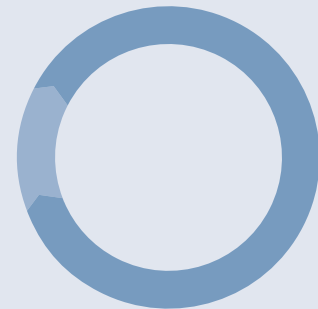
"Leadership Development Program", which focuses on strategy, leadership and negotiation skills, as well as the personal coaching program for managers continued in 2016.

In addition to internal training programs held to support technical knowledge and skills, a 42-day MT Development Program for recently recruited staff of the Bank as well as Basic Occupational Health and Safety, First Aid and Ergonomics training activities were completed. Driven by the sustainability strategy for human resources, TSKB will continue to invest in human resources, its main stronghold, through tailored assessment and development programs.

A bonus payment is made once a year on the condition that ethical values and internal balances are observed, the strategies and long-term objectives of TSKB are adhered to, and risk management structures are taken into consideration. To this end, a gross incentive bonus of TL 8,330,885 was paid to 210 employees in 2016 for their 2015 performance.

For 2017, TSKB plans to sustain its efforts to build a strong employer image and brand. To this end, long-term cooperation with universities through Career Workshops and Sustainability Workshops will continue in 2017 to improve recognition of the Bank especially among recent university graduates. Driven by the sustainability strategy for human resources, TSKB will continue to invest in human resources, its main stronghold, through tailored assessment and development programs. All these efforts support the goal of TSKB to become a highly-preferred organization.

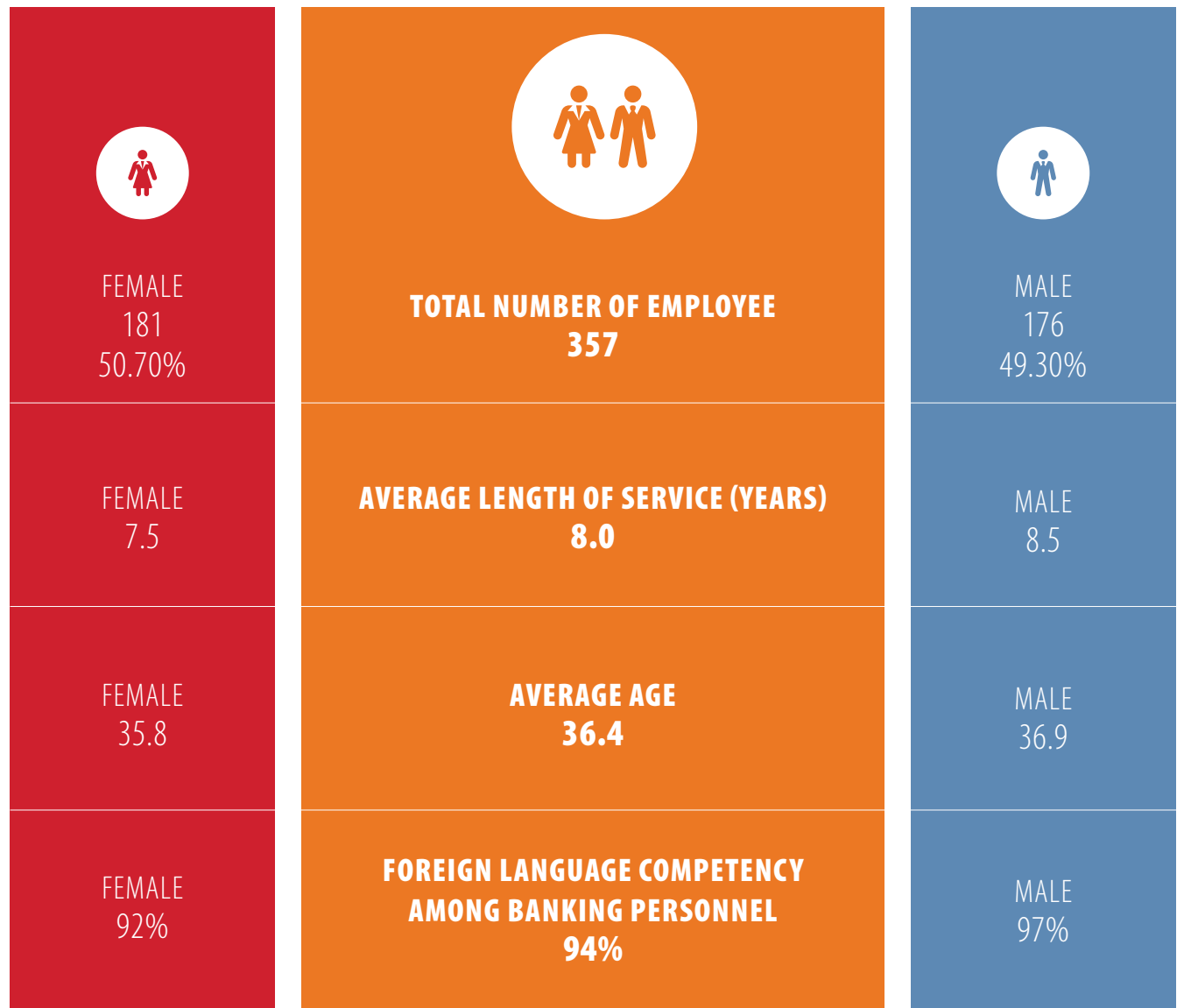
### EDUCATIONAL STATUS OF BANKING PERSONNEL



University 86.92%  
Female 54.2%, Male 45.8%

Other 13.8%  
Female 81.8%, Male 18.2%

## HUMAN RESOURCES PROFILE



## BOARD OF DIRECTORS

ADNAN BALİ



EBRU ÖZŞUCA



SUAT İNCE



HALİL AYDOĞAN



YAVUZ CANEVİ



FİKRET UTKU ÖZDEMİR



KEMAL SAÇ



ZEYNEP HANSU UÇAR



KAMİL YILMAZ



CAN YÜCEL





## ADNAN BALI

### Chairman of the Board

Adnan Bali was born in 1962 in İslahiye and graduated from the Economics Department at the Faculty of Economics and Administrative Sciences, Middle East Technical University. Mr. Bali started his professional career at İsbank's Board of Inspectors. Mr. Bali was appointed as Deputy Manager, Unit Manager and Department Head at Treasury Department respectively. He was positioned as Şişli Branch Manager, Galata Branch Manager and Deputy Chief Executive Officer. Then he was appointed as the Chief Executive Officer of İsbank in April 1, 2011. Mr. Bali has been a member of TSKB's Board of Directors since April 15, 2011 and the Chairman of the Board of Directors since April 21, 2011.

## EBRU ÖZŞUCA

### Vice Chairman

Ms. Ebru Özşuca was born in Ankara in 1971 and graduated from Economics Department at the Faculty of Economics and Administrative Sciences of Middle East Technical University in 1992. Ms. Özşuca holds "International Banking" and "Finance" masters degrees from Middle East Technical University and Southampton University. Having started her professional career at İsbank as an assistant specialist in Treasury, she was promoted to assistant manager and unit manager of the same department. Between 2007 and 2011, Ms. Özşuca worked as the head of the Corporate Banking Products Department. In 2011, she was appointed as the Head of Treasury at İsbank. Ms. Özşuca has been a TSKB board member since April 17, 2014.

## SUAT İNCE

### Board Member and CEO

Suat İnce was born in 1964 in Ankara and graduated from the Economics Department at the Faculty of Economics and Administrative Sciences, Middle East Technical University. Having started his professional career at İsbank as Assistant Inspector on the Board of Inspectors, he was appointed as Assistant Manager of Corporate Loans Underwriting Division in 1995. Between 1997 and 2008, he was positioned as Manager in various units and branches of the bank. He served as Deputy Chief Executive of İsbank between 2008 and 2016. In April 2016, Mr. İnce is elected as a member of the TSKB's Board of Directors and appointed as the Bank's Chief Executive Officer.

## HALİL AYDOĞAN

### Board Member

Halil Aydoğan was born in Afyonkarahisar in 1950 and graduated from İstanbul University Department of Economics. He joined Vakıfbank in 1977 and has worked in various departments and positions. Between 1996-1999, Mr. Aydoğan worked as Assistant General Manager of Vakıfbank and between 1999-2000 as General Manager of Vakıf Financial Leasing. Mr. Aydoğan was elected as a member of Parliament twice during the 22<sup>nd</sup> and 23<sup>rd</sup> terms of Turkish Grand National Assembly. Mr.

Aydoğan served as Vakıfbank's Chairman between January 2012 and March 2013 and was appointed as the Chief Executive Officer of Vakıfbank on March 29, 2013. Since December 16, 2013, Mr. Aydoğan has been a board member of TSKB's Board of Directors.

## YAVUZ CANEVİ

### Board Member

Yavuz Canevi was born in Konya in 1939 and graduated from the Finance and Economics Department of the Faculty of Political Sciences, Ankara University in 1960. He completed a master's degree at the University of Southern California in 1969. After serving as a Ministry of Finance Inspector from 1960 to 1963, he worked in a variety of positions in public and private organizations from 1963 to 1989, until getting retired from his position as Treasury Undersecretary in the latter year. Mr. Canevi has been the Chairman of the Board of Directors at Türk Ekonomi Bankası since 1996. Mr. Canevi, who had served as a member of TSKB's Board of Directors between 1993 and 2012, was elected as a member of TSKB's Board of Directors in 26 March 2015.

## FİKRET UTKU ÖZDEMİR

### Board Member

Fikret Utku Özdemir was born in 1970 in Gaziantep and completed his two-year degree on Nuclear Energy Engineering from Hacettepe University and his bachelor degree on Management from Middle East Technical University. Having started his professional career at İsbank on the Board of Inspectors in 1996, he completed his post graduate degree on Finance from Edhec Business School at France. Mr. Özdemir was appointed as the Deputy Manager at Corporate Loans Department in 2006, as Unit Manager at Corporate Loan Allocation Department in 2009 and as Unit Manager at the International Financial Institutions Department in 2013. In 2016, he was appointed and still serves as the Department Manager in charge of Corporate Banking Marketing and Sales. In June 2016, Mr. Özdemir has also been elected as a member of the TSKB's Board of Directors.

## KEMAL SAÇ

### Board Member

Kemal Saç was born in 1968 in Ordu and graduated from the Business Administration Department at the Faculty of Economics and Administrative Sciences, Middle East Technical University in 1992. After he worked as Cost Control Coordinator at MNG Holding for a year, he joined İsbank as Assistant Inspector on the Board of Inspectors in 1993. In 2001, Mr. Saç was appointed as Assistant Manager at Financial Affairs Department in which he became a Group Manager in 2005. He has been currently serving as a Unit Manager at Managerial Reporting and Internal Accounting Department since 2008. Kemal Saç also completed the Advanced Management Program (AMP 189) at Harvard Business School in 2015. In June 2016, Mr. Saç has been elected as a member of the TSKB's Board of Directors.

## ZEYNEP HANSU UÇAR

### Board Member

Zeynep Hansu Uçar was born in Ankara in 1971 and graduated from Business Administration Department at the Faculty of Economics and Administrative Sciences of Middle East Technical University in 1993. Ms. Uçar has started her professional career at İsbank as an assistant specialist in Subsidiaries Department. Having served as the Unit Manager between 2007 and 2015, she was promoted as Department Manager of the Subsidiaries Department. Ms. Uçar has been a TSKB board member since November 27, 2015.

## KAMİL YILMAZ

### Independent Board Member

Prof. Dr. Kamil Yılmaz is an academician at the Faculty of Economics and Administrative Sciences of Koç University. After having graduated from the economics department of Boğaziçi University in 1987, Prof. Dr. Yılmaz had completed his masters and doctorate degrees in economics in 1990 and 1992 at Maryland University. Between 1992 and 1994, he worked at the research department of World Bank in Washington. In 1994, Prof. Dr. Yılmaz started working as an academician at the Faculty of Economics and Administrative Sciences of Koç University. He also served as the visiting professor of economics at the University of Pennsylvania between years 2003-2004 and 2010-2011. Having played an active role in the establishment of TUSIAD Economic Research Forum in 2005, he served as a Forum Director between 2007 and 2009. Prof. Dr. Yılmaz, who has various scientific articles and books concerned with international finance, international trade, macroeconomics and Turkish economy published at the local and international magazines, was honored with Encouragement Award in the Social Sciences and Humanities by the Turkish Academy of Sciences in 2003. He has been also serving as independent board member in Is Investment Trust since 2012 and in TSKB since March 25, 2014.

## CAN YÜCEL

### Board Member

Can Yücel was born in 1978 in Ankara and graduated from the Economics Department at the Faculty of Economics and Administrative Sciences, Middle East Technical University in 1999. Having started his professional career at İsbank as Assistant Inspector on the Board of Inspectors, he came to several management positions at SME Loan Allocation and Corporate Loan Allocation Departments, respectively, since 2008. In 2011, Mr. Yücel was appointed as Project Finance Unit Manager under Corporate Loan Allocation Department in which he finally has been positioned as the Department Manager in 2016. In June 2016, Mr. Yücel has also been elected as a member of the TSKB's Board of Directors.

## SENIOR MANAGEMENT



Aziz Ferit Eraslan

Ömer Eryılmaz

Suat İnce

Çiğdem İçel

Gökhan Çanakpınar

Ece Börü

Ufuk Bala Yücel

Hakan Aygen

Burak Akgüç

## SUAT İNCE

### Board Member and CEO

Suat Ince was born in 1964 in Ankara and graduated from the Economics Department at the Faculty of Economics and Administrative Sciences, Middle East Technical University. Having started his professional career at İşbank as Assistant Inspector on the Board of Inspectors, he was appointed as Assistant Manager of Corporate Loans Underwriting Division in 1995. Between 1997 and 2008, he was positioned as Manager in various units and branches of the bank. He served as Deputy Chief Executive of İşbank between 2008 and 2016. In April 2016, Mr. Ince is elected as a member of the TSKB's Board of Directors and appointed as the Bank's Chief Executive Officer.

## BURAK AKGÜÇ

### Executive Vice President

Burak Akgüç was born in İstanbul in 1964 and graduated from the Department of Political Science, Boğaziçi University. Mr. Akgüç joined TSKB in 1991 as a Specialist in the Financial Analysis Department. After serving in a variety of positions, he was appointed as the Head of the Loan and Investment Department in 2001. He was promoted to the Executive Vice President in 2004. While Mr. Akgüç was in charge of Corporate Banking and Project Finance Departments, he was retired as of 31 December 2016.

## ÖMER ERYILMAZ

### Executive Vice President

Ömer Eryılmaz was born in Giresun in 1964 and graduated from the Faculty of Business Administration, İstanbul University. Mr. Eryılmaz began his professional career at Sinai Yatırım Bankası in 1986 and was appointed as the Manager of Financial Control Department in 1999 and the Head of Risk Management Department in 2002 at TSKB. Then, he was promoted to the Head of the Board of Inspectors in 2003. Mr. Eryılmaz was appointed as Executive Vice President in 2006. While he was responsible for the Financial Control and Budget, Planning & Investor Relations Departments in TSKB, he was appointed as the CEO of Yatırım Finansman Securities as of 31 December 2016.

## ÇİĞDEM İÇEL

### Executive Vice President

Çiğdem İçel was born in Eskişehir in 1966 and graduated from the Department of Business Administration, Boğaziçi University. Ms. İçel began her professional career at TSKB as an Assistant Investment Advisor in the Treasury Department. After serving in a variety of positions, she was appointed as the Head of Treasury and Correspondent Banking Department in 1998. Çiğdem İçel was promoted to the Executive Vice President in January 27, 2006. Ms. İçel is currently responsible for the Development Finance Institutions, Financial Institutions, Economic Research and Engineering Departments.

## UFUK BALA YÜCEL

### Executive Vice President

Ufuk Bala Yücel was born in İstanbul in 1964 and is a graduate of the Department of Political Science, Boğaziçi University. Ms. Yücel began her professional career in 1987. After working in several banks, she joined TSKB as the Head of Loans Department in 2002. She was appointed as Group Manager in 2007 and as Executive Vice President in December 25, 2007. Ms. Yücel is currently responsible for the Loans, Loan Monitoring and Loan Operations Departments.

## GÖKHAN ÇANAKPINAR

### Executive Vice President

Gökhan Çanakpınar was born in Ardahan in 1964 and graduated from the Department of Business Administration, Middle Eastern Technical University. Mr. Çanakpınar began his professional career at İpekiş Mensucat as System Analyst in 1988. After 1990, Mr. Çanakpınar served as Project Manager at İşbank for six years. In 1995, he started serving as System Analyst at TSKB and appointed as the Head of Application Development Department in 2000. Mr. Çanakpınar promoted to Director of Information Technology Unit in 2011. Since December 27, 2011 he has been working as an Executive Vice President. He is currently in charge of System and Network Support, Application Development, Support Services Departments.

## ECE BÖRÜ

### Executive Vice President

Ece Börü was born in İstanbul in 1966 and graduated from Management Engineering Department of İstanbul Technical University in 1988. Ms. Börü joined TSKB as an assistant specialist in Financial Control Department in 1989. She was promoted to Head of Financial Control in 2000 and to Head of Board of Internal Auditors in 2006. Since November 28, 2013, Ms. Börü has been serving as the Executive Vice President of TSKB. She is currently responsible for Budget Planning and Investor Relations, Financial Analysis and Financial Control Departments.

## HAKAN AYGEN

### Executive Vice President

Hakan Aygen was born in Konya in 1965 and graduated from Management Engineering Department of İstanbul Technical University. Mr. Aygen started his professional career in non-financial sector in 1989. He joined TSKB in 1995 as an assistant specialist in the Financial Analysis Department and completed his master's degree on Management and Organization at the Marmara University in 1996. Mr. Aygen was appointed to Head of Corporate Finance Department in 2006 and promoted to Group Head in 2011. Having received his Accounting Finance doctorate degree from Marmara University in 2013, he was promoted as Executive Vice President on November 28, 2013. Mr. Aygen has currently been in charge of Corporate Finance, Corporate Banking and Project Finance Departments.

## AZİZ FERİT ERASLAN

### Executive Vice President

Aziz Ferit Eraslan was born in İstanbul in 1969. Following his graduation from the Public Administration Department of Orta Doğu Technical University in 1991, he completed the MT Banking School of Ziraat Bank. In 1992, Mr. Eraslan started his professional career at İşbank's Board of Inspectors. He completed his master's degree at the Stirling University of Scotland between 1996-1997. At the Accounting Department of İşbank, Mr. Eraslan was appointed as Deputy Manager in 2000 and as Group Manager in 2003. Between 2007 and 2012, he was positioned as the Department Head at the Accounting Department, name of which was in time transformed to Financial Management Department. Between 2013 and 2015, Mr. Eraslan was in charge of Chief Executive Officer position at Closed Joint Stock Company İşbank. In October 2015, he was appointed as Executive Vice President who is responsible for Board of Inspectors, Risk Management and Internal Control Departments at TSKB.

## ASLI HANCI

### Executive Vice President

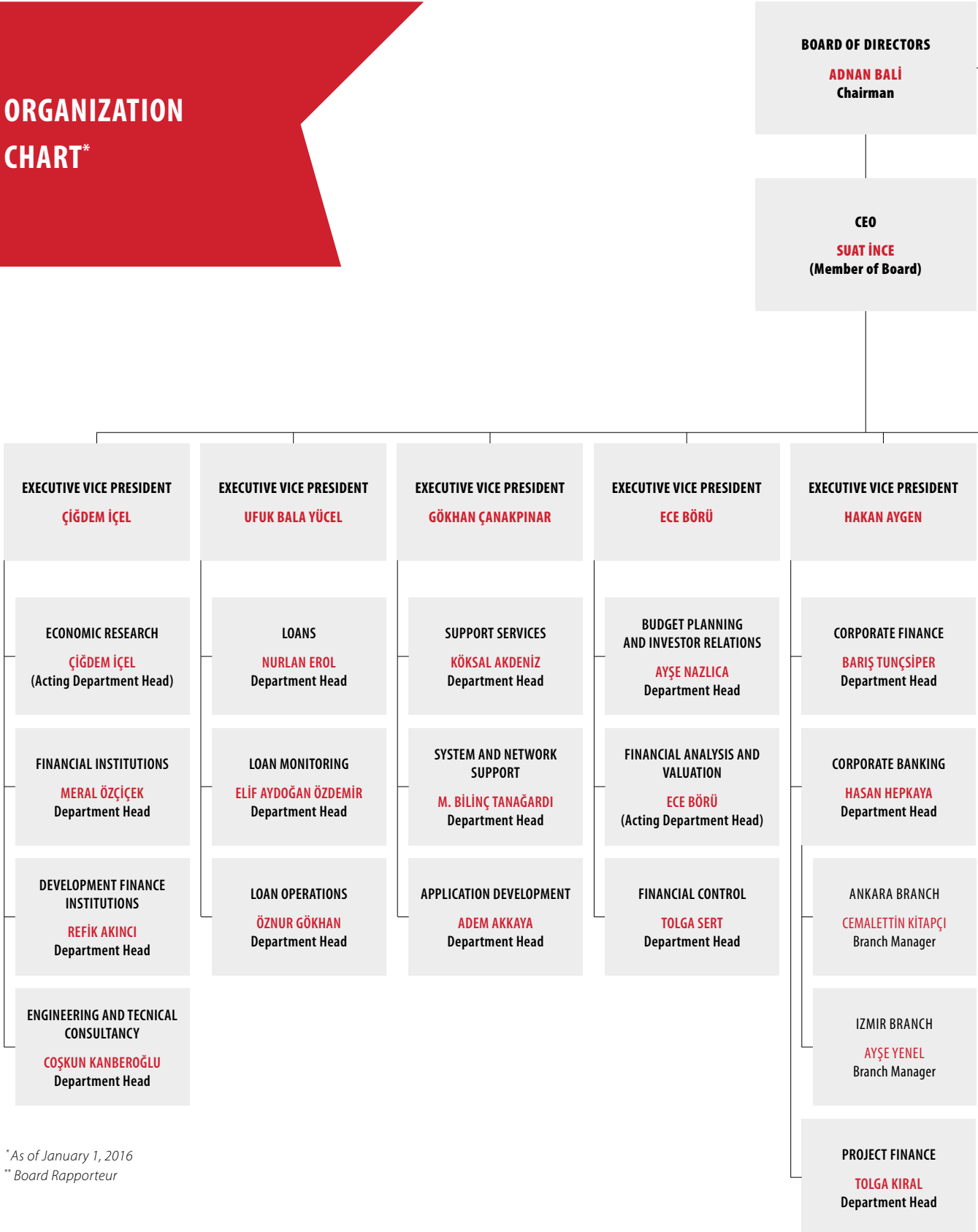
Aslı Hancı was born in Ankara in 1969 and graduated from the Faculty of Business Administration at İstanbul University in 1990. Ms. Hancı began her professional career at Citibank in 1991. She worked at the Treasury department of Chase Manhattan and BNP Ak Dresdner Bank respectively. Ms. Hancı joined the TSKB Treasury Team in 2005. She was appointed as the Head of Securities Department in 2007 and as Head of Treasury Department in 2008. Since 1 January 2017, she has been Executive Vice President in charge of Treasury, Treasury and Capital Markets Operations Departments.

## H. YETKİN KESLER

### Executive Vice President

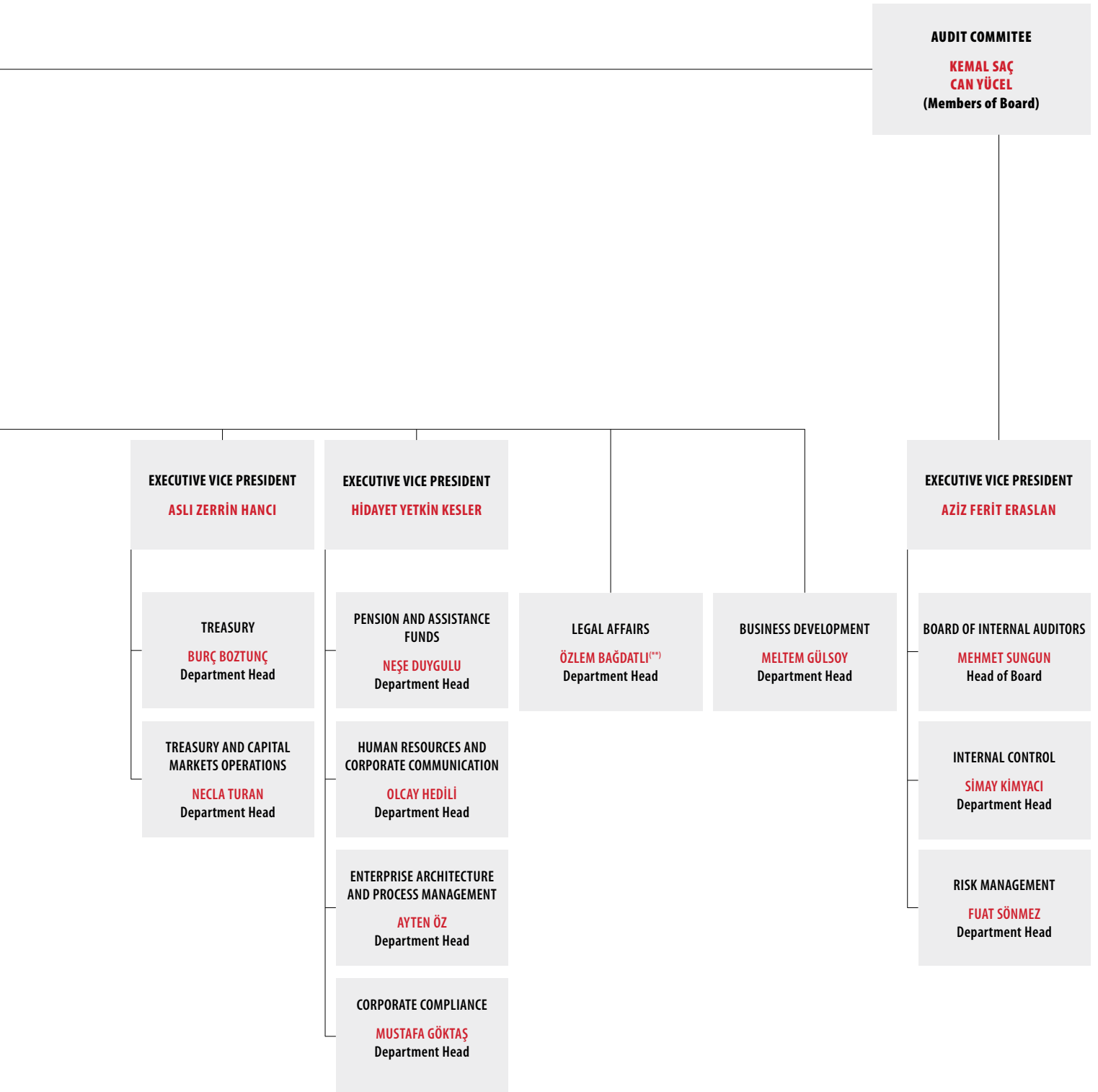
H. Yetkin Kesler was born in İstanbul in 1966 and graduated from the Department of Industrial Engineering at Boğaziçi University in 1989. He started his career as an Assistant Internal Auditor at Koçbank in 1992. Then he completed his master's degree of Management Engineering at İstanbul Technical University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

# ORGANIZATION CHART\*



\* As of January 1, 2016

\*\* Board Rapporteur





## CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

### SECTION I – CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE STATEMENT

Türkiye Sınai Kalkınma Bankası A.Ş. (hereinafter “TSKB” or the “Bank”) is subject to “Corporate Governance Principles” compliance of which is obligatory for banks within the framework of Capital Markets Board (CMB) and banking regulations. According to the Bank’s Articles of Association, transactions made and the resolutions of the Board of Directors passed by not observing the said obligatory principles shall be deemed as conflicting with the Articles of Association.

The Bank has authored their “Corporate Governance Principles Compliance Statement” as per the provisions of Corporate Governance Communique No: II-17.1 (hereinafter the “Communique”), published in Official Gazette Dated January 3, 2014, Edition No: 28871, and those of CMB Principle Decision No: 2/35 Dated January 27, 2014, and in line with the international principles and sector principles. In the activity period of 2016, the Bank generally complied with “Corporate Governance Principles” that were published by the Capital Market Board, with the exception of the following principles, compliance of which is not obligatory for the Bank. The Bank’s Articles of Association do not include provisions that foresee:

- » Ability to exercise the individual right of requesting appointment of a special auditor;
- » Models to support participation of the stakeholders to the Bank’s management;

Above-mentioned principles that are not yet complied with did not so far result in any conflict of interest among the stakeholders. To note, there are internal practices regarding to the mentioned principles in TSKB.

Given below are the assessment and observations on the Bank’s compliance with the Corporate Governance Principles, and the Bank’s activities for developing the scope and quality of the level of their compliance.

### SECTION II - SHAREHOLDERS

#### 2.1. Investor Relations Department

Duties and responsibilities of “Stakeholder Relations Department” that was formed under the Secretary General in the scope of compliance with the Communique in 2009 later have been restructured under the “Investor Relations Department” as per the provisions of Board of Directors Decision No: 2176 dated May 29, 2014. Pursuant to the Article 11 of the Communique, an “Investor Relations Department Manager”, who owns Capital Market Activities Advanced Level Certificate and Corporate Governance Rating Specialist Certificate, was appointed. The Investor Relations Department Manager also serves as a member of Corporate Governance Committee as per the provisions of the governing legislation.

Activities of the Investor Relations Department have been carried out by Investor Relations Department and Legal Affairs Department.

Investor Relations Department pursues activities in relation to shareholders’ use of their rights and ensures the communication between the Bank’s senior management and shareholders. The Department has an active role facilitating the use of and in protecting shareholders’ rights, especially rights to obtain information and review.

Investor Relations Department basically has the following functions and purposes:

- » Ensuring that the records of correspondences between shareholders and the Bank, and other documents are in order, up to date and reliable,
- » Responding to the written claims of information by shareholders pertaining to the Bank’s business, with the exception of information that is confidential and/or secret and/or otherwise exempt from public disclosure,
- » Preparing the documentation related to the General Assembly meetings to be made available to the shareholders for their review and taking measures to ensure that General Assembly meetings are held in full adherence to the governing legislation, provisions of the Articles of Association and the Bank’s other internal bylaws,
- » Observing and supervising performance of all liabilities under the provisions of capital market legislation, including but not limited to all issues pertaining to the corporate governance and public disclosure.

Investor Relations Department prepares and submits a written report once a year with regards to the activities carried out

Contact details of the employees who take part in Investor Relations are given in the following table:

FULL NAME	TITLE	PHONE NO	ELECTRONIC MAIL ADDRESS
Ece Börü	Executive Vice President for Budget Planning and Investor Relations, Financial Control and Financial Analysis*	0 212 334 51 91	borue@tskb.com.tr
Ayşe Nazlıca	Head of Budget Planning and Investor Relations	0 212 334 51 94	nazlicaa@tskb.com.tr
Özen Çaylı	Budget Planning and Investor Relations Department Manager**	0 212 334 52 49	halilogluo@tskb.com.tr
Emre Kalelioğlu	Budget Planning and Investor Relations Manager	0 212 334 52 03	kalelioglue@tskb.com.tr
Özlem Bağdatlı	Legal Affairs Department Manager	0 212 334 50 93	bagdatlio@tskb.com.tr
Korhan Aklar	Legal Affairs Group Manager	0 212 334 50 92	aklark@tskb.com.tr

\* Ms. Ece Börü was appointed as the Executive Vice President in charge of Budget, Planning and Investor Relations Department as of 1 January 2017 in place of Mr. Ömer Eryılmaz.

\*\* Ms. Özen Çaylı, Investor Relations Department Manager, holds Capital Market Activities Advanced Level Certificate (Certificate No:204985) and Capital Market Board Corporate Governance Rating Specialist Certificate (Certificate No: 701337).

by the Department, which is to be read and discussed in Corporate Governance Committee's first meeting. Corporate Governance Committee submits the aforementioned report to the Board of Directors.

Critical tasks undertaken by the Investor Relations Department throughout the year in order to comply with the provisions of the Communique are as follows:

- » Pursuant to the Woman Board Member Policy published in 2014, the board evaluated the current performance regarding the level of target achieved. According to the report dated October 21, 2016, there are two woman board members in the board.

Responding to all shareholder and analyst information claims received via telephone and e-mail in 2016, Investor Relations Department conducted total of 131 informative meetings with investors and analysts in Turkey and abroad. Of these meetings, 4 were conducted over the telephone, 28 were conducted at the Bank's head office, and remaining 99 were conducted during 10 roadshows / conferences.

Moreover, 2 teleconference meetings were held with domestic and international investors and analysts throughout the year where 2015 year-end and 2016 first

half financial results were presented and discussed. To note, the average number of the attendants to the teleconference was more than 30.

## 2.2. Shareholders' exercise of their right to obtain information

All kinds of information claims received from shareholders are answered except for the ones which are not publicly disclosed or are confidential and/or in the nature of a trade secret. Information claims received from shareholders are evaluated by employees who are well qualified experts of their area and replied within the limits of trade secrecy and confidentiality, in a timely and accurate manner.

Announcements concerning issues that shareholders are frequently in need of and information about developments that might affect shareholders' exercise of their rights are published on the bank's corporate website (www.tskb.com). Moreover, as per the provisions of "Regulations on Internet Sites to be Published by Investment Corporations", published on Official Gazette Edition 28663 dated May 31, 2013, investors are directed to MKK website from the "Bilgi Toplumu Hizmetleri" section of the Bank's website, and are given access to Bank information that needs to be disclosed to the public as per the provisions of the above-mentioned regulations.

Articles of Association of the Bank do not provide an individual right of requesting appointment of a special auditor. However, according to the Turkish Commercial Code (TCC), minority shareholders have the right to request appointment of a special auditor from General Assembly regarding the examination of specific material issues. In view of the fact that the right of requesting appointment of a special auditor from General Assembly is not only a requirement of law and but also one of the exceptions to the principle of being committed to the General Assembly agenda, it is not defined as an individual right in the Articles of Association. Moreover, there has not been any request for the appointment of a special auditor pursuant to TCC and Corporate Governance Principles throughout the year.

All necessary information for shareholders to exercise their shareholding rights is made available to them via corporate website, annual reports and public disclosures, as well as by replying to individual claims.

The bank announced 52 public disclosures between January 1<sup>st</sup> and December 31<sup>st</sup> 2016 as required by CMB regulations. There has not been any public disclosure that was not delivered in due time or for which either CMB or BIST demanded additional information.

## CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

### 2.3. General Assembly Meetings

In 2016, one General Assembly Meeting was held, which was the Ordinary General Assembly Meeting for 2015 that was held on March 24, 2016. The aforementioned meeting was held at the Bank's Head Office as well as via electronic medium pursuant to CMB's "Communique Regarding the Electronic General Assembly Meetings of Joint Stock Companies" dated August 29<sup>th</sup> of 2012.

General Assembly Meeting was attended by shareholders that represent 84.3% of the Bank's paid-in capital of 1,750 million TL, namely 1 billion 475 million 110 thousand 561 TL and 66 kurush of the paid-in capital was represented in the meeting.

Shareholders, board members and employees attended the General Assembly meeting. In addition, Independent Auditors' Representative and Corporate Governance Rating Analyst, who were invited, participated to the meeting.

The announcements concerning the invitation of the meeting specifying its place, date, time, agenda, and specimen proxy statement were published three weeks before the meeting date in the Turkish Corporate Registrar's Gazette, the newspaper named Dünya Gazetesi, the BIST's bulletin and electronic general assembly system.

The invitations for the General Assembly were sent out via e-mail three weeks before the General Assembly in Turkish and English to those accessible national and international investors who have invested in the bank's shares and were also published on the Bank's Turkish and English web sites. The information about the meeting was also sent out within the same time frame by registered and reply paid letter to holders of registered shares who have given their contact information before.

The shareholders' register list which contains the names, surnames and the number of shares of the shareholders is prepared pursuant to the relevant regulation according to the information received from the Central Registry Agency.

As of the date on which the announcement of the invitation to General Assembly is made; copies of the Turkish annual report, financial statements and reports, dividend payment proposal, the memorandum of general assembly which is prepared to explain the agenda items comprehensively, other documents pertaining to the items on the agenda, the current text of the articles of association (provided that there is an amendment in the articles of association), the texts and justifications of the amendments are all made available for the inspection of shareholders at the Bank's head office.

Such information and documents have also been accessible on the corporate website at [www.tskb.com](http://www.tskb.com).

During the Ordinary General Assembly held in 2016, the shareholders exercised their right to ask questions and their questions were duly responded. In addition, there has not been any proposal from shareholders regarding any additions to the agenda.

The following resolutions were adopted by the shareholders by majority votes during the meeting:

- » Constitution of the Meeting Presidency in accordance with the Articles of Association of the Bank and delegation of authority to the Meeting Presidency for the execution of the minutes of the General Assembly,
- » Review and discussion of the Annual Reports of the Board of Directors, Declaration of Compliance with the Corporate Governance Principles and Reports of the Auditors and Independent Auditors regarding the accounts and transactions of the Bank within the year of 2015,
- » Review and approval of the balance sheet and profit and loss statement of the Bank for the year 2015,
- » Approval of the election of the Members of the Board of Directors in replacement of resigned members,
- » Release of the Members of the Board of Directors from their responsibilities,
- » Adoption of a resolution regarding the determination and allotment of the profit to be distributed, determination of the dividend distribution date,
- » Determination of allowance for the Members of the Board of Directors,
- » Choosing the independent audit firm,

- » Determination of the upper limit for the donations to be made in 2016.
- » Empowering the Members of the Board of Directors with regards to responsibilities and transactions set forth in Turkish Commerce Code, Articles 395 and 396.

Regarding the proposal for determination and distribution of the dividend, some shareholders annotated to the said proposal, and their names and opinions were added as annotation to the General Assembly Meeting Minutes.

Since the amount of special disbursement to be paid to employees according to their performances in 2015 was not decided yet, the General Assembly was notified that the payment was not realized yet and is going to be paid following the Board of Directors decision. Moreover, with a separate agenda item, the shareholders are notified that a total of TL 14,670.02 that was donated throughout the year.

Pursuant to the principle 1.3.6. of the Corporate Governance Principles, shareholders were informed that Is Bankası A.Ş. and TSKB are companies operating in the same sector and that some members of the Board of Directors are currently working for Is Bankası A.Ş. and Vakıflar Bankası T.A.O. in management positions.

Throughout the period, there has been no transaction where the decision had to be left to the discretion of the General Assembly due to independent board of directors' members rejections.

In order to facilitate the participation to the General Assembly Meeting, utmost care is taken to ensure that the implementations are in compliance with the governing legislation. In our opinion, shareholders do not have any difficulty in participating general assembly meetings and so far the Bank has not received any feedback from the shareholders to this effect.

Copies of the Resolutions of General Assemblies are given to participants at the end of General Assembly Meetings. Moreover, resolutions are also accessible in electronic format on the corporate website

(www.tskb.com) for review by shareholders who could not participate in the General Assembly Meeting.

#### 2.4. Voting Rights and Minority Rights

According to the Bank's Articles of Association, each share of stock with a nominal value of 1 Kurush is entitled to one vote and there are no shares that have special voting rights.

As required by banking legislation and by the provisions of the Turkish Commercial Code, the members of the Board of Directors are elected by shareholders convened in a General Assembly.

As required by the Bank's Articles of Association, one member of the Board of Directors is chosen from among candidates designated by the Central Bank of the Republic of Turkey. Moreover, Vakıflar Bankası T.A.O., which controls an 8.38% stake in the bank's capital, has one seat on the Board of Directors.

The CEO is a member by nature of the Board of Directors. The number of the independent board members and their criteria are determined pursuant to the CMB's regulations regarding corporate governance.

There is no upper limit on the number of votes a shareholder may cast at a General Assembly.

Voting rights are acquired the moment the shares on which they are contingent are acquired. There are no rules stipulating that voting rights may be exercised only after a specific period of time has passed following the acquisition of shares.

The Articles of Association contain no provisions preventing non-shareholders to act as proxies for the shareholders. The shareholders may exercise their voting rights personally at General Assemblies or via proxy of any other person, which may or may not be a shareholder.

A non-corporate shareholder may only be represented by a single proxy at General Assemblies, and if a corporate shareholder is represented by more than one individual

at a meeting, only one of them may cast votes. The proxy statement must identify the individual who is authorized to cast votes.

Apart from the provisions that are mandatory under the governing legislation, the Bank's Articles of Association includes no arrangement with regards to minority rights.

#### 2.5. Dividend Right

The dividend payment proposals that the Board of Directors submits to the General Assembly of shareholders are prepared according to a policy that:

- » Avoids upsetting the delicate balance between shareholders' expectations and bank's need to grow;
- » Takes the Bank's profitability in to account.

Principles governing the Bank's dividend distribution is arranged in the Articles of Association, Article 47, and there are 100 founders' shares that receive a portion of the profits distributed subject to these principles.

The Bank's updated dividend payment policy was approved by the General Assembly on March 27, 2014. Updated policy was disclosed to shareholders on the Bank's Turkish and English websites.

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

Dividends are paid within the legally prescribed periods of time. The payment of dividends is completed in no case later than the end of the 5<sup>th</sup> month of the year as prescribed by the law. The dividend proposal of The Board of Directors was accepted during the General Assembly. The dividends of the year 2015 equivalent to 300,000,000 TL were distributed as bonus shares subsequent to the registration of the said shares by the Capital Markets Board and the cash dividends equivalent to 52,500,000 TL were distributed on March 28<sup>th</sup>, 2016.

## CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

As required by the "Regulation on the Donations and Grants to be made by Banks and Institutions subject to Consolidated Supervision" that went into effect on November 1<sup>st</sup> 2006, the Bank does not make political donations. In addition, the Donation and Grants Policy of the Bank is published at the Bank's official website.

### 2.6. Transfer of Shares

The Articles of Association contain no provisions restricting the transfer of shares. All shareholders, including minority shareholding interests and foreign nationals, are treated equally.

## SECTION III – PUBLIC DISCLOSURE AND TRANSPARENCY

### 3.1. Corporate Website and Its Content

The Bank makes active use of its corporate website for public disclosures and announcements. Corporate website contains all the information and data required by corporate governance principles and by regulatory authorities on a historical basis and in both Turkish and English. Website is kept up to date at all times.

The Bank's corporate website address is [www.tskb.com.tr](http://www.tskb.com.tr), and that of the English language website is [www.tskb.com](http://www.tskb.com). Website address is included in the Bank's letterhead.

### 3.2. Annual Report

The annual report of the Bank is prepared in Turkish and English including the information and content pursuant to the relevant regulations. The Turkish version of the annual report is published three weeks

before the General Assembly at the Public Disclosure Platform ([www.kap.gov.tr](http://www.kap.gov.tr)) and at the Bank's corporate website. The English version of the annual report is published at the Bank's corporate website after it is finalized.

## SECTION IV – STAKEHOLDERS

### 4.1. Keeping Stakeholders Informed

The stakeholders, who have an interest in the bank, including shareholders, employees, creditors, clients, suppliers, non-governmental organizations, the government and potential investors are informed on issues concerning the Bank that are of interest to them as much as possible in writing, and the Bank's relationships with stakeholders are governed by written agreements.

In situations where the rights of stakeholders are not governed by law or contract, the Bank safeguards them within the framework of the rules of good faith, to the degree possible, taking the Bank's own reputation into account.

Stakeholders submit their complaints and recommendations to the Bank by means of a communication form that can be found on the Bank's website. Claims regarding the transactions that violate the provisions of the legislation or otherwise unethical are examined by either Inspection Committee or Internal Audit Department depending on the content and nature of the claims and forwarded to Corporate Governance Committee or Audit Committee.

### 4.2. Stakeholders' Participation in Management

The Articles of Association of the Bank contain no provisions governing stakeholders' participation in the Bank's management.

"General Assessment" meetings are held two times every year in order to inform employees about the Bank's activities and progress in general and to solicit their suggestions. At such meetings, the Bank's financial structure and performance are also assessed together with employees.

In addition to general assessment meetings, employees are able to convey their opinions and claims to the relevant persons and have contribution to the company resolutions by means of "I Have a Recommendation" and "Complaint Form" that they can access on the Bank's intranet. Moreover, there are many committees that are formed by the Bank employees, concentrating on various issues. Participation of the employees in management is also made possible by means of these committees.



#### 4.3. Human Resources Policy

The principles of the human resources policy adopted by the Bank are set out below.

Job descriptions, assignments, and performance criteria are determined by management and announced to employees.

When hiring, it is a principle that individuals of equal competencies are to be given equal opportunity under identical conditions and hiring criteria are set forth in writing for each job position and are strictly complied with in practice.

While taking decisions with respect to training, assignment and promotion, objective criteria are used and the Bank's best interests are taken into consideration.

Training plans are developed and implemented so as to enable employees to improve their professional knowledge and skills, as well as plans improving their personal and administrative competence which are appropriate for their career plans. In addition, documents and information pertaining to the Labor Health and Workplace Safety activities are included in the "Safe Employment" section of the Bank's intranet system.

Employees are provided with a secure work environment and safe working conditions and these conditions are improved in line with social and technological requirements.

Employees are kept informed about all bank decisions and developments that may be of concern to them and feedback is solicited from them on such issues.

Measures are taken to prevent discrimination among employees on the basis of race, religion, language or sex; to ensure respect for human rights; and to protect employees against physical, mental or emotional abuse in the workplace. There has been no complaints from the employees on the aforementioned grounds so far.

The Human Resources Policy is also publicly disclosed on the corporate website.

#### 4.4. Ethical Rules and Social Responsibility

The Bank embraced the "Code of Banking Ethics" published by the Banks Association of Turkey with Board of Directors' resolution dated March 16, 2006. The revised versions of the "Code of Banking Ethics" which were amended by the Banks Association of Turkey in September 15, 2010 and August 20, 2014 were adopted by the Bank's Board of Directors. The Code of Banking Ethics, which was adopted to bind all employees including but not limited to the Board of Directors, are available on the Bank's corporate website in English and Turkish.

Members of the Board were notified of the rules that they are not to comply with any suppression that might result to the detriment of the shareholders and that they are not to accept any monetary benefits; and that a member of the Board of Directors is not allowed to disclose to public the Bank's confidential information and/or trade secret(s).

Trade secret mentioned above consists of the information pertaining to the interior establishment structure and organization, monetary, financial, loan and cash situation, research and development, activity strategy, pricing policies, marketing tactics and expenditures, market shares, client potential and network, contract connection, documents, electronic recording and data which can only be learned, obtained only by qualified individuals that are related to Bank's activity area and individuals who may have access to insider information, but shall not be known by its competitors or third parties and shall not be disclosed to public.

The term "Insider information" is used to refer to information, events and incidents that is not in public domain and might affect the value and/or price of investment instruments or investment decisions of the investors. A list of those who have access to insider information, which is regularly monitored and kept up to date at all times, includes the names of all Bank employees and those of all other persons that have direct or indirect access to insider

information. People whose names are in the insider information list have declared that they acknowledged their liabilities and the sanctions regarding the abuse and improper disclosure of such information in breach of law and legislation.

Acting based on a vision to become the leader bank in Turkey's sustainable economic development, TSKB strives to ensure that all the loans utilized by the Bank turn into investments that'll contribute to Turkey's economic and social development. Accordingly, before financing the Bank evaluates all investment projects with utmost care regarding the current and potential environmental and social effects of these projects as well as those of other activities of the project owners.

Social responsibility projects have always been on the essentials of sustainable banking philosophy of TSKB. In this context, detailed information pertaining to these activities is made available in section titled "Corporate Social Responsibility at TSKB" on Page 46.

### SECTION V – BOARD OF DIRECTORS

#### 5.1. Structure and Composition of the Board of Directors

With the exception of the CEO, the Board of Directors consists entirely of non-executive directors and positions of CEO and board chairman are held by different people.

As the bank has no ultimate non-corporate controlling shareholders, it is thought that all the members of the Board of Directors are naturally able to act with complete independence and have the advantage of acting impartially in their decisions by holding the interests of the bank and its stakeholders above everything else.

Board of Directors consists of 10 members, which allows the activities of the Board of Directors to be organized effectively. Information about the Board of Directors' members and the CEO are given in the following table and their detailed CVs are accessible at the Bank's website.

# CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

FULL NAME	TITLE	EDUCATIONAL BACKGROUND	WORKING EXPERIENCE	DATE OF APPOINTMENT	EMPLOYER AND POSITION
Adnan Bali	Board Chairman	Middle East Technical University, Economics and Administrative Sciences / Economy	31 years	April 15, 2011	T. İş Bankası A.Ş. Chief Executive Officer
Ebru Özşuca	Board of Directors' Member	Southampton University / International Banking and Finance	23 years	April 17, 2014	T. İş Bankası A.Ş. Treasury Manager
Suat İnce	Board of Directors' Member and CEO	Middle East Technical University, Economics and Administrative Sciences / Economy	29 years	March 24, 2016	TSKB A.Ş. Chief Executive Officer
Halil Aydoğan	Board of Directors' Member	Istanbul University Faculty of Economics / Management – Finance Department	40 years	December 16, 2013	T. Vakıflar Bankası T.A.O. Chief Executive Officer
Yavuz Canevi	Board of Directors' Member	University of Southern California / M.A. in Economics	36 years	March 26, 2015	T. Ekonomi Bankası A.Ş., Board Chairman
Fikret Utku Özdemir	Board of Directors' Member	Edhec Business School / MSc in Finance	20 years	June 2, 2016	T. İş Bankası A.Ş. Corporate Banking Sales and Marketing Manager
Kemal Saç*	Independent Board Member	Middle East Technical University, Economics and Administrative Sciences / Management	24 years	June 2, 2016	T. İş Bankası A.Ş. Managerial Reporting and Internal Accounting Manager
Z. Hansu Uçar	Board of Directors' Member	Middle East Technical University, Economics and Administrative Sciences / Management	23 years	November 27, 2015	T. İş Bankası A.Ş. Subsidiaries Manager
Kamil Yılmaz	Independent Board Member	University of Maryland / Ph.D. in Economics	25 years	March 25, 2014	Koç University Faculty of Economics and Administrative Sciences, Lecturer
Can Yücel*	Independent Board Member	Middle East Technical University, Economics and Administrative Sciences / Economy	17 years	June 2, 2016	T. İş Bankası A.Ş. Corporate Loan Allocation Manager

\*Members of the Audit Committee were accepted as Independent Members of the Board of Directors as per the provisions of Capital Market Board's Corporate Governance Communique No: II.17.1., Article 6/(3)-a.

With the Nomination Committee's report dated March 25<sup>th</sup>, 2015, Mr. Kamil Yılmaz was presented as the independent board member nominee at the Board of Directors meeting on the same date of the said report. Following the approval of the Board of Directors, Mr. Yılmaz was selected as the independent board member by the General Assembly held on March 26<sup>th</sup>, 2015. At the time of being presented as the nominee, Mr. Kamil Yılmaz delivered his declaration of independence pursuant to regulations, Articles of Association and criteria set by the Communique to the Nomination Committee. Mr. Kamil Yılmaz's declaration is as follows:

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

Whereas I am nominated to Independent Board of Directors Member on your Company's General Assembly Meeting dated March 26, 2015, I hereby represent and warrant:

a) that there isn't any relations between myself, my spouse, my relatives up to second degree or my in-laws, and the Company or those persons who control the management of the Company or possess significant controlling power over the Company or legal persons who have controlling power on such shareholders and there isn't anyone among my relatives and in-laws that have had significant duties or responsibilities in management positions at the aforementioned legal persons; that I do not possess, jointly or individually, greater than 5% of the capital or rights to vote or privileged shares and that I do not have a significant commercial relations with the aforementioned;

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

c) that I have ample vocational education, knowledge and experience to properly perform duties I'll undertake as can be

reasonably expected from an Independent Board of Directors Member;

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

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

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

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

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

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

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



**Kamil Yılmaz**  
**Independent Board Member**

Further to the Board of Directors Decision No: 2194 dated October 14, 2014, "Woman Board of Directors Member Policy" was created in order to ensure that at least 25% of the Board Members are women. In the

light of the aforementioned policy, women will be prioritized when selecting Board of Directors Members from among candidates that possess equal knowledge, experience and competency. The progress made towards this target has been evaluated by the Corporate Governance Committee, and the assessments have been submitted to the Board of Directors via the corporate governance committee information memorandum since 2015. The number of women in the board which was 2 according to the report dated October 21<sup>st</sup>, 2016, is planned to be raised to 3 within the next two years.

Regarding the minimum qualities to be sought in appointments to Board Member, the Bank acts in accordance with the provisions of Banking legislation, Turkish Commerce Code and the regulations of Capital Markets Board.

Board Members spend enough time to oversee the Bank's business. Although there isn't any restriction with regards to Board Members' employment out of the Bank, Board of Directors Members do not work in any positions other than their natural positions at the organization that they represent or in organizations owned by the organization that they represent.

The Board of Directors exercises its authorities fully cognizant of all information needed to fulfill its duties, prudently, and within the framework of the rules of good faith.

As stipulated in the Articles of Association, the CEO is responsible for the day-to-day conduct of the bank's business within the framework of the principles and limits set by the Board of Directors

Authorities concerning the conduct of the bank's business are delegated to executive organs within the framework of the bank's published powers of signature.

The sanctions that are to be imposed in the event of illegal or irregular acts on the part of employees are set forth in the personnel regulations approved and put into effect by the Board.

In addition, pursuant to Banking Regulation and Supervision Agency's (BRSA) "Regulations on Internal Systems of Banks", the Board

## CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

of Directors has ultimate responsibility for forming the internal audit, internal control and risk management systems which are defined as "internal control systems"; for their effective, adequate, and proper operation; for the protection of the information provided by the accounting and financial reporting system; and for the determination of authorities and responsibilities throughout the bank.

### 5.2. Operating Principles of the Board of Directors

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

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

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

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

made to ensure that all members are equally informed about the matters involved.

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

Each board member is entitled to a single vote. All members' votes are equally counted and no member has a positive or negative veto power.

As stipulated in the Articles of Association, the board convenes with a simple majority of its membership and decisions are passed by a simple majority of those present.

Dissenting votes at Board of Directors meetings and the justifications for them are entered into the meeting's resolutions, and the auditors are notified of this situation. During 2016, no member of the Board cast a dissenting vote at Board meetings.

The Board of Directors convened 40 times between January 1, 2016 and December 31, 2016. In this period, there was not any significant transaction with any affiliated parties that would require approval of General Assembly.

Members of the Board of Directors do not have any transactions or operations that would fall under the scope of prohibition on operation with a company, borrowing to a company or prohibition of competition with TSKB. However, permission is given by the

General Assembly as per the provisions of Turkish Commerce Code Articles 395 and 396.

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

### 5.3. Number, Structure and Independence of Committees Established by the Board of Directors

#### Audit Committee

According to the Banking Code Article 24, an Audit Committee established with two non-executive members of Board of Directors. Regulation regarding the assignment, authorization and liability of the Audit Committee, has been approved and entered into force.

Audit Committee has two members, which have been elected from among non-executive members of the board of directors. Current Audit Committee members are Mr. Kemal Saç and Mr. Can Yücel.

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

Audit Committee has gathered 24 times in the period of January 1 – December 31, 2016.

#### Corporate Governance Committee

Corporate Governance Committee was formed and approved at the Board meeting on 30 September 2009, in order to accomplish the Board of Directors' activities according to CMB's Corporate Governance Principles

announced published in July 2003 and revised in February 2005.

Corporate Governance Committee is formed by 2 non-executive members of the Board of Directors and the Investor Relations Department Manager. The committee members were composed of Mr. Fikret Utku Özdemir (Chairman), Ms. Zeynep Hansu Uçar (Member) and Mr. Ömer Eryılmaz (Member) in 2016. As of January 26<sup>th</sup> 2016; Ms. Özen Çaylı, who works full time in the Investor Relations Department and holds both Market Activities Advanced Level Certificate and Corporate Governance Rating Specialist Certificate, was appointed to "Investor Relations Department Manager" position which was left by Mr. Ömer Eryılmaz as of January 1<sup>st</sup> 2016. Consequently, Ms. Özen Çaylı has been a natural member of Corporate Governance Committee pursuant to the Communiqué.

In accordance with the Board of Directors' decision dated February 27<sup>th</sup>, 2013 numbered 2104, the regulations of the Corporate Governance Committee were amended and the duties of the Nomination Committee are incorporated into the duties and responsibilities of the Corporate Governance Committee. Aforementioned regulations were updated in line with the provisions of CMB'S Corporate Governance Communiqué, published on the Official Gazette numbered 28871 dated January 3, 2014 was approved by the Board of Directors in their Decision No: 2104 dated May 29, 2014. Corporate Governance Committee's duties, powers and responsibilities and principles and procedures that apply to their office are published on the Bank's website.

Corporate Governance Committee meets minimum 4 times a year or at any time when requested by a member, with a predetermined agenda. The Committee has conducted 4 meetings in 2016 at the Bank's head office.

#### Remuneration Committee

Remuneration Committee has been established on February 16<sup>th</sup>, 2011 according to the stipulations of 1<sup>st</sup> article of the Draft Amendment on Regulation on the Banks' Corporate Governance Principles issued by BRSA and published on the Official Gazette dated November 1<sup>st</sup>, 2006 and has been approved by the Board of Directors meeting

dated December 27<sup>th</sup>, 2011. The committee is comprised of two Members of the Board, namely Mr. Kemal Saç and Ms. Zeynep Hansu Uçar.

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

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

#### 5.4. Risk Management and Internal Control Mechanism

A risk catalogue which was prepared to define the potential risks to which the bank may be exposed was approved by the Board of Directors and entered into force.

Risk policies that were formulated for the risk categories which are included in this catalogue and which are of the highest importance from the standpoint of the Bank's activities were approved by the Board of Directors and became effective.

In parallel to the provisions of "Risk Catalogue" that was prepared for measuring, assessing and managing the Bank's risks, the necessary structure was formed under Board of Directors to ensure that risk management and internal control activities are conducted in an organized way and within the framework of the risk catalogue.

An "Audit Committee" was set up within the Board of Directors to assist the board in the performance of its audit and monitoring functions. This committee carries out its activities under the Board of Directors through the Board of Inspectors (internal audit), Risk Management, and Internal Control Departments. The Audit Committee is responsible for ensuring on the Board of Directors' behalf, the effectiveness and adequacy of the units referred to as "internal control systems".

The duties and responsibilities of the Board of Inspectors, Internal Control Department and Risk Management Department are all in compliance with the requirements of existing

laws and regulations and they are governed by internal regulations that have been approved by the Bank's Board of Directors.

#### 5.5. The Company's Strategic Objectives

Strategic objectives are determined by management taking into account competitive conditions, the overall economic situation, general economic conjuncture, and the bank's medium and long-term objectives; and they are presented to the approval of Board of Directors.

Recommended strategies and objectives are debated thoroughly and comprehensively by the Board. Performance with respect to approved strategies and objectives is regularly reviewed at monthly board meetings at which the bank's activities, financial structure and related issues are reviewed and assessed.

In order to effectively and continuously carry out its supervision and control functions, the Board of Directors in principle meets every month.

At the board meetings, the Bank's activities, the performance with respect to realization budget figures and fulfillment of business targets, the Bank's position in its sector, its financial structure and performance standing and the compliance of its reporting and operations with international standards.

#### 5.6. Financial Benefits

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

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

The total amount of financial benefits paid such as bonus, dividend, wage, etc. to members of Board of Directors and senior management is TL 10,026 thousand.

Other payments with respect to travelling, accommodation and etc. paid to members of Board of Directors and senior management is TL 1,098,937.



## DIVIDEND DISTRIBUTION PROPOSAL

Pursuant to Our Directors Board's Resolution dated February 23th, 2017; the General Assembly shall be offered to reserve and distribute 2016 Net Profit of TL 476,444,731.56 as follows in accordance with Article 47 of our Articles of Association which is currently in force;

1. in accordance with paragraph (a) of 47<sup>th</sup> article of our Articles of Association, to the allocation of TL 23,822,236.58 which is 5% of the net profit as legal reserve fund,
2. in accordance with the paragraph (b) of 47<sup>th</sup> article of our Articles of Association, to the allocation of TL 135,841,154.09 as first dividend,
3. Out of the TL 316,781,340.90, the remnant after the reduction of 1-2 articles above, in accordance with the paragraph (d) of 47<sup>th</sup> article of our Articles of Association,
  - a) to the distribution of gross amount of TL 1,545.27 TL, which is 5% of the aforementioned remainder (to be limited with the part of 200,000 of paid-in-capital), to the founder shares to be TL 15.45 to each founder share;
  - b) to the distribution of gross amount of TL 1,583,906.70, which is the 0.5% of the aforementioned remainder to the Members of Board of Directors and to transfer the amount corresponding to the Independent Board Member and the amount remaining after the distribution to be made to Members of the Board regarding their tenure to extraordinary reserve fund,
  - c) to the distribution of gross amount of TL 9,503,440.23, which is the 3% of the aforementioned remainder, to the employees in accordance with the Resolution of Board of Directors;
  4. in accordance with the paragraph (e) of 47<sup>th</sup> article of our Articles of Association, to the allocation of 205 Billion shares, paid-up and non-paid-up, with 1 Kuruş nominal value, (on account of 14.44677%) to be 0.144677 Kuruş to each of them, the total amount of TL 296,158,845.91 as second profit share,
  5. in accordance with 519<sup>th</sup> article of Turkish Trade Code, to the allocation of TL 1,108,889.22 as statutory reserve fund,
  6. to the allocation of TL 8,424,713.56 the remainder, as extraordinary reserve fund,
  7. to the distribution of TL 432,000,000 in full, which is the total of first and second profit shares stated in 2<sup>nd</sup> and 4<sup>th</sup> articles above, TL 82,000,000 which is 4% of the paid-in capital is to be distributed to shareholders as cash dividend and remaining TL 350,000,000 which is 17.07% of the paid-in capital, shall be distributed as stock dividend in the capital increase from TL 2,050,000,000 to TL 2,400,000,000,
  8. to the distribution of dividends of the year of 2016 equivalent to TL 350,000,000 as bonus shares subsequent to the registration of the said shares by the Capital Markets Board and the distribution of cash dividends equivalent to TL 82,000,000 starting March 27<sup>th</sup>, 2017; to recommend to the General assembly to entitle the Board of Directors for all procedures related to all issues projected above.

## SUMMARIZED BOARD OF DIRECTORS' REPORT

Esteemed shareholders,

You are all welcome to the 67<sup>th</sup> Ordinary General Assembly Meeting of our Bank. We would like to convey our kindest regards to our shareholders, their representatives and guests for honoring the hall and hereby submit to your examination and approval the Board and Auditors Reports for 2016 accounting period as well as profit and loss statements.

We recently left behind a year during which the economic outlook was shaped mainly by uncertainties and limited growth. In 2016, the main items to highlight on the global agenda were the "Brexit" referendum process, the U.S. presidential elections, developments regarding the Fed's monetary policy and OPEC meetings. Following economic recovery, USD continued to appreciate under the influence of political developments in 2016, leading to severe depreciation for local currencies of developing countries. Furthermore, OPEC countries made a decision to cut down on oil production, resulting in a 50% increase in oil prices, which closed the year at USD 56. Domestically, Turkish economy grew by around 4.5% on an annual basis in the first two quarters but recorded a recession in the third quarter in the aftermath of the abominable coup attempt of 15 July. The authorities announced incentives and reform packages in the second half of the year and this led to signals of recovery in economic operations in the fourth quarter. To this end, it is projected that the Turkish economy will grow by 3 to 3.5% in 2017.

As of December 2016, the total size of assets in the banking industry rose to TL 2.7 trillion with an annual increase of 15.8% while the credit stock grew by 16.8% to exceed TL 1.7 trillion. At the end of the year before, the non-performing loan ratio of the sector was 3.1%, which increased slightly to stand at 3.2% by the end of 2016. In the same period, the industry increased its equity by 14.5% to reach TL 300 billion. Capital adequacy ratio in the banking industry was 15.6% as of December 2016. Furthermore, the total number of banks was 52 in the previous year and this number remained unchanged as of the end of 2016.

TSKB maintained a robust and resilient growth trend. On December 31, 2016, on a year-on-year basis, the Bank increased:

- » its equity by 17.7% to reach TL 2,928,339 thousand,
- » its credit stock by 26.7% to reach TL 17,322,385 thousand,
- » its total assets by 15.8% to reach TL 24,001,573 thousand.

The Bank's net profit for 2016 was TL 476.445 thousand with an increase of 17.1% year-on-year. As of 2016 year-end, our capital adequacy ratio, return on equity, return on assets and non-performing loan ratio stood at 14.3%, 17.6%, 2.1% and 0.3% respectively.

Dear shareholders,

We hereby submit to your examination and approval our annual report for 2016 that covers our 2016 operations in detail as well as our profit and loss statements.

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

**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.  
BOARD OF DIRECTORS**



## ANNUAL REPORT COMPLIANCE OPINION

Akis Bağımsız Denetim ve  
Serbest Muhasebeci Mali Müşavirlik A.Ş.  
Kavacık Rüzgarlı Bahçe Mah. Kavak Sok.  
No:29 Beykoz 34805 İstanbul  
Tel +90 (216) 681 90 00  
Fax +90 (216) 681 90 90  
www.kpmg.com.tr

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

### Report on the Audit of Board of Directors' Annual Report Based on Standards on Auditing

We have audited the accompanying annual report of Türkiye Sınai Kalkınma Bankası Anonim Şirketi (the "Bank"), for the year ended 31 December 2016.

### Board of Directors' Responsibility for the Annual Report

In accordance with the Article 514 of the Turkish Commercial Code No. 6102 ("TCC") and "Regulation on the Principles and Procedures Concerning the Preparation of and Publishing Annual Reports by Banks" published in the Official Gazette dated 1 November 2006 and No. 26333 in accordance with "Banking Regulation and Supervision Agency ("BRSA") Accounting and Reporting Legislation" which includes the "Regulation on Accounting Applications for Banks and Safeguarding of Documents" published in the Official Gazette No.26333 dated 1 November 2006, and other regulations on accounting records of Banks published by Banking Regulation and Supervision Board and circulars and interpretations published by BRSA and requirements of the Turkish Accounting Standards for the matters not regulated by the aforementioned legislations, and for such internal control as management determines is necessary to enable the preparation of the annual report.

### Auditor's Responsibility

Our responsibility is to express an opinion on the Bank's annual report based on our audit conducted in accordance with Article 397 of the TCC and the regulation on "Independent Auditing of Banks" published in the Official Gazette dated 2 April 2015 with No. 29314, whether the consolidated and unconsolidated financial information included in the accompanying annual report is consistent with the Bank's consolidated and unconsolidated financial statements and provides fair presentation.

Our audit has been conducted in accordance with the Standards on Auditing which is a component of the Turkish Auditing Standards ("TAS") published by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial information included in the annual report is consistent with the consolidated and unconsolidated financial statements and provide fair presentation.

An audit involves performing procedures in order to obtain audit evidence about the historical financial information. The procedures selected depend on the auditor's judgment.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial information included in the annual report is consistent, in all material respects, with the audited consolidated and unconsolidated financial statements and provides a fair presentation.

### Report on Other Regulatory Requirements

In accordance with the third clause of the Article 402 of TCC, no material issue has come to our attention that shall be reported about the Bank's ability to continue as a going concern in accordance with TAS 570 Going Concern.

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



Erdal Tıkmak  
Partner

Istanbul, 28 February 2017

## OTHER IMPORTANT DEVELOPMENTS WITH RESPECT TO BANK'S OPERATIONS

### EXPLANATIONS WITH RESPECT TO PRIVATE AND PUBLIC AUDITS CARRIED OUT DURING THE ACCOUNTING PERIOD

No private or public audits were undertaken during the accounting period.

### EXPLANATIONS WITH RESPECT TO ADMINISTRATIVE OR LEGAL SANCTIONS IMPOSED ON THE COMPANY AND MEMBERS OF THE BOARD AND MANAGEMENT DUE TO ACTS AND PROCEDURES IN VIOLATION OF THE CODES

Please refer to section 5 – (III/4) of the Audit Report for information on court cases.

### SUBSIDIARY TRANSACTIONS

Information regarding the subsidiary transactions of our Bank is indicated in the footnotes of the audit reports. The results section of the Subsidiary Report for 2016 issued in accordance with Article 199 of the Turkish Commercial Code no. 6102 is as stated below:

"There were no legal transactions executed in favor of our Bank and its main shareholder Türkiye İş Bankası A.Ş. and its subsidiaries and with the guidance of our main shareholder's, in favor of our main shareholder and one of the subsidiary companies of our main shareholder and no measures taken or avoided to be taken for our Bank or our main shareholder or one of its subsidiaries.

Furthermore, the commercial transactions and procedures carried out by our Bank and our main shareholder, Türkiye İş Bankası A.Ş. or its subsidiaries, which have been stated and explained in detail within the aforementioned report are transactions required in the ordinary course of our Bank's business and activities, have been realized over the imputed values currently available in the market and are in compliance with the principle stated in Article 202 of the Turkish Commercial Code that the main shareholder may not exercise its authority and control in a manner that will harm and damage its subsidiaries.

No decisions have been passed against our Bank upon the request and claim of our main shareholder, Türkiye İş Bankası A.Ş., and its subsidiaries; neither have there been any damaging transactions."

### INFORMATION ON AREAS OF ACTIVITY IN WHICH SUPPORT SERVICES WERE PROCURED AND PERSONS AND ORGANIZATIONS FROM WHICH SUCH SERVICES PROVIDED, PURSUANT TO REGULATIONS REGARDING SUPPORT SERVICES PROCURED BY BANKS AND AUTHORIZATION OF SUPPORT SERVICES ORGANIZATIONS

The following services used by our Bank in the year 2016 fall into the scope of the Regulation on Procurement of Support Services for Banks, published on the date of 05.11.2011:

1. Server Hosting Service for Emergency Services received from Superonline İletişim Hizmetleri A.Ş.
2. Maintenance and Updating Service for the Internet Site received from Hedef Medya Tanıtım İnteraktif Medya Pazarlama A.Ş.
3. Riskfree Treasury Valuation System Service received from Risk Aktif Danışmanlık Eğitim Yazılım Sanayi ve Ticaret Ltd. Şti.
4. Swift Service Bureau Connectivity received from Fineksus Bilişim Çözümleri Ticaret A.Ş.

### AMENDMENTS IN THE ARTICLES OF ASSOCIATION

The amendment to Article 5 related to increasing our Bank's issued capital from TL 1,750,000,000 to TL 2,050,000,000 was announced in Trade Registry Gazette dated 28 June 2016 and numbered 9110 with the registration to İstanbul Trade Registry on 4 July 2016.

## RISK MANAGEMENT POLICIES

### INFORMATION ON RISK POLICIES BASED ON RISK TYPES

TSKB's Risk Management Policies and application principles of these policies consist of written standards established by the Board of Directors and implemented by the Bank's executive management.

According to TSKB's Risk Management Policies, the main risks exposed by the Bank are identified as the credit risk, asset-liability management risk (market risk, structural interest rate risk, liquidity risk) and operational risk. A Risk Management Department is formed within the Bank in order to manage the risks the Bank is exposed to in parallel to the risk policies ensuring compliance with those policies and related application principles.

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

### CREDIT RISK MANAGEMENT POLICY

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

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

In measuring credit risk, the Internal Rating Based Model is used for the purposes of monitoring and controlling the credit risk and providing early warning.

Maximum effort is taken to ensure that limits and policies in agreements with foreign and domestic sources do not diverge to a significant degree from the policies and limits set by the Bank. Despite the clauses in the agreements deviate from the existing policies, they are still accepted to be in force.

### ASSET-LIABILITY MANAGEMENT RISK POLICIES

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

#### i - Market Risk Management Policy

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

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

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



Moreover, the creditworthiness of issuers of financial instruments causing market risk is evaluated and monitored carefully.

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

### **ii -Structural Interest Rate Risk Management Policy**

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

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

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

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

### **iii - Liquidity Risk Management Policy**

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

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

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

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

### **OPERATIONAL RISK POLICY**

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

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

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

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

### **RISK MANAGEMENT POLICY FOR SUBSIDIARIES**

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

### **POLICIES REGARDING OTHER RISKS**

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

## STRUCTURE OF AUDIT COMMITTEE

### ACTIVITIES OF THE COMMITTEES ESTABLISHED WITHIN THE SCOPE OF RISK MANAGEMENT, AND NAMES AND SURNAMES OF THE CHAIRMEN AND MEMBERS OF THESE COMMITTEES

#### Audit Committee

Audit Committee is composed of 2 members, which were elected among the non-executive Members of the Board of Directors. Currently, Audit Committee members are Mr. Kemal Saç and Mr. Can Yücel.

Audit Committee is responsible for;

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

All members of the Audit Committee attended the 24 meetings held by the Audit Committee in 2016.

### DIRECTORS WITHIN THE SCOPE OF INTERNAL SYSTEMS

#### EXECUTIVE VICE PRESIDENT IN CHARGE OF INTERNAL SYSTEMS: AZİZ FERİT ERASLAN

TERM OF OFFICE	PROFESSIONAL EXPERIENCE	WORKED PREVIOUSLY IN	EDUCATION
15 Months	24 Years	Isbank Financial Management Department, CJSC Isbank (Russia) Headquarters	Master's Degree Abroad

#### HEAD OF BOARD OF INTERNAL AUDITORS: MEHMET SUNGUN

TERM OF OFFICE	PROFESSIONAL EXPERIENCE	WORKED PREVIOUSLY IN	EDUCATION
3 Years	23.5 Years	Financial Analysis, Loans, Corporate Banking, Risk Management Departments	Master's Degree In Turkey

#### HEAD OF RISK MANAGEMENT: FUAT SÖNMEZ

TERM OF OFFICE	PROFESSIONAL EXPERIENCE	WORKED PREVIOUSLY IN	EDUCATION
6 Months	18 Years	System Development and Quality Management, Board of Internal Auditors, Process Management Departments	Bachelor's Degree In Turkey

#### HEAD OF INTERNAL CONTROL: SİMAY KİMYACI

TERM OF OFFICE	PROFESSIONAL EXPERIENCE	WORKED PREVIOUSLY IN	EDUCATION
3 Months	18 Years	Treasury Department	Bachelor's Degree In Turkey

## AUDIT COMMITTEE REPORT

### AUDIT COMMITTEE'S ASSESSMENT ON FUNCTIONING OF INTERNAL AUDIT, INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS AND THEIR ACTIVITIES IN 2016

Audit Committee held 24 meetings in 2016. In these meetings, the Audit Committee carried out activities to fulfill the duties and responsibilities specified within the scope of "Activities of the Committees established within the scope of Risk Management, and Names and Surnames of the Chairmen and Members of these Committees" Section of the Annual Report, and the "Regulation On The Evaluation Process of Banks' Internal Systems and Internal Capital Adequacy".

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

### BOARD OF INTERNAL AUDITORS

Board of Internal Auditors provides assurance in; i) carrying out bank activities in line with the Law and other relevant legislation as well as the internal strategies, policies, principles and targets of the bank, and ii) effectiveness and adequacy of the internal control and risk management systems. Planning and carrying out its audit activities with risk oriented approach, the Audit Board evaluates the potential risks in Headquarters units, two branches, subsidiaries and all Bank processes, and evaluates whether or not internal control, risk management and corporate governance systems are compliant, effective and efficient.

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

Board of Internal Auditors creates national/ international certification and training opportunities necessary for Professional development of the bank examiners.

In 2016, Board of Auditors conducted 43 audits in total, covering the departments, Bank's 2 branches and 2 subsidiaries as well as 4 firms from which the Bank procured banking processes and support services.

As a result of the audits and assessments made in 2016, there have not been any material finding identified, that may have negative impact on the Bank's activities, and hinder the Bank from fulfilling its liabilities. It was concluded that; the Bank's Internal control and risk management systems functioned well, Bank's activities had low risk in general, financial and legal reports were accurate, Bank complied with the legislation.

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

### INTERNAL CONTROL

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

In addition to the current control activities, the number and scope of the control activities in activity fields determined with a risk oriented approach was also expanded in 2016. Necessary control points were determined and established actively

## AUDIT COMMITTEE REPORT

participating in new project and systemic infrastructure improvement activities carried out in the Bank. Furthermore, the internal controls with respect to the business processes and procedures related to the main activities of the Bank were reviewed and approved during their establishment and update, by the Internal Control Department.

Monitoring and control activities continued for the obligations and activities stipulated in the Law n.5549 on Prevention of Laundering of Proceeds of Crime and Financing of Terrorism while support was given to the training programs organized for the Bank employees regarding the Prevention of Laundering of Proceeds of Crime and Financing of Terrorism.

On the back of all these activities carried out by the Internal Control Department, significant contribution was made to execution of the Bank activities in compliance with the relevant legal regulations and legislation, in a more efficient and effective control environment.

### RISK MANAGEMENT

The risk management process, which is organized under risk management regulations and serves for the establishment of a companywide common risk culture, is of such a structure in which risks are defined in compliance with international regulations governing the performance of measurement, analysis, monitoring and reporting activities. Risk Management Department; i) carries out these activities developing the systems needed within this scope, ii) monitors risks'

compliance with policies and standards, and Bank limits, iii) continues the activities for compliance with the relevant legal legislation and the Basel criteria. Risk measurements specified in reportings, are made with an approach developed in internal models besides the standard approach used in legal reportings, while they are also supported with the stress tests.

Risk Management Department presents its detailed risk management reports, issued monthly and quarterly on consolidated basis, via Audit Committee to the Board of Directors. In 2016, in addition to the reports presented to the Board of Directors; risk and capital adequacy measuring and reporting activities for legal and MIS purposes continued, while activities of new implementation, development, and adaptation to new legislation updates regarding reporting were carried out.

In 2016, activities of the Internal Capital Adequacy Assessment Process (ICAAP) and its reporting process were coordinated. Within this scope, detailed stress tests and scenario analysis were conducted, and projections were made for future period's capital requirement. Validation, calibration and developing of the internal models used for measuring risks with an advanced approach, continued.

Activities were carried out to comply with the various legal regulations and Risk Guidelines, and the Capital Adequacy Policy of the Bank was updated. For the advisory service that is planned to be procured for the revision of the internal rating model and

transfer to an approach which depend on Internal Rating, efforts were undertaken to find and choose the appropriate company. The mentioned project is expected to start at the beginning of 2017.

The Audit Committee monitored the compliance of the Bank to regulations pertaining to internal control, internal audit and risk management and to Bank policies and practices which are approved by the Board. As a result of the Audit Committee's evaluations and reviews, it was seen that the Bank's internal systems were effectively functioning as they were planned, and that the internal controls made for financial reporting were effective.

The Audit Committee evaluated the support services that the Bank procured, and monitored the efforts of taking certain measures for managing the risks efficiently in the procurement process. Moreover; independent audit results, yearly and quarterly financial results as well as independent audit reports were assessed with the independent auditors. During their operations related to the Bank; the independency of the rating agencies', independent auditors' and appraisal companies' and the sufficiency of the resources allocated to them were reviewed.

With respect to the activities and functioning of internal systems - internal audit, internal control and risk management - in 2016; we believe that the activities performed were highly qualified and satisfactory.



**Kemal Saç**  
Member of the  
Audit Committee



**Can Yücel**  
Member of the  
Audit Committee

## ASSESSMENT OF FINANCIAL STANDING, PROFITABILITY AND SOLVENCY

Having continued its healthy growth, TSKB demonstrated a successful performance in line with its budgeted figures in 2016 which was marked by unexpected developments in the international and local arena. TSKB's total asset size reached TL 24,002 million with an annual TL terms growth of 15.8% while its asset size on USD basis amounted to USD 6,877 million.

In 2016, the total amount of loan agreements signed was USD 1.9 billion whereas total loan disbursements reached USD 1.8 billion as a result of the successful marketing efforts. Having expanded by 26.7 percent in TL terms and 8.2 percent on FX adjusted basis, the total loan portfolio amounted to TL 17,322 million.

The ratio of loan to total assets as of the end of 2016 was around 72.2% (2015: 66.0%).

The breakdown of the loan portfolio by currency type (including FX-indexed loans) was in line with the composition of funds borrowed: 38% EUR, 55% USD. The weight of TL loans in the total portfolio was maintained at 7%. 93% of our loan portfolio consists of foreign currency medium and long term investment and working capital loans.

The energy production, electricity distribution, energy and resource efficiency projects made up a significant concentration in the loan disbursements in 2016. With respect to the sectoral breakdown of the loan portfolio, the energy production sector constitutes 35%, which is followed by finance sector with 14% and electricity/gas distribution with 10% shares. The ratio of the energy and resource efficiency loans in the total portfolio was flat at 10% as of 2016 year-end.

The ratio of non-performing loans -100% provisioned- to total gross loan book was 0.3 (2015: 0.4%) as of 2016. The nominal amount of non-performing loans equaled to TL 48.4 million.

Compared to the previous year, non-cash loans fell down by 6.4 percent to TL 1,669 million (2015: TL 1,783 million). However, the weight of non-cash loans within the Bank's commission income expanded further to 95% in 2016 (2015: 87%).

Securities portfolio, which makes up the second largest asset category after loans with a ratio of 18.3%, reached TL 4,402 million with 14.8% pick up compared to previous year. The total security book comprises of Available for Sale and Held to Maturity portfolios with 69% and 31%, respectively, and TL securities constitute 73% of the book. On the back of redemptions and new security investments depending on the global conjuncture and Central Bank's policies, there has not been a major change in the composition of the security portfolio in 2016. While the weight of CPI-linkers in the TL portfolio as of the year-end decreased slightly to 35% from 37% of the previous year-end, the weight of the all floating rate notes including CPI-linkers surged up to 70% from 67%. Accordingly, the weight of fixed rate notes slightly went down to 30% from 33%. Compared to previous year, the funding costs showed a slight decrease, and the yield of TL securities was 10.4% in 2016. 15% of TL securities was funded by repo funding which costed 9.3%.



## ASSESSMENT OF FINANCIAL STANDING, PROFITABILITY AND SOLVENCY

Surging up by 17.8% compared to previous year, the funds borrowed reached TL 15,841 million, almost all of which consists of foreign currency denominated funds secured from development finance institutions. 87% of our funds consist of medium and long-term loans. These long-term funds are used to finance the asset side lending. 87% of the long term funding is secured by the guarantee of the Undersecretariat of Turkish Treasury. Our Bank has continued building successful relationships with development finance institutions in 2016, as well.

Throughout the whole year, TSKB signed thematic funding agreements equaling in total to USD 733 million which composes of Euro 200 million for two themes from EIB, Euro 150 million from KfW, Euro 100 million from CEB, USD 150 million from IBRD and Euro 100 million from AFD. Moreover, the Bank secured a syndication loan amounting to USD 274 million, in which 16 banks from 10 countries participated, with a 107% roll-over ratio. Besides, the Bank issued its "Green/Sustainable Eurobond" amounting to USD 300 million in the international markets. As a result, total funding received from abroad has been USD 1.3 billion in 2016.

Due to the fact that the borrowing and lending interest rate structures on the assets and liabilities sides are variable and the term structures of funds borrowed are longer than those of loans, the Bank does not incur interest rate or liquidity mismatch. Furthermore, since the currencies of loans are in line with those of funds borrowed, the Bank's exposure to exchange rate risk is close to zero.

Expanding its shareholders' equity by 17.7%, compared to previous year, to TL 2,928 million, the Bank recorded a capital adequacy ratio of 14.3% which is above the legal requirement (Capital Adequacy Ratio in 2015: 14.9%). The Bank has TL 2.5 billion in free capital, which corresponds to 10.3% of its total assets (2015: 10.1%). The free capital consists entirely of liquid assets.

The pretax profit reached TL 593.3 million with a 16.7% expansion, while net profit amounted to TL 476.4 million which was up by 17.1% year-on-year basis. Accordingly, the average return on equity for the year was recorded as 17.6% while the Bank's return on assets ratio was 2.1%.

The net interest income in 2016 picked up by 24.3% year-on-year basis and reached TL 777.2 million. Net interest margin was 3.5% due to the green/sustainable bond's slight effect on average funding cost (2015:3.7%). To note, the Bank's NIM is expected to improve next year.

The dividend income of the Bank went down by 10.4% compared to the previous year. On the other hand, there was a year-on-year decrease 64% in the other operating income due to one-off income booked in 2015.

Other operating expenses which include the personnel and other operating expenses rose up by 14% compared to previous year. The cost to income ratio of the Bank was recorded as 15% (2015: 14.3%).

The total amount of donations and grants equaled to TL 181,352 in 2016. The expenses incurred for the social responsibility projects amounted to TL 352,813.

At the end of 2016, the ratio of TSKB's interest-bearing assets to total assets was 93%. Such a high level is another factor that enhances the Bank's solvency. Moreover, 100% of the loans are financed through long term funds. The Bank's active role in capital markets and its long-term and sustainable funding structure on the back of close and long-term relationships with financial institutions are expected to have a persistent positive impact on both profitability and solvency of the Bank.

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

UNCONSOLIDATED FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2016  
(CONVENIENCE TRANSLATION OF UNCONSOLIDATED  
FINANCIAL STATEMENTS AND RELATED DISCLOSURES  
AND FOOTNOTES ORIGINALLY ISSUED IN TURKISH)  
WITH INDEPENDENT AUDITORS' REPORT THEREON

*1 February 2017*

*This report contains "Auditors' Independent Report" comprising 1 page and;  
"Unconsolidated Financial Statements and Related Disclosures and Footnotes"  
comprising 115 pages.*





Akis Bağımsız Denetim ve  
Serbest Muhasebeci Mali Müşavirlik A.Ş.  
Kavacık Rüzgarlı Bahçe Mah. Kavak Sok.  
No:29 Beykoz 34805 İstanbul  
Tel +90 (216) 681 90 00  
Fax +90 (216) 681 90 90  
www.kpmg.com.tr

**Convenience Translation of the Auditors' Report  
Originally Prepared and Issued in Turkish to English (See Note I in Section Three)**

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

**Report on the Unconsolidated Financial Statements**

We have audited the unconsolidated financial statements of Türkiye Sınai Kalkınma Bankası ("the Bank") which comprise the unconsolidated statement of financial position as at 31 December 2016 and the unconsolidated statement of income, unconsolidated statement of income and expense items under shareholders' equity, unconsolidated statement of changes in shareholders' equity, unconsolidated statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Unconsolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these unconsolidated financial statements in accordance with the "Banking Regulation and Supervision Agency ("BRSA") Accounting and Reporting Legislation" which includes the "Regulation on Accounting Applications for Banks and Safeguarding of Documents" published in the Official Gazette No.26333 dated 1 November 2006, and other regulations on accounting records of Banks published by Banking Regulation and Supervision Board and circulars and interpretations published by BRSA and requirements of Turkish Accounting Standards for the matters not regulated by the aforementioned legislations, and for such internal control as management determines is necessary to enable the preparation of unconsolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these unconsolidated financial statements based on our audit. We conducted our audit in accordance with the "Regulation on Independent Audit of the Banks" published in the Official Gazette No.29314 dated 2 April 2015 by BRSA and Independent Standards on Auditing which is a component of the Turkish Auditing Standards published by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the unconsolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the unconsolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the unconsolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the unconsolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the unconsolidated financial statements present fairly, in all material respects, the financial position of Türkiye Sınai Kalkınma Bankası AŞ as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with BRSA Accounting and Reporting Legislation.

**Report on Other Legal and Regulatory Requirements**

Pursuant to the fourth paragraph of Article 402 of the Turkish Commercial Code ("TCC") No.6102; no significant matter has come to our attention that causes us to believe that the Bank's bookkeeping activities for the period 1 January - 31 December 2016 are not in compliance with TTK and provisions of the Bank's articles of association in relation to financial reporting.

Pursuant to the fourth paragraph of Article 402 of the TCC; the Board of Directors provided us the necessary explanations and required documents in connection with the audit.

Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi

A member firm of KPMG International Cooperative

Erdal Tıkmak  
Partner, SMMM

1 February 2017  
İstanbul, Turkey

**Additional paragraph for convenience translation to English:**

The accounting principles summarized in note 1 Section Three, differ from the accounting principles generally accepted in countries in which the accompanying unconsolidated financial statements are to be distributed and International Financial Reporting Standards ("IFRS"). Accordingly, the accompanying financial statements are not intended to present the financial position and results of operations in accordance with accounting principles generally accepted in such countries of users of the unconsolidated financial statements and IFRS.

# THE UNCONSOLIDATED FINANCIAL REPORT OF TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. FOR THE YEAR ENDED 31 DECEMBER 2016

Address: Meclis-i Mebusan Cad. No: 81 Fındıklı/Istanbul  
Telephone and Fax: (212) 334 51 94, (212) 334 52 34  
Website: <http://www.tskb.com.tr>  
E-mail Address for communication: [ir@tskb.com.tr](mailto:ir@tskb.com.tr)

The unconsolidated financial report for the year includes the following sections in accordance with "Communiqué on the Financial Statements and Related Explanations and Notes that will be made Publicly Announced" as sanctioned by the Banking Regulation and Supervision Agency:

- GENERAL INFORMATION ABOUT THE BANK
- UNCONSOLIDATED FINANCIAL STATEMENTS OF THE BANK
- EXPLANATIONS ON THE CORRESPONDING ACCOUNTING POLICIES APPLIED IN THE RELATED PERIOD
- INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT OF THE BANK
- EXPLANATORY DISCLOSURES AND FOOTNOTES ON UNCONSOLIDATED FINANCIAL STATEMENTS
- OTHER EXPLANATIONS
- INDEPENDENT AUDITORS' REPORT

The accompanying unconsolidated financial statements and the explanatory footnotes and disclosures for the year end, unless otherwise indicated, are prepared in thousands of Turkish Lira ("TL"), in accordance with the Communiqué on Banks' Accounting Practice and Maintaining Documents, Turkish Accounting Standards, Turkish Financial Reporting Standards, related communiqués and the Banks' records, and have been independently audited and presented as attached.

1 February 2017



**Adnan BALI**  
Chairman of Board of  
Directors



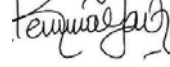
**Suat İNCE**  
Member of Board of  
Directors and General  
Manager



**Ece BÖRÜ**  
Executive Vice President  
in Charge of Financial  
Reporting



**Tolga SERT**  
Head of  
Financial Control  
Department



**Kemal SAÇ**  
Member of Audit  
Committee



**Can YÜCEL**  
Member of Audit  
Committee

Contact information of the personnel in charge for addressing questions about this financial report:

Name-Surname / Title : Ayşe Nazlıca / Head of Budget Planning and Investor Relations  
Telephone Number : (212) 334 51 94



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# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION ONE

##### GENERAL INFORMATION

##### I. The Bank's incorporation date, beginning status, changes in the existing status

Türkiye Sınai Kalkınma Bankası A.Ş. ("The Bank") was established in accordance with the decision of President of the Republic of Turkey numbered 3/11203 on 12 May 1950. This decision was declared by T.R. Office of Prime Ministry Procedures Directorate Decision Management on 12 May 1950.

According to the classification set out in the Banking Law No: 5411, the status of the Bank is "Development and Investment Bank". The Bank does not have the license of "Accepting Deposit". Since the establishment date of the Bank, there is no change in its "Development and Investment Bank" status.

##### II. Explanations regarding the Bank's shareholding structure, shareholders holding directly or indirectly, collectively or individually, the managing and controlling power and changes in current year, if any and explanations on the controlling group of the Bank

Türkiye İş Bankası A.Ş. has the authority of managing and controlling power of the Bank directly or indirectly, alone or together with other shareholders. Shareholders of the Bank are as follows:

Current Period				
Name Surname/Commercial Title	Share Capital	Shareholding Rate (%)	Paid in Capital	Unpaid Capital
T. İş Bankası A.Ş. Group	1.038.383	50,65	1.038.383	-
T. Vakıflar Bankası T.A.O.	171.738	8,38	171.738	-
Under Custody at Merkezi Kayıt Kuruluşu (Other Institutions and Individuals)	839.879	40,97	839.879	-
<b>Total</b>	<b>2.050.000</b>	<b>100,00</b>	<b>2.050.000</b>	<b>-</b>
Prior Period				
Name Surname/Commercial Title	Share Capital	Shareholding Rate (%)	Paid in Capital	Unpaid Capital
T. İş Bankası A.Ş. Group	880.723	50,33	880.723	-
T. Vakıflar Bankası T.A.O.	146.606	8,38	146.606	-
Under Custody at Merkezi Kayıt Kuruluşu (Other Institutions and Individuals)	722.671	41,29	722.671	-
<b>Total</b>	<b>1.750.000</b>	<b>100,00</b>	<b>1.750.000</b>	<b>-</b>

Bank shares are traded in Istanbul Stock Exchange ("BIST") since 26 December 1986. The Bank's 50,65% of the shares belongs to İş Bank Group and 39,07% of these shares are in free floating and traded in BIST National Market with "TSKB" ticker.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION ONE (Continued)

#### GENERAL INFORMATION (Continued)

#### III. Explanations regarding the chairman and the members of board of directors, audit committee, general manager and assistant general managers and their shares and responsibilities in the Bank

The Chairman and The Members of Board of Directors:

Name Surname	Title <sup>(1)</sup>
Adnan Bali	Chairman of the Board of Directors
Ebru Özşuca <sup>(3)</sup>	Vice Chairman of the Board of Directors
Halil Aydoğan	Member of the Board of Directors
Yavuz Canevi	Member of the Board of Directors
Suat İnce <sup>(2)</sup>	Member of the Board of Directors and General Manager
Fikret Utku Özdemir <sup>(4)</sup>	Member of the Board of Directors
Kemal Saç <sup>(5)</sup>	Member of the Board of Directors and Audit Committee
Zeynep Hansu Uçar	Member of the Board of Directors
Kamil Yılmaz	Member of the Board of Directors
Can Yücel <sup>(5)</sup>	Member of the Board of Directors and Audit Committee

#### General Manager and Vice Presidents

Name Surname	Title / Area of Responsibility
Suat İnce <sup>(2)</sup>	General Manager
Çiğdem İçel <sup>(6)</sup>	Vice President – Economic Research, Financial Institutions, Development Finance Institutions, Engineering and Technical Consultancy
Ufuk Bala Yücel <sup>(6)</sup>	Vice President – Loans, Loan Monitoring and Loan Operations
B. Gökhan Çanakpınar <sup>(6)</sup>	Vice President – Building Communications and Administrative Affairs, System Support and Communication, Application Development
Ece Börü <sup>(6)</sup>	Vice President – Budget Planning and Investor Relations, Financial Analysis and Valuation, Financial Control
Hakan Aygen <sup>(6)</sup>	Vice President – Corporate Finance, Corporate Marketing and Project Finance
A. Ferit Eraslan <sup>(6)</sup>	Vice President – Head of Inspection, Internal Control and Risk Management
Aslı Zerrin Hancı <sup>(6)</sup>	Vice President – Treasury, Treasury and Capital Market Operations
H. Yetkin Kesler <sup>(6)</sup>	Vice President – Foundation of Retirement and Supplementary, Human Resources and Corporate Compliance, Enterprise Architecture and Process Management,

<sup>(1)</sup> The shares of above directors in the Bank are symbolic.

<sup>(2)</sup> In the Board of Directors meeting held on 24 March 2016, Mr. Suat İnce was appointed as the Board of Directors Member and General Manager as of 1 April 2016 and Mr. Suat İnce has been started his duty after legal procedure on 11 April 2016.

<sup>(3)</sup> In the Board of Directors meeting held on 2 June 2016, Mrs. Ebru Özşuca was appointed as Vice Chairman of the Board of Directors due to Mr. Kemal Serdar Dişli's resignation from his duty.

<sup>(4)</sup> In the Board of Directors meeting held on 2 June 2016, Mr. Murat Bilgiç resigned from his duties. Mr. Fikret Utku Özdemir was appointed as the Board of Directors Member started to his new duty by taking an oath at 10 June 2016.

<sup>(5)</sup> In the Board of Directors meeting held on 2 June 2016, Mr. Kemal Serdar Dişli and Uygur Şafak Ögün resigned from their duties as the Board of Directors Member and Audit Committee Member. Mr. Kemal Saç and Mr. Can Yücel was appointed as the Board of Directors Member and Audit Committee Member started their duties by taking oath at 10 June 2016.

<sup>(6)</sup> Refers to the duties and responsibilities of the Bank after the organizational changes according to the decision of Board of Directors numbered 2291 dated 29 Aralık 2016 .

According to the regulations on auditing in Articles 397-406 of the Turkish Commercial Code numbered 6102, Akis Bağımsız Denetim ve Serbest Muhasebeci ve Mali Müşavirlik A.Ş. has been elected as the independent auditor for the year 2016 in the General Assembly Meeting held on 24 March 2016.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION ONE (Continued)

#### GENERAL INFORMATION (Continued)

#### IV. Information about the persons and institutions that have qualified shares in the Bank

Explanation about the people and institutions that have qualified shares control the Parent Bank's capital directly or indirectly are described in General Information Section II.

#### V. Summary on the Bank's functions and areas of activity

Türkiye Sınai Kalkınma Bankası A.Ş. ("the Bank") is the first private development and investment bank which was established by the Council of Ministers resolution number of 3/11203 established in 1950 with the support of World Bank, T.R. Government, T.R. Central Bank and commercial banks. As per the articles of association published in the Official Gazette on 2 June 1950, the aim of the Bank is to support all private sector investments but mostly industrial sectors, to help domestic and foreign capital owners to finance the new firms and to help the improvement of Turkish capital markets. The Bank is succeeding its aims by financing, consulting, giving technical support and financial intermediary services. The Bank, which operates as a non-deposit accepting bank, played a major role on manufacturing and finance sectors in every phase of the economic development of Turkey. The Bank 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 financing needs of the private sector, the Bank also continues to offer solutions with respect to the newest needs and client demands.

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

#### VI. Differences between the Communiqué on Preparation of Consolidated Financial Statements of Banks and Turkish Accounting Standards and short explanation about the institution subject to line-by-line method or proportional consolidation and institutions which are deducted from equity or not included in these three methods

Due to differences between the Communiqué on Preparation of Consolidated Financial Statements of Banks and Turkish Account Standards (TAS), the non-financial subsidiaries and associates, TSKB Gayrimenkul Değerleme A.Ş., TSKB Sürdürülebilirlik Danışmanlığı A.Ş., Terme Metal Sanayi ve Ticaret A.Ş. and Ege Tarım Ürünleri Lisanslı Depoculuk A.Ş. are not consolidated since they are not in scope of financial institutions according to related Communiqué.

The Bank and its financial institutions, Yatırım Finansman Menkul Değerler A.Ş., TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. are included in the accompanying consolidated financial statements line by line consolidation method; İş Finansal Kiralama A.Ş., İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. and İş Faktoring A.Ş. are included in the accompanying consolidated financial statements by equity method.

Financial institutions included in the consolidation are determined in accordance with "Communiqué on Preparation of Consolidated Financial Statements of Banks" published in the Official Gazette dated 8 November 2006 numbered 26340. The Bank has no partnership share on banks and financial institutions, with shareholding of more than 10% and deducted from capital.

#### Yatırım Finansman Menkul Değerler A.Ş. :

Yatırım Finansman Menkul Değerler A.Ş. ("YF") was established in 15 October 1976. The Company's purpose is to perform capital market operations specified in the Company's articles of association in accordance with the CMB and the related legislation. The Company was merged with TSKB Menkul Değerler A.Ş. 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.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION ONE (Continued)

##### GENERAL INFORMATION (Continued)

**VI. Differences between the Communiqué on Preparation of Consolidated Financial Statements of Banks and Turkish Accounting Standards and short explanation about the institution subject to line-by-line method or proportional consolidation and institutions which are deducted from equity or not included in these three methods (continued)**

##### **TSKB Gayrimenkul Yatırım Ortaklığı A.Ş.:**

TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. ("TSKB GYO") was established on 3 February 2006. Core business of the Company is real estate trust to construct and develop a portfolio of properties and make investment to capital market instruments linked to properties. The share of Türkiye Sınai Kalkınma Bankası A.Ş. is 59,00%. The company's headquarters is located at Istanbul/Turkey.

##### **İş Finansal Kiralama A.Ş.:**

İş Finansal Kiralama A.Ş. ("İş Finansal Kiralama") was established on 8 February 1988. The company has been performing its operations in accordance with the Financial Leasing, Factoring and Financing Companies Law No 6361. The purpose of the Company is performing domestic and foreign financial leasing activities and all kind of rental (leasing) transactions within the framework of legislation. The share of Türkiye Sınai Kalkınma Bankası A.Ş. 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 A.Ş.:**

İş Faktoring A.Ş. ("İş Faktoring"), was incorporated in Turkey on 4 July 1993 and it has been performing 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. The Company is a Türkiye İş Bankası A.Ş. Group entity and the parent is İş Finansal Kiralama A.Ş. with 78,23% shareholding. The direct share of Türkiye Sınai Kalkınma Bankası A.Ş. is 21,75%. The company's headquarters is located at Istanbul/Turkey.

##### **İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.:**

İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. ("İş Girişim") started its venture capital operations by the decision of Capital Market Board dated 5 October 2000. The principal activity of the Company is to perform long-term investments to venture capital companies mainly established or to be established in Turkey, have development potential and require resource. The share of Türkiye Sınai Kalkınma Bankası A.Ş. is 16,65% in which the share of İş Yatırım Menkul Değerler A.Ş. is 29,29%. The company's headquarters is located at Istanbul/Turkey.

#### **VII. The existing or potential, actual or legal obstacle on the transfer of shareholder's equity between the Bank and its subsidiaries or the reimbursement of liabilities**

There is no existing or potential, actual or legal obstacle to the reimbursement of liabilities between the Bank and its subsidiaries. The Bank charge or pay cost of the services according to the service agreements done between the Bank and its subsidiaries. Dividend distribution from shareholders' equity is made according to related legal regulations.

#### **Written policies of the Bank related to compliance to publicly disclosed obligations of the Bank and assessment of accuracy, frequency and compliance of mentioned disclosures**

The Bank Disclosure Policy updated by the meeting of the Board of Directors has entered into force on 28 February 2014. Compliance to publicly disclosed obligations, frequency of public disclosures and tools and methods used for public disclosures are explained in the disclosure policy of the Bank accessible from the Bank's corporate website.



# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)

### AT 31 DECEMBER 2016

(AMOUNTS ARE EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

ASSETS	Note Ref.	Audited Current Period 31 December 2016			Audited Prior Period 31 December 2015		
		TL	FC	Total	TL	FC	Total
<b>I. CASH AND BALANCES WITH THE CENTRAL BANK</b>	<b>(1)</b>	<b>161.303</b>	<b>616.771</b>	<b>778.074</b>	<b>40.438</b>	<b>770.676</b>	<b>811.114</b>
<b>II. FINANCIAL ASSETS AT F.V. THROUGH PROFIT AND LOSS (Net)</b>	<b>(2)</b>	<b>130.477</b>	<b>249.626</b>	<b>380.103</b>	<b>37.429</b>	<b>159.786</b>	<b>197.215</b>
2.1 Trading financial assets		130.477	249.626	380.103	37.429	159.786	197.215
2.1.1 Public sector debt securities		4.658	-	4.658	28.233	-	28.233
2.1.2 Share certificates		-	-	-	-	-	-
2.1.3 Derivative financial assets held for trading		125.819	249.626	375.445	9.196	159.786	168.982
2.1.4 Other marketable securities		-	-	-	-	-	-
2.2 Financial assets at fair value through profit and loss		-	-	-	-	-	-
2.2.1 Public sector debt securities		-	-	-	-	-	-
2.2.2 Share certificates		-	-	-	-	-	-
2.2.3 Other marketable securities		-	-	-	-	-	-
2.2.4 Loans		-	-	-	-	-	-
<b>III. BANKS</b>	<b>(3)</b>	<b>15.360</b>	<b>48.093</b>	<b>63.453</b>	<b>324</b>	<b>534.505</b>	<b>534.829</b>
<b>IV. MONEY MARKET PLACEMENTS</b>		<b>62.895</b>	<b>191.138</b>	<b>254.033</b>	<b>1.080.274</b>	<b>-</b>	<b>1.080.274</b>
4.1 Interbank money market placements		-	191.138	191.138	-	-	-
4.2 Istanbul Stock Exchange money market placements		62.895	-	62.895	1.080.274	-	1.080.274
4.3 Receivables from reverse repurchase agreements		-	-	-	-	-	-
<b>V. FINANCIAL ASSETS AVAILABLE FOR SALE (Net)</b>	<b>(4)</b>	<b>2.050.318</b>	<b>1.020.104</b>	<b>3.070.422</b>	<b>2.123.150</b>	<b>847.819</b>	<b>2.970.969</b>
5.1 Share certificates		30.091	18.582	48.673	26.901	10.120	37.021
5.2 Public sector debt securities		1.823.078	967.854	2.790.932	1.793.224	831.327	2.624.551
5.3 Other marketable securities		197.149	33.668	230.817	303.025	6.372	309.397
<b>VI. LOANS AND RECEIVABLES</b>	<b>(5)</b>	<b>2.595.797</b>	<b>14.722.796</b>	<b>17.318.593</b>	<b>2.414.222</b>	<b>11.261.257</b>	<b>13.675.479</b>
6.1 Loans and receivables		2.595.797	14.722.796	17.318.593	2.414.222	11.261.257	13.675.479
6.1.1 Loans to the risk group of the Bank		245.062	212.410	457.472	388.155	207.989	596.144
6.1.2 Public sector debt securities		-	-	-	-	-	-
6.1.3 Other		2.350.735	14.510.386	16.861.121	2.026.067	11.053.268	13.079.335
6.2 Non-performing loans		47.077	1.362	48.439	57.754	1.651	59.405
6.3 Specific provisions (-)		(47.077)	(1.362)	(48.439)	(57.754)	(1.651)	(59.405)
<b>VII. FACTORING RECEIVABLES</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>VIII. HELD TO MATURITY INVESTMENTS (Net)</b>	<b>(6)</b>	<b>1.188.990</b>	<b>186.739</b>	<b>1.375.729</b>	<b>715.194</b>	<b>157.408</b>	<b>872.602</b>
8.1 Public sector debt securities		1.188.990	186.739	1.375.729	715.194	157.408	872.602
8.2 Other marketable securities		-	-	-	-	-	-
<b>IX. INVESTMENTS IN ASSOCIATES (Net)</b>	<b>(7)</b>	<b>222.908</b>	<b>-</b>	<b>222.908</b>	<b>156.008</b>	<b>-</b>	<b>156.008</b>
9.1 Accounted for under equity method		-	-	-	-	-	-
9.2 Unconsolidated associates		222.908	-	222.908	156.008	-	156.008
9.2.1 Financial investments		221.353	-	221.353	154.453	-	154.453
9.2.2 Non-financial investments		1.555	-	1.555	1.555	-	1.555
<b>X. INVESTMENTS IN SUBSIDIARIES (Net)</b>	<b>(8)</b>	<b>129.363</b>	<b>-</b>	<b>129.363</b>	<b>122.699</b>	<b>-</b>	<b>122.699</b>
10.1 Unconsolidated financial subsidiaries		127.984	-	127.984	122.320	-	122.320
10.2 Unconsolidated non-financial subsidiaries		1.379	-	1.379	379	-	379
<b>XI. ENTITIES UNDER COMMON CONTROL (JOINT VENT.) (Net)</b>	<b>(9)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
11.1 Consolidated under equity method		-	-	-	-	-	-
11.2 Unconsolidated		-	-	-	-	-	-
11.2.1 Financial subsidiaries		-	-	-	-	-	-
11.2.2 Non-financial subsidiaries		-	-	-	-	-	-
<b>XII. LEASE RECEIVABLES (Net)</b>	<b>(10)</b>	<b>-</b>	<b>3.792</b>	<b>3.792</b>	<b>-</b>	<b>-</b>	<b>-</b>
12.1 Finance lease receivables		-	4.393	4.393	-	98	98
12.2 Operating lease receivables		-	-	-	-	-	-
12.3 Other		-	-	-	-	-	-
12.4 Unearned income (-)		-	(601)	(601)	-	(98)	(98)
<b>XIII. DERIVATIVE FINANCIAL ASSETS FOR HEDGING PURPOSES</b>	<b>(11)</b>	<b>-</b>	<b>272</b>	<b>272</b>	<b>-</b>	<b>4.093</b>	<b>4.093</b>
13.1 Fair value hedge		-	272	272	-	4.093	4.093
13.2 Cash flow hedge		-	-	-	-	-	-
13.3 Hedge of net investment in foreign operations		-	-	-	-	-	-
<b>XIV. TANGIBLE ASSETS (Net)</b>	<b>(12)</b>	<b>51.112</b>	<b>-</b>	<b>51.112</b>	<b>48.515</b>	<b>-</b>	<b>48.515</b>
<b>XV. INTANGIBLE ASSETS (Net)</b>	<b>(13)</b>	<b>949</b>	<b>-</b>	<b>949</b>	<b>686</b>	<b>-</b>	<b>686</b>
15.1 Goodwill		-	-	-	-	-	-
15.2 Other		949	-	949	686	-	686
<b>XVI. INVESTMENT PROPERTY (Net)</b>	<b>(14)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>XVII. TAX ASSET</b>	<b>(15)</b>	<b>14.195</b>	<b>-</b>	<b>14.195</b>	<b>22.911</b>	<b>-</b>	<b>22.911</b>
17.1 Current tax asset		-	-	-	-	-	-
17.2 Deferred tax asset		14.195	-	14.195	22.911	-	22.911
<b>XVIII. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (Net)</b>	<b>(16)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
18.1 Assets held for sale		-	-	-	-	-	-
18.2 Assets of discontinued operations		-	-	-	-	-	-
<b>XIX. OTHER ASSETS</b>	<b>(17)</b>	<b>61.734</b>	<b>276.841</b>	<b>338.575</b>	<b>56.133</b>	<b>181.058</b>	<b>237.191</b>
<b>TOTAL ASSETS</b>		<b>6.685.401</b>	<b>17.316.172</b>	<b>24.001.573</b>	<b>6.817.983</b>	<b>13.916.602</b>	<b>20.734.585</b>

The accompanying notes are an integral part of these unconsolidated financial statements.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş

## UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)

AT 31 DECEMBER 2016

(AMOUNTS ARE EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

		Audited Current Period 31 December 2016			Audited Prior Period 31 December 2015		
	Note Ref.	TL	FC	Total	TL	FC	Total
<b>LIABILITIES</b>							
<b>I. DEPOSITS</b>	(1)	-	-	-	-	-	-
1.1 Deposits from Risk Group of the Bank		-	-	-	-	-	-
1.2 Other		-	-	-	-	-	-
<b>II. DERIVATIVE FINANCIAL LIABILITIES HELD FOR TRADING</b>	(2)	110.645	210.003	320.648	42.933	130.498	173.431
<b>III. FUNDS BORROWED</b>	(3)	100.083	15.740.884	15.840.967	196.001	13.102.950	13.298.951
<b>IV. MONEY MARKET BALANCES</b>		844.500	60.998	905.498	2.123.487	45.994	2.169.481
4.1 Interbank money market takings		610.144	-	610.144	-	-	-
4.2 Istanbul Stock Exchange money market takings		-	-	-	-	-	-
4.3 Funds provided under repurchase agreements		234.356	60.998	295.354	2.123.487	45.994	2.169.481
<b>V. MARKETABLE SECURITIES ISSUED (Net)</b>	(3)	-	3.486.732	3.486.732	-	2.037.571	2.037.571
5.1 Bills		-	-	-	-	-	-
5.2 Asset backed securities		-	-	-	-	-	-
5.3 Bonds		-	3.486.732	3.486.732	-	2.037.571	2.037.571
<b>VI. BORROWER FUNDS</b>		1.511	3.806	5.317	1.690	28.987	30.677
6.1 Borrower funds		1.511	3.806	5.317	1.690	28.987	30.677
6.2 Others		-	-	-	-	-	-
<b>VII. SUNDRY CREDITORS</b>		100.476	73.462	173.938	93.141	24.104	117.245
<b>VIII. OTHER LIABILITIES</b>	(4)	-	-	-	-	-	-
<b>IX. FACTORING PAYABLES</b>		-	-	-	-	-	-
<b>X. LEASE PAYABLES</b>	(5)	-	-	-	-	-	-
10.1 Finance lease payables		-	-	-	-	-	-
10.2 Operating lease payables		-	-	-	-	-	-
10.3 Other		-	-	-	-	-	-
10.4 Deferred finance lease expenses (-)		-	-	-	-	-	-
<b>XI. DERIVATIVE FINANCIAL LIABILITIES FOR HEDGING PURPOSES</b>	(6)	-	51.433	51.433	-	5.799	5.799
11.1 Fair value hedge		-	51.433	51.433	-	5.799	5.799
11.2 Cash flow hedge		-	-	-	-	-	-
11.3 Hedge of net investment in foreign operations		-	-	-	-	-	-
<b>XII. PROVISIONS</b>	(7)	278.392	-	278.392	220.045	-	220.045
12.1 General loan loss provisions		178.463	-	178.463	150.329	-	150.329
12.2 Restructuring provisions		-	-	-	-	-	-
12.3 Reserve for employee benefits		9.346	-	9.346	9.133	-	9.133
12.4 Insurance technical reserves (Net)		-	-	-	-	-	-
12.5 Other provisions		90.583	-	90.583	60.583	-	60.583
<b>XIII. TAX LIABILITY</b>	(8)	10.309	-	10.309	46.822	-	46.822
13.1 Current tax liability		10.309	-	10.309	46.822	-	46.822
13.2 Deferred tax liability		-	-	-	-	-	-
<b>XIV. PAYABLES RELATED TO ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (NET)</b>	(9)	-	-	-	-	-	-
14.1 Held for sale		-	-	-	-	-	-
14.2 Discontinued operations		-	-	-	-	-	-
<b>XV. SUBORDINATED LOANS</b>	(10)	-	-	-	-	145.836	145.836
<b>XVI. SHAREHOLDERS' EQUITY</b>		2.955.113	(26.774)	2.928.339	2.477.439	11.288	2.488.727
16.1 Paid-in capital	(11)	2.050.000	-	2.050.000	1.750.000	-	1.750.000
16.2 Capital reserves		29.784	(26.774)	3.010	(33.228)	11.288	(21.940)
16.2.1 Share premium		-	-	-	-	-	-
16.2.2 Share cancellation profits		-	-	-	-	-	-
16.2.3 Marketable securities value increase fund	(11)	(5.695)	(26.774)	(32.469)	(64.633)	11.288	(53.345)
16.2.4 Tangible assets revaluation differences	(11)	34.702	-	34.702	31.348	-	31.348
16.2.5 Intangible assets revaluation differences		-	-	-	-	-	-
16.2.6 Investment property revaluation differences		-	-	-	-	-	-
16.2.7 Bonus shares obtained from associates, subsidiaries and jointly controlled entities (Joint Vent.)		-	-	-	-	-	-
16.2.8 Hedging funds (Effective portion)		-	-	-	-	-	-
16.2.9 Accumulated valuation differences from assets held for sale and from discontinued operations		-	-	-	-	-	-
16.2.10 Other capital reserves		777	-	777	57	-	57
16.3 Profit reserves		398.884	-	398.884	353.822	-	353.822
16.3.1 Legal reserves	(11)	213.923	-	213.923	192.634	-	192.634
16.3.2 Statutory reserves		75.641	-	75.641	75.641	-	75.641
16.3.3 Extraordinary reserves	(11)	106.400	-	106.400	82.703	-	82.703
16.3.4 Other profit reserves		2.920	-	2.920	2.844	-	2.844
16.4 Profit or loss		476.445	-	476.445	406.845	-	406.845
16.4.1 Prior years' income/losses		-	-	-	-	-	-
16.4.2 Current year income/loss		476.445	-	476.445	406.845	-	406.845
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>4.401.029</b>	<b>19.600.544</b>	<b>24.001.573</b>	<b>5.201.558</b>	<b>15.533.027</b>	<b>20.734.585</b>

The accompanying notes are an integral part of these unconsolidated financial statements.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## UNCONSOLIDATED STATEMENT OF OFF-BALANCE SHEET ITEMS

### AT 31 DECEMBER 2016

(AMOUNTS ARE EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

	Note Ref	TL	Audited Current Period 31 December 2016 FC	Total	TL	Audited Prior Period 31 December 2015 FC	Total
<b>A. OFF BALANCE SHEET COMMITMENTS AND CONTINGENCIES (I+II+III)</b>		<b>8,126,550</b>	<b>35,667,704</b>	<b>43,794,254</b>	<b>3,573,336</b>	<b>22,330,276</b>	<b>25,903,612</b>
<b>I. GUARANTEES AND COLLATERALS</b>	<b>(1)</b>	<b>210,450</b>	<b>1,458,760</b>	<b>1,669,210</b>	<b>390,801</b>	<b>1,391,865</b>	<b>1,782,666</b>
1.1 Letters of guarantee		210,450	764,943	975,393	390,801	805,948	1,196,749
1.1.1 Guarantees subject to State Tender Law		-	-	-	-	-	-
1.1.2 Guarantees given for foreign trade operations		-	-	-	-	-	-
1.1.3 Other letters of guarantee		210,450	764,943	975,393	390,801	805,948	1,196,749
1.2 Bank acceptances		-	17,450	17,450	-	19,027	19,027
1.2.1 Import letters of acceptance		-	17,450	17,450	-	19,027	19,027
1.2.2 Other bank acceptances		-	-	-	-	-	-
1.3 Letters of credit		-	676,367	676,367	-	566,890	566,890
1.3.1 Documentary letters of credit		-	676,367	676,367	-	566,890	566,890
1.3.2 Other letters of credit		-	-	-	-	-	-
1.4 Prefinancing given as guarantee		-	-	-	-	-	-
1.5 Endorsements		-	-	-	-	-	-
1.5.1 Endorsements to the Central Bank of Turkey		-	-	-	-	-	-
1.5.2 Other endorsements		-	-	-	-	-	-
1.6 Securities issue purchase guarantees		-	-	-	-	-	-
1.7 Factoring guarantees		-	-	-	-	-	-
1.8 Other guarantees		-	-	-	-	-	-
1.9 Other collaterals		-	-	-	-	-	-
<b>II. COMMITMENTS</b>	<b>(1)</b>	<b>1,535,728</b>	<b>6,271,098</b>	<b>7,806,826</b>	<b>526,242</b>	<b>3,583,563</b>	<b>4,109,805</b>
2.1 Irrevocable commitments		239,369	298,218	537,587	93,660	303,401	397,061
2.1.1 Forward asset purchase and sales commitments		23,159	55,320	78,479	55,547	55,042	110,589
2.1.2 Forward deposit purchase and sales commitments		-	-	-	-	-	-
2.1.3 Share capital commitment to associates and subsidiaries		-	68,367	68,367	-	-	-
2.1.4 Loan granting commitments		-	-	-	-	-	-
2.1.5 Securities underwriting commitments		-	-	-	-	-	-
2.1.6 Commitments for reserve deposit requirements		-	-	-	-	-	-
2.1.7 Payment commitment for checks		-	-	-	-	-	-
2.1.8 Tax and fund liabilities from export commitments		-	-	-	-	-	-
2.1.9 Commitments for credit card expenditure limits		-	-	-	-	-	-
2.1.10 Commitments for promotions related with credit cards and banking activities		-	-	-	-	-	-
2.1.11 Receivables from short sale commitments		-	-	-	-	-	-
2.1.12 Payables for short sale commitments		-	-	-	-	-	-
2.1.13 Other irrevocable commitments		216,210	174,531	390,741	38,113	248,359	286,472
2.2 Revocable commitments		1,296,359	5,972,880	7,269,239	432,582	3,280,162	3,712,744
2.2.1 Revocable loan granting commitments		1,296,359	5,972,880	7,269,239	432,582	3,280,162	3,712,744
2.2.2 Other revocable commitments		-	-	-	-	-	-
<b>III. DERIVATIVE FINANCIAL INSTRUMENTS</b>	<b>(2)</b>	<b>6,380,372</b>	<b>27,937,846</b>	<b>34,318,218</b>	<b>2,656,293</b>	<b>17,354,848</b>	<b>20,011,141</b>
3.1 Derivative financial instruments for hedging purposes		-	7,747,800	7,747,800	-	4,689,900	4,689,900
3.1.1 Fair value hedge		-	7,747,800	7,747,800	-	4,689,900	4,689,900
3.1.2 Cash flow hedge		-	-	-	-	-	-
3.1.3 Hedge of net investment in foreign operations		-	-	-	-	-	-
3.2 Held for trading transactions		6,380,372	20,190,046	26,570,418	2,656,293	12,664,948	15,321,241
3.2.1 Forward foreign currency buy/sell transactions		249,785	881,330	1,131,115	47,844	359,244	407,088
3.2.1.1 Forward foreign currency transactions-buy		126,329	441,469	567,798	23,898	180,556	204,454
3.2.1.2 Forward foreign currency transactions-sell		123,456	439,861	563,317	23,946	178,688	202,634
3.2.2 Swap transactions related to f.c. and interest rates		2,891,385	15,498,438	18,389,823	1,554,677	10,793,868	12,348,545
3.2.2.1 Foreign currency swaps-buy		954,500	2,939,433	3,893,933	621,999	1,978,589	2,600,588
3.2.2.2 Foreign currency swaps-sell		1,896,081	1,826,119	3,722,180	887,822	1,671,255	2,559,077
3.2.2.3 Interest rate swaps-buy		20,412	5,366,443	5,386,855	22,428	3,572,012	3,594,440
3.2.2.4 Interest rate swaps-sell		20,412	5,366,443	5,386,855	22,428	3,572,012	3,594,440
3.2.3 Foreign currency, interest rate and securities options		3,239,202	3,692,734	6,931,936	1,053,772	1,422,626	2,476,398
3.2.3.1 Foreign currency options-buy		1,619,601	1,846,367	3,465,968	526,886	711,313	1,238,199
3.2.3.2 Foreign currency options-sell		1,619,601	1,846,367	3,465,968	526,886	711,313	1,238,199
3.2.3.3 Interest rate options-buy		-	-	-	-	-	-
3.2.3.4 Interest rate options-sell		-	-	-	-	-	-
3.2.3.5 Securities options-buy		-	-	-	-	-	-
3.2.3.6 Securities options-sell		-	-	-	-	-	-
3.2.4 Foreign currency futures		-	-	-	-	-	-
3.2.4.1 Foreign currency futures-buy		-	-	-	-	-	-
3.2.4.2 Foreign currency futures-sell		-	-	-	-	-	-
3.2.5 Interest rate futures		-	-	-	-	-	-
3.2.5.1 Interest rate futures-buy		-	-	-	-	-	-
3.2.5.2 Interest rate futures-sell		-	-	-	-	-	-
3.2.6 Other		-	117,544	117,544	-	89,210	89,210
<b>B. CUSTODY AND PLEDGED SECURITIES (IV+V+VI)</b>		<b>42,733,558</b>	<b>190,380,447</b>	<b>233,114,005</b>	<b>32,899,924</b>	<b>146,256,211</b>	<b>179,156,135</b>
<b>IV. ITEMS HELD IN CUSTODY</b>		<b>239,987</b>	<b>130,993</b>	<b>370,980</b>	<b>2,053,865</b>	<b>89,752</b>	<b>2,143,617</b>
4.1 Customers' securities held		-	-	-	-	-	-
4.2 Investment securities held in custody		34,244	130,993	165,237	53,414	89,752	143,166
4.3 Checks received for collection		-	-	-	-	-	-
4.4 Commercial notes received for collection		-	-	-	-	-	-
4.5 Other assets received for collection		-	-	-	-	-	-
4.6 Assets received for public offering		-	-	-	-	-	-
4.7 Other items under custody		-	-	-	-	-	-
4.8 Custodians		205,743	-	205,743	2,000,451	-	2,000,451
<b>V. PLEDGED ITEMS</b>		<b>31,660,545</b>	<b>112,960,070</b>	<b>144,620,615</b>	<b>20,595,003</b>	<b>87,930,136</b>	<b>108,525,139</b>
5.1 Marketable securities		450,941	7,564,328	8,015,269	450,939	5,057,844	5,508,783
5.2 Guarantee notes		96,871	2,041,938	2,138,809	80,234	1,661,953	1,742,187
5.3 Commodity		-	-	-	-	-	-
5.4 Warranty		-	-	-	-	-	-
5.5 Real estates		428,385	29,854,058	30,282,443	355,357	24,469,785	24,825,142
5.6 Other pledged items		30,684,348	73,499,746	104,184,094	19,708,473	56,740,554	76,449,027
5.7 Pledged items-depository		-	-	-	-	-	-
<b>VI. ACCEPTED BILLS OF EXCHANGE AND COLLATERALS</b>		<b>10,833,026</b>	<b>77,289,384</b>	<b>88,122,410</b>	<b>10,251,056</b>	<b>58,236,323</b>	<b>68,487,379</b>
<b>TOTAL OFF BALANCE SHEET ITEMS (A+B)</b>		<b>50,860,108</b>	<b>226,048,151</b>	<b>276,908,259</b>	<b>36,473,260</b>	<b>168,586,487</b>	<b>205,059,747</b>

The accompanying notes are an integral part of these consolidated financial statements.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş

## UNCONSOLIDATED STATEMENT OF INCOME

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS ARE EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

	Note Ref.	Audited Current Period 1 January 2016 – 31 December 2016	Audited Prior Period 1 January 2015 – 31 December 2015
<b>I. INTEREST INCOME</b>	<b>(1)</b>	<b>1.376.480</b>	<b>1.079.798</b>
1.1 Interest on loans		845.107	661.749
1.2 Interest received from reserve deposits		3.371	1.235
1.3 Interest received from banks		12.021	3.459
1.4 Interest received from money market placements		162.956	95.685
1.5 Interest received from marketable securities portfolio		352.241	317.478
1.5.1 Financial assets held for trading		1.391	1.699
1.5.2 Financial assets at fair value through profit and loss		-	-
1.5.3 Available-for-sale financial assets		263.787	286.924
1.5.4 Investments held-to-maturity		87.063	28.855
1.6 Finance lease income		27	1
1.7 Other interest income		757	191
<b>II. INTEREST EXPENSES</b>	<b>(2)</b>	<b>(599.292)</b>	<b>(454.727)</b>
2.1 Interest on deposits		-	-
2.2 Interest on funds borrowed		(242.405)	(174.152)
2.3 Interest on money market borrowings		(206.844)	(187.500)
2.4 Interest on securities issued		(149.831)	(92.869)
2.5 Other interest expense		(212)	(206)
<b>III. NET INTEREST INCOME (I - II)</b>		<b>777.188</b>	<b>625.071</b>
<b>IV. NET FEES AND COMMISSIONS INCOME</b>		<b>4.935</b>	<b>11.418</b>
4.1 Fees and commissions received		11.968	13.813
4.1.1 Non-cash loans		10.876	11.488
4.1.2 Other		1.092	2.325
4.2 Fees and commissions paid		(7.033)	(2.395)
4.2.1 Non-cash loans		(303)	(8)
4.2.2 Other		(6.730)	(2.387)
<b>V. DIVIDEND INCOME</b>	<b>(3)</b>	<b>30.102</b>	<b>33.604</b>
<b>VI. NET TRADING INCOME</b>	<b>(4)</b>	<b>(54.782)</b>	<b>(1.983)</b>
6.1 Securities trading gains/ (losses)		5.917	3.651
6.2 Derivative financial instruments gains/losses		174	(106.758)
6.3 Foreign exchange gains/losses (net)		(60.873)	101.124
<b>VII. OTHER OPERATING INCOME</b>	<b>(5)</b>	<b>15.078</b>	<b>41.829</b>
<b>VIII. TOTAL OPERATING INCOME (III+IV+V+VI+VII)</b>		<b>772.521</b>	<b>709.939</b>
<b>IX. PROVISION FOR LOAN LOSSES AND OTHER RECEIVABLES (-)</b>	<b>(6)</b>	<b>(63.635)</b>	<b>(100.025)</b>
<b>X. OTHER OPERATING EXPENSES (-)</b>	<b>(7)</b>	<b>(115.634)</b>	<b>(101.459)</b>
<b>XI. NET OPERATING INCOME/(LOSS) (VIII-IX-X)</b>		<b>593.252</b>	<b>508.455</b>
<b>XII. AMOUNT IN EXCESS RECORDED AS GAIN AFTER MERGER</b>		-	-
<b>XIII. PROFIT / (LOSS) ON EQUITY METHOD</b>		-	-
<b>XIV. GAIN / (LOSS) ON NET MONETARY POSITION</b>		-	-
<b>XV. PROFIT/(LOSS) FROM CONTINUED OPERATIONS BEFORE TAXES (XI+XII+XIII+XIV)</b>	<b>(8)</b>	<b>593.252</b>	<b>508.455</b>
<b>XVI. TAX PROVISION FOR CONTINUED OPERATIONS (±)</b>	<b>(9)</b>	<b>(116.807)</b>	<b>(101.610)</b>
16.1 Provision for current income taxes		(98.641)	(76.641)
16.2 Provision for deferred taxes		(18.166)	(24.969)
<b>XVII. NET PROFIT/(LOSS) FROM CONTINUED OPERATIONS (XV±XVI)</b>	<b>(10)</b>	<b>476.445</b>	<b>406.845</b>
<b>XVIII. INCOME ON DISCONTINUED OPERATIONS</b>			
18.1 Income on assets held for sale		-	-
18.2 Income on sale of associates, subsidiaries and jointly controlled entities (Joint vent.)		-	-
18.3 Income on other discontinued operations		-	-
<b>XIX. LOSS FROM DISCONTINUED OPERATIONS (-)</b>		-	-
19.1 Loss from assets held for sale		-	-
19.2 Loss on sale of associates, subsidiaries and jointly controlled entities (Joint vent.)		-	-
19.3 Loss from other discontinued operations		-	-
<b>XX. PROFIT / (LOSS) ON DISCONTINUED OPERATIONS BEFORE TAXES (XVIII-XIX)</b>		-	-
<b>XXI. TAX PROVISION FOR DISCONTINUED OPERATIONS(±)</b>		-	-
21.1 Provision for current income taxes		-	-
21.2 Provision for deferred taxes		-	-
<b>XXII. NET PROFIT/LOSS FROM DISCONTINUED OPERATIONS (XX±XXI)</b>		-	-
<b>XXIII. NET PROFIT/LOSS (XVII+XXII)</b>	<b>(11)</b>	<b>476.445</b>	<b>406.845</b>
<b>Earnings / (losses) per share (Full Kuruş)</b>		<b>0,232</b>	<b>0,198</b>

İlişkitedeki açıklama ve dipnotlar bu finansal tabloların tamamlayıcı parçalarıdır.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## UNCONSOLIDATED STATEMENT OF INCOME AND EXPENSE ITEMS UNDER SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS ARE EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

	Audited Current Period 1 January 2016– 31 December 2016	Audited Prior Period 1 January 2015– 31 December 2015
<b>PROFIT AND LOSS ITEMS ACCOUNTED FOR UNDER SHAREHOLDER'S EQUITY</b>		
<b>I. ADDITIONS TO MARKETABLE SECURITIES REVALUATION DIFFERENCES FOR AVAILABLE FOR SALE FINANCIAL ASSETS</b>	<b>(43.241)</b>	<b>(173.789)</b>
<b>II. TANGIBLE ASSETS REVALUATION DIFFERENCES</b>	<b>3.530</b>	<b>32.014</b>
<b>III. INTANGIBLE ASSETS REVALUATION DIFFERENCES</b>	<b>-</b>	<b>-</b>
<b>IV. TRANSLATION DIFFERENCES FOR TRANSACTIONS IN FOREIGN CURRENCIES</b>	<b>1.816</b>	<b>2.427</b>
<b>V. GAIN/LOSS ON DERIVATIVE FINANCIAL ASSETS HELD FOR CASH FLOW HEDGES (Effective Portion of Fair Value Differences)</b>	<b>-</b>	<b>-</b>
<b>VI. GAIN/LOSS ON DERIVATIVE FINANCIAL ASSETS HELD FOR HEDGES OF NET INVESTMENT IN FOREIGN OPERATIONS (effective portion)</b>	<b>-</b>	<b>-</b>
<b>VII. EFFECTS OF CHANGES IN ACCOUNTING POLICIES AND CORRECTIONS OF ERRORS</b>	<b>-</b>	<b>-</b>
<b>VIII. OTHER PROFIT/LOSS ITEMS ACCOUNTED FOR UNDER SHAREHOLDERS' EQUITY AS PER TAS</b>	<b>53.471</b>	<b>(18.789)</b>
<b>IX. DEFERRED TAX OF VALUATION DIFFERENCES</b>	<b>9.450</b>	<b>32.960</b>
<b>X. NET PROFIT/LOSS ACCOUNTED FOR DIRECTLY UNDER SHAREHOLDERS' EQUITY (I+II+...+IX)</b>	<b>25.026</b>	<b>(125.177)</b>
<b>XI. CURRENT YEAR PROFIT/LOSS</b>	<b>476.445</b>	<b>406.845</b>
11.1 Net changes in fair value of securities (Recycled to Profit/Loss)	3.402	9.844
11.2 Reclassification of and recycling derivatives accounted for cash flow hedge purposes to Income Statement	-	-
11.3 Recycling hedge of net investments in foreign operations to Income Statement	-	-
11.4 Other	473.043	397.001
<b>XII. TOTAL PROFIT/LOSS ACCOUNTED FOR THE CURRENT PERIOD (X±XI)</b>	<b>501.471</b>	<b>281.668</b>

The accompanying notes are an integral part of these unconsolidated financial statements.





# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## UNCONSOLIDATED STATEMENT OF CASH FLOWS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LİRA (TL) UNLESS OTHERWISE STATED.)

	Note Ref.	Audited Current Period 31 December 2016	Audited Prior Period 31 December 2015
<b>A. CASH FLOWS FROM BANKING OPERATIONS</b>			
<b>1.1 Operating profit before changes in operating assets and liabilities</b>		<b>1.651.868</b>	<b>1.171.483</b>
1.1.1 Interest received		1.039.218	909.919
1.1.2 Interest paid		(514.523)	(468.034)
1.1.3 Dividends received		9.478	8.376
1.1.4 Fees and commissions received		11.968	13.813
1.1.5 Other income	(1)	21.286	123.966
1.1.6 Collections from previously written off loans		12.658	894
1.1.7 Payments to personnel and service suppliers		(74.135)	(66.418)
1.1.8 Taxes paid		(135.445)	(67.186)
1.1.9 Others	(1)	1.281.363	716.153
<b>1.2 Changes in operating assets and liabilities</b>		<b>(3.325.556)</b>	<b>(422.443)</b>
1.2.1 Net (increase) decrease in financial assets		23.487	(28.145)
1.2.2 Net (increase) decrease in financial assets at fair value through profit or loss		-	-
1.2.3 Net (increase) decrease in due from banks and other financial institutions		-	-
1.2.4 Net (increase) decrease in loans		(2.049.994)	(1.258.836)
1.2.5 Net (increase) decrease in other assets	(1)	71.697	(492.869)
1.2.6 Net increase (decrease) in bank deposits		-	-
1.2.7 Net increase (decrease) in other deposits		-	-
1.2.8 Net increase (decrease) in funds borrowed		(118.993)	1.331.786
1.2.9 Net increase (decrease) in matured payables		-	-
1.2.10 Net increase (decrease) in other liabilities	(1)	(1.251.753)	25.621
<b>I. Net cash provided by/(used in) banking operations</b>		<b>(1.673.688)</b>	<b>749.040</b>
<b>B. CASH FLOWS FROM INVESTING ACTIVITIES</b>			
<b>II. Net cash provided by/(used in) investing activities</b>		<b>(353.216)</b>	<b>(247.819)</b>
2.1 Cash paid for purchase of entities under common control, associates and subsidiaries	(2)	(1.000)	-
2.2 Cash obtained from sale of entities under common control, associates and subsidiaries	(3)	-	-
2.3 Fixed asset purchases	(2)	(2.234)	(19.687)
2.4 Fixed asset sales	(3)	203	11.477
2.5 Cash paid for purchase of financial assets available for sale		(1.002.141)	(1.098.669)
2.6 Cash obtained from sale of financial assets available for sale		652.646	859.363
2.7 Cash paid for purchase of investment securities		-	-
2.8 Cash obtained from sale of investment securities		-	-
2.9 Others	(2)	(690)	(303)
<b>C. CASH FLOWS FROM FINANCING ACTIVITIES</b>			
<b>III. Net cash provided by/(used in) financing activities</b>		<b>816.470</b>	<b>846.930</b>
3.1 Cash obtained from funds borrowed and securities issued		878.309	927.192
3.2 Cash used for repayment of funds borrowed and securities issued		-	-
3.3 Capital increase		-	-
3.4 Dividends paid		(61.839)	(80.262)
3.5 Payments for finance leases		-	-
3.6 Other		-	-
<b>IV. Effect of change in foreign exchange rate on cash and cash equivalents</b>	(1)	<b>40.069</b>	<b>43.025</b>
<b>V. Net increase / (decrease) in cash and cash equivalents</b>		<b>(1.170.365)</b>	<b>1.391.176</b>
<b>VI. Cash and cash equivalents at beginning of the period</b>	(4)	<b>1.652.278</b>	<b>261.102</b>
<b>VII. Cash and cash equivalents at end of the period</b>	(4)	<b>481.913</b>	<b>1.652.278</b>

The accompanying notes are an integral part of these unconsolidated financial statements.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş

## UNCONSOLIDATED STATEMENT OF PROFIT DISTRIBUTION

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

	Audited Current Period 31 December 2016 <sup>(*)</sup>	Audited Prior Period 31 December 2015
<b>I. DISTRIBUTION OF CURRENT YEAR INCOME</b>		
1.1 CURRENT YEAR INCOME	593,252	508,455
1.2 TAXES AND DUTIES PAYABLE	(116,807)	(101,610)
1.2.1 Corporate Tax (Income tax)	(98,641)	(76,641)
1.2.2 Income withholding tax	-	-
1.2.3 Other taxes and duties	(18,166)	(24,969)
<b>A. NET INCOME FOR THE YEAR (1.1-1.2)</b>	<b>476,445</b>	<b>406,845</b>
1.3 PRIOR YEARS LOSSES (-)	-	-
1.4 FIRST LEGAL RESERVES (-)	-	20,342
1.5 OTHER STATUTORY RESERVES (-)	-	-
<b>B. NET PROFIT AVAILABLE FOR DISTRIBUTION [(A)-(1.3+1.4+1.5)]</b>	<b>476,445</b>	<b>386,503</b>
1.6 FIRST DIVIDEND TO SHAREHOLDERS (-)	-	115,949
1.6.1 To owners of ordinary shares	-	115,949
1.6.2 To owners of preferred shares	-	-
1.6.3 To owners of preferred shares (pre-emptive rights)	-	-
1.6.4 To profit sharing bonds	-	-
1.6.5 To holders of profit and loss sharing certificates	-	-
1.7 DIVIDENDS TO PERSONNEL (-)	-	8,116
1.8 DIVIDENDS TO BOARD OF DIRECTORS (-)	-	1,353
1.9 SECOND DIVIDEND TO SHAREHOLDERS (-)	-	236,551
1.9.1 To owners of ordinary shares	-	236,551
1.9.2 To owners of preferred shares	-	-
1.9.3 To owners of preferred shares (pre-emptive rights)	-	-
1.9.4 To profit sharing bonds	-	-
1.9.5 To holders of profit and loss sharing certificates	-	-
1.10 SECOND LEGAL RESERVES (-)	-	947
1.11 STATUTORY RESERVES (-)	-	-
1.12 GENERAL RESERVES	-	23,567
1.13 OTHER RESERVES	-	-
1.14 SPECIAL FUNDS	-	20
<b>II. DISTRIBUTION OF RESERVES</b>	<b>-</b>	<b>-</b>
2.1 APPROPRIATED RESERVES	-	-
2.2 SECOND LEGAL RESERVES (-)	-	-
2.3 DIVIDENDS TO SHAREHOLDERS (-)	-	-
2.3.1 To owners of ordinary shares	-	-
2.3.2 To owners of preferred shares	-	-
2.3.3 To owners of preferred shares (pre-emptive rights)	-	-
2.3.4 To profit sharing bonds	-	-
2.3.5 To holders of profit and loss sharing certificates	-	-
2.4 DIVIDENDS TO PERSONNEL (-)	-	-
2.5 DIVIDENDS TO BOARD OF DIRECTORS (-)	-	-
<b>III. EARNINGS PER SHARE <sup>(**)</sup></b>		
3.1 TO OWNERS OF ORDINARY SHARES	0,23	0,23
3.2 TO OWNERS OF ORDINARY SHARES (%)	23,24	23,25
3.3 TO OWNERS OF PRIVILEGED SHARES	-	-
3.4 TO OWNERS OF PRIVILEGED SHARES (%)	-	-
<b>IV. DIVIDEND PER SHARE</b>		
4.1 TO OWNERS OF ORDINARY SHARES	-	0,20
4.2 TO OWNERS OF ORDINARY SHARES (%)	-	20,14
4.3 TO OWNERS OF PRIVILEGED SHARES	-	-
4.4 TO OWNERS OF PRIVILEGED SHARES (%)	-	-

<sup>(\*)</sup> Since the Board of Directors has not prepared any proposal for profit distribution relating to the year 2016 yet, only profit available for distribution for the year 2016 is presented.

<sup>(\*\*)</sup> A nominal value of 1 Kurus figures a share in unconsolidated income statement and unconsolidated statement of profit distribution and an earnings per share is calculated for a nominal value of 1 Kurus.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION THREE

##### ACCOUNTING POLICIES

###### I. Basis of Presentation

###### I.a Presentation of financial statements:

As prescribed in the Article 37 of the Banking Act No. 5411, the Bank prepares its financial statements and underlying documents in accordance with the "Regulation on the Procedures and Principles for Accounting Practices and Retention of Documents by Banks" and other regulations, explanations and circulars on accounting and financial reporting principles announced by the Banking Regulation and Supervision Agency ("BRSA") and Turkish Accounting Standards ("TAS") published by Public Oversight Accounting and Auditing Standards Authority ("POA") except for matters regulated by BRSA legislation. TAS consists of Turkish Accounting Standards, Turkish Financial Reporting Standards and related appendices and interpretations.

The format and content of the accompanying unconsolidated financial statements and footnotes have been prepared in accordance with the "Communique' on Publicly Announced Financial Statements Explanations and notes to the Financial Statements" and "Communique on Disclosures About Risk Management to be Announced to Public by Banks."

Amounts in the unconsolidated financial statements, the underlying explanations and disclosures are expressed in Thousands of Turkish Lira unless otherwise stated.

###### Additional paragraph for convenience translation to English

The differences between accounting principles, as described in the preceding paragraphs, and the accounting principles generally accepted in countries, in which the accompanying financial statements are to be distributed, and International Financial Reporting Standards ("IFRS"), may have significant influence on the accompanying financial statements. Accordingly, the accompanying financial statements are not intended to present the financial position and results of operations in accordance with the accounting principles generally accepted in such countries and IFRS.

###### I.b The valuation principles used in the preparation of the financial statements

The accounting rules and the valuation principles used in the preparation of the financial statements were implemented as stated in the Turkish Accounting Standards and related regulations, explanations and circulars on accounting and financial reporting principles announced by the BRSA. These accounting policies and valuation principles are explained in the below notes through II to XXII.

###### I.c The accounting policies for the correct understanding of the financial statements

The following accounting policies that applied according to BRSA regulations and TAS for the correct understanding of the financial statements and valuation principles used in preparation of the financial statements are presented in more detail below.

###### II. Explanations on usage strategy of financial assets and foreign currency transactions

The main sources of the funds of the Bank have variable interest rates. The financial balances are monitored frequently and fixed and floating interest rate placements are undertaken according to the return on the alternative financial instruments. The macro goals related to balance sheet amounts are set during budgeting process and positions are taken accordingly.

Due to the fact that the great majority of the loans extended by the Bank have a flexibility of reflecting changes in the market interest rates to the customers, the interest rate risk is kept at minimum level. Moreover, the highly profitable Eurobond and the foreign currency government indebtness securities portfolio have the attribute of eliminating the risks of interest rate volatility.

The fixed rate Eurobond and Greenbond issued by the Bank and a portion of fixed rate funds borrowed are subject to fair value hedge accounting. The Bank enters into interest rate swap agreements in order to hedge the change in fair values of its fixed rate financial liabilities. The changes in the fair value of the hedged fixed rate financial liabilities and hedging interest rate swaps are recognised under the statement of profit/loss.

In the beginning and later period of the hedging transaction, the aforementioned hedging transactions are expected to offset changes occurred in the relevant period of the hedging transaction and hedged risk (attributable to hedging risk) and effectiveness tests are performed in this regard.

The Bank performs effectiveness test at the beginning of the hedge accounting period and at each reporting period. The effectiveness tests are carried out using the "Dollar off-set model" and the hedge accounting is applied as long as the test results are between the range of 80%-125% of effectiveness.

The hedge accounting is discontinued when the hedging instrument expires, is exercised, sold or no longer effective. When discontinuing fair value hedge accounting, the cumulative fair value changes in carrying value of the hedged item arising from the hedged risk are amortised and recognized in income statement over the life of the hedged item from that date of the hedge accounting is discontinued.

The Bank liquidity is regularly monitored. Moreover, the need of liquidity in foreign currencies is safeguarded by currency swaps.

Commercial placements are managed with high return and low risk assets considering the international and domestic economic expectations, market conditions, creditors' expectations and their tendencies, interest-liquidity and other similar factors. Prudence principle is adopted in the placement decisions. The long term placements are made under project finance. A credit policy is implemented such a way that harmonizing the profitability of the projects, the collateral and the value add introduced by the Bank.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION THREE (Continued)

##### ACCOUNTING POLICIES (Continued)

##### II. Explanations on usage strategy of financial assets and foreign currency transactions (Continued)

The movements of foreign exchange rates in the market, interest rates and prices are monitored instantaneously. While taking positions, the Bank's unique operating and control limits are watched effectively besides statutory limits. Limit overs are not allowed.

The Bank's strategy of hedging interest rate and foreign currency risks arising from fixed and variable interest rate funds and foreign currency available for sale securities:

A great majority of foreign currency available for sale securities are financed with foreign currency resources. Accordingly, the anticipated possible depreciation of local currency against other currencies is eliminated. A foreign currency basket is formulated in terms of the indicated foreign currency to eliminate the risk exposure of changes in cross currency parity.

Interest rate risk is mitigated by constituting a balanced asset composition in compliance with the structure of fixed and floating rate of funding resources.

The hedging strategies for other foreign exchange risk exposures:

A stable foreign exchange position strategy is implemented and to be secured from cross currency risk, the current foreign exchange position is monitored by considering a currency basket in specific foreign currencies.

The foreign exchange gains and losses on foreign currency transactions are accounted for in the period of the transaction. Foreign exchange assets and liabilities are translated to Turkish Lira using foreign exchange bid rate as of the reporting date, and the resulting gains and losses are recorded in foreign exchange gains or losses.

##### III. Explanations on forward and option contracts and derivative instruments

The Bank is exposed to financial risk which depend on changes in foreign exchange rates and interest rates due to activities and as part of banking activities uses derivative instruments to manage financial risk that especially associated with fluctuations in foreign exchange and interest rate. Mainly derivative instruments used by the Bank are foreign currency forwards, swaps and option agreements.

The derivative financial instruments are accounted for at their fair values as of the date of the agreements entered into and subsequently valued at fair value. The derivative instruments including both economic hedges and derivatives specified as hedging items are classified as either "trading purposes" or "hedging purposes" as per the Turkish Accounting Standards ("TAS 39") "Financial Instruments: Recognition and Measurement".

When a derivative financial instrument, is originally designed as a hedge by the Bank, the relationship between the Bank's financial risk from hedged item and the hedging instrument, the risk management objectives and strategy of hedging transaction and the methods that will be used in the measurement of effectiveness, describe in written. The bank, at the beginning of the aforementioned engagement and during the ongoing process, evaluates whether the hedging instruments are effective on changes in the fair values or actual results of hedging are within the range of 80% - 125%.

##### IV. Explanations on interest income and expenses

Interest income and expenses are recognized in the income statement for all interest bearing instruments on an accrual basis using the effective interest method (the rate that equalizes the future cash flows of financial assets and liabilities to the current net book value).

In accordance with the related regulation, realized and unrealized interest accruals of the non-performing loans are reversed and interest income related to these loans are recorded as interest income only when collected.

##### V. Explanations on fees and commission income and expenses

Fees and commissions received from loans, that are not an integral part of the effective interest rate, and fees for various banking services are recorded as income when collected. Fees and commissions paid for the funds borrowed, which are not integral parts of the effective interest rate of the funds borrowed, are recorded as expense on the date of the payment. The fees and commission income and expenses obtained from cash and non-cash loans are recorded under income and expense accounts in the related period by discounting with effective interest method according to matching principle.

##### VI. Explanations on financial assets

Financial instruments comprise financial assets, financial liabilities and derivative instruments. Financial instruments constitute the both of the Bank's trading activities and operations. Risks related with these instruments constitutes majority of total risks. Financial instruments affect liquidity, market, and credit risks on the Bank's balance sheet in all respects. The Bank trades these instruments on behalf of its customers and on its own behalf.

Basically, financial assets create the majority of the commercial activities and operations of the Bank. These instruments expose, affect and diminish the liquidity, credit and interest risks in the financial statements.

All regular way purchases and sales of financial assets are recognized on the settlement date i.e. the date that the asset is delivered to or by the Bank. Settlement date accounting requires (a) accounting of the asset when acquired by the institution, and (b) disposing of the asset out of the balance sheet on the date settled by the institution; and accounting of gain or loss on disposal. In case of application of settlement date accounting, the entity accounts for the changes that occur in the fair value of the asset in the period between commercial transaction date and settlement date as in the assets that the entity settles.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION THREE (Continued)

#### ACCOUNTING POLICIES (Continued)

##### VI. Explanations on financial assets (continued)

Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Changes in fair value of assets to be received during the period between the trade date and the settlement date are accounted for in the same way as the acquired assets. Fair value differences are not accounted for assets presented at cost or amortized cost; gain or loss of financial assets at fair value through profit and loss are reflected in the income statement, gain or loss of available for sale assets are accounted for under the shareholders' equity.

The methods and assumptions used in determining the reasonable estimated values of all of the financial instruments are explained below.

Cash, Banks and Other Financial Institutions:

Cash and cash equivalents comprise cash in vault and foreign currency cash. Foreign currency cash and foreign currency deposits are reflected to balance sheet in TL which is translated in accordance with prevalent exchange rate on reporting date. The book values of these assets approximate to their fair values.

##### Marketable Securities:

The Bank classifies its marketable securities in 3 groups:

Financial assets at fair value through profit and loss: These transactions are classified in two categories. (i) Trading securities for the purposes of short term profit taking through sale or buying back in a near future. (ii) The financial assets classified at the inception as financial assets at fair value through profit or loss by the Bank. The Bank uses such classification above when permitted or for the purposes of providing a more proper disclosure.

In this category, trading securities are initially recognized at cost and measured at fair value on the financial statements. Fair values of securities that are traded in an active market are determined based on quoted prices or current market prices.

Gains or losses resulting from such valuation are recorded in the profit and loss accounts. As per the explanations of the Uniform Code of Accounts (UCA), any positive difference between the historical cost and amortized cost of financial assets are booked under the "Interest Income" account, and in case the fair value of the asset is over the amortized cost, the positive difference is booked under the "Gains on Securities Trading" account. If the fair value is under the amortized cost, the negative difference is booked under the "Losses on Securities Trading" account. Any profit or loss resulting from the disposal of those assets before their maturity date is recognized within the framework of the same principles.

Available for sale financial assets are initially recognized at cost including the transaction costs. The interest income related to securities with fixed and variable interest under available for sale financial assets are recorded in interest income. After the initial recognition, available for sale securities are measured at fair value and the unrealized gain/loss originating from the difference between the amortized cost and the fair value is recorded in "Marketable Securities Value Increase Fund" under the equity. All unquoted available for sale stocks are recorded by considering impairment, since respective fair values cannot be reliably measured. At the disposal of available for sale financial assets, value increases/decreases that are recorded in the securities value increase fund under equity are transferred to income statement.

Investments held to maturity include securities with fixed or determinable payments and fixed maturity where there is an intention of holding till maturity and the relevant conditions for fulfillment of such intention, including the funding ability. This portfolio excludes loans and receivables. After initial recognition held to maturity investments are measured at amortized cost by using internal rate of return less impairment losses, if any. Interest income earned from held-to-maturity investments is recognized as interest income on income statement.

The Bank considered expected inflation index of future cash flows prevailing at the reporting date while calculating internal rate of return of the CPI indexed marketable securities. The effect of this application is accounted as interest received from marketable securities in the unconsolidated financial statements.

##### Explanations on investments in associates and subsidiaries:

Investments in associates and subsidiaries are recognized within the scope of "TAS 27-Separate Financial Statements". Investments in subsidiaries, whose shares are traded in an active market (stock market), are shown in the financial statements with their fair values by taking into account their prices recorded in the related market (stock market). Investments in subsidiaries and associates, whose shares are not traded in an active market (stock market) and fair value is not determined reliably, are followed at their cost of acquisition and these assets are shown in the financial statements with their cost values after the deduction of, if any, impairment losses.

##### Loans:

Loans are financial assets which have fixed payment terms and are not traded.

Loans are initially recognized at cost and measured at amortized cost by using effective interest rate. The duties, charges and other expenses paid for the collaterals obtained against loans are accepted as part of transaction costs and reflected to customers.

Turkish Lira ("TL") cash loans are composed of foreign currency indexed loans and working capital loans; foreign currency ("FC") cash loans are composed of investment loans, export financing loans and working capital loans.

Foreign currency indexed loans are converted into TL from the foreign currency rate as of the opening date and followed in TL accounts. Repayments are measured with the foreign currency rate at the payment date, the foreign currency gains and losses are reflected to the income statement.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION THREE (Continued)

#### ACCOUNTING POLICIES (Continued)

##### VI. Explanations on financial assets (continued)

Provision is set for the loans that may be doubtful and the amount is charged in the current period income statement as well as their classification to non-performing loans as per the related regulations. The collections made related to loans including those on non-performing loans for which provision is made in the current period are recorded in "Provision for Loans and Other Receivables (including received from Loans and receivables with doubtful collectability)" and "Interest Received from Non-performing Loans" account.

Releases of loan loss provisions are recorded by reversing the provisions booked during the year and the collections made related to loan losses previously accounted for are recorded to collections related to the prior period expenses.

##### VII. Explanations on impairment on financial assets

At each reporting date, the Bank evaluates the carrying amounts of its financial asset or a group of financial assets to determine whether there is an objective indication that those assets have suffered an impairment loss. If any such indication exists, the Bank determines the related impairment. A financial asset or a financial asset group incurs impairment loss only if there is an objective evidence related to the occurrence of one or more than one event ("loss event") after the first recognition of that asset; and such loss event (or events) causes, an impairment as a result of the effect on the reliable estimate of the expected future cash flows of the related financial asset and asset group. Irrespective of high probability the expected losses for future events are not recognized.

Loans are classified and followed in line with the provisions of the "Regulation on Identification of Loans and Other Receivables and Provisioning against Them", published on the Official Gazette No: 26333 dated 1 November 2006. Specific provision is allocated for the total amount of loans and other receivables, which is deemed non-performing, without being restricted by the minimum legal requirements stated in the related regulation, and such specific provisions are recognized in the income statement. The provisions, which are released within the same year, are credited to the "Provision Expenses" account and the released parts of the provisions from the previous years are transferred to and recognized in the "Other Operating Income" account.

Other than specific provisions, the Bank provides general provision for loans and other receivables classified in accordance with the Regulation on Identification of and Provision against Non-Performing Loans and Other Receivables.

##### VIII. Explanations on offsetting of financial assets and liabilities

Financial assets and liabilities are offset when the Bank has a legally enforceable right to set off, and when the Bank has the intention of collecting or paying the net amount of related assets and liabilities or when the Bank has the right to offset the assets and liabilities simultaneously. Otherwise, there is not any offsetting transaction about financial assets and liabilities.

##### IX. Explanations on sales and repurchase agreements and lending of securities

Funds provided under repurchase agreements are accounted under "Funds Provided under Repurchase Agreements-TL" and "Funds Provided under Repurchase Agreements-FC" accounts.

The repurchase agreements of the Bank are based on the Eurobonds and government bonds issued by Republic of Turkey Undersecretariat of Treasury. Marketable securities subject to repurchase agreements are classified under fair value profit or loss available for sale or held to maturity financial asset with parallel to classifications of financial instruments. The income and expenses from these transactions are reflected to the interest income and interest expense accounts in the income statement. Receivables from reverse repurchase agreements are recorded in "Receivables from Reverse Repurchase Agreements" account in the balance sheet.

##### X. Explanations on assets held for sale and discontinued operations

Assets held for sale are measured at the lower of the assets' carrying amount and fair value less costs to sell. Held for sale assets are not amortized and presented separately in the financial statements. In order to classify an asset as held for sale, only when the sale is highly probable, experienced quite often and the asset (or disposal group) is available for immediate sale in its present condition. Assets held for sale are measured at the lower of the assets' carrying amount and fair value less costs to sell. Held for sale assets are not amortized and presented separately in the financial statements. In order to classify an asset as held for sale, only when the sale is highly probable, experienced quite often and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale. Highly saleable condition requires a plan by the management regarding the sale of the asset to be disposed (or else the group of assets), together with an active program for determination of buyers as well as for the completion of the plan. Also the asset (or else the group of assets) shall be actively marketed in conformity with its fair value. On the other hand, the sale is expected to be journalized as a completed sale within one year after the classification date; and the necessary transactions and procedures to complete the plan should demonstrate the fact that the possibility of making significant changes or cancelling the plan is low. Various circumstances and conditions could extend the completion period of the sale more than one year. If such delay arises from any events and conditions beyond the control of the entity and if there is sufficient evidence that the entity has an ongoing disposal plan for these assets, such assets (or else group of assets) are continued to be classified as assets held for sale (or else group of assets).

A discontinued operation is a division that is either disposed or held for sale. Results of discontinued operations are included separately in the income statement.



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## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION THREE (Continued)

#### ACCOUNTING POLICIES (Continued)

##### XI. Explanations on goodwill and other intangible assets

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the subsidiary or jointly controlled interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognized at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to each of the cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period. On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

As of reporting date, The Bank has no goodwill on the unconsolidated financial statements.

Intangible assets that are acquired prior to 1 January 2005 are carried at restated historical cost as of 31 December 2004; and those acquired subsequently are carried at cost less accumulated amortization, and any impairment. Intangible assets are depreciated over their expected useful lives. Depreciation method and period are reviewed periodically at the end of each year. Intangible assets are mainly composed of rights and they are depreciated principally on a straight-line basis between 1-15 years.

##### XII. Explanations on tangible assets

Tangible assets rather than real estate, purchased before 1 January 2005, are accounted for at their restated costs as of 31 December 2004 and the assets purchased in the following periods are accounted for at acquisition cost less accumulated depreciation and reserve for impairment. Gain or loss resulting from disposals of the tangible assets is reflected to the income statement as the difference between the net proceeds and net book value. Normal maintenance and repair expenditures are recognized as expense.

As of the third quarter of 2015, the Bank changed its accounting policy and adopted revaluation method on annual basis under scope of Standard on Tangible Fixed Assets (TAS 16) with respect to valuation of immovable included in its building and lands. The amortization periods of real estates are specified in the appraisal's report. In case of the cost of tangible assets over the net realizable value estimated under the "Turkish accounting standards for impairment of assets" (IAS 36), the value of the asset is reduced to its "net realizable value" and are reserved impairment provision associated with expense accounts. The positive difference between appraisement value and net book value of the property is accounted under shareholder's equity. There is no pledge, mortgage or any other lien on tangible assets. Tangible assets are depreciated with straight-line method and their useful lives are determined in accordance with the Turkish Accounting Standards.

Depreciation rates and estimated useful lives of tangible assets are as follows.

Tangible Assets	Expected Useful Lives (Years)	Depreciation Rate (%)
Cashboxes	4-50	2-25
Vehicles	5	20
Buildings	50	2
Other Tangible Assets	1-50	2-100

##### XIII. Explanations on leasing transactions

###### *The Bank as Lessor*

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Bank's net investment in the leases. The lease payments are allocated as principle and interest. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Bank's net investment outstanding in respect of the leases.

###### *The Bank as Lessee*

Assets held under finance leases are recognized as assets of the Bank at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are included in profit or loss in accordance with the Bank's general policy on borrowing costs. Tangible assets acquired by financial leases are amortized based on the useful lives of the assets.

##### XIV. Explanations on provisions and contingent liabilities

Provisions are recognized when there is a present obligation due to a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If aforesaid criteria did not form, the Bank discloses the issues mentioned in notes to financial statements. Provisions are determined by using the Bank's best expectation of expenses in fulfilling the obligation, and discounted to present value if material.

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#### SECTION THREE (Continued)

##### ACCOUNTING POLICIES (Continued)

#### XIV. Explanations on provisions and contingent liabilities (Continued)

##### Explanations on contingent assets

Contingent assets consist of unplanned or other unexpected events that usually cause a possible inflow of economic benefits to the Bank. Since recognition of the contingent assets in the financial statements would result in the accounting of an income, which may never be generated, the related assets are not included in the financial statements; on the other hand, if the inflow of the economic benefits of these assets to the Bank is probable, an explanation is made thereon in the footnotes of the financial statements. Nevertheless, the developments related to the contingent assets are constantly evaluated and in case the inflow of the economic benefit to the Bank is almost certain, the related asset and the respective income are recognised in the financial statements of the period in which the change occurred.

#### XV. Explanations on liabilities regarding employee benefits

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Bank. In retirement and involuntarily leaving, the Bank records the present value of the defined benefit obligation. There is no indemnity obligations related to the employees who are employed with contract of limited duration exceeding 12 month period. Actuarial gains and losses are accounted under Shareholder's Equity since 1 January 2013 in accordance with the Revised TAS 19.

Employees of the Bank are members of "Türkiye Sınai Kalkınma Bankası Anonim Şirketi Memur ve Müstahdemleri Yardım ve Emekli Vakfı" and "Türkiye Sınai Kalkınma Bankası A.Ş. Mensupları Munzam Sosyal Güvenlik ve Yardımlaşma Vakfı" ("the Pension Fund"). Technical financial statements of those funds are subject to audit in accordance with the Insurance Law and provisions of "Regulations on Actuaries" issued based on the related law by an actuary registered in the Actuarial Registry.

Paragraph 1 of the provisional Article 23 of the Banking Act ("Banking Act") No: 5411 published in the Official Gazette No: 25983 on 1 November 2005 requires the transfer of banking funds to the Social Security Institution within 3 years as of the enactment date of the Banking Act. Under the Banking Act, in order to account for obligations, actuarial calculations will be made considering the income and expenses of those funds by a commission consisting of representatives from various institutions. Such calculated obligation shall be settled in equal instalments in maximum 15 years. Nonetheless, the related Article of the Banking Law was annulled by the Constitutional Court's decision No: E. 2005/39 and K. 2007/33 dated 22 March 2007 that were published in the Official Gazette No: 26479 on 31 March 2007 as of the release of the related decision, and the execution of this article was cancelled as of its publication of the decision and the underlying reasoning for the cancellation of the related article was published in the Official Gazette No: 26731 on 15 December 2007.

After the publication of the reasoning of the cancellation decision of the Constitutional Court, articles related with the transfer of banks pension fund participants to Social Security Institution based on Social Security Law numbered 5754 were accepted by the Grand National Assembly of Turkey on 17 April 2008 and published in the Official Gazette No: 26870 on 8 May 2008.

Present value for the liabilities of the transferees as of the transfer date would be calculated by a commission that involves representatives of Social Security Institution, Ministry of Finance, Turkish Treasury, State Planning Organization, BRSA, SDIF, banks and banks' pension fund institutions and technical interest rate, used in actuarial account, would be 9,80%. If salaries and benefits paid by the pension fund of banks and income and expenses of the pension funds in respect of the insurance branches, stated in the Law, exceeds the salaries and benefits paid under the regulations of Social Security Institution, such differences would be considered while calculating the present value for the liabilities of the transferees and the transfers are completed within 3 years beginning from 1 January 2008.

According to the provisional Article 20 of 73th article of Law No. 5754 dated 17 April 2008, has become effective on 8 May 2008 and was published in the Official Gazette No: 26870, transfer of Pension Funds to Social Security Institution in three years has been anticipated. Related resolution of the Council of Ministers related to four-year extension was published in the Official Gazette No: 28227 dated 8 March 2012. It has been resolved that the transfer process has been extended two year with Council of Ministers' Decree, has become effective on 9 April 2011 and was published in the Official Gazette No: 27900. The transfer had to be completed until 8 May 2013. Accordingly, it has been resolved that, one more year extension with Council of Minister Decree No: 2013/467, has become effective on 3 May 2013 and was published in the Official Gazette No: 28636 and transfer need to be completed until 8 May 2014. However, it has been decided to extend the time related to transfer by the decision of Council of Minister published in the Official Gazette No. 28987 dated 30 April 2014 for one more year due to not to realize the transfer process.

In accordance with the Health and Safety Law which became effective on 4 April 2015 and published in the Official Gazette No: 29335 and dated 23 April 2015 and together with some amendments and statutory decree, Council of Ministers authorized for the determination of transfer date to the Social Security institution and there is no decision taken by the Cabinet with regards to issue at the date of financial statements.

Unmet social benefits and payments of the pension fund participants and other employees that receive monthly income although they are within the scope of the related settlement deeds would be met by pension funds and the institutions employ these participants after the transfer of pension funds to the Social Security Institution.

The present value of the liabilities, subject to the transfer to the Social Security Institution, of the Pension Fund as of 31 December 2016 has been calculated by an independent actuary in accordance with the actuarial assumptions in the Law and as per actuarial report dated 13 January 2017, as of 31 December 2016, there is no technical or actual shortage requiring provision.

In addition, the Bank's management anticipates that any liability that may come out during the transfer period and after, in the context expressed above, would be financed by the assets of the Pension Fund and would not cause any extra burden on the Bank.

#### XVI. Explanations on taxation

The income tax charge is composed of the sum of current tax and deferred tax.

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#### SECTION THREE (Continued)

#### ACCOUNTING POLICIES (Continued)

##### XVI. Explanations on taxation (continued)

The current tax liability is calculated over taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible and it further excludes items that are never taxable or deductible. Liability for current tax is calculated using tax rates that have been enacted by the reporting date.

Deferred tax asset or liability is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and currently enacted tax rates are used to determine deferred tax on income. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax asset is not allocated over the amount of general provisions for possible losses in accordance with the circular of BRSA dated 8 December 2004 no. BRSA.DZM.2/13/1-a-3. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting date. Deferred tax is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized and reflected in the income statement as expense or income. Moreover, if the deferred tax is related with items directly recorded under the equity in the same or different period, deferred tax is also associated directly with equity. Deferred tax assets and liabilities are also offset.

According to the second paragraph of the Article 53 of the Banking Act No 5411 dated 19 October 2005, all specific reserves for loans and other receivables are considered as deductible expense for determining corporate tax base.

##### *Transfer pricing*

Transfer pricing is regulated through article 13 of Corporate Tax Law titled "Transfer Pricing through camouflage of earnings". Detailed information for the practice regarding the subject is found in the "General Communiqué Regarding Camouflage of Earnings Through Transfer Pricing". According to the aforementioned regulations, in the case of making purchase or sales of goods or services with relevant persons/corporations at a price that is determined against "arm's length principle", the gain is considered to be distributed implicitly through transfer pricing and such distribution of gains is not subject to deductions in means of corporate tax.

##### XVII. Additional explanations on borrowings

The Bank borrows funds from domestic and foreign institutions borrowing from money market and issues marketable securities in domestic and foreign markets when needed.

Borrowings are recognized at initial cost on transaction date and carried at amortized cost using effective interest method. In the accompanying financial statements, foreign currency debt instruments are valued using foreign exchange rates of the Bank as of the period end and interest expense amounts of related period arising from borrowings are reflected in the financial statements.

All other borrowing costs are recorded to the income statement at the period they are incurred.

##### XVIII. Explanations on share certificates issued

In the meeting of the General Assembly held on 24 March 2016, it has been resolved that, paid-in capital of the Bank will be increased from TL 1.750.000 to TL 2.050.000 by TL 300.000. In respect of the resolution of the General Assembly, this increase will be incorporated from the profit of the year 2015. Aforementioned increase was approved by the BRSA dated 6 May 2016 and was announced in the Turkish Trade Registry Gazette dated 4 July 2016 and No. 9110.

In the meeting of the General Assembly held on 26 March 2015, it has been resolved that, paid-in capital of the Bank will be increased from TL 1.500.000 to TL 1.750.000 by adding TL 250.000. In respect of the resolution of the General Assembly, TL 234.000 of this increase will be incorporated from the profit of the year 2014, TL 16.000 of this increase will be incorporated from extraordinary reserves provided for gain on subsidiary and real estate based on article of CTL-5(1)/e. The increase in paid-in capital was approved by the BRSA on 15 May 2015.

##### XIX. Explanations on acceptances

Acceptances are realized simultaneously with the payment dates of the customers and they are presented as commitments in the off-balance sheet accounts.

##### XX. Explanations on government incentives

The Bank does not use government incentives.

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### FOR THE YEAR ENDED 31 DECEMBER 2016

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#### SECTION THREE (Continued)

##### ACCOUNTING POLICIES (Continued)

##### XXI. Explanations on segment reporting

In accordance with its mission, the Bank mainly operates in investment and corporate banking segments.

Corporate Marketing Management and Project Finance Management operations are included in the corporate banking operations. The corporate banking is serving financial solutions and banking services for its medium and large-scale corporate customers. Among the services given to corporate customers are; investment credits, project financing, TL and foreign exchange operating loans, letters of credit and letters of guarantees.

The activities of investment banking are; the operations of Treasury, Corporate Finance. Under the investment banking activities, portfolio management for corporate and individual customers, marketable securities intermediary activities, cash flow management and all types of corporate finance services is provided. The segmental allocation of the Bank's net profit, total assets and total liabilities are shown below.

Current Period	Corporate Banking	Investment Banking	Other	Total
Net Interest Income	353.148	424.040	-	777.188
Net Fees and Commission Income	10.602	(5.617)	(50)	4.935
Other Income	12.656	-	32.524	45.180
Other Expense	(81.091)	(67.661)	(85.299)	(234.051)
Profit Before Tax	295.315	350.762	(52.825)	593.252
Tax Provision	-	-	-	(116.807)
<b>Net Profit</b>				<b>476.445</b>
Current Period	Corporate Banking	Investment Banking	Other	Total
Segment Assets	17.322.385	5.922.086	404.831	23.649.302
Investment in Associates and Subsidiaries	-	-	352.271	352.271
<b>Total Assets</b>	<b>17.322.385</b>	<b>5.922.086</b>	<b>757.102</b>	<b>24.001.573</b>
Segment Liabilities	20.066.209	544.386	462.639	21.073.234
Shareholders' Equity	-	-	2.928.339	2.928.339
<b>Total Liabilities</b>	<b>20.066.209</b>	<b>544.386</b>	<b>3.390.978</b>	<b>24.001.573</b>
Prior Period	Corporate Banking	Investment Banking	Other	Total
Net Interest Income	314.498	310.573	-	625.071
Net Fees and Commission Income	11.523	(23)	(82)	11.418
Other Income	843	2.353	74.589	77.785
Other Expense	(89.829)	(19.706)	(96.284)	(205.819)
Profit Before Tax	237.034	293.197	(21.776)	508.455
Tax Provision	-	-	-	(101.610)
<b>Net Profit</b>				<b>406.845</b>
Prior Period	Corporate Banking	Investment Banking	Other	Total
Segment Assets	13.675.479	6.471.096	309.303	20.455.878
Investment in Associates and Subsidiaries	-	-	278.707	278.707
<b>Total Assets</b>	<b>13.675.479</b>	<b>6.471.096</b>	<b>588.010</b>	<b>20.734.585</b>
Segment Liabilities	16.220.868	1.640.878	384.112	18.245.858
Shareholders' Equity	-	-	2.488.727	2.488.727
<b>Total Liabilities</b>	<b>16.220.868</b>	<b>1.640.878</b>	<b>2.872.839</b>	<b>20.734.585</b>

##### XXII. Explanations on other matters

None.

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## NOTES TO THE FINANCIAL STATEMENTS

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#### SECTION FOUR

#### INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT

##### I. Explanations related to shareholders' equity

Total capital and Capital adequacy ratio have been calculated in accordance with the "Regulation on Equity of Banks" and "Regulation on Measurement and Assessment of Capital Adequacy of Banks". As of 31 December 2016, the capital adequacy ratio of Bank has been calculated as 14,33%.

	Amount	Amounts related to treatment before 1/1/2014 <sup>(1)</sup>
<b>CORE EQUITY TIER 1 CAPITAL</b>		-
Paid-in capital to be entitled for compensation after all creditors	2.050.374	
Share premiums	-	
Reserves	398.884	
Other comprehensive income according to TAS	120.231	
Profit	476.445	
Current Period Profit	476.445	
Prior Period Profit	-	
Bonus shares from associates, subsidiaries and joint-ventures not accounted in current period's profit	-	
<b>Core Equity Tier 1 Capital Before Deductions</b>	<b>3.045.934</b>	
<b>Deductions from Core Equity Tier 1 Capital</b>		
Valuation adjustments calculated as per the 1st clause of article 9.(i) of the Regulation on Bank Capital	-	-
Current and prior periods' losses not covered by reserves, and losses accounted under equity according to TAS	117.998	-
Leasehold improvements on operational leases	5.255	-
Goodwill (net of related tax liability)	-	-
Other intangible assets other than mortgage-servicing rights (net of related tax liability)	569	-
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	-
Differences are not recognized at the fair value of assets and liabilities subject to hedge of cash flow risk	-	-
Communiqué Related to Principles of the amount credit risk calculated with the Internal Ratings Based Approach, total expected loss amount exceeds the total provision	-	-
Gains arising from securitization transactions	-	-
Unrealized gains and losses due to changes in own credit risk on fair valued liabilities	-	-
Net amount of defined benefit plans	403	-
Investments in own common equity	-	-
Shares obtained against article 56, paragraph 4 of Banking Law	-	-
Total of net long positions of the investments in equity items of unconsolidated banks and financial institutions where the bank does not own 10% or less of the issued share capital exceeding the 10% threshold of above Tier I capital	-	-
Total of net long positions of the investments in equity items of unconsolidated banks and financial institutions where the bank owns 10% or more of the issued share capital exceeding the 10% threshold of above Tier I capital	-	-
Mortgage servicing rights not deducted	-	-
Excess amount arising from deferred tax assets from temporary differences	-	-
Amount exceeding 15% of the common equity as per the 2nd clause of the Provisional Article 2 of the Regulation on the Equity of Banks	-	-

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#### SECTION FOUR (Continued)

#### INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

##### I. Explanations related to shareholders' equity (continued)

	Amount	Amounts related to treatment before 1/1/2014 <sup>(1)</sup>
Excess amount arising from deferred tax assets from temporary differences	-	-
Excess amount arising from mortgage servicing rights	-	-
Excess amount arising from deferred tax assets based on temporary differences	-	-
Other items to be defined by the BRSA	-	-
Deductions from Tier I capital in cases where there are no adequate additional Tier I or Tier II capitals	-	-
<b>Total Regulatory Adjustments to Tier 1 Capital</b>	<b>124.225</b>	
<b>Core Equity Tier I Capital</b>	<b>2.921.709</b>	
<b>Additional Tier I Capital</b>		
Preferred Stock not Included in Core Equity and the Related Share Premiums		
Debt instruments and the related issuance premiums defined by the BRSA	-	
Debt instruments and the related issuance premiums defined by the BRSA (Temporary Article 4)	-	
<b>Additional Tier I Capital before Deductions</b>	<b>-</b>	
<b>Deductions from Additional Tier I Capital</b>	<b>-</b>	
Direct and indirect investments of the Bank in its own Additional Tier I Capital		
Investments of Bank to Banks that invest in Bank's additional equity and components of equity issued by financial institutions with compatible with Article 7.	-	-
Total of net long positions of the investments in equity items of unconsolidated banks and financial institutions where the bank owns 10% or less of the issued share capital exceeding the 10% threshold of above tier i capital	-	-
The total of net long position of the direct or indirect investments in additional tier i capital of unconsolidated banks and financial institutions where the bank owns more than 10% of the issued share capital	-	-
Other items to be defined by the BRSA	-	-
Preferred Stock not Included in Core Equity and the Related Share Premiums	-	
<b>Items to be Deducted from Tier I Capital during the Transition Period</b>		
Goodwill and other intangible assets and related deferred tax liabilities which will not deducted from Core Equity Tier 1 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	380	-
Net deferred tax asset/liability which is not deducted from Core Equity Tier 1 capital for the purposes of the sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	-	-
Deductions to be made from common equity in the case that adequate Additional Tier I Capital or Tier II Capital is not available (-)	-	
<b>Total Deductions From Additional Tier I Capital</b>	<b>-</b>	
<b>Total Additional Tier I Capital</b>	<b>-</b>	
<b>Total Tier I Capital (Tier I Capital=Core Equity Tier I Capital+Additional Tier I Capital)</b>	<b>2.921.329</b>	
<b>TIER II CAPITAL</b>		
Debt instruments and the related issuance premiums defined by the BRSA	-	
Debt instruments and the related issuance premiums defined by the BRSA (Temporary Article 4)	-	
Provisions (Article 8 of the Regulation on the Equity of Banks)	178.463	
<b>Tier II Capital Before Deductions</b>	<b>178.463</b>	
<b>Deductions From Tier II Capital</b>		
Direct and indirect investments of the Bank on its own Tier II Capital (-)	-	-
Investments of Bank to Banks that invest on Bank's Tier 2 and components of equity issued by financial institutions with the conditions declared in Article 8.	-	-



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**SECTION FOUR (Continued)****INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)****I. Explanations related to shareholders' equity (continued)**

	Amount	Amounts related to treatment before 1/1/2014 <sup>(1)</sup>
Total of net long positions of the investments in equity items of unconsolidated banks and financial institutions where the Bank owns 10% or less of the issued share capital exceeding the 10% threshold of above Common Equity Tier I capital (-)	-	-
Total of net long positions of the investments in Tier II Capital items of unconsolidated banks and financial institutions where the bank owns 10% or more of the issued share capital	-	-
Other items to be defined by the BRSA (-)	-	-
<b>Total Deductions from Tier II Capital</b>	-	-
<b>Total Tier II Capital</b>	<b>178.463</b>	-
<b>Total Capital (The sum of Tier I Capital and Tier II Capital)</b>	<b>3.099.792</b>	-
<b>Deductions from Total Capital</b>	-	-
Loans granted against the articles 50 and 51 of the banking law	-	-
Net book values of movables and immovables exceeding the limit defined in the article 57, clause 1 of the Banking law and the assets acquired against overdue receivables and held for sale but retained more than five years	369	-
Other items to be defined by the BRSA	-	-
<b>Items to be Deducted from sum of Tier I and Tier II (Capital) during the Transition Period</b>	-	-
The Sum of net long positions of investments (the portion which exceeds the %10 of Banks Common Equity) in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity which will not deducted from Common Equity Tier I capital, Additional Tier I capital, Tier II capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds	-	-
The Sum of net long positions of investments in the Additional Tier I capital and Tier II capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity which will not deducted from Common Equity Tier I capital, Additional Tier I capital, Tier II capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds	-	-
The Sum of net long positions of investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity, mortgage servicing rights, deferred tax assets arising from temporary differences which will not deducted from Core Equity Tier I capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds	-	-
<b>CAPITAL</b>	-	-
Total Capital	3.099.423	-
Total Risk Weighted Assets	21.631.077	-
<b>Capital Adequacy Ratios</b>	-	-
Core Capital Adequacy Ratio (%)	13,51	-
Tier I Capital Adequacy Ratio (%)	13,51	-
Capital Adequacy Ratio (%)	14,33	-
<b>BUFFERS</b>	-	-
Total buffer requirement (%)	5,13	-
Capital conservation buffer requirement (%)	0,63	-
Bank specific counter-cyclical buffer requirement (%)	0,002	-
The ratio of Additional Core Equity Tier I capital which will be calculated by the first paragraph of the Article 4 of Regulation on Capital Conservation and Countercyclical Capital Buffers to risk weighted assets	6,33	-
<b>Amounts below the Excess Limits as per the Deduction Principles</b>	-	-
Total of net long positions of the investments in equity items of unconsolidated banks and financial institutions where the bank owns 10% or less of the issued share capital	-	-
Total of net long positions of the investments in Tier I capital of unconsolidated banks and financial institutions where the bank owns more than 10% or less of the issued share capital	230.570	-
Remaining mortgage servicing rights	-	-

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

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#### SECTION FOUR (Continued)

#### INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

##### I. Explanations related to shareholders' equity (continued)

	Amount	Amounts related to treatment before 1/1/2014 <sup>(1)</sup>
Excess amount arising from deferred tax assets from temporary differences	-	-
<b>Limits Related to Provisions Considered in Tier II Calculation</b>		
General provisions for standard based receivables (before tenthousandtwentyfive limitation)	178.463	-
Up to 25% of total risk-weighted amount of general reserves for receivables where the standard approach used	178.463	-
Excess amount of total provision amount to credit risk amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation	-	-
Excess amount of total provision amount to 0,6% of risk weighted receivables of credit risk amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation	-	-
<b>Debt instruments subjected to Article 4 (to be implemented between 1 January 2018 and 1 January 2022)</b>		
Upper limit for Additional Tier I Capital subjected to temporary Article 4	-	-
Amounts Excess the Limits of Additional Tier I Capital subjected to temporary Article 4	-	-
Upper limit for Additional Tier II Capital subjected to temporary Article 4	-	-
Amounts Excess the Limits of Additional Tier II Capital subjected to temporary Article 4	-	-
Excess amount arising from deferred tax assets from temporary differences	-	-

<sup>(1)</sup> Under this item fully loaded amounts were reported for items that are subject to phasing in according to "Bank Capital Regulation" dated 1 January 2014.

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## NOTES TO THE FINANCIAL STATEMENTS

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(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FOUR (Continued)

#### INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

##### I. Explanations related to shareholders' equity (continued)

	Prior Period <sup>(*)</sup>
<b>TIER 1 CAPITAL</b>	
Paid-in capital to be entitled for compensation after all creditors	1.750.374
Share premium	-
Share cancellation profits	-
Legal reserves	353.822
Other comprehensive income according to TAS	90.614
Profit	406.845
Net current period profit	406.845
Prior period profit	-
Provisions for possible losses	-
Bonus shares from associates, subsidiaries and joint-ventures not accounted in current period's profit	-
<b>Tier I Capital Before Deductions</b>	<b>2.601.655</b>
<b>Deductions From Tier I Capital</b>	
Current and prior periods' losses not covered by reserves, and losses accounted under equity according to TAS (-)	112.928
Leasehold improvements on operational leases (-)	6.268
Goodwill and intangible assets and related deferred tax liabilities (-)	686
Net deferred tax assets / liabilities (-)	1.149
Shares obtained against article 56, paragraph 4 of the Banking Law (-)	-
Investments in own common equity (-)	-
Total of net long positions of the investments in equity items of unconsolidated banks and financial institutions where the bank does not own 10% or less of the issued share capital exceeding the 10% threshold of above Tier I capital (-)	-
Total of net long positions of the investments in equity items of unconsolidated banks and financial institutions where the bank owns 10% or less of the issued share capital exceeding the 10% threshold of above Tier I capital (-)	-
Mortgage servicing rights exceeding the 10% threshold of Tier I capital (-)	-
Net deferred tax assets arising from temporary differences exceeding the 10% threshold of Tier I capital (-)	-
Amount exceeding the 15% of the common equity as per 2nd clause of the Provisional Article 2 of the Regulation on the Equity of Banks	-
The portion of net long position of the investments in equity items of unconsolidated banks and financial institutions where the bank owns 10% or more of the issued share capital not deducted from Tier I capital (-)	-
Mortgage servicing rights not deducted (-)	-
Excess amount arising from deferred tax assets from temporary differences (-)	-
Other items to be defined by the BRSB (-)	-
Deductions from Tier I capital in cases where there are no adequate additional Tier I or Tier II capitals (-)	-
<b>Total Regulatory Adjustments to Tier 1 Capital</b>	<b>121.031</b>
<b>Tier 1 Capital</b>	<b>2.480.624</b>

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#### SECTION FOUR (Continued)

#### INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

##### I. Explanations related to shareholders' equity (continued)

	Prior Period <sup>(*)</sup>
<b>ADDITIONAL CORE CAPITAL</b>	
Preferred stock not included in Tier I capital and the related share premiums	-
Debt instruments and the related issuance premiums defined by the BRSA (issued or obtained after 1.1.2014)	-
Debt instruments and the related issuance premiums defined by the BRSA (issued or obtained before 1.1.2014)	-
<b>Additional core capital before deductions</b>	-
<b>Deductions From Additional Core Capital</b>	
Direct and indirect investments of the bank on its own additional core capital (-)	-
Total of net long positions of the investments in equity items of unconsolidated banks and financial institutions where the bank owns 10% or less of the issued share capital exceeding the 10% threshold of above Tier I capital (-)	-
The total of net long position of the direct or indirect investments in additional Tier I capital of unconsolidated banks and financial institutions where the bank owns more than 10% of the issued share capital (-)	-
Other items to be defined by the BRSA (-)	-
Deductions from additional core capital in cases where there are no adequate Tier II capital (-)	-
<b>Total deductions from additional core capital</b>	-
<b>Total Additional Core Capital</b>	-
<b>Deductions From Core Capital</b>	
Goodwill and other intangible assets and related deferred taxes not deducted from Tier I capital as per the temporary article 2, clause 1 of the regulation on measurement and assessment of capital adequacy ratios of banks (-)	-
Net deferred tax asset/liability not deducted from Tier I capital as per the temporary article 2, clause 1 of the regulation on measurement and assessment of capital adequacy ratios of banks (-)	-
<b>Total Core Capital</b>	<b>2.480.624</b>
<b>TIER II CAPITAL</b>	
Debt instruments and the related issuance premiums defined by the BRSA (issued or obtained after 1.1.2014)	-
Debt instruments and the related issuance premiums defined by the BRSA (issued or obtained before 1.1.2014)	-
Pledged assets of the shareholders to be used for the bank's capital increases	-
General provisions	150.329
<b>Tier II Capital Before Deductions</b>	<b>150.329</b>
<b>Deductions from Tier II Capital</b>	
Direct and indirect investments of the bank on its own Tier II capital (-)	-
Total of net long positions of the investments in equity items of unconsolidated banks and financial institutions where the bank owns 10% or less of the issued share capital exceeding the 10% threshold of above Core Tier I capital (-)	-
The total of net long position of the direct or indirect investments in additional core capital and Tier II capital of unconsolidated banks and financial institutions where the bank owns 10% or more of the issued share capital exceeding the 10% threshold of Tier I capital (-)	-
Other items to be defined by the BRSA (-)	-
<b>Total Deductions from Tier II Capital</b>	-
<b>Total Tier II Capital</b>	<b>150.329</b>

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## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FOUR (Continued)

#### INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

##### I. Explanations related to shareholders' equity (continued)

	Prior Period <sup>(*)</sup>
<b>CAPITAL</b>	<b>2.630.953</b>
Loans granted against the articles 50 and 51 of the banking law (-)	-
Net book values of movables and immovables exceeding the limit defined in the article 57, clause 1 of the Banking Law and the assets acquired against overdue receivables and held for sale but retained more than five years (-)	390
Loans to banks, financial institutions (domestic/foreign) or qualified shareholders in the form of subordinated debts or debt instruments purchased from such parties and qualified as subordinated debts (-)	-
Deductions as per the article 20, clause 2 of the regulation on measurement and assessment of capital adequacy ratios of banks (-)	-
Other items to be defined by the BRSB (-)	-
The portion of total of net long positions of the investments in equity items of unconsolidated banks and financial institutions where the bank owns 10% or less of the issued share capital exceeding the 10% threshold of above Tier I capital not deducted from Tier I capital, additional core capital or tier II capital as per the temporary article 2, clause 1 of the regulation (-)	-
The portion of total of net long positions of the investments in equity items of unconsolidated banks and financial institutions where the bank owns more than 10% of the issued share capital exceeding the 10% threshold of above Tier I capital not deducted from additional core capital or Tier II capital as per the temporary article 2, clause 1 of the regulation (-)	-
The portion of net long position of the investments in equity items of unconsolidated banks and financial institutions where the bank owns 10% or more of the issued share capital, of the net deferred tax assets arising from temporary differences and of the mortgage servicing rights not deducted from Tier I capital as per the temporary article 2, clause 2, paragraph (1) and (2) and temporary article 2, clause 1 of the regulation (-)	1.722
<b>EQUITY</b>	<b>2.628.841</b>
<b>Amounts lower than Excesses as per Deduction Rules</b>	
Remaining total of net long positions of the investments in equity items of unconsolidated banks and financial institutions where the bank owns 10% or less of the issued share capital	22.047
Remaining total of net long positions of the investments in Tier I capital of unconsolidated banks and financial institutions where the bank owns more than 10% or less of the Tier I capital	158.323
Remaining mortgage servicing rights	-
Net deferred tax assets arising from temporary differences	-

<sup>(\*)</sup> Total capital has been calculated in accordance with the "Regulations Regarding to Changes on Regulation on Equity of Banks" effective from date 31 March 2016, the information given in the prior period column has been calculated pursuant to former regulation.

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## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

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#### SECTION FOUR (Continued)

#### INFORMATION ON UNCONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

##### II. Explanations related to unconsolidated credit risk

The sectoral breakdown of loans is documented monthly and limitations are made according to evaluations. There is no limitation applied geographically.

Monitoring and checking is made for the treasury operations. Risk limits are identified for the operations implemented.

The credit monitoring department screens the creditworthiness of loan customers once every six months regularly. The debtors' creditworthiness is screened regularly in line with Communiqué on "Methods and Principles for the Determination of Loans and Other Receivables to be Reserved for and Allocation of Reserves" ("Communiqué on Reserves"). Their financial statements are obtained as prescribed in the legislation. The credit limits have been set by the Board of Directors, the Banks credit committee and the credit management. The Bank takes enough collateral for the loans and other receivables extended. The collaterals obtained consist of personal surety ship, mortgage, cash blockage and client checks.

The limits are also identified for the transactions made with the banks. The credit risk is managed by considering the creditworthiness and the limits of counter parties.

In accordance with Communiqué on Reserves;

Impaired loans, are loans past due more than 90 days as of reporting period or convinced to be impaired due to credibility. In accordance with Communiqué on Reserves, "Specific Provision" is allocated for these loans.

Past due loans, are loans past due up to 90 days as of reporting period but not impaired. In accordance with Communiqué on Reserves, "General Provision" is calculated for these loans.

#### *Total amount of exposures after offsetting transactions but before applying risk mitigations and the average exposure amounts that are classified in different risk groups and types*

The disclosure is prepared due to Communiqué On Disclosures About Risk Management To Be Announced To Public By Banks and presented in footnote X. Explanations on Risk Management.

There are control limits over the positions on forwards, options and similar other agreements. Those limits are controlled by the Bank's management on a regular basis. The credit risk is managed together with the potential risks arising from the fluctuations in the market. Credit risk, market risk, liquidity risk and other risks are managed as a whole. If exposed to a significant degree of credit risk, the Bank reduces the total risk by using, exercising or selling forward transactions and other similar contracts. The compensated non-cash loans are evaluated at the same risk weight as the non-performing loans.

Rescheduled loans are monitored within the Bank's internal rating application, as well as the monitoring applications required by the related regulations. All precautions are taken in order to classify the companies' risks and their current rating may change within this internal rating applications. The Bank monitors and investigates the maturity concentration and the risks which are different than their normal pattern. The international operations are made with many correspondent banks in various countries. The counter party limits are set with operations made with the banks. The Bank being an active participant in international banking market is not exposed to a significant degree of credit risk when evaluated with the financial operations of other financial institutions.

The first 100 and 200 largest cash loans constitute 80,63% and 96,98% of the total cash loans portfolio of the Bank respectively (31 December 2015: 82,39% and 97,64%)

The first 100 and 200 largest non cash loans constitute 100% and 100% of the total non cash loans portfolio of the Bank respectively (31 December 2015: 100% and 100%).

The first 100 and 200 largest cash and non cash loans constitute 78,84% and 96,37% of the total on and off balance sheet accounts of the Bank respectively (31 December 2015: 80,64% and 96,88%)

The Bank calculated the general loan loss provision of TL 178.463 (31 December 2015: TL 150.329)

#### *Profile of Significant Exposures in Major Regions*

The disclosure is prepared due to Communiqué On Disclosures About Risk Management To Be Announced To Public By Banks and presented in footnote X. Explanations on Risk Management.

#### *Risk profile by sectors or counterparties*

The disclosure is prepared due to Communiqué On Disclosures About Risk Management To Be Announced To Public By Banks and presented in footnote X. Explanations on Risk Management.



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## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

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#### SECTION FOUR (Continued)

#### INFORMATION ON UNCONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

##### II. Explanations related to unconsolidated credit risk (continued)

###### Analysis of maturity-bearing exposures according to remaining maturities

The disclosure is prepared due to Communiqué On Disclosures About Risk Management To Be Announced To Public By Banks and presented in footnote X. Explanations on Risk Management.

###### Information on risk types

The disclosure is prepared due to Communiqué On Disclosures About Risk Management To Be Announced To Public By Banks and presented in footnote X. Explanations on Risk Management.

###### Exposures by risk weights

The disclosure is prepared due to Communiqué On Disclosures About Risk Management To Be Announced To Public By Banks and presented in footnote X. Explanations on Risk Management.

###### Information of major sectors or type of counterparties

The disclosure is prepared due to Communiqué On Disclosures About Risk Management To Be Announced To Public By Banks and presented in footnote X. Explanations on Risk Management.

###### Information related with value adjustments and loan loss provisions

The disclosure is prepared due to Communiqué On Disclosures About Risk Management To Be Announced To Public By Banks and presented in footnote X. Explanations on Risk Management.

Cash credit quality per class of financial assets as of 31 December 2016 is as follows;

Current Period	Neither past due nor impaired	Past due or individually impaired	Total
Loans	17.298.312	20.281	17.318.593
Corporate Loans	14.259.869	20.281	14.280.150
Loans to SME	3.038.226	-	3.038.226
Consumer Loans	217	-	217
Other	-	-	-
Receivables from Leasing Transactions	3.792	-	3.792
<b>Total</b>	<b>17.302.104</b>	<b>20.281</b>	<b>17.322.385</b>

Cash credit quality per class of financial assets as of 31 December 2015 is as follows:

Prior Period	Neither past due nor impaired	Past due or individually impaired	Total
Loans	13.660.338	15.141	13.675.479
Corporate Loans	11.491.571	3.848	11.495.419
Loans to SME	2.168.539	11.293	2.179.832
Consumer Loans	228	-	228
Other	-	-	-
Receivables from Leasing Transactions	-	-	-
<b>Total</b>	<b>13.660.338</b>	<b>15.141</b>	<b>13.675.479</b>

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

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#### SECTION FOUR (Continued)

#### INFORMATION ON UNCONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

##### II. Explanations related to unconsolidated credit risk (continued)

Credit risk is evaluated according to the Bank's internal rating. Non financial services customers included in credit portfolio are rated with respect to Bank's internal rating and ratings of the financial services customers, which are rated by external rating firms, are matched to the Bank's internal ratings. The loans rated according to the possibility of being in default are classified from the highest grade (top grade) to the lowest (below average) as below; at the bottom of the table there are credits in default (impaired) according to rating model.

Basic Loan Quality Categories	Current Period	Prior Period
Top Grade	591.176	688.490
High Grade	1.878.714	3.338.731
Average Grade	15.520.292	11.044.853
Below Average Grade	538.242	179.020
Impaired	49.608	60.572
<b>Total</b>	<b>18.578.032</b>	<b>15.311.666</b>

Category "top" shows that the debtor has a very strong financial structure, "high" shows that the debtor has a strong financial structure, "average" shows the debtor's financial structure is good enough while "below average" category shows that debtor's financial structure is under risk in the short and medium term.

As of the reporting date, the total of the Bank's cash and non-cash loans and financial lease receivables (gross amount including the non performing loans, excluding the specific provisions) is TL 19.040.034 and TL 462.002 of these customers have not been rated (31 December 2015: TL 15.517.550, TL 205.884).

Carrying amount per class of financial assets whose terms have been renegotiated

	Current Period	Prior Period
Banks	-	-
Financial Assets at Fair Value Through Profit and Loss	-	-
Loans	194.994	274.324
Corporate Loans	65.324	128.998
Loans to SME	129.670	145.326
Consumer Loans	-	-
Other	-	-
<b>Total</b>	<b>194.994</b>	<b>274.324</b>

##### Exposures Subject to Countercyclical Capital Buffer

The geographical distribution of receivables from the private sector taken into account for Calculation of Bank specific Counter Cyclical Capital Buffer with the scope of Capital Conservation and Counter-Cyclical Capital Buffers Regulation which is published on the Official Gazette no.28812 dated 5 November 2013 and sub arrangements is given table below.

Information about receivables from private sector:

Country risk taken ultimately	Private Sector Loans in Banking Book	Risk Weighted Amount calculations for Trading Book	Total
United States	6.376	-	6.376
Georgia	70.007	-	70.007
England	4.553	-	4.553
Turkey	17.459.771	240.927	17.700.698
<b>Total</b>	<b>17.540.707</b>	<b>240.927</b>	<b>17.781.634</b>

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## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

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#### SECTION FOUR (Continued)

#### INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

##### III. Explanations related to unconsolidated currency risk

No long or official authorities and the Bank's top management. Thus, foreign currency risk is closely monitored. Foreign currency risk, as a part of general market risk, is also taken into consideration in the calculation of Capital Adequacy Standard Ratio.

No short position is taken regarding foreign currency risk, whereas, counter position is taken for any foreign currency risks arising from customer transactions as to avoid foreign currency risk.

Announced current foreign exchange buying rates of the Bank as at reporting date and the previous five working days in US Dollar and Euro are as follows:

	1 US Dollar	1 Euro
<b>The Bank's "Foreign Exchange Valuation Rate"</b>		
31 December 2016	3,4900	3,6757
<b>Prior Five Workdays:</b>		
30 December 2016	3,4900	3,6757
29 December 2016	3,5100	3,6701
28 December 2016	3,5010	3,6684
27 December 2016	3,4900	3,6432
26 December 2016	3,4800	3,6404

Simple arithmetic thirty-day averages of the US Dollar and Euro buying rates of the Bank before the reporting date are full TL 3,4900 and 3,6757 respectively.

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## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

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#### SECTION FOUR (Continued)

#### INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

#### III. Explanations related to unconsolidated currency risk (continued)

Information on the Bank's foreign currency risk:

	Euro	US Dollar	Other FC	Total
<b>Current Period</b>				
<b>Assets</b>				
Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Checks Purchased, Precious Metals) and Balances with the Central Bank of Turkey	247.052	252.175	117.544	616.771
Banks	8.785	38.044	1.264	48.093
Financial Assets at Fair Value Through Profit and Loss <sup>(*)</sup>	33.190	26.615	3.051	62.856
Money Market Placements	191.138	-	-	191.138
Available-For-Sale Financial Assets	42.571	977.533	-	1.020.104
Loans <sup>(**)</sup>	6.547.990	9.490.700	-	16.038.690
Subsidiaries, Associates and Entities Under Common Control (Joint Vent.)	-	-	-	-
Held-To-Maturity Investments	-	186.739	-	186.739
Derivative Financial Assets for Hedging Purposes	-	272	-	272
Tangible Assets	-	-	-	-
Intangible Assets	-	-	-	-
Other Assets <sup>(***)</sup>	19.018	261.219	-	280.237
<b>Total Assets</b>	<b>7.089.744</b>	<b>11.233.297</b>	<b>121.859</b>	<b>18.444.900</b>
<b>Liabilities</b>				
Bank Deposits	-	-	-	-
Foreign Currency Deposits	-	-	-	-
Money Market Borrowings	31.532	29.466	-	60.998
Funds Provided From Other Financial Institutions	7.089.572	8.651.312	-	15.740.884
Marketable Securities Issued	-	3.486.732	-	3.486.732
Miscellaneous Payables <sup>(****)</sup>	2.688	70.658	79	73.425
Derivative Financial Liabilities for Hedging Purposes	-	51.433	-	51.433
Other Liabilities <sup>(*****)</sup>	29.885	17.432	2.424	49.741
<b>Total Liabilities</b>	<b>7.153.677</b>	<b>12.307.033</b>	<b>2.503</b>	<b>19.463.213</b>
<b>Net Balance Sheet Position</b>	<b>(63.933)</b>	<b>(1.073.736)</b>	<b>119.356</b>	<b>(1.018.313)</b>
<b>Net Off-Balance Sheet Position</b>	<b>73.730</b>	<b>1.052.712</b>	<b>(118.621)</b>	<b>1.007.821</b>
Financial Derivative Assets	1.633.724	3.491.955	134.472	5.260.151
Financial Derivative Liabilities	(1.559.994)	(2.439.243)	(253.093)	(4.252.330)
Non-Cash Loans <sup>(*****)</sup>	714.093	730.990	13.677	1.458.760
<b>Prior Period</b>				
Total Assets	5.339.580	9.781.418	95.865	15.216.863
Total Liabilities	5.688.841	9.724.674	4.452	15.417.967
<b>Net Balance Sheet Position</b>	<b>(349.261)</b>	<b>56.744</b>	<b>91.413</b>	<b>(201.104)</b>
<b>Net Off -Balance Sheet Position</b>	<b>356.414</b>	<b>(47.227)</b>	<b>(89.210)</b>	<b>219.977</b>
Financial Derivative Assets	967.421	1.807.942	122.609	2.897.972
Financial Derivative Liabilities	(611.007)	(1.855.169)	(211.819)	(2.677.995)
Non-Cash Loans <sup>(*****)</sup>	800.762	579.223	11.880	1.391.865

<sup>(\*)</sup> Exchange rate differences arising from derivative transactions amounting to TL 186.770 is deducted from "Financial Assets at Fair Value through Profit and Loss".

<sup>(\*\*)</sup> Loans extended include TL 1.315.894 foreign currency indexed loans.

<sup>(\*\*\*)</sup> Prepaid expenses amounting to TL 371 and forward foreign exchange purchase transaction rediscounts amounting to TL 25 have not been included in "Other Assets".

<sup>(\*\*\*\*)</sup> Forward foreign exchange purchase transaction rediscounts amounting to TL 37 has not been included in "Miscellaneous Payables".

<sup>(\*\*\*\*\*)</sup> Marketable securities valuation increase fund amounting to TL (26.774) and exchange rate differences arising from derivative transactions amounting to TL 164.068 have not been included in "Other Liabilities". Borrower funds amounting TL 3.806 based on foreign currencies have been included in "Other Liabilities".

<sup>(\*\*\*\*\*)</sup> Has no effect on net off-balance sheet position.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

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#### SECTION FOUR (Continued)

#### INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

##### III. Explanations related to unconsolidated currency risk (continued)

The Bank is mostly exposed to Euro, US Dollars and other foreign currencies.

The following tables detail the Bank's sensitivity to 10% increase/decrease in the TL against US Dollar, Euro and other currencies.

Increase in Currency Rate		Effect on Profit / Loss <sup>(*)</sup>		Effect on Equity <sup>(**)</sup>	
	%	Current Period	Prior Period	Current Period	Prior Period
US Dollar	10	1.083	173	(3.185)	779
Euro	10	643	511	337	205
Other	10	74	220	-	-
Decrease in Currency Rate		Effect on Profit / Loss <sup>(*)</sup>		Effect on Equity <sup>(**)</sup>	
	%	Current Period	Prior Period	Current Period	Prior Period
US Dollar	10	(1.083)	(173)	3.185	(779)
Euro	10	(643)	(511)	(337)	(205)
Other	10	(74)	(220)	-	-

<sup>(\*)</sup> Values expressed are before the tax effect.

<sup>(\*\*)</sup> Effect on equity does not include effect on profit/loss.

##### IV. Explanations related to unconsolidated interest rate risk

Interest rate sensitivity of the assets, liabilities and off-balance sheet items are measured by the Bank. General and specific interest rate risk tables in the standard method, by including assets and liabilities, are taken into account in determination of Capital Adequacy Standard Ratio and to calculate the overall interest rate risk of the Bank.

Forecast results, which have been formed using estimation-simulation reports are prepared and then the effects of fluctuations in interest rates are evaluated with sensitivity and scenario analysis. Cash requirement for every maturity period are determined based on maturity distribution analysis (Gap). In addition, a positive spread between the yield on assets and the cost of liabilities is kept while determining interest rates.

The amount of local borrowings is very low considering the total liabilities of the Bank. As the Bank is a development and investment bank, it obtains most of the funding from abroad.

The fluctuations in interest rates are controlled with interest rate risk tables, gap analysis, scenario analysis and stress tests, its effect in assets and liabilities and the probable changes in cash flows are being screened. The Bank screens many risk control ratios including the markets risk ratio to the sum of risk weighted assets and the ratio of the value at risk calculated as per the internal model to the equity.

Under the scope of risk policies, continuous controls are made to prevent assets or shareholders' equity from adverse effects because of fluctuations in interest rates or liquidity difficulties and top management, the Board of Directors and the Audit Committee are informed of these risks.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FOUR (Continued)

#### INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

#### IV. Explanations related to unconsolidated interest rate risk (continued)

Information related to the interest rate sensitivity of assets, liabilities and off-balance sheet items (based on repricing dates)

Current Period	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Non-interest bearing <sup>(*)</sup>	Total
<b>Assets</b>							
Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Checks Purchased) and Balances with the Central Bank of Turkey	413.451	-	-	-	-	364.623	778.074
Banks	49.928	-	-	-	-	13.525	63.453
Financial Assets at Fair Value Through Profit and Loss	56.104	92.777	129.483	67.326	34.413	-	380.103
Money Market Placements	191.138	62.895	-	-	-	-	254.033
Available-for-Sale Financial Assets	333.011	288.125	844.154	890.502	665.957	48.673	3.070.422
Loans	1.975.475	5.644.313	6.538.267	2.632.395	528.143	-	17.318.593
Held-to-Maturity Investments	180.460	645.935	362.595	-	186.739	-	1.375.729
Other Assets	-	272	1.295	1.949	548	757.102	761.166
<b>Total Assets</b>	<b>3.199.567</b>	<b>6.734.317</b>	<b>7.875.794</b>	<b>3.592.172</b>	<b>1.415.800</b>	<b>1.183.923</b>	<b>24.001.573</b>
<b>Liabilities</b>							
Bank Deposits	-	-	-	-	-	-	-
Other Deposits	-	-	-	-	-	-	-
Money Market Borrowings	905.424	74	-	-	-	-	905.498
Miscellaneous Payables	-	-	-	-	-	173.938	173.938
Marketable Securities Issued	-	-	-	3.486.732	-	-	3.486.732
Funds Provided from Other Financial Institutions	3.548.270	5.561.174	3.114.314	1.573.342	2.043.867	-	15.840.967
Other Liabilities <sup>(**)</sup>	34.989	98.963	174.741	64.075	4.630	3.217.040	3.594.438
<b>Total Liabilities</b>	<b>4.488.683</b>	<b>5.660.211</b>	<b>3.289.055</b>	<b>5.124.149</b>	<b>2.048.497</b>	<b>3.390.978</b>	<b>24.001.573</b>
Balance Sheet Long Position	-	1.074.106	4.586.739	-	-	-	5.660.845
Balance Sheet Short Position	(1.289.116)	-	-	(1.531.977)	(632.697)	(2.207.055)	(5.660.845)
Off-Balance Sheet Long Position	-	14.246	-	18.604	228.421	-	261.271
Off-Balance Sheet Short Position	(62.550)	-	(140.032)	-	-	-	(202.582)
<b>Total Position</b>	<b>(1.351.666)</b>	<b>1.088.352</b>	<b>4.446.707</b>	<b>(1.513.373)</b>	<b>(404.276)</b>	<b>(2.207.055)</b>	<b>58.689</b>

<sup>(\*)</sup> Amounts in investments in associates and subsidiaries, entities under common control, deferred tax asset, investment property, tangible and intangible assets, other assets and shareholders' equity, provisions and tax liability are presented in "non-interest bearing" column, in order to reconcile the total assets and liabilities on the balance sheet.

<sup>(\*\*)</sup> Borrower funds amounting to TL 5.317 are presented in "Other Liabilities" within 1-month maturity column.

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### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FOUR (Continued)

#### INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

#### IV. Explanations related to unconsolidated interest rate risk (continued)

Information related to the interest rate sensitivity of assets, liabilities and off-balance sheet items (based on repricing dates)

Prior Period	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Non-interest bearing <sup>(*)</sup>	Total
<b>Assets</b>							
Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Checks Purchased) and Balances with the Central Bank of Turkey	565.428	-	-	-	-	245.686	811.114
Banks	524.671	-	-	-	-	10.158	534.829
Financial Assets at Fair Value Through Profit and Loss	22.999	35.528	91.114	18.970	28.604	-	197.215
Money Market Placements	895.256	185.018	-	-	-	-	1.080.274
Available-for-Sale Financial Assets	400.458	297.496	921.268	743.477	571.249	37.021	2.970.969
Loans	2.180.398	4.096.269	5.490.171	1.563.995	344.646	-	13.675.479
Held-to-Maturity Investments	168.466	508.599	38.129	-	157.408	-	872.602
Other Assets	-	978	3.115	-	-	588.010	592.103
<b>Total Assets</b>	<b>4.757.676</b>	<b>5.123.888</b>	<b>6.543.797</b>	<b>2.326.442</b>	<b>1.101.907</b>	<b>880.875</b>	<b>20.734.585</b>
<b>Liabilities</b>							
Bank Deposits	-	-	-	-	-	-	-
Other Deposits	-	-	-	-	-	-	-
Money Market Borrowings	2.168.420	1.061	-	-	-	-	2.169.481
Miscellaneous Payables	-	-	-	-	-	117.245	117.245
Marketable Securities Issued	-	-	-	2.037.571	-	-	2.037.571
Funds Provided from Other Financial Institutions	3.696.375	4.450.339	2.678.612	1.008.670	1.610.791	-	13.444.787
Other Liabilities <sup>(**)</sup>	53.166	43.100	86.427	18.731	8.483	2.755.594	2.965.501
<b>Total Liabilities</b>	<b>5.917.961</b>	<b>4.494.500</b>	<b>2.765.039</b>	<b>3.064.972</b>	<b>1.619.274</b>	<b>2.872.839</b>	<b>20.734.585</b>
Balance Sheet Long Position	-	629.388	3.778.759	-	-	-	4.408.147
Balance Sheet Short Position	(1.160.285)	-	-	(738.530)	(517.367)	(1.991.965)	(4.408.147)
Off-Balance Sheet Long Position	-	-	430.571	-	-	-	430.571
Off-Balance Sheet Short Position	(377.616)	(91.039)	-	(1.081)	(6.715)	-	(476.451)
<b>Total Position</b>	<b>(1.537.901)</b>	<b>538.349</b>	<b>4.209.330</b>	<b>(739.611)</b>	<b>(524.082)</b>	<b>(1.991.965)</b>	<b>(45.880)</b>

<sup>(\*)</sup> Amounts in investments in associates and subsidiaries, entities under common control, deferred tax asset, investment property, tangible and intangible assets, other assets and shareholders' equity, provisions and tax liability are presented in "non-interest bearing" column, in order to reconcile the total assets and liabilities on the balance sheet.

<sup>(\*\*)</sup> Borrower funds amounting to TL 30.677 are presented in "Other Liabilities" within 1-month maturity column.



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## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FOUR (Continued)

#### INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

#### IV. Explanations related to unconsolidated interest rate risk (continued)

Average interest rates applied to monetary financial instruments: %

	Euro	US Dollar	Yen	TL
<b>Current Period</b>				
<b>Assets</b>				
Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Checks Purchased) and Balances with the Central Bank of Turkey	-	0,50	-	3,94
Banks	-	1,85	-	11,00
Financial Assets at Fair Value Through Profit and Loss	-	-	-	8,78
Money Market Placements	0,03	-	-	11,00
Available-for-Sale Financial Assets	5,59	4,77	-	9,95
Loans	3,56	5,47	-	12,10
Held-to-Maturity Investments	-	5,59	-	10,35
<b>Liabilities</b>				
Bank Deposits	-	-	-	-
Other Deposits	-	-	-	-
Money Market Borrowings	0,27	0,52	-	7,86
Miscellaneous Payables	-	-	-	-
Marketable Securities Issued	-	5,38	-	-
Borrower Funds	0,25	0,50	-	6,00
Funds Provided From Other Financial Institutions	0,85	2,08	-	8,12

Average interest rates applied to monetary financial instruments in prior period: %

	Euro	US Dollar	Yen	TL
<b>Prior Period</b>				
<b>Assets</b>				
Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Checks Purchased) and Balances with the Central Bank of Turkey	-	0,27	-	2,42
Banks	0,53	0,92	-	-
Financial Assets at Fair Value Through Profit and Loss	-	-	-	9,28
Money Market Placements	-	-	-	12,92
Available-for-Sale Financial Assets	5,62	4,87	-	10,38
Loans	3,54	4,70	-	11,98
Held-to-Maturity Investments	-	6,00	-	10,04
<b>Liabilities</b>				
Bank Deposits	-	-	-	-
Other Deposits	-	-	-	-
Money Market Borrowings	0,51	0,50	-	10,26
Miscellaneous Payables	-	-	-	-
Marketable Securities Issued	-	5,24	-	-
Borrower Funds	0,50	0,50	-	6,00
Funds Provided From Other Financial Institutions	0,88	1,60	-	9,83

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FOUR (Continued)

#### INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

##### V. Explanations related to unconsolidated stock position risk

The Bank is exposed to equity shares risk arising from investments on firms traded in Borsa İstanbul (BIST). Share certificate investments are almost used for trading purpose. However, these investments are not actively bought/sold by the Bank. The Bank classified its share certificate investments both as available for sale and as trading securities and net profit/loss of the Bank is not affected unless the Bank sell share certificates in portfolio of available for sale.

##### Equity shares risk due from banking book

Below is the comparison table of the Bank's share certificate instruments' book value, fair value and market value.

Current Period		Comparison	
Share Certificate Investments	Book Value	Fair Value	Market Value
<b>Investment in Shares-Grade A</b>	<b>224.536</b>	<b>-</b>	<b>224.536</b>
Quoted	224.536	-	224.536
<b>Investment in Shares-Grade B</b>	<b>69.496</b>	<b>-</b>	<b>69.496</b>
Quoted	69.496	-	69.496
<b>Prior Period</b>		<b>Comparison</b>	
Share Certificate Investments	Book Value	Fair Value	Market Value
<b>Investment in Shares-Grade A</b>	<b>154.965</b>	<b>-</b>	<b>154.965</b>
Quoted	154.965	-	154.965
<b>Investment in Shares-Grade B</b>	<b>62.695</b>	<b>-</b>	<b>62.695</b>
Quoted	62.695	-	62.695

On the basis of the following table, private equity investments in sufficiently diversified portfolios, type and amount of other risks, cumulative realized gains and losses arising from selling and liquidation in the current period, total unrealized gains and losses, total revaluation increases of trading positions on stock market and their amount that included to core capital and supplementary capital are shown.

Current Period		Revenues and Losses in Period		Unrealized Gains and Losses		
Portfolio	Realized Revenues and Losses in Period	Total	Included in Core Capital	Total	Included in Core Capital	Included in Supplementary Capital
Private Equity						
Investments	-	-	-	-	-	-
Share Certificates Quoted on a Stock Exchange	-	-	-	(7.234)	(7.234)	-
Other Share						
Certificates	114	7.610	7.610	-	-	-
<b>Total</b>	<b>114</b>	<b>7.610</b>	<b>7.610</b>	<b>(7.234)</b>	<b>(7.234)</b>	<b>-</b>
<b>Prior Period</b>		<b>Revaluation Value Increases</b>		<b>Unrealized Gains and Losses</b>		
Portfolio	Realized Revenues and Losses in Period	Total	Included in Core Capital	Total	Included in Core Capital	Included in Supplementary Capital
Private Equity						
Investments	-	-	-	-	-	-
Share Certificates Quoted on a Stock Exchange	(23.316)	-	-	(39.666)	(39.666)	-
Other Share						
Certificates	-	3.880	3.880	-	-	-
<b>Total</b>	<b>(23.316)</b>	<b>3.880</b>	<b>3.880</b>	<b>(39.666)</b>	<b>(39.666)</b>	<b>-</b>

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FOUR (Continued)

#### INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

#### VI. Explanations related to the liquidity risk management and liquidity coverage ratio

The Bank's future cash flows and current positions are taken into consideration for managing the market and liquidity risks. The Bank does not invest into illiquid markets and instruments. The liquidity ratios are followed up and the maturity match and the coverage of liquidity need are targeted in the context of asset-liability management. Although the Bank started to perform tests to calculate liquidity risk with internal models, the risk is still followed up basically by arranging the risks with respect to (holding period) data. For the purpose of meeting the liquidity requirement, the Bank chooses one of the four or more of the following; disposing liquid assets, increasing short-term borrowing, decreasing illiquid assets or increasing capital. The Bank's liquidity management is implemented by meeting all the obligations on time considering the Bank's reputation. The cash flow projections and the fund requirement predictions are made by using adverse scenarios to determine liquidity risk under urgent and unexpected circumstances. The Bank meets its short term liquidity requirements with repurchase agreements and inter-bank money market operations. The Bank may also use its available for sale portfolio for urgent liquidity requirement. The Bank meets its long term liquidity needs from the international institutions through borrowings. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. For the purposes of monitoring and assessing the liquidity position of the Bank's assets and liabilities, the liquidity rate is weekly calculated. The risk capacity of the Bank with regard to the liquidity risk is determined by the liquidity adequacy ratio and the regulations on the calculation of the liquidity coverage ratio and by the internal limits of the Bank.

#### I. Explanations related to the unconsolidated liquidity risk

#### 1.a Information about the governance of unconsolidated liquidity risk management, including: risk tolerance; structure and responsibilities for unconsolidated liquidity risk management; internal unconsolidated liquidity reporting; and communication of unconsolidated liquidity risk strategy, policies and practices across business lines and with the board of director

As per The Regulation on The Calculation of Liquidity Coverage Ratio, minimum limits of 100% and 80% are assigned on consolidated and nonconsolidated basis respectively for total and foreign currency limits while the implementation process is identified by BRSA as setting the limits respectively as 60% and 40% for 2015 and increasing 10 pts per year until 2019 whereas applying this limit as zero per cent for development and investment banks until 2017.

As per the regulation on liquidity adequacy, development and investment banks, including TSKB, are subject to maintaining the liquidity adequacy ratios above 100% and 80% respectively for total and foreign currency limits both on weekly and monthly basis. In addition, the calculated daily over stock values regardless of maturity ratios' basic arithmetic mean includes 14 days may not be less than 7%.

Regarding its risk appetite, in addition to legal limits, Bank also applies internal limits for monitoring and controlling the liquidity risk. In this context, it is limited by minimum 25% for the ratio of cash inflow to cash outflow, and by minimum 20% for the ratio of the difference between total inflow and total outflow to total asset within three months' term. It is determined the base limit as 15% for Liquidity ratio (Liquid Asset/ Total Asset). Also for liquidity adequacy ratios on weekly and monthly basis, the capacity risk rating is set as 110%, that is 10% above legal limit, the level of risk appetite as 115% and the risk limit as 120%. Regarding the total liquidity coverage ratio, at the same level as the legal limit, it is determined the capacity risk as 0%, the risk appetite as 40% and the risk limit as 50%.

Internal limits are applied on concentrations basis for single currency, single security and single instrument for the Bank's Treasury placements within Treasury Risk Limits, in purpose of decreasing the liquidity risk related to concentration risk.

Liquidity risk management is conducted by Treasury department in line with the strategies set by Asset and Liability Committee within The Risk Management Policies approved by Board of Directors, and is monitored through reportings from Risk Management, Budget Planning and Financial Control Departments to Audit Committee, Board of Directors, Senior Management and relevant departments.

Asset and Liability Committee has the responsibility of taking the relevant decisions regarding optimal balance sheet management, monitoring the implementations and functions under The General Instruction of Asset and Liability Committee Duties and Responsibilities. The committee that constitutes of Chief Executive Officer, Executive Vice Presidents of Corporate Banking, Treasury, Budget Planning and Department Heads of Corporate Banking, Project Finance, Treasury, Development Finance Institutions, Financial Institutions and Budget Planning and Investor Relations evaluates the market, regulations, cash flow and asset and liability management on monthly basis. Budget Planning and Investor Relations Department is responsible for consolidating the reports to be submitted to Committee, organizing, having signed and archiving the Committee moments and informing the Committee members.

Bank cash management process connotes, within the precedence of fulfilling the future financial obligations and subsequent to credit, placement and borrowing activities, the utilization of the cash position with the highest return in line with the Bank policies and during the liquidity shortfall periods providing funding from the market with the most convenient and low-cost product. Treasury Department carries out this responsibility within the scope of Bank policies, decisions taken in Asset Liability Committees and the limits supplied by Board of Directors. In liquidity shortfall periods, Treasury Department is entitled to provide funding through money market transactions, secured lending or repo transactions. In case of funding except with those products, borrowing transactions are executed with the cooperation of Treasury and Financial Institutions Departments.

Risk Management Department reports to Board of Directors and Asset and Liability Committee on monthly basis regarding the liquidity gap, the legal limits and the internal limits assigned by Board of Directors. Also liquidity stress tests are performed based on various scenarios and reported with their impact on legal limit utilization. Committee evaluates the Bank's one year-term cash position under several assumptions and loan facility projections on monthly basis, it determines strategy for fulfilling its financial obligations timely and utilizing the idle funds efficiently.

MIS reportings for Treasury Department are conducted by Treasury Control Unit under Budget Planning and Investor Relations Department. Within this scope Treasury Control Unit shares liquidity projections by taking into consideration liquidity position of bank for following weeks and three months' cashflows on weekly basis. On monthly basis, cashflow projections on local currency and foreign currency are reported to Asset Liability Committee.

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## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

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#### SECTION FOUR (Continued)

#### INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

##### VI. Explanations related to the liquidity risk management and liquidity coverage ratio (continued)

##### I. Explanations related to the unconsolidated liquidity risk (continued)

##### 1.b Information on the centralization degree of unconsolidated liquidity management and funding strategy and the functioning between the Bank and the Bank's subsidiaries

There is no liquidity management structure requiring centralization between the Bank and its subsidiaries.

##### 1.c Information on the Bank's funding strategy including the policies on funding types and variety of maturities

Among the main funding sources of the Parent Bank there are investment bank loans, capital market transactions, syndication loans, DFIs, repo transactions and money market transactions and for minimizing the liquidity risk, diversification on maximum scale with those products within the market conditions is pursued. The funding planning based on those loans is performed long term such as a minimum of one year and the performance is monitored by Asset Liability Committee.

##### 1.ç Information on liquidity management on the basis of currencies constituting a minimum of five percent of the Bank's total liabilities:

Within the scope of the Bank's balance sheet management, local currency and foreign currency cashflows are monitored diversely. On principal, open position risk is managed actively as a part of liquidity risk management and in context of this strategy required hedging transactions are executed by Treasury Department.

##### 1.d Information on unconsolidated liquidity risk mitigation techniques

Unconsolidated Liquidity limits are defined for the purpose of monitoring and keeping the risk under predefined boundaries. The Bank monitors those limits' utilization and informs Board of Directors, Bank Senior Management and relevant departments regularly. Pursuant to that, the ratio of cash inflows to cash outflows within three months' term is limited to at least 25% whereas for the same term the ratio of the difference between total inflows and total outflows to total assets is limited to at most 20%. The base limit for Liquidity Ratio (Liquid Assets/Total Assets) is defined as 15%. Within those limits, Treasury Department performs the required transactions with the relevant cost and term composition under market conditions from the sources previously defined in Article C. Adequate limits to be utilized in a contingent case remains at the disposal before legal authority.

##### 1.e Information on the use of stress tests

As part of unconsolidated liquidity stress tests, the Bank's compatibility with the legal limits under stress conditions is subject to probe. The legal limits assigned for liquidity risk management consists of five ratios derived from The Regulation on Liquidity Adequacy Ratio and liquidity coverage ratio derived from The Regulation on Liquidity Coverage Ratio. Stress tests are performed over those ratios' calculations by practicing liquidity shocks while assuming that the nonshocked components are held constant. Among liquidity stress tests, the risks arising from funding, intraday liquidity, marketable securities and concentration are addressed. Subject to those, the scenarios of possible funding shortage in Interbank Money Market, liquidity shortage that may arise in private sector and the risk originating from the Bank's loan portfolio due to the concentration risk are applied separately on overall portfolio of the Bank.

##### 1.f General information on urgent and unexpected unconsolidated liquidity situation plans

There is a Contingency Funding Plan for the contingent periods that arises beyond the Bank's control. In a potential liquidity shortfall, Treasury Department is responsible from assessment, taking relevant actions and informing Asset and Liability Committee. In contingent cases, to identify the liquidity risk arising, cashflow projections and funding requirement estimations are exercised based on various scenarios. To assess the stress scenarios, cashflow in terms of local currency is monitored regularly by Treasury Department. Scenario analysis on the Bank's unencumbered sources are conducted daily. Transaction limits for organized markets are monitored timely and essential collateral amount to trade in those markets is withheld at hand. Repo transactions and/or available for sale portfolio securities in local and foreign currency that are major funding sources in shortfall periods for the Bank are monitored consistently.

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## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FOUR (Continued)

#### INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

#### VI. Explanations related to the liquidity risk management and liquidity coverage ratio (continued)

##### 2. Unconsolidated Liquidity Coverage Ratio

According to regulations which is published on 28948 numbered gazette on 21 March 2014 related to calculation of liquidity coverage ratio of banks, calculated liquidity coverage ratios are shown below. Including the reporting period for the last three months consolidated foreign currency and total liquidity coverage ratio and unconsolidated foreign currency and total liquidity coverage ratio's minimum and maximum levels are shown below by specified thereby weekly:

Current Period	Rate of "Percentage to be taken into account" not Implemented Total value		Rate of "Percentage to be taken into account" Implemented Total value	
	TL+FC	FC	TL+FC	FC
<b>HIGH QUALITY LIQUID ASSETS (HQLA)</b>				
1 High quality liquid assets			1.022.831	550.669
<b>CASH OUTFLOWS</b>				
2 Retail and Customers Deposits	-	-	-	-
3 Stable deposits	-	-	-	-
4 Less stable deposits	-	-	-	-
5 Unsecured Funding other than Retail and Small Business, Customers Deposits	417.200	280.910	332.390	201.681
6 Operational deposits	15.749	13.080	3.891	3.225
7 Non-Operational Deposits	-	-	-	-
8 Other Unsecured Funding	401.451	267.830	328.499	198.456
9 Secured funding			-	-
10 Other Cash Outflows	1.181.635	973.362	1.185.899	973.591
11 Liquidity needs related to derivatives and market valuation changes on derivatives transactions	1.181.635	973.362	1.185.899	973.591
12 Debts related to the structured financial products	-	-	-	-
13 Commitment related to debts to financial markets and other off balance sheet liabilities	-	-	-	-
14 Commitments that are unconditionally revocable at any time by the Bank and other contractual commitments	1.942.084	1.385.717	97.041	69.227
15 Other irrevocable or conditionally revocable commitments	4.339.382	4.005.943	522.783	481.727
<b>16 TOTAL CASH OUTFLOWS</b>			<b>2.138.113</b>	<b>1.726.226</b>
<b>CASH INFLOWS</b>				
17 Secured Lending Transactions	-	-	-	-
18 Unsecured Lending Transactions	2.406.332	565.606	2.176.468	446.351
19 Other contractual cash inflows	1.228.903	533.092	1.232.984	536.125
<b>20 TOTAL CASH INFLOWS</b>	<b>3.635.235</b>	<b>1.098.698</b>	<b>3.409.452</b>	<b>982.476</b>
			<b>Upper limit applied amounts</b>	
<b>21 TOTAL HQLA STOCK</b>			<b>1.022.831</b>	<b>550.669</b>
<b>22 TOTAL NET CASH OUTFLOWS</b>			<b>534.528</b>	<b>743.750</b>
<b>23 LIQUIDITY COVERAGE RATIO (%)</b>			<b>188</b>	<b>88</b>

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FOUR (Continued)

#### INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

#### VI. Explanations related to the liquidity risk management and liquidity coverage ratio (continued)

##### 2. Unconsolidated Liquidity Coverage Ratio (continued)

Prior Period	Rate of "Percentage to be taken into account" not Implemented Total value		Rate of "Percentage to be taken into account" Implemented Total value	
	TL+FC	FC	TL+FC	FC
<b>HIGH QUALITY LIQUID ASSETS (HQLA)</b>				
1 High quality liquid assets			702.829	595.565
<b>CASH OUTFLOWS</b>				
2 Retail and Customers Deposits	-	-	-	-
3 Stable deposits	-	-	-	-
4 Less stable deposits	-	-	-	-
5 Unsecured Funding other than Retail and Small Business Customers Deposits	380.642	312.240	339.682	272.226
6 Operational deposits	36.351	35.089	9.088	8.772
7 Non-Operational Deposits	-	-	-	-
8 Other Unsecured Funding	344.291	277.151	330.594	263.454
9 Secured funding			-	-
10 Other Cash Outflows	1.406.094	1.235.636	1.406.094	1.235.636
11 Liquidity needs related to derivatives and market valuation changes on derivatives transactions	1.406.094	1.235.636	1.406.094	1.235.636
12 Debts related to the structured financial products	-	-	-	-
13 Commitment related to debts to financial markets and other off balance sheet liabilities	-	-	-	-
14 Commitments that are unconditionally revocable at any time by the Bank and other contractual commitments	1.859.646	1.309.966	92.982	65.498
15 Other irrevocable or conditionally revocable commitments	4.150.603	3.870.174	582.833	549.546
<b>16 TOTAL CASH OUTFLOWS</b>			<b>2.421.591</b>	<b>2.122.906</b>
<b>CASH IN FLOWS</b>				
17 Secured Lending Transactions	-	-	-	-
18 Unsecured Lending Transactions	1.450.121	374.545	1.298.288	276.759
19 Other contractual cash inflows	1.411.050	471.608	1.409.348	471.408
<b>20 TOTAL CASH INFLOWS</b>	<b>2.861.171</b>	<b>846.153</b>	<b>2.707.636</b>	<b>748.167</b>
			<b>Upper limit applied amounts</b>	
<b>21 TOTAL HQLA STOCK</b>			<b>702.829</b>	<b>595.565</b>
<b>22 TOTAL NET CASH OUTFLOWS</b>			<b>605.398</b>	<b>1.374.739</b>
<b>23 LIQUIDITY COVERAGE RATIO (%)</b>			<b>116</b>	<b>43</b>

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### FOR THE YEAR ENDED 31 DECEMBER 2016

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#### SECTION FOUR (Continued)

#### INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

#### VI. Explanations related to the liquidity risk management and liquidity coverage ratio (continued)

##### 3. Minimum explanations related to the liquidity coverage ratio by Banks

##### 3.a The major components affecting liquidity coverage ratio and the change in the contributing elements in time

Borrowing Securities that mainly comprised of government securities and Required Reserves are major components of High Quality Liquid Assets that affect unconsolidated Liquidity Coverage Ratio essentially. Depending on the market conditions and the Bank's Treasury Department's decisions the proportion of local currency and foreign currency based securities within Borrowing Securities may vary.

##### 3.b Information on the components of High Quality Liquid Assets

High Quality Liquid Assets mainly comprises of exposure to Central Bank, that is Required Reserves and Borrowing Securities, that are government securities.

##### 3.c The components of funding and their proportion in overall

Main funding source of the Bank is long term loans attained from international financial institutions. The ratio of those loans in total funding is around 70% while 87% of it is provided under the guarantee of The Undersecretariat of Treasury of Turkish Republic. The average tenor of long term loans is 11 years. The total ratio of the securities issued in purpose of funding diversification and loans attained through syndication loans in overall borrowing is 25%. 4% of the Bank's total funding is attained through repo transactions.

##### 3.ç Cash outflows generating derivative transactions and informations about transactions are liable to warrant completing

The Bank's derivative transactions are mainly executed with the counterparties having ISDA and CSA agreements due to the client transactions and position hedging within Bank's balance sheet management. Those transactions are monitored through market valuation of the transactions with each of the counterparties. Collateralization with counterparties is executed on daily basis.

##### 3.d Counterparty and product-based funding sources and collateral concentration limits on

The funding sources of the Bank, that's main business area is development banking, are international development banks and financial institutions in general. On counterparty and product basis there is no concentration limit.

##### 3.e Taking into account the legal and operational liquidity transfer inhibiting factors, the needed funds and the unconsolidated liquidity risk exposure based on Banks itself, the branches in foreign countries and unconsolidated partnerships

None.

##### 3.f Taken in the calculation of unconsolidated liquidity coverage ratio but not included in the disclosure template in the second paragraph and the information regarding the other cash inflows and cash outflows items which are thought to be related to the Bank's unconsolidated liquidity profile

None.



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### FOR THE YEAR ENDED 31 DECEMBER 2016

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#### SECTION FOUR (Continued)

#### INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

#### VI. Explanations related to the liquidity risk management and liquidity coverage ratio (continued)

*Presentation of assets and liabilities according to their remaining maturities*

	Demand	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Undistributed (*)	Total
<b>Current Period</b>								
<b>Assets</b>								
Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Checks Purchased) and Balances with the Central Bank of Turkey	364.623	413.451	-	-	-	-	-	778.074
Banks	13.525	49.928	-	-	-	-	-	63.453
Financial Assets at Fair Value Through Profit and Loss	-	24.414	44.601	102.594	115.038	93.456	-	380.103
Money Market Placements	-	191.138	62.895	-	-	-	-	254.033
Financial Assets Available-for-Sale	-	303.484	216.389	253.631	1.236.474	1.011.771	48.673	3.070.422
Loans	-	409.138	1.064.020	3.256.847	8.326.689	4.261.899	-	17.318.593
Held-to-Maturity Investments	-	-	-	-	209.151	1.166.578	-	1.375.729
Other Assets	-	-	-	1.295	1.949	820	757.102	761.166
<b>Total Assets</b>	<b>378.148</b>	<b>1.391.553</b>	<b>1.387.905</b>	<b>3.614.367</b>	<b>9.889.301</b>	<b>6.534.524</b>	<b>805.775</b>	<b>24.001.573</b>
<b>Liabilities</b>								
Bank Deposits	-	-	-	-	-	-	-	-
Other Deposits	-	-	-	-	-	-	-	-
Funds Provided from Other Financial Institutions	-	178.582	264.686	2.098.774	6.485.938	6.812.987	-	15.840.967
Money Market Borrowings	-	905.424	74	-	-	-	-	905.498
Securities Issued	-	-	-	-	3.486.732	-	-	3.486.732
Miscellaneous Payables	-	-	-	-	-	-	173.938	173.938
Other Liabilities (**)	-	21.243	44.253	101.857	152.398	57.647	3.217.040	3.594.438
<b>Total Liabilities</b>	<b>-</b>	<b>1.105.249</b>	<b>309.013</b>	<b>2.200.631</b>	<b>10.125.068</b>	<b>6.870.634</b>	<b>3.390.978</b>	<b>24.001.573</b>
<b>Liquidity Gap</b>	<b>378.148</b>	<b>286.304</b>	<b>1.078.892</b>	<b>1.413.736</b>	<b>(235.767)</b>	<b>(336.110)</b>	<b>(2.585.203)</b>	<b>-</b>
<b>Net Off-balance sheet Position</b>	<b>-</b>	<b>7.406</b>	<b>399</b>	<b>782</b>	<b>38.040</b>	<b>12.062</b>	<b>-</b>	<b>58.689</b>
Financial Derivative Assets	-	1.765.110	1.573.087	2.916.888	6.827.177	4.106.192	-	17.188.454
Financial Derivative Liabilities	-	1.757.704	1.572.688	2.916.106	6.789.137	4.094.130	-	17.129.765
Non-cash Loans (***)	-	21.227	5.182	33.578	551.991	508.482	548.750	1.669.210
<b>Prior Period</b>								
Total Assets	255.844	2.572.887	908.645	3.121.221	8.242.859	5.008.098	625.031	20.734.585
<b>Total Liabilities</b>	<b>-</b>	<b>2.764.425</b>	<b>200.807</b>	<b>1.815.908</b>	<b>7.231.626</b>	<b>5.848.980</b>	<b>2.872.839</b>	<b>20.734.585</b>
<b>Liquidity Gap</b>	<b>255.844</b>	<b>(191.538)</b>	<b>707.838</b>	<b>1.305.313</b>	<b>1.011.233</b>	<b>(840.882)</b>	<b>(2.247.808)</b>	<b>-</b>
<b>Net Off-balance sheet Position</b>	<b>-</b>	<b>(4.099)</b>	<b>(9.660)</b>	<b>(18.966)</b>	<b>(15.589)</b>	<b>2.434</b>	<b>-</b>	<b>(45.880)</b>
Financial Derivative Assets	-	1.517.748	466.271	1.261.331	3.511.988	3.225.292	-	9.982.630
Financial Derivative Liabilities	-	1.521.847	475.931	1.280.297	3.527.577	3.222.858	-	10.028.510
Non-cash Loans (***)	-	7.770	6.596	173.789	707.238	586.622	300.651	1.782.666

(\*) Other assets and shareholders' equity, provisions and tax liability, which are necessary and cannot be converted into cash in the near future for the Bank's ongoing activities, such as tangible and intangible assets, investments in subsidiaries and associates, entities under common control, office supply inventory, prepaid expenses and non-performing loans are classified under "Undistributed" column.

(\*\*) Borrower funds amounting to TL 5.317 are presented in "Other Liabilities" within 1-month maturity column.

(\*\*\*) Has no effect on net off-balance sheet position.

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## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

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#### SECTION FOUR (Continued)

#### INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

#### VI. Explanations related to the liquidity risk management and liquidity coverage ratio (continued)

##### Analysis of financial liabilities by remaining contractual maturities

In compliance with the Turkish Financial Reporting Standard No.7, the following table indicates the maturities of the Group's major financial liabilities which are not qualified as derivatives. The following tables have been prepared by referencing the earliest dates of capital outflows without discounting the financial liabilities.

Current Period	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Adjustments	Total
<b>Liabilities</b>							
Funds Provided from Other Financial Institutions	192.528	292.585	2.264.582	7.141.612	7.369.968	(1.420.308)	15.840.967
Money Market Borrowings	905.543	75	-	-	-	(120)	905.498
Marketable Securities Issued	-	-	179.300	1.580.100	2.376.364	(649.032)	3.486.732
Funds	5.317	-	-	-	-	-	5.317
<b>Total</b>	<b>1.103.388</b>	<b>292.660</b>	<b>2.443.882</b>	<b>8.721.712</b>	<b>9.746.332</b>	<b>(2.069.460)</b>	<b>20.238.514</b>

Prior Period	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Adjustments	Total
<b>Liabilities</b>							
Funds Provided from Other Financial Institutions	565.451	184.987	1.874.314	5.614.214	6.205.279	(999.459)	13.444.786
Money Market Borrowings	2.170.657	1.070	-	-	-	(2.246)	2.169.481
Marketable Securities Issued	-	-	106.393	2.371.638	-	(440.460)	2.037.571
Funds	30.677	-	-	-	-	-	30.677
<b>Total</b>	<b>2.766.785</b>	<b>186.057</b>	<b>1.980.707</b>	<b>7.985.852</b>	<b>6.205.279</b>	<b>(1.442.165)</b>	<b>17.682.515</b>

Analysis of contractual expiry by maturity of the Bank's derivative financial instruments:

Current Period	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Adjustments	Total
Swap Contracts	2.664.939	958.755	893.670	13.477.201	8.225.891	(82.833)	26.137.623
Forward Contracts	212.286	534.798	322.387	61.644	-	-	1.131.115
Futures Transactions	-	-	-	-	-	-	-
Options	527.407	1.653.321	4.629.408	121.800	-	-	6.931.936
Other	117.544	-	-	-	-	-	117.544
<b>Total</b>	<b>3.522.176</b>	<b>3.146.874</b>	<b>5.845.465</b>	<b>13.660.645</b>	<b>8.225.891</b>	<b>(82.833)</b>	<b>34.318.218</b>

Prior Period	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Adjustments	Total
Swap Contracts	2.860.925	143.955	1.038.302	6.508.089	6.509.727	(22.553)	17.038.445
Forward Contracts	88.494	12.924	37.447	268.223	-	-	407.088
Futures Transactions	-	-	-	-	-	-	-
Options	91.402	789.940	1.383.780	211.276	-	-	2.476.398
Other	-	-	89.210	-	-	-	89.210
<b>Total</b>	<b>3.040.821</b>	<b>946.819</b>	<b>2.548.739</b>	<b>6.987.588</b>	<b>6.509.727</b>	<b>(22.553)</b>	<b>20.011.141</b>

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## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FOUR (Continued)

#### INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

##### VII. Explanations related to leverage ratio

##### a) Information on subjects that causes difference in leverage ratio between current and prior periods

The table related to calculation of leverage ratio in accordance with the principles of the "Regulation on Measurement and Evaluation of Banks' Leverage Level" which is published on the Official Gazette no.28812 dated 5 November 2013 is given below.

As of 31 December 2016, leverage ratio of the Bank calculated from the arithmetic average of the three months is 10,61% (31 December 2015: 10,55%). Leverage ratio is almost on the same level in the current and prior period. Total balance sheet assets increased by 19,31% compared to prior period.

##### b) Unconsolidated Leverage Ratio

	Current Period <sup>(*)</sup>	Prior Period <sup>(*)</sup>
<b>Balance sheet Assets</b>		
1 Balance sheet assets (excluding derivative financial assets and credit derivatives, including collaterals)	23.709.190	19.872.393
2 (Assets deducted from Core capital)	(100.807)	(126.801)
3 Total risk amount of balance sheet assets (sum of lines 1 and 2)	23.608.383	19.745.592
<b>Derivative financial assets and credit derivatives</b>		
4 Cost of replenishment for derivative financial assets and credit derivatives	216.502	199.076
5 Potential credit risk amount of derivative financial assets and credit derivatives	203.512	132.198
6 Total risk amount of derivative financial assets and credit derivatives (sum of lines 4 and 5)	420.014	331.274
Financing transactions secured by marketable security or commodity		
7 Risk amount of financing transactions secured by marketable security or commodity	352.423	384.893
8 Risk amount arising from intermediary transactions	-	-
9 Total risk amount of financing transactions secured by marketable security or commodity (sum of lines 7 and 8)	352.423	384.893
<b>Off-balance sheet transactions</b>		
10 Gross notional amount of off-balance sheet transactions	6.132.156	6.053.628
11 (Correction amount due to multiplication with credit conversion rates)	(3.174.771)	(3.342.558)
12 Total risk of off-balance sheet transactions (sum of lines 10 and 11)	2.957.385	2.711.070
<b>Capital and total risk</b>		
13 Core Capital	2.899.693	2.445.084
14 Total risk amount (sum of lines 3, 6, 9 and 12)	27.338.205	23.172.829
<b>Leverage ratio</b>		
15 Leverage ratio	10,61%	10,55%

<sup>(\*)</sup>The arithmetic average of the last three months in the related periods.

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## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

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#### SECTION FOUR (Continued)

#### INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

#### VIII. Explanations related to presentation of financial assets and liabilities at fair value.

The table below shows the carrying and fair values of the financial assets and liabilities in the financial statements of the Bank.

	Carrying Value		Fair Value	
	Current Period	Prior Period	Current Period	Prior Period
<b>Financial Assets</b>	<b>22.086.022</b>	<b>19.134.153</b>	<b>22.972.274</b>	<b>19.260.404</b>
Money Market Placements	254.033	1.080.274	254.033	1.080.274
Banks	63.453	534.829	63.453	534.829
Available-For-Sale Financial Assets	3.070.422	2.970.969	3.070.422	2.970.969
Held-To-Maturity Investments	1.375.729	872.602	1.363.859	885.882
Loans <sup>(1)</sup>	17.322.385	13.675.479	18.220.507	13.788.450
<b>Financial Liabilities</b>	<b>20.412.452</b>	<b>17.799.761</b>	<b>20.339.749</b>	<b>17.811.306</b>
Bank Deposits	-	-	-	-
Other Deposits	-	-	-	-
Funds Provided From Other Financial Institutions	16.751.782	15.644.945	16.751.782	15.644.945
Marketable Securities Issued	3.486.732	2.037.571	3.414.029	2.049.116
Miscellaneous Payables	173.938	117.245	173.938	117.245

<sup>(1)</sup> Loans include financial lease receivables.

The methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements:

- i- For the fair value calculation of loans, the prevailing interest rates as of the reporting date were used.
- ii- For the fair value calculation of the balances with banks, the prevailing interest rates as of the reporting date were used.
- iii- For the fair value calculation of held-to-maturity investments, quoted prices as of the reporting date were used.
- iv- For the fair value calculation of marketable securities, market prices as of the reporting date were used.

The following table shows an analysis of financial instruments recorded at fair value, between those whose fair value is recorded on quoted market prices, those involving valuation techniques where all model inputs are observable in the market and, those where the valuation techniques involves the use of non observable inputs.

The table below analyses financial instruments carried at fair value, by valuation method.

- a) Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- b) Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2);
- c) Inputs for the asset or liability that are not based on observable market data (Level 3).

Current Period	Level I	Level II	Level III <sup>(1)</sup>
<b>Financial Assets</b>			
Financial Assets Held for Trading	4.658	375.445	-
Financial Assets Available For Sale	1.924.583	1.142.431	3.191
Associates and Subsidiaries	267.350	-	82.366
Derivative Financial Assets For Hedging Purposes		272	
<b>Financial Liabilities</b>			
Derivative Financial Liabilities Held For Trading	-	320.648	-
Derivative Financial Liabilities For Hedging Purposes	-	51.433	-

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### FOR THE YEAR ENDED 31 DECEMBER 2016

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#### SECTION FOUR (Continued)

#### INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

#### VIII.Explanations related to presentation of financial assets and liabilities at fair value.(continued)

Prior Period	Level I	Level II	Level III
<b>Financial Assets</b>			
Financial Assets held for Trading	28.233	168.982	-
Financial Assets Available For Sale	1.903.147	1.063.795	3.809
Associates and Subsidiaries	194.786	-	82.366
Derivative Financial Assets For Hedging Purposes		4.093	
<b>Financial Liabilities</b>			
Derivative Financial Liabilities Held For Trading	-	173.431	-
Derivative Financial Liabilities For Hedging Purposes	-	5.799	-

("The share which was involved in financial asset- available for sale in the prior period, with the net book value of TL 618 in the "Level III" category were sold in the current period.

Real estates which are presented in the financial statements at fair value are classified at level 2.

#### IX. Explanations related to transactions made on behalf of others and fiduciary transactions

The Bank performs trading transactions on behalf of its customers, and gives custody, administration and consultancy services. The Bank does not deal with fiduciary transactions.

#### X. Explanations related to Risk Management

##### Linkages between financial statements and risk amounts

The footnotes prepared in accordance with the "Regulation on Calculation Risk Management Disclosures", which was published in the Official Gazette No. 29511 of 23 October 2015 and entered into force as of 31 March 2016, and the disclosures pertaining thereto are provided in this section.

As the standard approach is utilized for the calculation of the capital adequacy of the Bank, no statement has been included as regards the methods based on internal models as per the relevant communiqué.

##### Disclosures on the Risk management approach and risk-weighted amount

Risk management approach of the Bank allows for ensuring the establishment of a common risk culture covering the entire institution within the scope of the policies and codes of practice designated by the Board of Directors, for identifying risks in harmony with international arrangements and for performing the activities of measurement, analysis, monitoring and reporting accordingly.

Risk Management Department has been organized within the Bank so as to ensure compliance with the relevant policies, codes of practice and processes and to manage, in parallel with these policies, the risks the Bank is exposed to. Risk Management Department, the duties and responsibilities of which are designated through the regulations approved by the Board of Directors, carries out its activities through the Executive Vice President for Internal Systems under the Audit Committee who serves independently from executive activities and executive units.

Risk Management Department develops the systems required within the process of risk management and carries out the relevant activities, monitors the compliance of risks with policies, standards, limits of the Bank and its risk appetite indicators and performs activities aimed at harmonization with the relevant legislation and the Basel criteria. Risk measurements are performed through the standard approaches for legal reporting and the advanced approaches are utilized internally.

Risk Management Department submits its detailed risk management reports prepared on monthly and quarterly basis to the Board of Directors via the Audit Committee. These reports cover measurements regarding main risks, stress tests and scenario analyses and the status of compliance with the identified limit levels and risk appetite indicators.

##### Linkages between financial statements and risk amounts

Prospective risk assessments are carried out by conducting periodical stress tests on loan, market and interest risks and the impact of results on the overall financial power of the Bank is evaluated. The relevant results are notified to the Audit Committee and contribute to the assessment of the financial structure of the Bank at the moment of stress. Stress test scenarios are determined by evaluating the impacts posed by previous economic crises on macroeconomic indicators and expectations from the upcoming period. By estimating the risks and capital position of the Bank within the upcoming period, various analyses are performed in terms of legal and internal capital adequacy ratios, and the ICAAP (Internal Capital Adequacy Assessment Process) report is submitted to the BRSB.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FOUR (Continued)

#### INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

#### X. Explanations related to risk management (continued)

##### Overview of risk weighted assets

	Risk Weighted Amount		Minimum Capital Requirement
	Current Period	Prior Period <sup>(1)</sup>	Current Period
1 Credit risk (excluding counterparty credit risk)	19.232.205	16.017.353	1.538.576
2 Standardised approach	19.232.205	16.017.353	1.538.576
3 Internal rating-based approach	-	-	-
4 Counterparty credit risk	693.359	348.228	55.469
5 Standardised approach for counterparty credit risk	693.359	348.228	55.469
6 Internal model method	-	-	-
7 Basic risk weight approach to internal models equity position in the banking account	-	-	-
8 Investments made in collective investment companies – look-through approach	-	-	-
9 Investments made in collective investment companies – mandate-based approach	-	-	-
10 Investments made in collective investment companies – 1250% weighted risk approach	-	-	-
11 Settlement risk	-	-	-
12 Securitization positions in banking accounts	-	-	-
13 IRB ratings-based approach	-	-	-
14 IRB supervisory formula approach	-	-	-
15 Simplified supervisory formula approach	-	-	-
16 Market risk	634.525	370.250	50.762
17 Standardised approach	634.525	370.250	50.762
18 Internal model approaches	-	-	-
19 Operational risk	1.070.988	949.550	85.679
20 Basic indicator approach	1.070.988	949.550	85.679
21 Standard approach	-	-	-
22 Advanced measurement approach	-	-	-
23 The amount of the discount threshold under the equity (subject to a 250% risk weight)	-	-	-
24 Floor adjustment	-	-	-
<b>25 Total (1+4+7+8+9+10+11+12+16+19+23+24)</b>	<b>21.631.077</b>	<b>17.685.881</b>	<b>1.730.486</b>

<sup>(1)</sup> The counterparty credit risk amount is included in the market and credit risk amounts in the financial statement and notes dated 31 December 2015.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FOUR (Continued)

#### INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

#### X. Explanations related to risk management (continued)

Linkages between financial statements and risk amounts (Continued)

*Differences and matching between asset and liabilities' carrying values in financial statements and amounts in capital adequacy calculation*

Assets	Carrying values of items in accordance with Turkish Accounting Standards					
	Carrying values in financial statements prepared as per TAS	Subject to credit risk	Subject to counterparty credit risk	Securitization Positions	Subject to market risk <sup>(*)</sup>	Not subject to capital requirements or subject to deduction from capital
Cash and CBRT	778.074	778.074	-	-	-	-
Financial Assets Held for Trading	-	-	-	-	-	-
Financial Assets at Fair Value through Profit and Loss	380.103	-	375.442	-	380.103	-
Bank	63.453	63.453	-	-	-	-
Money Market Placements	254.033	254.033	-	-	-	-
Financial Assets Available-for-Sale (net)	3.070.422	3.070.422	895.472	-	-	-
Loans and Receivables	17.318.593	17.318.593	-	-	-	-
Factoring Receivables	-	-	-	-	-	-
Investment Held-to-Maturity (net)	1.375.729	1.375.729	129.784	-	-	-
Investment in Associates (net)	222.908	222.908	-	-	-	-
Subsidiaries (net)	129.363	129.363	-	-	-	-
Joint-Ventures (net)	-	-	-	-	-	-
Finance Lease Receivables	3.792	3.792	-	-	-	-
Derivative Financial Assets Held for Risk Management	272	-	272	-	-	-
Tangible Assets (net)	51.112	45.857	-	-	-	5.255
Intangible Assets (net)	949	-	-	-	-	949
Investment Properties (net)	-	-	-	-	-	-
Tax Asset	14.195	14.195	-	-	-	-
Assets Held for Sale and Discontinued Operations (net)	-	-	-	-	-	-
Other Asset	338.575	316.130	-	-	-	22.445
<b>Total Assets</b>	<b>24.001.573</b>	<b>23.592.549</b>	<b>1.400.970</b>	<b>-</b>	<b>380.103</b>	<b>28.649</b>



# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FOUR (Continued)

#### INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

#### X. Explanations related to risk management (continued)

Linkages between financial statements and risk amounts (continued)

*Differences and matching between asset and liabilities' carrying values in financial statements and amounts in capital adequacy calculation*

Liabilities	Carrying values of items in accordance with Turkish Accounting Standards					
	Carrying values in financial statements prepared as per TAS	Subject to credit risk	Subject to counterparty credit risk	Securitization Positions	Subject to market risk <sup>(*)</sup>	Not subject to capital requirements or subject to deduction from capital
Deposits	-	-	-	-	-	-
Derivative Financial Liabilities Held for Trading	320.648	-	-	-	320.648	-
Funds Borrowed	15.840.967	-	532.231	-	-	15.308.736
Money Market Funds	905.498	-	295.354	-	5.916	604.228
Marketable Securities Issued	3.486.732	-	-	-	-	3.486.732
Funds	5.317	-	-	-	-	5.317
Miscellaneous Payables	173.938	-	-	-	-	173.938
Other Liabilities	-	-	-	-	-	-
Factoring Payables	-	-	-	-	-	-
Lease Payables	-	-	-	-	-	-
Derivative Financial Liabilities Held for Risk Management	51.433	-	-	-	-	51.433
Provisions	278.392	-	-	-	-	278.392
Tax Liability	10.309	-	-	-	-	10.309
Payables for Assets Held for Sale and Discontinued Operations (net)	-	-	-	-	-	-
Subordinated Debts	-	-	-	-	-	-
Shareholders' Equity	2.928.339	-	-	-	-	2.928.339
<b>Total Liabilities</b>	<b>24.001.573</b>	<b>-</b>	<b>827.585</b>	<b>-</b>	<b>326.564</b>	<b>22.847.424</b>

<sup>(\*)</sup>The amount of the financial instruments included in the trading accounts in accordance with TAS within the scope of the "Regulation on Measurement and Assessment of Capital Adequacy of Banks", has been included.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FOUR (Continued)

#### INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

##### X. Explanations related to risk management (continued)

Linkages between financial statements and risk amounts (continued)

*The main sources of the differences between the risk amounts and the amounts assessed in accordance with TAS in the financial statements*

	Total	Credit Risk <sup>(*)</sup>	Securitization Positions	Counterparty credit risk <sup>(*)</sup>	Market risk <sup>(**)</sup>
1 Asset carrying value amount under scope of regulatory consolidation	24.001.573	23.592.549	-	1.400.970	380.103
2 Liabilities carrying value amount under regulatory scope of consolidation	24.001.573	-	-	827.585	326.564
<b>3 Total net amount under regulatory scope of consolidation</b>	<b>-</b>	<b>23.592.549</b>	<b>-</b>	<b>573.385</b>	<b>53.539</b>
4 Off-balance sheet amounts	43.794.254	2.008.586	-	230.653	26.570.418
5 Differences due to prudential filters	-	-	-	(37.621)	-
<b>6 Risk Amounts</b>	<b>-</b>	<b>25.601.135</b>	<b>-</b>	<b>766.417</b>	<b>26.623.957</b>

<sup>(\*)</sup>The risk amount before the Credit Risk Mitigation are given in credit risk and the counterparty credit risk.

<sup>(\*\*)</sup>Gross position amounts included in the calculation of market risk are taken as basis.

Difference between the amounts of assets within the scope of legal consolidation as valued in accordance with TAS and credit risk exposures results from the transactions which are not subject to credit risk. Difference between off-balance sheet exposures and credit risk exposures results from the application of credit conversion factors to off-balance sheet exposures in line with the Regulation on the Measurement and Assessment of the Capital Adequacy of Banks.

The Bank takes into consideration the principles stipulated in Annex 3 of the Regulation on the Measurement and Assessment of the Capital Adequacy of Banks for all positions concerning its trading and banking book to be considered in the measurement of its fair value and capital adequacy. The Bank generally uses fair value as valuation methodology. Valuation methods are covered in detail under the title "VI. Disclosures on financial assets" in section "Accounting Policies" of chapter three of the report.

#### Disclosures on credit risk

##### *General qualitative information on credit risk.*

Credit risk is the possibility of incurring losses due to the credit customer or the counterparty, with whom the Bank has made an agreement with, does not fulfil its obligations appropriately or is not able to meet these obligations. While the largest and most visible source of credit risk consists of the loans extended by the bank, other assets included in balance sheets, non-cash loans and commitments are also taken into consideration within the scope of credit risk.

Credit risk is measured and managed in accordance with the Credit Risk Policies developed within the scope of the Risk Management Policies of the Bank. In this sense, the structure and characteristics of a loan, the provisions of loan agreements and financial conditions, structure of the risk profile until the end of maturity in parallel with potential market trends, guarantees and collaterals, internal risk ratings and potential changes with regard to the ratings in the process of risk exposure and concentrations (a single company, a group of affiliated companies, sector, country etc.) are taken into consideration. Compliance with the limits and risk appetite levels determined by the Board of Directors is monitored. Credit risk is managed by loan allocation and loan monitoring units in the Bank. Creditworthiness of loan customers is monitored and reviewed on a regular basis. Credit limits are set by the Board of Directors, the credit committee of the bank and the loan management. The Bank receives a sufficient amount of collateral in return for the loans extended thereby and its other receivables.

Credit risk is measured, monitored and reported by the Risk Management Department. Concentrations in the loan portfolio, loan quality of the portfolio, collateral structure, measurements concerning capital adequacy, stress tests and scenario analyses and the level of compliance with limits are regularly reported to the Board of Directors and the senior management.

##### *Credit quality of assets*

	Gross Carrying Value in Financial Statements Prepared in Accordance with Turkish Accounting Standards (TAS)		Allowances/ amortization and impairments	Net Values (a+b+c)
	Defaulted(a)	Non-defaulted (b)	(c)	(d)
1 Loans	48.439	19.195.071	48.439	19.195.071
2 Debt Securities	-	4.472.356	74.878	4.397.478
3 Off-balance sheet exposures	1.166	9.475.453	583	9.476.036
<b>4 Total</b>	<b>49.605</b>	<b>33.142.880</b>	<b>123.900</b>	<b>33.068.585</b>

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FOUR (Continued)

#### INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

#### X. Explanations related to risk management (continued)

Explanations related to credit risk

*Changes in stock of default loans and debt securities*

	Balance
<b>1 Defaulted loans and debt securities at end of the previous reporting period</b>	<b>59,988</b>
2 Loans and debt securities that have defaulted since the last reporting period	1,692
3 Receivables back to non-defaulted status	12,658
4 Amounts written off	-
5 Other changes	-
<b>6 Defaulted loans and debt securities at end of the reporting period (1+2+3+4+5)</b>	<b>59,022</b>

#### Additional disclosure related to the credit quality of assets

In accordance with Communiqué on Reserves;

Impaired loans, are loans past due more than 90 days as of reporting period or convinced to be impaired due to credibility. In accordance with Communiqué on Reserves, "Specific Provision" is allocated for these loans.

Past due loans, are loans past due up to 90 days as of reporting period but not impaired. In accordance with Communiqué on Reserves, "General Provision" is calculated for these loans. A restructuring refers to; extending a new loan with the purpose of repayment of a part or whole of the outstanding loans or related interest payments granted previously or, amending the conditions of such outstanding loans in order to facilitate the repayment capacity in accordance with the Regulation on Identification of and Provision against Non-Performing Loans and Other Receivables; due to the temporary liquidity constraint of the borrower. And for these receivables the general allowance will continue to be calculated with in the rates that are specifically followed, during the restructuring period.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FOUR (Continued)

#### INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

#### X. Explanations related to risk management (continued)

Explanations related to credit risk (continued)

*Risk profile by sectors or counterparties*

	Risk Types <sup>(1)</sup>																
	Contingent and non-contingent claims on regional governments and local authorities	Contingent and non-contingent claims on administrative units and non-commercial enterprises	Contingent and non-contingent claims on multilateral development banks	Contingent and non-contingent claims on international organizations	Contingent and non-contingent claims on banks and capital intermediary	Contingent and non-contingent claims on corporate	Contingent and non-contingent claims included in the regulatory real estate portfolios	Contingent and non-contingent claims secured by residential property	Past due loans	Higher-risk categories defined by agency	Securitization mortgage exposures	Short-term claims on corporate	Under takings for collectibles investments in transferable securities	Other claims	TL	FC	Total
Current Period	-	-	-	-	-	-	-	752	-	-	-	-	-	359	10,809	2,037	12,846
Agriculture	-	-	-	-	-	-	-	752	-	-	-	-	-	-	10,450	2,037	12,487
Farming and Stockbreeding	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Forestry	-	-	-	-	-	-	-	-	-	-	-	-	-	-	359	-	359
Fishery	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Manufacturing	-	-	-	-	-	-	-	495,824	-	-	-	-	7	-	1,020,073	11,800,607	12,820,680
Mining and Quarrying	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Production	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Electricity, Gas and Water	-	-	-	-	-	-	-	474,374	-	-	-	-	7	-	593,201	3,453,682	4,022,883
Construction	-	-	-	-	-	-	-	21,450	-	-	-	-	-	-	426,872	8,284,903	8,711,775
Services	-	-	-	-	-	-	-	7,390	-	-	-	-	-	-	9,375	176,233	185,608
Wholesale and Retail Trade	-	-	-	-	-	-	-	612,335	-	-	-	-	-	-	1,337,450	6,754,810	8,091,260
Accommodation and Dining	-	-	-	-	-	-	-	6,843	-	-	-	-	-	-	849	235,907	236,756
Transportation and Telecommunication	-	-	-	-	-	-	-	189,879	-	-	-	-	-	-	-	-	-
Financial Institutions	-	-	-	-	-	-	-	111,524	-	-	-	-	1,555	-	1,555	852,262	853,817
Real Estate and Rental Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,132,259	3,382,053	4,514,312
Professional Services	-	-	-	-	-	-	-	262,595	-	-	-	-	-	-	2,493	576,493	578,986
Educational Services	-	-	-	-	-	-	-	14,927	-	-	-	-	1,379	-	195,807	399,255	595,162
Health and Social Services	-	-	-	-	-	-	-	26,567	-	-	-	-	-	-	4,387	133,967	138,354
Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4,220,789	-	1,749	-	-	-	-	-	13,201	-	-	-	-	5,764	121,107	3,117,844	1,369,898	4,487,742
5,189,971	-	1,749	-	-	-	-	-	1,129,502	-	-	-	-	400,046	178,807	5,495,551	20,105,585	25,601,136

<sup>(1)</sup>Risk types contained in the Communiqué on "Measurement and Assessment of Capital Adequacy of Banks" have been taken. Since there is no securitization position, risk class of "Securitization Positions" has not been included in the table

(\*\*)The counterparty credit risk is included.

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### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FOUR (Continued)

#### INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

##### X. Explanations related to risk management (continued)

Explanations related to credit risk (continued)

*Profile of significant exposures in major region*

	Risk Types <sup>(*)</sup>														
	Contingent and non-contingent claims on regional governments and local sovereigns	Contingent and non-contingent claims on administrative units and non-commercial enterprises	Contingent and non-contingent claims on multilateral development banks	Contingent and non-contingent claims on international organizations	Contingent and non-contingent claims on banks and capital market intermediary	Contingent and non-contingent claims included in the regulatory real estate portfolios	Contingent and non-contingent claims secured by residential property	Past due loans	Higher-risk categories defined by agency	Securities secured by mortgage	Securitization exposures	Short-term claims on banks and corporate	Undertakings for collective investments in transferable securities	Other claims	Total
Current Period															
Domestic	5,189,971	-	1,749	-	-	1,008,419	16,940,327	-	1,129,502	-	-	-	12,447	57,700	24,340,115
European Union (EU) Countries	-	-	-	-	-	256,090	-	-	-	-	-	-	12,818	-	268,908
OECD Countries <sup>(**)</sup>	-	-	-	-	-	2,239	-	-	-	-	-	-	-	-	2,239
Off-Shore Banking	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Regions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
USA, Canada	-	-	-	-	-	33,839	-	-	-	-	-	-	-	-	33,839
Other Countries	-	-	-	-	-	152,201	70,007	-	-	-	-	-	222,208	-	222,208
Associates, Subsidiaries and Joint-Ventures	-	-	-	-	-	-	214,238	-	-	-	-	-	369,916	-	584,154
Unallocated Assets/	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities <sup>(***)</sup>	-	-	-	-	-	17,600	5,212	-	-	-	-	-	5,764	121,107	149,683
<b>Total</b>	<b>5,189,971</b>	<b>-</b>	<b>1,749</b>	<b>-</b>	<b>-</b>	<b>1,470,378</b>	<b>17,229,784</b>	<b>-</b>	<b>1,129,502</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>400,945</b>	<b>178,807</b>	<b>25,601,136</b>

(\*) Risk types in the Communiqué on "Measurement and Assessment of Capital Adequacy of Banks" have been used. Since there is no securitization position, risk class of "Securitization Positions" has not been included in the table

(\*\*) Includes OECD countries other than EU countries, USA and Canada

(\*\*\*) Includes asset and liability items that cannot be allocated on a consistent basis

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NOTES TO THE FINANCIAL STATEMENTS

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(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

SECTION FOUR (Continued)

INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

X. Explanations related to risk management (continued)

Explanations related to credit risk (continued)

Profile of significant exposures in major regions

	Risk Types <sup>(*)</sup>															
	Contingent and non-contingent claims on governments and local authorities	Contingent and non-contingent claims on administrative units and commercial enterprises	Contingent and non-contingent claims on multilateral development banks	Contingent and non-contingent claims on international organizations	Contingent and non-contingent claims on banks and capital market intermediary	Contingent and non-contingent claims included in the regulatory real estate portfolios	Contingent and non-contingent claims secured by residential property	Past due loans	Higher-risk categories defined by agency	Securities secured by mortgage	Securitization exposures	Short-term claims on banks and corporate	Undertakings for collective investments in transferable securities	Other claims	Total	
Prior Period <sup>(***)</sup>																
Domestic	4,371,346	-	1,088	-	-	2,408,933	14,126,409	-	792,989	-	170	-	-	-	44,306	21,745,241
European Union (EU)																
Countries	-	-	-	-	-	389,437	-	-	-	-	-	-	-	-	10,121	399,558
OECD Countries <sup>(**)</sup>	-	-	-	-	-	4,116	-	-	-	-	-	-	-	-	-	4,116
Off-Shore Banking	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Regions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
USA, Canada	-	-	-	-	-	86,129	-	-	-	-	-	-	-	-	-	86,129
Other Countries	-	-	-	-	-	163,982	64,094	-	-	-	-	-	-	-	-	228,076
Associates, Subsidiaries and Joint-Ventures	-	-	-	-	-	-	179,382	-	109,411	-	-	-	-	-	293,058	581,851
Unallocated Assets/Liabilities <sup>(***)</sup>	-	318	-	-	-	-	4,229	-	-	-	-	-	-	-	144,066	148,613
Total	4,371,346	-	1,406	-	-	3,052,597	14,374,114	-	902,400	-	170	-	-	-	491,551	23,193,584

(\*) Risk types in the Communiqué on "Measurement and Assessment of Capital Adequacy of Banks" have been used.

(\*\*) Includes OECD countries other than EU countries, USA and Canada.

(\*\*\*) Includes asset and liability items that cannot be allocated on a consistent basis.

(\*\*\*\*)The counterparty credit risk is included.



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## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FOUR (Continued)

#### INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

#### X. Explanations related to risk management (continued)

Explanations related to credit risk (continued)

*Analysis of maturity-bearing exposures according to remaining maturities*

<b>Risk Types</b>	<b>Term to Maturity</b>				
<b>Current Period</b>	<b>1 month</b>	<b>1-3 months</b>	<b>3-6 months</b>	<b>6-12 months</b>	<b>Over 1 year</b>
Contingent and Non-Contingent Claims on Sovereigns	612.776	1.165	377.492	148.307	3.286.448
Contingent and Non-Contingent Claims on Regional Governments and Local Authorities	-	-	-	-	-
Contingent and Non-Contingent Claims on Administrative Units and Non-commercial Enterprise	60	-	-	-	1.674
Contingent and Non-Contingent Claims on Multilateral Development Banks	-	-	-	-	-
Contingent and Non-Contingent Claims on International Organizations	-	-	-	-	-
Contingent and Non-Contingent Claims on Banks and Capital Market Intermediary	178.260	133.540	188.064	54.380	662.116
Contingent and Non-Contingent Claims on Corporates	93.951	545.345	528.065	1.202.850	14.730.991
Contingent and Non-Contingent Claims Included in the Regulatory Real Estate Portfolios	-	-	-	-	-
Contingent and Non-Contingent Claims Secured by Residential Property	1.939	395	21.327	11.868	1.084.680
Past Due Loans	-	-	-	-	-
Higher-Risk Categories Defined by Agency	-	-	-	-	-
Securities Secured by Mortgage	-	-	-	-	-
Securitization Exposures	-	-	-	-	-
Short-Term Claims on Banks and Corporate	-	-	-	-	-
Undertakings for Collective Investments in Transferable Securities	-	-	-	-	-
Other Claims	1.009	-	-	-	16.866
<b>Total</b>	<b>887.995</b>	<b>680.445</b>	<b>1.114.948</b>	<b>1.417.405</b>	<b>19.782.775</b>

<b>Risk Types</b>	<b>Term to Maturity</b>				
<b>Prior Period <sup>(*)</sup></b>	<b>1 month</b>	<b>1-3 months</b>	<b>3-6 months</b>	<b>6-12 months</b>	<b>Over 1 year</b>
Contingent and Non-Contingent Claims on Sovereigns	802.706	49.995	-	274.334	3.177.749
Contingent and Non-Contingent Claims on Regional Governments and Local Authorities	-	-	-	-	-
Contingent and Non-Contingent Claims on Administrative Units and Non-commercial Enterprise	1.086	-	-	-	296
Contingent and Non-Contingent Claims on Multilateral Development Banks	-	-	-	-	-
Contingent and Non-Contingent Claims on International Organizations	-	-	-	-	-
Contingent and Non-Contingent Claims on Banks and Capital Market Intermediary	1.912.409	45.773	179.201	63.333	651.939
Contingent and Non-Contingent Claims on Corporates	364.812	421.254	441.073	1.226.863	11.774.514
Contingent and Non-Contingent Claims Included in the Regulatory Real Estate Portfolios	-	-	-	-	-
Contingent and Non-Contingent Claims Secured by Residential Property	109.411	494	-	58.274	734.221
Past Due Loans	-	-	-	-	-
Higher-Risk Categories Defined by Agency	-	-	-	-	170
Securities Secured by Mortgage	-	-	-	-	-
Securitization Exposures	-	-	-	-	-
Short-Term Claims on Banks and Corporate	-	-	-	-	-
Undertakings for Collective Investments in Transferable Securities	-	-	-	-	-
Other Claims	5.376	5.068	-	10.017	69.988
<b>Total</b>	<b>3.195.800</b>	<b>522.584</b>	<b>620.274</b>	<b>1.632.821</b>	<b>16.408.877</b>

<sup>(\*)</sup>The counterparty credit risk is included.

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## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

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#### SECTION FOUR (Continued)

#### INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

#### X. Explanations related to risk management (continued)

Explanations related to credit risk (continued)

Information of major sectors or type of counterparties

Current Period		Loans		
Major Sectors / Counterparties	Impaired Loans	Past Due Loans	Value Adjustments	Provisions
Agriculture	3.446	-	-	(3.446)
Farming and Stockbreeding	3.446	-	-	(3.446)
Forestry	-	-	-	-
Fishery	-	-	-	-
Manufacturing	35.902	20.281	349	(35.902)
Mining and Quarrying	193	-	-	(193)
Production	1.972	20.281	349	(1.972)
Electricity, Gas and Water	33.737	-	-	(33.737)
Construction	9.091	-	-	(9.091)
Services	-	-	-	-
Wholesale and Retail Trade	-	-	-	-
Accommodation and Dining	-	-	-	-
Transportation and Telecommunication	-	-	-	-
Financial Institutions	-	-	-	-
Real Estate and Rental Services	-	-	-	-
Professional Services	-	-	-	-
Educational Services	-	-	-	-
Health and Social Services	-	-	-	-
Others	-	-	-	-
<b>Total</b>	<b>48.439</b>	<b>20.281</b>	<b>349</b>	<b>(48.439)</b>
Prior Period		Loans		
Major Sectors / Counterparties	Impaired Loans	Past Due Loans	Value Adjustments	Provisions
Agriculture	3.446	-	-	(3.446)
Farming and Stockbreeding	3.446	-	-	(3.446)
Forestry	-	-	-	-
Fishery	-	-	-	-
Manufacturing	46.439	11.293	-	(46.439)
Mining and Quarrying	193	-	-	(193)
Production	8.368	-	-	(8.368)
Electricity, Gas and Water	37.878	11.293	-	(37.878)
Construction	9.520	3.848	-	(9.520)
Services	-	-	-	-
Wholesale and Retail Trade	-	-	-	-
Accommodation and Dining	-	-	-	-
Transportation and Telecommunication	-	-	-	-
Financial Institutions	-	-	-	-
Real Estate and Rental Services	-	-	-	-
Professional Services	-	-	-	-
Educational Services	-	-	-	-
Health and Social Services	-	-	-	-
Others	-	-	-	-
<b>Total</b>	<b>59.405</b>	<b>15.141</b>	<b>-</b>	<b>(59.405)</b>

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## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FOUR (Continued)

#### INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

#### X. Explanations related to risk management (continued)

##### Explanations related to credit risk (continued)

The Bank's all impaired and non-performing receivables comprise of domestic receivables.

##### Information related with value adjustments and loan loss provisions

Current Period	Opening balance	Provision for the period	Provision reversals	Other adjustments	Closing balance
Specific Provisions	59.405	1.692	(12.658)	-	48.439
General Loan Loss Provision	150.329	28.134	-	-	178.463

Prior Period	Opening balance	Provision for the period	Provision reversals	Other adjustments	Closing balance
Specific Provisions	16.936	43.392	(923)	-	59.405
General Loan Loss Provision	125.194	25.135	-	-	150.329

The aging analysis of the receivables past due but not impaired in terms of financial asset classes, is as follows:

Current Period	Less than 30 Days	31- 60 Days	61- 90 Days	More than 91 Days	Total
Loans and Receivables					
Corporate Loans	20.281	-	-	-	20.281
Loans to SME	-	-	-	-	-
Consumer Loans	-	-	-	-	-
Other	-	-	-	-	-
<b>Total</b>	<b>20.281</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20.281</b>

For the restructured loans and other receivables amounting to TL 194.994 in the first and second group, general provision amounting to TL 3.401, for credit and other receivables restructured as non-performing loans amounting to TL 10.707 special provision amounting to TL 10.707.

Prior Period	Less than 30 Days	31- 60 Days	61- 90 Days	More than 91 Days	Total
Loans and Receivables					
Corporate Loans	3.848	-	-	-	3.848
Loans to SME	-	11.293	-	-	11.293
Consumer Loans	-	-	-	-	-
Other	-	-	-	-	-
<b>Total</b>	<b>3.848</b>	<b>11.293</b>	<b>-</b>	<b>-</b>	<b>15.141</b>

#### Credit risk mitigation

##### Qualitative disclosure on credit risk mitigation techniques

As for the valuations performed within the scope of credit risk mitigation techniques, the methods used for the valuation and management of collaterals are utilized in parallel with the Communiqué on Credit Risk Reduction Techniques. Offsetting is not used as a credit risk reduction technique.

Financial collaterals are subject to daily valuation at the Bank. Depending on the use of the comprehensive financial collateral method, risk-mitigating impacts of the collaterals are taken into consideration by way of standard volatility adjustments. Valuations of the real estate mortgages utilized for the calculation of capital adequacy are regularly reviewed. It is ensured that the value of real estates be ascertained by the valuation institutions authorized by the CMB.

Major collaterals that can be used by the Bank within the scope of credit risk mitigation techniques are financial collaterals, guarantees and mortgages. In the report dated 31 December 2016, mortgages were used as the credit risk reduction technique in the calculation of credit risk exposure.

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## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FOUR (Continued)

#### INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

#### X. Explanations related to risk management (continued)

##### Credit risk mitigation(continued)

##### Qualitative disclosure on credit risk mitigation techniques(continued)

Current Period	Risk Amount <sup>(*)</sup>	Average Risk Amount <sup>(**)</sup>
Contingent and non-contingent claims on sovereigns	5,349,704	4,839,243
Contingent and non-contingent claims on regional governments and local authorities	-	-
Contingent and non-contingent claims on administrative units and non-commercial enterprises	8,743	8,023
Contingent and non-contingent claims on multilateral development banks	-	-
Contingent and non-contingent claims on international organizations	-	-
Contingent and non-contingent claims on banks and capital market intermediary	1,917,561	3,330,263
Contingent and non-contingent claims on corporates	24,049,655	18,623,281
Contingent and non-contingent claims included in the regulatory retail portfolios	-	-
Contingent and non-contingent claims secured by real estate property	1,152,136	1,243,116
Past due loans	-	-
Higher-risk categories defined by agency	-	30
Securities secured by mortgage	-	-
Securitization exposures	-	-
Short-term claims on banks and corporate	-	-
Undertakings for collective investments in transferable securities	400,945	214,765
Other claims	189,842	495,286

<sup>(\*)</sup> Includes total risk amounts before the effect of credit risk mitigation.

<sup>(\*\*)</sup> Average risk amounts are the arithmetical averages of the amounts in monthly reports prepared starting from 1 January 2016 to the period end.

Prior Period <sup>(***)</sup>	Risk Amount <sup>(*)</sup>	Average Risk Amount <sup>(**)</sup>
Contingent and non-contingent claims on sovereigns	4,642,482	4,174,017
Contingent and non-contingent claims on regional governments and local authorities	-	-
Contingent and non-contingent claims on administrative units and non-commercial enterprises	4,164	2,165
Contingent and non-contingent claims on multilateral development banks	-	2,130
Contingent and non-contingent claims on international organizations	-	-
Contingent and non-contingent claims on banks and capital market intermediary	5,828,435	5,216,632
Contingent and non-contingent claims on corporates	17,229,382	16,861,932
Contingent and non-contingent claims included in the regulatory retail portfolios	-	-
Contingent and non-contingent claims secured by real estate property	902,620	493,554
Past due loans	-	-
Higher-risk categories defined by agency	170	78
Securities secured by mortgage	-	-
Securitization exposures	-	-
Short-term claims on banks and corporate	-	-
Undertakings for collective investments in transferable securities	-	-
Other claims	733,041	642,803

<sup>(\*)</sup> Includes total risk amounts before the effect of credit risk mitigation.

<sup>(\*\*)</sup> Average risk amount are the arithmetical average of the amounts in monthly reports prepared starting from 1 January 2015 to the period end.

<sup>(\*\*\*)</sup> Includes the counterparty credit risk

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## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FOUR (Continued)

#### INFORMATION ON UNCONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

#### X. Explanations related to risk management (continued)

##### Credit risk mitigation (continued)

Current Period										
Risk Weights	0%	10%	20%	50%	75%	100%	150%	200%	1250%	Deducted from Equity
Exposures Before Credit Risk										
Mitigation	3.197.785	84	402.867	4.568.450	-	17.432.150	-	-	-	124.974
Exposures After Credit Risk Mitigation	3.197.785	84	402.867	5.697.951	-	16.302.649	-	-	-	124.974
Prior Period										
Risk Weights	0%	10%	20%	50%	75%	100%	150%	200%	1250%	Deducted from Equity
Exposures Before Credit Risk										
Mitigation	3.496.034	-	3.860.136	3.884.700	-	14.518.837	64	106	-	123.143
Exposures After Credit Risk Mitigation	3.348.320	-	1.828.304	4.442.930	-	13.573.860	64	106	-	123.143

##### Credit risk mitigation techniques - Standard approach

	Exposures unsecured: value in accordance with TAS.	Exposures secured by collateral	Exposures secured by collateral, of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
1 Loans	17.916.659	1.278.412	1.089.582	-	-	-	-
2 Debt securities	4.397.478	-	-	-	-	-	-
3 Total	22.314.137	1.278.412	1.089.582	-	-	-	-
4 Of which defaulted	48.439	-	-	-	-	-	-

##### Qualitative disclosures on banks' use of external credit ratings under the standardised approach for credit risk

The ratings given by international credit rating agency Fitch Ratings are used to determine the risk weights in adequacy calculation regarding receivables from receivables from banks and intermediary institutions and corporates reside abroad, central sovereigns and central bank, Receivables from residents in Turkey are classified as unrated. These credit ratings are not used for the instruments issued by the debtor.

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#### SECTION FOUR (Continued)

#### INFORMATION ON UNCONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

#### X. Explanations related to risk management (continued)

Explanations related to credit risk (continued)

Credit risk mitigation (continued)

Ratings given by Fitch Ratings are matched with credit quality levels and risk weights based on risk classes as shown in the following table:

Current Period		Risk Types			
Credit Quality Grades	Fitch Ratings	Claims on Sovereigns	Claims on Banks and Capital Market Intermediary		Claims on Corporate Receivables
			Claims with Remaining Maturities Less Than 3 Months	Claims with Remaining Maturities More Than 3 Months	
1	AAA	0%	20%	20%	20%
	AA+				
	AA				
	AA-				
2	A+	20%	20%	50%	50%
	A				
	A-				
3	BBB+	50%	20%	50%	100%
	BBB				
	BBB-				
4	BB+	100%	50%	100%	100%
	BB				
	BB-				
5	B+	100%	50%	100%	150%
	B				
	B-				
6	CCC+	150%	150%	150%	150%
	CCC				
	CCC-				
	CC				
	C				
	D				
Unrated	Unrated	100%	20% <sup>(*)</sup>	50% <sup>(*)</sup>	100%

<sup>(\*)</sup> Used in case when the risk weight of the sovereign of the Bank's country is not higher.

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## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FOUR (Continued)

#### INFORMATION ON UNCONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

##### X. Explanations Related to risk management (continued)

Credit risk mitigation (continued)

##### Standardised approach – Credit risk exposure and credit risk mitigation effects

Asset Classes	Exposures before credit conversion factor and credit risk mitigation		Exposures post credit conversion factor and credit risk mitigation		Risk weighted amount and risk weighted amount density	
	Balance sheet amount	Off-balance sheet amount	Balance sheet amount	Off-balance sheet amount	Risk weighted amount	Risk weighted amount density
1 Exposures to sovereigns and their central banks	5.150.038	199.666	5.150.038	39.933	996.206	19,2%
2 Exposures to regional and local governments	-	-	-	-	-	-
3 Exposures to administrative bodies and non-commercial entities	-	8.743	-	1.749	1.749	100,0%
4 Exposures to multilateral development banks	-	-	-	-	-	-
5 Exposures to international organizations	-	-	-	-	-	-
6 Exposures to banks and securities firms	1.245.465	672.096	1.245.465	224.913	621.859	42,3%
7 Exposures to corporates	15.598.584	8.451.073	15.598.584	1.631.200	16.467.915	95,6%
8 Retail exposures	-	-	-	-	-	-
9 Exposures secured by residential property	-	-	-	-	-	-
10 Exposures secured by commercial real estate	1.089.582	62.554	1.089.582	39.920	564.751	50,0%
11 Past-due items	48.439	-	-	-	-	-
12 Exposures in high-risk categories	-	-	-	-	-	-
13 Exposures in the form of bonds secured by mortgages	-	-	-	-	-	-
14 Short term exposures to banks, capital market intermediary and corporates	-	-	-	-	-	-
15 Exposures in the form of collective investment undertakings	-	-	-	-	-	-
16 Other exposures	107.934	81.908	107.934	70.873	178.780	100,0%
17 Equity share investments	400.945	-	400.945	-	400.945	100,0%
<b>18 Total</b>	<b>23.640.987</b>	<b>9.476.040</b>	<b>23.592.548</b>	<b>2.008.588</b>	<b>19.232.205</b>	<b>75,1%</b>



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## NOTES TO THE FINANCIAL STATEMENTS

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#### SECTION FOUR (Continued)

#### INFORMATION ON UNCONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

#### X. Explanations related to risk management (continued)

Credit risk mitigation(continued)

Credit risk under standardised approach (continued)

#### Standardised approach - Exposures by asset classes and risk weights

	Risk Groups/ Risk Weight	0%	10%	20%	50% Secured by Real Estate Property	75%	100%	150%	200%	Other	Total Risk Amount <sup>(*)</sup>
1	Contingent and Non-Contingent Receivables from Central Governments or Central Banks	3.197.558	-	-	1.992.413	-	-	-	-	-	5.189.971
2	Contingent and Non-Contingent Receivables from Regional Government or Domestic Government	-	-	-	-	-	-	-	-	-	-
3	Contingent and Non-Contingent Receivables from Administrative Units and Non-Commercial Enterprises	-	-	-	-	-	1.749	-	-	-	1.749
4	Contingent and Non-Contingent Receivables from Multilateral Development Banks	-	-	-	-	-	-	-	-	-	-
5	Contingent and Non-Contingent Receivables from International Organizations	-	-	-	-	-	-	-	-	-	-
6	Contingent and Non-Contingent Receivables from Banks and Intermediaries	-	84	402.867	1.052.300	-	15.127	-	-	-	1.470.378
7	Exposures to corporates	-	-	-	1.523.736	-	15.706.048	-	-	-	17.229.784
8	Retail exposures	-	-	-	-	-	-	-	-	-	-
9	Exposures secured by property	-	-	-	1.129.502	-	-	-	-	-	1.129.502
10	Past-due loans	-	-	-	-	-	-	-	-	-	-
11	Exposures in higher-risk categories	-	-	-	-	-	-	-	-	-	-
12	Exposures in the form of bonds secured by mortgages	-	-	-	-	-	-	-	-	-	-
13	Short term exposures to banks, brokerage houses and corporates	-	-	-	-	-	-	-	-	-	-
14	Equity investments in the form of collective investment undertakings	-	-	-	-	-	-	-	-	-	-
15	Equity investments	-	-	-	-	-	400.945	-	-	-	400.945
16	Other exposures	27	-	-	-	-	178.780	-	-	-	178.807
17	<b>Total</b>	<b>3.197.585</b>	<b>84</b>	<b>402.867</b>	<b>5.697.951</b>	<b>-</b>	<b>16.302.649</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>25.601.136</b>

<sup>(\*)</sup> Total Risk Amount: Included the total risk amounts after the effect of credit risk mitigation and credit conversions.

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## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

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#### SECTION FOUR (Continued)

#### INFORMATION ON UNCONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

##### X. Explanations related to risk management (continued)

##### Disclosures on counterparty credit risk (CCR)

##### Qualitative disclosures on CCR

Counterparty credit risk is managed by monitoring the concentrations at various levels with regard to counterparty credit risks, the capital requirement imposed by the counterparty credit risk and the limits set by the Board of Directors for counterparty transactions. Moreover, the ratio of the counterparty credit risk exposure to total risk-weighted assets has been identified as a risk appetite indicator.

Counterparty credit risk resulting from repurchase transactions, securities and commodities lending transactions and derivatives transactions is calculated within the framework of Annex 2 of the Regulation on the Measurement and Assessment of the Capital Adequacy of Banks. Fair Value Valuation Method is applied for derivatives transactions. Risk exposure of derivative transactions is equal to the sum of replacement cost and potential credit risk amount. Besides, capital requirement is also calculated for credit valuation adjustment (CVA) risk in relation to derivatives transactions. For repurchase and securities lending transactions risk amount is calculated considering volatility and credit quality level. Derivatives transactions executed with counterparties are carried out within the scope of "ISDA" and "CSA" agreements. These agreements contain the same collateralization provisions for our Bank and counterparties and daily collateral settlement is performed.

##### Analysis of counterparty credit risk exposure by approach

	Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory exposure at default	Exposure at default post Credit risk mitigation	Risk weighted amount
1 Standardised Approach (for derivatives)	375.714	230.653	-	-	536.713	356.844
Internal Model Method (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)	-	-	-	-	-	-
2 Simple Approach for credit risk mitigation (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)	-	-	-	-	-	-
3 Comprehensive Approach for credit risk mitigation (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)	-	-	-	-	-	-
4 Value-at-Risk (VaR) for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions	-	-	-	-	229.704	133.023
5	-	-	-	-	-	-
<b>6 Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>489.867</b>

##### Credit valuation adjustment (CVA) for capital charge

	Exposure at default post-credit risk mitigation techniques	Risk weighted amount
<b>Total portfolios subject to the Advanced CVA capital charge</b>	<b>-</b>	<b>-</b>
1 (i) Value at Risk component (including the 3xmultiplier)	-	-
2 (ii) Stressed VaR component (including the 3xmultiplier)	-	-
3 All portfolios subject to the Standardised CVA capital charge	536.713	203.492
<b>4 Total subject to the CVA capital charge</b>	<b>536.713</b>	<b>203.492</b>

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#### SECTION FOUR (Continued)

#### INFORMATION ON UNCONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

#### X. Explanations related to risk management (continued)

Disclosures on counterparty credit risk (CCR) (continued)

#### Standardised approach – Counterparty credit risk exposures by regulatory portfolio and risk weights

Risk weight / Risk classes	0%	10%	20%	50%	75%	100%	150%	Other	Total credit exposure <sup>(1)</sup>
Exposures to sovereigns and their central banks	1.450	-	-	-	-	-	-	-	1.450
Exposures to regional and local government	-	-	-	-	-	-	-	-	-
Exposures to administrative bodies and non-commercial entities	-	-	-	-	-	521	-	-	521
Exposures to multilateral development banks	-	-	-	-	-	-	-	-	-
Exposures international organizations	-	-	-	-	-	-	-	-	-
Exposures to banks and capital market intermediary	-	-	29.851	485.940	-	-	-	-	515.791
Exposures to corporates	-	-	-	16.498	-	230.316	-	-	246.814
Retail exposures	-	-	-	-	-	-	-	-	-
Exposures on landed real estate	-	-	-	-	-	-	-	-	-
Past-due items	-	-	-	-	-	-	-	-	-
Exposures in high-risk categories	-	-	-	-	-	-	-	-	-
Exposures in the form of bonds secured by mortgages	-	-	-	-	-	-	-	-	-
Securitization positions	-	-	-	-	-	-	-	-	-
Claims from corporates, banks and financial intermediaries which have short term credit rating	-	-	-	-	-	-	-	-	-
Exposures in the form of collective investment undertakings	-	-	-	-	-	-	-	-	-
Equity share investments	-	-	-	-	-	-	-	-	-
Other exposures	-	-	-	-	-	1.841	-	-	1.841
Other assets	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>1.450</b>	<b>-</b>	<b>29.851</b>	<b>502.438</b>	<b>-</b>	<b>232.678</b>	<b>-</b>	<b>-</b>	<b>766.417</b>

<sup>(1)</sup> Total Credit Exposures Amount: The amount which is related to capital adequacy calculation after implementation of counter party credit risk mitigation techniques.

#### Collaterals used for CCR

	Collaterals received		Collaterals given		Collaterals received	Collaterals given
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash – domestic currency	-	-	-	-	334.440	-
Cash – foreign currency	-	69.654	-	-	493.145	-
Domestic sovereign debt	-	-	-	-	-	-
Other sovereign debt	-	-	-	-	-	-
Government agency debt	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>69.654</b>	<b>-</b>	<b>-</b>	<b>827.585</b>	<b>-</b>

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FOUR (Continued)

#### INFORMATION ON UNCONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

##### X. Explanations related to risk management (continued)

###### Credit derivatives

None.

###### Exposures to central counterparties (CCP)

None.

###### Explanations on securitizations

None.

###### Disclosures on market risk

Qualitative information to be disclosed to public concerning market risk

Market risk is the possibility of a risk being incurred by the portfolio or position accepted within the scope of trading portfolio as a result of interest rates, equity prices, commodity prices in financial markets and exchange rate fluctuations. The purpose of market risk management is to manage, within the appropriate parameters, the risks which the Bank might be exposed to with a proactive approach and thus maximize the Bank's risk adjusted return.

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

Moreover, the creditworthiness of issuers of financial instruments causing market risk is monitored carefully

Market Risk is managed by using consistent risk measurements and criteria fluctuation level of interest rates and/or prices and Value at Risk calculations, establishing appropriate procedures for control and monitoring compliance with identified risk limits and risk appetite. Market risk is measured, monitored and reported by the Department of Risk Management. The Bank uses two main approaches in the calculation of market risk BRSA Standard Method and Value at Risk (VaR) approach.

The standard method is applied in the calculation of capital adequacy on a monthly basis. VaR calculations are performed on a daily basis and are reported to the senior management. Monte Carlo simulation method is used for VaR calculations.

The VaR model is based on the assumptions of a 99% confidence interval and a 1-day holding period, and the accuracy of the model is assured by back-testing which is based on the comparison of calculated VaR Value against incurred losses. Besides, stress tests are conducted so as to identify the impacts on VaR which will be highly damaging, although their occurrence is a low possibility.

In addition to the activities of the Risk Management Department, the Treasury Control Unit also reports daily positions and limit use status to the senior management.

##### Market Risk-standard approach

		RWA
	<b>Outright products</b>	-
1	Interest rate risk (general and specific)	610.262
2	Equity risk (general and specific)	-
3	Foreign exchange risk	24.263
4	Commodity risk	-
	<b>Options</b>	-
5	Simplified approach	-
6	Delta-plus method	-
7	Scenario approach	-
8	Securitisation	-
<b>9</b>	<b>Total</b>	<b>634.525</b>

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FOUR (Continued)

#### INFORMATION ON UNCONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

##### X. Explanations related to risk management (continued)

##### Disclosure on operational risk

##### Information to be disclosed to the public regarding market risk

Operational Risk Exposure is measured in the Bank once a year by using the Basic Indicator Method based on the "Regulation on the Measurement and Assessment of the Capital Adequacy of Banks".

	31/12/2013	31/12/2014	31/12/2015	Total/No. of years of positive gross	Rate (%)	Total
Gross Income	490.507	578.826	644.242	571.192	15	85.679
Value at Operational Risk (Total*12,5)						1.070.988

##### Disclosures on interest rate risk resulting from banking book

It is monthly calculated and reported within the scope of the Standard Shock Measurement and Evaluation Method of the Interest Rate Risk in Banking Accounts Duration and sensitivity analysis are conducted on a monthly basis by the Bank in the scope of monitoring of interest rate risk arising from the banking books about Interest Rate Risk in the Banking Accounts from the Regulation on Measurement and Assessment of Standard Shock Method.

The economic valuation differences of the Bank arising from fluctuations on interest rates, in different currencies that is calculated in accordance with the communiqué are presented in the table below.

Current Period	Applied Shock (+/- x basis point)	Revenue/ Loss	Revenue/Shareholders' Equity – Loss / Shareholders' Equity
Currency			
1 TL	+500 / (400) basis point	(155.521) / 147.503	(5,02%) / 4,76%
2 Euro	+200 / (200) basis point	32.523 / (15.160)	1,05 %/ (0,49%)
3 US Dollar	+200 / (200) basis point	(57.320) / 55.837	(%1,85) / 1,80%
Total (for Negative Shocks)		188.181	6,07%
Total (for Positive Shocks)		(180.318)	(5,82%)

Prior Period	Applied Shock (+/- x basis point)	Revenue/ Loss	Revenue/Shareholders' Equity – Loss/ Shareholders' Equity
Currency			
1 TL	+500 / (400) basis point	(109.504) / 101.850	(4,16%) / 3,87%
2 Euro	+200 / (200) basis point	24.347 / (16.939)	0,93% / (0,64%)
3 US Dollar	+200 / (200) basis point	(33.352) / 29.108	(1,27%) / 1,11%
Total (for Negative Shocks)		114.019	4,34%
Total (for Positive Shocks)		(118.509)	(4,50%)

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FIVE

#### EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS

##### I.Explanations and disclosures related to the unconsolidated assets

##### 1.a Information on cash and balances with the Central Bank of Turkey:

	Current Period		Prior Period	
	TL	FC	TL	FC
Cash in TL/Foreign Currency	27	-	12	-
Balances with the Central Bank of Turkey	161.276	616.771	40.426	770.676
Other	-	-	-	-
<b>Total</b>	<b>161.303</b>	<b>616.771</b>	<b>40.438</b>	<b>770.676</b>

##### 1.b. Information related to the account of the Central Bank of Turkey:

	Current Period		Prior Period	
	TL	FC	TL	FC
Unrestricted demand deposits	161.276	3.995	40.426	3.437
Unrestricted time deposits	-	-	-	-
Restricted time deposits	-	-	-	-
Other <sup>(*)</sup>	-	612.776	-	767.239
<b>Total</b>	<b>161.276</b>	<b>616.771</b>	<b>40.426</b>	<b>770.676</b>

(\*) Deposits at Central Bank of Turkey held as reserve requirement.

As per the Communiqué numbered 2005/1 "Reserve Deposits" of the 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 days periods. The CBRT has started to pay interest to the Required Reserves held in Turkish Lira according to regulation released at 5 November 2014.

In accordance with the regulation issued at 27 January 2015, CBRT has begun 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. The CBRT Required reserves of 2 May 2015 has started to pay interest to the Required reserves, reserve options and unrestricted account held in US dollars according to regulation released at 5 May 2015.

As per the "Communiqué on Amendments to be Made on Communiqué on Required Reserves" of Central Bank of Turkey, numbered 2011/11 and 2011/13, required reserves for Turkish Lira and Foreign currency liabilities are set at Central Bank of Turkey based on rates mentioned below. Reserve rates prevailing at 31 December 2016 are presented in table below:

Reserve Rates for Turkish Lira Liabilities (%)		
Original Maturity	Reserve Ratio	
Other liabilities until 1 year maturity (1 year included)	10,5	
Other liabilities until 3 year maturity (3 year included)	7	
Other liabilities more than 5 year maturity	4	
Reserve Rates for FC Liabilities (%)		
Original Maturity	Reserve Ratio If the fund borrowed Before 28.08.2015	Reserve Ratio If the fund borrowed After 28.08.2015
Other liabilities until 1 year maturity (1 year included)	19	24
Other liabilities until 2 year maturity (2 year included)	13	19
Other liabilities until 3 year maturity (3 year included)	7	14
Other liabilities until 5 year maturity (5 year included)	6	6
Other liabilities more than 5 year maturity	5	4

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### I. Explanations and disclosures related to the unconsolidated assets (continued)

##### 2.a Information on financial assets at fair value through profit and loss:

##### 2.a.1 Trading securities:

##### 2.a.1.a Trading securities given as collateral or blockage:

As of the reporting date, the Bank has no trading securities given as collateral or blockage (31 December 2015: None).

##### 2.a.1.b Trading securities subject to repurchase agreements:

As of the reporting date, the Bank has no trading securities subject to repurchase agreements (31 December 2015: None).

##### 2.a.2 Information on financial assets designated at fair value through profit and loss:

##### 2.a.2.a Information on financial assets designated at fair value through profit and loss given as collateral or blockage:

As of the reporting date, the Bank has no financial assets designated at fair value through profit and loss given as collateral or blockage (31 December 2015: None).

##### 2.a.2.b Financial assets designated at fair value through profit and loss subject to repurchase agreements:

As of the reporting date, the Bank has no financial assets designated at fair value through profit and loss subject to repurchase agreements (31 December 2015: None).

##### 2.b Positive differences table related to derivative financial assets held-for-trading:

Held for Trading Financial Derivative Instruments	Current Period		Prior Period	
	TL	FC	TL	FC
Forward Transactions	13.290	8.819	769	2.606
Swap Transactions	112.529	115.180	8.427	83.584
Futures Transactions	-	-	-	-
Options	-	125.627	-	73.596
Other	-	-	-	-
<b>Total</b>	<b>125.819</b>	<b>249.626</b>	<b>9.196</b>	<b>159.786</b>

##### 3. Information on banks and foreign banks account

##### 3.a Information on banks:

	Current Period		Prior Period	
	TL	FC	TL	FC
Banks				
Domestic	350	1.695	324	496.997
Foreign	15.010	46.398	-	37.508
Branches and head office abroad	-	-	-	-
<b>Total</b>	<b>15.360</b>	<b>48.093</b>	<b>324</b>	<b>534.505</b>



# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### I. Explanations and disclosures related to the unconsolidated assets (continued)

##### 3. Information on banks and foreign banks account (continued)

##### 3.b Information on foreign banks:

	Unrestricted Amount		Restricted Amount	
	Current Period	Prior Period	Current Period	Prior Period
European Union Countries	8.486	3.514	-	-
USA and Canada	1.948	3.782	-	-
OECD Countries <sup>(*)</sup>	1.041	30.212	-	-
Off-shore banking regions	-	-	-	-
Other	49.933	-	-	-
<b>Total</b>	<b>61.408</b>	<b>37.508</b>	<b>-</b>	<b>-</b>

<sup>(\*)</sup> OECD countries other than European Union countries, USA and Canada.

#### 4. Information on available-for-sale financial assets

##### 4.a.1 Available-for-sale financial assets subject to repurchase agreements:

	Current Period		Prior Period	
	TL	FC	TL	FC
Government bonds	111.173	-	1.507.545	-
Treasury bills	-	-	-	-
Other debt securities	-	101.682	-	76.662
Bank bonds and bank guaranteed bonds	-	-	-	-
Asset backed securities	-	-	-	-
Other	-	-	-	-
<b>Total</b>	<b>111.173</b>	<b>101.682</b>	<b>1.507.545</b>	<b>76.662</b>

##### 4.a.2 Information on available-for-sale financial assets given as collateral or blockage:

All available for sale financial assets given as collateral comprise of financial assets issued by the T.R. Undersecretariat of Treasury. The carrying value of those assets is TL 1.252.789 (31 December 2015: TL 737.201).

	Current Period		Prior Period	
	TL	FC	TL	FC
Share certificates	-	-	-	-
Bond, treasury bill and similar investment securities	497.581	755.208	259.298	477.903
Other	-	-	-	-
<b>Total</b>	<b>497.581</b>	<b>755.208</b>	<b>259.298</b>	<b>477.903</b>

##### 4.b Major types of available for sale financial assets:

Available for sale financial assets comprised of government bonds 59,38%, Eurobonds 31,52% and shares and other securities 9,10% (31 December 2015: government bonds 60,36%, Eurobonds 27,98% and shares and other securities 11,66%).

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### I. Explanations and disclosures related to the unconsolidated assets (continued)

##### 4. Information on available-for-sale financial assets (continued)

##### 4.c Information on available for sale financial assets portfolio:

	Current Period	Prior Period
Debt securities	3.096.626	2.967.995
Quoted on a stock exchange	2.040.539	2.106.882
Unquoted	1.056.087	861.113
Share certificates	56.458	50.286
Quoted on a stock exchange	29.579	27.737
Unquoted	26.879	22.549
Other Impairment provision(-)	(82.662)	(47.312)
<b>Total</b>	<b>3.070.422</b>	<b>2.970.969</b>

The net book value of unquoted available for sale share certificates is TL 21.992 (31 December 2015: TL 14.147).

##### 5. Information on loans

##### 5.a Information on all types of loans and advances given to shareholders and employees of the Bank:

	Current Period		Prior Period	
	Cash Loans	Non-Cash Loans	Cash Loans	Non-Cash Loans
Direct loans granted to shareholders	21.131	-	84.840	117.412
Corporate shareholders	21.131	-	84.840	117.412
Real person shareholders	-	-	-	-
Indirect loans granted to shareholders	-	-	-	-
Loans granted to employees	217	-	228	-
<b>Total</b>	<b>21.348</b>	<b>-</b>	<b>85.068</b>	<b>117.412</b>

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### I. Explanations and disclosures related to the unconsolidated assets (continued)

##### 5. Information on loans (continued)

##### 5.b Information on the first and second group loans and other receivables including restructured or rescheduled loans:

Current Period	Standard Loans and Other Receivables			Loans and Other Receivables Under Close Monitoring		
	Amendments on Conditions of Contract			Amendments on Conditions of Contract		
	Loans and Other Receivables (Total)	Amendments Related To The Extension Of The Payment Plan	Other	Loans and Other receivables (Total)	Amendments Related To The Extension Of The Payment Plan	Other
<b>Cash Loans</b>						
Non-specialized loans	17.123.481	49.896	-	195.112	142.768	2.330
Corporation loans	5.464.266	-	-	8.693	8.693	-
Export loans	157.895	-	-	44.994	44.994	-
Import loans	-	-	-	-	-	-
Loans given to financial sector	2.263.509	-	-	-	-	-
Consumer loans	217	-	-	-	-	-
Credit cards	-	-	-	-	-	-
Other	9.237.594	49.896	-	141.425	89.081	2.330
Specialized loans	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-
<b>Total</b>	<b>17.123.481</b>	<b>49.896</b>	<b>-</b>	<b>195.112</b>	<b>142.768</b>	<b>2.330</b>

The syndicated loans granted to a company amounting to USD 70.724.223 are classified under "Performing Loans and Other Receivables". Discussions between creditor banks and related sovereign institutions are proceeding regarding restructuring of loans granted and a positive outcome of these discussions is expected.

Prior Period	Standard Loans and Other Receivables			Loans and Other Receivables Under Close Monitoring		
	Amendments on Conditions of Contract			Amendments on Conditions of Contract		
	Loans and Other Receivables (Total)	Amendments Related To The Extension Of The Payment Plan	Other	Loans and Other receivables (Total)	Amendments Related To The Extension Of The Payment Plan	Other
<b>Cash Loans</b>						
Non-specialized loans	13.530.744	155.782	-	144.735	54.275	64.267
Corporation loans	4.441.986	-	-	8.867	8.867	-
Export loans	115.914	-	-	-	-	-
Import loans	-	-	-	-	-	-
Loans given to financial sector	1.677.116	-	-	-	-	-
Consumer loans	228	-	-	-	-	-
Credit cards	-	-	-	-	-	-
Other	7.295.500	155.782	-	135.868	45.408	64.267
Specialized loans	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-
<b>Total</b>	<b>13.530.744</b>	<b>155.782</b>	<b>-</b>	<b>144.735</b>	<b>54.275</b>	<b>64.267</b>

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### I. Explanations and disclosures related to the unconsolidated assets (continued)

##### 5. Information on loans (continued)

##### 5.b Information on the first and second group loans and other receivables including restructured or rescheduled loans (continued):

Current Period	Standard Loans and Other Receivables	Loans and Other Receivables Under Close Monitoring
<b>Number of amendments related to the extension of the payment plan</b>		
Extended for 1 or 2 times	49.896	139.419
Extended for 3-4 or 5 times	-	3.349
Extended for more than 5 times	-	-
<b>Prior Period</b>	<b>Standard Loans and Other Receivables</b>	<b>Loans and Other Receivables Under Close Monitoring</b>
<b>Number of amendments related to the extension of the payment plan</b>		
Extended for 1 or 2 times	155.782	54.275
Extended for 3-4 or 5 times	-	-
Extended for more than 5 times	-	-
<b>Current Period</b>	<b>Standard Loans and Other Receivables</b>	<b>Loans and Other Receivables Under Close Monitoring</b>
<b>The time extended via the amendment on payment plan</b>		
0-6 Months	-	-
6 Months -12 Months	-	-
1-2 Years	-	32.789
2-5 Years	49.896	95.327
5 Years	-	14.652
<b>Prior Period</b>	<b>Standard Loans and Other Receivables</b>	<b>Loans and Other Receivables Under Close Monitoring</b>
<b>The time extended via the amendment on payment plan</b>		
0-6 Months	-	-
6 Months -12 Months	-	-
1-2 Years	-	40.472
2-5 Years	76.976	-
5 Years	78.806	13.803

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### I. Explanations and disclosures related to the unconsolidated assets (continued)

##### 5. Information on loans (continued)

##### 5.c Loans according to their maturity structure:

Current Period	Standard Loans and Other Receivables		Loans and Other Receivables	
	Loans and Other Receivables (Total)	Restructured or Rescheduled	Loans and Other Receivables (Total)	Restructured or Rescheduled
<b>Under Close Monitoring</b>				
Short-term loans and other receivables	645.279	-	44.994	44.994
Non-specialized loans	645.279	-	44.994	44.994
Specialized loans	-	-	-	-
Other receivables	-	-	-	-
Medium and Long-term loans	16.478.202	49.896	150.118	100.104
Non-specialized loans	16.478.202	49.896	150.118	100.104
Specialized loans	-	-	-	-
Other receivables	-	-	-	-
<b>Prior Period</b>				
	Loans and Other Receivables (Total)	Restructured or Rescheduled	Loans and Other Receivables (Total)	Restructured or Rescheduled
<b>Under Close Monitoring</b>				
Short-term loans and other receivables	618.693	-	-	-
Non-specialized loans	618.693	-	-	-
Specialized loans	-	-	-	-
Other receivables	-	-	-	-
Medium and Long-term loans	12.912.051	155.782	144.735	118.542
Non-specialized loans	12.912.051	155.782	144.735	118.542
Specialized loans	-	-	-	-
Other receivables	-	-	-	-

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### I. Explanations and disclosures related to the unconsolidated assets (continued)

#### 5. Information on loans (continued)

#### 5.d Information on consumer loans, individual credit cards, personnel loans and credit cards given to personnel:

Current Period	Short Term	Medium and Long Term	Total
Consumer Loans-TL	-	-	-
Housing Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Consumer Loans -Indexed to FC	-	-	-
Housing Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Consumer Loans-FC	-	-	-
Housing Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Individual Credit Cards-TL	-	-	-
With Instalments	-	-	-
Without Instalments	-	-	-
Individual Credit Cards-FC	-	-	-
With Instalments	-	-	-
Without Instalments	-	-	-
Personnel Loans-TL	18	199	217
Housing Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	18	199	217
Other	-	-	-
Personnel Loans- Indexed to FC	-	-	-
Housing Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Personnel Loans-FC	-	-	-
Housing Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Personnel Credit Cards-TL	-	-	-
With Instalments	-	-	-
Without Instalments	-	-	-
Personnel Credit Cards-FC	-	-	-
With Instalments	-	-	-
Without Instalments	-	-	-
Overdraft Accounts-TL (Real Persons)	-	-	-
Overdraft Accounts-FC (Real Persons)	-	-	-
<b>Total</b>	<b>18</b>	<b>199</b>	<b>217</b>

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### I. Explanations and disclosures related to the unconsolidated assets (continued)

##### 5. Information on loans (continued)

##### 5.d Information on consumer loans, individual credit cards, personnel loans and credit cards given to personnel (continued):

Prior Period	Short Term	Medium and Long Term	Total
Consumer Loans-TL	-	-	-
Housing Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Consumer Loans -Indexed to FC	-	-	-
Housing Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Consumer Loans-FC	-	-	-
Housing Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Individual Credit Cards-TL	-	-	-
With Instalments	-	-	-
Without Instalments	-	-	-
Individual Credit Cards-FC	-	-	-
With Instalments	-	-	-
Without Instalments	-	-	-
Personnel Loans-TL	55	173	228
Housing Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	55	173	228
Other	-	-	-
Personnel Loans- Indexed to FC	-	-	-
Housing Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Personnel Loans-FC	-	-	-
Housing Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Personnel Credit Cards-TL	-	-	-
With Instalments	-	-	-
Without Instalments	-	-	-
Personnel Credit Cards-FC	-	-	-
With Instalments	-	-	-
Without Instalments	-	-	-
Overdraft Accounts-TL (Real Persons)	-	-	-
Overdraft Accounts-FC (Real Persons)	-	-	-
<b>Total</b>	<b>55</b>	<b>173</b>	<b>228</b>

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### I. Explanations and disclosures related to the unconsolidated assets (continued)

##### 5. Information on loans (continued)

##### 5.e Information on commercial loans with installments and corporate credit cards:

The Bank has not granted any commercial loans with instalments and corporate credit cards as of the reporting date (31 December 2015: None).

##### 5.f Loans according to borrowers:

	Current Period	Prior Period
Public	125.356	32.171
Private	17.193.237	13.643.308
<b>Total</b>	<b>17.318.593</b>	<b>13.675.479</b>

##### 5.g Domestic and foreign loans:

	Current Period	Prior Period
Domestic loans	17.246.461	13.588.730
Foreign loans	72.132	86.749
<b>Total</b>	<b>17.318.593</b>	<b>13.675.479</b>

##### 5.h Loans granted to subsidiaries and associates:

	Current Period	Prior Period
Direct loans granted to subsidiaries and associates	346.306	451.705
Indirect loans granted to subsidiaries and associates	-	-
<b>Total</b>	<b>346.306</b>	<b>451.705</b>

##### 5.i Specific provisions provided against loans:

	Current Period	Prior Period
Loans and receivables with limited collectability	3.092	3.603
Loans and receivables with doubtful collectability	-	-
Uncollectible loans and receivables	45.347	55.802
<b>Total</b>	<b>48.439</b>	<b>59.405</b>

The Bank allocates 100% provision for all non-performing loans regardless of the collaterals.



# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### I. Explanations and disclosures related to the unconsolidated assets (continued)

##### 5. Information on loans (continued)

##### 5.j Information on non-performing loans (net):

##### 5.j.1 Information on loans and other receivables restructured or rescheduled from non-performing loans:

	III. Group	IV. Group	V. Group
	Loans and Receivables With Limited Collectability	Loans and Receivables With Doubtful Collectability	Uncollectible Loans and Receivables
<b>Current Period</b>			
(Gross amounts before provisions)	-	-	10.707
Restructured loans and other receivables	-	-	-
Rescheduled loans and other receivables	-	-	10.707
<b>Prior Period</b>			
(Gross amounts before provisions)	-	-	5.395
Restructured loans and other receivables	-	-	-
Rescheduled loans and other receivables	-	-	5.395

##### 5.j.2 Movement of non-performing loans:

	III. Group	IV. Group	V. Group
	Loans and Receivables With Limited Collectability	Loans and Receivables With Doubtful Collectability	Uncollectible Loans and Receivables
<b>Current Period</b>			
<b>Prior period end balance</b>	<b>3.603</b>	<b>-</b>	<b>55.802</b>
Additions (+)	20	-	1.672
Transfers from other categories of non-performing			
Loans (+)	-	-	-
Transfers to other categories of non-performing loans (-)	-	-	-
Collections (-)	(531)	-	(12.127)
Write-offs (-)	-	-	-
Corporate and Commercial Loans	-	-	-
Retail Loans	-	-	-
Credit Cards	-	-	-
Other	-	-	-
<b>Current period end balance</b>	<b>3.092</b>	<b>-</b>	<b>45.347</b>
Specific provision (-)	(3.092)	-	(45.347)
<b>Net Balances on Balance Sheet</b>	<b>-</b>	<b>-</b>	<b>-</b>

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### I. Explanations and disclosures related to the unconsolidated assets (continued)

##### 5. Information on loans (continued)

##### 5.j Information on non-performing loans (net) (continued):

##### 5.j.2 Movement of non-performing loans (continued):

	III. Group	IV. Group	V. Group
	Loans and Receivables With Limited Collectability	Loans and Receivables With Doubtful Collectability	Uncollectible Loans and Receivables
<b>Prior Period</b>			
Prior period end balance	4.456	-	12.480
Additions (+)	43.354	-	38
Transfers from other categories of non-performing			
Loans (+)	-	43.334	43.334
Transfers to other categories of non-performing loans (-)	(43.334)	(43.334)	-
Collections (-)	(844)	-	(50)
Write-offs (-)	(29)	-	-
Corporate and Commercial Loans	(29)	-	-
Retail Loans	-	-	-
Credit Cards	-	-	-
Other	-	-	-
<b>Current period end balance</b>	<b>3.603</b>	<b>-</b>	<b>55.802</b>
Specific provision (-)	(3.603)	-	(55.802)
<b>Net Balances on Balance Sheet</b>	<b>-</b>	<b>-</b>	<b>-</b>

##### 5.j.3 Information on foreign currency non-performing loans and other receivables:

	III. Group	IV. Group	V. Group
	Loans and Receivables With Limited Collectability	Loans and Receivables With Doubtful Collectability	Uncollectible Loans and Receivables
<b>Current Period</b>			
Period End Balance	1.362	-	-
Specific Provision (-)	(1.362)	-	-
<b>Net Balance on Balance Sheet</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Prior Period</b>			
Period End Balance	1.651	-	-
Specific Provision (-)	(1.651)	-	-
<b>Net Balance on Balance Sheet</b>	<b>-</b>	<b>-</b>	<b>-</b>

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### I. Explanations and disclosures related to the unconsolidated assets (continued)

##### 5. Information on loans (continued)

##### 5.j Information on non-performing loans (net) (continued):

##### 5.j.4 Information regarding gross and net amounts of non-performing loans with respect to user groups:

	III. Group	IV. Group	V. Group
	Loans and Receivables With Limited Collectability	Loans and Receivables With Doubtful Collectability	Uncollectible Loans and Receivables
<b>Current Period (Net)</b>			
Loans to Real Persons and Legal Entities (Gross)	3.092	-	45.347
Specific Provision Amount (-)	(3.092)	-	(45.347)
Loans to Real Persons and Legal Entities (Net)	-	-	-
Banks (Gross)	-	-	-
Specific Provision Amount (-)	-	-	-
Banks (Net)	-	-	-
Other Loans and Receivables (Gross)	-	-	-
Specific Provision Amount (-)	-	-	-
Other Loans and Receivables (Net)	-	-	-
<b>Prior Period (Net)</b>	<b>3.603</b>	<b>-</b>	<b>55.802</b>
Loans to Real Persons and Legal Entities (Gross)	(3.603)	-	(55.802)
Specific Provision Amount (-)	-	-	-
Loans to Real Persons and Legal Entities (Net)	-	-	-
Banks (Gross)	-	-	-
Specific Provision Amount (-)	-	-	-
Banks (Net)	-	-	-
Other Loans and Receivables (Gross)	-	-	-
Specific Provision Amount (-)	-	-	-
Other Loans and Receivables (Net)	-	-	-

##### 5.k Main principles of liquidating loans and receivables:

If there are collaterals received in according to Article 9 of the "Regulation on the Procedures And Principles For Determination of Qualifications of Loans and Other Receivables By Banks And Provisions to be Set Aside", these collaterals are converted into cash as soon as possible as a result of both administrative and legal proceedings.

In the absence of collaterals, even if there is evidence of insolvency for the debtor, several financial investigations are apply at various periods to determine whether any property are subsequently acquired and legal proceedings are being followed.

Before and after the beginning of the liquidation process; the Bank management makes investigations on the financial data of the debtor companies. As a result of these investigations, if the Bank management agrees that the companies show any indication of operating on an ongoing basis and probably are going to have contributions in the economic environment in the future; the Bank management tries to make the collection through rescheduling the payment terms.

##### 5.l Explanations about the write-off policies from the assets:

If there is no collateral against uncollectible loans and receivables and if the receivable amount is less than the cost; tax, fee, and other expenses, made for the legal actions, the receivable is written off from the assets upon the request of the Credit Monitoring Department and the approval of the General Management.

However, if there is a collateral against the receivable and after all the costs of legal actions are fulfilled, and if there is still a part of receivables not collected, the receivables are written off after getting of pledge shortage and evidence of insolvency subsequently.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### I. Explanations and disclosures related to the unconsolidated assets (continued)

5.m Other explanations and disclosures:

Current Period	Corporate	SME	Consumer	Other	Total
Neither past due nor impaired	14.259.869	3.038.226	217	-	17.298.312
Past due not impaired	20.281	-	-	-	20.281
Individually impaired	12.809	35.630	-	-	48.439
<b>Total</b>	<b>14.292.959</b>	<b>3.073.856</b>	<b>217</b>	<b>-</b>	<b>17.367.032</b>
Less: allowance for individually impaired loans	(12.809)	(35.630)	-	-	(48.439)
<b>Total allowance for impairment</b>	<b>(12.809)</b>	<b>(35.630)</b>	<b>-</b>	<b>-</b>	<b>(48.439)</b>
<b>Net Loan Amount</b>	<b>14.280.150</b>	<b>3.038.226</b>	<b>217</b>	<b>-</b>	<b>17.318.593</b>

Prior Period	Corporate	SME	Consumer	Other	Total
Neither past due nor impaired	11.491.571	2.168.539	228	-	13.660.338
Past due not impaired	3.848	11.293	-	-	15.141
Individually impaired	19.348	40.057	-	-	59.405
<b>Total</b>	<b>11.514.767</b>	<b>2.219.889</b>	<b>228</b>	<b>-</b>	<b>13.734.884</b>
Less: allowance for individually impaired loans	(19.348)	(40.057)	-	-	(59.405)
<b>Total allowance for impairment</b>	<b>(19.348)</b>	<b>(40.057)</b>	<b>-</b>	<b>-</b>	<b>(59.405)</b>
<b>Net Loan Amount</b>	<b>11.495.419</b>	<b>2.179.832</b>	<b>228</b>	<b>-</b>	<b>13.675.479</b>

A reconciliation of the allowance for impairment losses and advances by classes is as follows:

	Corporate	SME	Consumer	Other	Total
<b>At 1 January 2016</b>	<b>(19.348)</b>	<b>(40.057)</b>	<b>-</b>	<b>-</b>	<b>(59.405)</b>
Charge for the year	(177)	(1.515)	-	-	(1.692)
Recoveries	6.716	5.942	-	-	12.658
Amounts written off	-	-	-	-	-
Interest accrued on impaired loans and other receivables	-	-	-	-	-
<b>At 31 December 2016</b>	<b>(12.809)</b>	<b>(35.630)</b>	<b>-</b>	<b>-</b>	<b>(48.439)</b>

	Corporate	SME	Consumer	Other	Total
<b>At 1 January 2015</b>	<b>(14.448)</b>	<b>(2.488)</b>	<b>-</b>	<b>-</b>	<b>(16.936)</b>
Charge for the year	(5.510)	(37.882)	-	-	(43.392)
Recoveries	581	313	-	-	894
Amounts written off	29	-	-	-	29
Interest accrued on impaired loans and other receivables	-	-	-	-	-
<b>At 31 December 2015</b>	<b>(19.348)</b>	<b>(40.057)</b>	<b>-</b>	<b>-</b>	<b>(59.405)</b>

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### I. Explanations and disclosures related to the unconsolidated assets (continued)

##### 5.m Other explanations and disclosures: (continued)

A breakdown of the allowance for impairment losses is given below:

Current Period	Corporate	SME	Consumer	Other	Total
Individual impairment	(12.809)	(35.630)	-	-	(48.439)
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	12.809	35.630	-	-	48.439
Prior Period	Corporate	SME	Consumer	Other	Total
Individual impairment	(19.348)	(40.057)	-	-	(59.405)
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	19.348	40.057	-	-	59.405

Movements in the allowance for impairment losses and advances are as follows:

	Current Period	Prior Period
<b>At 1 January</b>	<b>59.405</b>	<b>16.936</b>
Charge for the year	1.692	43.392
Recoveries	(12.658)	(894)
Amounts written off	-	(29)
Interest accrued on impaired loans and other receivables	-	-
<b>At 31 December</b>	<b>48.439</b>	<b>59.405</b>
Individual impairment	(48.439)	(59.405)
Gross amount of loans, individually determined to be impaired, (before deducting any individually assessed impairment allowance)	48.439	59.405

Of the total aggregate amount of gross past due but not yet impaired loans and other receivables, the fair value of collaterals, capped with the respective outstanding loan balance, is as follows:

	Current Period	Prior Period
Residential, commercial and industrial property	13.608	11.230
Financial assets	-	-
Other (bailment, pledge for vehicles and ship)	82.294	-
<b>Total</b>	<b>95.902</b>	<b>11.230</b>

Loans and other receivables amounting to TL 11.687.620 have floating interest rates (31 December 2015: TL 10.104.058) and the remaining TL 5.630.973 have fixed interest rates (31 December 2015: TL 3.571.421).

##### 6. Information on held-to-maturity investments

##### 6.1 The information was subjected to repo transactions and given as collateral/blocked amount of investments:

	Current Period		Prior Period	
	TL	FC	TL	FC
Collateralised/Blocked Investments	-	186.736	-	-
Investments Subject to Repurchase Agreements	129.784	-	714.229	-
<b>Total</b>	<b>129.784</b>	<b>186.736</b>	<b>714.229</b>	<b>-</b>

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### I. Explanations and disclosures related to the unconsolidated assets (continued)

##### 6.2 Information on public sector debt investments held-to-maturity:

	Current Period	Prior Period
Government Bonds	1.375.729	872.602
Treasury Bills	-	-
Other Government Securities	-	-
<b>Total</b>	<b>1.375.729</b>	<b>872.602</b>

##### 6.3 Information on held-to-maturity investments:

	Current Period	Prior Period
<b>Debt Securities</b>		
Quoted at stock Exchange	1.188.990	715.194
Unquoted at stock Exchange	186.739	157.408
<b>Value Increase/ (Decrease)</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>1.375.729</b>	<b>872.602</b>

##### 6.4 Movement of held to maturity investments within the year:

	Current Period	Prior Period
<b>Balances at Beginning of Period</b>	<b>872.602</b>	<b>-</b>
Foreign currency differences on monetary assets	31.581	(789)
Purchases during the period <sup>(1)</sup>	417.241	851.290
Cash obtained from sale and amortization	(1.597)	(5.832)
Value changes	-	-
Interest income accruals	55.902	27.933
<b>Balances at End of Period</b>	<b>1.375.729</b>	<b>872.602</b>

<sup>(1)</sup>The CPI indexed government bonds with the nominal value of TL 339,321 are reclassified to held to maturity investments in current period. The Bank reclassified the "Eurobond" with nominal value of USD 34.577 from financial assets held-to-maturity portfolio and nominal value of TL 533.626 from "CPI indexed government bonds" to investments in available-for-sale portfolio in the prior period.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### I. Explanations and disclosures related to the unconsolidated assets (continued)

##### 7. Information on associates (net)

##### 7.a.1 Information on associates:

Title	Address (City/ Country)	Bank's share percentage- If different voting percentage (%)	Bank's risk group share percentage (%)
1 İş Faktoring A.Ş. (İş Factoring)	Istanbul/Turkey	21,75	100,00
2 İş Finansal Kiralama A.Ş. (İş Finansal)	Istanbul/Turkey	28,56	57,33
3 İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. (İş Girişim)	Istanbul/Turkey	16,65	57,99
4 Terme Metal Sanayi ve Ticaret A.Ş. (Terme)	Istanbul/Turkey	17,83	18,76
5 Ege Tarım Ürünleri Lisanslı Depoculuk A.Ş. (Ege Tarım)	Izmir/ Turkey	10,05	20,10

	Total Assets	Equity	Total Fixed Assets	Interest Income	Income from Marketable Securities Portfolio	Current Period Profit /Loss	Prior Period Profit/Loss	Fair Value
1 İş Faktoring	3.025.426	128.821	677	160.940	-	32.939	24.167	-
2 İş Finansal	4.508.334	755.147	16.751	292.573	-	81.800	81.481	190.820
3 İş Girişim	258.805	256.161	82	11.199	7.721	1.060	773	18.651
4 Terme <sup>(1)</sup>	15.466	3.677	231	364	-	26	75	-
5 Ege Tarım	11.253	11.096	8.078	118	-	(412)	(172)	-

<sup>(1)</sup> Represents for the period ended 30 September 2016 financial statements. Prior year profit/loss is obtained from 30 September 2015 financial statements.

##### 7.a.2 Information on associates:

	Current Period	Prior Period
<b>Balance at the Beginning of the Period</b>	<b>156.008</b>	<b>161.038</b>
Movements During the Period	66.900	(5.030)
Purchases	-	-
Bonus Shares Obtained	19.993	24.760
Current Year Share of Profit	-	-
Sales	-	-
Revaluation Increase	46.907	-
Provision for Impairment	-	(29.790)
<b>Balance at the End of the Period</b>	<b>222.908</b>	<b>156.008</b>
Capital Commitments	-	-
Share Percentage at the End of the Period (%)	-	-

##### Information on associates sold in the current period

In the current period the Bank has not disposed any associates.

##### Information on associates purchased in the current period

In current period The Bank has obtained TL 19.993 bonus shares from İş Finansal Kiralama A.Ş.'s TL 70.000 capital increase.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### I. Explanations and disclosures related to the unconsolidated assets (continued)

7.a.3 Sectoral information of associates subject to consolidation and the related carrying amounts in the legal books:

	Current Period	Prior Period
Banks	-	-
Insurance Companies	-	-
Factoring Companies	11.882	11.882
Leasing Companies	190.820	122.527
Financial Service Companies	-	-
Other Financial Associates	18.651	20.044

7.a.4 Information on associates subject to consolidation quoted on stock market:

	Current Period	Prior Period
Associates quoted on domestic stock exchanges	209.471	142.571
Associates quoted on foreign stock exchanges	-	-

##### 8. Information on subsidiaries (net)

8.a.1 Information related to equity component of subsidiaries:

Current Period	YF <sup>(*)</sup>	TSKB GYO <sup>(*)</sup>
<b>CORE CAPITAL</b>		
Paid-in Capital	63.504	150.000
Share Premium	-	593
Legal Reserves	2.514	8.787
Other Comprehensive Income according to TAS	(120)	(29)
Current and Prior Years' Profit/Loss	181	38.818
Leasehold Improvements (-)	(731)	-
Intangible Assets (-)	(1.131)	(13)
<b>Total Core Capital</b>	<b>63.855</b>	<b>198.156</b>
<b>Supplementary Capital</b>	<b>-</b>	<b>-</b>
<b>Capital</b>	<b>-</b>	<b>-</b>
<b>Net Available Capital</b>	<b>63.855</b>	<b>198.156</b>

<sup>(\*)</sup> The information is obtained from financial statements subject to consolidation as of 31 December 2016.

Prior Period	YF <sup>(*)</sup>	TSKB GYO <sup>(*)</sup>
<b>CORE CAPITAL</b>		
Paid-in Capital	64.275	150.000
Share Premium	-	593
Legal Reserves	4.730	5.721
Other Comprehensive Income according to TAS	(73)	(27)
Current and Prior Years' Profit/Loss	2.855	68.024
Leasehold Improvements (-)	(1.231)	-
Intangible Assets (-)	(344)	(21)
<b>Total Core Capital</b>	<b>70.212</b>	<b>224.290</b>
<b>Supplementary Capital</b>	<b>-</b>	<b>-</b>
<b>Capital</b>	<b>-</b>	<b>-</b>
<b>Net Available Capital</b>	<b>70.212</b>	<b>224.290</b>

<sup>(\*)</sup> The information is obtained from financial statements subject to consolidation as of 31 December 2015.



# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### I. Explanations and disclosures related to the unconsolidated assets (continued)

##### 8. Information on subsidiaries (net) (continued)

##### 8.a.1 Information related to equity component of subsidiaries: (continued)

Paid in capital has been indicated as Turkish Lira in articles of incorporation and registered in trade registry. Effect of inflation adjustments on paid in capital is the difference caused by the inflation adjustment on shareholders' equity items. Extraordinary reserves are the status reserves which have been transferred with the General Assembly decision after distributable profit have been transferred to legal reserves. Legal reserves are the status reserves which have been transferred from distributable profit in accordance with the Article 519 of the Turkish Commercial Code numbered 6102.

The Bank's internal capital adequacy assessment process is made annually on a consolidated basis. Consolidated associates and subsidiaries are included in the operation.

##### 8.a.2 As per Communiqué on Preparation of Consolidated Financial Statements of Banks and Turkish Accounting Standards unconsolidated subsidiaries and reason of consolidating and needed capital if they are subject to capital requirement:

TSKB Gayrimenkul Değerleme A.Ş. and TSKB Sürdürülebilirlik Danışmanlığı A.Ş. are valued at cost and is not consolidated since it is not a financial subsidiaries. Unconsolidated subsidiary of the Bank is not subject to minimum capital requirement.

##### 8.b.1 Information on subsidiaries:

Title		Address (City/ Country)	Bank's share percentage- If different voting percentage (%)	Bank's risk group share percentage (%)
1	TSKB Gayrimenkul Değerleme A.Ş. (TSKB GMD)	Istanbul /Turkey	99,99	99,99
2	Yatırım Finansman Menkul Değerler A.Ş. (YF)	Istanbul /Turkey	95,78	98,51
3	TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. (TSKB GYO)	Istanbul/Turkey	59,00	72,48
4	TSKB Sürdürülebilirlik Danışmanlığı A.Ş. (TSKB SD)	Istanbul/Turkey	80,65	99,42

	Total Assets	Shareholders' Equity	Total Fixed Assets	Interest Income	Income from Marketable Securities	Current Period Profit/Loss	Prior Period Profit/Loss	Fair Value
1 TSKB GMD	18.544	14.074	1.211	807	-	3.290	1.511	-
2 YF <sup>(1)</sup>	813.799	65.717	2.172	32.812	1.417	(6.161)	(2.194)	-
3 TSKB GYO <sup>(1)</sup>	439.411	198.168	433	480	-	(26.140)	12.381	57.879
4 TSKB SD	1.463	1.314	16	98	-	(293)	235	-

<sup>(1)</sup> The unconsolidated financial data of the subsidiaries are prepared in accordance with BRSA regulations.

##### 8.b.2 Movement schedule for subsidiaries:

	Current Period	Prior Period
<b>Balance at the beginning of the period</b>	<b>122.699</b>	<b>134.204</b>
Movements in the period	6.664	(11.505)
Purchases	1.000	-
Bonus shares obtained	-	-
Current year share of profit	-	-
Sales	-	-
Revaluation increase	5.664	-
Provision for impairment	-	(11.505)
<b>Balance at the end of the period</b>	<b>129.363</b>	<b>122.699</b>
Capital commitments	-	-
Share percentage at the end of the period (%)	-	-

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#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### I. Explanations and disclosures related to the unconsolidated assets (continued)

##### 8. Information on subsidiaries (net) (continued)

##### 8.b.2 Movement schedule for subsidiaries (continued):

##### *Subsidiaries disposed in the current period*

In the current period, the Bank has not disposed any subsidiaries.

At the meeting of Board of Directors dated 18 November 2016 of TSKB Gayrimenkul Yatırım Ortaklığı A.Ş., which is the subsidiary of the Bank, considering the investment strategy within the scope of increasing the current rental income and diversifying the portfolio of TSKB GYO and considering the synergy to be created as a result of the merger with İş Gayrimenkul Yatırım Ortaklığı A.Ş. it has been decided to initiate merger negotiations in accordance with the Capital Markets Law no. 6362, Communiqué on the Common Principles Regarding Significant Transactions and the Retirement Right (II-23.1), Communiqué on Merger and Demerger (II.23.2), Turkish Commercial Code No:6102, Corporate Tax Law no:5520 and other relevant legislations. As of the report date the merger negotiations are proceeding.

##### *Subsidiaries purchased in the current period*

The share of TSKB Sürdürülebilirlik Danışmanlığı A.Ş. increased in the amount of TL 1 million from TL 240 thousand to TL 1,24 million in the registry date of 20 July 2016 that is the bank's subsidiary share indirectly by Yatırım Finansman Menkul Değerler A.Ş. Equity interest of the Bank in the company has increased to 80.65%.

##### 8.b.3 Sectoral information on subsidiaries subject to consolidation and the related carrying amounts in the legal books:

	Current Period	Prior Period
Subsidiaries	-	-
Banks	-	-
Insurance Companies	-	-
Factoring Companies	-	-
Leasing Companies	-	-
Financial Service Companies	-	-
Other Financial Subsidiaries	127.984	122.320

##### 8.b.4 Subsidiaries subject to consolidation quoted on stock market:

	Current Period	Prior Period
Subsidiaries quoted on domestic stock exchanges	57.879	52.215
Subsidiaries quoted on foreign stock exchanges	-	-

##### 9. Information on entities under common control

The Bank has no entities under common control as of the reporting date (31 December 2015: None).

##### 10. Information on finance lease receivables (net)

##### 10.a Maturities of investments on finance leases:

	Current Period		Prior Period	
	Gross	Net	Gross	Net
Less than 1 year	1.552	1.367	98	-
Between 1- 4 years	1.704	1.455	-	-
More than 4 years	1.137	970	-	-
<b>Total</b>	<b>4.393</b>	<b>3.792</b>	<b>98</b>	<b>-</b>

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

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### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### I. Explanations and disclosures related to the unconsolidated assets (continued)

##### 10. Information on finance lease receivables (net)

##### 10.b The information on net investments in finance leases:

	Current Period	Prior Period
<b>Gross investments in finance leases</b>	<b>4.393</b>	<b>98</b>
Unearned revenue from finance leases (-)	(601)	(98)
Cancelled finance leases (-)	-	-
<b>Net investments in finance leases</b>	<b>3.792</b>	<b>-</b>

10.c Explanation with respect to finance lease agreements, the criteria used in determination of contingent rents, conditions for revisions or purchase options, updates of leasing amounts and the restrictions imposed by lease arrangements, whether arrays in repayment occur, whether the terms of the contract are renewed, if renewed, the renewal conditions, whether the renewal results any restrictions, and other important conditions of the leasing agreement:

Finance lease agreements are made in accordance with the related articles of Financial Leasing, Factoring and Financing Company Law No 6361. There are no restructuring or restrictions; which has material effect on financial statements.

##### 11. Explanation on derivative financial assets held for hedging purposes

##### 11.a Positive differences on derivative financial instruments held for hedging purposes:

	Current Period		Prior Period	
	TL	FC	TL	FC
Fair Value Hedge	-	272	-	4.093
Cash Flow Hedge	-	-	-	-
Hedge of net investment in foreign operations	-	-	-	-
<b>Total</b>	<b>-</b>	<b>272</b>	<b>-</b>	<b>4.093</b>

As of 31 December 2016, the face values and the net fair values, recognised in the balance sheet, of the derivative financial instruments held for risk management purposes, are summarized below:

	Current Period			Prior Period		
	Face Value	Asset	Liability	Face Value	Asset	Liability
Interest Rate Swaps	7.747.800	272	(51.433)	4.689.900	4.093	(5.799)
FC	7.747.800	272	(51.433)	4.689.900	4.093	(5.799)
TL	-	-	-	-	-	-

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### I. Explanations and disclosures related to the unconsolidated assets (continued)

#### 11. Explanation on derivative financial assets held for hedging purposes

##### 11.a.1 Information on fair value hedge accounting

Current Period	Hedged Item	Type of Risk	Fair Value Change of Hedged Item <sup>(1)</sup>	Fair Value of Hedging Instrument <sup>(1)</sup>	Income Statement Effect (Profit/Loss Through Derivative Financial Instruments)
<b>Hedging Item</b>					
		<b>Assets</b>	<b>Liabilities</b>		
Interest Rate Swap Transactions	Fixed Rate				
Issued Eurobond and Greenbond	Interest Rate Risk	44.374	(49.238)	-	(4.864)
Interest Rate Swap Transactions	Fixed Rate				
Loans Used	Interest Rate Risk	3.380	(4.378)	-	(498)

<sup>(1)</sup> The fair value of hedged item and hedging instrument are presented as net market value excluding credit risk and accumulated interest.

Prior Period	Hedged Item	Type of Risk	Fair Value Change of Hedged Item <sup>(1)</sup>	Fair Value of Hedging Instrument <sup>(1)</sup>	Income Statement Effect (Profit/Loss Through Derivative Financial Instruments)
<b>Hedging Item</b>					
		<b>Assets</b>	<b>Liabilities</b>		
Interest Rate Swap Transactions	Fixed Rate				
Issued Eurobond and Greenbond	Interest Rate Risk	3.814	-	(5.980)	(2.166)
Interest Rate Swap Transactions	Fixed Rate				
Loans Used	Interest Rate Risk	376	-	(1.461)	(1.085)

<sup>(1)</sup> The fair value of hedged item and hedging instrument are presented as net market value excluding credit risk and accumulated interest.

#### 12. Explanations on tangible assets (net)

As of the third quarter of the 2015, the Bank changed its accounting policy and adopted revaluation method for real estates under scope of TAS 16. In 2016 revaluation difference TL 3.510 (31 December 2015: TL 32.013) which are determined by the certified valuation companies -which are authorized by CMB and BRSA- are recorded under the shareholders' equity.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

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#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### I. Explanations and disclosures related to the unconsolidated assets (continued)

##### 12. Explanations on tangible assets (net) (continued)

Current Period	Prior Period End	Current Period Additions	Current Period Disposals	Transfer	Current Period End
Cost					
Land and buildings	36.860	-	-	3.510	40.370
Assets held under finance leases	2.388	-	(8)	-	2.380
Vehicles	990	-	(52)	-	938
Assets held for resale	576	-	-	-	576
Other	19.390	2.234	(403)	-	21.221
<b>Total Cost</b>	<b>60.204</b>	<b>2.234</b>	<b>(463)</b>	<b>3.510</b>	<b>65.485</b>
Accumulated depreciation					
Land and buildings	(33)	(89)	-	-	(122)
Assets held under finance leases	(2.008)	(124)	8	-	(2.124)
Vehicles	(490)	(152)	52	-	(590)
Assets held for resale	(3)	-	3	-	-
Other	(8.969)	(2.731)	370	-	(11.330)
<b>Total accumulated depreciation</b>	<b>(11.503)</b>	<b>(3.096)</b>	<b>433</b>	<b>-</b>	<b>(14.166)</b>
Impairment provision					
Land and buildings	-	-	-	-	-
Assets held under finance leases	-	-	-	-	-
Vehicles	-	-	-	-	-
Assets held for resale	(186)	(21)	-	-	(207)
Other	-	-	-	-	-
<b>Total impairment provision</b>	<b>(186)</b>	<b>(21)</b>	<b>-</b>	<b>-</b>	<b>(207)</b>
<b>Net book value</b>	<b>48.515</b>	<b>(883)</b>	<b>(30)</b>	<b>3.510</b>	<b>51.112</b>

Prior Period	Prior Period End	Current Period Additions	Current Period Disposals	Transfer	Current Period End
Cost					
Land and buildings	6.460	753	-	29.647	36.860
Assets held under finance leases	2.443	-	(55)	-	2.388
Vehicles	990	-	-	-	990
Assets held for resale	1.786	-	(1.210)	-	576
Other	10.956	18.934	(10.500)	-	19.390
<b>Total Cost</b>	<b>22.635</b>	<b>19.687</b>	<b>(11.765)</b>	<b>29.647</b>	<b>60.204</b>
Accumulated depreciation					
Land and buildings	(2.277)	(122)	-	2.366	(33)
Assets held under finance leases	(1.937)	(126)	55	-	(2.008)
Vehicles	(291)	(199)	-	-	(490)
Assets held for resale	(18)	(13)	28	-	(3)
Other	(7.673)	(1.579)	283	-	(8.969)
<b>Total accumulated depreciation</b>	<b>(12.196)</b>	<b>(2.039)</b>	<b>366</b>	<b>2.366</b>	<b>(11.503)</b>
Impairment provision					
Land and buildings	-	-	-	-	-
Assets held under finance leases	-	-	-	-	-
Vehicles	-	-	-	-	-
Assets held for resale	(177)	(42)	33	-	(186)
Other	-	-	-	-	-
<b>Total impairment provision</b>	<b>(177)</b>	<b>(42)</b>	<b>33</b>	<b>-</b>	<b>(186)</b>
<b>Net book value</b>	<b>10.262</b>	<b>17.606</b>	<b>(11.366)</b>	<b>32.013</b>	<b>48.515</b>

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### I. Explanations and disclosures related to the unconsolidated assets (continued)

##### 12. Explanations on tangible assets (net) (continued)

12.a If impairment amount on individual asset recorded or reversed in the current period is material for the overall financial statements:

12.a.1 Events and conditions for recording or reversing impairment:

The Bank recorded 5% impairment provision per year for asset held for sale and tangible assets that are not depreciated.

12.a.2 Amount of recorded or reversed impairment in the financial statements:

In the current period, the Bank recorded impairment of tangible asset of TL 21.(The Bank recorded impairment of TL 42 and reversal of impairment TL 21).

12.b The impairment provision set or cancelled in the current period according to the asset groups not individually significant but materially affecting the overall financial statements, and the reason and conditions for this:

There is no impairment provision on individual asset set or cancelled in the current period, other than impairment on properties referred to above (31 December 2015: None).

##### 13. Information on intangible assets

##### 13.a Useful lives and amortization rates used:

Tangible assets, purchased before 1 January 2005, are accounted for at their restated costs as of 31 December 2004 and the assets purchased in the following periods are accounted for at acquisition cost less accumulated depreciation and reserve for impairment.

Rental or administrative purposes or other unspecified purposes of assets that under construction will be amortised when they are ready to use.

##### 13.b Amortization methods used:

The intangible assets are amortized principally on straight line basis which amortize the assets over their expected useful lives.

##### 13.c Cost and accumulated amortization at the beginning and end of the period:

Current Period	Beginning of Period		End of Period	
	Gross Book Value	Accumulated Amortization	Gross Book Value	Accumulated Amortization
Software	4.618	(3.932)	5.308	(4.359)
Prior Period	Beginning of Period		End of Period	
	Gross Book Value	Accumulated Amortization	Gross Book Value	Accumulated Amortization
Software	4.315	(3.625)	4.618	(3.932)

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### I. Explanations and disclosures related to the unconsolidated assets (continued)

##### 13. Information on intangible assets (continued)

##### 13.d Movement of cost and accumulated amortization for the period:

Current Period	Closing Balance of Prior Period	Current Year Additions	Current Year Disposals	Closing Balance of Current Period
Cost:				
Software	2.174	690	-	2.864
<b>Total Cost</b>	<b>2.174</b>	<b>690</b>	<b>-</b>	<b>2.864</b>
Accumulated amortization:				
Software	(1.488)	(427)	-	(1.915)
<b>Total Accumulated Amortization</b>	<b>(1.488)</b>	<b>(427)</b>	<b>-</b>	<b>(1.915)</b>
Impairment provision:				
Software	-	-	-	-
<b>Total Impairment provision</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Book Value</b>	<b>686</b>	<b>263</b>	<b>-</b>	<b>949</b>

Prior Period	Closing Balance of Prior Period	Current Year Additions	Current Year Disposals	Closing Balance of Current Period
Cost:				
Software	4.315	303	(2.444)	2.174
<b>Total Cost</b>	<b>4.315</b>	<b>303</b>	<b>(2.444)</b>	<b>2.174</b>
Accumulated amortization:				
Software	(3.625)	(307)	2.444	(1.488)
<b>Total Accumulated Amortization</b>	<b>(3.625)</b>	<b>(307)</b>	<b>2.444</b>	<b>(1.488)</b>
Impairment provision:				
Software	-	-	-	-
<b>Total Impairment provision</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Book Value</b>	<b>690</b>	<b>(4)</b>	<b>-</b>	<b>686</b>

##### 13.e The net book value, description and the remaining amortization period of any material individual intangible asset in the financial statements:

As at the reporting date, the Bank has no individual intangible asset which is material in the financial statements as a whole (31 December 2015: None).

##### 13.f Disclosure for intangible assets acquired through government grants and accounted for at fair value at initial recognition:

As at the reporting date, the Bank has no intangible assets acquired through government grants (31 December 2015: None).

##### 13.g The method of subsequent measurement for intangible assets that are acquired through government incentives and recorded at fair value at the initial recognition:

As at the reporting date, the Bank has no intangible assets acquired with government incentives (31 December 2015: None).

##### 13.h The book value of intangible assets that are pledged or restricted for use:

As at the reporting date, there are no intangible assets with restricted use or pledged (31 December 2015: None).

##### 13.i Amount of purchase commitments for intangible assets:

As at the reporting date, the Bank has no purchase commitments for intangible assets (31 December 2015: None).

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

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#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### I. Explanations and disclosures related to the unconsolidated assets (continued)

##### 13. Information on intangible assets (continued)

13.j Information on revalued intangible assets according to their types:

The Bank did not revalue its intangible assets as at the reporting date (31 December 2015: None).

13.k Amount of total research and development expenses recorded in income statement within the period, if any:

The Bank has no research and development costs expensed in the current period (31 December 2015: None).

13.l Information on goodwill:

As at the reporting date, the Bank has no goodwill (31 December 2015: None).

13.m The carrying value of goodwill at beginning and end of the period, and movements within the period:

As at the reporting date, the Bank has no goodwill in the accompanying financial statements (31 December 2015: None).

13.n The carrying value of negative goodwill at beginning and end of the period, and movements within the period:

As at the reporting date, the Bank has no negative goodwill in the accompanying financial statements (31 December 2015: None).

##### 14. Information on investment property

The Bank has no investment property (31 December 2015: None).

##### 15. Information on deferred tax assets

15.a Temporary differences, tax losses, exemptions and deductions reflected to balance sheet as deferred tax asset:

The Bank has computed deferred tax asset or liability on temporary differences arising from carrying values of assets and liabilities in the accompanying financial statements and their tax bases.

Deferred tax asset:	Current Period	Prior Period
Loan commissions accrual adjustment	17.378	16.103
Other provisions	18.000	12.000
Marketable securities	2.001	-
Employee benefit provision	1.869	1.750
Valuation of derivative instruments	-	5.802
Other	568	488
<b>Total Deferred Tax Asset</b>	<b>39.816</b>	<b>36.143</b>
Deferred tax liability:		
Marketable securities	-	(2.671)
Valuation of derivative instruments	(3.635)	-
Loan commissions accrual adjustment	(8.791)	(7.265)
Useful life difference of fixed assets	(362)	(321)
Other	(12.833)	(2.975)
<b>Total Deferred Tax Liability</b>	<b>(25.621)</b>	<b>(13.232)</b>
<b>Net Deferred Tax Asset</b>	<b>14.195</b>	<b>22.911</b>

15.b Temporary differences over which deferred tax asset are not computed and recorded in the balance sheet in prior periods, if so, their expiry date, losses and tax deductions and exceptions:

The Bank has no deductible temporary differences that are not included in calculation of deferred tax asset and not reflected to financial statements in prior periods (31 December 2015: None).



# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

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#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### I. Explanations and disclosures related to the unconsolidated assets (continued)

##### 15.c Allowance for deferred tax and deferred tax assets from reversal of allowance:

As of the reporting date, the Bank has no allowance for deferred tax and deferred tax liability from reversal of allowance (31 December 2015: None).

##### 16. Explanation on assets held for sale

In the current period, the Bank has no assets held for sale (31 December 2015: None).

##### 17. Information about other assets

##### 17.a Other assets which exceed 10% of the balance sheet total and breakdown of these which constitute at least 20% of grand total:

Other assets do not exceed 10% of total assets, excluding off-balance sheet commitments (31 December 2015: None).

##### II. Explanations and disclosures related to the liabilities

##### 1. Information of maturity structure of deposits

##### 1.a.1 Maturity structure of deposits:

The Bank is not authorized to accept deposits.

##### 1.a.2 Information on saving deposits under the guarantee of saving deposit insurance fund and exceeding the limit of deposit insurance fund:

The Bank is not authorized to accept deposits.

##### 1.b Information on the scope whether the Bank with a foreign head office suits saving deposit insurance of the related country:

The Bank is not authorized to accept deposits.

##### 1.c Saving deposits which are not under the guarantee of deposit insurance fund:

The Bank is not authorized to accept deposits.

##### 2. Negative differences table related to derivative financial liabilities held-for-trading

Derivative Financial Liabilities Held for Trading	Current Period		Prior Period	
	TL	FC	TL	FC
Forward Transactions	13.094	4.779	753	1.348
Swap Transactions	97.551	79.597	42.180	55.518
Futures Transactions	-	-	-	-
Options	-	125.627	-	73.632
Other	-	-	-	-
<b>Total</b>	<b>110.645</b>	<b>210.003</b>	<b>42.933</b>	<b>130.498</b>

Bank has entered into extinguishing cross-currency interest rate swaps as part of its strategy to hedge TL denominated fixed rate assets. These swap arrangements provide that, on the occurrence of certain credit-related events in relation to the company (such as failure to make a payment), the swap arrangements may immediately terminate with no further payments due and payable by either party. As of 31 December 2016, the fair value of such swaps is TL 61.730 with a total outstanding notional amount of 150 million US Dollar. The average maturity of such range between 2020 and 2021 years.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

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#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### II. Explanations and disclosures related to the unconsolidated liabilities (continued)

##### 3. Information on funds borrowed

##### 3.a Information on banks and other financial institutions:

	Current Period		Prior Period	
	TL	FC	TL	FC
Loans from Central Bank of Turkey	-	-	-	-
From Domestic Banks and Institutions	-	73.741	127.000	223.022
From Foreign Banks, Institutions and Funds	100.083	15.667.143	69.001	12.879.928
<b>Total</b>	<b>100.083</b>	<b>15.740.884</b>	<b>196.001</b>	<b>13.102.950</b>

##### 3.b Maturity analysis of funds borrowed:

	Current Period		Prior Period	
	TL	FC	TL	FC
Short-term	-	73.741	-	56.360
Medium and long-term	100.083	15.667.143	196.001	13.046.590
<b>Total</b>	<b>100.083</b>	<b>15.740.884</b>	<b>196.001</b>	<b>13.102.950</b>

##### 3.c Information on marketable securities issued

	Current Period		Prior Period	
	TL	FC	TL	FC
Nominal	-	3.490.000	-	2.026.500
Cost	-	3.476.185	-	2.021.606
Book Value	-	3.486.732	-	2.037.571

As of 27 October 2014, the Bank issued the debt instruments which have nominal value of USD 350 Million, redemption date of 30 October 2019 with fixed interest rate of 5,375%, 5 years maturity and semiannual coupon payment. As of 22 April 2015, the Bank has performed the similar issuance of Eurobond with the nominal amount of USD 350 Million. Interest rate of these debt instruments determined as 5,125% which have the redemption date of 22 April 2020 with fixed interest rate, 5 years maturity and semiannual coupon payment. Selling of Greenbond which was issued by the Bank in abroad with nominal value of USD 300 Million, 5 years maturity and for financing the green and sustainable projects has been completed on 18 May 2016. The return of these bonds which have the redemption date of 18 May 2021 and 5 years maturity is determined as 5,048% and the coupon rate as 4,875%.

##### 3.d Additional information about the concentrated areas of liabilities:

Under normal banking operations, the Bank provided funds under repurchase agreements and funds borrowed. Fund resources of the Bank particularly consist of foreign FC funds borrowed and FC and TL repurchase transactions. Information relating to funds provided under repurchase agreements is shown in the table below:

	Current Period		Prior Period	
	TL	FC	TL	FC
From Domestic Transactions	234.353	60.998	2.123.484	45.994
Financial institutions and organizations	208.657	-	2.103.104	1.440
Other institutions and organizations	25.209	58.387	19.821	38.884
Real persons	487	2.611	559	5.670
From Foreign Transactions	3	-	3	-
Financial institutions and organizations	-	-	-	-
Other institutions and organizations	2	-	2	-
Real persons	1	-	1	-
<b>Total</b>	<b>234.356</b>	<b>60.998</b>	<b>2.123.487</b>	<b>45.994</b>

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### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### II. Explanations and disclosures related to the unconsolidated liabilities (continued)

##### 4. Other liabilities which exceed 10% of the balance sheet total and the breakdown of these which constitute at least 20% of grand total

There are no other liabilities, which exceed 10% of the balance sheet total (31 December 2015: None).

##### 5. Informations on financial lease obligations (net)

##### 5.a Explanations on finance lease payables:

The Bank has no financial lease payables (31 December 2015: None).

##### 5.b Explanations regarding operational leases:

As of the reporting date, the Bank's 2 head office buildings, 1 branch, 12 cars and 215 computers and 27 tablets are subject to operational leasing. The Bank has no liability for operational leases in the current period (31 December 2015: 2 head office buildings, 1 branch, 11 cars and 100 computers under operational leasing).

##### 5.c Explanations on the lessor and lessee in sales and lease back transactions, agreement conditions, and major agreement terms:

The Bank has no sale and lease back transactions as of the reporting date (31 December 2015: None).

##### 6. Negative differences on derivative financial instruments held for hedging purposes:

	Current Period		Prior Period	
	TL	FC	TL	FC
Fair Value Hedge	-	(51.433)	-	(5.799)
Cash Flow Hedge	-	-	-	-
Net Investment Hedge in a foreign operation	-	-	-	-
<b>Total</b>	<b>-</b>	<b>(51.433)</b>	<b>-</b>	<b>(5.799)</b>

##### 7. Explanations on provisions

##### 7.a Information on general provisions:

	Current Period	Prior Period
<b>General Provisions</b>	<b>178.463</b>	<b>150.329</b>
Provisions for First Group Loans and Receivables	155.061	129.715
Provisions for Second Group Loans and Receivables	3.902	4.522
Provisions for Non-Cash Loans	2.714	2.721
Other	16.786	13.371

##### 7.b Foreign exchange losses on the foreign currency indexed loans and finance lease receivables:

The foreign exchange losses on the foreign currency indexed loans amount to TL 247 (31 December 2015: TL 1.776). The foreign exchange losses on the foreign currency indexed loans are net off from the loans line in the financial statements.

##### 7.c The specific provisions provided for unindemnified non cash loans:

As of the reporting date, the Bank's specific provisions provided for unindemnified non cash loans amounts to TL 583 (31 December 2015: TL 583).

##### 7.d.1 Provision for possible losses:

The Bank has no provision for possible provisions (31 December 2015: None).

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## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### II. Explanations and disclosures related to the unconsolidated liabilities (continued)

##### 7. Information on provisions (continued)

##### 7.d.2 Information on employee termination benefits and unused vacation accrual

The Bank has calculated reserve for employee termination benefits by using actuarial valuations as set out in the Turkish Accounting Standard No: 19 and reflected the calculated amount to the financial statements.

As of 31 December 2016, employee termination benefits is amounting TL 7.906 reflected in financial statements (31 December 2015: TL 7.849). As of 31 December 2016, the Bank has provided a reserve for unused vacation amounting to TL 1.440 (31 December 2015: TL 1.289). This balance is classified under reserve for employee benefits in the financial statements.

Actuarial gains and losses amount of TL 900 are consisted after 1 January 2016, are recognised under equity in accordance with revised TAS 19 standard (31 December 2015: TL 382 actuarial loss).

##### Liabilities on pension rights

As explained on the Section Three, Accounting Policies, XV. Explanations on Liabilities Regarding Employee Benefits as of 31 December 2016, the Bank has no obligations on pension rights (31 December 2015: None).

##### Liabilities for pension funds established in accordance with Social Security Institution

None (31 December 2015: None).

##### Liabilities resulting from all kinds of pension funds, foundations etc. which provide post-retirement benefits for the employees

The Bank's present value of the liabilities of TSKB A.Ş. Memur ve Müstahdemleri Yardım ve Emekli Vakfı fund, subject to the transfer to the Social Security Institution of the Pension Fund as of 31 December 2015 has been calculated by an independent actuary in accordance with the actuarial assumptions in the Law and as per actuarial report dated 13 January 2017, there is no need for technical or actual deficit to book provision as of 31 December 2016.

Accordingly, as of 31 December 2016 the Bank has no requirements for the benefits transferable to the fund and for other benefits not transferable to the fund and arising from other social rights and payments covered by the existing trust indenture of the Fund and medical benefits provided for employees in accordance to the law explained in Note 3.15, the accounting policies related with employee benefits.

##### 7.d.3 If other provisions exceed 10% of total provisions, the name and amount of sub-accounts:

	Current Period	Prior Period
Other Provisions <sup>(*)</sup>	90.583	60.583
<b>Total</b>	<b>90.583</b>	<b>60.583</b>

(\*) Other provisions balance includes amount to TL 90.000 for the risks related to loan portfolio, amount to TL 583 for unindemnified non-cash loans (31 December 2015: TL 60.000 provision ).

#### 8. Explanations on taxes payable

##### 8.a Explanations on current taxes payable:

##### 8.a.1 Explanations on taxes payable:

Corporate Taxes and Deferred Taxes	Current Period		Prior Period	
	TL	FC	TL	FC
Corporate tax payable	5.066	-	41.871	-
Deferred tax liability	-	-	-	-
<b>Total</b>	<b>5.066</b>	<b>-</b>	<b>41.871</b>	<b>-</b>

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

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#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### II. Explanations and disclosures related to the unconsolidated liabilities (continued)

##### 8. Explanations on taxes payable (continued)

##### 8.a.2 Information on taxes payable:

	Current Period	Prior Period
Corporate taxes payable	5.066	41.871
Taxation of securities	334	437
Property tax	-	-
Banking and Insurance Transaction Tax (BITT)	3.374	3.085
Foreign Exchange Transaction Tax	-	-
Value Added Tax Payable	130	193
Other	1.320	1.167
<b>Total</b>	<b>10.224</b>	<b>46.753</b>

##### 8.a.3 Information on premiums:

	Current Period	Prior Period
Social Security Premiums-Employee	-	-
Social Security Premiums-Employer	-	-
Bank Social Aid Pension Fund Premium-Employee	-	-
Bank Social Aid Pension Fund Premium-Employer	-	-
Pension Fund Membership Fees and Provisions-Employee	-	-
Pension Fund Membership Fees and Provisions-Employer	-	-
Unemployment insurance-Employee	28	23
Unemployment insurance-Employer	57	46
Other	-	-
<b>Total</b>	<b>85</b>	<b>69</b>

##### 8.b Information on deferred taxes liabilities:

As at the reporting date, the Bank has no deferred tax liability (31 December 2015: None).

##### 9. Explanations on liabilities regarding assets held for sale

None. (31 December 2015: None)

##### 10. Explanations on the number of subordinated loans the Bank used, maturity, interest rate, institution that the loan was borrowed from, and conversion option, if any:

On 15 October 2016, the Bank paid the principal's payment at once and closed the subordinated loan (31 December 2015: The Bank obtained a subordinated loan amounting to 50 Million USD from International Finance Corporation through direct borrowing. Aforementioned loan's balance was TL 145.836)

##### 11. Information on shareholders' equity

##### 11.a Presentation of paid-in capital:

	Current Period	Prior Period
Common stock	2.050.000	1.750.000
Preferred stock	-	-

##### 11.b Paid-in capital amount, explanation as to whether the registered share capital system ceiling is applicable at bank, if so, amount of registered share capital:

Capital System	Paid-in capital	Ceiling
Registered Capital System	2.050.000	2.500.000

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

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#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### II. Explanations and disclosures related to the unconsolidated liabilities (continued)

##### 11. Information on shareholders' equity (continued)

At the board of directors meeting dated 26 October 2016 and no 2283, The Bank's registered capital ceiling has been decided to determine as TL 4.500.000 in the directions of the Capital Markets Board Decisions and regulations and the Bank's targets and forecasts , the Bank's registered capital ceiling permit amounting to TL 2.500.000 is going to end as of 31 December 2016.

##### 11.c Information on share capital increases and their sources; other information on increased capital shares in current period:

In the meeting of the General Assembly held on 24 March 2016, it has been resolved that, paid-in capital of the Bank will be increased from TL 1.750.000 to TL 2.050.000 by TL 300.000. In respect of the resolution of the General Assembly, this increase will be incorporated from the profit of the year 2015. Aforementioned increase was approved by the BRSA dated 6 May 2016 and was announced in the Turkish Trade Registry Gazette dated 4 July 2016 and No. 9110.

In the meeting of the General Assembly held on 26 March 2015, it has been resolved that, paid-in capital of the Bank will be increased from TL 1.500.000 to TL 1.750.000 by adding TL 250.000. In respect of the resolution of the General Assembly, TL 234.000 of this increase will be incorporated from the profit of the year 2014, TL 16.000 of this increase will be incorporated from extraordinary reserves provided for gain on subsidiary and real estate based on article of CTL-5(1)/e. The increase in paid-in capital was approved by the BRSA on 15 May 2015.

##### 11.d Information on share capital increases from capital reserves:

None (31 December 2015: the extraordinary reserve amounting to TL 16.000 provided from gain on sale of subsidiary and real estate added to paid-in-capital).

##### 11.e Capital commitments in the last fiscal year and at the end of the following period, the general purpose of these commitments and projected resources required to meet these commitments:

The Bank has no capital commitments for its associates in the last fiscal year and at the end of the following period.

##### 11.f Indicators of the Bank's income, profitability and liquidity for the previous periods and possible effects of these future assumptions on the Bank's equity due to the uncertainty of these indicators:

The prior period income, profitability and liquidity of the Bank and their trends in the successive periods are followed by Budget Planning and Investor Relations Department by considering the outcomes of the potential changes in the foreign exchange rate, interest rate and maturity alterations on profitability and liquidity under various scenario analyses.

The Bank operations are profitable, and the Bank retains the major part of its profit by capital increases or capital reserves within the shareholders equity.

##### 11.g Information on preferred shares:

The Bank has no preferred shares (31 December 2015: None).

##### 11.h Information on marketable securities value increase fund:

	Current Period		Prior Period	
	TL	FC	TL	FC
From Associates, Subsidiaries, and Entities Under Common Control	16.577	-	(35.994)	-
Valuation Differences	(26.515)	(26.774)	(31.066)	11.288
Foreign Exchange Difference	4.243	-	2.427	-
<b>Total</b>	<b>(5.695)</b>	<b>(26.774)</b>	<b>(64.633)</b>	<b>11.288</b>

##### 11.i Informations on legal reserves:

	Current Period	Prior Period
First legal reserve	130.749	110.407
Second legal reserve	83.174	82.227
Other legal reserves appropriated in accordance with special legislation	-	-
<b>Total</b>	<b>213.923</b>	<b>192.634</b>

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### 11. Information on shareholders' equity (continued)

##### 11.j Informations on extraordinary reserves:

	Current Period	Prior Period
Reserves appropriated by the General Assembly	106.400	82.703
Retained earnings	-	-
Accumulated losses	-	-
Foreign currency share capital exchange differences	-	-
<b>Total</b>	<b>106.400</b>	<b>82.703</b>

##### 11.k Explanations related to equity:

Movement of equity reserves during the period

Current Period	Value Increase Funds of Marketable Securities from Available for Sale	Value Increase Funds of Marketable Securities from Subsidiaries and Associates	Revaluation value increase Subsidiaries and Associates <sup>(*)</sup>	Others Equity Reserves	Total
<b>As at 1 January</b>	<b>(17.351)</b>	<b>(35.994)</b>	<b>31.348</b>	<b>57</b>	<b>(21.940)</b>
Value increase/decrease of available for sale investments recognized directly under equity	(44.827)	52.571	-	-	10.542
Profit/loss on disposal of available for sale investments recycled to income statement from equity	3.402	-	-	-	604
Tax effect of gains on available for sale investments	6.537	-	-	-	6.537
Other	3.193	-	3.354	720	7.267
<b>As at 31 December</b>	<b>(49.046)</b>	<b>16.577</b>	<b>34.702</b>	<b>777</b>	<b>3.010</b>

<sup>(\*)</sup>The valuation of real estates are made in accordance with the revaluation method in according to the scope of TAS 16. In 2016, the revaluation difference amounting to TL 3.510 and the related deferred tax effect amounting to TL 176 which are determined by the certified valuation companies - authorized by CMB and BRSA- are recorded under the shareholders' equity. The actuarial valuation method stated in TAS 19 has been used in the calculation of employee termination benefit. The actuarial gains and losses amounting to TL 900 and the related deferred tax effect amounting to TL 180 after 1 January 2016 have been accounted under equity in accordance with the revised TAS 19 standard.

Prior Period	Value Increase Funds of Marketable Securities from Available for Sale	Value Increase Funds of Marketable Securities from Subsidiaries and Associates	Revaluation value increase Subsidiaries and Associates	Others Equity Reserves	Total
<b>As at 1 January</b>	<b>119.450</b>	<b>(16.824)</b>	<b>9.320</b>	<b>374</b>	<b>112.320</b>
Value increase/decrease of available for sale investments recognized directly under equity	(181.206)	(41.295)	-	-	(221.413)
Profit/loss on disposal of available for sale investments recycled to income statement from equity	9.844	-	-	-	8.756
Tax effect of gains on available for sale investments	34.561	-	-	-	34.561
Other	-	22.125	22.028	(317)	43.836
<b>As at 31 December</b>	<b>(17.351)</b>	<b>(35.994)</b>	<b>31.348</b>	<b>57</b>	<b>(21.940)</b>

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### III. Explanations and disclosures related to the unconsolidated off-balance sheet items

##### 1. Explanation on off-balance sheet liabilities

##### 1.a Nature and amount of irrevocable loan commitments:

	Current Period	Prior Period
Commitments for Forward Purchase and Sales of Assets	78.479	110.589
Commitments for Stock Brokerage Purchase and Sales	68.274	6.049
Commitments for Letter of Credit	118.050	19.275
Commitments from Forward Short Term Borrowing and Transfers	-	103.409
Capital commitments for subsidiaries and associates <sup>(1)</sup>	68.367	-
Other	204.417	157.739
<b>Total</b>	<b>537.587</b>	<b>397.061</b>

<sup>(1)</sup> As of 25 July 2016, the Bank has paid EUR 1.1 Million share for which is promised to buy shares with the nominal value of EUR 20 Million to the fund which is planned to be created by the European Investment Fund – EIF with the targeted size of EUR 335 Million and established with the name of Turkish Growth and Innovation Fund – TGIF. As of 21 November, the Bank has paid 0.3 million EUR to fund for other part of shares.

##### 1.b Possible losses and commitments related to off-balance sheet items including items listed below:

##### 1.b.1 Non-cash loans including guarantees, surety and acceptances, financial collaterals and other letters of credits:

As of the reporting date, total letters of credit, surety and acceptances amount to TL 693.817 (31 December 2015: TL 566.890).

##### 1.b.2 Certain guarantees, tentative guarantees, surety ships and similar transactions:

As of the reporting date, total letters of guarantee given by the Bank is TL 975.393 (31 December 2015: TL 1.196.749).

##### 1.c.1 Total amount of non-cash loans:

	Current Period	Prior Period
Non-cash loans given against obtaining cash loans	741.806	731.304
With maturity of one year or less than one year	32.575	49.945
With maturity of more than one year	709.231	681.359
Other non-cash loans	927.404	1.051.362
<b>Total</b>	<b>1.669.210</b>	<b>1.782.666</b>



# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### III. Explanations and disclosures related to the unconsolidated off-balance sheet items (continued)

##### 1.c.2 Information on sectoral risk breakdown of non-cash loans:

	Current Period				Prior Period			
	TL	(%)	FC	(%)	TL	(%)	FC	(%)
Agriculture	-	-	4.073	1	-	-	-	-
Farming and stockbreeding	-	-	4.073	1	-	-	-	-
Forestry	-	-	-	-	-	-	-	-
Fishing	-	-	-	-	-	-	-	-
Industry	203.711	97	1.320.782	91	262.416	67	1.282.324	92
Mining	-	-	-	-	-	-	-	-
Manufacturing Industry	6.740	3	647.831	44	5.719	1	469.543	34
Electricity, Gas, Water	196.971	94	672.951	47	256.697	66	812.781	58
Construction	2.900	1	-	-	9.800	3	-	-
Services	3.839	2	133.905	8	118.585	30	109.541	8
Wholesale and Retail Trade	-	-	-	-	-	-	-	-
Hotel, Food and Beverage Services	-	-	-	-	-	-	-	-
Transportation and Communication	-	-	-	-	-	-	-	-
Financial Institutions	321	-	133.905	8	117.733	30	108.787	8
Real Asset and Leasing Services	3.518	2	-	-	852	-	754	-
Self-employment Services	-	-	-	-	-	-	-	-
Education Services	-	-	-	-	-	-	-	-
Health and Social Services	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
<b>Total</b>	<b>210.450</b>	<b>100</b>	<b>1.458.760</b>	<b>100</b>	<b>390.801</b>	<b>100</b>	<b>1.391.865</b>	<b>100</b>

##### 1.c.3 Information on Ist and IInd group non-cash loans:

	Ist Group				IInd Group			
	Current Period		Prior Period		Current Period		Prior Period	
	TL	FC	TL	FC	TL	FC	TL	FC
Non-cash Loans	206.783	1.458.760	387.563	1.391.865	3.667	-	3.238	-
Letters of Guarantee	206.783	764.943	387.563	805.948	3.667	-	3.238	-
Bank Acceptances	-	17.450	-	19.027	-	-	-	-
Letters of Credit	-	676.367	-	566.890	-	-	-	-
Endorsements	-	-	-	-	-	-	-	-
Purchase Guarantees on Issuance of Securities	-	-	-	-	-	-	-	-
Factoring Guarantees	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

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#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### III. Explanations and disclosures related to the unconsolidated off-balance sheet items (continued)

##### 2. Explanation related to derivative financial instruments

	Current Period	Prior Period
Foreign currency related derivative transactions (I)	15.679.164	8.043.151
Forward transactions	1.131.115	407.088
Swap transactions	7.616.113	5.159.665
Futures transactions	-	-
Option transactions	6.931.936	2.476.398
Interest related derivative transactions (II)	10.773.710	7.188.880
Interest rate swap transactions	10.773.710	7.188.880
Interest option transactions	-	-
Futures interest transactions	-	-
Other trading derivative transactions (III)	117.544	89.210
A. Total trading derivative transactions (I+II+III)	26.570.418	15.321.241
Types of hedging transactions		
Fair value hedges	7.747.800	4.689.900
Cash flow hedges	-	-
Net investment hedges	-	-
B. Total hedging related derivatives	7.747.800	4.689.900
<b>Total Derivative Transactions (A+B)</b>	<b>34.318.218</b>	<b>20.011.141</b>

As of 31 December 2016, the breakdown of the Bank's foreign currency forward and swap transactions based on currencies are disclosed below in their TL equivalents:

	Forward Buy	Forward Sell	Swap Buy	Swap Sell	Option Buy	Option Sell	Futures Buy	Futures Sell	Fair Value Hedge
<b>Current Period</b>									
TL	126.329	123.456	974.912	1.916.473	1.619.601	1.619.601	-	-	-
US Dollar	307.817	255.250	5.208.164	4.355.508	1.006.565	1.006.567	-	-	7.747.800
Euro	133.652	184.611	2.829.390	2.701.506	839.802	839.800	-	-	-
Other	-	-	268.322	253.092	-	-	-	-	-
<b>Total</b>	<b>567.798</b>	<b>563.317</b>	<b>9.280.788</b>	<b>9.226.579</b>	<b>3.465.968</b>	<b>3.465.968</b>	<b>-</b>	<b>-</b>	<b>7.747.800</b>
<b>Prior Period</b>									
TL	23.898	23.946	644.427	910.250	526.886	526.886	-	-	-
US Dollar	123.284	77.278	3.332.782	3.516.676	508.486	508.485	-	-	4.689.900
Euro	57.272	101.410	2.005.996	1.603.982	202.827	202.828	-	-	-
Other	-	-	211.823	211.819	-	-	-	-	-
<b>Total</b>	<b>204.454</b>	<b>202.634</b>	<b>6.195.028</b>	<b>6.242.727</b>	<b>1.238.199</b>	<b>1.238.199</b>	<b>-</b>	<b>-</b>	<b>4.689.900</b>

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### III. Explanations and disclosures related to the unconsolidated off-balance sheet items (continued)

##### 2. Explanation related to derivative financial instruments

Derivative Financial Liabilities Held For Trading	Current Period			Prior Period		
	Fair Value Assets	Fair Value Liabilities	Notional Amount in Turkish Lira Equivalent	Fair Value Liabilities	Fair Value Assets	Notional Amount in Turkish Lira Equivalent
Swap Transactions	153.173	(141.268)	7.616.113	53.283	(75.438)	5.159.665
Interest Rate Swap Transactions	58.255	(35.880)	10.773.710	38.728	(22.260)	7.188.880
Forward Transactions	22.109	(17.873)	1.131.115	3.375	(2.101)	407.088
Futures Transactions	-	-	-	-	-	-
Option Transactions	125.627	(125.627)	6.931.936	73.596	(73.632)	2.476.398
Other	16.281	-	117.544	-	-	89.210
<b>Total</b>	<b>375.445</b>	<b>(320.648)</b>	<b>26.570.418</b>	<b>168.982</b>	<b>(173.431)</b>	<b>15.321.241</b>

##### Fair value hedge

For the year ended 31 December 2016, the Bank has interest rate swaps for hedging purposes nominal amount of TL 7.747.800 (31 December 2015: 4.689.900)

##### Hedging from the cash-flow risk

As of 31 December 2016 there is no cash-flow hedging transactions (31 December 2015: None).

##### 3. Explanations on loan derivatives and risk exposures

The Bank has no loan derivatives and such risk exposures to this respect (31 December 2015: None).

##### 4. Explanations on contingent liabilities and assets

There are 37 legal cases against the Bank which are amounting to TL 2.115 as of the reporting date (31 December 2015: TL 1.071 - 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" (Foundation) established in accordance with the decisions of Turkish Commercial Law and Civil Law as made to all Foundations in the sector. According to this investigation it has been communicated that the amount Bank is obliged to pay is a benefit in the nature of fee for the members of Foundation worked at the time of payment, the amount 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 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 İstanbul, Ankara and İzmir. 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 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. The tax and penalty notices related to the decision of the tax court of first instance against the Bank are accrued by administration depending on legal process and as of 31 July 2014 the Bank has made total payments amounting to TL 22.091.

A similar case has been submitted to the Constitutional Court 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 Bank's property rights has been violated. This decision is considered to be a precedent for the 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 prior period.,

According to Legal Department of the Bank, it is not expected that the other lawsuits against the Bank will have a significant impact on the financial statements.

##### 5. Custodian and intermediary services:

The Bank provides trading and safe keeping services in the name and account of real persons, legal entities, funds, pension funds and other entities, which are presented in the statement of contingencies and commitments.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### IV. Explanations and disclosures related to the unconsolidated income statement

##### 1. Information on interest income

##### 1.a Information on interest on loans:

	Current Period		Prior Period	
	TL	FC	TL	FC
Interest on loans <sup>(*)</sup>				
Short term loans	69.426	6.504	25.484	3.229
Medium and long term loans	166.011	599.067	133.653	498.839
Interest on non-performing loans	4.015	84	421	123
Premiums received from Resource Utilization				
Support Fund	-	-	-	-
<b>Total</b>	<b>239.452</b>	<b>605.655</b>	<b>159.558</b>	<b>502.191</b>

<sup>(\*)</sup> Commission income from loans have been included to the interest on loans.

##### 1.b Information on interest received from banks:

	Current Period		Prior Period	
	TL	FC	TL	FC
The Central Bank of Turkey <sup>(*)</sup>	3.371	-	1.235	-
Domestic banks	10.117	1.186	2.645	380
Foreign banks	155	563	225	209
Branches and head office abroad	-	-	-	-
<b>Total</b>	<b>13.643</b>	<b>1.749</b>	<b>4.105</b>	<b>589</b>

<sup>(\*)</sup> Interests given to the Turkish Lira and US Dollar portion of the CBRT Required Reserves, reserve options and unrestricted accounts have been presented under "The Central Bank of Turkey" line in the financial statements.

##### 1.c Information on interest received from marketable securities:

	Current Period		Prior Period	
	TL	FC	TL	FC
Trading Securities	1.361	30	1.664	35
Financial Assets at Fair Value Through Profit and Loss	-	-	-	-
Available for Sale Financial Assets	218.692	45.095	239.322	47.602
Investments Held to Maturity	78.270	8.793	25.854	3.001
<b>Total</b>	<b>298.323</b>	<b>53.918</b>	<b>266.840</b>	<b>50.638</b>

##### 1.d Information on interest income received from associates and subsidiaries:

	Current Period	Prior Period
Interest received from associates and subsidiaries	8.595	12.380

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### IV. Explanations and disclosures related to the unconsolidated income statement (continued)

##### 2. Information on interest expenses

##### 2.a Information on interest on funds borrowed:

	Current Period		Prior Period	
	TL	FC	TL	FC
Banks	16.177	25.041	7.836	18.411
The Central Bank of Turkey	-	-	-	-
Domestic banks	5.017	1.193	3.449	1.158
Foreign banks	11.160	23.848	4.387	17.253
Branches and head office abroad	-	-	-	-
Other financial institutions	2.487	198.700	-	147.905
<b>Total <sup>(*)</sup></b>	<b>18.664</b>	<b>223.741</b>	<b>7.836</b>	<b>166.316</b>

<sup>(\*)</sup> Commissions given to other financial institutions have been included to interest expense on funds borrowed.

##### 2.b Information on interest expense to associates and subsidiaries:

The Bank has no interest expense to its associates and subsidiaries (31 December 2015: None).

##### 2.c Information on interest expense to securities issued:

	Current Period		Prior Period	
	TL	FC	TL	FC
Interest on Securities Issued <sup>(*)</sup>	-	149.831	-	92.869

<sup>(\*)</sup> Commissions given to issuance have been included to interest expense on funds borrowed.

##### 3. Information on dividend income

	Current period	Prior period
Financial Assets held for Trading	-	-
Financial Assets at Fair Value Through Profit and Loss	-	-
Financial Assets Available For Sale	2.711	2.880
Other	27.391	30.724
<b>Total</b>	<b>30.102</b>	<b>33.604</b>

##### 4. Information on net trading income (net)

	Current Period	Prior Period
<b>Profit</b>	<b>1.402.637</b>	<b>1.307.961</b>
Gains on capital market operations	7.098	11.811
Gains on derivative financial instruments <sup>(*)</sup>	882.298	699.343
Foreign exchange gains	513.241	596.807
<b>Losses (-)</b>	<b>(1.457.419)</b>	<b>(1.309.944)</b>
Losses on capital market operations	(1.181)	(8.160)
Losses on derivative financial instruments <sup>(*)</sup>	(882.124)	(806.101)
Foreign exchange losses	(574.114)	(495.683)

<sup>(\*)</sup> The foreign exchange gain from derivative transactions amounting to TL 398.300 is presented in "Gains on derivative financial instruments" (31 December 2015: 305.308 TL), foreign exchange loss from derivative transactions amounting to TL (418.234) is presented in "Losses on derivative financial instruments" (31 December 2015: TL (474.921)).

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### IV. Explanations and disclosures related to the unconsolidated income statement (continued)

##### 5. Explanation related to other operating income

	Current Period	Prior Period
Provisions Released	12.658	23.913
Gains on Sale of Assets	173	77
From Associate and Subsidiary Sales	114	-
From Immovable Fixed Asset Sales	-	76
From Property Sales	59	1
From Other Asset Sales	-	-
Other <sup>(*)</sup>	2.247	17.839
<b>Total</b>	<b>15.078</b>	<b>41.829</b>

<sup>(\*)</sup> Includes income accrual in the amounting TL 12.750 in accordance with the subjects mentioned in Section Five in disclosure No:III-4 in the prior period.

##### 6. Provision expenses related to loans and other receivables of the Bank

	Current Period	Prior Period
Specific provisions for loans and other receivables	1.692	43.975
III. Group Loans and Receivables	20	20
IV. Group Loans and Receivables	-	-
V. Group Loans and Receivables	1.672	43.955
General provision expenses	28.134	25.135
Provision expenses for possible losses	-	-
Marketable securities impairment expenses	3.809	8.790
Trading securities	-	-
Investment securities available for sale	3.809	8.790
Impairment provisions	-	22.125
Associates	-	-
Subsidiaries	-	22.125
Entities under common control (joint vent.)	-	-
Investment securities held to maturity	-	-
Other <sup>(*)</sup>	30.000	-
<b>Total</b>	<b>63.635</b>	<b>100.025</b>

<sup>(\*)</sup> Other provision contains amounting to TL 30.000 allocated for the risks related to the loan portfolio.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### IV. Explanations and disclosures related to the unconsolidated income statement (continued)

##### 7. Information related to other operating expenses

	Current Period	Prior Period
Personnel expenses	72.694	63.316
Reserve for employee termination benefits	958	751
Bank social aid fund deficit provision	-	-
Impairment expenses of fixed assets	-	-
Depreciation expenses of fixed assets	3.096	2.026
Impairment expenses of intangible assets	-	-
Impairment expense of goodwill	-	-
Amortization expenses of intangible assets	427	307
Impairment on subsidiaries accounted for under equity method	-	-
Impairment on assets for resale	21	42
Depreciation expenses of assets for resale	-	13
Impairment expenses of assets held for sale	-	-
Other operating expenses	21.175	20.243
Rent expenses	8.852	8.134
Maintenance expenses	512	1.219
Advertisement expenses	873	575
Other expenses	10.938	10.315
Loss on sale of assets	-	52
Other	17.263	14.709
<b>Total</b>	<b>115.634</b>	<b>101.459</b>

##### 8. Information on net profit from continued and discontinued operations before tax:

As of 31 December 2016, the Bank's profit before tax has increased by 16,68% compared to the prior period (31 December 2015: 10,13% increase). Net interest income of the Bank has increased by 24,34% compared to the prior period (31 December 2015: 14,43% increase)

##### 9. Explanation on tax provision for continued and discontinued operations

###### 9.a Explanation on current tax charge or benefit and deferred tax charge or benefit:

The Bank's current tax charge for the period is TL 98.641 (31 December 2015: TL 76.641). Deferred tax benefit is TL 18.166 (31 December 2015: TL 24.969 deferred tax charge).

###### 9.b Explanation related to deferred tax benefit or charge on temporary differences:

Deferred tax benefit calculated on temporary differences is TL 18.166 (31 December 2015: TL 24.969 deferred tax charge).

###### 9.c Explanation related to deferred tax benefit / charge on temporary differences, losses, tax deductions and exceptions:

As of 31 December 2016, the deferred tax benefit was calculated based on temporary timing differences is TL 18.166 (31 December 2015: TL 24.969 charge).

Deferred tax assets or liabilities are offset with the related accounts in this group if the differences between the carrying amount and the fair value of the deferred tax assets are related to the equity account group. For the year ended 31 December 2016, deferred tax loss amounting to TL 9.450 (31 December 2015: deferred tax loss: TL 32.960) is classified under equity.

There has no deferred tax revenues or expenses reflected in the income statement in respect of financial losses, tax deductions and exemptions (31 Aralık 2015: None)

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### IV. Explanations and disclosures related to the unconsolidated income statement (continued)

##### 10. Information on net profit/loss

10.a The nature and amount of certain income and expense items from ordinary operations is disclosed if the disclosure for nature, amount and repetition rate of such items is required for the complete understanding of the Bank's performance for the period:

The Bank has generated TL 1.376.480 of interest income, TL 599.292 of interest expenses and TL 4.935 of net fee and commission income from banking operations (31 December 2015: TL 1.079.798 interest income, TL 454.727 interest expense, TL 11.418 net fee and commission income).

10.b The effect of the change in accounting estimates to the net profit/loss; including the effects to the future period, if any:

There has no change in the accounting estimates and accordingly effect on the financial statement items.

10.c Minority share of profit and loss:

There is no profit and loss attributable to minority interest in the accompanying unconsolidated financial statements (31 December 2015: None).

11. If the other items in the income statement exceed 10% of the income statement total, accounts amounting to at least 20% of these items are shown below:

None other than other operating expense explained in Note IV.7, exceeds 10% of the income statement.

#### V. Explanations related to the unconsolidated statement of changes in shareholders' equity

##### 1. Informations related to capital

As of 31 December 2016, the shareholders and capital structure of the Bank are as follows :

Current Period				
Name Surname/Commercial Title	Share Capital	Shareholding Rate (%)	Paid in Capital	Unpaid Capital
T. İş Bankası A.Ş. Group	1.038.383	50,65	1.038.383	-
T. Vakıflar Bankası T.A.O.	171.738	8,38	171.738	-
Under Custody at Merkezi Kayıt Kuruluşu (Other Institutions and Individuals)	839.879	40,97	839.879	-
<b>Total</b>	<b>2.050.000</b>	<b>100,00</b>	<b>2.050.000</b>	<b>-</b>
Prior Period				
Name Surname/Commercial Title	Share Capital	Shareholding Rate (%)	Paid in Capital	Unpaid Capital
T. İş Bankası A.Ş. Group	880.723	50,33	880.723	-
T. Vakıflar Bankası T.A.O.	146.606	8,38	146.606	-
Under Custody at Merkezi Kayıt Kuruluşu (Other Institutions and Individuals)	722.671	41,29	722.671	-
<b>Total</b>	<b>1.750.000</b>	<b>100,00</b>	<b>1.750.000</b>	<b>-</b>

In the meeting of the General Assembly held on 24 March 2016, it has been resolved that, paid-in capital of the Bank will be increased from TL 1.750.000 to TL 2.050.000 by TL 300.000. In respect of the resolution of the General Assembly, this increase will be incorporated from the profit of the year 2015. Aforementioned increase was approved by the BRSA dated 6 May 2016 and was announced in the Turkish Trade Registry Gazette dated 4 July 2016 and No. 9110.

In the meeting of the General Assembly held on 26 March 2015, it has been resolved that, paid-in capital of the Bank will be increased from TL 1.500.000 to TL 1.750.000 by adding TL 250.000. In respect of the resolution of the General Assembly, TL 234.000 of this increase will be incorporated from the profit of the year 2014, TL 16.000 of this increase will be incorporated from extraordinary reserves provided for gain on subsidiary and real estate based on article of CTL-5(1)/e. The increase in paid-in capital was approved by the BRSA on 15 May 2015.

##### 2. Information on the increase arising from the revaluation of securities available-for-sale

Remeasurement of available-for-sale investments with their fair values after netting of the deferred tax effect as of 31 December 2016 is TL 22.462 increase (31 December 2015: 148.554 decrease) and (TL 3.402) (31 December 2015: (TL 9.844)) is transferred from the securities value increase fund to the income statement, presented in the equity movement table.



# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

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#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### V. Explanations related to the unconsolidated statement of changes in shareholders' equity (continued)

###### 3. Information on increases in the cash flow hedges

There is no increase in the cash flow hedges.

###### 4. Reconciliation between beginning and ending balances for foreign currency differences

As of 31 December 2016, increasing amount of TL 1.816 arising from the revaluation of securities available for sale is disclosed under the exchange differences in the statement of changes in the unconsolidated equity. (31 December 2015: TL 2.427)

###### 5. Information on the decrease arising from the revaluation of securities available-for-sale

The decrease arising from the revaluation of securities available-for-sale is explained in Note V.2, above.

###### 6. Information about dividends

###### 6.a Dividends declared subsequent to the reporting date, but before the announcement of the financial statements

Dividends related with the equity shares are determined by the General Assembly of the Shareholders. Number of shares outstanding is taken into account in the calculation of earnings per share. In case the number of shares increases by way of bonus issues as a result of the capital increases made by using the internal sources, the calculation of earnings per share is made by adjusting the number of shares, which were previously calculated as at the comparable periods. The adjustment means that the number of shares used in calculation is taken into consideration as if the bonus issue occurred at the beginning of the comparable period. In case such changes in the number of shares occur after the balance sheet date, but before the approval of the financial statements to be published, the calculation of earnings per share are based on the number of new shares. The profit distribution will be approved at the General Assembly, which is not yet held as of the date of the financial statements authorized for issue.

###### 6.b Net dividend per share proposed after the reporting date:

As noted above as of the date of this report, the Bank has not yet computed its distributable profit and earnings per share for the approval in the General Assembly.

###### 7. Amounts transferred to legal reserves

In the current year, TL 21.289 was transferred to the legal reserves (31 December 2015: TL 19.305).

###### 8. Offsetting of the prior period's losses

There is no offsetting of accumulated losses made during the current and prior year.

##### VI. Explanations related to the unconsolidated statement of cash flows

###### 1. The effects of the other items stated in the cash flow statement and the changes in foreign currency exchange rates on cash and cash equivalents

In the current period, other income amounting to TL 21.286, consists of gain on sale of assets and non-interest income (31 December 2015: TL 123.966 gain on sale of assets, capital market transaction income and non-interest income).

Other caption in changes in assets and liabilities from banking operations amounting to TL 1.281.363 consists of derivative financial transaction losses, taxes paid except employee termination benefits provision and depreciation expense, other operating expenses and fees and commissions paid. (31 December 2015: TL 716.153 consists of derivative financial transaction losses, taxes paid except employee termination benefits provision and depreciation expense, other operating expenses and fees and commissions paid).

In the current period, net increase/decrease item in other assets amounting to TL 71.697 (31 December 2015: TL (492.869)), consists of change in miscellaneous receivables, reserve requirement and other assets items.

In the current period, other payables amounting to TL (1.251.753) (31 December 2015: TL 25.621), consists of change in borrower funds, miscellaneous payables and funds from repo transactions.

In the current period, the effect of changes in foreign currency exchange rates on cash and cash equivalents has realized amounting to TL 40.069 (31 December 2015: TL 43.025).

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### VI. Explanations related to the unconsolidated statement of cash flows (continued)

##### 2. Information about cash flows from acquisition of associates, subsidiaries and other investments

In the current period, the Bank invested TL (2.234) in tangible fixed assets and properties and invested TL 690 in intangible fixed assets. The Bank has invested (TL 1,000) to the capital of its subsidiary.

In the prior period, the Bank invested TL (19.687) in tangible fixed assets and properties and invested TL 303 in intangible fixed assets. There is no investment in associates and subsidiaries.

##### 3. Information about disposal of associates, subsidiaries, and other investments

The total amount of purchases or sales of related account and their cash and cash equivalent assets;

In the current period, the Bank has generated a cash inflow of TL 203 on sale of movable fixed assets and properties (31 December 2015: TL 11.477).

##### 4. Information on cash and cash equivalents at the end of the period

Information on cash and cash equivalents at the beginning of the period:

	Beginning of the Current Period	Beginning of the Prior Period
Cash	12	8
Cash Equivalents	1.652.266	261.094
<b>Total</b>	<b>1.652.278</b>	<b>261.102</b>

Information on cash and cash equivalents at the end of the period:

	End of the Current Period	End of the Prior Period
Cash	27	12
Cash Equivalents	481.886	1.652.266
<b>Total</b>	<b>481.913</b>	<b>1.652.278</b>

##### 5. Amount of cash and cash equivalents restricted for the usage of the Bank and the shareholders by legal limitations and other reasons

Reserves amounting to TL 612.776 (31 December 2015: TL 767.239) in Turkish Republic Central Bank represent Turkish Lira, foreign currency and gold reserve requirements of the Bank.

##### 6. Additional information related to financial position and liquidity of the Bank

##### 6.a Any unused financial borrowing facility which can be utilized in banking operations and unpaid capital commitments and any restrictions on such facilities:

There are not any unused financial borrowing facilities which can be utilized in banking operations and unpaid capital commitments and any restrictions on such facilities.

##### 6.b Apart from the cash flows needed to run ordinary operations of the Bank, total of cash flows that shows the increase in the operation capacity of the Bank:

Under current economical conditions, the cash flows are followed daily and cash flows showing the increase in the capacity of operations of the Bank are investigated.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### VII. Explanations on the risk group of the Bank

1. Information on the volume of transactions related to the Bank's own risk group, outstanding loan and deposit transactions and income and expenses of the period

##### 1.a Current Period:

Risk Group of the Bank	Subsidiaries and Associates		Direct and Indirect Shareholders of the Bank		Other Entities Included In the Risk Group	
	Cash	Non-cash	Cash	Non-cash	Cash	Non-cash
Loans and Other Receivables						
Balance at Beginning of Period	451.705	322	53.167	117.412	91.272	-
Balance at End of Period	346.306	7.878	21.131	117.412	90.035	-
Interest and Commission Income	8.360	235	1.080	67	4.104	-

##### 1.b Prior Period:

Risk Group of the Bank	Subsidiaries and Associates		Direct and Indirect Shareholders of the Bank		Other Entities Included In the Risk Group	
	Cash	Non-cash	Cash	Non-cash	Cash	Non-cash
Loans and Other Receivables						
Balance at Beginning of Period	305.972	264	72.954	117.412	79.003	-
Balance at End of Period	451.705	322	53.167	117.412	91.272	-
Interest and Commission Income	12.375	5	1.582	294	4.208	-

##### 1.c Information on deposit held by Bank's own risk group:

The Bank is not authorized to accept deposits.

##### 2. Information on forward, option and other similar agreements made with Bank's own risk group

Risk Group of the Parent Bank	Subsidiaries and Associates		Direct and Indirect Shareholders of the Parent Bank		Other Entities Included in the Risk Group	
	Current Period	Prior Period	Current Period	Prior Period	Current Period	Prior Period
<b>Fair Value Through Profit or Loss Transactions</b>						
Beginning of the Period	116.656	97.317	-	-	-	-
End of the Period	849.378	116.656	-	-	-	-
Total Profit / Loss	6.801	(18.489)	-	-	-	-
<b>Hedging Risk Transactions</b>						
Beginning of the Period	-	-	-	-	-	-
End of the Period	-	-	-	-	-	-
Total Profit / Loss	-	-	-	-	-	-

##### 3. Total salaries and similar benefits provided to the key management personnel

Benefits provided to the key management personnel in the current period amount to TL 10.026 (31 December 2015: TL 8.202).

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### VIII. Information and disclosures related to the domestic, foreign offshore branches and foreign representations of the Bank:

##### 1. Information and disclosures related to the domestic, foreign offshore branches and foreign representations of the Bank

	Number	Number of Employees		
Domestic branches	2	357		
			Country of Incorporation	
Foreign Rep-offices	-	-		
			Total Asset	Capital
Foreign Branches	-	-	-	-
Off-shore Banking Region Branches	-	-	-	-

##### 2. Explanation on opening, closing of a branch/agency of the Bank or changing its organizational structure significantly

In the current year, the Bank has not opened any branch or agency and there is no significant change in the organization structure of the Bank's operating branches.

In the prior period, the Bank has not opened any branch or agency and there is no significant change in the organization structure of the Bank's operating branches.

#### SECTION SIX

#### OTHER EXPLANATIONS

##### I. Other explanations related to operations of the Bank

##### 1.a Brief information related to ratings carried out by international rating firms:

	FITCH RATINGS
Long-term Maturity Foreign Currency (issuer)	BBB-
Long-term Maturity Foreign Currency Outlook (issuer)	Negative
Short-term Maturity Foreign Currency (issuer)	F3
Long-term Maturity National Currency (issuer)	BBB
Long-term Maturity National Currency Outlook (issuer)	Negative
Short-term Maturity National Currency (issuer)	F3
Support Note	2
Support Note Base	BBB-
National Note	AAA
National Note Outlook	Stable
Privileged Unsecured Debt Rating Note	BBB-

International credit rating agency Fitch Ratings confirmed the Bank's ratings and outlook without changing on 18 October 2016 and determined Bank's "Privileged Unsecured Debt Notes" as BBB- for the Eurobonds maturity with 30 October 2019, 22 April 2020 and for "Green Sustainable Bonds" maturity with 18 May 2021.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION SIX (Continued)

##### OTHER EXPLANATIONS (Continued)

##### I. Other explanations related to operations of the Bank (Continued)

	MOODY'S
Reference Financial Rating Note	Ba2
<b>Foreign Currency (issuer)</b>	
Long-term Maturity	Ba1
Outlook	Stable
Short-term Maturity	NP
<b>Domestic Currency (issuer)</b>	
Long-term Maturity	Ba1
Outlook	Stable
Short-term Maturity	NP
<b>Unsecured Debt-Foreign Currency</b>	
Long-term Maturity	Ba1
Outlook	Stable
Foreign Currency/Domestic Currency MTN Note:	(P) Ba1

Information above represents updated information as of 26 September 2016.

International credit rating agency Moody's, assigned "Unsecured Debt - Foreign Currency" rating note for the Bank issuing Eurobonds and Green Sustainable Bond maturity with 30 October 2019, 22 April 2020 and 18 May 2021 respectively and this note has been appointed as Ba1.

##### 1.b Informations on corporate governance rating of the Bank:

SAHA Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş. (SAHA Corporate Governance and Credit Rating Services A.Ş.), a corporate governance rating institution with Capital Markets Board license, updated the Bank's corporate governance rating of 95,27% (9,53 over 10) as of 20 October 2016. Ratings under the main topics of weighted Shareholders, Public Disclosure and Transparency, Stakeholders and Board of Directors are declared as; 9,49 (Weight: 25%), 9,67 (Weight: 25%), 9,85 (Weight: 15%), 9,32 (Weight: 35%) over 10 respectively.

##### II. Other explanations related to the events after the reporting date

None.

#### SECTION SEVEN

##### AUDITORS' REPORT

##### I. Explanations on the auditors' report

The unconsolidated financial statements as of and for the year ended 31 December 2016 were audited by Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik AŞ (the Turkish member firm of KPMG International Cooperative, a Swiss entity) and auditors' report dated 1 February 2016 is presented in the introduction of this report.

##### II. Explanations and notes prepared by independent auditors

There are no other explanations and notes not expressed in sections above related with the Bank's operations.

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

CONSOLIDATED FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2016  
(CONVENIENCE TRANSLATION OF CONSOLIDATED  
FINANCIAL STATEMENTS AND RELATED DISCLOSURES  
AND FOOTNOTES ORIGINALLY ISSUED IN TURKISH)  
WITH INDEPENDENT AUDITORS' REPORT THEREON

*1 February 2017*

*This report contains "Auditors' Report" comprising 1 page and; "Consolidated Financial Statements and Related Disclosures and Footnotes" comprising 117 pages.*





Akis Bağımsız Denetim ve  
Serbest Muhasebeci Mali Müşavirlik A.Ş.  
Kavacık Rüzgarlı Bahçe Mah. Kavak Sok.  
No:29 Beykoz 34805 İstanbul  
Tel +90 (216) 681 90 00  
Fax +90 (216) 681 90 90  
www.kpmg.com.tr

**Convenience Translation of the Auditors' Report  
Originally Prepared and Issued in Turkish to English (See Note I in Section Three)**

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

**Report on the Consolidated Financial Statements**

We have audited the consolidated financial statements of Türkiye Sınai Kalkınma Bankası Anonim Şirketi ("the Bank") and its consolidated financial subsidiaries (together refer to as "the Group") which comprise the consolidated statement of financial position as at 31 December 2016 and the consolidated statement of income, consolidated statement of income and expense items under shareholders' equity, consolidated statement of changes in shareholders' equity, consolidated statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the "Banking Regulation and Supervision Agency ("BRSA") Accounting and Reporting Legislation" which includes the "Regulation on Accounting Applications for Banks and Safeguarding of Documents" published in the Official Gazette No.26333 dated 1 November 2006, and other regulations on accounting records of Banks published by Banking Regulation and Supervision Board and circulars and interpretations published by BRSA and requirements of Turkish Accounting Standards for the matters not regulated by the aforementioned legislations, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the "Regulation on Independent Audit of the Banks" published in the Official Gazette No.29314 dated 2 April 2015 by BRSA and Independent Standards on Auditing which is a component of the Turkish Auditing Standards published by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Türkiye Sınai Kalkınma Bankası AŞ and its consolidated financial subsidiaries as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with BRSA Accounting and Reporting Legislation.

**Report on Other Legal and Regulatory Requirements**

Pursuant to the fourth paragraph of Article 402 of the Turkish Commercial Code ("TCC") No.6102; no significant matter has come to our attention that causes us to believe that the Bank's bookkeeping activities for the period 1 January - 31 December 2016 are not in compliance with TTK and provisions of the Bank's articles of association in relation to financial reporting.

Pursuant to the fourth paragraph of Article 402 of the TCC; the Board of Directors provided us the necessary explanations and required documents in connection with the audit.

Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi  
A member firm of KPMG International Cooperative

  
Erdal Tıkmak  
Partner, SMMM

1 February 2017  
İstanbul, Turkey

**Additional paragraph for convenience translation to English:**

The accounting principles summarized in note 1 of Section Three, differ from the accounting principles generally accepted in countries in which the accompanying consolidated financial statements are to be distributed and International Financial Reporting Standards ("IFRS"). Accordingly, the accompanying consolidated financial statements are not intended to present the financial position and results of operations in accordance with accounting principles generally accepted in such countries of users of the consolidated financial statements and IFRS.



# THE CONSOLIDATED FINANCIAL REPORT OF TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. FOR THE YEAR ENDED 31 DECEMBER 2016

Address: Meclis-i Mebusan Cad. No: 81 Fındıklı/Istanbul  
Telephone: (212) 334 51 97  
Fax: (212) 334 52 34  
Website: <http://www.tskb.com.tr>  
E-mail Address for communication: [ir@tskb.com.tr](mailto:ir@tskb.com.tr)

The consolidated financial report designed for the year period ended includes the following sections in accordance with "Communiqué on Financial Statements and Related Explanation and Notes that will be made Publicly Announced" as sanctioned by the Banking Regulation and Supervision Agency.

- GENERAL INFORMATION ABOUT THE PARENT BANK
- CONSOLIDATED FINANCIAL STATEMENTS OF THE PARENT BANK
- EXPLANATIONS ON THE CORRESPONDING ACCOUNTING POLICIES APPLIED IN THE RELATED PERIOD
- INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT OF THE GROUP WHICH IS UNDER CONSOLIDATION
- EXPLANATORY DISCLOSURES AND FOOTNOTES ON CONSOLIDATED FINANCIAL STATEMENTS
- INDEPENDENT AUDITORS' REVIEW REPORT
- OTHER EXPLANATIONS
- INDEPENDENT AUDITORS' REPORT

The subsidiaries, associates and joint ventures, financial statements of which are consolidated within the framework of the reporting package, are as follows.

Subsidiaries	Associates
Yatırım Finansman Menkul Değerler A.Ş.	İş Finansal Kiralama A.Ş.
TSKB Gayrimenkul Yatırım Ortaklığı A.Ş.	İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.
	İş Faktoring A.Ş.

The accompanying consolidated financial statements and the explanatory footnotes and disclosures for the year ended period end, unless otherwise indicated, are prepared in thousands of Turkish Lira ("TL"), in accordance with the Communiqué on Banks' Accounting Practice and Maintaining Documents, Turkish Accounting Standards, Turkish Financial Reporting Standards, related communiqués and the Banks' records, and have been independently audited and presented as attached.

1 February 2017



**Adnan BALI**  
Chairman of Board of  
Directors



**Suat İNCE**  
Member of Board of  
Directors and General  
Manager



**Ece BÖRÜ**  
Executive Vice President  
in Charge of Financial  
Reporting



**Tolga SERT**  
Head of  
Financial Control  
Department



**Kemal SAÇ**  
Member of Audit  
Committee



**Can YUCEL**  
Member of Audit  
Committee

Contact information of the personnel in charge for addressing questions about this financial report:

Name-Surname/Title : Tolga Sert / Head of Financial Control Department  
Telephone Number : (212) 334 51 97

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# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS ARE EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION ONE

##### GENERAL INFORMATION

##### I. The Parent Bank's incorporation date, beginning status, changes in the existing status

Türkiye Sınai Kalkınma Bankası A.Ş. ("The Parent Bank") was established in accordance with the decision of President of the Republic of Turkey numbered 3/11203 on 12 May 1950. This decision was declared by T.R. Office of Prime Ministry Procedures Directorate Decision Management on 12 May 1950.

According to the classification set out in the Banking Law No: 5411, the status of the Parent Bank is "Development and Investment Bank". The Parent Bank does not have the authority of "Accepting Deposit". Since the establishment date of the Parent Bank, there is no change in its "Development and Investment Bank" status.

##### II. Explanations regarding the Parent Bank's shareholding structure, shareholders holding directly or indirectly, collectively or individually, the managing and controlling power and changes in current year, if any and explanations on the controlling group of the Parent Bank

Türkiye İş Bankası A.Ş. has the authority of managing and controlling power of the Parent Bank directly or indirectly, alone or together with other shareholders. Shareholders of the Parent Bank are as follows:

Current Period				
Name Surname/Commercial Title	Share Capital	Shareholding Rate (%)	Paid in Capital	Unpaid Capital
T. İş Bankası A.Ş. Group	1.038.383	50,65	1.038.383	-
T. Vakıflar Bankası T.A.O.	171.738	8,38	171.738	-
Under Custody at Merkezi Kayıt Kuruluşu (Other Institutions and Individuals)	839.879	40,97	839.879	-
<b>Total</b>	<b>2.050.000</b>	<b>100,00</b>	<b>2.050.000</b>	<b>-</b>
Prior Period				
Name Surname/Commercial Title	Share Capital	Shareholding Rate (%)	Paid in Capital	Unpaid Capital
T. İş Bankası A.Ş. Group	880.723	50,33	880.723	-
T. Vakıflar Bankası T.A.O.	146.606	8,38	146.606	-
Under Custody at Merkezi Kayıt Kuruluşu (Other Institutions and Individuals)	722.671	41,29	722.671	-
<b>Total</b>	<b>1.750.000</b>	<b>100,00</b>	<b>1.750.000</b>	<b>-</b>

The Parent Bank shares are traded in Istanbul Stock Exchange ("BIST") since 26 December 1986. The Parent Bank's 50,65% of the shares belongs to İş Bank Group and 39,07% of these shares are in free floating and traded in BIST National Market with "TSKB" ticker.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS ARE EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION ONE (Continued)

#### GENERAL INFORMATION (Continued)

#### III. Explanations regarding the chairman and the members of board of directors, audit committee, general manager and assistant general managers and their shares and responsibilities in the Parent Bank

The Chairman and The Members of Board of Directors:

Name Surname	Title <sup>(1)</sup>
Adnan Bali	Chairman of the Board of Directors
Ebru Özşuca <sup>(3)</sup>	Vice Chairman of the Board of Directors
Halil Aydoğan	Member of the Board of Directors
Yavuz Canevi	Member of the Board of Directors
Suat İnce <sup>(2)</sup>	Member of the Board of Directors and General Manager
Fikret Utku Özdemir <sup>(4)</sup>	Member of the Board of Directors
Kemal Saç <sup>(5)</sup>	Member of the Board of Directors and Audit Committee
Zeynep Hansu Uçar	Member of the Board of Directors
Kamil Yılmaz	Member of the Board of Directors
Can Yücel <sup>(5)</sup>	Member of the Board of Directors and Audit Committee

#### General Manager and Vice Presidents

Name Surname	Title / Area of Responsibility
Suat İnce <sup>(2)</sup>	General Manager
Çiğdem İçel <sup>(6)</sup>	Vice President – Economic Research, Financial Institutions, Development Finance Institutions, Engineering and Technical Consultancy
Ufuk Bala Yücel <sup>(6)</sup>	Vice President – Loans, Loan Monitoring and Loan Operations
B. Gökhan Çanakpınar <sup>(6)</sup>	Vice President – Building Communications and Administrative Affairs, System Support and Communication, Application Development
Ece Börü <sup>(6)</sup>	Vice President – Budget Planning and Investor Relations, Financial Analysis and Valuation, Financial Control
Hakan Aygen <sup>(6)</sup>	Vice President – Corporate Finance, Corporate Marketing and Project Finance
A. Ferit Eraslan <sup>(6)</sup>	Vice President – Head of Inspection, Internal Control and Risk Management
Aslı Zerrin Hancı <sup>(6)</sup>	Vice President – Treasury, Treasury and Capital Market Operations
H. Yetkin Kesler <sup>(6)</sup>	Vice President – Foundation of Retirement and Supplementary, Human Resources and Corporate Compliance, Enterprise Architecture and Process Management

<sup>(1)</sup>The shares of above directors in the Bank are symbolic.

<sup>(2)</sup>In the Board of Directors meeting held on 24 March 2016, Mr. Suat İnce was appointed as the Board of Directors Member and General Manager as of 1 April 2016 and Mr. Suat İnce has been started his duty after legal procedure on 11 April 2016.

<sup>(3)</sup>In the Board of Directors meeting held on 2 June 2016, Mrs. Ebru Özşuca was appointed as Vice Chairman of the Board of Directors due to Mr. Kemal Serdar Dışlı's resignation from his duty.

<sup>(4)</sup>In the Board of Directors meeting held on 2 June 2016, Mr. Murat Bilgiç resigned from his duties. Mr. Fikret Utku Özdemir was appointed as the Board of Directors Member started to his new duty by taking an oath at 10 June 2016.

<sup>(5)</sup>In the Board of Directors meeting held on 2 June 2016, Mr. Kemal Serdar Dışlı and Uygur Şafak Ögün resigned from their duties as the Board of Directors Member and Audit Committee Member. Mr. Kemal Saç and Mr. Can Yücel was appointed as the Board of Directors Member and Audit Committee Member started their duties by taking oath at 10 June 2016.

<sup>(6)</sup>Refers to the duties and responsibilities of the Bank after the organizational changes according to the decision of Board of Directors numbered 2291 dated 29 December 2016.

According to the regulations on auditing in Articles 397-406 of the Turkish Commercial Code numbered 6102, Akis Bağımsız Denetim ve Serbest Muhasebeci ve Mali Müşavirlik A.Ş. has been elected as the independent auditor for the year 2016 in the General Assembly Meeting held on 24 March 2016.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS ARE EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION ONE (Continued)

#### GENERAL INFORMATION (Continued)

#### IV. Information about the persons and institutions that have qualified shares in the Parent Bank

Explanation about the people and institutions that have qualified shares control the Parent Bank's capital directly or indirectly are described in General Information Section II.

#### V. Summary on the Parent Bank's functions and areas of activity

Türkiye Sınai Kalkınma Bankası A.Ş. is the first private development and investment bank which was established by the Council of Ministers resolution number of 3/11203 established in 1950 with the support of World Bank, T.R. Government, T.R. Central Bank and commercial banks. As per the articles of association published in the Official Gazette on 2 June 1950, the aim of the Parent Bank is to support all private sector investments but mostly industrial sectors, to help domestic and foreign capital owners to finance the new firms and to help the improvement of Turkish capital markets. The Parent Bank is succeeding its aims by financing, consulting, giving technical support and financial intermediary services. The Parent Bank, which operates as a non-deposit accepting bank, played a major role on manufacturing and finance sectors in every phase of the economic development of Turkey. The Parent Bank 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 financing needs of the private sector, the Parent Bank also continues to offer solutions with respect to the newest needs and client demands.

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

#### VI. Differences between the Communiqué on Preparation of Consolidated Financial Statements of Banks and Turkish Accounting Standards and short explanation about the institution subject to line-by-line method or proportional consolidation and institutions which are deducted from equity or not included in these three methods

Due to differences between the Communiqué on Preparation of Consolidated Financial Statements of Banks and Turkish Account Standards (TAS), the non-financial subsidiaries and associates, TSKB Gayrimenkul Değerleme A.Ş., Terme Metal Sanayi ve Ticaret A.Ş., Ege Tarım Ürünleri Lisanslı Depoculuk A.Ş., TSKB Sürdürülebilirlik Danışmanlığı A.Ş., Adana Hotel Project are Anavarza Otelcilik Anonim Şirketi are not consolidated since they are not in scope of financial institutions according to related Communiqué.

Türkiye Sınai Kalkınma Bankası A.Ş. and its financial institutions, Yatırım Finansman Menkul Değerler A.Ş., TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. are included in the accompanying consolidated financial statements by line by line consolidation method; İş Finansal Kiralama A.Ş., İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. and İş Faktoring A.Ş. are included in the accompanying consolidated financial statements by equity method.

Financial institutions included in the consolidation are determined in accordance with "Communiqué on Preparation of Consolidated Financial Statements of Banks" published in the Official Gazette dated 8 November 2006 numbered 26340.

#### Yatırım Finansman Menkul Değerler A.Ş.:

Yatırım Finansman Menkul Değerler A.Ş. ("YF") was established in 15 October 1976. The Company's purpose is to perform capital market operations specified in the Company's articles of association in accordance with the CMB and the related legislation. The Company was merged with TSKB Menkul Değerler A.Ş. 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.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS ARE EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION ONE (Continued)

##### GENERAL INFORMATION (Continued)

###### TSKB Gayrimenkul Yatırım Ortaklığı A.Ş.:

TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. ("TSKB GYO") was established on 3 February 2006. Core business of the Company is real estate trust to construct and develop a portfolio of properties and make investment to capital market instruments linked to properties. The share of Türkiye Sınai Kalkınma Bankası A.Ş. is 59,00%. The company's headquarters is located at Istanbul/Turkey.

###### İş Finansal Kiralama A.Ş.:

İş Finansal Kiralama A.Ş. ("İş Finansal Kiralama") was established on 8 February 1988. The Company has been performing its operations in accordance with the Financial Leasing, Factoring and Financing Companies Law No 6361. The purpose of the Company is performing domestic and foreign financial leasing activities and all kind of rental (leasing) transactions within the framework of legislation. The share of Türkiye Sınai Kalkınma Bankası A.Ş. 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 A.Ş.:

İş Faktoring A.Ş. ("İş Faktoring"), was incorporated in Turkey on 4 July 1993 and it has been performing 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. The Company is a Türkiye İş Bankası A.Ş. Group entity and the parent is İş Finansal Kiralama A.Ş. with 78,23% shareholding. The share of Türkiye Sınai Kalkınma Bankası A.Ş. is 21,75%. The company's headquarters is located at Istanbul/Turkey.

###### İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. :

İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. ("İş Girişim") started its venture capital operations by the decision of Capital Market Board dated 5 October 2000. The principal activity of the Company is to perform long-term investments to venture capital companies mainly established or to be established in Turkey, have development potential and require resource. The share of Türkiye Sınai Kalkınma Bankası A.Ş. is 16,65% in which the share of İş Yatırım Menkul Değerler A.Ş. is 29,29%. The Company's headquarters is located at Istanbul/Turkey.

#### VII. The existing or potential, actual or legal obstacle on the transfer of shareholder's equity between the Parent Bank and its subsidiaries or the reimbursement of liabilities

There is no existing or potential, actual or legal obstacle to the reimbursement of liabilities between the Parent Bank and its subsidiaries. The Parent Bank charge or pay cost of the services according to the service agreements done between the Parent Bank and its subsidiaries. Dividend distribution from shareholders' equity is made according to related legal regulations.

#### Written policies of the Parent Bank related to compliance to publicly disclosed obligations of the Parent Bank and assessment of accuracy, frequency and compliance of mentioned disclosures

The Parent Bank Disclosure Policy approved by the meeting of the Board of Directors has entered into force on 28 February 2014. Compliance to public disclosure obligations, frequency of public disclosures and tools and methods used for public disclosures are explained in the disclosure policy of the Parent Bank accessible from the Parent Bank's corporate website.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES

## CONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)

### AS OF 31 DECEMBER 2016

(AMOUNTS ARE EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

ASSETS	Note Ref.	Audited Current Period 31 December 2016			Audited Prior Period 31 December 2015		
		TL	FC	Total	TL	FC	Total
<b>I. CASH AND BALANCES WITH THE CENTRAL BANK</b>	<b>(1)</b>	<b>161.305</b>	<b>616.771</b>	<b>778.076</b>	<b>40.447</b>	<b>770.676</b>	<b>811.123</b>
<b>II. FINANCIAL ASSETS AT F.V. THROUGH PROFIT AND LOSS (Net)</b>	<b>(2)</b>	<b>139.799</b>	<b>247.238</b>	<b>387.037</b>	<b>49.785</b>	<b>159.786</b>	<b>209.571</b>
2.1 Trading financial assets		139.799	247.238	387.037	49.785	159.786	209.571
2.1.1 Public sector debt securities		5.947	-	5.947	30.777	-	30.777
2.1.2 Share certificates		980	-	980	2	-	2
2.1.3 Derivative financial assets held for trading		126.798	247.238	374.036	10.008	159.786	169.794
2.1.4 Other marketable securities		6.074	-	6.074	8.998	-	8.998
2.2 Financial assets at fair value through profit and loss		-	-	-	-	-	-
2.2.1 Public sector debt securities		-	-	-	-	-	-
2.2.2 Share certificates		-	-	-	-	-	-
2.2.3 Other marketable securities		-	-	-	-	-	-
2.2.4 Loans		-	-	-	-	-	-
<b>III. BANKS</b>	<b>(3)</b>	<b>75.108</b>	<b>422.841</b>	<b>497.949</b>	<b>72.617</b>	<b>678.928</b>	<b>751.545</b>
<b>IV. MONEY MARKET PLACEMENTS</b>		<b>63.796</b>	<b>191.138</b>	<b>254.934</b>	<b>1.080.724</b>	<b>-</b>	<b>1.080.724</b>
4.1 Interbank money market placements		-	191.138	191.138	-	-	-
4.2 Istanbul Stock Exchange money market placements		62.895	-	62.895	1.080.274	-	1.080.274
4.3 Receivables from reverse repurchase agreements		901	-	901	450	-	450
<b>V. FINANCIAL ASSETS AVAILABLE FOR SALE (Net)</b>	<b>(4)</b>	<b>2.048.308</b>	<b>1.020.104</b>	<b>3.068.412</b>	<b>2.124.343</b>	<b>847.819</b>	<b>2.972.162</b>
5.1 Share certificates		28.081	18.582	46.663	28.094	10.120	38.214
5.2 Public sector debt securities		1.823.078	967.854	2.790.932	1.793.224	831.327	2.624.551
5.3 Other marketable securities		197.149	33.668	230.817	303.025	6.372	309.397
<b>VI. LOANS AND RECEIVABLES</b>	<b>(5)</b>	<b>2.613.249</b>	<b>14.722.796</b>	<b>17.336.045</b>	<b>2.371.872</b>	<b>11.261.257</b>	<b>13.633.129</b>
6.1 Loans and receivables		2.613.249	14.722.796	17.336.045	2.371.872	11.261.257	13.633.129
6.1.1 Loans to risk group of the Bank		193.048	212.410	405.458	276.808	207.989	484.797
6.1.2 Public sector debt securities		-	-	-	-	-	-
6.1.3 Other		2.420.201	14.510.386	16.930.587	2.095.064	11.053.268	13.148.332
6.2 Non performing loans		50.253	1.362	51.615	59.328	1.689	61.017
6.3 Specific provisions (-)		(50.253)	(1.362)	(51.615)	(59.328)	(1.689)	(61.017)
<b>VII. FACTORING RECEIVABLES</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>VIII. HELD TO MATURITY INVESTMENTS (Net)</b>	<b>(6)</b>	<b>1.188.990</b>	<b>186.739</b>	<b>1.375.729</b>	<b>715.194</b>	<b>157.408</b>	<b>872.602</b>
8.1 Public sector debt securities		1.188.990	186.739	1.375.729	715.194	157.408	872.602
8.2 Other marketable securities		-	-	-	-	-	-
<b>IX. INVESTMENTS IN ASSOCIATES (Net)</b>	<b>(7)</b>	<b>324.477</b>	<b>-</b>	<b>324.477</b>	<b>293.543</b>	<b>-</b>	<b>293.543</b>
9.1 Accounted for under equity method		322.922	-	322.922	291.988	-	291.988
9.2 Unconsolidated associates		1.555	-	1.555	1.555	-	1.555
9.2.1 Financial investments		-	-	-	-	-	-
9.2.2 Non-financial investments		1.555	-	1.555	1.555	-	1.555
<b>X. INVESTMENTS IN SUBSIDIARIES (Net)</b>	<b>(8)</b>	<b>1.609</b>	<b>-</b>	<b>1.609</b>	<b>609</b>	<b>-</b>	<b>609</b>
10.1 Unconsolidated financial subsidiaries		-	-	-	-	-	-
10.2 Unconsolidated non-financial subsidiaries		1.609	-	1.609	609	-	609
<b>XI. ENTITIES UNDER COMMON CONTROL (JOINT VENT.) (Net)</b>	<b>(9)</b>	<b>1.760</b>	<b>-</b>	<b>1.760</b>	<b>1.760</b>	<b>-</b>	<b>1.760</b>
11.1 Consolidated under equity method		-	-	-	-	-	-
11.2 Unconsolidated		1.760	-	1.760	1.760	-	1.760
11.2.1 Financial subsidiaries		-	-	-	-	-	-
11.2.2 Non-financial subsidiaries		1.760	-	1.760	1.760	-	1.760
<b>XII. LEASE RECEIVABLES (Net)</b>	<b>(10)</b>	<b>-</b>	<b>3.792</b>	<b>3.792</b>	<b>-</b>	<b>-</b>	<b>-</b>
12.1 Finance lease receivables		-	4.393	4.393	-	98	98
12.2 Operating lease receivables		-	-	-	-	-	-
12.3 Other		-	-	-	-	-	-
12.4 Unearned income ( - )		-	(601)	(601)	-	(98)	(98)
<b>XIII. DERIVATIVE FINANCIAL ASSETS FOR HEDGING PURPOSES</b>	<b>(11)</b>	<b>-</b>	<b>272</b>	<b>272</b>	<b>-</b>	<b>4.093</b>	<b>4.093</b>
13.1 Fair value hedge		-	272	272	-	4.093	4.093
13.2 Cash flow hedge		-	-	-	-	-	-
13.3 Hedge of net investment in foreign operations		-	-	-	-	-	-
<b>XIV. TANGIBLE ASSETS (Net)</b>	<b>(12)</b>	<b>231.328</b>	<b>-</b>	<b>231.328</b>	<b>207.027</b>	<b>-</b>	<b>207.027</b>
<b>XV. INTANGIBLE ASSETS (Net)</b>	<b>(13)</b>	<b>3.098</b>	<b>-</b>	<b>3.098</b>	<b>2.056</b>	<b>-</b>	<b>2.056</b>
15.1 Goodwill		1.005	-	1.005	1.005	-	1.005
15.2 Other		2.093	-	2.093	1.051	-	1.051
<b>XVI. INVESTMENT PROPERTY (Net)</b>	<b>(14)</b>	<b>231.323</b>	<b>-</b>	<b>231.323</b>	<b>241.293</b>	<b>-</b>	<b>241.293</b>
<b>XVII. TAX ASSET</b>	<b>(15)</b>	<b>21.214</b>	<b>-</b>	<b>21.214</b>	<b>29.624</b>	<b>-</b>	<b>29.624</b>
17.1 Current tax asset		3.032	-	3.032	1.825	-	1.825
17.2 Deferred tax asset		18.182	-	18.182	27.799	-	27.799
<b>XVIII. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (Net)</b>	<b>(16)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
18.1 Assets held for sale		-	-	-	-	-	-
18.2 Assets of discontinued operations		-	-	-	-	-	-
<b>XIX. OTHER ASSETS</b>	<b>(17)</b>	<b>81.592</b>	<b>276.839</b>	<b>358.431</b>	<b>74.491</b>	<b>181.228</b>	<b>255.719</b>
<b>TOTAL ASSETS</b>		<b>7.186.956</b>	<b>17.688.530</b>	<b>24.875.486</b>	<b>7.305.385</b>	<b>14.061.195</b>	<b>21.366.580</b>

The accompanying notes are an integral part of these consolidated financial statements.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES

## CONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)

### AS OF 31 DECEMBER 2016

(AMOUNTS ARE EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

LIABILITIES	Note Ref	Audited Current Period 31 December 2016			Audited Prior Period 31 December 2015		
		TL	FC	Total	TL	FC	Total
<b>I. DEPOSITS</b>	(1)	-	-	-	-	-	-
1.1 Deposits from Risk Group of the Bank		-	-	-	-	-	-
1.2 Other		-	-	-	-	-	-
<b>II. DERIVATIVE FINANCIAL LIABILITIES HELD FOR TRADING</b>	(2)	115.009	205.788	320.797	44.452	130.498	174.950
<b>III. FUNDS BORROWED</b>	(3)	147.252	15.980.244	16.127.496	255.612	13.186.219	13.441.831
<b>IV. MONEY MARKET BALANCES</b>		1.195.236	60.998	1.256.234	2.305.992	44.548	2.350.540
4.1 Interbank money market takings		610.144	-	610.144	-	-	-
4.2 Istanbul Stock Exchange money market takings		350.736	-	350.736	182.505	-	182.505
4.3 Funds provided under repurchase agreements		234.356	60.998	295.354	2.123.487	44.548	2.168.035
<b>V. DEBT SECURITIES ISSUED (Net)</b>	(3)	-	3.486.732	3.486.732	-	2.037.571	2.037.571
5.1 Bills		-	-	-	-	-	-
5.2 Asset backed securities		-	-	-	-	-	-
5.3 Bonds		-	3.486.732	3.486.732	-	2.037.571	2.037.571
<b>VI. FUNDS</b>		1.511	3.806	5.317	1.690	28.987	30.677
6.1 Borrower funds		1.511	3.806	5.317	1.690	28.987	30.677
6.2 Others		-	-	-	-	-	-
<b>VII. MISCELLANEOUS PAYABLES</b>		113.382	80.230	193.612	98.571	30.727	129.298
<b>VIII. OTHER LIABILITIES</b>	(4)	-	-	-	-	-	-
<b>IX. FACTORING PAYABLES</b>		-	-	-	-	-	-
<b>X. LEASE PAYABLES</b>	(5)	-	-	-	-	-	-
10.1 Finance lease payables		-	-	-	-	-	-
10.2 Operating lease payables		-	-	-	-	-	-
10.3 Other		-	-	-	-	-	-
10.4 Deferred finance lease expenses (-)		-	-	-	-	-	-
<b>XI. DERIVATIVE FINANCIAL LIABILITIES FOR HEDGING PURPOSES</b>	(6)	-	51.433	51.433	-	5.799	5.799
11.1 Fair value hedge		-	51.433	51.433	-	5.799	5.799
11.2 Cash flow hedge		-	-	-	-	-	-
11.3 Hedge of net investment in foreign operations		-	-	-	-	-	-
<b>XII. PROVISIONS</b>	(7)	279.033	-	279.033	217.860	-	217.860
12.1 General loan loss provisions		177.167	-	177.167	144.043	-	144.043
12.2 Restructuring provisions		-	-	-	-	-	-
12.3 Reserve for employee benefits		10.904	-	10.904	10.768	-	10.768
12.4 Insurance technical reserves (Net)		-	-	-	-	-	-
12.5 Other provisions		90.962	-	90.962	63.049	-	63.049
<b>XIII. TAX LIABILITY</b>	(8)	11.779	-	11.779	48.426	-	48.426
13.1 Current tax liability		11.779	-	11.779	48.426	-	48.426
13.2 Deferred tax liability		-	-	-	-	-	-
<b>XIV. PAYABLES RELATED TO ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (NET)</b>	(9)	-	-	-	-	-	-
14.1 Held for sale		-	-	-	-	-	-
14.2 Discontinued operations		-	-	-	-	-	-
<b>XV. SUBORDINATED LOANS</b>	(10)	-	-	-	-	145.836	145.836
<b>XVI. SHAREHOLDERS' EQUITY</b>		3.169.827	(26.774)	3.143.053	2.772.504	11.288	2.783.792
16.1 Paid-in capital	(11)	2.050.000	-	2.050.000	1.750.000	-	1.750.000
16.2 Capital reserves		159.098	(26.774)	132.324	136.034	11.288	147.322
16.2.1 Share premium		428	-	428	428	-	428
16.2.2 Share cancellation profits		-	-	-	-	-	-
16.2.3 Marketable securities value increase fund	(11)	(43.122)	(26.774)	(69.896)	(39.043)	11.288	(27.755)
16.2.4 Tangible assets revaluation differences	(11)	201.168	-	201.168	174.619	-	174.619
16.2.5 Intangible assets revaluation differences		-	-	-	-	-	-
16.2.6 Investment property revaluation differences		-	-	-	-	-	-
16.2.7 Bonus shares obtained from associates, subsidiaries and jointly controlled entities (Joint Vent.)		-	-	-	-	-	-
16.2.8 Hedging reserves (Effective portion)		-	-	-	-	-	-
16.2.9 Revaluation surplus on assets held for sale and discontinued operations		-	-	-	-	-	-
16.2.10 Other capital reserves		624	-	624	30	-	30
16.3 Profit reserves		408.096	-	408.096	362.902	-	362.902
16.3.1 Legal reserves		216.361	-	216.361	195.072	-	195.072
16.3.2 Statutory reserves		75.641	-	75.641	75.641	-	75.641
16.3.3 Extraordinary reserves		113.175	-	113.175	89.478	-	89.478
16.3.4 Other profit reserves		2.919	-	2.919	2.711	-	2.711
16.4 Profit or loss		494.664	-	494.664	458.078	-	458.078
16.4.1 Prior years' profit/loss		51.233	-	51.233	50.847	-	50.847
16.4.2 Current year profit/loss		443.431	-	443.431	407.231	-	407.231
16.5 Non-controlling interests		57.969	-	57.969	65.490	-	65.490
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>5.033.029</b>	<b>19.842.457</b>	<b>24.875.486</b>	<b>5.745.107</b>	<b>15.621.473</b>	<b>21.366.580</b>

The accompanying notes are an integral part of these consolidated financial statements.



# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES

## CONSOLIDATED STATEMENT OF OFF-BALANCE SHEET

### AS OF 31 DECEMBER 2016

(AMOUNTS ARE EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

	Note Ref	Audited Current Period 31 December 2016			Audited Prior Period 31 December 2015		
		TL	FC	Total	TL	FC	Total
<b>A. OFF BALANCE SHEET COMMITMENTS AND CONTINGENCIES (I+II+III)</b>		<b>8,837,735</b>	<b>35,599,977</b>	<b>44,437,712</b>	<b>4,606,892</b>	<b>22,448,542</b>	<b>27,055,434</b>
<b>I. GUARANTEES AND COLLATERALS</b>	<b>(1)</b>	<b>210,448</b>	<b>1,458,760</b>	<b>1,669,208</b>	<b>390,799</b>	<b>1,391,865</b>	<b>1,782,664</b>
1.1 Letters of guarantee		210,448	764,943	975,391	390,799	805,948	1,196,747
1.1.1 Guarantees subject to State Tender Law		-	-	-	-	-	-
1.1.2 Guarantees given for foreign trade operations		-	-	-	-	-	-
1.1.3 Other letters of guarantee		210,448	764,943	975,391	390,799	805,948	1,196,747
1.2 Bank acceptances		-	17,450	17,450	-	19,027	19,027
1.2.1 Import letters of acceptance		-	17,450	17,450	-	19,027	19,027
1.2.2 Other bank acceptances		-	-	-	-	-	-
1.3 Letters of credit		-	676,367	676,367	-	566,890	566,890
1.3.1 Documentary letters of credit		-	676,367	676,367	-	566,890	566,890
1.3.2 Other letters of credit		-	-	-	-	-	-
1.4 Prefinancing given as guarantee		-	-	-	-	-	-
1.5 Endorsements		-	-	-	-	-	-
1.5.1 Endorsements to the Central Bank of Turkey		-	-	-	-	-	-
1.5.2 Other endorsements		-	-	-	-	-	-
1.6 Securities issue purchase guarantees		-	-	-	-	-	-
1.7 Factoring guarantees		-	-	-	-	-	-
1.8 Other guarantees		-	-	-	-	-	-
1.9 Other collaterals		-	-	-	-	-	-
<b>II. COMMITMENTS</b>	<b>(1)</b>	<b>2,318,595</b>	<b>6,274,080</b>	<b>8,592,675</b>	<b>1,442,326</b>	<b>3,583,979</b>	<b>5,026,305</b>
2.1 Irrevocable commitments		1,022,236	301,200	1,323,436	1,009,744	303,817	1,313,561
2.1.1 Forward asset purchase and sales commitments		23,159	55,320	78,479	55,547	55,042	110,589
2.1.2 Forward deposit purchase and sales commitments		-	-	-	-	-	-
2.1.3 Share capital commitment to associates and subsidiaries		-	68,367	68,367	-	-	-
2.1.4 Loan granting commitments		-	-	-	-	-	-
2.1.5 Securities underwriting commitments		-	-	-	-	-	-
2.1.6 Commitments for reserve deposit requirements		-	-	-	-	-	-
2.1.7 Payment commitment for checks		-	-	-	-	-	-
2.1.8 Tax and fund liabilities from export commitments		-	-	-	-	-	-
2.1.9 Commitments for credit card expenditure limits		-	-	-	-	-	-
2.1.10 Commitments for promotions related with credit cards and banking activities		-	-	-	-	-	-
2.1.11 Receivables from short sale commitments		-	-	-	-	-	-
2.1.12 Payables for short sale commitments		-	-	-	-	-	-
2.1.13 Other irrevocable commitments		999,077	177,513	1,176,590	954,197	248,775	1,202,972
2.2 Revocable commitments		1,296,359	5,972,880	7,269,239	432,582	3,280,162	3,712,744
2.2.1 Revocable loan granting commitments		1,296,359	5,972,880	7,269,239	432,582	3,280,162	3,712,744
2.2.2 Other revocable commitments		-	-	-	-	-	-
<b>III. DERIVATIVE FINANCIAL INSTRUMENTS</b>	<b>(2)</b>	<b>6,308,692</b>	<b>27,867,137</b>	<b>34,175,829</b>	<b>2,773,767</b>	<b>17,472,698</b>	<b>20,246,465</b>
3.1 Derivative financial instruments for hedging purposes		-	7,747,800	7,747,800	-	4,689,900	4,689,900
3.1.1 Fair value hedge		-	7,747,800	7,747,800	-	4,689,900	4,689,900
3.1.2 Cash flow hedge		-	-	-	-	-	-
3.1.3 Hedge of net investment in foreign operations		-	-	-	-	-	-
3.2 Held for trading transactions		6,308,692	20,119,337	26,428,029	2,773,767	12,782,798	15,556,565
3.2.1 Forward foreign currency buy/sell transactions		249,785	881,330	1,131,115	47,844	359,244	407,088
3.2.1.1 Forward foreign currency transactions-buy		126,329	441,469	567,798	23,898	180,556	204,454
3.2.1.2 Forward foreign currency transactions-sell		123,456	439,861	563,317	23,946	178,688	202,634
3.2.2 Swap transactions related to f.c. and interest rates		2,819,705	15,427,729	18,247,434	1,672,001	10,911,718	12,583,719
3.2.2.1 Foreign currency swaps-buy		1,098,878	2,724,038	3,822,916	748,975	1,969,096	2,718,071
3.2.2.2 Foreign currency swaps-sell		1,680,003	1,970,805	3,650,808	878,170	1,798,598	2,676,768
3.2.2.3 Interest rate swaps-buy		20,412	5,366,443	5,386,855	22,428	3,572,012	3,594,440
3.2.2.4 Interest rate swaps-sell		20,412	5,366,443	5,386,855	22,428	3,572,012	3,594,440
3.2.3 Foreign currency, interest rate and securities options		3,239,202	3,692,734	6,931,936	1,053,922	1,422,626	2,476,548
3.2.3.1 Foreign currency options-buy		1,619,601	1,846,367	3,465,968	526,886	711,313	1,238,199
3.2.3.2 Foreign currency options-sell		1,619,601	1,846,367	3,465,968	526,886	711,313	1,238,199
3.2.3.3 Interest rate options-buy		-	-	-	-	-	-
3.2.3.4 Interest rate options-sell		-	-	-	-	-	-
3.2.3.5 Securities options-buy		-	-	-	-	-	-
3.2.3.6 Securities options-sell		-	-	-	-	-	-
3.2.4 Foreign currency futures		-	-	-	150	-	150
3.2.4.1 Foreign currency futures-buy		-	-	-	-	-	-
3.2.4.2 Foreign currency futures-sell		-	-	-	-	-	-
3.2.5 Interest rate futures		-	-	-	-	-	-
3.2.5.1 Interest rate futures-buy		-	-	-	-	-	-
3.2.5.2 Interest rate futures-sell		-	-	-	-	-	-
3.2.6 Other		-	117,544	117,544	-	89,210	89,210
<b>IV. CUSTODY AND PLEDGED SECURITIES (IV+V+VI)</b>		<b>43,886,431</b>	<b>190,051,234</b>	<b>233,937,665</b>	<b>34,498,158</b>	<b>145,401,774</b>	<b>179,899,932</b>
<b>B. ITEMS HELD IN CUSTODY</b>		<b>1,390,976</b>	<b>132,226</b>	<b>1,523,202</b>	<b>3,650,448</b>	<b>114,984</b>	<b>3,765,432</b>
4.1 Customers' securities held		-	-	-	-	-	-
4.2 Investment securities held in custody		1,185,233	132,226	1,317,459	1,649,997	114,984	1,764,981
4.3 Checks received for collection		-	-	-	-	-	-
4.4 Commercial notes received for collection		-	-	-	-	-	-
4.5 Other assets received for collection		-	-	-	-	-	-
4.6 Assets received for public offering		-	-	-	-	-	-
4.7 Other items under custody		-	-	-	-	-	-
4.8 Custodians		205,743	-	205,743	2,000,451	-	2,000,451
<b>V. PLEDGED ITEMS</b>		<b>31,662,429</b>	<b>112,629,624</b>	<b>144,292,053</b>	<b>20,596,654</b>	<b>87,050,467</b>	<b>107,647,121</b>
5.1 Marketable securities		450,941	7,564,328	8,015,269	450,939	5,057,844	5,508,783
5.2 Guarantee notes		97,196	2,042,232	2,139,428	81,885	1,663,046	1,744,931
5.3 Commodity		-	-	-	-	-	-
5.4 Warranty		-	-	-	-	-	-
5.5 Real estates		428,385	29,854,058	30,282,443	355,357	24,150,259	24,505,616
5.6 Other pledged items		30,685,907	73,169,006	103,854,913	19,708,473	56,179,318	75,887,791
5.7 Pledged items-depository		-	-	-	-	-	-
<b>VI. ACCEPTED BILLS OF EXCHANGE AND COLLATERALS</b>		<b>10,833,026</b>	<b>77,289,384</b>	<b>88,122,410</b>	<b>10,251,056</b>	<b>58,236,323</b>	<b>68,487,379</b>
<b>TOTAL OFF BALANCE SHEET ITEMS (A+B)</b>		<b>52,724,166</b>	<b>225,651,211</b>	<b>278,375,377</b>	<b>39,105,050</b>	<b>167,850,316</b>	<b>206,955,366</b>

The accompanying notes are an integral part of these consolidated financial statements.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES

## CONSOLIDATED INCOME STATEMENT

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS ARE EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

	Note Ref.	Audited Current Period 1 January 2016 – 31 December 2016	Audited Prior Period 1 January 2015 – 31 December 2015
<b>I. INTEREST INCOME</b>	<b>(1)</b>	<b>1.409.679</b>	<b>1.098.725</b>
1.1 Interest on loans		856.109	669.151
1.2 Interest received from reserve deposits		3.371	1.235
1.3 Interest received from banks		32.686	13.614
1.4 Interest received from money market placements		162.976	95.693
1.5 Interest received from marketable securities portfolio		353.658	318.736
1.5.1 Financial assets held for trading		2.808	2.957
1.5.2 Financial assets at fair value through profit and loss		-	-
1.5.3 Available-for-sale financial assets		263.787	286.924
1.5.4 Investments held-to-maturity		87.063	28.855
1.6 Finance lease income		27	1
1.7 Other interest income		852	295
<b>II. INTEREST EXPENSES</b>	<b>(2)</b>	<b>(650.876)</b>	<b>(500.183)</b>
2.1 Interest on deposits		-	-
2.2 Interest on funds borrowed		(263.391)	(194.642)
2.3 Interest on money market borrowings		(237.442)	(212.466)
2.4 Interest on securities issued		(149.831)	(92.869)
2.5 Other interest expense		(212)	(206)
<b>III. NET INTEREST INCOME (I - II)</b>		<b>758.803</b>	<b>598.542</b>
<b>IV. NET FEES AND COMMISSIONS INCOME</b>		<b>25.017</b>	<b>29.547</b>
4.1 Fees and commissions received		36.387	34.397
4.1.1 Non-cash loans		10.650	11.488
4.1.2 Other		25.737	22.909
4.2 Fees and commissions paid		(11.370)	(4.850)
4.2.1 Non-cash loans		(1.401)	(853)
4.2.2 Other		(9.969)	(3.997)
<b>V. DIVIDEND INCOME</b>	<b>(3)</b>	<b>11.486</b>	<b>10.175</b>
<b>VI. NET TRADING INCOME</b>	<b>(4)</b>	<b>(67.771)</b>	<b>5.780</b>
6.1 Securities trading gains/ (losses)		3.832	3.567
6.2 Derivative financial instruments gains/losses		864	(122.013)
6.3 Foreign exchange gains/losses (net)		(72.467)	124.226
<b>VII. OTHER OPERATING INCOME</b>	<b>(5)</b>	<b>26.643</b>	<b>51.137</b>
<b>VIII. TOTAL OPERATING INCOME (III+IV+V+VI+VII)</b>		<b>754.178</b>	<b>695.181</b>
<b>IX. PROVISION FOR LOAN LOSSES AND OTHER RECEIVABLES (-)</b>	<b>(6)</b>	<b>(70.499)</b>	<b>(78.563)</b>
<b>X. OTHER OPERATING EXPENSES (-)</b>	<b>(7)</b>	<b>(168.863)</b>	<b>(140.573)</b>
<b>XI. NET OPERATING INCOME/(LOSS) (VIII-IX-X)</b>		<b>514.816</b>	<b>476.045</b>
<b>XII. AMOUNT IN EXCESS RECORDED AS GAIN AFTER MERGER</b>		-	-
<b>XIII. PROFIT / (LOSS) ON EQUITY METHOD</b>		<b>38.805</b>	<b>35.280</b>
<b>XIV. GAIN / (LOSS) ON NET MONETARY POSITION</b>		-	-
<b>XV. PROFIT/(LOSS) FROM CONTINUED OPERATIONS BEFORE TAXES (XI+XII+XIII+XIV)</b>	<b>(8)</b>	<b>553.621</b>	<b>511.325</b>
<b>XVI. TAX PROVISION FOR CONTINUED OPERATIONS (±)</b>	<b>(9)</b>	<b>(117.708)</b>	<b>(100.735)</b>
16.1 Provision for current income taxes		(98.641)	(76.641)
16.2 Provision for deferred taxes		(19.067)	(24.094)
<b>XVII. NET PROFIT/(LOSS) FROM CONTINUED OPERATIONS (XV±XVI)</b>	<b>(10)</b>	<b>435.913</b>	<b>410.590</b>
<b>XVIII. INCOME ON DISCONTINUED OPERATIONS</b>		-	-
18.1 Income on assets held for sale		-	-
18.2 Income on sale of associates, subsidiaries and jointly controlled entities (Joint vent.)		-	-
18.3 Income on other discontinued operations		-	-
<b>XIX. LOSS FROM DISCONTINUED OPERATIONS (-)</b>		-	-
19.1 Loss from assets held for sale		-	-
19.2 Loss on sale of associates, subsidiaries and jointly controlled entities (Joint vent.)		-	-
19.3 Loss from other discontinued operations		-	-
<b>XX. PROFIT / (LOSS) ON DISCONTINUED OPERATIONS BEFORE TAXES (XVIII-XIX)</b>		-	-
<b>XXI. TAX PROVISION FOR DISCONTINUED OPERATIONS(±)</b>		-	-
21.1 Provision for current income taxes		-	-
21.2 Provision for deferred taxes		-	-
<b>XXII. NET PROFIT/LOSS FROM DISCONTINUED OPERATIONS (XX±XXI)</b>		-	-
<b>XXIII. NET PROFIT/LOSS (XVII+XXII)</b>	<b>(11)</b>	<b>435.913</b>	<b>410.590</b>
23.1 Group's profit / loss		443.431	407.231
23.2 Minority shares		(7.518)	3.359
<b>Earnings / (losses) per share (Full Kurus)</b>		<b>0,216</b>	<b>0,199</b>

The accompanying notes are an integral part of these consolidated financial statements.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES

## CONSOLIDATED STATEMENT OF INCOME AND EXPENSE ITEMS UNDER SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS ARE EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

	Audited Current Period 1 January 2016 – 31 December 2016	Audited Prior Period 1 January 2015 – 31 December 2015
<b>PROFIT AND LOSS ITEMS ACCOUNTED FOR UNDER SHAREHOLDER'S EQUITY</b>		
<b>I. ADDITIONS TO MARKETABLE SECURITIES REVALUATION DIFFERENCES FOR AVAILABLE FOR SALE FINANCIAL ASSETS</b>	<b>(45.816)</b>	<b>(172.773)</b>
<b>II. TANGIBLE ASSETS REVALUATION DIFFERENCES</b>	<b>26.725</b>	<b>175.285</b>
<b>III. INTANGIBLE ASSETS REVALUATION DIFFERENCES</b>	<b>-</b>	<b>-</b>
<b>IV. TRANSLATION DIFFERENCES FOR TRANSACTIONS IN FOREIGN CURRENCIES</b>	<b>1.816</b>	<b>2.427</b>
<b>V. GAIN/LOSS ON DERIVATIVE FINANCIAL ASSETS HELD FOR CASH FLOW HEDGES (effective portion of fair value differences)</b>	<b>-</b>	<b>-</b>
<b>VI. GAIN/LOSS ON DERIVATIVE FINANCIAL ASSETS HELD FOR HEDGES OF NET INVESTMENT IN FOREIGN OPERATIONS (effective portion)</b>	<b>-</b>	<b>-</b>
<b>VII. EFFECTS OF CHANGES IN ACCOUNTING POLICIES AND CORRECTIONS OF ERRORS</b>	<b>-</b>	<b>-</b>
<b>VIII. OTHER PROFIT/LOSS ITEMS ACCOUNTED FOR UNDER SHAREHOLDERS' EQUITY AS PER TAS</b>	<b>(6.965)</b>	<b>(5.554)</b>
<b>IX. DEFERRED TAX OF VALUATION DIFFERENCES</b>	<b>9.450</b>	<b>32.960</b>
<b>X. NET PROFIT/LOSS ACCOUNTED FOR DIRECTLY UNDER SHAREHOLDERS' EQUITY (I+II+...+IX)</b>	<b>(14.790)</b>	<b>32.345</b>
<b>XI. CURRENT YEAR PROFIT/LOSS</b>	<b>435.913</b>	<b>410.590</b>
11.1 Net changes in fair value of securities (Recycled to Profit/Loss)	3.402	9.844
11.2 Reclassification of and recycling derivatives accounted for cash flow hedge purposes to Income Statement	-	-
11.3 Recycling hedge of net investments in foreign operations to Income Statement	-	-
11.4 Other	432.511	400.746
<b>XII. TOTAL PROFIT/LOSS ACCOUNTED FOR THE CURRENT PERIOD (X±XI)</b>	<b>421.123</b>	<b>442.935</b>

The accompanying notes are an integral part of these consolidated financial statements.

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS ARE EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

CHANGES IN SHAREHOLDERS' EQUITY																
Note Ref.	Paid in Other Capital	Share Premiums	Share Cancellation Profits	Legal Reserves	Status/Extraordinary Reserves	Other Reserves	Current Period Net Profit / Loss	Marketable security Revaluation Differences	Tangible and Intangible Assets Revaluation Differences	Bonus Shares Obtained from Associates, Subs and Jointly Controlled Entities	Hedging Reserves	Revaluation Surplus on Shareholders' Equity for sale and Non-Controlling Interest	Total Non-Controlling Shareholders' Equity			
Prior Period - 31 December 2015																
I. Opening Balance	1,500,000	374	413	-	175,765	75,641	61,244	2,758	-	417,290	113,993	9,320	-	2,356,798	67,453	2,424,251
II. Increase / Decrease related to merger	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
III. Marketable securities value increase fund	-	-	-	-	-	-	-	-	-	-	(144,175)	-	-	(144,175)	(10)	(144,185)
IV. Hedging (Effective portion)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4.1 Cash-flow hedge	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4.2 Hedge of net investment in foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
V. Tangible assets revaluation differences	-	-	-	-	-	-	-	-	-	(7,616)	-	181,299	-	173,683	-	173,683
VI. Intangible assets revaluation differences	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VII. Bonus shares obtained from associates, subsidiaries and jointly controlled entities (Joint Vents)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VIII. Foreign exchange differences	-	-	-	-	-	-	-	-	2,427	-	-	-	-	2,427	-	2,427
IX. Disposal of assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
X. Reclassification of assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XI. Effect of change in equities of associates on bank's equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XII. Capital increase	1	250,000	-	-	-	-	-	(234,000)	-	(16,000)	-	-	-	-	-	-
12.1 Cash	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12.2 Internal sources	-	-	-	-	-	-	-	(234,000)	-	(16,000)	-	-	-	-	-	-
XIII. Share issuance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIV. Share cancellation profits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XV. Effect of inflation on paid-in capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVI. Other	-	(344)	15	-	2	142	(47)	2,832	-	-	-	2,600	(5,312)	(2,712)	-	(2,712)
XVII. Period net income	-	-	-	-	-	-	407,231	-	-	407,231	3,359	410,590	-	407,231	3,359	(80,262)
XVIII. Profit distribution	-	-	-	-	-	28,092	-	(127,659)	-	-	-	-	-	(80,262)	-	(80,262)
18.1 Dividends distributed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18.2 Transfers to reserves	-	-	-	-	-	19,305	-	(47,397)	-	-	-	-	-	-	-	-
18.3 Other	-	-	-	-	-	-	28,092	-	-	-	-	-	-	-	-	-
Closing Balance	1,750,000	30	428	-	195,072	75,641	89,478	2,711	407,231	50,847	(27,755)	174,619	-	2,718,302	65,490	2,783,792
Current Period - 31 December 2016																
I. Opening Balance	1,750,000	30	428	-	195,072	75,641	89,478	2,711	-	458,078	(27,755)	174,619	-	2,718,302	65,490	2,783,792
II. Increase / Decrease related to merger	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
III. Marketable securities value increase fund	-	-	-	-	-	-	-	-	-	-	(43,957)	4	(43,953)	-	-	-
IV. Hedging (Effective portion)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4.1 Cash-flow hedge	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4.2 Hedge of net investment in foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
V. Tangible assets revaluation differences	-	-	-	-	-	-	-	-	-	(20)	-	26,549	-	26,529	-	26,529
VI. Intangible assets revaluation differences	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VII. Bonus shares obtained from associates, subsidiaries and jointly controlled entities (Joint Vents)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VIII. Foreign exchange differences	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IX. Disposal of assets	-	-	-	-	-	-	-	-	-	1,816	-	1,816	-	-	-	1,816
X. Reclassification of assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XI. Effect of change in equities of associates on bank's equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XII. Capital increase	1	300,000	-	-	-	-	-	(300,000)	-	-	-	-	-	-	-	-
12.1 Cash	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12.2 Internal sources	-	-	-	-	-	-	-	(300,000)	-	-	-	-	-	-	-	-
XIII. Share issuance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIV. Share cancellation profits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XV. Effect of inflation on paid-in capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVI. Other	-	594	-	-	-	208	443,431	-	-	-	-	802	(7)	795	-	795
XVII. Period net income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVIII. Profit distribution	-	-	-	-	-	23,697	-	(106,925)	-	-	-	443,431	(7,518)	435,913	-	435,913
18.1 Dividends distributed	-	-	-	-	-	21,889	-	-	-	-	-	61,839	-	61,839	-	61,839
18.2 Transfers to reserves	-	-	-	-	-	-	23,697	-	-	-	-	-	-	-	-	-
18.3 Other	-	-	-	-	-	-	-	(44,968)	-	-	-	-	-	-	-	-
Closing Balance	2,050,000	624	428	-	216,361	75,641	113,175	2,919	443,431	51,233	(69,896)	201,168	-	3,085,084	57,969	3,143,053

The accompanying notes are an integral part of these consolidated financial statements.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CASH FLOWS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

	Notes	Audited Current Period 31 December 2016	Audited Prior Period 31 December 2015
<b>A. CASH FLOWS FROM BANKING OPERATIONS</b>			
1.1 Operating profit before changes in operating assets and liabilities		1.611.870	1.119.513
1.1.1 Interest received		1.072.495	931.957
1.1.2 Interest paid		(566.925)	(512.480)
1.1.3 Dividends received		11.486	10.175
1.1.4 Fees and commissions received		36.387	34.397
1.1.5 Other income		82.952	181.901
1.1.6 Collections from previously written off loans		12.953	1.490
1.1.7 Payments to personnel and service suppliers		(128.739)	(104.167)
1.1.8 Taxes paid		(135.445)	(70.206)
1.1.9 Others	(1)	1.226.706	646.446
<b>1.2 Changes in operating assets and liabilities</b>		<b>(3.120.483)</b>	<b>(543.797)</b>
1.2.1 Net (increase) decrease in financial assets		26.525	(15.725)
1.2.2 Net (increase) decrease in financial assets at fair value through profit or loss		-	-
1.2.3 Net (increase) decrease in due from banks and other financial institutions		-	-
1.2.4 Net (increase) decrease in loans		(2.051.699)	(1.330.150)
1.2.5 Net (increase) decrease in other assets		99.971	(618.243)
1.2.6 Net increase (decrease) in bank deposits		-	-
1.2.7 Net increase (decrease) in other deposits		-	-
1.2.8 Net increase (decrease) in funds borrowed		(33.866)	1.201.690
1.2.9 Net increase (decrease) in matured payables		-	-
1.2.10 Net increase (decrease) in other liabilities	(1)	(1.161.414)	218.631
<b>I. Net cash provided by/(used in) banking operations</b>		<b>(1.508.613)</b>	<b>575.716</b>
<b>B. CASH FLOWS FROM INVESTING ACTIVITIES</b>			
<b>II. Net cash provided by/(used in) investing activities</b>		<b>(355.952)</b>	<b>(248.392)</b>
2.1 Cash paid for purchase of entities under common control, associates and subsidiaries	(2)	(1.000)	-
2.2 Cash obtained from sale of entities under common control, associates and subsidiaries	(3)	-	-
2.3 Fixed asset purchases	(2)	(4.065)	(20.729)
2.4 Fixed asset sales	(3)	306	11.533
2.5 Cash paid for purchase of financial assets available for sale		(1.002.141)	(1.098.152)
2.6 Cash obtained from sale of financial assets available for sale		652.646	859.363
2.7 Cash paid for purchase of investment securities		-	-
2.8 Cash obtained from sale of investment securities		-	-
2.9 Others	(2)	(1.698)	(407)
<b>C. CASH FLOWS FROM FINANCING ACTIVITIES</b>			
<b>III. Net cash provided by/(used in) financing activities</b>		<b>816.470</b>	<b>846.930</b>
3.1 Cash obtained from funds borrowed and securities issued		878.309	927.192
3.2 Cash used for repayment of funds borrowed and securities issued		-	-
3.3 Capital increase		-	-
3.4 Dividends paid		(61.839)	(80.262)
3.5 Payments for finance leases		-	-
3.6 Other		-	-
<b>IV. Effect of change in foreign exchange rate on cash and cash equivalents</b>	<b>(1)</b>	<b>40.998</b>	<b>51.689</b>
<b>V. Net increase / (decrease) in cash and cash equivalents</b>		<b>(1.007.097)</b>	<b>1.225.943</b>
<b>VI. Cash and cash equivalents at beginning of the period</b>	<b>(4)</b>	<b>1.868.915</b>	<b>642.972</b>
<b>VII. Cash and cash equivalents at end of the period</b>	<b>(4)</b>	<b>861.818</b>	<b>1.868.915</b>

The accompanying notes are an integral part of these consolidated financial statements.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES

## STATEMENT OF PROFIT DISTRIBUTION

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

	Audited Current Period 31 December 2016 <sup>(*)</sup>	Audited Prior Period 31 December 2015
<b>I. DISTRIBUTION OF CURRENT YEAR INCOME<sup>(**)</sup></b>		
1.1 CURRENT YEAR INCOME	593.252	508.455
1.2 TAXES AND DUTIES PAYABLE	(116.807)	(101.610)
1.2.1 Corporate Tax (Income tax)	(98.641)	(76.641)
1.2.2 Income withholding tax	-	-
1.2.3 Other taxes and duties	(18.166)	(24.969)
<b>A. NET INCOME FOR THE YEAR (1.1-1.2)</b>	<b>476.445</b>	<b>406.845</b>
1.3 PRIOR YEARS LOSSES (-) <sup>(*)</sup>	-	-
1.4 FIRST LEGAL RESERVES (-)	-	20.342
1.5 OTHER STATUTORY RESERVES (-)	-	-
<b>B. NET PROFIT AVAILABLE FOR DISTRIBUTION [(A)-(1.3+1.4+1.5)]</b>	<b>476.445</b>	<b>386.503</b>
1.6 FIRST DIVIDEND TO SHAREHOLDERS (-)	-	115.949
1.6.1 To owners of ordinary shares	-	115.949
1.6.2 To owners of preferred shares	-	-
1.6.3 To owners of preferred shares (pre-emptive rights)	-	-
1.6.4 To profit sharing bonds	-	-
1.6.5 To holders of profit and loss sharing certificates	-	-
1.7 DIVIDENDS TO PERSONNEL (-)	-	8.116
1.8 DIVIDENDS TO BOARD OF DIRECTORS (-)	-	1.353
1.9 SECOND DIVIDEND TO SHAREHOLDERS (-)	-	236.551
1.9.1 To owners of ordinary shares	-	236.551
1.9.2 To owners of preferred shares	-	-
1.9.3 To owners of preferred shares (pre-emptive rights)	-	-
1.9.4 To profit sharing bonds	-	-
1.9.5 To holders of profit and loss sharing certificates	-	-
1.10 SECOND LEGAL RESERVES (-)	-	947
1.11 STATUTORY RESERVES (-)	-	-
1.12 GENERAL RESERVES	-	23.567
1.13 OTHER RESERVES	-	-
1.14 SPECIAL FUNDS	-	20
<b>II. DISTRIBUTION OF RESERVES</b>	<b>-</b>	<b>-</b>
2.1 APPROPRIATED RESERVES	-	-
2.2 SECOND LEGAL RESERVES (-)	-	-
2.3 DIVIDENDS TO SHAREHOLDERS (-)	-	-
2.3.1 To owners of ordinary shares	-	-
2.3.2 To owners of preferred shares	-	-
2.3.3 To owners of preferred shares (pre-emptive rights)	-	-
2.3.4 To profit sharing bonds	-	-
2.3.5 To holders of profit and loss sharing certificates	-	-
2.4 DIVIDENDS TO PERSONNEL (-)	-	-
2.5 DIVIDENDS TO BOARD OF DIRECTORS (-)	-	-
<b>III. EARNINGS PER SHARE<sup>(***)</sup></b>		
3.1 TO OWNERS OF ORDINARY SHARES	0,23	0,23
3.2 TO OWNERS OF ORDINARY SHARES (%)	23,24	23,25
3.3 TO OWNERS OF PRIVILEGED SHARES	-	-
3.4 TO OWNERS OF PRIVILEGED SHARES (%)	-	-
<b>IV. DIVIDEND PER SHARE</b>		
4.1 TO OWNERS OF ORDINARY SHARES	-	0,20
4.2 TO OWNERS OF ORDINARY SHARES (%)	-	20,14
4.3 TO OWNERS OF PRIVILEGED SHARES	-	-
4.4 TO OWNERS OF PRIVILEGED SHARES (%)	-	-

<sup>(\*)</sup> Since the Board of Directors has not prepared any proposal for profit distribution relating to the year 2016 yet, only profit available for distribution for the year 2016 is presented.

<sup>(\*\*)</sup> According to the regulation in Turkey, companies do not distribute profits based on consolidated. Profit distribution is based on non-consolidated financial statements.

<sup>(\*\*\*)</sup> A nominal value of 1 Kurus figures a share in unconsolidated income statement and unconsolidated statement of profit distribution and an earnings per share is calculated for a nominal value of 1 Kurus.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS ARE EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION THREE

#### ACCOUNTING POLICIES

##### I. Basis of presentation

##### I.a Presentation of consolidated financial statements and notes to the consolidated financial statements according to Turkish Accounting Standards and Banking Accounting Regulations and Safeguarding of Documents

As prescribed in the Article 37 and Article 38 of the Banking Act No. 5411, the Parent Bank prepares its financial statements and underlying documents in accordance with the "Regulation on the Procedures and Principles for Accounting Practices and Retention of Documents by Banks" and other regulations, explanations and circulars on accounting and financial reporting principles announced by the Banking Regulation and Supervision Agency ("BRSA") and Turkish Accounting Standards ("TAS") published by Public Oversight Accounting and Auditing Standards Authority ("POA") except for matters regulated by BRSA legislation. TAS consists of Turkish Accounting Standards, Turkish Financial Reporting Standards and related appendices and interpretations.

The format and content of the accompanying consolidated financial statements and footnotes have been prepared in accordance with the "Communique on Publicly Announced Financial Statements Explanations and notes to the Financial Statements" and "Communique on Disclosures about Risk Management to be Announced to Public by Banks."

Amounts in the consolidated financial statements, the underlying explanations and disclosures are expressed in Thousands of Turkish Lira unless otherwise stated.

##### I.b The valuation principles used in the preparation of the financial statements

The accounting rules and the valuation principles used in the preparation of the financial statements were implemented as stated in the BRSA Financial Reporting Standards. These accounting policies and valuation principles are explained in the below notes through II to XXIII.

##### I.c The accounting policies for the correct understanding of the financial statements

The following accounting policies that applied according to BRSA Financial Reporting Standards and TAS for the correct understanding of the financial statements and valuation principles used in preparation of the financial statements are presented in more detail below.

##### I.d In preparing the consolidated financial statements, items which different accounting policies adopted and their ratio on total of related consolidated financial statement

There is no different accounting policy used in consolidated financial statements.

#### II. Explanations on usage strategy of financial assets and foreign currency transactions

The main sources of the funds of the Group have variable interest rates. The financial balances are monitored frequently and fixed and floating interest rate placements are undertaken according to the return on the alternative financial instruments. The macro goals related to balance sheet amounts are set during budgeting process and positions are taken accordingly.

Due to the fact that the great majority of the loans extended by the Parent Bank have a flexibility of reflecting changes in the market interest rates to the customers, the interest rate risk is kept at minimum level. Moreover, the highly profitable Eurobond and the foreign currency government indebtness securities portfolio have the attribute of eliminating the risks of interest rate volatility.

The fixed rate Eurobond and Green bond issued by the Bank and a portion of fixed rate funds borrowed are subject to fair value hedge accounting. The Bank enters into interest rate swap agreements in order to hedge the change in fair values of its fixed rate financial liabilities. The changes in the fair value of the hedged fixed rate financial liabilities and hedging interest rate swaps are recognised under the statement of profit/loss. At the beginning and later period of the hedging transaction, the aforementioned hedging transactions are expected to offset changes occurred in the relevant period of the hedging transaction and hedged risk (attributable to hedging risk) and effectiveness tests are performed in this regard.

The Bank performs effectiveness test at the beginning of the hedge accounting and at each reporting period. The effectiveness tests are carried out using the "Dollar off-set model" and the hedge accounting is applied as long as the test results are between the range of 80%-125% of effectiveness.

The hedge accounting is discontinued when the hedging instrument expires, is exercised, sold or no longer effective. When discontinuing fair value hedge accounting, the cumulative fair value changes in carrying value of the hedged item arising from the hedged risk are amortised and recognized in income statement over the life of the hedged item from that date of the hedge accounting is discontinued.

The Group liquidity is regularly monitored. Moreover, the need of liquidity in foreign currencies is safeguarded by currency swaps.

Commercial placements are managed with high return and low risk assets considering the international and domestic economic expectations, market conditions, creditors' expectations and their tendencies, interest-liquidity and other similar factors. Prudence principle is adopted in the placement decisions. The long term placements are made under project finance. A credit policy is implemented such a way that harmonizing the profitability of the projects, the collateral and the value add introduced by the Parent Bank.

The movements of foreign exchange rates in the market, interest rates and prices are monitored instantaneously. While taking positions, the Bank's unique operating and control limits are watched effectively besides statutory limits. Limit overs are not allowed.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS ARE EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION THREE (Continued)

#### ACCOUNTING POLICIES (Continued)

##### II. Explanations on usage strategy of financial assets and foreign currency transactions (continued)

The Group's strategy of hedging interest rate and foreign currency risks arising from fixed and variable interest rate funds and foreign currency available for sale securities:

A great majority of foreign currency available for sale securities are financed with foreign currency resources. Accordingly, the anticipated possible depreciation of local currency against other currencies is eliminated. A foreign currency basket is formulated in terms of the indicated foreign currency to hedge the risk exposure of changes cross currency parity.

Interest rate risk is mitigated by constituting a balanced asset composition in compliance with the structure of fixed and floating rate of funding resources.

##### The hedging strategies for other foreign exchange risk exposures:

A stable foreign exchange position strategy is implemented and to be secured from cross currency risk, the current foreign exchange position is monitored by considering a currency basket in specific foreign currencies.

The foreign exchange gains and losses on foreign currency transactions are accounted for in the period of the transaction. Foreign exchange assets and liabilities are translated to Turkish Lira using foreign exchange bid rate as of the reporting date, and the resulting gains and losses are recorded in foreign exchange gains or losses.

##### III. Information about the Parent Bank and its subsidiaries and associates subject to consolidation

Explanations about the Parent Bank and its subsidiaries and associates subject to consolidation are described in General Information Section VI.

##### IV. Explanations on forward and option contracts and derivative instruments

The Parent Bank is exposed to financial risk which depend on changes in foreign exchange rates and interest rates due to activities and as part of banking activities uses derivative instruments to manage financial risk that especially associated with fluctuations in foreign exchange and interest rate. Mainly derivative instruments used by the Group are foreign currency forwards, swaps, and option agreements.

The derivative financial instruments are accounted for at their fair values as of the date of the agreements entered into and subsequently valued at fair value. The Derivatives instruments including both economic hedges and derivatives specified as hedging items are classified as either "trading purposes" or "hedging purposes" as per the Turkish Accounting Standard ("TAS 39") "Financial Instruments: Recognition and Measurement".

When a derivative financial instrument, the originally designed as a hedge by the Bank, the relationship between the Bank's financial risk from hedged item and the hedging instrument, the risk management objectives and strategy of hedging transaction and the methods that will be used in the measurement of effectiveness, describe in written. The bank, at the beginning of the aforementioned engagement and during the ongoing process, evaluates whether the hedging instruments are effective on changes in the fair values or actual results of hedging are within the range of 80% - 125%.

##### V. Explanations on interest income and expenses

Interest income and expenses are recognized in the income statement for all interest bearing instruments on an accrual basis using the effective interest method (the rate that equalizes the future cash flows of financial assets and liabilities to the current net book value). In accordance with the related regulation, realized and unrealized interest accruals of the non-performing loans are reversed and interest income related to these loans are recorded as interest income only when collected.

##### VI. Explanations on fees and commission income and expenses

Fees and commissions received from cash loans, that are not an integral part of the effective interest rate, and fees for various banking services are recorded as income when collected. Fees and commissions paid for the funds borrowed, which are not integral parts of the effective interest rate of the funds borrowed, are recorded as expense on the date of the payment. The fees and commission income and expenses obtained from loans are recorded under income and expense accounts in the related period by discounting with effective interest method according to matching principle.

##### VII. Explanations on financial assets

Financial instruments comprise financial assets, financial liabilities and derivative instruments. Financial instruments constitute the both of the Group's trading activities and operations. Risks related with these instruments constitutes majority of total risks. Financial instruments affect liquidity, market, and credit risks on the Group's balance sheet in all respects. The Group trades these instruments on behalf of its customers and on its own behalf.

Basically, financial assets create the majority of the commercial activities and operations of the Group. These instruments expose, affect and diminish the liquidity, credit and interest risks in the financial statements.

All regular way purchases and sales of financial assets are recognized on the settlement date i.e. the date that the asset is delivered to or by the Group. Settlement date accounting requires (a) accounting of the asset when acquired by the institution, and (b) disposing of the asset out of the balance sheet on the date settled by the institution; and accounting of gain or loss on disposal. In case of application of settlement date accounting, the entity accounts for the changes that occur in the fair value of the asset in the period between commercial transaction date and settlement date as in the assets that the entity settles.



# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS ARE EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION THREE (Continued)

#### ACCOUNTING POLICIES (Continued)

##### VII. Explanations on financial assets (continued)

Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Changes in fair value of assets to be received during the period between the trade date and the settlement date are accounted for in the same way as the acquired assets. Fair value differences are not accounted for assets presented at cost or amortized cost; gain or loss of financial assets at fair value through profit and loss are reflected in the income statement, gain or loss of available for sale assets are accounted for under the shareholders' equity.

The methods and assumptions used in determining the reasonable estimated values of all of the financial instruments are explained below.

##### Cash, Banks and Other Financial Institutions:

Cash and cash equivalents comprise cash in vault and foreign currency cash. Foreign currency cash and foreign currency deposits are reflected to balance sheet in TL which is translated in accordance with prevalent exchange rate on reporting date. The book values of these assets approximate to their fair values.

##### Marketable Securities:

The Group classifies its marketable securities in 3 groups:

Financial assets at fair value through profit and loss: These transactions are classified in two categories. (i) Trading securities for the purposes of short term profit taking through sale or buying back in a near future. (ii) The financial assets classified at inception as financial assets at fair value through profit or loss by the Group. The Group uses such classification above when permitted or for the purposes of providing a more proper disclosure. In this category, trading securities are initially recognized at cost and measured at fair value on the financial statements. Fair values of securities that are traded in an active market are determined based on quoted prices or current market prices.

Gains or losses resulting from such valuation are recorded in the profit and loss accounts. As per the explanations of the Uniform Code of Accounts (UCA), any positive difference between the historical cost and amortized cost of financial assets are booked under the "Interest Income" account, and in case the fair value of the asset is over the amortized cost, the positive difference is booked under the "Gains on Securities Trading" account. If the fair value is under the amortized cost, the negative difference is booked under the "Losses on Securities Trading" account. Any profit or loss resulting from the disposal of those assets before their maturity date is recognized within the framework of the same principles.

Available for sale financial assets are initially recognized at cost including the transaction costs. The interest income related to securities with fixed and variable interest under available for sale financial assets are recorded in interest income. After the initial recognition, available for sale securities are measured at fair value and the unrealized gain/loss originating from the difference between the amortized cost and the fair value is recorded in "Marketable Securities Value Increase Fund" under the equity.

All unquoted available for sale stocks are recorded by considering impairment, since respective fair values cannot be reliably measured. At the disposal of available for sale financial assets, value increases/decreases that are recorded in the securities value increase fund under equity are transferred to income statement.

Investments held to maturity include securities with fixed or determinable payments and fixed maturity where there is an intention of holding till maturity and the relevant conditions for fulfilment of such intention, including the funding ability. This portfolio excludes loans and receivables. After initial recognition held to maturity investments are measured at amortized cost by using internal rate of return less impairment losses, if any. Interest income earned from held-to-maturity investments is recognized as interest income on income statement.

The Group considered expected inflation index of future cash flows prevailing at the reporting date while calculating internal rate of return of the CPI indexed marketable securities. The effect of this application is accounted as interest received from marketable securities in the consolidated financial statements.

##### Explanations on investments in associates and subsidiaries:

Investments in associates and subsidiaries are recognized within the scope of "TAS 27-Separate Financial Statements" and "TAS 28-Investments in Associates and Joint Ventures". Investments in subsidiaries, whose shares are traded in an active market (stock market), are shown in the financial statements with their fair values by taking into account their prices recorded in the related market (stock market). Investments in subsidiaries and associates, whose shares are not traded in an active market (stock market) and their fair values cannot be determined reliably, are followed at their cost of acquisition and these assets are shown in the financial statements with their cost values after the deduction of, if any, impairment losses.

##### Loans:

Loans are financial assets which have fixed payment terms and are not traded.

Loans are initially recognized at cost and measured at amortized cost by using effective interest rate. The duties, charges and other expenses paid for the collaterals obtained against loans are accepted as part of transaction costs and reflected to customers.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS ARE EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION THREE (Continued)

#### ACCOUNTING POLICIES (Continued)

##### VII. Explanations on financial assets (continued)

Turkish Lira ("TL") cash loans are composed of foreign currency indexed loans and working capital loans; foreign currency ("FC") cash loans are composed of investment loans, export financing loans and working capital loans.

Foreign currency indexed loans are converted into TL from the foreign currency rate as of the opening date and followed in TL accounts. Repayments are measured with the foreign currency rate at the payment date, the foreign currency gains and losses are reflected to the income statement.

Provision is set for the loans that may be doubtful and the amount is charged in the current period income statement as well as their classification to non-performing loans as per the related regulations. The collections made related to loans including those on non-performing loans for which provision is made in the current period are recorded in "Provision for Loans and Other Receivables (including received from Loans and receivables with doubtful collectability)" and "Interest Received from Non-performing Loans" account.

Releases of loan loss provisions are recorded by reversing the provisions booked during the year and the collections made related to loan losses previously accounted for are recorded to collections related to the prior period expenses.

##### VIII. Explanations on impairment on financial assets

At each reporting date, the Group evaluates the carrying amounts of its financial asset or a group of financial assets to determine whether there is an objective indication that those assets have suffered an impairment loss. If any such indication exists, the Group determines the related impairment.

A financial asset or a financial asset group incurs impairment loss only if there is an objective evidence related to the occurrence of one or more than one event ("loss event") after the first recognition of that asset; and such loss event (or events) causes, an impairment as a result of the effect on the reliable estimate of the expected future cash flows of the related financial asset and asset group. Irrespective of high probability the expected losses for future events are not recognized. Loans are classified and followed in line with the provisions of the "Regulation on Identification of Loans and Other Receivables and Provisioning against Them", published in the Official Gazette No: 26333 dated 1 November 2006.

Specific provision is allocated for the total amount of loans and other receivables, which is deemed non-performing, without being restricted by the minimum legal requirements stated in the related regulation, and such specific provisions are recognized in the income statement. The provisions, which are released within the same year, are credited to the "Provision Expenses" account and the released parts of the provisions from the previous years are transferred to and recognized in the "Other Operating Income" account. Other than specific provisions, the Parent Bank provides general provision for loans and other receivables classified in accordance with the Regulation on Identification of and Provision against Non-Performing Loans and Other Receivables.

##### IX. Explanations on offsetting of financial assets and liabilities

Financial assets and liabilities are offset when the Group has a legally enforceable right to set off, and when the Group has the intention of collecting or paying the net amount of related assets and liabilities or when the Group has the right to offset the assets and liabilities simultaneously. Otherwise, there is not any offsetting transaction about financial assets and liabilities.

##### X. Explanations on sales and repurchase agreements and lending of securities

Funds provided under repurchase agreements are accounted under "Funds Provided under Repurchase Agreements-TL" and "Funds Provided under Repurchase Agreements-FC" accounts.

The repurchase agreements of the Group are based on the Eurobonds and government bonds issued by Republic of Turkey Undersecretariat of Treasury and government bonds. Marketable securities subject to repurchase agreements are classified under fair value profit or loss available for sale or held to maturity financial asset with parallel to classifications of financial instruments. The income and expenses from these transactions are reflected to the interest income and interest expense accounts in the income statement. Receivables from reverse repurchase agreements are recorded in "Receivables from Reverse Repurchase Agreements" account in the balance sheet.

##### XI. Explanations on assets held for sale and discontinued operations

Assets held for sale are measured at the lower of the assets' carrying amount and fair value less costs to sell. Held for sale assets are not amortized and presented separately in the financial statements. In order to classify an asset as held for sale, only when the sale is highly probable, experienced quite often and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale. Highly saleable condition requires a plan by the management regarding the sale of the asset to be disposed (or else the group of assets), together with an active program for determination of buyers as well as for the completion of the plan. Also the asset (or else the group of assets) shall be actively marketed in conformity with its fair value. On the other hand, the sale is expected to be journalized as a completed sale within one year after the classification date; and the necessary transactions and procedures to complete the plan should demonstrate the fact that the possibility of making significant changes or cancelling the plan is low. Various circumstances and conditions could extend the completion period of the sale more than one year. If such delay arises from any events and conditions beyond the control of the entity and if there is sufficient evidence that the entity has an ongoing disposal plan for these assets, such assets (or else group of assets) are continued to be classified as assets held for sale (or else group of assets). A discontinued operation is a division that is either disposed or held for sale. Results of discontinued operations are included separately in the income statement.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS ARE EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION THREE (Continued)

#### ACCOUNTING POLICIES (Continued)

##### XII. Explanations on goodwill and other intangible assets

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognized at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit.

An impairment loss recognized for goodwill is not reversed in a subsequent period. On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal. Intangible assets that are acquired prior to 1 January 2005 are carried at restated historical cost as of 31 December 2004; and those acquired subsequently are carried at cost less accumulated amortization, and any impairment. Intangible assets are depreciated over their expected useful lives. Depreciation method and period are reviewed periodically at the end of each year. Intangible assets are mainly composed of rights and they are depreciated principally on a straight-line basis between 1-15 years.

##### XIII. Explanations on tangible assets

Tangible assets rather than real estate, purchased before 1 January 2005, are accounted for at their restated costs as of 31 December 2004 and the assets purchased in the following periods are accounted for at acquisition cost less accumulated depreciation and reserve for impairment. Gain or loss resulting from disposals of the tangible assets is reflected to the income statement as the difference between the net proceeds and net book value.

As of the third quarter of 2015, the Group changed its accounting policy and adopted revaluation method for land and buildings under scope of TAS 16. The useful life of real estates are mentioned in expertise reports. In case of the cost of tangible assets are over the net realizable value of the assets, within the framework of "Impairment of Assets" (TAS 36), the value of the asset is reduced to its "net realizable value" and the impairment is recognised in expense accounts. The positive difference between the net book value of real estate property and the expertise values which are determined by the independent expert companies are recognised under shareholders' equity. Related valuation models such as cost model, market value and discounted cash flow projections approaches are used in valuation of real estates.

Normal maintenance and repair expenditures are recognized as expense. There is no pledge, mortgage or any other lien on tangible assets. Tangible assets are depreciated with straight-line method and their useful lives are determined in accordance with the Turkish Accounting Standards.

Depreciation rates and estimated useful lives of tangible assets are as follows.

Tangible Assets	Expected Useful Lives (Years)	Depreciation Rate (%)
Cashboxes	4-50	2-25
Vehicles	5	20
Buildings	50	2
Other Tangible Assets	1-50	2-100

##### Investment Property

Operating investment properties are those which are held either to earn rental income or for capital appreciation or for both. Investment properties are recognized when it is probable that the future economic benefits that are associated with them will flow to the Group and the cost of them can be measured reliably. Fair value model was chosen in the measurement of the investment properties. Gains and losses arising from changes in the fair values of investment properties are recognized in profit or loss for the period in which it arises.

##### XIV. Explanations on leasing transactions

###### The Group as Lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. The lease payments are allocated as principle and interest. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

###### The Group as Lessee

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are included in profit or loss in accordance with the Group's general policy on borrowing costs. Tangible assets acquired by financial leases are amortized based on the useful lives of the assets.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES

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#### SECTION THREE (Continued)

#### ACCOUNTING POLICIES (Continued)

#### XV. Explanations on provisions and contingent liabilities

Provisions are recognized when there is a present obligation due to a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If aforesaid criteria did not form, the Parent Bank discloses the issue mentioned in notes to financial statements. Provisions are determined by using the Group's best expectation of expenses in fulfilling the obligation, and discounted to present value if material.

##### Information on contingent assets

Contingent assets consist of unplanned or other unexpected events that usually cause a possible inflow of economic benefits to the Parent Bank. Since recognition of the contingent assets in the financial statements would result in the accounting of an income, which may never be generated, the related assets are not included in the financial statements; on the other hand, if the inflow of the economic benefits of these assets to the Parent Bank is probable, an explanation is made thereon in the footnotes of the financial statements. Nevertheless, the developments related to the contingent assets are constantly evaluated and in case the inflow of the economic benefit to the Parent Bank is almost certain, the related asset and the respective income are recognised in the financial statements of the period in which the change occurred.

#### XVI. Explanations on liabilities regarding employee benefits

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Group. In retirement and involuntarily leaving, the Group records the present value of the defined benefit obligation. There is no indemnity obligations related to the employees who are employed with contract of limited duration exceeding 12 months period. Actuarial gains and losses are accounted under Shareholder's Equity since 1 January 2013 in accordance with the Revised TAS 19.

Employees of the Parent Bank are members of "Türkiye Sınai Kalkınma Bankası Anonim Şirketi Memur ve Müstahdemleri Yardım ve Emekli Vakfı" and "Türkiye Sınai Kalkınma Bankası A.Ş. Mensupları Munzam Sosyal Güvenlik ve Yardımlaşma Vakfı" ("the Pension Fund"). Technical financial statements of those funds are subject to audit in accordance with the Insurance Law and provisions of "Regulations on Actuaries" issued based on the related law by an actuary registered in the Actuarial Registry.

Paragraph 1 of the provisional Article 23 of the Banking Act ("Banking Act") No: 5411 published in the Official Gazette No: 25983 on 1 November 2005 requires the transfer of banking funds to the Social Security Institution within 3 years as of the enactment date of the Banking Act. Under the Banking Act, in order to account for obligations, actuarial calculations will be made considering the income and expenses of those funds by a commission consisting of representatives from various institutions. Such calculated obligation shall be settled in equal instalments in maximum 15 years. Nonetheless, the related Article of the Banking Law was annulled by the Constitutional Court's decision No: E. 2005/39 and K. 2007/33 dated 22 March 2007 that were published in the Official Gazette No: 26479 on 31 March 2007 as of the release of the related decision, and the execution of this article was cancelled as of its publication of the decision and the underlying reasoning for the cancellation of the related article was published in the Official Gazette No: 26731 on 15 December 2007.

After the publication of the reasoning of the cancellation decision of the Constitutional Court, articles related with the transfer of banks pension fund participants to Social Security Institution based on Social Security Law numbered 5754 were accepted by the Grand National Assembly of Turkey on 17 April 2008 and published in the Official Gazette No: 26870 on 8 May 2008.

Present value for the liabilities of the transferees as of the transfer date would be calculated by a commission that involves representatives of Social Security Institution, Ministry of Finance, Turkish Treasury, State Planning Organization, BRSA, SDIF, banks and banks' pension fund institutions and technical interest rate, used in actuarial account, would be 9,80%. If salaries and benefits paid by the pension fund of banks and income and expenses of the pension funds in respect of the insurance branches, stated in the Law, exceeds the salaries and benefits paid under the regulations of Social Security Institution, such differences would be considered while calculating the present value for the liabilities of the transferees and the transfers are completed within 3 years beginning from 1 January 2008.

According to the provisional Article 20 of 73th article of Law No. 5754 dated 17 April 2008, has become effective on 8 May 2008 and was published in the Official Gazette No: 26870, transfer of Pension Funds to Social Security Institution in three years has been anticipated. Related resolution of the Council of Ministers related to four-year extension was published in the Official Gazette No: 28277 dated 8 March 2012. It has been resolved that the transfer process has been extended two year with Council of Ministers' Decree, has become effective on 9 April 2011 and was published in the Official Gazette No: 27900. The transfer had to be completed until 8 May 2013. Accordingly, it has been resolved that, one more year extension with Council of Minister Decree No: 2013/467, has become effective on 3 May 2013 and was published in the Official Gazette No: 28636 and transfer need to be completed until 8 May 2014. However, it has been decided to extend the time related to transfer by the decision of Council of Minister published in the Official Gazette No: 28987 dated 30 April 2014 for one more year due to not to realize the transfer process. In accordance with the Health and Safety Law which became effective on 4 April 2015 and published in the Official Gazette No: 29335 and dated 23 April 2015 and together with some amendments and statutory decree, Council of Ministers authorized for the determination of transfer date to the Social Security institution and there is no decision taken by the Cabinet with regards to issue date of financial statements.

Unmet social benefits and payments of the pension fund participants and other employees that receive monthly income although they are within the scope of the related settlement deeds would be met by pension funds and the institutions employ these participants after the transfer of pension funds to the Social Security Institution.

The present value of the liabilities, subject to the transfer to the Social Security Institution, of the Pension Fund as of 31 December 2016 has been calculated by an independent actuary in accordance with the actuarial assumptions in the Law and as per actuarial report dated 13 January 2017. There is no need for technical or actual deficit to book provision as of 31 December 2016.

In addition, the Parent Bank's management anticipates that any liability that may come out during the transfer period and after, in the context expressed above, would be financed by the assets of the Pension Fund and would not cause any extra burden on the Parent Bank. The income tax charge is composed of the sum of current tax and deferred tax.

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#### SECTION THREE (Continued)

#### ACCOUNTING POLICIES (Continued)

##### XVII. Explanations on taxation

The income tax charge is composed of the sum of current tax and deferred tax.

The current tax liability is calculated over taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible and it further excludes items that are never taxable or deductible. Liability for current tax is calculated using tax rates that have been enacted by the reporting date.

Deferred tax asset or liability is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and currently enacted tax rates are used to determine deferred tax on income.

Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Deferred tax asset is not allocated over the amount of general provisions for possible losses in accordance with the circular of BRSA dated 8 December 2004 no. BRSA.DZM.2/13/1-a-3.

Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. The carrying amount of deferred tax assets is reviewed at each reporting date. Deferred tax is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized and reflected in the income statement as expense or income. Moreover, if the deferred tax is related with items directly recorded under the equity in the same or different period, deferred tax is also associated directly with equity. Deferred tax assets and liabilities are also offset. According to the second paragraph of the Article 53 of the Banking Act No: 5411 dated 19 October 2005, all specific reserves for loans and other receivables are considered as deductible expense for determining corporate tax base.

##### Transfer pricing

Transfer pricing is regulated through Article 13 of Corporate Tax Law titled "Transfer Pricing through camouflage of earnings". Detailed information for the practice regarding the subject is found in the "General Communiqué Regarding Camouflage of Earnings Through Transfer Pricing". According to the aforementioned regulations, in the case of making purchase or sales of goods or services with relevant persons/corporations at a price that is determined against "arm's length principle", the gain is considered to be distributed implicitly through transfer pricing and such distribution of gains is not subject to deductions in means of corporate tax.

##### XVIII. Additional explanations on borrowings

The Parent Bank borrows funds from domestic and foreign institutions borrowing from money market and issues marketable securities in domestic and foreign markets when needed.

Borrowings are recognized at initial cost on transaction date and carried at amortized cost using effective interest method. In the accompanying financial statements, foreign currency debt instruments are valued using foreign exchange rates of the Parent Bank as of the period end and interest expense amounts of related period arising from borrowings are reflected in the financial statements.

All other borrowing costs are recorded to the income statement at the period they are incurred.

##### XIX. Explanations on share certificates issued

In the meeting of the General Assembly held on 24 March 2016, it has been resolved that, paid-in capital of the Bank will be increased from TL 1.750.000 to TL 2.050.000 by adding TL 300.000. In respect of the resolution of the General Assembly, all of this increase will be incorporated from the profit of the year 2015. The applications to BRSA and CMB related to increase has been performed, and the process is finalised as of report date. Aforementioned increase was approved by the BRSA dated 6 May 2016 and was announced in the Turkish Trade Registry Gazette dated 4 July 2016 and No. 9110.

In the meeting of the General Assembly held on 26 March 2015, it has been resolved that, paid-in capital of the Bank will be increased from TL 1.500.000 to TL 1.750.000 by adding TL 250.000. In respect of the resolution of the General Assembly, TL 234.000 of this increase will be incorporated from the profit of the year 2014, TL 16.000 of this increase will be incorporated from extraordinary reserves provided for gain on subsidiary and real estate based on article of CTL-5(1)/e. The increase in paid-in capital was approved by the BRSA on 15 May 2015.

##### XX. Explanations on acceptances

Acceptances are realized simultaneously with the payment dates of the customers and they are presented as commitments in the Parent Bank's off-balance sheet accounts.

##### XXI. Explanations on government incentives

The Parent Bank does not use government incentives.

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#### SECTION THREE (Continued)

#### ACCOUNTING POLICIES (Continued)

#### XXII. Explanations on segment reporting

In accordance with its mission, the Parent Bank mainly operates in investment and corporate banking segments.

Corporate Marketing Management operations are included in the corporate banking. The corporate banking is serving financial solutions and banking services for its large-scale corporate customers. Among the services given to corporate customers are; TL and foreign exchange operating loans, investment credits, project financing, letters of credit and letters of guarantees.

The activities of investment banking are; the operations of Treasury, Corporate Finance and Financial Institutions. Under the investment banking activities, portfolio management for corporate and individual customers, marketable securities intermediary activities, cash flow management and all types of corporate finance services is provided.

The segmental allocation of the Group's net profit, total assets and total liabilities are shown below.

Current Period	Corporate Banking	Investment Banking	Other	Total
Net Interest Income	353.064	424.040	(18.301)	758.803
Net Fees and Commission Income	10.602	(5.617)	20.032	25.017
Other Income	12.656	-	216.020	228.676
Other Expense	(81.091)	(67.661)	(310.123)	(458.875)
Profit Before Tax	295.231	350.762	(92.372)	553.621
Tax Provision				(117.708)
<b>Net Profit</b>				<b>435.913</b>
Group's profit / loss				443.431
Minority share profit / loss				(7.518)
Current Period	Corporate Banking	Investment Banking	Other	Total
Segment Assets	17.270.371	5.904.442	1.372.827	24.547.640
Investment in Associates and Subsidiaries	-	-	327.846	327.846
<b>Total Assets</b>	<b>17.270.371</b>	<b>5.904.442</b>	<b>1.700.673</b>	<b>24.875.486</b>
Segment Liabilities	20.066.209	544.386	1.121.838	21.732.433
Shareholders' Equity	-	-	3.143.053	3.143.053
<b>Total Liabilities</b>	<b>20.066.209</b>	<b>544.386</b>	<b>4.264.891</b>	<b>24.875.486</b>
Prior Period	Corporate Banking	Investment Banking	Other	Total
Net Interest Income	309.709	310.576	(21.743)	598.542
Net Fees and Commission Income	11.523	(23)	18.047	29.547
Other Income	843	2.353	93.396	96.592
Other Expense	(89.829)	(19.706)	(103.821)	(213.356)
Profit Before Tax	232.246	293.200	(14.121)	511.325
Tax Provision				(100.735)
<b>Net Profit</b>				<b>410.590</b>
Group's profit / loss				407.231
Minority share profit / loss				3.359
Prior Period	Corporate Banking	Investment Banking	Other	Total
Segment Assets	13.564.132	6.456.746	1.049.790	21.070.668
Investment in Associates and Subsidiaries	-	-	295.912	295.912
<b>Total Assets</b>	<b>13.564.132</b>	<b>6.456.746</b>	<b>1.345.702</b>	<b>21.366.580</b>
Segment Liabilities	16.220.868	1.640.878	721.042	18.582.788
Shareholders' Equity	-	-	2.783.792	2.783.792
<b>Total Liabilities</b>	<b>16.220.868</b>	<b>1.640.878</b>	<b>3.504.834</b>	<b>21.366.580</b>

#### XXIII. Explanations on other matters

None.

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#### SECTION FOUR

#### INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT

##### I. Information related to the components of consolidated total capital

Total capital and Capital adequacy ratio have been calculated in accordance with the "Regulation on Equity of Banks" and "Regulation on Measurement and Assessment of Capital Adequacy of Banks". As at 31 December 2016 capital adequacy ratio of Bank has been calculated as 14,56%.

	Amount	Amount related to treatment before 1/1/2014 <sup>(1)</sup>
<b>CORE EQUITY TIER 1 CAPITAL</b>		-
Paid-in capital to be entitled for compensation after all creditors	2.050.374	
Share premiums	428	
Reserves	408.096	
Other comprehensive income according to TAS	249.270	
Profit	494.664	
Current Period Profit	443.431	
Prior Period Profit	51.233	
Bonus shares from associates, subsidiaries and joint-ventures not accounted in current period's profit		
Minority shareholder	57.969	
<b>Core Equity Tier 1 Capital Before Deductions</b>	<b>3.260.801</b>	
<b>Deductions from Core Equity Tier 1 Capital</b>		
Valuation adjustments calculated as per the 1st clause of article 9.(i) of the Regulation on Bank Capital	-	-
Current and prior periods' losses not covered by reserves, and losses accounted under equity according to TAS	117.998	-
Leasehold improvements on operational leases	5.986	-
Goodwill (net of related tax liability)	603	-
Other intangible assets other than mortgage-servicing rights (net of related tax liability)	1.256	-
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	-
Differences are not recognized at the fair value of assets and liabilities subject to hedge of cash flow risk	-	-
Communiqué Related to Principles of the amount credit risk calculated with the Internal Ratings Based Approach, total expected loss amount exceeds the total provision	-	-
Gains arising from securitization transactions	-	-
Unrealized gains and losses due to changes in own credit risk on fair valued liabilities	-	-
Net amount of defined benefit plans	250	-
Investments in own common equity	-	-
Shares obtained against article 56, paragraph 4 of Banking Law	-	-
Total of net long positions of the investments in equity items of unconsolidated banks and financial institutions where the bank does not own 10% or less of the issued share capital exceeding the 10% threshold of above Tier I capital	-	-
Total of net long positions of the investments in equity items of unconsolidated banks and financial institutions where the bank owns 10% or more of the issued share capital exceeding the 10% threshold of above Tier I capital	19.336	-
Mortgage servicing rights not deducted	-	-
Excess amount arising from deferred tax assets from temporary differences	-	-
Amount exceeding 15% of the common equity as per the 2nd clause of the Provisional Article 2 of the Regulation on the Equity of Banks	-	-

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#### SECTION FOUR (Continued)

#### INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

##### I. Information related to the components of consolidated total capital (continued)

	Amount	Amount related to treatment before 1/1/2014 <sup>(1)</sup>
Excess amount arising from deferred tax assets from temporary differences	-	-
Excess amount arising from mortgage servicing rights	-	-
Excess amount arising from deferred tax assets based on temporary differences	-	-
Other items to be defined by the BRSA	-	-
Deductions from Tier I capital in cases where there are no adequate additional Tier I or Tier II capitals	-	-
<b>Total Regulatory Adjustments to Tier 1 Capital</b>	<b>145.429</b>	
<b>Core Equity Tier I Capital</b>	<b>3.115.372</b>	
<b>ADDITIONAL TIER I CAPITAL</b>	<b>-</b>	
Preferred Stock not Included in Core Equity and the Related Share Premiums	-	-
Debt instruments and the related issuance premiums defined by the BRSA	-	-
Debt instruments and the related issuance premiums defined by the BRSA (Temporary Article 4)	-	-
<b>Additional Tier I Capital before Deductions</b>	<b>-</b>	
<b>Deductions from Additional Tier I Capital</b>	<b>-</b>	
Direct and indirect investments of the Bank in its own Additional Tier I Capital	-	-
Investments of Bank to Banks that invest in Bank's additional equity and components of equity issued by financial institutions with compatible with Article 7.	-	-
Total of net long positions of the investments in equity items of unconsolidated banks and financial institutions where the bank owns 10% or less of the issued share capital exceeding the 10% threshold of above tier i capital	-	-
The total of net long position of the direct or indirect investments in additional tier i capital of unconsolidated banks and financial institutions where the bank owns more than 10% of the issued share capital	-	-
Other items to be defined by the BRSA	-	-
<b>Items to be Deducted from Tier I Capital during the Transition Period</b>	<b>-</b>	
Goodwill and other intangible assets and related deferred tax liabilities which will not deducted from Core Equity Tier 1 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	1.239	-
Net deferred tax asset/liability which is not deducted from Core Equity Tier 1 capital for the purposes of the sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	-	-
Deductions to be made from common equity in the case that adequate Additional Tier I Capital or Tier II Capital is not available (-)	-	-
<b>Total Deductions From Additional Tier I Capital</b>	<b>1.239</b>	
<b>Total Additional Tier I Capital</b>	<b>-</b>	
<b>Total Tier I Capital (Tier I Capital=Core Equity Tier I Capital+Additional Tier I Capital)</b>	<b>3.114.133</b>	
<b>TIER II CAPITAL</b>		
Debt instruments and the related issuance premiums defined by the BRSA	-	-
Debt instruments and the related issuance premiums defined by the BRSA (Temporary Article 4)	-	-
Provisions (Article 8 of the Regulation on the Equity of Banks)	177.167	-
<b>Tier II Capital Before Deductions</b>	<b>177.167</b>	
<b>Deductions From Tier II Capital</b>	<b>-</b>	
Direct and indirect investments of the Bank on its own Tier II Capital	-	-
Investments of Bank to Banks that invest on Bank's Tier 2 and components of equity issued by financial institutions with the conditions declared in Article 8.	-	-



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#### SECTION FOUR (Continued)

#### INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

##### I. Information related to the components of consolidated total capital (continued)

	Amount	Amount related to treatment before 1/1/2014 <sup>(1)</sup>
Total of net long positions of the investments in equity items of unconsolidated banks and financial institutions where the Bank owns 10% or less of the issued share capital exceeding the 10% threshold of above Common Equity Tier I capital (-)	-	-
Total of net long positions of the investments in Tier II Capital items of unconsolidated banks and financial institutions where the bank owns 10% or more of the issued share capital	-	-
Other items to be defined by the BRSA (-)	-	-
<b>Total Deductions from Tier II Capital</b>	<b>-</b>	<b>-</b>
<b>Total Tier II Capital</b>	<b>177.167</b>	<b>-</b>
<b>Total Capital (The sum of Tier I Capital and Tier II Capital)</b>	<b>3.291.300</b>	<b>-</b>
<b>Deductions from Total Capital</b>		
Loans granted against the articles 50 and 51 of the banking law	-	-
Net book values of movables and immovables exceeding the limit defined in the article 57, clause 1 of the Banking law and the assets acquired against overdue receivables and held for sale but retained more than five years	369	-
Other items to be defined by the BRSA	-	-
<b>Items to be Deducted from sum of Tier I and Tier II (Capital) during the Transition Period</b>	<b>-</b>	<b>-</b>
The Sum of net long positions of investments (the portion which exceeds the %10 of Banks Common Equity) in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity which will not deducted from Common Equity Tier I capital, Additional Tier I capital, Tier II capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds	-	-
The Sum of net long positions of investments in the Additional Tier I capital and Tier II capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity which will not deducted from Common Equity Tier I capital, Additional Tier I capital, Tier II capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds	-	-
The Sum of net long positions of investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity, mortgage servicing rights, deferred tax assets arising from temporary differences which will not deducted from Core Equity Tier I capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds	12.891	-
<b>CAPITAL</b>		<b>-</b>
Total Capital	3.278.040	-
Total Risk Weighted Assets	22.507.376	-
<b>Capital Adequacy Ratios</b>	<b>-</b>	<b>-</b>
Core Capital Adequacy Ratio (%)	13,84	-
Tier I Capital Adequacy Ratio (%)	13,84	-
Capital Adequacy Ratio (%)	14,56	-
<b>BUFFERS</b>		
Total buffer requirement (%)	0,63	-
Capital conservation buffer requirement (%)	0,63	-
Bank specific counter-cyclical buffer requirement (%)	0,002	-
The ratio of Additional Core Equity Tier I capital which will be calculated by the first paragraph of the Article 4 of Regulation on Capital Conservation and Countercyclical Capital Buffers to risk weighted assets	6,63	-
<b>Amounts below the Excess Limits as per the Deduction Principles</b>		<b>-</b>
Total of net long positions of the investments in equity items of unconsolidated banks and financial institutions where the bank owns 10% or less of the issued share capital	-	-
Total of net long positions of the investments in Tier I capital of unconsolidated banks and financial institutions where the bank owns more than 10% or less of the issued share capital	-	-
Remaining mortgage servicing rights	-	-

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#### SECTION FOUR (Continued)

#### INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

##### I.Information related to the components of consolidated total capital (continued)

	Amount	Amount related to treatment before 1/1/2014 <sup>(1)</sup>
Excess amount arising from deferred tax assets from temporary differences	-	-
<b>Limits Related to Provisions Considered in Tier II Calculation</b>		
General provisions for standard based receivables (before tenthousandtwentyfive limitation)	177.167	-
Up to 1.25% of total risk-weighted amount of general reserves for receivables where the standard approach used	177.167	-
Excess amount of total provision amount to credit risk amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation	-	-
Excess amount of total provision amount to 0,6% of risk weighted receivables of credit risk amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation	-	-
<b>Debt instruments subjected to Article 4 (to be implemented between 1 January, 2018 and 1 January, 2022)</b>		
Upper limit for Additional Tier I Capital subjected to temporary Article 4	-	-
Amounts Excess the Limits of Additional Tier I Capital subjected to temporary Article 4	-	-
Upper limit for Additional Tier II Capital subjected to temporary Article 4	-	-
Amounts Excess the Limits of Additional Tier II Capital subjected to temporary Article 4	-	-

<sup>(1)</sup> Under this item fully loaded amounts were reported for items that are subject to phasing in according to "Bank Capital Regulation" dated 1 January 2014.

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#### SECTION FOUR (Continued)

#### INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

##### I. Information related to the components of consolidated total capital (continued)

	Parent Bank	Consolidated
	Prior Period <sup>(1)</sup>	Prior Period <sup>(1)</sup>
<b>TIER 1 CAPITAL</b>		
Paid-in capital to be entitled for compensation after all creditors	1.750.374	1.750.374
Share premium	-	428
Share cancellation profits	-	-
Legal reserves	353.822	362.902
Other comprehensive income according to TAS	90.614	273.407
Profit	406.845	458.078
Net current period profit	406.845	407.231
Prior period profit	-	50.847
Provisions for possible losses	-	-
Bonus shares from associates, subsidiaries and joint-ventures not accounted in current period's profit	-	-
Minority shareholder	-	65.490
<b>Tier I Capital Before Deductions</b>	<b>2.601.655</b>	<b>2.910.679</b>
<b>Deductions From Tier I Capital</b>		
Current and prior periods' losses not covered by reserves, and losses accounted under equity according to TAS (-)	112.928	126.887
Leasehold improvements on operational leases (-)	6.268	7.499
Goodwill and intangible assets and related deferred tax liabilities (-)	686	2.056
Net deferred tax assets / liabilities (-)	1.149	1.149
Shares obtained against article 56, paragraph 4 of the Banking Law (-)	-	-
Investments in own common equity (-)	-	-
Total of net long positions of the investments in equity items of unconsolidated banks and financial institutions where the bank does not own 10% or less of the issued share capital exceeding the 10% threshold of above Tier I capital (-)	-	-
Total of net long positions of the investments in equity items of unconsolidated banks and financial institutions where the bank owns 10% or less of the issued share capital exceeding the 10% threshold of above Tier I capital (-)	-	8.492
Mortgage servicing rights exceeding the 10% threshold of Tier I capital (-)	-	-
Net deferred tax assets arising from temporary differences exceeding the 10% threshold of Tier I capital (-)	-	-
Amount exceeding the 15% of the common equity as per 2nd clause of the Provisional Article 2 of the Regulation on the Equity of Banks	-	-
The portion of net long position of the investments in equity items of unconsolidated banks and financial institutions where the bank owns 10% or more of the issued share capital not deducted from Tier I capital (-)	-	-
Mortgage servicing rights not deducted (-)	-	-
Excess amount arising from deferred tax assets from temporary differences (-)	-	-
Other items to be defined by the BRSA (-)	-	-
Deductions from Tier I capital in cases where there are no adequate additional Tier I or Tier II capitals (-)	-	-
<b>Total Regulatory Adjustments to Tier 1 Capital</b>	<b>121.031</b>	<b>146.083</b>
<b>Tier 1 Capital</b>	<b>2.480.624</b>	<b>2.764.596</b>

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES

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(AMOUNTS ARE EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FOUR (Continued)

#### INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

##### I. Information related to the components of consolidated total capital (continued)

	Parent Bank	Consolidated
	Prior Period <sup>(*)</sup>	Prior Period <sup>(*)</sup>
<b>ADDITIONAL CORE CAPITAL</b>		
Preferred stock not included in Tier I capital and the related share premiums	-	-
Debt instruments and the related issuance premiums defined by the BRSA (issued or obtained after 1.1.2014)	-	-
Debt instruments and the related issuance premiums defined by the BRSA (issued or obtained before 1.1.2014)	-	-
<b>Additional core capital before deductions</b>	-	-
<b>Deductions From Additional Core Capital</b>		
Direct and indirect investments of the bank on its own additional core capital (-)	-	-
Total of net long positions of the investments in equity items of unconsolidated banks and financial institutions where the bank owns 10% or less of the issued share capital exceeding the 10% threshold of above Tier I capital (-)	-	-
The total of net long position of the direct or indirect investments in additional Tier I capital of unconsolidated banks and financial institutions where the bank owns more than 10% of the issued share capital (-)	-	-
Other items to be defined by the BRSA (-)	-	-
Deductions from additional core capital in cases where there are no adequate Tier II capital (-)	-	-
<b>Total deductions from additional core capital</b>	-	-
<b>Total Additional Core Capital</b>	-	-
<b>Deductions From Core Capital</b>		
Goodwill and other intangible assets and related deferred taxes not deducted from Tier I capital as per the temporary article 2, clause 1 of the regulation on measurement and assessment of capital adequacy ratios of banks (-)	-	-
Net deferred tax asset/liability not deducted from Tier I capital as per the temporary article 2, clause 1 of the regulation on measurement and assessment of capital adequacy ratios of banks (-)	-	-
<b>Total Core Capital</b>	<b>2.480.624</b>	<b>2.764.596</b>
<b>TIER II CAPITAL</b>		
Debt instruments and the related issuance premiums defined by the BRSA (issued or obtained after 1.1.2014)	-	-
Debt instruments and the related issuance premiums defined by the BRSA (issued or obtained before 1.1.2014)	-	-
Pledged assets of the shareholders to be used for the bank's capital increases	-	-
General provisions	150.329	144.043
<b>Tier II Capital Before Deductions</b>	<b>150.329</b>	<b>144.043</b>
<b>Deductions from Tier II Capital</b>		
Direct and indirect investments of the bank on its own Tier II capital (-)	-	-
Total of net long positions of the investments in equity items of unconsolidated banks and financial institutions where the bank owns 10% or less of the issued share capital exceeding the 10% threshold of above Core Tier I capital (-)	-	-
The total of net long position of the direct or indirect investments in additional core capital and Tier II capital of unconsolidated banks and financial institutions where the bank owns 10% or more of the issued share capital exceeding the 10% threshold of Tier I capital (-)	-	-
Other items to be defined by the BRSA (-)	-	-
<b>Total Deductions from Tier II Capital</b>	-	-
<b>Total Tier II Capital</b>	<b>150.329</b>	<b>144.043</b>

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#### SECTION FOUR (Continued)

#### INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

##### I. Information related to the components of consolidated shareholders' equity (continued)

	Parent Bank	Consolidated
	Prior Period <sup>(*)</sup>	Prior Period <sup>(*)</sup>
<b>CAPITAL</b>	<b>2.630.953</b>	<b>2.908.639</b>
Loans granted against the articles 50 and 51 of the banking law (-)	-	-
Net book values of movables and immovables exceeding the limit defined in the article 57, clause 1 of the banking law and the assets acquired against overdue receivables and held for sale but retained more than five years (-)	390	390
Loans to banks, financial institutions (domestic/foreign) or qualified shareholders in the form of subordinated debts or debt instruments purchased from such parties and qualified as subordinated debts (-)	-	-
Deductions as per the article 20, clause 2 of the regulation on measurement and assessment of capital adequacy ratios of banks (-)	-	-
Other items to be defined by the BRSA (-)	-	-
The portion of total of net long positions of the investments in equity items of unconsolidated banks and financial institutions where the bank owns 10% or less of the issued share capital exceeding the 10% threshold of above Tier I capital not deducted from Tier I capital, additional core capital or tier II capital as per the temporary article 2, clause 1 of the regulation (-)	-	-
The portion of total of net long positions of the investments in equity items of unconsolidated banks and financial institutions where the bank owns more than 10% of the issued share capital exceeding the 10% threshold of above Tier I capital not deducted from additional core capital or Tier II capital as per the temporary article 2, clause 1 of the regulation (-)	-	-
The portion of net long position of the investments in equity items of unconsolidated banks and financial institutions where the bank owns 10% or more of the issued share capital, of the net deferred tax assets arising from temporary differences and of the mortgage servicing rights not deducted from Tier I capital as per the temporary article 2, clause 2, paragraph (1) and (2) and temporary article 2, clause 1 of the regulation (-)	1.722	14.460
<b>EQUITY</b>	<b>2.628.841</b>	<b>2.893.789</b>
<b>Amounts lower than Excesses as per Deduction Rules</b>		
Remaining total of net long positions of the investments in equity items of unconsolidated banks and financial institutions where the bank owns 10% or less of the issued share capital	22.047	44.693
Remaining total of net long positions of the investments in Tier I capital of unconsolidated banks and financial institutions where the bank owns more than 10% or less of the Tier I capital	158.323	270.760
Remaining mortgage servicing rights	-	-
Net deferred tax assets arising from temporary differences	-	-

<sup>(\*)</sup> Total capital has been calculated in accordance with the "Regulations Regarding to Changes on Regulation on Equity of Banks" effective from date 31 March 2016, the information given in the prior period column has been calculated pursuant to former regulation.

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#### SECTION FOUR (Continued)

#### INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

##### II. Explanations related to consolidated credit risk

The sectoral breakdown of loans is documented monthly and limitations are made according to evaluations. There is no limitation applied geographically.

Monitoring and checking is made for the treasury operations. Risk limits are identified for the operations implemented.

The credit monitoring department screens the creditworthiness of loan customers once every six months regularly. The debtors' creditworthiness is screened regularly in line with Communiqué on "Methods and Principles for the Determination of Loans and Other Receivables to be Reserved for and Allocation of Reserves" ("Communiqué on Reserves"). Their financial statements are obtained as prescribed in the legislation. The credit limits have been set by the Board of Directors, the Banks credit committee and the credit management. The Parent Bank takes enough collateral for the loans and other receivables extended. The collaterals obtained consist of personal surety ship, mortgage, cash blockage and client checks. The limits are also identified for the transactions made with the banks. The credit risk is managed by considering the creditworthiness and the limits of counter parties.

##### In accordance with Communiqué on Reserves;

Impaired loans, are loans past due more than 90 days as of reporting period or convinced to be impaired due to credibility. In accordance with Communiqué on Reserves, "Specific Provision" is allocated for these loans.

Past due loans, are loans past due up to 90 days as of reporting period but not impaired. In accordance with Communiqué on Reserves, "General Provision" is calculated for these loans.

##### Total amount of exposures after offsetting transactions but before applying risk mitigations and the average exposure amounts that are classified in different risk groups and types

The disclosure is prepared due to Communiqué On Disclosures About Risk Management To Be Announced To Public By Banks and presented in footnote X. Explanations on Consolidated Risk Management.

There are control limits over the positions on forwards, options and similar other agreements. Those limits are controlled by the the Parent Bank's management on a regular basis. The credit risk is managed together with the potential risks arising from the fluctuations in the market. Credit risk, market risk, liquidity risk and other risks are managed as a whole. If exposed to a significant degree of credit risk, the Parent Bank reduces the total risk by using, exercising or selling forward transactions and other similar contracts. The compensated non-cash loans are evaluated at the same risk weight as the non-performing loans.

Rescheduled loans are monitored within the Parent Bank's internal rating application, as well as the monitoring applications required by the related regulations. All precautions are taken in order to classify the companies' risks and their current rating may change within this internal rating applications. The Parent Bank monitors and investigates the maturity concentration and the risks which are different than their normal pattern. The international operations are made with many correspondent banks in various countries. The counter party limits are set with operations made with the banks.

The first 100 and 200 largest cash loans constitute 80,64% and 96,98% of the total cash loans portfolio of the Bank respectively (31 December 2015: 81,68% and 97,37%)

The first 100 and 200 largest non cash loans constitute 100% and 100% of the total non cash loans portfolio of the Bank respectively (31 December 2015: 100% and 100%).

The first 100 and 200 largest cash and non cash loans constitute 78,80% and 96,38% of the total on and off balance sheet accounts of the Bank respectively (31 December 2015: 80,64% and 96,88%).

The Parent Bank calculated the general loan loss provision of TL 177.167 (31 December 2015: TL 144.043)

##### Profile of Significant Exposures in Major Regions

The disclosure is prepared due to Communiqué On Disclosures About Risk Management To Be Announced To Public By Banks and presented in footnote X. Explanations on Consolidated Risk Management.

##### Risk profile by sectors or counterparties

The disclosure is prepared due to Communiqué On Disclosures About Risk Management To Be Announced To Public By Banks and presented in footnote X. Explanations on Consolidated Risk Management.

##### Analysis of maturity-bearing exposures according to remaining maturities

The disclosure is prepared due to Communiqué On Disclosures About Risk Management To Be Announced To Public By Banks and presented in footnote X. Explanations on Consolidated Risk Management.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES

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#### SECTION FOUR (Continued)

#### INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

#### II. Explanations related to consolidated credit risk (continued)

##### Information on risk types

The disclosure is prepared due to Communiqué On Disclosures About Risk Management To Be Announced To Public By Banks and presented in footnote X. Explanations on Consolidated Risk Management.

##### Exposures by risk weights

The disclosure is prepared due to Communiqué On Disclosures About Risk Management To Be Announced To Public By Banks and presented in footnote X. Explanations on Consolidated Risk Management.

##### Information of major sectors or type of counterparties

The disclosure is prepared due to Communiqué On Disclosures About Risk Management To Be Announced To Public By Banks and presented in footnote X. Explanations on Consolidated Risk Management.

##### Information related with value adjustments and loan loss provisions

The disclosure is prepared due to Communiqué On Disclosures About Risk Management To Be Announced To Public By Banks and presented in footnote X. Explanations on Consolidated Risk Management.

Cash credit quality per class of financial assets as of 31 December 2016 is as follows;

Current Period	Neither past due nor impaired	Past due or individually impaired	Total
Loans	17.315.764	20.281	17.336.045
Corporate Loans	14.207.855	20.281	14.228.136
Loans to SME	3.038.226	-	3.038.226
Consumer Loans	217	-	217
Other	69.466	-	69.466
Receivables from Leasing Transactions	3.792	-	3.792
<b>Total</b>	<b>17.319.556</b>	<b>20.281</b>	<b>17.339.837</b>

Cash credit quality per class of financial assets as of 31 December 2015 is as follows:

Prior Period	Neither past due nor impaired	Past due or individually impaired	Total
Loans	13.617.988	15.141	13.633.129
Corporate Loans	11.380.224	3.848	11.384.072
Loans to SME	2.168.539	11.293	2.179.832
Consumer Loans	228	-	228
Other	68.997	-	68.997
Receivables from Leasing Transactions	-	-	-
<b>Total</b>	<b>13.617.988</b>	<b>15.141</b>	<b>13.633.129</b>

Credit risk is evaluated according to the Parent Bank's internal rating. Non financial services customers included in credit portfolio are rated with respect to the Parent Bank's internal rating and ratings of the financial services customers, which are rated by external rating firms, are matched to the Parent Bank's internal ratings. The loans rated according to the possibility of being in default are classified from the highest grade (top grade) to the lowest (below average) as below; at the bottom of the table there are credits in default (impaired) according to rating model.

Information of credit amounts rated by internal rating model is given table below:

Basic Loan Quality Categories	Current Period	Prior Period
Top Grade	591.176	688.490
High Grade	1.826.700	3.227.384
Average Grade	15.520.292	11.044.853
Below Average Grade	538.242	179.020
Impaired	52.784	62.184
<b>Total</b>	<b>18.529.194</b>	<b>15.201.931</b>

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#### SECTION FOUR (Continued)

#### INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

##### II. Explanations related to consolidated credit risk (continued)

Category "top" shows that the debtor has a very strong financial structure, "high" shows that the debtor has a strong financial structure, "average" shows the debtor's financial structure is good enough while "below average" category shows that debtor's financial structure is under risk in the short and medium term.

As of the reporting date, the total of the Bank's cash and non-cash loans and financial lease receivables (gross amount including the non performing loans, excluding the specific provisions) is TL 19.060.660 and TL 531.466 of these customers have not been rated (31 December 2015: TL 15.476.810 TL 274.879 TL).

Carrying amount per class of financial assets whose terms have been renegotiated

	Current Period	Prior Period
Banks	-	-
Financial Assets at Fair Value Through Profit and Loss	-	-
Loans	194.994	162.977
Corporate Loans	65.324	17.651
Loans to SME	129.670	145.326
Consumer Loans	-	-
Other	-	-
<b>Total</b>	<b>194.994</b>	<b>162.977</b>

##### Exposures Subject to Countercyclical Capital Buffer

The geographical distribution of receivables from the private sector taken into account for Calculation of Bank specific Counter Cyclical Capital Buffer with the scope of Capital Conservation and Counter-Cyclical Capital Buffers Regulation which is published on the Official Gazette no.28812 dated 5 November 2013 and sub arrangements is given table below.

##### Information about receivables from consolidated private sector:

Country risk taken ultimately	Private Sector Loans in Banking Book	Risk Weighted Amount calculations for Trading Book	Total
United States	6.376	-	6.376
Georgia	70.007	-	70.007
England	4.553	-	4.553
Turkey	17.518.414	240.927	17.759.341
<b>Total</b>	<b>17.599.350</b>	<b>240.927</b>	<b>17.840.277</b>



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#### SECTION FOUR (Continued)

#### INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

##### III. Explanations related to consolidated currency risk

No long or short position is taken due to the uncertainties and changes in the markets therefore; no exposure to foreign currency risk is expected. However, possible foreign currency risks are calculated on monthly basis under the standard method in the foreign currency risk table and their results are reported to the official authorities and the Parent Bank's top management. Thus, foreign currency risk is closely monitored. Foreign currency risk, as a part of general market risk, is also taken into consideration in the calculation of Capital Adequacy Standard Ratio.

No short position is taken regarding foreign currency risk, whereas, counter position is taken for any foreign currency risks arising from customer transactions as to avoid foreign currency risk.

Announced current foreign exchange buying rates of the Parent Bank as at reporting date and the previous five working days in US Dollar and Euro are as follows:

	1 US Dollar	1 Euro
<b>The Parent Bank's "Foreign Exchange Valuation Rate"</b>		
31 December 2016	3,4900	3,6757
<b>Prior Five Workdays:</b>		
30 December 2016	3,4900	3,6757
29 December 2016	3,5100	3,6701
28 December 2016	3,5010	3,6684
27 December 2016	3,4900	3,6432
26 December 2016	3,4800	3,6404

Simple arithmetic thirty-day averages of the US Dollar and Euro buying rates of the Parent Bank before the reporting date are full TL 3,4900 and 3,6757; respectively.

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#### SECTION FOUR (Continued)

#### INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

#### III. Explanations related to consolidated currency risk (continued)

Information on the Group's foreign currency risk:

	Euro	US Dollar	Other FC	Total
<b>Current Period</b>				
<b>Assets</b>				
Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Checks Purchased, Precious Metals) and Balances with the Central Bank of Turkey	247.052	252.175	117.544	616.771
Banks	377.991	43.290	1.560	422.841
Financial Assets at Fair Value Through Profit and Loss <sup>(*)</sup>	33.190	26.615	3.051	62.856
Money Market Placements	191.138	-	-	191.138
Available-For-Sale Financial Assets	42.571	977.533	-	1.020.104
Loans <sup>(**)</sup>	6.547.990	9.490.700	-	16.038.690
Subsidiaries, Associates and Entities Under Common Control (Joint Vent.)	-	-	-	-
Held-To-Maturity Investments	-	186.739	-	186.739
Derivative Financial Assets for Hedging Purposes	-	272	-	272
Tangible Assets	-	-	-	-
Intangible Assets	-	-	-	-
Other Assets <sup>(***)</sup>	19.018	261.217	-	280.235
<b>Total Assets</b>	<b>7.458.950</b>	<b>11.238.541</b>	<b>122.155</b>	<b>18.819.646</b>
<b>Liabilities</b>				
Bank Deposits	-	-	-	-
Foreign Currency Deposits	-	-	-	-
Money Market Borrowings	31.532	29.466	-	60.998
Funds Provided From Other Financial Institutions	7.297.962	8.682.282	-	15.980.244
Marketable Securities Issued	-	3.486.732	-	3.486.732
Miscellaneous Payables <sup>(****)</sup>	4.104	75.712	377	80.193
Derivative Financial Liabilities for Hedging Purposes	-	51.433	-	51.433
Other Liabilities <sup>(*****)</sup>	29.885	17.432	2.424	49.741
<b>Total Liabilities</b>	<b>7.363.483</b>	<b>12.343.057</b>	<b>2.801</b>	<b>19.709.341</b>
<b>Net Balance Sheet Position</b>	<b>95.467</b>	<b>(1.104.516)</b>	<b>119.354</b>	<b>(889.695)</b>
<b>Net Off-Balance Sheet Position</b>	<b>(286.350)</b>	<b>1.052.712</b>	<b>(118.621)</b>	<b>647.741</b>
Financial Derivative Assets	1.418.329	3.491.955	134.472	5.044.756
Financial Derivative Liabilities	(1.704.679)	(2.439.243)	(253.093)	(4.397.015)
Non-Cash Loans <sup>(*****)</sup>	714.093	730.990	13.677	1.458.760
<b>Prior Period</b>				
Total Assets	5.394.031	9.759.054	97.024	15.250.109
Total Liabilities	5.743.610	9.757.191	5.612	15.506.413
<b>Net Balance Sheet Position</b>	<b>(349.579)</b>	<b>1.863</b>	<b>91.412</b>	<b>(256.304)</b>
<b>Net Off -Balance Sheet Position</b>	<b>234.076</b>	<b>(61.765)</b>	<b>(89.210)</b>	<b>83.101</b>
Financial Derivative Assets	957.928	1.807.942	122.609	2.888.479
Financial Derivative Liabilities	(723.852)	(1.869.707)	(211.819)	(2.805.378)
Non-Cash Loans <sup>(*****)</sup>	800.762	579.223	11.880	1.391.865

<sup>(\*)</sup> Exchange rate differences arising from derivative transactions amounting to TL 184.382 is deducted from "Financial Assets at Fair Value through Profit and Loss".

<sup>(\*\*)</sup> Loans extended include TL 1.315.894 foreign currency indexed loans.

<sup>(\*\*\*)</sup> Prepaid expenses amounting to TL 371 and forward foreign exchange purchase transaction rediscounts amounting to TL 25 have not been included in "Other Assets".

<sup>(\*\*\*\*)</sup> Forward foreign exchange purchase transaction rediscounts amounting to TL 37 have not been included in "Miscellaneous Payables".

<sup>(\*\*\*\*\*)</sup> Marketable securities valuation decrease fund amounting to (TL 26.774) and exchange rate differences arising from derivative transactions amounting to TL 159.853 have not been included in "Other Liabilities". Borrower funds amounting TL 3.806 based on foreign currencies have been included in "Other Liabilities".

<sup>(\*\*\*\*\*)</sup> Has no effect on net off-balance sheet position.

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#### SECTION FOUR (Continued)

#### INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

##### III. Explanations related to consolidated currency risk (continued)

The Group is mostly exposed to Euro, US Dollars and other foreign currencies.

The following tables detail the Group's sensitivity to 10% increase/decrease in the TL against US Dollar, Euro and other currencies.

	Increase in Currency Rate	Effect on Profit / Loss <sup>(*)</sup>		Effect on Equity <sup>(**)</sup>	
	%	Current Period	Prior Period	Current Period	Prior Period
US Dollar	10	(1.955)	(6.769)	(3.185)	779
Euro	10	(19.425)	(11.755)	337	205
Other	10	73	220	-	-

	Decrease in Currency Rate	Effect on Profit / Loss <sup>(*)</sup>		Effect on Equity <sup>(**)</sup>	
	%	Current Period	Prior Period	Current Period	Prior Period
US Dollar	10	1.955	6.769	3.185	(779)
Euro	10	19.425	11.755	(337)	(205)
Other	10	(73)	(220)	-	-

<sup>(\*)</sup> Values expressed are before the tax effect.

<sup>(\*\*)</sup> Effect on equity does not include effect on profit/loss.

##### IV. Explanations related to consolidated interest rate risk

Interest rate sensitivity of the assets, liabilities and off-balance sheet items are measured by the Parent Bank. General and specific interest rate risk tables in the standard method, by including assets and liabilities, are taken into account in determination of the Capital Adequacy Standard Ratio and to calculate the overall interest rate risk of the Parent Bank. Forecast results which have been formed using estimation-simulation reports are prepared and then the effects of fluctuations in interest rates are evaluated with sensitivity and scenario analyzes. Cash requirement for every maturity period are determined based on maturity distribution analysis (Gap). In addition, a positive spread between the yield on assets and the cost of liabilities is kept while determining interest rates.

The amount of local borrowings is very low considering the total liabilities of the Parent Bank. As the Parent Bank is a development and investment bank, it obtains most of the funding from abroad.

The fluctuations in interest rates are controlled with interest rate risk tables, gap analysis, scenario analysis and stress tests, its effect in assets and liabilities and the probable changes in cash flows are being screened. The Parent Bank screens many risk control ratio including the markets risk ratio to the sum of risk weighted assets and the ratio of the value at risk calculated as per the internal model to the equity.

Under the scope of risk policies, continuous controls are made to prevent assets or shareholders' equity from adverse effects because of fluctuations in interest rates or liquidity difficulties and top management, the Board of Directors and the Audit Committee are informed of these risks.

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(AMOUNTS ARE EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FOUR (Continued)

#### INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

#### IV. Explanations related to consolidated interest rate risk (continued)

Information related to the interest rate sensitivity of assets, liabilities and off-balance sheet items (based on repricing dates)

Current Period	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Non-interest bearing <sup>(*)</sup>	Total
<b>Assets</b>							
Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Checks Purchased) and Balances with the Central Bank of Turkey	413.451	-	-	-	-	364.625	778.076
Banks	465.969	11.133	-	-	-	20.847	497.949
Financial Assets at Fair Value Through Profit and Loss	53.716	92.777	135.422	67.326	34.413	3.383	387.037
Money Market Placements	191.973	62.961	-	-	-	-	254.934
Available-for-Sale Financial Assets	333.011	288.125	844.154	890.502	665.957	46.663	3.068.412
Loans	1.992.927	5.644.313	6.538.267	2.632.395	528.143	-	17.336.045
Held-to-Maturity Investments	180.460	645.935	362.595	-	186.739	-	1.375.729
Other Assets	-	272	1.295	1.949	548	1.173.240	1.177.304
<b>Total Assets</b>	<b>3.631.507</b>	<b>6.745.516</b>	<b>7.881.733</b>	<b>3.592.172</b>	<b>1.415.800</b>	<b>1.608.758</b>	<b>24.875.486</b>
<b>Liabilities</b>							
Bank Deposits	-	-	-	-	-	-	-
Other Deposits	-	-	-	-	-	-	-
Money Market Borrowings	1.256.160	74	-	-	-	-	1.256.234
Miscellaneous Payables	-	-	-	-	-	193.612	193.612
Marketable Securities Issued	-	-	-	3.486.732	-	-	3.486.732
Funds Provided from Other Financial Institutions	3.595.439	5.563.880	3.350.968	1.573.342	2.043.867	-	16.127.496
Other Liabilities <sup>(**)</sup>	35.138	98.963	174.741	64.075	4.630	3.433.865	3.811.412
<b>Total Liabilities</b>	<b>4.886.737</b>	<b>5.662.917</b>	<b>3.525.709</b>	<b>5.124.149</b>	<b>2.048.497</b>	<b>3.627.477</b>	<b>24.875.486</b>
Balance Sheet Long Position	-	1.082.599	4.356.024	-	-	-	5.438.623
Balance Sheet Short Position	(1.255.230)	-	-	(1.531.977)	(632.697)	(2.018.719)	(5.438.623)
Off-Balance Sheet Long Position	-	14.267	-	18.604	228.421	-	261.292
Off-Balance Sheet Short Position	(62.216)	-	(140.032)	-	-	-	(202.248)
<b>Total Position</b>	<b>(1.317.446)</b>	<b>1.096.866</b>	<b>4.215.992</b>	<b>(1.513.373)</b>	<b>(404.276)</b>	<b>(2.018.719)</b>	<b>59.044</b>

<sup>(\*)</sup> Amounts in investments in associates and subsidiaries, entities under common control, deferred tax asset, investment property, tangible and intangible assets, other assets and shareholders' equity, provisions and tax liability are presented in non-interest bearing column, in order to reconcile the total assets and liabilities on the balance sheet.

<sup>(\*\*)</sup> Borrower funds amounting to TL 5.317 are presented in "Other Liabilities" within 1-month maturity column.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES

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### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS ARE EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FOUR (Continued)

#### INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

#### IV. Explanations related to consolidated interest rate risk (continued)

Information related to the interest rate sensitivity of assets, liabilities and off-balance sheet items (based on repricing dates)

Prior Period	1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Non-interest bearing <sup>(*)</sup>	Total
<b>Assets</b>							
Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Checks Purchased) and Balances with the Central Bank of Turkey	565.428	-	-	-	-	245.695	811.123
Banks	734.646	-	-	-	-	16.899	751.545
Financial Assets at Fair Value Through Profit and Loss	23.811	35.528	95.085	26.162	28.604	381	209.571
Money Market Placements	895.490	185.234	-	-	-	-	1.080.724
Available-for-Sale Financial Assets	400.458	297.496	921.268	743.477	571.249	38.214	2.972.162
Loans	2.069.051	4.096.269	5.490.171	1.563.995	344.646	68.997	13.633.129
Held-to-Maturity Investments	168.466	508.599	38.129	-	157.408	-	872.602
Other Assets	4.819	1.098	3.227	-	-	1.026.580	1.035.724
<b>Total Assets</b>	<b>4.862.169</b>	<b>5.124.224</b>	<b>6.547.880</b>	<b>2.333.634</b>	<b>1.101.907</b>	<b>1.396.766</b>	<b>21.366.580</b>
<b>Liabilities</b>							
Bank Deposits	-	-	-	-	-	-	-
Other Deposits	-	-	-	-	-	-	-
Money Market Borrowings	2.349.479	1.061	-	-	-	-	2.350.540
Miscellaneous Payables	-	-	-	-	-	129.298	129.298
Marketable Securities Issued	-	-	-	2.037.571	-	-	2.037.571
Funds Provided from Other Financial Institutions	3.756.234	4.477.916	2.712.656	1.030.069	1.610.792	-	13.587.667
Other Liabilities <sup>(**)</sup>	54.685	43.100	86.427	18.731	8.483	3.050.078	3.261.504
<b>Total Liabilities</b>	<b>6.160.398</b>	<b>4.522.077</b>	<b>2.799.083</b>	<b>3.086.371</b>	<b>1.619.275</b>	<b>3.179.376</b>	<b>21.366.580</b>
Balance Sheet Long Position	-	602.147	3.748.797	-	-	-	4.350.944
Balance Sheet Short Position	(1.298.229)	-	-	(752.737)	(517.368)	(1.782.610)	(4.350.944)
Off-Balance Sheet Long Position	-	-	430.571	-	-	-	430.571
Off-Balance Sheet Short Position	(378.023)	(91.039)	-	(1.081)	(6.715)	-	(476.858)
<b>Total Position</b>	<b>(1.676.252)</b>	<b>511.108</b>	<b>4.179.368</b>	<b>(753.818)</b>	<b>(524.083)</b>	<b>(1.782.610)</b>	<b>(46.287)</b>

<sup>(\*)</sup> Amounts in investments in associates and subsidiaries, entities under common control, deferred tax asset, investment property, tangible and intangible assets, other assets and shareholders' equity, provisions and tax liability are presented in non-interest bearing column, in order to reconcile the total assets and liabilities on the balance sheet.

<sup>(\*\*)</sup> Borrower funds amounting to TL 30.677 are presented in "Other Liabilities" within 1-month maturity column.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES

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### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS ARE EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FOUR (Continued)

#### INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

#### IV. Explanations related to consolidated interest rate risk (continued)

Average interest rates applied to monetary financial instruments: %

	Euro	US Dollar	Yen	TL
<b>Current Period</b>				
<b>Assets</b>				
Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Checks Purchased) and Balances with the Central Bank of Turkey	-	0,50	-	3,94
Banks	2,23	1,85	-	11,39
Financial Assets at Fair Value Through Profit and Loss	-	-	-	8,30
Money Market Placements	-	-	-	10,96
Available-for-Sale Financial Assets	5,59	4,77	-	9,95
Loans	3,56	5,47	-	13,29
Held-to-Maturity Investments	-	5,59	-	10,35
<b>Liabilities</b>				
Bank Deposits	-	-	-	-
Other Deposits	-	-	-	-
Money Market Borrowings	0,27	0,50	-	7,86
Miscellaneous Payables	-	-	-	-
Marketable Securities Issued	-	5,38	-	-
Borrower Funds	0,25	0,50	-	6,00
Funds Provided From Other Financial Institutions	0,91	2,08	-	8,74

Average interest rates applied to monetary financial instruments in prior period: %

	Euro	US Dollar	Yen	TL
<b>Prior Period</b>				
<b>Assets</b>				
Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Checks Purchased) and Balances with the Central Bank of Turkey	-	0,27	-	2,42
Banks	1,26	0,98	-	13,64
Financial Assets at Fair Value Through Profit and Loss	-	-	-	10,34
Money Market Placements	-	-	-	12,93
Available-for-Sale Financial Assets	5,62	4,87	-	10,38
Loans	3,54	4,70	-	11,98
Held-to-Maturity Investments	-	6,00	-	10,04
<b>Liabilities</b>				
Bank Deposits	-	-	-	-
Other Deposits	-	-	-	-
Money Market Borrowings	0,55	0,50	-	10,52
Miscellaneous Payables	-	-	-	-
Marketable Securities Issued	-	5,24	-	-
Borrower Funds	0,50	0,50	-	6,00
Funds Provided From Other Financial Institutions	0,89	1,60	-	10,84

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### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS ARE EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FOUR (Continued)

#### INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

##### V. Explanations related to consolidated stock position risk

The Group is exposed to equity shares risk arising from investments on firms traded in Borsa İstanbul (BİST). Share certificate investments are almost used for trading purpose. However, these investments are not actively bought/sold by the Group. The Group classified its share certificate investments both as available for sale and as trading securities and net profit/loss of the Group is not affected unless the Group sell share certificates in portfolio of available for sale.

##### Equity shares risk due from banking book

Below is the comparison table of the Group's share certificate instruments' book value, fair value and market value.

Current Period		Comparison	
Share Certificate Investments	Book Value	Fair Value	Market Value
Investment in Shares-Grade A	276.903	-	226.279
Quoted	276.903	-	226.279
Prior Period		Comparison	
Share Certificate Investments	Book Value	Fair Value	Market Value
Investment in Shares-Grade A	258.148	-	156.691
Quoted	258.148	-	156.691

On the basis of the following table, private equity investments in sufficiently diversified portfolios, type and amount of other risks, cumulative realized gains and losses arising from selling and liquidation in the current period, total unrealized gains and losses, total revaluation increases of trading positions on stock market and their amount that included to core capital and supplementary capital are shown.

Current Period	Realized Revenues and Losses in Period	Revaluation Value Increases		Unrealized Gains and Losses	
		Total	Included in Core Capital	Total	Included in Core Capital
Portfolio					Included in Supplementary Capital
Private Equity Investments	-	-	-	-	-
Share Certificates Quoted on a Stock Exchange	-	-	-	(1.052)	(1.052)
Other Share Certificates	114	7.610	7.610	-	-
<b>Total</b>	<b>114</b>	<b>7.610</b>	<b>7.610</b>	<b>(1.052)</b>	<b>(1.052)</b>
Prior Period	Realized Revenues and Losses in Period	Revaluation Value Increases		Unrealized Gains and Losses	
		Total	Included in Core Capital	Total	Included in Core Capital
Portfolio					Included in Supplementary Capital
Private Equity Investments	-	-	-	-	-
Share Certificates Quoted on a Stock Exchange	-	-	-	(949)	(949)
Other Share Certificates	-	3.880	3.880	-	-
<b>Total</b>	<b>-</b>	<b>3.880</b>	<b>3.880</b>	<b>(949)</b>	<b>(949)</b>

##### VI. Explanations related to the consolidated liquidity risk management and coverage ratio

The Parent Bank's future cash flows and current positions are taken into consideration for managing the market and liquidity risks. The Parent Bank does not invest into illiquid markets and instruments. The liquidity ratios are followed up and the maturity match and the coverage of liquidity need are targeted in the context of asset-liability management. Although the Parent Bank started to perform tests to calculate liquidity risk with internal models, the risk is still followed up basically by arranging the risks with respect to (holding period) data. For the purpose of meeting the liquidity requirement, the Parent Bank chooses one of the four or more of the following; disposing liquid assets, increasing short-term borrowing, decreasing illiquid assets or increasing capital. The Parent Bank's liquidity management is implemented by meeting all the obligations on time considering the Parent Bank's reputation. The cash flow projections and the fund requirement predictions are made by using adverse scenarios to determine liquidity risk under urgent and unexpected circumstances. The Parent Bank meets its short term liquidity requirements with repurchase agreements and inter-bank money market operations. The Parent Bank may also use its available for sale portfolio for urgent liquidity requirement. The Parent Bank meets its long term liquidity needs from the international institutions through borrowings. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. For the purposes of monitoring and assessing the liquidity position of the Bank's assets and liabilities, the liquidity rate is weekly calculated.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS ARE EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FOUR (Continued)

#### INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

#### VI. Consolidated liquidity risk management and coverage ratio (continued)

##### 1. Explanations related to the consolidated liquidity risk

**1.a Information about the governance of consolidated liquidity risk management, including: risk tolerance; structure and responsibilities for consolidated liquidity risk management; internal consolidated liquidity reporting; and communication of consolidated liquidity risk strategy, policies and practices across business lines and with the board of directors**

The Parent Bank's risk capacity for liquidity risk is determined by The Parent Bank's internal limits and the regulations on liquidity coverage ratio and liquidity adequacy. As per The Regulation on The Calculation of Liquidity Coverage Ratio, minimum limits of 100% and 80% are assigned on consolidated and nonconsolidated basis respectively for total and foreign currency limits while the implementation process is identified by BRSA as setting the limits respectively as 60% and 40% for 2015 and increasing 10 pts per year until 2019 whereas applying this limit as zero per cent for development and investment banks until 2017.

As per the regulation on liquidity adequacy, development and investment banks, including TSKB, are subject to maintaining the liquidity adequacy ratios above 100% and 80% respectively for total and foreign currency limits both on weekly and monthly basis. In addition, the calculated daily over stock values regardless of maturity ratios' basic arithmetic mean includes 14 days may not be less than 7%.

Regarding its risk appetite, in addition to legal limits, the Parent Bank also applies internal limits for monitoring and controlling the liquidity risk. In this context, it is limited by minimum 25% for the ratio of cash inflow to cash outflow, and by minimum 20% for the ratio of the difference between total inflow and total outflow to total asset within three months' term. It is determined the base limit as 15% for Liquidity ratio (Liquid Asset/ Total Asset). Also for liquidity adequacy ratios on weekly and monthly basis, the capacity risk rating is set as 110%, that is 10% above legal limit, the level of risk appetite as 115% and the risk limit as 120%. Regarding the total liquidity coverage ratio, at the same level as the legal limit, it is determined the capacity risk as 0%, the risk appetite as 40% and the risk limit as 50%.

Internal limits are applied on concentrations basis for single currency, single security and single instrument for the Parent Bank's Treasury placements within Treasury Risk Limits, in purpose of decreasing the liquidity risk related to concentration risk.

Consolidated liquidity risk management is conducted by Treasury department in line with the strategies set by Asset and Liability Committee within The Risk Management Policies approved by Board of Directors, and is monitored through reportings from Risk Management, Budget Planning and Financial Control Departments to Audit Committee, Board of Directors, Senior Management and relevant departments. Asset and Liability Committee has the responsibility of taking the relevant decisions regarding optimal balance sheet management of the Parent Bank, monitoring the implementations and functions under The General Instruction of Asset and Liability Committee Duties and Responsibilities.

The committee that constitutes of Chief Executive Officer, Executive Vice Presidents of Corporate Banking, Treasury, Budget Planning and Department Heads of Corporate Banking, Project Finance, Treasury, Development Finance Institutions, Financial Institutions and Budget Planning and Investor Relations evaluates the market, regulations, cashflow and asset and liability management on monthly basis.

Budget Planning and Investor Relations Department is responsible for consolidating the reports to be submitted to Committee, organizing, having signed and archiving the Committee moments and informing the Committee members.

The Parent Bank cash management process connotes, within the precedence of fulfilling the future financial obligations and subsequent to credit, placement and borrowing activities, the utilization of the cash position with the highest return in line with the Parent Bank policies and during the liquidity shortfall periods providing funding from the market with the most convenient and low-cost product. Treasury Department carries out this responsibility within the scope of Bank policies, decisions taken in Asset Liability Committees and the limits supplied by Board of Directors. In liquidity shortfall periods, Treasury Department is entitled to provide funding through money market transactions, secured lending or repo transactions. In case of funding except with those products, borrowing transactions are executed with the cooperation of Treasury and Financial Institutions Departments.

The Parent Bank Risk Management Department reports to Board of Directors and Asset and Liability Committee on monthly basis regarding the liquidity gap, the legal limits and the internal limits assigned by Board of Directors. Also liquidity stress tests are performed based on various scenarios and reported with their impact on legal limit utilization. Committee evaluates the Parent Bank's one year-term cash position under several assumptions and loan facility projections on monthly basis, it determines strategy for fulfilling its financial obligations timely and utilizing the idle funds efficiently.

MIS reportings for the Parent Bank Treasury Department are conducted by Treasury Control Unit under Budget Planning and Investor Relations Department. Within this scope Treasury Control Unit shares liquidity projections for following weeks and three months' cashflows on weekly basis. On monthly basis, cashflow projections on local currency and foreign currency are reported to Asset Liability Committee.



# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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#### SECTION FOUR (Continued)

#### INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

##### VI. Consolidated liquidity risk management and coverage ratio (continued)

##### 1. Explanations related to the consolidated liquidity risk (continued)

##### 1.b Information on the centralization degree of consolidated liquidity management and funding strategy and the functioning between the Parent Bank and the Parent Bank's subsidiaries

There is no liquidity management structure requiring centralization between the Parent Bank and its subsidiaries.

##### 1.c Information on the Parent Bank's funding strategy including the policies on funding types and variety of maturities

Among the main funding sources of the Parent Bank there are investment bank loans, capital market transactions, syndication loans, DFIs, repo transactions and money market transactions and for minimizing the liquidity risk, diversification on maximum scale with those products within the market conditions is pursued. The funding planning based on those loans is performed long term such as a minimum of one year and the performance is monitored by Asset Liability Committee.

##### 1.ç Information on liquidity management on the basis of currencies constituting a minimum of five percent of the Parent Bank's total liabilities:

Within the scope of the Parent Bank's balance sheet management, local currency and foreign currency cashflows are monitored diversely. On principal, open position risk is managed actively as a part of liquidity risk management and in context of this strategy required hedging transactions are executed by Treasury Department.

##### 1.d Information on consolidated liquidity risk mitigation techniques:

Consolidated Liquidity limits are defined for the purpose of monitoring and keeping the risk under predefined boundaries. The Parent Bank monitors those limits' utilization and informs Board of Directors, Bank Senior Management and relevant departments regularly. Pursuant to that, the ratio of cash inflows to cash outflows within three months' term is limited to at least 25% whereas for the same term the ratio of the difference between total inflows and total outflows to total assets is limited to at most 20%. The Bank follow cash inflow and cash outflow on a regular basis and informs.

The base limit for Consolidated Liquidity Ratio (Consolidated Liquid Assets Consolidated Total Assets) is defined as 15%. Within those limits, Treasury Department performs the required transactions with the relevant cost and term composition under market conditions from the sources previously defined in Article C. Adequate limits to be utilized in a contingent case remains at the disposal before legal authority.

##### 1.e Information on the use of stress tests

As part of consolidated liquidity stress tests, the Parent Bank's compatibility with the legal limits under stress conditions is subject to probe. The legal limits assigned for liquidity risk management consists of five ratios derived from The Regulation on Liquidity Adequacy Ratio and liquidity coverage ratio derived from The Regulation on Liquidity Coverage Ratio. Stress tests are performed over those ratios' calculations by practicing liquidity shocks while assuming that the nonshocked components are held constant. Among liquidity stress tests, the risks arising from funding, intraday liquidity, marketable securities and concentration are addressed. Subject to those, the scenarios of possible funding shortage in Interbank Money Market, liquidity shortage that may arise in private sector and the risk originating from loan portfolio due to the concentration risk are applied separately on overall portfolio of the Parent Bank.

##### 1.f General information on urgent and unexpected consolidated liquidity situation plans:

There is a Contingency Funding Plan for the contingent periods that arises beyond the Parent Bank's control. In a potential liquidity shortfall, Treasury Department is responsible from assessment, taking relevant actions and informing Asset and Liability Committee. In contingent cases, to identify the liquidity risk arising, cashflow projections and funding requirement estimations are exercised based on various scenarios. To assess the stress scenarios, cashflow in terms of local currency is monitored regularly by Treasury Department. Scenario analysis on the Parent Bank's unencumbered sources are conducted daily. Transaction limits for organized markets are monitored timely and essential collateral amount to trade in those markets is withheld at hand. Repo transactions and/or available for sale portfolio securities in local and foreign currency that are major funding sources in shortfall periods for the Parent Bank are monitored consistently.

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#### SECTION FOUR (Continued)

#### INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

#### VI. Consolidated liquidity risk management and coverage ratio (continued)

##### 2. Consolidated Liquidity Coverage Ratio

According to regulations which is published on 28948 numbered gazette on 21 March 2014 related to calculation of liquidity coverage ratio of banks, calculated liquidity coverage ratios are shown below. Including the reporting period for the last three months consolidated foreign currency and total liquidity coverage ratio and unconsolidated foreign currency and total liquidity coverage ratio's minimum and maximum levels are shown below by specified thereby weekly.

Current Period	Rate of "Percentage to be taken into account" not Implemented Total value		Rate of "Percentage to be taken into account" Implemented Total value	
	TL+FC	FC	TL+FC	FC
<b>HIGH QUALITY LIQUID ASSETS (HQLA)</b>				
1 High quality liquid assets			1.383.881	494.908
<b>CASH OUTFLOWS</b>				
2 Retail and Customers Deposits	-	-	5	1
3 Stable deposits	-	-	-	-
4 Less stable deposits	-	-	5	1
5 Unsecured Funding other than Retail and Small Business Customers Deposits	1.056.403	299.183	865.304	232.206
6 Operational deposits	10.928	8.215	2.732	2.054
7 Non-Operational Deposits	-	-	-	-
8 Other Unsecured Funding	1.045.475	290.968	862.572	230.152
9 Secured funding			-	-
10 Other Cash Outflows	1.273.741	886.650	1.273.741	886.650
11 Liquidity needs related to derivatives and market valuation changes on derivatives transactions	1.273.741	886.650	1.273.741	886.650
12 Debts related to the structured financial products	-	-	-	-
13 Commitment related to debts to financial markets and other off balance sheet liabilities	-	-	-	-
14 Commitments that are unconditionally revocable at any time by the Bank and other contractual commitments	3.066.786	1.965.271	153.339	98.264
15 Other irrevocable or conditionally revocable commitments	5.281.244	4.150.603	860.903	523.396
<b>16 TOTAL CASH OUTFLOWS</b>			<b>3.153.292</b>	<b>1.740.517</b>
<b>CASH INFLOWS</b>				
17 Secured Lending Transactions	3.088	-	-	-
18 Unsecured Lending Transactions	2.880.100	764.089	2.677.142	655.674
19 Other contractual cash inflows	1.314.314	688.385	1.314.314	688.385
<b>20 TOTAL CASH INFLOWS</b>	<b>4.197.502</b>	<b>1.452.474</b>	<b>3.991.456</b>	<b>1.344.059</b>
			<b>Upper Limit Applied Amounts</b>	
<b>21 TOTAL HQLA STOCK</b>			<b>1.383.881</b>	<b>494.908</b>
<b>22 TOTAL NET CASH OUTFLOWS</b>			<b>788.323</b>	<b>435.129</b>
<b>23 Liquidity Coverage Ratio (%)</b>			<b>148</b>	<b>88</b>

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#### SECTION FOUR (Continued)

#### INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

##### VI. Consolidated liquidity risk management and coverage ratio (continued)

##### 2. Consolidated Liquidity Coverage Ratio (continued)

Prior Period	Rate of "Percentage to be taken into account" not Implemented Total value		Rate of "Percentage to be taken into account" Implemented Total value	
	TL+FC	FC	TL+FC	FC
<b>HIGH QUALITY LIQUID ASSETS (HQLA)</b>				
1 High quality liquid assets			662.349	566.651
<b>CASH OUTFLOWS</b>				
2 Retail and Customers Deposits	-	-	-	-
3 Stable deposits	-	-	-	-
4 Less stable deposits	-	-	-	-
5 Unsecured Funding other than Retail and Small Business Customers Deposits	846.771	344.742	769.696	268.050
6 Operational deposits	42.819	40.664	10.705	10.166
7 Non-Operational Deposits	-	-	-	-
8 Other Unsecured Funding	803.952	304.078	758.991	257.884
9 Secured funding	-	-	-	-
10 Other Cash Outflows	1.774.601	1.630.234	1.564.315	1.419.948
11 Liquidity needs related to derivatives and market valuation changes on derivatives transactions	1.774.601	1.630.234	1.564.315	1.419.948
12 Debts related to the structured financial products	-	-	-	-
13 Commitment related to debts to financial markets and other off balance sheet liabilities	-	-	-	-
14 Commitments that are unconditionally revocable at any time by the Bank and other contractual commitments	3.353.911	1.152.438	126.005	57.622
15 Other irrevocable or conditionally revocable commitments	4.308.006	4.004.484	598.798	562.384
<b>16 TOTAL CASH OUTFLOWS</b>			<b>3.058.814</b>	<b>2.308.004</b>
<b>CASH INFLOWS</b>				
17 Secured Lending Transactions	515	-	-	-
18 Unsecured Lending Transactions	2.092.124	671.847	1.883.917	584.961
19 Other contractual cash inflows	1.681.491	434.107	1.571.819	427.725
<b>20 TOTAL CASH INFLOWS</b>	<b>3.774.130</b>	<b>1.105.954</b>	<b>3.455.736</b>	<b>1.012.686</b>
<b>Upper Limit Applied Amounts</b>				
<b>21 TOTAL HQLA STOCK</b>			<b>702.829</b>	<b>595.565</b>
<b>22 TOTAL NET CASH OUTFLOWS</b>			<b>764.704</b>	<b>1.295.318</b>
<b>23 Liquidity Coverage Ratio (%)</b>			<b>92</b>	<b>46</b>

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES

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#### SECTION FOUR (Continued)

#### INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

##### VI. Consolidated liquidity risk management and coverage ratio (continued)

##### 3. Minimum explanations related to the liquidity coverage ratio by Banks

##### 3.a The major components affecting liquidity coverage ratio and the change in the contributing elements in time

Borrowing Securities that mainly comprised of government securities and Required Reserves are major components of High Quality Liquid Assets that affect consolidated Liquidity Coverage Ratio essentially. Depending on the market conditions and the Parent Bank's Treasury Department's decisions the proportion of local currency and foreign currency based securities within Borrowing Securities may vary.

##### 3.b Information on the components of High Quality Liquid Assets

High Quality Liquid Assets mainly comprises of exposure to Central Bank, that is Required Reserves and Borrowing Securities that are government securities.

##### 3.c The components of funding and their proportion in overall

Main funding source of the Parent Bank is long term loans attained from international financial institutions. The ratio of those loans in total funding is around 70% while 87% of it is provided under the guarantee of The Undersecretariat of Treasury of Turkish Republic. The average tenor of long term loans is 11 years. The total ratio of the securities issued in purpose of funding diversification and loans attained through syndication loans in overall borrowing is 25%. 4% of the Parent Bank's total funding is attained through repo transactions.

##### 3.ç Cash outflows generating derivative transactions and informations about transactions liable to warrant completing

The Parent Bank's derivative transactions are mainly executed with the counterparties having ISDA and CSA agreements due to the client transactions and position hedging within Bank's balance sheet management. Those transactions are monitored through market valuation of the transactions with each of the counterparties. Collateralization with counterparties is executed on daily basis.

##### 3.d Counterparty and product-based funding sources and collateral concentration limits

The funding sources of the Parent Bank, that's main business area is development banking, are international development banks and financial institutions in general. On counterparty and product basis there is no concentration limit.

##### 3.e Taking into account the legal and operational consolidated liquidity transfer inhibiting factors, the needed funds and the consolidated liquidity risk exposure based on the Parent Bank itself, the branches in foreign countries and consolidated partnerships

None.

##### 3.f Taken in the calculation of consolidated liquidity coverage ratio but not included in the disclosure template in the second paragraph and the information regarding the other cash inflows and cash outflows items which are thought to be related to the Parent Bank's consolidated liquidity profile

None.

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#### SECTION FOUR (Continued)

#### INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

#### VI. Consolidated liquidity risk management and coverage ratio (continued)

Presentation of assets and liabilities according to their remaining maturities

	Demand	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Undistributed <sup>(i)</sup>	Total
<b>Current Period</b>								
<b>Assets</b>								
Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Checks Purchased) and Balances with the Central Bank of Turkey	364.625	413.451	-	-	-	-	-	778.076
Banks	20.847	465.969	11.133	-	-	-	-	497.949
Financial Assets at Fair Value Through Profit and Loss	3.383	22.026	44.601	108.533	115.038	93.456	-	387.037
Money Market Placements	-	191.973	62.961	-	-	-	-	254.934
Financial Assets Available-for-Sale	-	303.484	216.389	253.631	1.236.474	1.011.771	46.663	3.068.412
Loans	-	426.590	1.064.020	3.256.846	8.326.689	4.261.900	-	17.336.045
Held-to-Maturity Investments	-	-	-	-	209.151	1.166.578	-	1.375.729
Other Assets	-	-	-	1.295	1.949	820	1.173.240	1.177.304
<b>Total Assets</b>	<b>338.855</b>	<b>1.823.493</b>	<b>1.399.104</b>	<b>3.620.305</b>	<b>9.889.301</b>	<b>6.534.525</b>	<b>1.219.903</b>	<b>24.875.486</b>
<b>Liabilities</b>								
Bank Deposits	-	-	-	-	-	-	-	-
Other Deposits	-	-	-	-	-	-	-	-
Funds Provided from Other Financial Institutions	-	228.063	266.196	2.170.810	6.540.199	6.922.228	-	16.127.496
Money Market Borrowings	-	1.256.160	74	-	-	-	-	1.256.234
Securities Issued	-	-	-	-	3.486.732	-	-	3.486.732
Miscellaneous Payables	-	-	-	-	-	-	193.612	193.612
Other Liabilities <sup>(ii)</sup>	-	21.392	44.253	101.857	152.398	57.647	3.433.865	3.811.412
<b>Total Liabilities</b>	<b>-</b>	<b>1.505.615</b>	<b>310.523</b>	<b>2.272.667</b>	<b>10.179.329</b>	<b>6.979.875</b>	<b>3.627.477</b>	<b>24.875.486</b>
<b>Liquidity Gap</b>	<b>338.855</b>	<b>317.878</b>	<b>1.088.581</b>	<b>1.347.638</b>	<b>(290.028)</b>	<b>(445.350)</b>	<b>(2.407.574)</b>	<b>-</b>
Net Off-balance sheet Position	-	7.762	399	782	38.040	12.062	-	59.045
Financial Derivative Assets	-	1.694.093	1.573.087	2.916.888	6.827.177	4.106.192	-	17.117.437
Financial Derivative Liabilities	-	1.686.331	1.572.688	2.916.106	6.789.137	4.094.130	-	17.058.392
Non-cash Loans <sup>(iii)</sup>	-	21.227	5.182	33.578	551.991	508.482	548.748	1.669.208
<b>Prior Period</b>								
Total Assets	331.972	2.677.611	908.862	3.125.192	8.250.052	5.008.097	1.064.794	21.366.580
Total Liabilities	-	2.905.051	201.890	1.857.520	7.335.802	5.886.941	3.179.376	21.366.580
<b>Liquidity Gap</b>	<b>331.972</b>	<b>(227.440)</b>	<b>706.972</b>	<b>1.267.672</b>	<b>914.250</b>	<b>(878.844)</b>	<b>(2.114.582)</b>	<b>-</b>
<b>Net Off-balance sheet Position</b>	<b>-</b>	<b>(4.776)</b>	<b>(9.660)</b>	<b>(18.966)</b>	<b>(15.589)</b>	<b>2.434</b>	<b>-</b>	<b>(46.557)</b>
Financial Derivative Assets	-	1.635.072	466.271	1.261.331	3.511.988	3.225.292	-	10.099.954
Financial Derivative Liabilities	-	1.639.848	475.931	1.280.297	3.527.577	3.222.858	-	10.146.511
Non-cash Loans <sup>(iii)</sup>	-	7.770	6.596	173.789	707.238	586.622	300.649	1.782.664

<sup>(i)</sup> Other assets and shareholders' equity, provisions and tax liability, which are necessary and cannot be converted into cash in the near future for the Bank's ongoing activities, such as tangible and intangible assets, investments in subsidiaries and associates, entities under common control, office supply inventory, prepaid expenses and non-performing loans are classified under "Undistributed" column.

<sup>(ii)</sup> Borrower funds amounting to TL 5.317 are presented in "Other Liabilities" within 1-month maturity column.

<sup>(iii)</sup> Has no effect on net off-balance sheet position.

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#### SECTION FOUR (Continued)

#### INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

#### VI. Consolidated liquidity risk management and coverage ratio (continued)

##### Analysis of financial liabilities by remaining contractual maturities

In compliance with the Turkish Financial Reporting Standard No.7, the following table indicates the maturities of the Group's major financial liabilities which are not qualified as derivatives. The following tables have been prepared by referencing the earliest dates of capital outflows without discounting the financial liabilities.

Current Period	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Adjustments	Total
<b>Liabilities</b>							
Funds Provided from Other Financial Institutions	247.785	295.038	2.302.132	7.230.253	7.485.111	(1.432.823)	16.127.496
Money Market Borrowings	1.251.259	5.095	-	-	-	(120)	1.256.234
Marketable Securities Issued	-	-	179.300	1.580.100	2.376.364	(649.032)	3.486.732
Funds	5.317	-	-	-	-	-	5.317
<b>Total</b>	<b>1.504.361</b>	<b>300.133</b>	<b>2.481.432</b>	<b>8.810.353</b>	<b>9.861.475</b>	<b>(2.081.975)</b>	<b>20.875.779</b>

Prior Period	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Adjustments	Total
<b>Liabilities</b>							
Funds Provided from Other Financial Institutions	634.926	186.921	1.908.283	5.661.759	6.225.978	(1.030.201)	13.587.666
Money Market Borrowings	2.352.030	1.070	-	-	-	(2.560)	2.350.540
Funds	-	-	106.393	2.371.638	-	(440.460)	2.037.571
<b>Total</b>	<b>30.677</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>30.677</b>
<b>Prior Period</b>	<b>3.017.633</b>	<b>187.991</b>	<b>2.014.676</b>	<b>8.033.397</b>	<b>6.225.978</b>	<b>(1.473.221)</b>	<b>18.006.454</b>

Analysis of contractual expiry by maturity of the Group's derivative financial instruments:

Current Period	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Adjustments	Total
Swap Contracts	2.500.269	981.036	893.670	13.477.201	8.225.891	(82.833)	25.995.234
Forward Contracts	212.286	534.798	322.387	61.644	-	-	1.131.115
Futures Transactions	-	-	-	-	-	-	-
Options	527.407	1.653.321	4.629.408	121.800	-	-	6.931.936
Other	117.544	-	-	-	-	-	117.544
<b>Total</b>	<b>3.357.506</b>	<b>3.169.155</b>	<b>5.845.465</b>	<b>13.660.645</b>	<b>8.225.891</b>	<b>(82.833)</b>	<b>34.175.829</b>

Prior Period	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Adjustments	Total
Swap Contracts	3.096.099	143.955	1.038.302	6.508.089	6.509.727	(22.553)	17.273.619
Forward Contracts	88.494	12.924	37.447	268.223	-	-	407.088
Futures Transactions	-	-	-	-	-	-	-
Options	91.552	789.940	1.383.780	211.276	-	-	2.476.548
Other	-	-	89.210	-	-	-	89.210
<b>Total</b>	<b>3.276.145</b>	<b>946.819</b>	<b>2.548.739</b>	<b>6.987.588</b>	<b>6.509.727</b>	<b>(22.553)</b>	<b>20.246.465</b>

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#### SECTION FOUR (Continued)

#### INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

##### VII. Explanations related to consolidated leverage ratio

###### a) Information about the consolidated leverage ratio between current and prior periods

The table related to calculation of leverage ratio in accordance with the principles of the "Regulation on Measurement and Evaluation of Banks' Leverage Level" which is published on the Official Gazette no.28812 dated 5 November 2013 is given below.

As of 31 December 2016, leverage ratio of the Bank calculated from the arithmetic average of the three months is 10,51% (31 December 2015: 10,93%). Leverage ratio is almost on the same level in the current and prior period. Total balance sheet assets increased by 5,49 % compare to prior period.

###### b) Comparison table of total assets and total risk amounts in the financial statements prepared in accordance with TAS

	Current Period	Prior Period
<b>1</b> Total Amount of Asset and Risk Situated in The Consolidated Financial Statements Prepared in Accordance with TAS <sup>(*)</sup>	22.546.046	21.372.991
<b>2</b> The difference between Total Amount of Asset in the Consolidated Financial Statements Prepared in Accordance with TAS and the Communiqué on Preparation of Consolidated Financial Statements of Banks <sup>(*)</sup>	(3.224)	6.411
<b>3</b> The difference between total amount and total risk amount of derivative financial instruments with credit derivative in the Communiqué on Preparation of Consolidated Financial Statements of Banks <sup>(*)</sup>	(157.005)	(162.203)
<b>4</b> The difference between total amount and total risk amount of risk investment securities or commodity collateral financing transactions in the Communiqué on Preparation of Consolidated Financial Statements of Banks <sup>(*)</sup>	2.297.925	2.643.939
<b>5</b> The difference between total amount and total risk amount of off-balance sheet transactions in the Communiqué on Preparation of Consolidated Financial Statements of Banks <sup>(*)</sup>	(3.174.771)	(3.342.558)
<b>6</b> The other differences between amount of assets and risk in the Communiqué on Preparation of Consolidated Financial Statements of Banks <sup>(*)</sup>	-	-
<b>7</b> Total Exposures <sup>(*)</sup>	29.431.796	24.912.639

<sup>(\*)</sup>The arithmetic average of the last 3 months in the related periods.

<sup>(\*)</sup>The consolidated financial statements prepared in accordance with the sixth paragraph of the Article 5 in the Communiqué on Preparation of Consolidated Financial Statements of the Banks. 30 June 2016 figures used in this table due to the current period and 31 December 2015 for prior period consolidated financial statements prepared in accordance with TAS are not audited as of the date of this report.

###### c) Consolidated Leverage Ratio

	Prior Period <sup>(*)</sup>	Current Period <sup>(*)</sup>
<b>Balance sheet Assets</b>		
<b>1</b> Balance sheet assets (excluding derivative financial assets and credit derivatives, including collaterals)	24.963.768	19.872.393
<b>2</b> (Assets deducted from Core capital)	(122.235)	(127.184)
<b>3</b> Total risk amount of balance sheet assets (sum of lines 1 and 2)	24.841.533	19.745.209
<b>Derivative financial assets and credit derivatives</b>		
<b>4</b> Cost of replenishment for derivative financial assets and credit derivatives	309.871	199.076
<b>5</b> Potential credit risk amount of derivative financial assets and credit derivatives	221.170	132.198
<b>6</b> Total risk amount of derivative financial assets and credit derivatives (sum of lines 4 and 5)	531.041	331.274
<b>Financing transactions secured by marketable security or commodity</b>		
<b>7</b> Risk amount of financing transactions secured by marketable security or commodity	346.184	384.893
<b>8</b> Risk amount arising from intermediary transactions	38.688	-
<b>9</b> Total risk amount of financing transactions secured by marketable security or commodity (sum of lines 7 and 8)	384.872	384.893
<b>Off-balance sheet transactions</b>		
<b>10</b> Gross notional amount of off-balance sheet transactions	6.849.121	6.053.628
<b>11</b> (Correction amount due to multiplication with credit conversion rates)	(3.174.771)	(3.342.558)
<b>12</b> Total risk of off-balance sheet transactions (sum of lines 10 and 11)	3.674.350	2.711.070
<b>Capital and total risk</b>		
<b>13</b> Core Capital	3.093.277	2.444.127
<b>14</b> Total risk amount (sum of lines 3, 6, 9 and 12)	29.431.796	23.172.446
<b>Leverage ratio</b>		
<b>15</b> Leverage ratio	10,51%	10,55%

<sup>(\*)</sup>Arithmetic average of the last 3 months in the related periods.

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#### SECTION FOUR (Continued)

#### INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

#### VIII. Explanations related to presentation of financial assets and liabilities at fair value

The table below shows the carrying and fair values of the financial assets and liabilities in the consolidated financial statements of the Group.

	Carrying Value		Fair Value	
	Current Period	Prior Period	Current Period	Prior Period
<b>Financial Assets</b>	<b>22.536.861</b>	<b>19.310.162</b>	<b>23.426.905</b>	<b>19.423.133</b>
Money Market Placements	254.934	1.080.724	254.934	1.080.724
Banks	497.949	751.545	497.949	751.545
Available-For-Sale Financial Assets	3.068.412	2.972.162	3.068.412	2.972.162
Held-To-Maturity Investments	1.375.729	872.602	1.363.859	872.602
Loans <sup>(*)</sup>	17.339.837	13.633.129	18.241.751	13.746.100
<b>Financial Liabilities</b>	<b>21.069.391</b>	<b>18.135.753</b>	<b>20.996.688</b>	<b>18.147.298</b>
Bank Deposits	-	-	-	-
Other Deposits	-	-	-	-
Funds Provided From Other Financial Institutions	17.389.047	15.968.884	17.389.047	15.968.884
Marketable Securities Issued	3.486.732	2.037.571	3.414.029	2.049.116
Miscellaneous Payables	193.612	129.298	193.612	129.298

(\*) Loans include financial lease receivables.

The methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements:

- i- For the fair value calculation of loans, the prevailing interest rates as of the reporting date were used.
- ii- For the fair value calculation of the balances with banks, the prevailing interest rates as of the reporting date were used.
- iii- For the fair value calculation of held-to-maturity investments, quoted prices as of the reporting date were used.
- iv- For the fair value calculation of marketable securities, market prices as of the reporting date were used.

The following table shows an analysis of financial instruments recorded at fair value, between those whose fair value is recorded on quoted market prices, those involving valuation techniques where all model inputs are observable in the market and, those where the valuation techniques involves the use of non observable inputs.

The table below analyses financial instruments carried at fair value, by valuation method.

- a) Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- b) Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2);
- c) Inputs for the asset or liability that are not based on observable market data (Level 3).

Current Period	Level I	Level II	Level III <sup>(*)</sup>
<b>Financial Assets</b>			
Financial Assets Held for Trading	13.001	374.036	-
Financial Assets Available For Sale	1.926.327	1.142.431	13.915
Derivative Financial Assets For Hedging Purposes		272	
<b>Financial Liabilities</b>			
Derivative Financial Liabilities Held For Trading	-	320.797	-
Derivative Financial Liabilities For Hedging Purposes	-	51.433	-



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#### SECTION FOUR (Continued)

#### INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

#### VIII. Explanations related to presentation of financial assets and liabilities by fair value (continued)

Real estates which are presented in the financial statements at fair value are classified at level 2; investment properties of companies included in consolidation are classified at level 2 and level 3.

Prior Period	Level I	Level II	Level III <sup>(*)</sup>
<b>Financial Assets</b>			
Financial Assets held for Trading	39.779	169.794	-
Financial Assets Available For Sale	1.890.450	1.063.795	14.533
Tangible Assets	-	199.221	-
Investment Properties (Net)	-	19.905	221.388
Derivative Financial Assets For Hedging Purposes	-	4.093	-
<b>Financial Liabilities</b>			
Derivative Financial Liabilities Held For Trading	-	174.950	-
Derivative Financial Liabilities For Hedging Purposes	-	5.799	-

<sup>(\*)</sup> The share of Cam Elyaf was involved in financial asset available for sale in the prior period, with the net book value of TL 618 in the "Level III" category were sold in the current period

#### IX. Explanations related to transactions made on behalf of others and fiduciary transactions

The Parent Bank performs trading transactions on behalf of its customers, and gives custody, administration and consultancy services. The Parent Bank does not deal with fiduciary transactions.

#### X. Explanations related to consolidated risk management

##### Linkages between financial statements and risk amounts

The footnotes prepared in accordance with the "Regulation on Calculation Risk Management Disclosures", which was published in the Official Gazette No. 29511 of 23 October 2015 and entered into force as of 31 March 2016, and the disclosures pertaining thereto are provided in this section.

As the standard approach is utilized for the calculation of the capital adequacy of the Bank, no statement has been included as regards the methods based on internal models as per the relevant communiqué.

##### Disclosures on the Risk management approach and risk-weighted amount

Risk management approach of the Parent Bank allows for ensuring the establishment of a common risk culture covering the entire institution within the scope of the policies and codes of practice designated by the Board of Directors, for identifying risks in harmony with international arrangements and for performing the activities of measurement, analysis, monitoring and reporting accordingly.

Risk management process is structured within the scope of related policies and practice principals that creates a risk culture throughout the company and has a framework which is coherent with international regulations in the manner of evaluation, analyzing, monitoring, and reporting operations. Risk Management Department has been organized within the Bank so as to ensure compliance with the relevant policies, codes of practice and processes and to manage, in parallel with these policies, the risks the Bank is exposed to. Risk Management Department, the duties and responsibilities of which are designated through the regulations approved by the Board of Directors, carries out its activities through the Executive Vice President for Internal Systems under the Audit Committee who serves independently from executive activities and executive units.

Risk Management Department develops the systems required within the process of risk management and carries out the relevant activities, monitors the compliance of risks with policies, standards, limits of the Bank and its risk appetite indicators and performs activities aimed at harmonization with the relevant legislation and the Basel criteria. Risk measurements are performed through the standard approaches for legal reporting and the advanced approaches are utilized internally.

Risk Management Department submits its detailed risk management reports prepared on monthly and quarterly basis to the Board of Directors via the Audit Committee. These reports cover measurements regarding main risks, stress tests and scenario analyses and the status of compliance with the identified limit levels and risk appetite indicators.

Prospective risk assessments are carried out by conducting periodical stress tests on loan, market and interest risks and the impact of results on the overall financial power of the Bank is evaluated. The relevant results are notified to the Audit Committee and contribute to the assessment of the financial structure of the Bank at the moment of stress. Stress test scenarios are determined by evaluating the impacts posed by previous economic crises on macroeconomic indicators and expectations from the upcoming period. By estimating the risks and capital position of the Bank within the upcoming period, various analyses are performed in terms of legal and internal capital adequacy ratios, and the ICAAP (Internal Capital Adequacy Assessment Process) report is submitted to the BRSA.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS ARE EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FOUR (Continued)

#### INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

#### X. Explanations related to consolidated risk management (continued)

##### Overview of risk weighted assets

	Risk Weighted Amount		Minimum Capital Requirement
	Current Period	Prior Period <sup>(*)</sup>	Current Period
1 Credit risk (excluding counterparty credit risk)	19.834.989	16.197.555	1.586.799
2 Standardised approach	19.834.989	16.197.555	1.586.799
3 Internal rating-based approach	-	-	-
4 Counterparty credit risk	695.368	347.511	55.629
5 Standardised approach for counterparty credit risk	695.368	347.511	55.629
6 Internal model method	-	-	-
7 Basic risk weight approach to internal models equity position in the banking account	-	-	-
8 Investments made in collective investment companies – look-through approach	-	-	-
9 Investments made in collective investment companies – mandate-based approach	-	-	-
10 Investments made in collective investment companies – 1250% weighted risk approach	-	-	-
11 Settlement risk	-	-	-
12 Securitization positions in banking accounts	-	-	-
13 IRB ratings-based approach	-	-	-
14 IRB supervisory formula approach	-	-	-
15 Simplified supervisory formula approach	-	-	-
16 Market risk	863.475	529.263	69.078
17 Standardised approach	863.475	529.263	69.078
18 Internal model approaches	-	-	-
19 Operational risk	1.113.544	1.016.000	89.084
20 Basic indicator approach	1.113.544	1.016.000	89.084
21 Standard approach	-	-	-
22 Advanced measurement approach	-	-	-
23 The amount of the discount threshold under the equity (subject to a 250% risk weight)	-	-	-
24 Floor adjustment	-	-	-
<b>25 Total (1+4+7+8+9+10+11+12+16+19+23+24)</b>	<b>22.507.376</b>	<b>18.090.329</b>	<b>1.800.590</b>

<sup>(\*)</sup> The counterparty credit risk amount is included in the market and credit risk amounts in the financial statement and notes dated 31 December 2015.

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#### SECTION FOUR (Continued)

#### INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

#### X. Explanations related to consolidated risk management (continued)

Linkages between financial statements and risk amounts (continued)

Differences and linkage between scopes of accounting consolidation and regulated consolidation

	Carrying values of items in accordance with Turkish Accounting Standards				
	Carrying values in consolidated financial statements prepared as per TAS <sup>(*)</sup>	Carrying values in consolidated financial statements prepared as per TAS	Subject to counterparty credit risk	Securitization Positions	Not subject to capital requirements or subject to deduction from capital
<b>Assets</b>					
Cash and balances at central bank	798.312	778.076	778.076	-	-
Financial Assets Held for Trading	-	-	-	-	-
Financial Assets at Fair Value through Profit and Loss					
Bank	32.561	387.037	-	374.032	387.037
Money Market Placements	682.51	497.949	497.949	-	-
Financial Assets Available-for-Sale (net)	1.353.572	254.934	254.033	901	901
Loans and Receivables	3.241.665	3.068.412	3.068.412	895.472	-
Factoring Receivables	14.329.504	17.336.045	17.336.045	-	-
Investment Held-to-Maturity (net)	894.837	1.375.729	1.375.729	129.784	-
Investment in Associates (net)	304.152	324.477	292.215	-	32.262
Investment in Subsidiaries (net)	-	1.609	1.609	-	-
Joint-Ventures (net)	-	1.760	1.760	-	-
Finance Lease Receivables	-	3.792	3.792	-	-
Derivative Financial Assets Held for Risk Management	242.948	272	-	272	-
Tangible Assets (net)	205.790	231.328	226.073	-	5.255
Intangible Assets (net)	2.426	3.098	-	-	3.098
Investment Properties	242.340	231.323	231.323	-	-
Tax Assets	18.230	21.214	21.214	-	-
Assets Held for Sale and Discontinued Operations (net)	-	-	-	-	-
Other Assets	197.199	358.431	335.612	-	22.819
<b>Total Assets</b>	<b>22.546.046</b>	<b>24.875.486</b>	<b>24.423.842</b>	<b>1.400.461</b>	<b>387.938</b>
					<b>63.434</b>

<sup>(\*)</sup>The consolidated financial statements prepared in accordance with the sixth paragraph of the Article 5 in the Communiqué on Preparation of Consolidated Financial Statements of the Banks as at 30 June 2016 are used.

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS ARE EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

X. Explanations related to consolidated risk management (continued)

Linkages between financial statements and risk amounts (continued)

Differences and linkage between scopes of accounting consolidation and regulated consolidation

	Carrying values of items in accordance with Turkish Accounting Standards						
Liabilities	Carrying values in financial statements prepared as per TAS (*)	Carrying values in consolidated financial statements prepared as per TAS	Subject to credit risk	Subject to counterparty credit risk	Securitization Positions	Subject to market risk (*)	Not subject to capital requirements or subject to deduction from capital
Deposits	-	-	-	-	-	-	-
Derivative Financial Liabilities Held for Trading	201.794	320.797	-	-	-	320.797	-
Funds Borrowed	13.402.532	16.127.496	-	532.231	-	-	15.595.265
Money Market Funds	2.395.936	1.256.234	-	295.354	-	5.916	954.964
Securities Issued	2.943.421	3.486.732	-	-	-	-	3.486.732
Funds	-	5.317	-	-	-	-	5.317
Miscellaneous Payables	-	193.612	-	-	-	-	193.612
Other Liabilities	-	-	-	-	-	-	-
Factoring Payables	-	-	-	-	-	-	-
Lease Payables	-	-	-	-	-	-	-
Derivative Financial Liabilities Held for Risk Management	-	51.433	-	-	-	-	51.433
Provisions	223.007	279.033	-	-	-	-	279.033
Tax Liability	-	11.779	-	-	-	-	11.779
Liabilities for Assets Held for Sale and Discontinued Operations (net)	-	-	-	-	-	-	-
Subordinated Debts	145.078	-	-	-	-	-	-
Shareholders' Equity	3.234.278	3.143.053	-	-	-	-	3.143.053
<b>Total Liabilities</b>	<b>22.546.046</b>	<b>24.875.486</b>	<b>-</b>	<b>827.585</b>	<b>-</b>	<b>326.713</b>	<b>23.721.188</b>

(\*) The amount of the financial instruments included in the trading accounts in accordance with TAS within the scope of the "Regulation on Measurement and Assessment of Capital Adequacy of Banks", has been included.

(\*\*) The consolidated financial statements prepared in accordance with the sixth paragraph of the Article 5 in the Communiqué on Preparation of Consolidated Financial Statements of the Banks as at 30 June 2016 are used.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES

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### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS ARE EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FOUR (Continued)

#### INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

#### X. Explanations related to consolidated risk management (continued)

Linkages between financial statements and risk amounts (continued)

The main sources of the differences between the risk amounts and the amounts assessed in accordance with TAS in the financial statements

	Total	Credit Risk <sup>(*)</sup>	Securitization Positions	Counterparty credit risk <sup>(*)</sup>	Market risk <sup>(**)</sup>
1 Asset carrying value amount under scope of regulatory consolidation	24.875.486	24.423.842	-	1.400.461	387.938
2 Liabilities carrying value amount under regulatory scope of consolidation	24.875.486	-	-	827.585	326.713
<b>Total net amount under regulatory scope of consolidation</b>	<b>-</b>	<b>24.423.842</b>	<b>-</b>	<b>572.876</b>	<b>61.225</b>
3 Off-balance sheet amounts	44.437.712	2.182.356	-	240.982	26.428.029
4 Differences due to prudential filters	-	69.467	-	(37.622)	-
<b>Risk Amounts</b>	<b>-</b>	<b>26.536.731</b>	<b>-</b>	<b>776.236</b>	<b>26.489.254</b>

<sup>(\*)</sup> The risk amount before the Credit Risk Mitigation are given in credit risk and the counterparty credit risk.

<sup>(\*\*)</sup> Gross position amounts included in the calculation of market risk are taken as basis.

There is no major differences between the financial and regulatory scope of consolidation.

Difference between the amounts of assets within the scope of legal consolidation as valued in accordance with TAS and credit risk exposures results from the transactions which are not subject to credit risk. Difference between off-balance sheet exposures and credit risk exposures results from the application of credit conversion factors to off-balance sheet exposures in line with the Regulation on the Measurement and Assessment of the Capital Adequacy of Banks.

The Bank takes into consideration the principles stipulated in Annex 3 of the Regulation on the Measurement and Assessment of the Capital Adequacy of Banks for all positions concerning its trading and banking book to be considered in the measurement of its fair value and capital adequacy. The Bank generally uses fair value as valuation methodology. Valuation methods are covered in detail under the title "VI. Disclosures on financial assets" in section "Accounting Policies" of chapter three of the report.

#### Explanations on credit risk

#### General qualitative information on credit risk

Credit risk is the possibility of incurring losses due to the credit customer or the counterparty, with whom the Bank has made an agreement with, does not fulfil its obligations appropriately or is not able to meet these obligations. While the largest and most visible source of credit risk consists of the loans extended by the bank, other assets included in balance sheets, non-cash loans and commitments are also taken into consideration within the scope of credit risk.

Credit risk is measured and managed in accordance with the Credit Risk Policies developed within the scope of the Risk Management Policies of the Bank. In this sense, the structure and characteristics of a loan, the provisions of loan agreements and financial conditions, structure of the risk profile until the end of maturity in parallel with potential market trends, guarantees and collaterals, internal risk ratings and potential changes with regard to the ratings in the process of risk exposure and concentrations (a single company, a group of affiliated companies, sector, country etc.) are taken into consideration. Compliance with the limits and risk appetite levels determined by the Board of Directors is monitored. Credit risk is managed by loan allocation and loan monitoring units in the Bank. Creditworthiness of loan customers is monitored and reviewed on a regular basis. Credit limits are set by the Board of Directors, the credit committee of the bank and the loan management. The Bank receives a sufficient amount of collateral in return for the loans extended thereby and its other receivables.

Credit risk is measured, monitored and reported by the Risk Management Department. Concentrations in the loan portfolio, loan quality of the portfolio, collateral structure, measurements concerning capital adequacy, stress tests and scenario analyses and the level of compliance with limits are regularly reported to the Board of Directors and the senior management.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES

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#### SECTION FOUR (Continued)

#### INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

#### X. Explanations related to consolidated risk management (continued)

Explanations related to credit risk (continued) Credit quality of assets

	Gross Carrying Value in Financial Statements Prepared in Accordance with Turkish Accounting Standards (TAS)		Allowances/ amortization and impairments	Net Values (a+b+c)
	Defaulted(a)	Non-defaulted (b)	(c)	(d)
1 Loans	51.615	20.026.364	51.615	20.026.364
2 Debt Securities	-	4.472.356	74.878	4.397.478
3 Off-balance sheet exposures	1.166	10.261.300	583	10.261.883
<b>4 Total</b>	<b>52.781</b>	<b>34.760.020</b>	<b>127.076</b>	<b>34.685.725</b>

#### Changes in stock of default loans and debt securities

	Balance
<b>1 Defaulted loans and debt securities at end of the previous reporting</b>	<b>62.183</b>
2 Loans and debt securities that have defaulted since the last reporting period	3.566
3 Receivables back to non-defaulted status	(12.953)
4 Amounts written off	(15)
5 Other changes	-
<b>6 Defaulted loans and debt securities at end of the reporting period (1+2+3+4+5)</b>	<b>52.781</b>

#### Additional disclosure related to the credit quality of assets

In accordance with Communiqué on Reserves;

Impaired loans, are loans past due more than 90 days as of reporting period or convinced to be impaired due to credibility. In accordance with Communiqué on Reserves, "Specific Provision" is allocated for these loans.

Past due loans, are loans past due up to 90 days as of reporting period but not impaired. In accordance with Communiqué on Reserves, "General Provision" is calculated for these loans.

A restructuring refers to; extending a new loan with the purpose of repayment of a part or whole of the outstanding loans or related interest payments granted previously or, amending the conditions of such outstanding loans in order to facilitate the repayment capacity in accordance with the Regulation on Identification of and Provision against Non-Performing Loans and Other Receivables; due to the temporary liquidity constraint of the borrower. And for these receivables the general allowance will continue to be calculated with in the rates that are specifically followed, during the restructuring period.

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#### SECTION FOUR (Continued)

#### INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

#### X. Explanations related to consolidated risk management (continued)

##### Explanations related to credit risk (continued)

##### Risk profile by sectors or counterparties

	Risk Types (*)																
	Contingent and non-contingent claims on governments and local authorities	Contingent and non-contingent claims on administrative units and non-commercial enterprises	Contingent and non-contingent claims on multilateral development banks	Contingent and non-contingent claims on international organizations	Contingent and non-contingent claims on banks and capital market intermediary	Contingent and non-contingent claims included in the regulatory real estate portfolios	Contingent and non-contingent claims secured by residential mortgages	Past due loans	Higher-risk categories defined by agency	Securities secured by mortgage	Securitization exposures	Short-term claims on banks and corporate	Undertakings for collective investments in transferable securities	Other claims	TL	EC	Total
Current Period																	
Agriculture	-	-	-	-	-	-	-	-	-	-	-	-	-	-	108.10	20.96	128.06
Farming and Stockbreeding	-	-	-	-	-	-	-	-	-	-	-	-	-	-	359	12.487	359
Forestry	-	-	-	-	-	-	-	-	-	-	-	-	-	-	104.51	20.96	124.87
Fishery	-	-	-	-	-	-	-	-	-	-	-	-	-	-	359	-	359
Manufacturing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Mining and Quarrying	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,020.208	11,800.605	12,820.813
Production	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Electricity, Gas and Water	-	-	-	-	-	-	-	-	-	-	-	-	-	-	593.201	3,429.681	4,022.882
Construction	-	-	-	-	-	-	-	-	-	-	-	-	-	-	427.007	8,284.902	8,711.909
Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	93.75	176.233	185.608
Wholesale and Retail Trade	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,462.874	7,132.153	8,595.027
Accommodation and Dining	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,323	235.907	237.230
Transportation and Telecommunication	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,760	657.242	659.002
Financial Institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,558	852.262	853.820
Real Estate and Rental Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	57.341	1,252.215	5,012.610
Professional Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,493	576.494	578.987
Educational Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	196.138	399.255	595.393
Health and Social Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,387	133.968	138.355
Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4,337,467	600	3,091	-	-	-	-	-	-	-	-	-	-	-	-	519.630	519.630	519.630
5,206,649	600	3,091	-	-	-	-	-	-	-	-	-	-	-	-	3,352,539	4,922,437	8,274,976
Total	5,206,649	600	3,091	-	-	-	-	-	-	-	-	-	-	-	336,615	6,055,806	20,480,925
																	26,536,731

(\*) Since there is no securitization position, risk class of "Securitization Positions" has not been included in the table.

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SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

X. Explanations related to consolidated risk management (continued)

Explanations related to credit risk (continued)

Risk profile by sectors or counterparties (continued)

Risk Types <sup>(*)</sup>																
Contingent and non-contingent claims on governments and regional administrative authorities	Contingent and non-contingent claims on multilateral development banks	Contingent and non-contingent claims on banks	Contingent and non-contingent claims on capital markets intermediaries	Contingent and non-contingent claims on the regulatory portfolios	Contingent and non-contingent claims secured by residential property	Past due loans	Higher-risk categories defined by agency	Securities secured by mortgage	Securitization exposures	Short-term claims on banks and corporate	Undertakings for collective investments in transferable securities	Other claims	TL	FC	Contingent and non-contingent claims on sovereigns	
Prior Period <sup>(**)</sup>	-	-	-	-	-	-	-	-	-	-	-	-	379	1.882	1.882	-
Agriculture	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Farming and Stockbreeding	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Forestry	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fishery	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Manufacturing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Mining and Quarrying	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Production	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Electricity, Gas and Water	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Construction	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Services	820,639	-	1,088	-	-	-	-	-	-	-	-	-	-	-	-	-
Wholesale and Retail Trade	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accommodation and Dining	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transportation and Telecommunication	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial Institutions	820,639	-	1,088	-	-	-	-	-	-	-	-	-	-	-	-	-
Real Estate and Rental Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Professional Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Educational Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Health and Social Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	3,564,113	614	738	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	4,384,752	614	1,826	-	-	-	-	-	-	-	-	-	-	-	-	-

<sup>(\*)</sup> The risk classes included in the Regulation on Measurement and Evaluation of Capital Adequacy of Banks are taken into consideration.

<sup>(\*\*)</sup> The counterparty credit risk is included.



# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES

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(AMOUNTS ARE EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FOUR (Continued)

#### INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

#### X. Explanations related to consolidated risk management (continued)

Explanations related to credit risk (continued)

Profile of Significant Exposures in Major Region

	Risk Types <sup>(*)</sup>													Total	
	Contingent and non-contingent claims on sovereigns	Contingent and non-contingent claims on regional administrative governments units and local authorities	Contingent and non-contingent claims on multilateral development banks	Contingent and non-contingent claims on international organizations	Contingent and non-contingent claims on banks and intermediary	Contingent and non-contingent claims on corporates	Contingent and non-contingent claims included in the regulatory real estate portfolios	Contingent and non-contingent claims secured by residential property	Past due loans	Higher-risk categories defined by agency	Securities secured by mortgage	Short-term claims on banks and in transferable corporate securities	Undertakings for collective investments in securities	Other claims	
Current Period	5,206,648	600	3,091	-	-	1,589,710	16,952,527	-	1,129,502	-	-	-	82,632	473,784	
Domestic	-	-	-	-	-	-	-	-	-	-	-	-	-	-	25,438,494
European Union (EU)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Countries	-	-	-	-	256,090	-	-	-	-	-	-	-	12,818	-	266,908
OECD Countries <sup>(**)</sup>	-	-	-	-	2,229	-	-	-	-	-	-	-	2,229	-	2,229
Off-Shore Banking	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Regions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
USA, Canada	-	-	-	-	33,839	-	-	-	-	-	-	-	-	-	33,839
Other Countries	-	-	-	-	152,201	70,007	-	-	-	-	-	-	-	-	222,208
Associates, Subsidiaries and Joint-Ventures	-	-	-	-	-	213,903	-	-	-	-	-	-	225,401	-	439,304
Unallocated Assets/ Liabilities <sup>(***)</sup>	-	-	-	-	-	5,212	-	-	-	-	-	-	5,764	120,773	131,749
Total	5,206,648	600	3,091	-	2,034,069	17,241,649	-	1,129,502	-	-	-	-	326,615	594,557	26,536,731

<sup>(\*)</sup> Risk types in the Communiqué on "Measurement and Assessment of Capital Adequacy of Banks" have been used. Since there is no securitization exposure "Securitization Exposure" column has been deleted.

<sup>(\*\*)</sup> Includes OECD countries other than EU countries, USA and Canada

<sup>(\*\*\*)</sup> Includes asset and liability items that cannot be allocated on a consistent basis

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS ARE EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FOUR (Continued)

#### INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

#### X. Explanations related to consolidated risk management (continued)

Explanations related to credit risk (continued)

Profile of Significant Exposures in Major Region

	Risk Types <sup>(*)</sup>													
	Contingent and non-contingent claims on regional administrative and local authorities	Contingent and non-contingent claims on governments units and non-commercial enterprises	Contingent and non-contingent claims on multilateral development banks	Contingent and non-contingent claims on international organizations	Contingent and non-contingent claims on banks and capital market intermediaries	Contingent and non-contingent claims included in the regulatory portfolios of real estate corporates	Contingent and non-contingent claims secured by residential property	Past due loans	Higher-risk categories defined by agency	Securities secured by mortgage	Securitization exposures	Short-term claims on banks and corporate	Undertakings for collective investments in transferable securities	Other claims
<b>Prior Period <sup>(***)</sup></b>														<b>Total</b>
Domestic	4.371.346	-	1.088	-	2.408.933	14.125.316	-	792.989	170	-	-	-	132.331	21.832.173
European Union (EU)														
Countries	-	-	-	-	389.437	-	-	-	-	-	-	-	10.121	399.558
OECD Countries <sup>(**)</sup>	-	-	-	-	4.117	-	-	-	-	-	-	-	-	4.117
Off-Shore Banking														
Regions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
USA, Canada	-	-	-	-	-	86.129	-	-	-	-	-	-	86.129	-
Other Countries	-	-	-	-	163.982	64.094	-	-	-	-	-	-	-	228.076
Associates, Subsidiaries and Joint-Ventures	-	-	-	-	-	177.446	-	-	-	-	-	-	205.899	383.345
Unallocated Assets/Liabilities <sup>(***)</sup>	13.406	614	738	-	408.757	10.056	-	-	-	-	-	-	1.654	661.472
<b>Total</b>	<b>4.384.752</b>	<b>614</b>	<b>1.826</b>	<b>-</b>	<b>3.461.355</b>	<b>14.376.912</b>	<b>-</b>	<b>792.989</b>	<b>170</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1.654</b>	<b>574.598 23.594.870</b>

(\*) Risk types in the Communiqué on "Measurement and Assessment of Capital Adequacy of Banks" have been used.

(\*\*) Includes OECD countries other than EU countries, USA and Canada.

(\*\*\*) Includes asset and liability items that cannot be allocated on a consistent basis.

(\*\*\*\*)The counterparty credit risk is included

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES

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(AMOUNTS ARE EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FOUR (Continued)

#### INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

#### X. Explanations related to consolidated risk management (continued)

Explanations related to credit risk (continued)

Analysis of maturity-bearing exposures according to remaining maturities

Risk Types	Term to Maturity				
Current Period	1 month	1-3 months	3-6 months	6-12 months	Over 1 year
Contingent and Non-Contingent Claims on Sovereigns	622.367	1.165	377.492	148.307	3.286.448
Contingent and Non-Contingent Claims on Regional Governments and Local Authorities	-	-	-	-	-
Contingent and Non-Contingent Claims on Administrative Units and Non-commercial Enterprise	1.357	-	-	-	1.674
Contingent and Non-Contingent Claims on Multilateral Development Banks	-	-	-	-	-
Contingent and Non-Contingent Claims on International Organizations	-	-	-	-	-
Contingent and Non-Contingent Claims on Banks and Capital Market Intermediary	688.888	92.659	188.064	54.380	662.115
Contingent and Non-Contingent Claims on Corporates	98.556	545.345	528.064	1.202.850	14.730.991
Contingent and Non-Contingent Claims Included in the Regulatory Real Estate Portfolios	-	-	-	-	-
Contingent and Non-Contingent Claims Secured by Residential Property	1.939	395	21.327	11.868	1.084.680
Past Due Loans	-	-	-	-	-
Higher-Risk Categories Defined by Agency	-	-	-	-	-
Securities Secured by Mortgage	-	-	-	-	-
Securitization Exposures	-	-	-	-	-
Short-Term Claims on Banks and Corporate	-	-	-	-	-
Undertakings for Collective Investments in Transferable Securities	-	-	-	-	-
Other Claims	5.552	-	-	-	16.866
Total	1.418.659	639.564	1.114.947	1.417.405	19.782.774

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(AMOUNTS ARE EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FOUR (Continued)

#### INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

#### X. Explanations related to consolidated risk management (continued)

Explanations related to credit risk (continued)

Analysis of maturity-bearing exposures according to remaining maturities (continued)

Risk Types	Term to Maturity				
Prior Period <sup>(*)</sup>	1 month	1-3 months	3-6 months	6-12 months	Over 1 year
Contingent and Non-Contingent Claims on Sovereigns	802.706	49.995	-	274.334	3.177.749
Contingent and Non-Contingent Claims on Regional Governments and Local Authorities	-	-	-	-	-
Contingent and Non-Contingent Claims on Administrative Units and Non-commercial Enterprise	1.086	-	-	-	296
Contingent and Non-Contingent Claims on Multilateral Development Banks	-	-	-	-	-
Contingent and Non-Contingent Claims on International Organizations	-	-	-	-	-
Contingent and Non-Contingent Claims on Banks and Capital Market Intermediary	2.030.107	45.773	179.201	63.333	651.938
Contingent and Non-Contingent Claims on Corporates	361.784	421.254	441.073	1.226.863	11.774.514
Contingent and Non-Contingent Claims Included in the Regulatory Real Estate Portfolios	-	-	-	-	-
Contingent and Non-Contingent Claims Secured by Residential Property	-	494	-	58.274	734.221
Past Due Loans	-	-	-	-	-
Higher-Risk Categories Defined by Agency	-	-	-	-	170
Securities Secured by Mortgage	-	-	-	-	-
Securitization Exposures	-	-	-	-	-
Short-Term Claims on Banks and Corporate	-	-	-	-	-
Undertakings for Collective Investments in Transferable Securities	-	-	-	-	-
Other Claims	5.376	5.068	-	10.017	69.988
Total	3.201.059	522.584	620.274	1.632.821	16.408.876

<sup>(1)</sup> Counterparty credit risk is included.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES

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### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS ARE EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FOUR (Continued)

#### INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

#### X. Explanations related to consolidated risk management (continued)

Explanations related to credit risk (continued)

Information of major sectors or type of counterparties

Current Period	Loans			
Major Sectors / Counterparties	Impaired Loans	Past Due Loans	Value Adjustments	Provisions
Agriculture	3.446	-	-	(3.446)
Farming and Stockbreeding	3.446	-	-	(3.446)
Forestry	-	-	-	-
Fishery	-	-	-	-
Manufacturing	35.902	20.281	349	(35.902)
Mining and Quarrying	193	-	-	(193)
Production	1.972	20.281	349	(1.972)
Electricity, Gas and Water	33.737	-	-	(33.737)
Construction	9.091	-	-	(9.091)
Services	3.044	-	-	(3.044)
Wholesale and Retail Trade	870	-	-	(870)
Accommodation and Dining	674	-	-	(674)
Transportation and Telecommunication	57	-	-	(57)
Financial Institutions	1.287	-	-	(1.287)
Real Estate and Rental Services	-	-	-	-
Professional Services	156	-	-	(156)
Educational Services	-	-	-	-
Health and Social Services	-	-	-	-
Others	132	-	-	(132)
<b>Total</b>	<b>51.615</b>	<b>20.281</b>	<b>349</b>	<b>(51.615)</b>

The Bank's all impaired and non-performing receivables comprise of domestic receivables.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS ARE EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FOUR (Continued)

#### INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

#### X. Explanations related to consolidated risk management (continued)

Explanations related to credit risk (continued)

Information of major sectors or type of counterparties (continued)

Prior Period	Loans			
Major Sectors / Counterparties	Impaired Loans	Past Due Loans	Value Adjustments	Provisions
Agriculture	3.446	-	-	(3.446)
Farming and Stockbreeding	3.446	-	-	(3.446)
Forestry	-	-	-	-
Fishery	-	-	-	-
Manufacturing	46.439	11.293	-	(46.439)
Mining and Quarrying	193	-	-	(193)
Production	8.368	-	-	(8.368)
Electricity, Gas and Water	37.878	11.293	-	(37.878)
Construction	9.520	3.848	-	(9.520)
Services	1.489	-	-	(1.489)
Wholesale and Retail Trade	489	-	-	(489)
Accommodation and Dining	749	-	-	(749)
Transportation and Telecommunication	57	-	-	(57)
Financial Institutions	38	-	-	(38)
Real Estate and Rental Services	-	-	-	-
Professional Services	156	-	-	(156)
Educational Services	-	-	-	-
Health and Social Services	-	-	-	-
Others	123	-	-	(123)
<b>Total</b>	<b>61.017</b>	<b>15.141</b>	<b>-</b>	<b>(61.017)</b>

Information related with value adjustments and loan loss provisions

Current Period	Opening balance	Provision for the period	Provision reversals	Other adjustments	Closing balance
Specific Provisions	61.017	3.567	(12.969)	-	51.615
General Loan Loss Provision	144.043	33.124	-	-	177.167
Prior Period	Opening balance	Provision for the period	Provision reversals	Other adjustments	Closing balance
Specific Provisions	18.438	44.098	(1.519)	-	61.017
General Loan Loss Provision	117.760	26.283	-	-	144.043

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS ARE EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FOUR (Continued)

#### INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

#### X. Explanations related to consolidated risk management (continued)

Explanations related to credit risk (continued)

Information related with value adjustments and loan loss provisions (continued)

The aging analysis of the receivables past due but not impaired in terms of financial asset classes, is as follows:

Current Period	Less than 30 Days	31- 60 Days	61- 90 Days	More than 91 Days	Total
<b>Loans and Receivables</b>					
Corporate Loans	20.281	-	-	-	20.281
Loans to SME	-	-	-	-	-
Consumer Loans	-	-	-	-	-
Other	-	-	-	-	-
<b>Total</b>	<b>20.281</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20.281</b>

For the restructured loans and other receivables amounting to TL 194.994 in the first and second group, general provision amounting to TL 3.401, for credit and other receivables restructured as non-performing loans amounting to TL 10.707 special provision amounting to TL 10.707.

Prior Period	Less than 30 Days	31- 60 Days	61- 90 Days	More than 91 Days	Total
<b>Loans and Receivables</b>					
Corporate Loans	3.848	-	-	-	3.848
Loans to SME	-	11.293	-	-	11.293
Consumer Loans	-	-	-	-	-
Other	-	-	-	-	-
<b>Total</b>	<b>3.848</b>	<b>11.293</b>	<b>-</b>	<b>-</b>	<b>15.141</b>

#### Credit Risk Mitigation

#### Qualitative disclosure on credit risk mitigation techniques

As for the valuations performed within the scope of credit risk mitigation techniques, the methods used for the valuation and management of collaterals are utilized in parallel with the Communiqué on Credit Risk Reduction Techniques. Offsetting is not used as a credit risk reduction technique.

Financial collaterals are subject to daily valuation at the Bank. Depending on the use of the comprehensive financial collateral method, risk-mitigating impacts of the collaterals are taken into consideration by way of standard volatility adjustments. Valuations of the real estate mortgages utilized for the calculation of capital adequacy are regularly reviewed. It is ensured that the value of real estates be ascertained by the valuation institutions authorized by the CMB.

Major collaterals that can be used by the Bank within the scope of credit risk mitigation techniques are financial collaterals, guarantees and mortgages. In the report dated 31 December 2016, financial collaterals and mortgages were used as the credit risk reduction technique in the calculation of credit risk exposure.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

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#### SECTION FOUR (Continued)

#### INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

##### X. Explanations related to consolidated risk management (continued)

Current Period	Risk Amount <sup>(*)</sup>	Average Risk Amount <sup>(**)</sup>
Contingent and non-contingent claims on sovereigns	5.366.381	4.851.148
Contingent and non-contingent claims on regional governments and local authorities	3.000	2.761
Contingent and non-contingent claims on administrative units and non-commercial enterprises	10.269	8.924
Contingent and non-contingent claims on multilateral development banks	-	-
Contingent and non-contingent claims on international organizations	-	-
Contingent and non-contingent claims on banks and capital market intermediary	3.065.003	4.516.002
Contingent and non-contingent claims on corporates	24.072.266	18.644.361
Contingent and non-contingent claims included in the regulatory retail portfolios	-	-
Contingent and non-contingent claims secured by real estate property	1.152.136	1.243.116
Past due loans	-	-
Higher-risk categories defined by agency	-	30
Securities secured by mortgage	-	-
Securitization exposures	-	-
Short-term claims on banks and corporate	-	286
Undertakings for collective investments in transferable securities	326.615	167.833
Other claims	675.058	691.233

<sup>(\*)</sup> Includes total risk amounts before the effect of credit risk mitigation.

<sup>(\*\*)</sup> Average risk amount are the arithmetical average of the amounts in monthly reports prepared starting from 1 January 2016 to the period end.

Prior Period <sup>(***)</sup>	Risk Amount <sup>(*)</sup>	Average Risk Amount <sup>(**)</sup>
Contingent and non-contingent claims on sovereigns	4.655.888	4.184.755
Contingent and non-contingent claims on regional governments and local authorities	3.069	3.035
Contingent and non-contingent claims on administrative units and non-commercial enterprises	6.266	9.216
Contingent and non-contingent claims on multilateral development banks	-	2.130
Contingent and non-contingent claims on international organizations	-	-
Contingent and non-contingent claims on banks and capital market intermediary	6.959.734	6.251.333
Contingent and non-contingent claims on corporates	17.237.401	16.837.747
Contingent and non-contingent claims included in the regulatory retail portfolios	-	-
Contingent and non-contingent claims secured by real estate property	793.209	432.268
Past due loans	-	-
Higher-risk categories defined by agency	170	78
Securities secured by mortgage	-	-
Securitization exposures	-	-
Short-term claims on banks and corporate	-	-
Undertakings for collective investments in transferable securities	1.654	1.757
Other claims	885.080	876.588

<sup>(\*)</sup> Includes total risk amounts before the effect of credit risk mitigation.

<sup>(\*\*)</sup> Average risk amount are the arithmetical average of the amounts in monthly reports prepared starting from 1 January 2015 to the period end.

<sup>(\*\*\*)</sup> Includes the counterparty credit risk.



# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş AND ITS SUBSIDIARIES

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(AMOUNTS ARE EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FOUR (Continued)

#### INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

#### X. Explanations related to consolidated risk management (continued)

##### Explanations related to credit risk (continued)

Total amount of exposures after offsetting transactions but before applying risk mitigations and the average exposure amounts that are classified in different risk groups and types (continued)

Current Period										
Risk Weights	0%	10%	20%	50%	75%	100%	150%	200%	1250%	Deducted from Equity
Exposures Before Credit Risk										
Mitigation	3.214.264	84	514.253	5.022.499	-	17.855.097	-	-	-	159.928
Exposures After Credit Risk Mitigation	3.214.264	84	514.253	6.152.000	-	16.656.130	-	-	-	159.928

<sup>(\*)</sup>The figures represent total risk amounts before credit risk mitigation and after credit conversion factor.

Prior Period										
Risk Weights	0%	10%	20%	50%	75%	100%	150%	200%	1250%	Deducted from Equity
Exposures Before Credit Risk										
Mitigation	3.509.448	-	4.056.074	4.098.134	-	14.565.027	64	106	-	157.154
Exposures After Credit Risk Mitigation	3.361.734	-	2.024.242	4.546.954	-	13.661.770	64	106	-	157.154

<sup>(\*)</sup>The figures represent total risk amounts before credit risk mitigation and after credit conversion factor.

#### Credit risk mitigation techniques - Standard approach

	Exposures unsecured: value in accordance with TAS.	Exposures secured by collateral	Exposures secured by collateral, of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
1 Loans	18.678.486	1.347.878	1.159.048	-	-	-	-
2 Debt securities	4.397.478	-	-	-	-	-	-
3 Total	23.075.964	1.347.878	1.159.048	-	-	-	-
4 Of which defaulted	51.615	-	-	-	-	-	-

#### Qualitative disclosures on banks' use of external credit ratings under the standardised approach for credit risk

The ratings given by international credit rating agency Fitch Ratings are used to determine the risk weights in adequacy calculation regarding receivables from receivables from banks and intermediary institutions and corporates reside abroad, central sovereigns and central bank, Receivables from residents in Turkey are classified as unrated. These credit ratings are not used for the instruments issued by the debtor.

Ratings given by Fitch Ratings are matched with credit quality levels and risk weights based on risk classes as shown in the following table:

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#### SECTION FOUR (Continued)

#### INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

#### X Explanations related to consolidated risk management (continued)

Explanations related to credit risk (continued)

Credit risk under standard approach

Current Period		Risk Types			
		Claims on Banks and Capital Market Intermediary			
Credit Quality Grades	Fitch Ratings	Claims on Sovereigns	Claims with Remaining Maturities Less Than 3 Months	Claims with Remaining Maturities More Than 3 Months	Claims on Corporate Receivables
1	AAA	0%	20%	20%	20%
	AA+				
	AA				
	AA-				
2	A+	20%	20%	50%	50%
	A				
	A-				
3	BBB+	50%	20%	50%	100%
	BBB				
	BBB-				
4	BB+	100%	50%	100%	100%
	BB				
	BB-				
5	B+	100%	50%	100%	150%
	B				
	B-				
6	CCC+	150%	150%	150%	150%
	CCC				
	CCC-				
	CC				
	C				
	D				
Unrated	Unrated	100%	20% <sup>(7)</sup>	50% <sup>(7)</sup>	100%

<sup>(7)</sup> Used in case when the risk weight of the sovereign of the Bank's country is not higher.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(AMOUNTS ARE EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FOUR (Continued)

#### INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

#### X. Explanations related to consolidated risk management (continued)

Explanations related to credit risk (continued)

Credit risk under standard approach (continued)

Standardised approach – Credit risk exposure and credit risk mitigation effects

Asset classes	Exposures before credit conversion factor and credit risk mitigation		Exposures post credit conversion factor and credit risk mitigation		Risk weighted amount and risk weighted amount density	
	On-Balance sheet amount	Off-balance sheet amount	On-Balance sheet amount	Off-balance sheet amount	Risk weighted amount	Risk weighted amount density
1 Exposures to sovereigns and their central banks	5.166.716	199.666	5.166.716	39.932	996.206	19%
2 Exposures to regional and local governments	3.000	-	600	-	600	100%
3 Exposures to administrative bodies and non-commercial entities	1.526	8.743	1.342	1.749	3.091	100%
4 Exposures to multilateral development banks	-	-	-	-	-	-
5 Exposures to international organizations	-	-	-	-	-	-
6 Exposures to banks and capital market intermediary	2.554.154	510.849	1.821.806	212.263	870.289	43%
7 Exposures to corporates	15.621.192	8.451.072	15.610.450	1.631.199	16.478.909	96%
8 Retail exposures	-	-	-	-	-	-
9 Exposures secured by residential property	-	-	-	-	-	-
10 Exposures secured by commercial real estate	1.089.582	62.554	1.089.582	39.920	564.751	50%
11 Past-due items	51.615	-	-	-	-	-
12 Exposures in high-risk categories	-	-	-	-	-	-
13 Exposures in the form of bonds secured by mortgages	-	-	-	-	-	-
14 Short term exposures to banks, capital market intermediary and corporates	-	-	-	-	-	-
15 Exposures in the form of collective investment undertakings	-	-	-	-	-	-
16 Other exposures	593.151	81.908	523.683	70.874	594.528	100%
17 Equity share investments	326.615	-	326.615	-	326.615	100%
<b>18 Total</b>	<b>25.407.551</b>	<b>9.314.792</b>	<b>24.540.794</b>	<b>1.995.937</b>	<b>19.834.989</b>	<b>75%</b>

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. VE FİNANSAL ORTAKLIKLARI

## 31 ARALIK 2016 TARİHİ İTİBARIYLA KONSOLİDE FİNANSAL TABLOLARA İLİŞKİN AÇIKLAMA VE DİPNOTLAR

(TUTARLAR AKŞİ BELİRTİLMEDİKÇE BİN TÜRK LİRASI (TL) OLARAK İFADE EDİLMİŞTİR.)

### SECTION FOUR (Continued)

#### INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

##### X. Explanations related to consolidated risk management (continued)

Explanations related to credit risk (continued)

Credit risk under standardised approach (continued)

Standardised approach - Exposures by asset classes and risk weights

	Risk Groups/ Risk Weight	0%	10%	20%	50%	75%	100%	150%	200%	Others	Total Risk Amount <sup>(*)</sup>
1	Contingent and Non-Contingent Receivables from Central Governments or Central Banks	3,214,235	-	-	1,992,413	-	-	-	-	-	5,206,648
2	Contingent and Non-Contingent Receivables from Regional Government or Domestic Government	-	-	-	-	-	600	-	-	-	600
3	Contingent and Non-Contingent Receivables from Administrative Units and Non-Commercial Enterprises	-	-	-	-	-	3,091	-	-	-	3,091
4	Contingent and Non-Contingent Receivables from Multilateral Development Banks	-	-	-	-	-	-	-	-	-	-
5	Contingent and Non-Contingent Receivables from International Organizations	-	-	-	-	-	-	-	-	-	-
6	Contingent and Non-Contingent Receivables from Banks and Capital Market Intermediaries	-	84	514,253	1,504,605	-	15,127	-	-	-	2,034,069
7	Exposures to corporates	-	-	-	1,525,480	-	15,716,169	-	-	-	17,241,649
8	Retail exposures	-	-	-	-	-	-	-	-	-	-
9	Exposures secured by property	-	-	-	1,129,502	-	-	-	-	-	1,129,502
10	Past-due loans	-	-	-	-	-	-	-	-	-	-
11	Exposures in higher-risk categories	-	-	-	-	-	-	-	-	-	-
12	Exposures in the form of bonds secured by mortgages	-	-	-	-	-	-	-	-	-	-
13	Short term exposures to banks, capital market intermediaries and corporates	-	-	-	-	-	-	-	-	-	-
14	Equity investments in the form of collective investment undertakings	-	-	-	-	-	-	-	-	-	-
15	Equity investments	-	-	-	-	-	326,615	-	-	-	326,615
16	Other exposures	29	-	-	-	-	594,528	-	-	-	594,557
17	<b>Total</b>	<b>3,214,264</b>	<b>84</b>	<b>514,253</b>	<b>6,152,000</b>	<b>-</b>	<b>16,656,130</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>26,536,731</b>

<sup>(\*)</sup> Total Risk Amount: Included the total risk amounts after the effect of credit risk mitigation and credit conversions.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS ARE EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FOUR (Continued)

#### INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

##### X. Explanations related to consolidated risk management (continued)

##### Disclosures on counterparty credit risk (CCR)

##### Qualitative disclosures on CCR

Counterparty credit risk is managed by monitoring the concentrations at various levels with regard to counterparty credit risks, the capital requirement imposed by the counterparty credit risk and the limits set by the Board of Directors for counterparty transactions. Moreover, the ratio of the counterparty credit risk exposure to total risk-weighted assets has been identified as a risk appetite indicator.

Counterparty credit risk resulting from repurchase transactions, securities and commodities lending transactions and derivatives transactions is calculated within the framework of Annex 2 of the Regulation on the Measurement and Assessment of the Capital Adequacy of Banks. Fair Value Valuation Method is applied for derivatives transactions. Risk exposure of derivative transactions is equal to the sum of replacement cost and potential credit risk amount. Besides, capital requirement is also calculated for credit valuation adjustment (CVA) risk in relation to derivatives transactions. For repurchase and securities lending transactions risk amount is calculated considering volatility and credit quality level.

Derivatives transactions executed with counterparties are carried out within the scope of "ISDA" and "CSA" agreements. These agreements contain the same collateralization provisions for our Bank and counterparties and daily collateral settlement is performed.

##### Analysis of counterparty credit risk exposure by approach

		Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory exposure at default	Exposure at default post Credit risk mitigation	Risk weighted amount
1	Standardised Approach (for derivatives)	374.304	240.982	-	-	545.633	357.494
2	Internal Model Method (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)	-	-	-	-	-	-
3	Simple Approach for credit risk mitigation (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)	-	-	-	-	-	-
4	Comprehensive Approach for credit risk mitigation (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)	-	-	-	-	230.604	133.203
5	Value-at-Risk (VaR) for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions	-	-	-	-	-	-
6	<b>Total</b>	-	-	-	-	-	<b>490.697</b>

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#### SECTION FOUR (Continued)

#### INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

#### X. Explanations related to consolidated risk management (continued)

Explanations on counterparty credit risk (CCR)

Credit valuation adjustment (CVA) for capital charge

	Exposure at default post-credit risk mitigation techniques	Risk weighted amount
Total portfolios subject to the Advanced CVA capital charge	-	-
1 (i) VaR component (including the 3xmultiplier)	-	-
2 (ii) Stressed VaR component (including the 3xmultiplier)	-	-
3 All portfolios subject to the Standardised CVA capital charge	545.632	204.672
<b>4 Total subject to the CVA capital charge</b>	<b>545.632</b>	<b>204.672</b>

Standardised approach – Counterparty credit risk exposures by regulatory portfolio and risk weights

#### Risk weight /

Risk classes	0%	10%	20%	50%	75%	100%	150%	Other	Total credit exposure <sup>(1)</sup>
Exposures to sovereigns and their central banks	1.450	-	-	-	-	-	-	-	1.450
Exposures to regional and local government	-	-	-	-	-	-	-	-	-
Exposures to administrative bodies and non-commercial entities	-	-	-	-	-	521	-	-	521
Exposures to multilateral development banks	-	-	-	-	-	-	-	-	-
Exposures international organizations	-	-	-	-	-	-	-	-	-
Exposures to banks and capital market intermediary	-	-	43.451	482.160	-	-	-	-	525.611
Exposures to corporates	-	-	-	16.498	-	230.316	-	-	246.814
Retail exposures	-	-	-	-	-	-	-	-	-
Exposures on landed real estate	-	-	-	-	-	-	-	-	-
Past-due items	-	-	-	-	-	-	-	-	-
Exposures in high-risk categories	-	-	-	-	-	-	-	-	-
Exposures in the form of bonds secured by mortgages	-	-	-	-	-	-	-	-	-
Securitization positions	-	-	-	-	-	-	-	-	-
Claims from corporates, banks and financial intermediaries which have short term credit rating	-	-	-	-	-	-	-	-	-
Exposures in the form of collective investment undertakings	-	-	-	-	-	-	-	-	-
Equity share investments	-	-	-	-	-	-	-	-	-
Other exposures	-	-	-	-	-	1.841	-	-	1.841
Other assets	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>1.450</b>	<b>-</b>	<b>43.451</b>	<b>498.658</b>	<b>-</b>	<b>232.678</b>	<b>-</b>	<b>-</b>	<b>776.237</b>

<sup>(1)</sup> Total Credit Exposures Amount: The amount which is related to capital adequacy calculation after implementation of counter party credit risk mitigation techniques.

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(AMOUNTS ARE EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FOUR (Continued)

#### INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

##### X. Explanations related to consolidated risk management (continued)

Disclosures on counterparty credit risk (CCR) (continued)

Collaterals used for CCR

	Collaterals received		Collaterals given		Collaterals received	Collaterals given
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash – domestic currency	-	-	-	-	334.440	-
Cash – foreign currency	-	69.654	-	-	493.145	-
Domestic sovereign debt	-	-	-	-	-	-
Other sovereign debt	-	-	-	-	-	-
Government agency debt	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>69.654</b>	<b>-</b>	<b>-</b>	<b>827.585</b>	<b>-</b>

Credit derivatives

None.

Exposure to central counterparties (CCP)

None.

Explanations on securitizations

None.

Disclosures on market risk

Qualitative information to be disclosed to public concerning market risk

Market risk is the possibility of a risk being incurred by the portfolio or position accepted within the scope of trading portfolio as a result of interest rates, equity prices, commodity prices in financial markets and exchange rate fluctuations. The purpose of market risk management is to manage, within the appropriate parameters, the risks which the Bank might be exposed to with a proactive approach and thus maximize the Bank's risk adjusted return.

Interest rate, exchange rate, stock and commodity price risks are the major elements of market risk. In order to control these risks in a healthy manner the core principal is to manage transactions carried out in money and capital markets such that they do not form concentration in terms of instrument, maturity, currency, interest type and other similar parameters, and in a "well diversified" manner in accordance with their risk levels. Moreover, the creditworthiness of issuers of financial instruments causing market risk is monitored carefully. Market Risk is managed by using consistent risk measurements and criteria fluctuation level of interest rates and/or prices and Value at Risk calculations, establishing appropriate procedures for control and monitoring compliance with identified risk limits and risk appetite. Market risk is measured, monitored and reported by the Department of Risk Management. The Bank uses two main approaches in the calculation of market risk BRSA Standard Method and Value at Risk (VaR) approach.

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#### SECTION FOUR (Continued)

#### INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

##### X. Explanations related to consolidated risk management (continued)

##### Disclosures on market risk (continued)

##### Qualitative information to be disclosed to public concerning market risk

Market risk measurement, monitoring and reporting is carried out by the Risk Management Department. In the calculation of the market risk, the Bank uses two basic approaches as the BRSA Standard Method and Risk Value of Return (VaR) approach. The standard method is applied in the calculation of capital adequacy on a monthly basis. VaR calculations are performed periodically and are reported to the senior management. Monte Carlo simulation method is used for VaR calculations. The VaR model is based on the assumptions of a 99% confidence interval and a 1-day holding period, and the accuracy of the model is assured by back-testing which is based on the comparison of calculated VaR Value against incurred losses. Besides, stress tests are conducted so as to identify the impacts on VaR which will be highly damaging, although their occurrence is a low possibility.

In addition to the activities of the Risk Management Department, the Treasury Control Unit also reports daily positions and limit use status to the senior management.

##### Market Risk-standard approach

	RWA
<b>Outright products</b>	-
1 Interest rate risk (general and specific)	614.262
2 Equity risk (general and specific)	1.950
3 Foreign exchange risk	247.263
4 Commodity risk	-
<b>Options</b>	-
5 Simplified approach	-
6 Delta-plus method	-
7 Scenario approach	-
8 Securitisation	-
<b>9 Total</b>	<b>863.475</b>

##### Disclosure on operational risk

##### Information to be disclosed to the public regarding market risk

Operational Risk Exposure is measured in the Bank once a year by using the Basic Indicator Method based on the "Regulation on the Measurement and Assessment of the Capital Adequacy of Banks".

	31/12/2013	31/12/2014	31/12/2015	Total/No. of years of positive gross	Rate (%)	Total
Gross Income	509.813	617.803	654.055	593.890	15	89.084
Capital Requirement for Operational Risk (Total*12,5)						1.113.544



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#### SECTION FOUR (Continued)

##### INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

##### X. Explanations related to consolidated risk management (continued)

Disclosures on interest rate risk resulting from banking book

It is monthly calculated and reported within the scope of the Standard Shock Measurement and Evaluation Method of the Interest Rate Risk Banking Accounts Duration and sensitivity analysis are conducted on a monthly basis by the Bank in the scope of monitoring of interest rate risk arising from the banking books about Interest Rate Risk in the Banking Accounts from the Regulation on Measurement and Assessment of Standard Shock Method.

The economic valuation differences of the Bank arising from fluctuations on interest rates, in different currencies that is calculated in accordance with the communiqué are presented in the table below.

Current Period	Applied Shock (+/- x basis point)	Revenue/ Loss	Revenue/Shareholders' Equity – Loss / Shareholders' Equity
Currency			
TL	+500 / (400) basis point	(155.521) / 147.503	(5,02%) / 4,76%
Euro	+200 / (200) basis point	32.523 / (15.160)	1,05% / (0,49%)
US Dollar	+200 / (200) basis point	(57.320) / 55.837	(1,85%) / 1,80%
<b>Total (for Negative Shocks)</b>		<b>188.181</b>	<b>6,07%</b>
<b>Total (for Positive Shocks)</b>		<b>(180.318)</b>	<b>(5,82%)</b>

Prior Period	Applied Shock (+/- x basis point)	Revenue/ Loss	Revenue/Shareholders' Equity – Loss/ Shareholders' Equity
Currency			
TL	+500 / (400) basis point	(109.504) / 101.850	(4,16%) / 3,87%
Euro	+200 / (200) basis point	24.347 / (16.939)	0,93% / (0,64%)
US Dollar	+200 / (200) basis point	(33.352) / 29.108	(1,27%) / 1,11%
<b>Total (for Negative Shocks)</b>		<b>114.019</b>	<b>4,34%</b>
<b>Total (for Positive Shocks)</b>		<b>(118.509)</b>	<b>(4,50%)</b>

#### SECTION FIVE

##### EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS

##### I. Explanations and disclosures related to the consolidated assets

##### 1.a Information on cash and balances with the Central Bank of Turkey:

	Current Period		Prior Period	
	TL	FC	TL	FC
Cash in TL/Foreign Currency	29	-	21	-
Balances with the Central Bank of Turkey	161.276	616.771	40.426	770.676
Other	-	-	-	-
<b>Total</b>	<b>161.305</b>	<b>616.771</b>	<b>40.447</b>	<b>770.676</b>
	Current Period		Prior Period	
	TL	FC	TL	FC
Unrestricted demand deposits	161.276	3.995	40.426	3.437
Unrestricted time deposits	-	-	-	-
Restricted time deposits	-	-	-	-
Other <sup>(*)</sup>	-	612.776	-	767.239
<b>Total</b>	<b>161.276</b>	<b>616.771</b>	<b>40.426</b>	<b>770.676</b>

<sup>(\*)</sup> Deposits at Central Bank of Turkey held as reserve requirement.

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#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### I. Explanations and disclosures related to the consolidated assets (continued)

As per the Communiqué numbered 2005/1 "Reserve Deposits" of Central Bank of 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-days periods. In accordance with the related communiqué, no interest is paid for reserve requirements. The CBRT has started to pay interest to the Required Reserves held in Turkish Lira according to regulation released at 5 November 2014.

In accordance with the regulation issued at 27 January 2015, CBRT has begun 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. The CBRT Required reserves of 2 May 2015 has started to pay interest to the Required reserves, reserve options and unrestricted account held in US dollars according to regulation released at 5 May 2015.

As per the "Communiqué on Amendments to be Made on Communiqué on Required Reserves" of Central Bank of Turkey, numbered 2011/11 and 2011/13, required reserves for Turkish Lira and Foreign currency liabilities are set at Central Bank of Turkey based on rates mentioned below. Reserve rates prevailing at 31 December 2016 are presented in table below:

Reserve Rates for Turkish Lira Liabilities (%)			
Original Maturity			Reserve Ratio
Other liabilities until 1 year maturity (1 year include)			10,5
Other liabilities until 3 year maturity (3 year include)			7
Other liabilities more than 5 year maturity			4
Reserve Rates for FC Liabilities (%)			
Original Maturity		Reserve Ratio If the fund borrowed Before 28.08.2015	Reserve Ratio If the fund borrowed After 28.08.2015
Other liabilities until 1 year maturity (1 year included)		19	24
Other liabilities until 2 year maturity (2 year included)		13	19
Other liabilities until 3 year maturity (3 year included)		7	14
Other liabilities until 5 year maturity (5 year included)		6	6
Other liabilities more than 5 year maturity		5	4

##### 2.a Information on financial assets at fair value through profit and loss

###### 2.a.1 Trading securities:

###### 2.a.1.a Trading securities given as collateral or blockage:

As of the reporting date, the Group's trading securities given as collateral or blockage amounted to TL 1.298 (31 December 2015: TL 2.544).

###### 2.a.1.b Trading securities subject to repurchase agreements:

As of the reporting date, the Group has no trading securities subject to repurchase agreements (31 December 2015: None).

###### 2.a.2 Information on financial assets designated at fair value through profit and loss:

###### 2.a.2.a Information on financial assets designated at fair value through profit and loss given as collateral or blockage:

As of the reporting date, the Group has no financial assets designated at fair value through profit and loss given as collateral or blockage (31 December 2015: None).

###### 2.a.2.b Financial assets designated at fair value through profit and loss subject to repurchase agreements:

As of the reporting date, the Group has no financial assets designated at fair value through profit and loss subject to repurchase agreements (31 December 2015: None).

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#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### I. Explanations and disclosures related to the consolidated assets (continued)

##### 2.b Positive differences related to derivative financial assets held-for-trading:

Derivative Instruments Held for Trading	Current Period		Prior Period	
	TL	FC	TL	FC
Forward Transactions	13.290	8.819	769	2.606
Swap Transactions	113.508	112.792	9.239	83.584
Futures Transactions	-	-	-	-
Options	-	125.627	-	73.596
Other	-	-	-	-
<b>Total</b>	<b>126.798</b>	<b>247.238</b>	<b>10.008</b>	<b>159.786</b>

##### 3 Information on banks and foreign bank accounts:

##### 3.a Information on banks:

	Current Period		Prior Period	
	TL	FC	TL	FC
Banks				
Domestic	60.098	376.443	72.617	641.420
Foreign	15.010	46.398	-	37.508
Branches and head office abroad	-	-	-	-
<b>Total</b>	<b>75.108</b>	<b>422.841</b>	<b>72.617</b>	<b>678.928</b>

##### 3.b Information on banks and foreign bank accounts:

	Unrestricted Amount		Restricted Amount	
	Current Period	Prior Period	Current Period	Prior Period
European Union Countries	8.486	3.514	-	-
USA and Canada	1.948	3.782	-	-
OECD Countries <sup>(1)</sup>	1.041	30.212	-	-
Off-shore banking regions	-	-	-	-
Other	49.933	-	-	-
<b>Total</b>	<b>61.408</b>	<b>37.508</b>	<b>-</b>	<b>-</b>

<sup>(1)</sup> OECD countries other than European Union countries, USA and Canada.

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#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### I. Explanations and disclosures related to the consolidated assets (continued)

#### 4. Information on financial assets available-for-sale

#### 4.a.1 Available-for-sale financial assets subject to repurchase agreements:

	Current Period		Prior Period	
	TL	FC	TL	FC
Government bonds	111.173	-	1.506.099	-
Treasury bills	-	-	-	-
Other public sector debt securities	-	101.682	-	76.662
Bank bonds and bank guaranteed bonds	-	-	-	-
Asset backed securities	-	-	-	-
Other	-	-	-	-
<b>Total</b>	<b>111.173</b>	<b>101.682</b>	<b>1.506.099</b>	<b>76.662</b>

#### 4.a.2 Information on available-for-sale financial assets given as collateral or blockage:

All financial assets available for sale given as collateral comprise of financial assets are issued by the T.R. Undersecretariat of Treasury. The carrying value of those assets is TL 1.252.789 (31 December 2015: TL 737.201).

	Current Period		Prior Period	
	TL	FC	TL	FC
Share certificates	-	-	-	-
Bond, Treasury bill and similar investment securities	497.581	755.208	259.298	477.903
Other	-	-	-	-
<b>Total</b>	<b>497.581</b>	<b>755.208</b>	<b>259.298</b>	<b>477.903</b>

#### 4.b Major types of available for sale financial assets:

Available for sale financial assets comprised of government bonds 59,38%, Eurobonds 31,52% and shares and other securities 9,1% (31 December 2015: government bonds 60,33%, Eurobonds 27,97% and shares and other securities 11,70%).

#### 4.c Information on financial assets available-for-sale:

	Current Period	Prior Period
Debt securities	3.096.626	2.967.995
Quoted on a stock exchange	2.040.539	2.106.882
Unquoted	1.056.087	861.113
Share certificates	53.695	48.065
Quoted on a stock exchange	11.834	10.533
Unquoted	41.861	37.532
Impairment provision(-)	(81.909)	(43.898)
<b>Total</b>	<b>3.068.412</b>	<b>2.972.162</b>

The net book value of unquoted available for sale share certificates is TL 35.882 (31 December 2015: TL 28.037).

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#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### I. Explanations and disclosures related to the consolidated assets (continued)

##### 5. Information on loans

##### 5.a Information on all types of loans and advances given to shareholders and employees of the Parent Bank:

	Current Period		Prior Period	
	Cash Loans	Non-Cash Loans	Cash Loans	Non-Cash Loans
Direct loans granted to shareholders	21.131	-	84.840	117.412
Corporate shareholders	21.131	-	84.840	117.412
Real person shareholders	-	-	-	-
Indirect loans granted to shareholders	-	-	-	-
Loans granted to employees	217	-	228	-
<b>Total</b>	<b>21.348</b>	<b>-</b>	<b>85.068</b>	<b>117.412</b>

##### 5.b Information on the first and second group loans and other receivables including restructured or rescheduled loans:

	Standard Loans and Other Receivables			Loans and Other Receivables Under Close Monitoring		
	Loans and Other Receivables (Total)	Amendments on Conditions of Contract		Loans and Other Receivables (Total)	Amendments on Conditions of Contract	
		Amendments Related to the Extension of the Payment Plan	Other		Amendments Related to the Extension of the Payment Plan	Other
<b>Non-specialized loans</b>	<b>17.071.467</b>	<b>49.896</b>	<b>-</b>	<b>195.112</b>	<b>142.768</b>	<b>2.330</b>
Corporation loans	5.464.266	-	-	8.693	8.693	-
Export loans	157.895	-	-	44.994	44.994	-
Import loans	-	-	-	-	-	-
Loans given to financial sector	2.211.495	-	-	-	-	-
Consumer loans	217	-	-	-	-	-
Credit cards	-	-	-	-	-	-
Other	9.237.594	49.896	-	141.425	89.081	2.330
Specialized loans	-	-	-	-	-	-
Other receivables	69.466	-	-	-	-	-
<b>Total</b>	<b>17.140.933</b>	<b>49.896</b>	<b>-</b>	<b>195.112</b>	<b>142.768</b>	<b>2.330</b>

The syndicated loans granted to a company amounting to USD 70.724.223 are classified under "Performing Loans and Other Receivables". Discussions between creditor banks and related sovereign institutions are proceeding regarding restructuring of loans granted and a positive outcome of these discussions is expected.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES

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### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS ARE EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### I. Explanations and disclosures related to the consolidated assets (continued)

##### 5. Explanations on loans (continued)

##### 5.b Information on the first and second group loans and other receivables including restructured or rescheduled loans (continued):

Prior Period	Standard Loans and Other Receivables			Loans and Other Receivables Under Close Monitoring		
	Amendments on Conditions of Contract			Amendments on Conditions of Contract		
	Loans and Other Receivables (Total)	Amendments Related to the Extension of the Payment Plan	Other	Loans and Other Receivables (Total)	Amendments Related to the Extension of the Payment Plan	Other
<b>Cash Loans</b>						
Non-specialized loans	13.419.397	44.435	-	144.735	54.275	64.267
Corporation loans	4.441.986	-	-	8.867	8.867	-
Export loans	115.914	-	-	-	-	-
Import loans	-	-	-	-	-	-
Loans given to financial sector	1.677.116	-	-	-	-	-
Consumer loans	228	-	-	-	-	-
Credit cards	-	-	-	-	-	-
Other	7.184.153	44.435	-	135.868	45.408	64.267
Specialized loans	-	-	-	-	-	-
Other receivables	68.997	-	-	-	-	-
<b>Total</b>	<b>13.488.394</b>	<b>44.435</b>	<b>-</b>	<b>144.735</b>	<b>54.275</b>	<b>64.267</b>
<b>Current Period</b>				<b>Standard Loans and Other Receivables</b>	<b>Loans and Other Receivables Under Close Monitoring</b>	
<b>Number of amendments related to the extension of the payment plan</b>						
Extended for 1 or 2 times				49.896		139.419
Extended for 3-4 or 5 times				-		3.349
Extended for more than 5 times				-		-
<b>Prior Period</b>				<b>Standard Loans and Other Receivables</b>	<b>Loans and Other Receivables Under Close Monitoring</b>	
<b>Number of amendments related to the extension of the payment plan</b>						
Extended for 1 or 2 times				44.435		54.275
Extended for 3,4 or 5 times				-		-
Extended for more than 5 times				-		-
<b>Current Period</b>				<b>Standard Loans and Other Receivables</b>	<b>Loans and Other Receivables Under Close Monitoring</b>	
<b>The time extended via the amendment on payment plan</b>						
0-6 Months				-		-
6 Months - 12 Months				-		-
1-2 Years				-		32.789
2-5 Years				49.896		95.327
5 Years and Over				-		14.652

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş AND ITS SUBSIDIARIES

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### FOR THE YEAR ENDED 31 DECEMBER 2016

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#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### I. Explanations and disclosures related to the assets (continued)

##### 5. Explanations on loans (continued)

Prior Period	Standard Loans and Other Receivables	Loans and Other Receivables Under Close Monitoring
The time extended via the amendment on payment plan		
0-6 Months	-	-
6 Months - 12 Months	-	-
1-2 Years	-	40.472
2-5 Years	44.435	-
5 Years and Over	-	13.803

##### 5.c Loans according to their maturity structure:

Current Period	Standard Loans and Other Receivables		Loans and Other Receivables Under Close Monitoring	
	Loans and Other Receivables (Total)	Restructured or Rescheduled	Loans and Other Receivables (Total)	Restructured or Rescheduled
Short-term loans and other receivables	662.731	-	44.994	44.994
Non-specialized loans	593.265	-	44.994	44.994
Specialized loans	-	-	-	-
Other receivables	69.466	-	-	-
Medium and Long-term loans	16.478.202	49.896	150.118	100.104
Non-specialized loans	16.478.202	49.896	150.118	100.104
Specialized loans	-	-	-	-
Other receivables	-	-	-	-

Prior Period	Standard Loans and Other Receivables		Loans and Other Receivables Under Close Monitoring	
	Loans and Other Receivables (Total)	Restructured or Rescheduled	Loans and Other Receivables (Total)	Restructured or Rescheduled
Short-term loans and other receivables	687.690	-	-	-
Non-specialized loans	618.693	-	-	-
Specialized loans	-	-	-	-
Other receivables	68.997	-	-	-
Medium and Long-term loans	12.800.704	44.435	144.735	118.542
Non-specialized loans	12.800.704	44.435	144.735	118.542
Specialized loans	-	-	-	-
Other receivables	-	-	-	-

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş AND ITS SUBSIDIARIES

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### FOR THE YEAR ENDED 31 DECEMBER 2016

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#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### I. Explanations and disclosures related to the assets (continued)

##### 5. Explanations on loans (continued)

##### 5.d Information on consumer loans, individual credit cards, personnel loans and credit cards given to personnel:

Current Period	Short Term	Medium and Long Term	Total
Consumer Loans-TL	-	-	-
Housing Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Consumer Loans -Indexed to FC	-	-	-
Housing Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Consumer Loans-FC	-	-	-
Housing Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Individual Credit Cards-TL	-	-	-
With Instalments	-	-	-
Without Instalments	-	-	-
Individual Credit Cards-FC	-	-	-
With Instalments	-	-	-
Without Instalments	-	-	-
Personnel Loans- TL	18	199	217
Housing Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	18	199	217
Other	-	-	-
Personnel Loans- Indexed to FC	-	-	-
Housing Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Personnel Loans-FC	-	-	-
Housing Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Personnel Credit Cards- TL	-	-	-
With Instalments	-	-	-
Without Instalments	-	-	-
Personnel Credit Cards-FC	-	-	-
With Instalments	-	-	-
Without Instalments	-	-	-
Overdraft Accounts- TL (Real Persons)	-	-	-
Overdraft Accounts-FC (Real Persons)	-	-	-
<b>Total</b>	<b>18</b>	<b>199</b>	<b>217</b>



# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS ARE EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### I. Explanations and disclosures related to the consolidated assets (continued)

##### 5. Explanations on loans (continued)

##### 5.d Information on consumer loans, individual credit cards, personnel loans and credit cards given to personnel (continued):

Prior Period	Short Term	Medium and Long Term	Total
Consumer Loans-TL	-	-	-
Housing Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Consumer Loans -Indexed to FC	-	-	-
Housing Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Consumer Loans-FC	-	-	-
Housing Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Individual Credit Cards-TL	-	-	-
With Instalments	-	-	-
Without Instalments	-	-	-
Individual Credit Cards-FC	-	-	-
With Instalments	-	-	-
Without Instalments	-	-	-
Personnel Loans- TL	55	173	228
Housing Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	55	173	228
Other	-	-	-
Personnel Loans- Indexed to FC	-	-	-
Housing Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Personnel Loans-FC	-	-	-
Housing Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Personnel Credit Cards- TL	-	-	-
With Instalments	-	-	-
Without Instalments	-	-	-
Personnel Credit Cards-FC	-	-	-
With Instalments	-	-	-
Without Instalments	-	-	-
Overdraft Accounts- TL (Real Persons)	-	-	-
Overdraft Accounts-FC (Real Persons)	-	-	-
<b>Total</b>	<b>55</b>	<b>173</b>	<b>228</b>

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS ARE EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### I. Explanations and disclosures related to the consolidated assets (continued)

##### 5. Explanations on loans (continued)

##### 5.e Information on commercial loans with instalments and corporate credit cards:

The Parent Bank has not granted any commercial loans with instalments and corporate credit cards as of the reporting date (31 December 2015: None).

##### 5.f Loans according to borrowers:

	Current Period	Prior Period
Public	125.356	32.171
Private	17.210.689	13.600.958
<b>Total</b>	<b>17.336.045</b>	<b>13.633.129</b>

##### 5.g Domestic and foreign loans:

	Current Period	Prior Period
Domestic Loans	17.263.913	13.546.380
Foreign Loans	72.132	86.749
<b>Total</b>	<b>17.336.045</b>	<b>13.633.129</b>

##### 5.h Loans granted to subsidiaries and associates:

	Current Period	Prior Period
Direct loans granted to subsidiaries and associates	294.292	340.358
Indirect loans granted to subsidiaries and associates	-	-
<b>Total</b>	<b>294.292</b>	<b>340.358</b>

##### 5.i Specific provisions provided against loans:

	Current Period	Prior Period
Loans and receivables with limited collectability	3.092	3.603
Loans and receivables with doubtful collectability	-	-
Uncollectible loans and receivables	48.523	57.414
<b>Total</b>	<b>51.615</b>	<b>61.017</b>

Group allocates 100 % provision for all non-performing loans regardless of the collaterals.

##### 5.j Information on non-performing loans (net):

##### 5.j.1 Information on loans and other receivables restructured or rescheduled from non-performing loans:

	III. Group Loans and Receivables With Limited Collectability	IV. Group Loans and Receivables With Doubtful Collectability	V. Group Uncollectible Loans and Receivables
<b>Current Period</b>			
(Gross amounts before provisions)	-	-	10.707
Restructured loans and other receivables	-	-	-
Rescheduled loans and other receivables	-	-	10.707
<b>Prior Period</b>			
(Gross amounts before provisions)	-	-	5.395
Restructured loans and other receivables	-	-	-
Rescheduled loans and other receivables	-	-	5.395

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES

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### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS ARE EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### I. Explanations and disclosures related to the consolidated assets (continued)

##### 5. Explanations on loans (continued)

##### 5.j Information on non-performing loans (net) (continued):

##### 5.j.2 Movement of non-performing loans:

Current Period	III. Group	IV. Group	V. Group
	Loans and Receivables With Limited Collectability	Loans and Receivables With Doubtful Collectability	Uncollectible Loans and Receivables
<b>Prior Period End Balance</b>	<b>3.603</b>	<b>-</b>	<b>57.414</b>
Additions (+)	20	-	3.546
Transfers from Other Categories of Non-performing Loans (+)	-	-	-
Transfers to Other Categories of Non-performing Loans (-)	-	-	-
Collections (-)	(531)	-	(12.422)
Write-offs (-)	-	-	(15)
Corporate and Commercial Loans	-	-	(15)
Retail Loans	-	-	-
Credit Cards	-	-	-
Other	-	-	-
<b>Current Period End Balance</b>	<b>3.092</b>	<b>-</b>	<b>48.523</b>
Specific Provisions (-)	(3.092)	-	(48.523)
<b>Net Balance on Balance Sheet</b>	<b>-</b>	<b>-</b>	<b>-</b>
Prior Period	III. Group	IV. Group	V. Group
	Loans and Receivables With Limited Collectability	Loans and Receivables With Doubtful Collectability	Uncollectible Loans and Receivables
<b>Prior Period End Balance</b>	<b>4.456</b>	<b>-</b>	<b>13.982</b>
Additions (+)	43.354	-	744
Transfers from Other Categories of Non-performing Loans (+)	-	43.334	43.334
Transfers to Other Categories of Non-performing Loans (-)	(43.334)	(43.334)	-
Collections (-)	(844)	-	(646)
Write-offs (-)	(29)	-	-
Corporate and Commercial Loans	(29)	-	-
Retail Loans	-	-	-
Credit Cards	-	-	-
Other	-	-	-
<b>Current Period End Balance</b>	<b>3.603</b>	<b>-</b>	<b>57.414</b>
Specific Provisions (-)	(3.603)	-	(57.414)
<b>Net Balance on Balance Sheet</b>	<b>-</b>	<b>-</b>	<b>-</b>

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS ARE EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### I. Explanations and disclosures related to the consolidated assets (continued)

##### 5. Explanations on loans (continued)

##### 5.j Information on non-performing loans (net) (continued):

##### 5.j.3 Information on foreign currency non-performing loans and other receivables:

	III. Group	IV. Group	V. Group
	Loans and Receivables With Limited Collectability	Loans and Receivables With Doubtful Collectability	Uncollectible Loans and Receivables
<b>Current Period</b>			
Period End Balance	1.362	-	-
Specific Provision (-)	(1.362)	-	-
Net Balance on Balance Sheet	-	-	-
<b>Prior Period</b>			
Period End Balance	1.651	-	38
Specific Provision (-)	(1.651)	-	(38)
Net Balance on Balance Sheet	-	-	-

##### 5.j.4 Information regarding gross and net amounts of non-performing loans with respect to user groups:

	III. Group	IV. Group	V. Group
	Loans and Receivables With Limited Collectability	Loans and Receivables With Doubtful Collectability	Uncollectible Loans and Receivables
<b>Current Period (Net)</b>			
Loans to Real Persons and Legal Entities (Gross)	3.092	-	47.236
Specific Provision Amount (-)	(3.092)	-	(47.236)
Loans to Real Persons and Legal Entities (Net)	-	-	-
Banks (Gross)	-	-	-
Specific Provision Amount (-)	-	-	-
Banks (Net)	-	-	-
Other Loans and Receivables (Gross)	-	-	1.287
Specific Provision Amount (-)	-	-	(1.287)
Other Loans and Receivables (Net)	-	-	-
<b>Prior Period (Net)</b>	<b>3.603</b>	<b>-</b>	<b>57.376</b>
Loans to Real Persons and Legal Entities (Gross)	(3.603)	-	(57.376)
Specific Provision Amount (-)	-	-	-
Loans to Real Persons and Legal Entities (Net)	-	-	-
Banks (Gross)	-	-	-
Specific Provision Amount (-)	-	-	-
Banks (Net)	-	-	38
Other Loans and Receivables (Gross)	-	-	(38)
Specific Provision Amount (-)	3.092	-	47.236
Other Loans and Receivables (Net)	-	-	-

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES

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### FOR THE YEAR ENDED 31 DECEMBER 2016

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#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### I. Explanations and disclosures related to the consolidated assets (continued)

##### 5. Explanations on loans (continued)

##### 5.k Main principles of liquidating non performing loans and receivables:

If there are collaterals received in according to Article 9 of the "Regulation on the Procedures And Principles For Determination of Qualifications of Loans and Other Receivables By Banks And Provisions to be Set Aside", these collaterals are converted into cash as soon as possible as a result of both administrative and legal proceedings.

In the absence of collaterals, even if there is evidence of insolvency for the debtor, several financial investigations are apply at various periods to determine whether any property are subsequently acquired and legal proceedings are being followed.

Before and after the beginning of the liquidation process; the Bank management makes investigations on the financial data of the debtor companies. As a result of these investigations, if the Bank management agrees that the companies show any indication of operating on an ongoing basis and probably are going to have contributions in the economic environment in the future; the Bank management tries to make the collection through rescheduling the payment terms.

##### 5.l Explanations about the write-off policies from the assets:

If there is no collateral against uncollectible loans and receivables and if the receivable amount is less than the cost; tax, fee, and other expenses, made for the legal actions, the receivable is written off from the assets upon the request of the Credit Monitoring Department and the approval of the General Management.

However, if there is a collateral against the receivable and after all the costs of legal actions are fulfilled, and if there is still a part of receivables not collected, the receivables are written off after getting of pledge shortage and evidence of insolvency subsequently.

##### 5.m Other explanations and disclosures:

Current Period	Corporate	SME	Consumer	Other	Total
Neither past due nor impaired	14.207.855	3.038.226	217	69.466	17.315.764
Past due not impaired	20.281	-	-	-	20.281
Individually impaired	12.809	35.630	-	3.176	51.615
<b>Total</b>	<b>14.240.945</b>	<b>3.073.856</b>	<b>217</b>	<b>72.642</b>	<b>17.387.660</b>
Less: allowance for individually impaired loans	(12.809)	(35.630)	-	(3.176)	(51.615)
<b>Total allowance for impairment</b>	<b>(12.809)</b>	<b>(35.630)</b>	<b>-</b>	<b>(3.176)</b>	<b>(51.615)</b>
<b>Net Loan Amount</b>	<b>14.228.136</b>	<b>3.038.226</b>	<b>217</b>	<b>69.466</b>	<b>17.336.045</b>
Prior Period	Corporate	SME	Consumer	Other	Total
Neither past due nor impaired	11.380.224	2.168.539	228	68.997	13.617.988
Past due not impaired	3.848	11.293	-	-	15.141
Individually impaired	19.348	40.057	-	1.612	61.017
<b>Total</b>	<b>11.403.420</b>	<b>2.219.889</b>	<b>228</b>	<b>70.609</b>	<b>13.694.146</b>
Less: allowance for individually impaired loans	(19.348)	(40.057)	-	(1.612)	(61.017)
<b>Total allowance for impairment</b>	<b>(19.348)</b>	<b>(40.057)</b>	<b>-</b>	<b>(1.612)</b>	<b>(61.017)</b>
<b>Net Loan Amount</b>	<b>11.384.072</b>	<b>2.179.832</b>	<b>228</b>	<b>68.997</b>	<b>13.633.129</b>

A reconciliation of the allowance for impairment losses and advances by classes is as follows:

	Corporate	SME	Consumer	Other	Total
<b>At 1 January 2016</b>	<b>(19.348)</b>	<b>(40.057)</b>	<b>-</b>	<b>(1.612)</b>	<b>(61.017)</b>
Charge for the year	(177)	(1.515)	-	(1.874)	(3.566)
Recoveries	6.716	5.942	-	295	12.953
Amounts written off	-	-	-	15	15
Interest accrued on impaired loans and other receivables	-	-	-	-	-
<b>At 31 December 2016</b>	<b>(14.099)</b>	<b>(35.630)</b>	<b>-</b>	<b>(3.176)</b>	<b>(51.615)</b>
	Corporate	SME	Consumer	Other	Total
<b>At 1 January 2015</b>	<b>(14.452)</b>	<b>(2.488)</b>	<b>-</b>	<b>(1.498)</b>	<b>(18.438)</b>
Charge for the year	(5.506)	(37.882)	-	(710)	(44.098)
Recoveries	581	313	-	596	1.490
Amounts written off	29	-	-	-	29
Interest accrued on impaired loans and other receivables	-	-	-	-	-
<b>At 31 December 2015</b>	<b>(19.348)</b>	<b>(40.057)</b>	<b>-</b>	<b>(1.612)</b>	<b>(61.017)</b>

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON FINANCIAL STATEMENTS (Continued)

##### I. Explanations and disclosures related to the assets (continued)

##### 5. Information on loans (continued)

##### 5.m Other explanations and disclosures (continued):

A breakdown of the allowance for impairment losses is given below:

Current Period	Corporate	SME	Consumer	Other	Total
Individual impairment	(14.099)	(35.630)	-	(3.176)	(51.615)
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	14.099	35.630	-	3.176	51.615
Prior Period	Corporate	SME	Consumer	Other	Total
Individual impairment	(19.348)	(40.057)	-	(1.612)	(61.017)
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	19.348	40.057	-	1.612	61.017

Movements in the allowance for impairment losses and advances are as follows:

	Current Period	Prior Period
<b>At 1 January</b>	<b>61.017</b>	<b>18.438</b>
Charge for the year	3.566	44.098
Recoveries	(12.953)	(1.490)
Amounts written off	(15)	(29)
Interest accrued on impaired loans and other receivables	-	-
<b>At 31 December</b>	<b>51.615</b>	<b>61.017</b>
Individual impairment	(51.615)	(61.017)
Gross amount of loans, individually determined to be impaired, (before deducting any individually assessed impairment allowance)	51.615	61.017

Of the total aggregate amount of gross past due but not yet impaired loans and other receivables, the fair value of collaterals, capped with the respective outstanding loan balance as of are shown below:

	Current Period	Prior Period
Residential, commercial and industrial property	13.608	11.230
Financial assets	-	-
Other (bailment, pledge for vehicles and ship)	5.514	-
<b>Total</b>	<b>19.122</b>	<b>11.230</b>

Loans and other receivables amounting to TL 11.687.620 have floating interest rates (31 December 2015: TL 9.992.711) and the remaining TL 5.648.425 have fixed interest rates (31 December 2015: TL 3.640.418).

##### 6. Information on held-to-maturity investments

##### 6.1 The information was subjected to repo transactions and given as collateral/blocked amount of investments

	Current Period		Prior Period	
	TL	FC	TL	FC
Collateralised/Blocked Investments	-	186.736	-	-
Subject to Repurchase Agreements	129.784	-	714.229	-
<b>Total</b>	<b>129.784</b>	<b>186.736</b>	<b>714.229</b>	<b>-</b>

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#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### I. Explanations and disclosures related to the consolidated assets (continued)

##### 6. Information on held-to-maturity investments (continued)

##### 6.2 Information on public sector debt investments held-to-maturity

	Current Period	Prior Period
Government Bonds	1.375.729	872.602
Treasury Bills	-	-
Other Public Sector Debt Securities	-	-
<b>Total</b>	<b>1.375.729</b>	<b>872.602</b>

##### 6.3 Information on held-to-maturity investments

	Current Period	Prior Period
<b>Debt Securities</b>		
Quoted on a Stock Exchange	1.188.990	715.194
Not Quoted	186.739	157.408
Impairment provision (-)	-	-
<b>Total</b>	<b>1.375.729</b>	<b>872.602</b>

##### 6.4 Movement of held-to-maturity investments within the year

	Current Period	Prior Period
<b>Balance at Beginning of the Period</b>	<b>872.602</b>	<b>-</b>
Foreign Currency Differences on Monetary Assets	31.581	(789)
Purchases During The Period <sup>(*)</sup>	417.241	851.290
Disposals Through Sales And Redemptions	(1.597)	(5.832)
Impairment Provision (-)	-	-
Interest Income Accruals	55.902	27.933
<b>Balance at End of Period</b>	<b>1.375.729</b>	<b>872.602</b>

<sup>(\*)</sup> The CPI indexed government bonds with the nominal value of TL 339.321 are reclassified to held to maturity investments in current period. The Bank reclassified the "Eurobond" with nominal value of USD 34.577 from financial assets held-to-maturity portfolio and nominal value of TL 533.626 from "CPI indexed government bonds" to investments in available-for-sale portfolio in the prior period.

##### 7. Information on investments in associates (net):

##### 7.a.1 As per Communiqué on Preparation of Consolidated Financial Statements of Banks and Turkish Accounting Standards unconsolidated associates and reason of unconsolidating:

Unconsolidated non-financial associates are valued at cost.

##### 7.a.2 Information on unconsolidated associates:

Title	Address (City/ Country)	Bank's share percentage-If different voting percentage (%)	Bank's risk group share percentage (%)
1 Terme Metal Sanayi ve Ticaret A.Ş. (Terme)	Istanbul/Turkey	17,83	18,76
2 Ege Tarım Ürünleri Lisanslı Depoculuk A.Ş. (Ege Tarım)	Izmir/Turkey	10,05	20,10

Non-financial associates, as above, are not consolidated in accordance with the Communiqué on "Preparing Consolidated Financial Statements of the Banks".

	Total Assets	Equity	Total Fixed Assets	Interest Income	Income from Marketable Securities Portfolio	Current Period Profit /Loss	Prior Period Profit/ Loss	Fair Value
1 Terme <sup>(*)</sup>	15.466	3.677	231	364	-	26	75	-
2 Ege Tarım	11.253	11.096	8.078	118	-	(412)	(172)	-

<sup>(\*)</sup> Represents for the period ended 30 September 2016 financial statements. Prior year profit/loss is obtained from 30 September 2015 financial statements.

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#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### I. Explanations and disclosures related to the consolidated assets (continued)

##### 7. Information on investments in associates (net) (continued):

##### Information on associates disposed in the current period

In the current period the Group has not disposed any associates.

##### Information on associates purchased in the current period

In the current period the Group has not purchased any associates.

##### 7.a.3 Information on the consolidated associates:

Title	Address (City/ Country)	Bank's share percentage- If different voting percentage (%)	Bank's risk group share percentage (%)
1 İş Faktoring A.Ş. (İş Faktoring)	Istanbul/Turkey	21,75	100,00
2 İş Finansal Kiralama A.Ş. (İş Finansal)	Istanbul/Turkey	28,56	57,33
3 İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. (İş Girişim)	Istanbul/Turkey	16,65	57,99

	Total Assets	Equity	Total Fixed Assets	Interest Income	Income from Marketable Securities Portfolio	Current Period Profit/Loss	Prior Period Profit/Loss	Fair Value
1 İş Faktoring	3.025.426	128.821	677	160.940	-	32.939	24.167	-
2 İş Finansal	4.508.334	755.147	16.751	292.573	-	81.800	81.481	190.820
3 İş Girişim	258.805	256.161	82	11.199	7.721	1.060	773	18.651

	Current Period	Prior Period
<b>Balance at the Beginning of the Period</b>	<b>291.988</b>	<b>261.745</b>
Movements During the Period	30.934	30.243
Purchases	-	927
Bonus Shares Received	-	-
Current Year Share of Profit	38.805	35.279
Sales	-	-
Revaluation Increase	-	-
Provision for Impairment	(7.871)	(5.963)
<b>Balance at the End of the Period</b>	<b>322.922</b>	<b>291.988</b>
Capital Commitments	-	-
Share Percentage at the End of the Period (%)	-	-

##### Information on associates disposed in the current period

In the current period the Group has not disposed any associates.

##### Information on associates purchased in the current period

In current period The Bank has obtained TL 19.993 bonus shares from İş Finansal Kiralama A.Ş.'s TL 70.000 capital increase.

##### 7.a.4 Sectoral information of consolidated associates and the related carrying amounts in the legal books:

	Current Period	Prior Period
Banks	-	-
Insurance Companies	-	-
Factoring Companies	56.801	44.018
Leasing Companies	222.466	203.964
Financial Service Companies	-	-
Other Financial Associates	43.655	44.006



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#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### I. Explanations and disclosures related to the consolidated assets (continued)

##### 7. Information on investments in associates (net) (continued):

##### 7.a.5 Information on consolidated associates quoted on stock market:

	Current Period	Prior Period
Associates Quoted on Domestic Stock Markets	266.121	247.970
Associates Quoted on Foreign Stock Markets	-	-

##### 8. Information related to subsidiaries (net)

##### 8.a.1 Information related to equity component of subsidiaries:

	YF <sup>(*)</sup>	TSKB GYO <sup>(*)</sup>
	Current Period	Current Period
<b>CORE CAPITAL</b>		
Paid-in Capital	63.504	150.000
Share Premium	-	593
Legal Reserves	2.514	8.787
Other Comprehensive Income according to TAS	(120)	(29)
Current and Prior Years' Profit / Loss	(181)	38.818
Leasehold Improvements (-)	(826)	-
Intangible Assets (-)	(1.131)	(13)
<b>Total Core Capital</b>	<b>63.760</b>	<b>198.156</b>
<b>Supplementary Capital</b>	<b>-</b>	<b>-</b>
<b>Capital</b>	<b>-</b>	<b>-</b>
<b>Net Available Capital</b>	<b>63.760</b>	<b>198.156</b>

<sup>(\*)</sup> The information is obtained from financial statements subject to consolidation as of 31 December 2016.

	YF <sup>(*)</sup>	TSKB GYO <sup>(*)</sup>
	Prior Period	Prior Period
<b>CORE CAPITAL</b>		
Paid-in Capital	64.275	150.000
Share Premium	-	593
Legal Reserves	4.730	5.721
Other Comprehensive Income according to TAS	(73)	(27)
Current and Prior Years' Profit / Loss	2.855	68.024
Leasehold Improvements (-)	(1.231)	-
Intangible Assets (-)	(344)	(21)
<b>Total Core Capital</b>	<b>70.212</b>	<b>224.290</b>
<b>Supplementary Capital</b>	<b>-</b>	<b>-</b>
<b>Capital</b>	<b>-</b>	<b>-</b>
<b>Net Available Capital</b>	<b>70.212</b>	<b>224.290</b>

<sup>(\*)</sup> The information is obtained from financial statements subject to consolidation as of 31 December 2015.

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#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### I. Explanations and disclosures related to the consolidated assets (continued)

##### 8. Information related to subsidiaries (net) (continued)

##### 8.a.1 Information related to equity component of subsidiaries (continued):

Paid in capital has been indicated as Turkish Lira in articles of incorporation and registered in trade registry. Effect of inflation adjustments on paid in capital is the difference caused by the inflation adjustment on shareholders' equity items. Extraordinary reserves are the status reserves which have been transferred with the General Assembly decision after distributable profit have been transferred to legal reserves. Legal reserves are the status reserves which have been transferred from distributable profit in accordance with the Article of 519 of the Turkish Commercial Code No 6102.

The Parent Bank's internal capital adequacy assessment process is made annually on a consolidated basis. Consolidated subsidiaries and associates are included in the assessment.

##### 8.a.2 As per Communiqué on Preparation of Consolidated Financial Statements of Banks and Turkish Accounting Standards unconsolidated subsidiaries and reason of unconsolidating and needed capital if they are subject to capital requirement:

TSKB Gayrimenkul Değerleme A.Ş., and TSKB Sürdürülebilirlik Danışmanlığı A.Ş. are valued at cost and are not consolidated since they are not financial subsidiaries. Unconsolidated subsidiaries of the Parent Bank are not subject to minimum capital requirement.

##### 8.a.3 Information related to unconsolidated subsidiaries:

Title	Address (City/ Country)	Bank's share percentage-If different voting percentage (%)	Bank's risk group share percentage (%)
1 TSKB Gayrimenkul Değerleme A.Ş. (TSKB GMD)	Istanbul /Türkiye	59,00	72,48
2 TSKB Sürdürülebilirlik Danışmanlığı A.Ş. (TSKB SD)	Istanbul/Türkiye	80,65	99,42

	Total Assets	Shareholders' Equity	Total Fixed Assets	Interest Income	Income from Marketable Securities Current Period Profit/Loss	Prior Period Profit/Loss	Fair Value
1 TSKB GMD <sup>(1)</sup>	18.544	14.074	1.211	807	-	3.290	1.511
2 SD A.Ş. <sup>(1)</sup>	1.463	1.314	16	98	-	(293)	235

<sup>(1)</sup>The financial data are belongs to period ended 31 December 2016. The prior profit/loss has taken from the table belongs to 31 December 2015.

##### Subsidiaries disposed in the current period

In the current period, the Group has not disposed any subsidiaries.

##### Subsidiaries purchased in the current period

The share of TSKB Sürdürülebilirlik Danışmanlığı A.Ş. increased in the amount of TL 1 million from TL 240 thousand to TL 1.24 million in the registry date of 20 July 2016 that is the bank's subsidiary share indirectly by Yatırım Finansman Menkul Değerler A.Ş. Equity interest of the Bank in the company has increased to 80,65%.

##### 8.a.4 Information related to consolidated subsidiaries:

Title	Address (City/ Country)	Bank's share percentage-If different voting percentage (%)	Bank's risk group share percentage (%)
1 Yatırım Finansman Menkul Değerler A.Ş.(YF)	Istanbul /Turkey	99,99	99,99
2 TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. (TSKB GYO)	Istanbul/Turkey	59,00	72,18

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#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### I. Explanations and disclosures related to the consolidated assets (continued)

##### 8. Information related to subsidiaries (net) (continued)

	Total Assets	Equity	Total Fixed Assets	Interest Income	Income from Marketable Securities Portfolio	Current Period Profit/Loss	Prior Period Profit/Loss	Fair Value
YF <sup>(*)</sup>	813.799	65.717	2.172	32.812	1.417	(6.161)	(2.194)	-
TSKB GYO <sup>(*)</sup>	439.411	198.168	433	480	-	(26.140)	12.381	57.879

<sup>(\*)</sup> The consolidated financial data of the subsidiaries are prepared in accordance with BRSA regulations.

Unconsolidated movement related subsidiaries subjected to consolidation is as follows:

	Current Period	Prior Period
<b>Balance at the Beginning of the Period</b>	<b>122.320</b>	<b>133.825</b>
Movements During the Period	6.664	(11.505)
Purchases	-	-
Bonus Shares Obtained	-	-
Current Year Shares of Profit	-	-
Sales	-	-
Revaluation Increase	5.664	-
Provision for Impairment	-	(11.505)
<b>Balance At the End of the Period</b>	<b>127.984</b>	<b>122.320</b>
Capital Commitments	-	-
Share Percentage at the End of the Period (%)	-	-

According to the principles of consolidation accounting, the cost values of the consolidated subsidiaries have been deducted from the accompanying consolidated financial statements.

##### *Subsidiaries disposed in the current period*

At the meeting of Board of Directors dated 18 November 2016 of TSKB Gayrimenkul Yatırım Ortaklığı A.Ş., which is the subsidiary of the Bank, considering the investment strategy within the scope of increasing the current rental income and diversifying the portfolio of TSKB GYO and considering the synergy to be created as a result of the merger with İş Gayrimenkul Yatırım Ortaklığı A.Ş. it has been decided to initiate merger negotiations in accordance with the Capital Markets Law no. 6362, Communiqué on the Common Principles Regarding Significant Transactions and the Retirement Right (II-23.1), Communiqué on Merger and Demerger (II.23.2), Turkish Commercial Code No:6102, Corporate Tax Law no:5520 and other relevant legislations. As of the report date the merger negotiations are proceeding.

##### *Subsidiaries purchased in the current period*

In the current period, the Group has not purchased any subsidiaries.

##### 8.a.5 Sectoral information on consolidated subsidiaries and the related carrying amounts in the legal books:

Subsidiaries	Current Period	Prior Period
Banks	-	-
Insurance Companies	-	-
Factoring Companies	-	-
Leasing Companies	-	-
Financial Service Companies	-	-
Other Financial Subsidiaries	127.984	122.320

##### 8.a.6 Subsidiaries quoted on stock exchange:

	Current Period	Prior Period
Quoted in Domestic Stock Exchange	57.879	52.215
Quoted in Foreign Stock Exchange	-	-

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#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### I. Explanations and disclosures related to the consolidated assets (continued)

##### 9. Information related to entities under common control

TSKB GYO, one of the subsidiaries of the Parent Bank, established a joint venture with Bilici Yatırım Sanayi ve Ticaret A.Ş. in Adana under the name of Adana Otel Projesi Adi Ortaklığı ("Adana Hotel Project") on 26 May 2011 and Anavarza Otelcilik Anonim Şirketi on 27 March 2015.

The main operations of Adana Hotel Project is to start, execute and complete the hotel project which will be operated by Palmira Turizm Ticaret A.Ş. The capital structure of the joint venture is designated as 50% of participation for Bilici Yatırım Sanayi ve Ticaret A.Ş. and 50% of participation for TSKB GYO. The nominal paid-in capital of Adana Hotel Project comprises 20.000 shares of TL 1 (full) for each amounting to TL 20 in total. TSKB GYO has paid TL 10 in cash for the 50% ownership in Adana Hotel Project. The hotel has completed and started operations on 1 September 2015.

The main line of business of Anavarza Otelcilik Anonim Şirketi is tourism oriented hotels, motels, accommodation facilities, gastronomy, sports, entertainment and health care. The capital structure of the corporation is designated with 50% participation of Bilici Yatırım Sanayi ve Ticaret A.Ş. and 50% participation of the corporation itself. The nominal paid-in capital of the Anavarza Otelcilik A.Ş. comprises 2.000.000 shares of TL 1 for each amounting to TL 2.000 in total. As of 2 November 2015, paid-in capital of Anavarza Otelcilik has been increased from TL 2.000 to TL 3.500 in cash. TSKB GYO is paid out total of TL 1.750 in cash that corresponding to 50% capital of the company.

	Total Assets	Equity	Total Fixed Assets	Interest Income	Securities Income	Current Year Profit /Loss	Prior Year Profit /Loss	Fair Value
Adana Hotel Project	14.240	(7.023)	12.388	-	-	(2.420)	(4.623)	-
Anavarza Hotelier Corporation	2.930	(7)	169	10	-	(548)	(2.945)	-

##### 10. Information on finance lease receivables (net)

##### 10.a Maturities of investments on finance leases:

	Current Period		Prior Period	
	Gross	Net	Gross	Net
Less than 1 year	1.552	1.367	98	-
Between 1- 4 years	1.704	1.455	-	-
More than 4 years	1.137	970	-	-
<b>Total</b>	<b>4.393</b>	<b>3.792</b>	<b>98</b>	<b>-</b>

##### 10.b The information on net investments in finance leases:

	Current Period	Prior Period
<b>Gross investments in finance leases</b>	<b>4.393</b>	<b>98</b>
Unearned revenue from finance leases (-)	(601)	(98)
Cancelled finance leases (-)	-	-
<b>Net investments in finance leases</b>	<b>3.792</b>	<b>-</b>

10.c Explanation with respect to finance lease agreements, the criteria used in determination of contingent rents, conditions for revisions or purchase options, updates of leasing amounts and the restrictions imposed by lease arrangements, whether arrays in repayment occur, whether the terms of the contract are renewed, if renewed, the renewal conditions, whether the renewal results any restrictions, and other important conditions of the leasing agreement:

Finance lease agreements are made in accordance with the related articles of the Financial Leasing, Factoring and Financing Company Law No. 6361. There are no restructuring or restrictions having material effect on financial statements.

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#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### I. Explanations and disclosures related to the consolidated assets (continued)

##### 11. Information on derivative financial assets for hedging purposes

	Current Period		Prior Period	
	TL	FC	TL	FC
Fair Value Hedge	-	272	-	4.093
Cash Flow Hedge	-	-	-	-
Hedge of net investment in foreign operations	-	-	-	-
<b>Total</b>	<b>-</b>	<b>272</b>	<b>-</b>	<b>4.093</b>

As of 31 December 2016, the net fair value of derivative financial instruments designated as hedging instruments carried in the contract amount and the balance sheet are summarized in the following table:

	Current Period			Prior Period		
	Face Value	Asset	Liability	Face Value	Asset	Liability
Interest Rate Swap	7.747.800	272	(51.433)	4.689.900	4.093	(5.799)
FC	7.747.800	272	(51.433)	4.689.900	4.093	(5.799)
TL	-	-	-	-	-	-

##### 11.a.1 Information on fair value hedge accounting

Current Period		Type of Risk	Fair Value Change of Hedged Item <sup>(1)</sup>	Fair Value of Hedging Instrument		Income St Effect (Profit/Loss Through Derivative Financial Instruments)
Hedging Item	Hedged Item			Asset	Liability	
Interest Rate Swap Transactions	Fixed Rate Eurobond and Green bond Issued	Interest Rate Risk	44.374	(49.238)	-	(4.864)
Interest Rate Swap Transactions	Fixed Rate Loans Used	Interest Rate Risk	3.880	(4.378)	-	(498)

<sup>(1)</sup> The fair value of hedged item is presented as net market value less credit risk and accumulated interest.

##### Prior Period

		Type of Risk	Fair Value Change of Hedged Item <sup>(1)</sup>	Fair Value of Hedging Instrument		Income St Effect (Profit/Loss Through Derivative Financial Instruments)
Hedging Item	Hedged Item			Asset	Liability	
Interest Rate Swap Transactions	Fixed Rate Eurobond and Green bond Issued	Interest Rate Risk	3.814	-	(5.980)	(2.166)
Interest Rate Swap Transactions	Fixed Rate Loans Used	Interest Rate Risk	376	-	(1.461)	(1.085)

<sup>(1)</sup> The fair value of hedged item is presented as net market value less credit risk and accumulated interest.

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#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### I. Explanations and disclosures related to the consolidated assets (continued)

#### 12. Information on tangible assets (net)

As of the third quarter of the 2015, the Bank changed its accounting policy and adopted revaluation method for real estates under scope of TAS 16. In 2016 revaluation difference TL 26.705 (31 December 2015: TL 175.285) which are determined by the certified valuation companies, authorized by CMB and BRSA, are recorded under the shareholders' equity.

Current Period	Prior Period End	Current Period Additions	Current Period Disposals	Revaluation Surplus	Current Period End
Cost					
Land and buildings	197.289	1.931	-	26.705	225.925
Assets held under finance leases	5.250	-	(8)	-	5.242
Vehicles	1.604	-	(129)	-	1.475
Assets held for resale	576	-	-	-	576
Other	25.715	2.363	(2.599)	-	25.479
<b>Total Cost</b>	<b>230.434</b>	<b>4.294</b>	<b>(2.736)</b>	<b>26.705</b>	<b>258.697</b>
Accumulated depreciation				-	
Land and buildings	995	(480)	-	-	515
Assets held under finance leases	(4.884)	(123)	8	-	(4.999)
Vehicles	(656)	(267)	98	-	(825)
Assets held for resale	(3)	-	3	-	-
Other	(18.673)	(3.709)	529	-	(21.853)
<b>Total accumulated depreciation</b>	<b>(23.221)</b>	<b>(4.579)</b>	<b>638</b>	<b>-</b>	<b>(27.162)</b>
Impairment provision				-	
Land and buildings	-	-	-	-	-
Assets held under finance leases	-	-	-	-	-
Vehicles	-	-	-	-	-
Assets held for resale	(186)	(21)	-	-	(207)
Other	-	-	-	-	-
<b>Total impairment provision</b>	<b>(186)</b>	<b>(21)</b>	<b>-</b>	<b>-</b>	<b>(207)</b>
<b>Net book value</b>	<b>207.027</b>	<b>(306)</b>	<b>(2.098)</b>	<b>26.705</b>	<b>231.328</b>

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS ARE EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### I. Explanations and disclosures related to the consolidated assets (continued)

##### 12. Explanations on tangible assets (net) (continued)

Prior Period	Prior Period End	Current Period Additions	Current Period Disposals	Revaluation Surplus	Current Period End
Cost					
Land and buildings	38.870	753	-	157.666	197.289
Assets held under finance leases	5.305	-	(55)	-	5.250
Vehicles	1.426	329	(151)	-	1.604
Assets held for resale	1.786	-	(1.210)	-	576
Other	24.176	19.647	(18.108)	-	25.715
<b>Total Cost</b>	<b>71.563</b>	<b>20.729</b>	<b>(19.524)</b>	<b>157.666</b>	<b>230.434</b>
Accumulated depreciation					
Land and buildings	(21.894)	(897)	4.167	17.619	(1.005)
Assets held under finance leases	(4.813)	(126)	55	-	(4.884)
Vehicles	(475)	(292)	111	-	(656)
Assets held for resale	(18)	(13)	28	-	(3)
Other	(17.732)	(2.564)	3.623	-	(16.673)
<b>Total accumulated depreciation</b>	<b>(44.932)</b>	<b>(3.892)</b>	<b>7.984</b>	<b>17.619</b>	<b>(23.221)</b>
Impairment provision					
Land and buildings	-	-	-	-	-
Assets held under finance leases	-	-	-	-	-
Vehicles	-	-	-	-	-
Assets held for resale	(177)	(42)	33	-	(186)
Other	-	-	-	-	-
<b>Total impairment provision</b>	<b>(177)</b>	<b>(42)</b>	<b>(33)</b>	<b>-</b>	<b>(186)</b>
<b>Net book value</b>	<b>26.454</b>	<b>16.795</b>	<b>(11.507)</b>	<b>175.285</b>	<b>207.027</b>

12.a If impairment amount on individual asset recorded or reversed in the current period is material for the overall financial statements:

12.a.1 Events and conditions for recording or reversing impairment:

The Parent Bank recorded 5% impairment provision per year for asset held for sale and tangible assets that are not depreciated.

12.a.2 Amount of recorded or reversed impairment in the financial statements:

In the current period, the Parent Bank recorded impairment of TL 21 and there is no reversal of impairment (31 December 2015: TL 42 impairment, there is no reversal of impairment).

12.b The impairment provision set or cancelled in the current period according to the asset groups not individually significant but materially affecting the overall financial statements, and the reason and conditions for this:

There is no impairment provision on individual asset set or cancelled in the current period, other than impairment on properties referred to above (31 December 2015: None).

##### 13. Information on intangible assets

##### 13.a Useful lives and amortization rates used:

Tangible assets, purchased before 1 January 2005, are accounted for at their restated costs as of 31 December 2004 and the assets purchased in the following periods are accounted for at acquisition cost less accumulated depreciation and reserve for impairment.

Rental or administrative purposes or other unspecified purposes of assets that under construction will be amortised when they are ready to use.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES

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#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### I. Explanations and disclosures related to the consolidated assets (continued)

##### 13. Information on intangible assets (continued)

##### 13.b Amortization methods used:

The intangible assets are amortized principally on straight line basis which amortize the assets over their expected useful lives.

##### 13.c Cost and accumulated amortization at the beginning and end of the period:

Current Period	Beginning of Period		End of Period	
	Gross Book Value	Accumulated Amortization	Gross Book Value	Gross Book Value
Software	3.534	(2.483)	5.232	(3.139)
Goodwill	1.005	-	1.005	-

Prior Period	Beginning of Period		End of Period	
	Gross Book Value	Accumulated Amortization	Gross Book Value	Gross Book Value
Software	5.571	(4.403)	3.534	(2.483)
Goodwill	1.005	-	1.005	-

##### 13.d Movement of cost and accumulated amortization for the period:

Current Period	Closing Balance of Prior Period	Current Year Additions	Current Year Disposals	Closing Balance of Current Period
Cost				
Software	3.534	1.698	-	5.232
Goodwill	1.005	-	-	1.005
<b>Total Cost</b>	<b>4.539</b>	<b>1.698</b>	<b>-</b>	<b>6.237</b>
Accumulated Amortization				
Software	(2.483)	(656)	-	(3.139)
Goodwill	-	-	-	-
<b>Total Accumulated Amortization</b>	<b>(2.483)</b>	<b>(656)</b>	<b>-</b>	<b>(3.139)</b>
Impairment Provision				
Software	-	-	-	-
<b>Total Impairment Provision</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Book Value</b>	<b>2.056</b>	<b>1.042</b>	<b>-</b>	<b>3.098</b>

Prior Period	Closing Balance of Prior Period	Current Year Additions	Current Year Disposals	Closing Balance of Current Period
Cost				
Software	5.571	407	(2.444)	3.534
Goodwill	1.005	-	-	1.005
<b>Total Cost</b>	<b>6.576</b>	<b>407</b>	<b>(2.444)</b>	<b>4.539</b>
Accumulated Amortization				
Software	(4.403)	(524)	2.444	(2.483)
Goodwill	-	-	-	-
<b>Total Accumulated Amortization</b>	<b>(4.403)</b>	<b>(524)</b>	<b>2.444</b>	<b>(2.483)</b>
Impairment Provision				
Software	-	-	-	-
<b>Total Impairment Provision</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Book Value</b>	<b>2.173</b>	<b>(117)</b>	<b>-</b>	<b>2.056</b>



# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES

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### FOR THE YEAR ENDED 31 DECEMBER 2016

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#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### I. Explanations and disclosures related to the consolidated assets (continued)

##### 13. Information on intangible assets (continued)

##### 13.e The net book value, description and the remaining amortization period of any material individual intangible asset in the financial statements:

As of the reporting date, the Group has no individual intangible asset which is material to the financial statements as a whole (31 December 2015: None).

##### 13.f Disclosure for intangible assets acquired through government grants and accounted for at fair value at initial recognition:

As of the reporting date, the Group has no intangible assets acquired through government grants (31 December 2015: None).

##### 13.g The method of subsequent measurement for intangible assets that are acquired through government incentives and recorded at fair value at the initial recognition:

As of the reporting date, the Group has no intangible assets acquired with government incentives (31 December 2015: None).

##### 13.h The book value of intangible assets that are pledged or restricted for use:

As of the reporting date, the Group has no intangible assets with restricted use or pledged (31 December 2015: None).

##### 13.i Amount of purchase commitments for intangible assets:

As of the reporting date, the Group has no purchase commitments for intangible assets (31 December 2015: None).

##### 13.j Information on revalued intangible assets according to their types:

The Group did not revalue its intangible assets as at the reporting date (31 December 2015: None).

##### 13.k Amount of total research and development expenses recorded in income statement within the period, if any:

The Group has no research and development costs expensed in the current period (31 December 2015: None).

##### 13.l Information on goodwill:

Goodwill on Consolidation	Effective Share Rate %	Carrying Amount
Yatırım Finansman Menkul Değerler A.Ş.	95,78	1.005

##### 13.m The carrying value of goodwill at beginning and end of the period, and movements within the period:

	Current Period	Prior Period
Net Value at the Beginning of the Period	1.005	1.005
Changes in the Period:	-	-
Additional Goodwill	-	-
Restatements Arising from Changes in Assets and Liabilities	-	-
Goodwill Written off due to Discontinued Operations or Partial/Full Derecognizing of an Asset (-)	-	-
Impairment Loss (-)	-	-
Reversal of Impairment loss (-)	-	-
Changes in Carrying Value	-	-
<b>Net Value at the End of Period</b>	<b>1.005</b>	<b>1.005</b>

##### 13.n The carrying value of negative goodwill at beginning and end of the period, and movements within the period:

As of the reporting date, the Group has no negative goodwill in the accompanying financial statements (31 December 2015: None).

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(AMOUNTS ARE EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### I. Explanations and disclosures related to the consolidated assets (continued)

##### 14. Information on investment properties

In the current period, the Group has three investment properties with a net book value of TL 231.323 (31 December 2015: TL 241.293) belonging to the Parent Bank's subsidiary operating in the real-estate investment trust sector. Investment properties movement table as of 31 December 2016 and 31 December 2015 is as follows:

Current Period	Opening Balance of Current Period	Additions	Disposals	Change in Fair Value	Closing Balance of Current Period
Tahir Han	19.905	-	-	3.115	23.020
Pendorya Mall	156.975	191	(14)	(13.462)	143.690
Adana Hotel Project	64.413	1.007	-	(807)	64.613
<b>Total</b>	<b>241.293</b>	<b>1.198</b>	<b>(14)</b>	<b>(11.154)</b>	<b>231.323</b>

Prior Period	Closing Balance of Prior Period	Additions	Disposals	Change in Fair Value	Closing Balance of Prior Period
Tahir Han	15.460	-	-	4.445	19.905
Pendorya Mall	168.400	1.281	-	(12.706)	156.975
Adana Hotel Project	40.230	14.727	(2)	9.458	64.413
<b>Total</b>	<b>224.090</b>	<b>16.008</b>	<b>(2)</b>	<b>1.197</b>	<b>241.293</b>

##### 15. Information on deferred tax assets

##### 15.a Temporary differences, tax losses, exemptions and deductions reflected to balance sheet as deferred tax asset:

The Group has computed deferred tax asset or liability on "temporary differences" arising from carrying values of assets and liabilities in the accompanying financial statements and their tax bases.

Deferred tax asset:	Current period	Prior period
Loan commissions accrual adjustment	17.378	16.103
Other provisions	18.003	12.008
Marketable securities	2.149	-
Employee benefit provision	2.151	2.053
Valuation of derivative instruments	-	5.943
Other	3.848	5.028
<b>Total Deferred Tax Asset</b>	<b>43.529</b>	<b>41.135</b>
Deferred tax liabilities:		
Marketable securities	-	(2.694)
Borrowings commissions accrual adjustment	(8.791)	(7.265)
Valuation of derivative instruments	(2.958)	-
Useful life difference of fixed assets	(457)	(402)
Others	(13.141)	(2.975)
<b>Total Deferred Tax Liability</b>	<b>(25.347)</b>	<b>(13.336)</b>
<b>Net Deferred Tax Asset</b>	<b>18.182</b>	<b>27.799</b>

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş AND ITS SUBSIDIARIES

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#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### I. Explanations and disclosures related to the consolidated assets (continued)

15.b Temporary differences over which deferred tax asset are not computed and recorded in the balance sheet in prior periods, if so, their expiry date, losses and tax deductions and exceptions:

There is no deductible temporary differences that are not included in calculation of deferred tax asset and not reflected to financial statements in prior periods. YF has deferred tax asset amounting to TL 3.035 calculated from tax losses amounting to TL 15.175 (31 December 2015: TL 21.580 tax loss / TL 4.316 deferred tax asset). Deferred tax was not calculated over the YF's tax losses amounting to TL 10.940.

15.c Allowance for deferred tax and deferred tax assets from reversal of allowance:

There is no allowance for deferred tax and deferred tax assets from reversal of allowance (31 December 2015: None).

16. Explanations on assets held for sale:

In the current period, the Group has no assets held for sale (31 December 2015: None).

17. Information about other assets

17.a Other assets which exceed 10% of the balance sheet total and breakdown of these which constitute at least 20% of grand total:

Other assets do not exceed 10% of total assets, excluding off-balance sheet commitments (31 December 2015: None).

##### II. Explanations and disclosures related to the consolidated liabilities

1. Information on maturity structure of deposits

1.a.1 Maturity structure of deposits:

The Parent Bank is not authorized to accept deposits.

1.a.2 Information on saving deposits under the guarantee of saving deposit insurance fund and exceeding the limit of deposit insurance fund:

The Parent Bank is not authorized to accept deposits.

1.b Information on the scope whether the bank with a foreign head office suits saving deposit insurance of the related country:

The Parent Bank is not authorized to accept deposits.

1.c Saving deposits which are not under the guarantee of deposit insurance fund:

The Parent Bank is not authorized to accept deposits.

2. Negative differences table related to derivative financial liabilities held-for-trading

Derivative Financial Liabilities Held For Trading	Current Period		Prior Period	
	TL	FC	TL	FC
Forward Transactions	13.094	4.779	753	1.348
Swap Transactions	101.915	75.382	43.699	55.518
Futures Transactions	-	-	-	-
Options	-	125.627	-	73.632
Other	-	-	-	-
<b>Total</b>	<b>115.009</b>	<b>205.788</b>	<b>44.452</b>	<b>130.498</b>

The Parent Bank has entered into extinguishing cross-currency interest rate swaps as part of its strategy to hedge TL denominated fixed rate assets. These swap arrangements provide that, on the occurrence of certain credit-related events in relation to the company (such as failure to make a payment), the swap arrangements may immediately terminate with no further payments due and payable by either party. As of 31 December 2016, the fair value of such swaps is TL 61.730 with a total outstanding notional amount of USD 150 million. The average maturity of such swaps range between 2020 and 2021 years.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES

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### FOR THE YEAR ENDED 31 DECEMBER 2016

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#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### II. Explanations and disclosures related to the consolidated liabilities (continued)

##### 3. Information on banks and other financial institutions

##### 3.a Information on banks and other financial institutions:

	Current Period		Prior Period	
	TL	FC	TL	FC
Loans from Central Bank of Turkey	-	-	-	-
From Domestic Banks and Institutions	47.169	313.101	186.611	306.291
From Foreign Banks, Institutions and Funds	100.083	15.667.143	69.001	12.879.928
<b>Total</b>	<b>147.252</b>	<b>15.980.244</b>	<b>255.612</b>	<b>13.186.219</b>

##### 3.b Maturity analysis of funds borrowed:

	Current Period		Prior Period	
	TL	FC	TL	FC
Short-term	47.180	73.741	59.544	56.360
Medium and long-term	100.072	15.906.503	196.068	13.129.859
<b>Total</b>	<b>147.252</b>	<b>15.980.244</b>	<b>255.612</b>	<b>13.186.219</b>

##### 3.c Additional information about the concentrated areas of liabilities:

	Current Period		Prior Period	
	TL	FC	TL	FC
Nominal	-	3.490.000	-	2.026.500
Cost	-	3.476.185	-	2.021.606
Book Value	-	3.486.732	-	2.037.571

As of 27 October 2014, the Parent Bank issued the debt instruments which have nominal value of USD 350 Million, redemption date of 30 October 2019 with fixed interest rate of 5,375%, 5 years maturity and semiannual coupon payment. As of 22 April 2015, the Bank has performed the similar issuance of Eurobond with the nominal amount of USD 350 Million. Interest rate of these debt instruments determined as 5,125% which have the redemption date of 22 April 2020 with fixed interest rate, 5 years maturity and semiannual coupon payment. Selling of Greenbond which was issued by the Bank in abroad with nominal value of USD 300 Million, 5 years maturity and for financing the green and sustainable projects has been completed on 18 May 2016. The return of these bonds which have the redemption date of 18 May 2021 and 5 years maturity is determined as 5,048% and the coupon rate as 4,875%.

##### 3.d Additional information about the concentrated areas of liabilities:

Under normal banking operations, the Parent Bank provided funds under repurchase agreements and funds borrowed. Fund resources of the Parent Bank particularly consist of foreign FC funds borrowed and FC and TL repurchase transactions. Information relating to funds provided under repurchase agreements is shown in the table below:

	Current Period		Prior Period	
	TL	FC	TL	FC
From Domestic Transactions	234.353	60.998	2.123.484	45.994
Financial institutions and organizations	208.657	-	2.103.104	1.440
Other institutions and organizations	25.209	58.387	19.821	38.884
Real persons	487	2.611	559	5.670
From Foreign Transactions	3	-	3	-
Financial institutions and organizations	-	-	-	-
Other institutions and organizations	2	-	2	-
Real persons	1	-	1	-
<b>Total</b>	<b>234.356</b>	<b>60.998</b>	<b>2.123.487</b>	<b>45.994</b>

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES

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#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### II. Explanations and disclosures related to the consolidated liabilities (continued)

##### 4. Other liabilities which exceed 10 % of the balance sheet total and the breakdown of these which constitute at least 20 % of grand total

There are no other liabilities which exceed 10% of the balance sheet total (31 December 2015: None).

##### 5. Explanations on financial lease obligations (net)

##### 5.a Explanations on finance lease payables:

The Group has no finance lease payables (31 December 2015: None).

##### 5.b Explanations regarding operational leases:

As of the reporting date, 1 head office building and 11 branches of the Group companies are subject to operational leasing. Additionally, 25 cars and 160 computers are within the context of operational leasing. The Group has no liability for operational leases as of the reporting date (31 December 2015: 1 head office, 13 branches and 28 cars and 100 computers are subject to operational leasing).

##### 5.c Explanations on the lessor and lessee in sale and lease back transactions, agreement conditions, and major agreement terms:

The Group has no sale and lease back transactions as of the reporting date (31 December 2015: None).

##### 6. Information on derivative financial liabilities held for risk management

	Current Period		Prior Period	
	TL	FC	TL	FC
Fair Value Hedge	-	(51.433)	-	(5.799)
Cash Flow Hedge	-	-	-	-
Hedge of net investment in foreign operations	-	-	-	-
<b>Total</b>	<b>-</b>	<b>(51.433)</b>	<b>-</b>	<b>(5.799)</b>

##### 7. Information on provisions

##### 7.a Information on general loan loss provisions:

	Current Period	Prior Period
<b>General Provisions</b>	<b>177.167</b>	<b>144.043</b>
I.Provisions for First Group Loans and Receivables	154.541	124.148
II.Provisions for Second Group Loans and Receivables	3.902	4.522
Provisions for Non-Cash Loans	2.714	2.721
<b>Other</b>	<b>16.010</b>	<b>12.652</b>

##### 7.b Foreign exchange losses on the foreign currency indexed loans and finance lease receivables:

As of the reporting date, the Group's foreign exchange losses on the foreign currency indexed loans amount to TL 247 (31 December 2015: TL 1.776). The foreign exchange losses on the foreign currency indexed loans are net off from the loans line in the financial statements.

##### 7.c The specific provisions provided for unindemnified non cash loans:

As at the reporting date, the Bank's specific provisions provided for unindemnified non cash loan amount to TL 583 (31 December 2015: TL 583).

##### 7.d Information related to other provisions:

##### 7.d.1 Provisions for possible losses:

There is no provision for possible losses (31 December 2015: None).

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS ARE EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### II. Explanations and disclosures related to the consolidated liabilities (continued)

##### 7. Information on provisions (continued)

##### 7.d.2 Information on employee termination benefits and unused vacation accrual:

The Group has calculated reserve for employee termination benefits by using actuarial valuations as set out in the Turkish Accounting Standard No: 19 and reflected the calculated amount to the financial statements.

As of 31 December 2016, employee termination benefits is amounting TL 9.101 reflected in financial statements (31 December 2015: TL 9.068). As of 31 December 2016, the Group has provided a reserve for unused vacation amounting to TL 1.803 (31 December 2015: TL 1.700). This balance is classified under reserve for employee benefits in the financial statements.

The actuarial gains amounting to TL 903 after 1 January 2016 have been accounted under equity in accordance with the revised TAS 19 standard (31 December 2015: TL 384 actuarial loss).

##### Liabilities on pension rights

As explained on the Section Three, Accounting Policies, XVI. Explanations on Liabilities Regarding Employee Benefits as of 31 December 2016, the Group has no obligations on pension rights (31 December 2015: None).

##### Liabilities for pension funds established in accordance with Social Security Institution

None (31 December 2015: None).

##### Liabilities resulting from all kinds of pension funds, foundations etc. which provide post-retirement benefits for the employees

The Parent Bank's present value of the liabilities of TSKB A.Ş. Memur ve Müstahdemleri Yardım ve Emekli Vakfı fund, subject to the transfer to the Social Security Institution of the Pension Fund as of 31 December 2016 has been calculated by an independent actuary in accordance with the actuarial assumptions in the Law and as per actuarial report dated 13 January 2017, there is no need for technical or actual deficit to book provision as of 31 December 2016.

Accordingly, as of 31 December 2016 the Parent Bank has no requirements for the benefits transferable to the fund and for other benefits not transferable to the fund and arising from other social rights and payments covered by the existing trust indenture of the Fund and medical benefits provided for employees in accordance to the law explained in Note 3.16, the accounting policies related with employee benefits.

##### 7.d.3 If other provisions exceeds 10% of total provisions, the name and amount of sub-accounts:

	Current Period	Prior Period
Other Provisions <sup>(*)</sup>	90.962	63.049
<b>Total</b>	<b>90.962</b>	<b>63.049</b>

<sup>(\*)</sup> Other provisions balance includes amount to TL 90.000 for the risks related to loan portfolio, amount to TL 583 for unindemnified non cash loans (31 December 2015: TL 60.000 other provision, and TL 583 provision for non-cash loans which are not indemnified.).

#### 8. Information on taxes payable

##### 8.a Information on current taxes payable

##### 8.a.1 Information on taxes payable:

	Current Period		Prior Period	
Corporate Taxes and Deferred Taxes	TL	FC	TL	FC
Corporate Taxes Payable	5.066	-	41.871	-
Deferred Tax Liability	-	-	-	-
<b>Total</b>	<b>5.066</b>	<b>-</b>	<b>41.871</b>	<b>-</b>

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

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#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### II. Explanations and disclosures related to the consolidated liabilities (continued)

##### 8. Information on taxes payable

##### 8.a.2 Information on taxes payable:

	Current Period	Prior Period
Corporate Taxes Payable	5.066	41.871
Taxation of Securities	753	1.070
Capital gains tax on property	-	-
Banking and Insurance Transaction Tax (BITT)	3.564	3.261
Foreign Exchange Transaction Tax	-	-
Value Added Tax Payable	246	251
Other	1.742	1.607
<b>Total</b>	<b>11.371</b>	<b>48.060</b>

##### 8.a.3 Information on premiums:

	Current Period	Prior Period
Social Security Premiums-Employee	121	119
Social Security Premiums-Employer	135	135
Bank Social Aid Pension Fund Premium-Employee	-	-
Bank Social Aid Pension Fund Premium-Employer	-	-
Pension Fund Membership Fees and Provisions-Employee	-	-
Pension Fund Membership Fees and Provisions-Employer	-	-
Unemployment Insurance-Employee	37	32
Unemployment Insurance-Employer	74	63
Other	41	17
<b>Total</b>	<b>408</b>	<b>366</b>

##### 8.b Explanations on deferred taxes liabilities:

As of the reporting date, the Group has no deferred tax liability (31 December 2015: None).

##### 9. Information on liabilities regarding assets held for sale

None (31 December 2015: None).

##### 10. Explanations on the number of subordinated loans the group used, maturity, interest rate, institution that the loan was borrowed from, and conversion option, if any:

The Parent Bank has signed an agreement with the International Finance Corporation for a subordinated loan of 50 Million US Dollars. The first agreement date of the loan was 21 September 2004. The first usage date was 5 November 2004. Principal of the loan paid on 17 October 2016 as a whole. As at reporting date, there is no subordinated loan.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES

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#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### II. Explanations and disclosures related to the consolidated liabilities (continued)

10. Explanations on the number of subordinated loans the group used, maturity, interest rate, institution that the loan was borrowed from, and conversion option, if any: (continued)

##### Information on subordinated loans

	Current Period		Prior Period	
	TL	FC	TL	FC
From Domestic Banks	-	-	-	-
From Other Domestic Institutions	-	-	-	-
From Foreign Banks	-	-	-	-
From Other Foreign Institutions	-	-	-	145.836
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>145.836</b>

##### 11. Information on shareholders' equity

##### 11.a Presentation of paid-in capital:

	Current Period	Prior Period
Common Stock	2.050.000	1.750.000
Preferred Stock	-	-

##### 11.b Paid-in capital amount, explanation as to whether the registered share capital system ceiling is applicable at bank, if so amount of registered share capital:

Capital System	Paid-in Capital	Ceiling
Registered Capital System	2.050.000	2.500.000

At the board of directors meeting dated 26 October 2016 and no 2283, The Parent Bank's registered capital ceiling has been decided to determine as TL 4.500.000 in the directions of the Capital Markets Board Decisions and regulations and the Bank's targets and forecasts, the Bank's registered capital ceiling permit amounting to TL 2.500.000 is going to end as of 31 December 2016.

##### 11.c Information on share capital increases and their sources; other information on increased capital shares in current period:

In the meeting of the General Assembly held on 24 March 2016, it has been resolved that, paid-in capital of the Bank will be increased from TL 1.750.000 to TL 2.050.000 by adding TL 300.000. In respect of the resolution of the General Assembly, all of this increase will be incorporated from the profit of the year 2015. Aforementioned increase was approved by the BRSA dated 6 May 2016 and was announced in the Turkish Trade Registry Gazette dated 4 July 2016 and No. 9110.

In the meeting of the General Assembly held on 24 March 2015, it has been resolved that, paid-in capital of the Bank will be increased from TL 1.500.000 to TL 1.750.000 by adding TL 250.000. In respect of the resolution of the General Assembly, TL 234.000 of this increase will be incorporated from the profit of the year 2014, TL 16.000 of this increase will be incorporated from extraordinary reserves provided for gain on subsidiary and real estate based on article of CTL-5(1)/e. The increase in paid-in capital was approved by the BRSA on 15 May 2015.

##### 11.d Information on share capital increases from capital reserves:

None (31 December 2015: the extraordinary reserve amounting to TL 16.000 provided from gain on sale of subsidiary and real estate added to paid-in-capital)

##### 11.e Capital commitments in the last fiscal year and at the end of the following interim period, the general purpose of these commitments and projected resources required to meet these commitments:

The Parent Bank has no capital commitments in the last fiscal year and at the end of the following interim period (31 December 2015: None).

##### 11.f Indicators of the Bank's income, profitability and liquidity for the previous periods and possible effects of these future assumptions on the Bank's equity due to the uncertainty of these indicators:

The prior period income, the profitability and liquidity of the Parent Bank and their trends in the successive periods are followed by Budget Planning and Investor Relations Department by considering the outcomes of the potential changes in the foreign exchange rate, interest rate and maturity alterations on profitability and liquidity under several different scenario analyses. The Parent Bank operations are profitable and the Parent Bank keeps the major part of its profit by capital increases or capital reserves within the shareholders' equity.



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#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### II. Explanations and disclosures related to the consolidated liabilities (continued)

##### 11. Information on shareholders' equity(continued)

##### 11.g Information on preferred shares:

The Parent Bank has no preferred shares (31 December 2015: None).

##### 11.h Information on marketable securities value increase fund:

	Current Period		Prior Period	
	TL	FC	TL	FC
From Associates, Subsidiaries, and Entities Under Common Control	(21.522)	-	(13.651)	-
Valuation Differences	(25.843)	(26.774)	(27.819)	11.288
Foreign Exchange Difference	4.243	-	2.427	-
<b>Total</b>	<b>(43.122)</b>	<b>(26.774)</b>	<b>(39.043)</b>	<b>11.288</b>

##### 11.i Information on legal reserves:

	Current Period	Prior Period
First legal reserve	132.885	112.543
Second legal reserve	83.422	82.475
Other Legal Reserves Appropriated In Accordance with Special Legislation	54	54
<b>Total</b>	<b>216.361</b>	<b>195.072</b>

##### 11.j Information on extraordinary reserves:

	Current Period	Prior Period
Reserves Appropriated by the General Assembly	113.175	89.478
Retained Earnings	-	-
Accumulated Losses	-	-
Foreign Currency Share Capital Exchange Differences	-	-
<b>Total</b>	<b>113.175</b>	<b>89.478</b>

##### 11.k Explanations related to equity:

##### Movement of equity reserves during the period:

Current Period					
	Value Increase Funds of Marketable Securities from Available for Sale	Value Increase Funds of Marketable Securities from Subsidiaries and Associates	Revaluation value increase Subsidiaries and Associates <sup>(*)</sup>	Others Equity Reserves	Total
<b>As of 1 January</b>	<b>(14.104)</b>	<b>(13.651)</b>	<b>174.619</b>	<b>30</b>	<b>146.894</b>
Value increase/decrease of available for sale investments recognized directly under equity	(47.402)	(7.871)	-	-	(55.273)
Profit/loss on disposal of available for sale investments recycled to income statement from equity	3.402	-	-	-	3.402
Tax effect of gains on available for sale investments	6.537	-	-	-	6.537
Other	3.193	-	26.549	594	30.336
<b>As of 31 December</b>	<b>(48.374)</b>	<b>(21.522)</b>	<b>201.168</b>	<b>624</b>	<b>131.896</b>

<sup>(\*)</sup> The valuation of the real estates are made in accordance with the revaluation method in according to the scope of TAS 16. In 2016 the revaluation difference amounting to TL 26.529 which are determined by the certified valuation companies, authorized by CMB and BRSA, are recorded under the shareholders' equity.

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#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### II. Explanations and disclosures related to the consolidated liabilities (continued)

#### 11. Information on shareholders' equity(continued)

Prior Period					
	Value Increase Funds of Marketable Securities from Available for Sale	Value Increase Funds of Marketable Securities from Subsidiaries and Associates	Revaluation value increase Subsidiaries and Associates	Others Equity Reserves	Total
<b>As at 1 January</b>	<b>121.681</b>	<b>(7.688)</b>	<b>9.320</b>	<b>374</b>	<b>123.687</b>
Value increase/decrease of available for sale investments recognized directly under equity	(180.190)	(5.963)		-	(186.153)
Profit/loss on disposal of available for sale investments recycled to income statement from equity	9.844	-	-	-	9.844
Tax effect of gains on available for sale investments	34.561	-	-	-	34.561
Other <sup>(1)</sup>	-	-	165.299	(344)	164.955
<b>As at 31 December</b>	<b>(14.104)</b>	<b>(13.651)</b>	<b>174.619</b>	<b>30</b>	<b>146.894</b>

<sup>(1)</sup> According to the article 5-(I)/e of the Turkish Corporate Tax Code No. 5520, 75% of the gain on sale of the building amounting to TL 10.153 in the tax purpose financial statements amounting to TL 7.616 is exempt from corporate income tax and for the five years following 2013, until the profit distribution process has completed, gains are agreed to be kept in a special fund account under equity and within the specified period, except the share capital, gains are not allowed to transfer into another account. The Parent Bank has transferred such gains to the "Tangible Assets Revaluation Differences" accounts. According to the article KVK 5-(1)/e, the gain on subsidiary and sale of building amounting to TL 16.000 belong to capital reserves is added to share capital. The Bank changed its accounting policy and adopted revaluation method on annual basis under scope of Standard on Tangible Fixed Assets (TAS 16). As a result of the valuation commissioned appraisal firms authorized by CMB and BRSA, revaluation differences amount of TL 175.285 is accounted under the equity.

#### 12. Information on minority shares:

	Current Period	Prior Period
Paid-in-Capital	44.416	44.416
Other Capital Reserves	19	33
Share Premium	165	165
Securities Value Increase Fund	1	(3)
Legal Reserves	118	118
Extraordinary Reserves	1.682	1.682
Other Profit Reserves	-	(7)
Retained Earnings / Accumulated Losses	19.086	15.727
Net Profit or Loss	(7.518)	3.359
<b>Total</b>	<b>57.969</b>	<b>65.490</b>

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#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### III. Explanations and disclosures related to the consolidated off-balance sheet items

##### 1. Information on off-balance sheet liabilities

##### 1.a Nature and amount of irrevocable loan commitments:

	Current Period	Prior Period
Commitments for Forward Purchase and Sales of Assets	78.479	110.589
Commitments for Money Market Brokerage Purchase and Sales	45.194	96.317
Commitments for Use Guaranteed Credit Allocation	-	-
Commitments for Stock Brokerage Purchase and Sales	373.763	498.091
Commitments for Letter of Credit	467.812	319.695
Capital commitments for subsidiaries and associates <sup>(1)</sup>	68.367	-
Commitments from Forward Short Term Borrowing and Transfers	-	103.409
Other	289.821	185.460
<b>Total</b>	<b>1.323.436</b>	<b>1.313.561</b>

<sup>(1)</sup> As of 25 July 2016, the Bank has paid EUR 1.1 Million share for which is promised to buy shares with the nominal value of EUR 20 Million to the fund which is planned to be created by the European Investment Fund – EIF with the targeted size of EUR 335 Million and established with the name of Turkish Growth and Innovation Fund – TGIF. As of 21 November, the Bank has paid 0.3 million EUR to fund for other part of shares.

##### 1.b Possible losses and commitments related to off-balance sheet items including items listed below:

##### 1.b.1 Non-cash loans including guarantees, surety and acceptances, financial collaterals and other letters of credits:

As of the reporting date, total letters of credits, surety and acceptance amount to TL 693.817 (31 December 2015: TL 585.917).

##### 1.b.2 Certain guarantees, tentative guarantees, surety ships and similar transactions:

As of the reporting date, total letters of guarantee is TL 975.391 (31 December 2015: TL 1.196.747).

##### 1.c.1 Total amount of non-cash loans:

	Current Period	Prior Period
Non-cash Loans Given Against Achieving Cash Loans	741.804	731.304
With Maturity of One Year or Less than One Year	278.690	49.945
With Maturity of More than One Year	463.114	681.359
Other Non-Cash Loans	927.404	1.051.360
<b>Total</b>	<b>1.669.208</b>	<b>1.782.664</b>

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#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### III. Explanations related to the consolidated off-balance sheet items (continued)

##### 1.c.2 Information on sectoral risk breakdown of non-cash loans:

	Current Period				Prior Period			
	TL	(%)	TL	(%)	TL	(%)	TL	(%)
Agriculture	-	-	4.073	1	-	-	-	-
Farming and stockbreeding	-	-	4.073	1	-	-	-	-
Forestry	-	-	-	-	-	-	-	-
Fishing	-	-	-	-	-	-	-	-
Industry	203.711	97	1.320.782	90	262.416	67	1.282.324	92
Mining	-	-	-	-	-	-	-	-
Manufacturing Industry	6.740	3	647.831	44	5.719	1	469.543	34
Electricity, Gas, Water	196.971	94	672.951	46	256.697	66	812.781	58
Construction	2.900	1	-	-	9.800	3	-	-
Services	3.837	2	133.905	9	118.583	30	109.541	8
Wholesale and Retail Trade	-	-	-	-	-	-	-	-
Hotel, Food and Beverage Services	-	-	-	-	-	-	-	-
Transportation and Communication	-	-	-	-	-	-	-	-
Financial Institutions	321	-	133.905	9	117.733	30	108.787	8
Real Estate and Leasing Services	3.516	2	-	-	850	-	754	-
Self-employment Services	-	-	-	-	-	-	-	-
Education Services	-	-	-	-	-	-	-	-
Health and Social Services	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
<b>Total</b>	<b>210.448</b>	<b>100</b>	<b>1.458.760</b>	<b>100</b>	<b>390.799</b>	<b>100</b>	<b>1.391.865</b>	<b>100</b>

##### 1.c.3 Information on Ist and IInd group non-cash loans:

	Ist Group				IInd Group			
	Current Period		Prior Period		Current Period		Prior Period	
	TL	FC	TL	FC	TL	FC	TL	FC
<b>Non-cash Loans</b>	<b>206.781</b>	<b>1.458.760</b>	<b>387.561</b>	<b>1.391.865</b>	<b>3.667</b>	<b>-</b>	<b>3.238</b>	<b>-</b>
Letters of Guarantee	206.781	764.943	387.561	805.948	3.667	-	3.238	-
Bank Acceptances	-	17.450	-	19.027	-	-	-	-
Letters of Credit	-	676.367	-	566.890	-	-	-	-
Endorsements	-	-	-	-	-	-	-	-
Purchase Guarantees on Issuance of Securities	-	-	-	-	-	-	-	-
Factoring Guarantees	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-

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#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### III. Explanations related to the consolidated off-balance sheet items (continued)

##### 2. Information related to derivative financial instruments

	Current Period	Prior Period
Foreign currency related derivative transactions (I)	15.536.775	8.278.325
Forward transactions	1.131.115	407.088
Swap transactions	7.473.724	5.394.839
Futures transactions	-	-
Option transactions	6.931.936	2.476.398
Interest related derivative transactions (II)	10.773.710	7.188.880
Interest rate swap transactions	10.773.710	7.188.880
Interest option transactions	-	-
Futures interest transactions	-	-
Other trading derivative transactions (III)	117.544	89.360
A. Total trading derivative transactions (I+II+III)	26.428.029	15.556.565
Types of hedging transactions		
Fair value hedges	7.747.800	4.689.900
Cash flow hedges	-	-
Net investment hedges	-	-
B. Total hedging related derivatives	7.747.800	4.689.900
<b>Total Derivative Transactions (A+B)</b>	<b>34.175.829</b>	<b>20.246.465</b>

As of 31 December 2016, the breakdown of the Bank's foreign currency forward and swap transactions based on currencies are disclosed below in their TL equivalents:

	Forward Buy	Forward Sell	Swap Buy	Swap Sell	Option Buy	Option Sell	Futures Buy	Futures Sell	Other Buy	Other Sell	Fair Value Hedge
<b>Current Period</b>											
TL	126.329	123.456	1.119.290	1.700.415	1.619.601	1.619.601	-	-	-	-	-
US Dollar	307.817	255.250	4.992.769	4.355.508	1.006.565	1.006.567	-	-	-	-	7.747.800
Euro	133.652	184.611	2.829.390	2.846.192	839.802	839.800	-	-	-	-	-
Other	-	-	268.322	253.092	-	-	-	-	-	-	-
<b>Total</b>	<b>567.798</b>	<b>563.317</b>	<b>9.209.771</b>	<b>9.155.207</b>	<b>3.465.968</b>	<b>3.465.968</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7.747.800</b>
<b>Prior Period</b>											
TL	23.898	23.946	771.403	900.598	526.886	527.036	-	-	-	-	-
US Dollar	123.284	77.278	3.323.289	3.531.214	508.486	508.485	-	-	-	-	4.689.900
Euro	57.272	101.410	2.005.996	1.716.787	202.827	202.828	-	-	-	-	-
Other	-	-	211.823	211.819	-	-	-	-	-	-	-
<b>Total</b>	<b>204.454</b>	<b>202.634</b>	<b>6.312.511</b>	<b>6.360.418</b>	<b>1.238.199</b>	<b>1.238.349</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4.689.900</b>

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#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### III. Explanations related to the consolidated off-balance sheet items (continued)

##### 2. Information related to derivative financial instruments (continued)

	Current Period		Prior Period		Fair value assets	
Derivative Financial Liabilities Held For Trading	Fair value assets	Fair value liabilities	Fair value assets	Fair value liabilities	Fair value assets	Fair value liabilities
Swap Transactions	151.764	(141.417)	7.473.724	54.095	(76.957)	5.394.839
Interest Rate Swap Transactions	58.255	(35.880)	10.773.710	38.728	(22.260)	7.188.880
Forward Transactions	22.109	(17.873)	1.131.115	3.375	(2.101)	407.088
Futures Transactions	-	-	-	-	-	-
Option Transactions	125.627	(125.627)	6.931.936	73.596	(73.632)	2.476.548
Other	16.281	-	117.544	-	-	89.210
<b>Total</b>	<b>374.036</b>	<b>(320.797)</b>	<b>26.428.029</b>	<b>169.794</b>	<b>(174.950)</b>	<b>15.556.565</b>

##### Fair value hedges

For the year ended 31 December 2016, the Parent Bank has interest rate swaps for hedging purposes nominal amount of TL 7.747.800 (31 December 2015: TL 4.689.900)

##### Hedging from the cash-flow risk

As of 31 December 2016 there is no cash-flow hedging transactions (31 December 2015: None).

##### 3. Explanations on loan derivatives and risk exposures

The Bank has no loan derivatives and such risk exposures to this respect (31 December 2015: None).

##### 4. Explanations on contingent liabilities and assets

There are 51 legal cases against the Group which are amounting to TL 7.215 as of the reporting date (31 December 2015: TL 5.919 - 45 legal cases).

Tax Audit Committee inspectors made an investigation for the years 2008-2011 about the payments made by the Parent Bank and employees to "Türkiye Sınai Kalkınma Bankası A.Ş. Mensupları Munzam Sosyal Güvenlik ve Yardımlaşma Vakfı" (Foundation) established in accordance with the decisions of Turkish Commercial Law and Civil Law as made to all Foundations in the sector. According to this investigation it has been communicated that the amount Parent Bank is obliged to pay is a benefit in the nature of fee for the members of Foundation worked at the time of payment, the amount 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 Parent Bank relying on this report.

The Parent Bank assesses that the Parent 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 İstanbul, Ankara and İzmir.

Some of the lawsuits are decided favorable, remaining of lawsuits are decided unfavorable 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 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 prior period.

There is a lawsuit for Pendorya Mall of TSKB GYO registered in Pendik, Doğu District, plot 105, map 865, parcel 64 against İBB and Karacan Yapı at Pendik 2nd Court of First Instance Pendorya Mall claiming the road intersects his own property and demanding compensation amounting TL 7. TSKB GYO has been involved in the lawsuit as intervening party. Relating to immovable property, subject of litigation discovery review and expert reports were submitted to the court file. Objections to the report and statement of TSKB GYO has been given. İBB Presidency has declared that expropriation proceedings related to the subject have been initiated. For this reason, lawsuit was removed from "Possessory Actions" and converted to the "Confiscating without expropriating" by the judge.

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#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### III. Explanations related to the consolidated off-balance sheet items (continued)

##### 4. Explanations on contingent liabilities and assets (continued):

Accepting in the new case, the plaintiff claimed compensation from the Administration and in order to determine the amount of compensation the Court decided an expert examination since the information provided by the Land Registry and the Municipality was not deemed sufficient.

Expert reports submitted to the Court on 30 May 2013 and the Court decided to add Pendik Municipality as a defendant in the case. At the latest hearing on 24 December 2013 it was decided to accept the expert reports and Pendik Municipality to pay the relevant amount (TL 645) to the plaintiff. The reasoned decision has been notified, the decision which has been appealed by the appellant and the respondent Pendik Municipality has turned deteriorate the Supreme Court decision was a request for the correction requested by the İstanbul Metropolitan Municipality (İMM). The decision has been requested adjustment by İMM and plaintiff Sağlık Satış ve Paz. A.Ş. (Malazlar A.Ş.). Breaking decision of the Supreme Court is expected to evaluate the requests for correction of decision.

##### 5. Custodian and intermediary services

The Parent Bank provides trading and safe keeping services in the name and account of real persons, legal entities, funds, pension funds and other entities, which are presented in the statement of contingencies and commitments.

#### IV. Explanations and disclosures related to the consolidated income statement

##### 1. Information on interest income

##### 1.a Information on interest on loans:

	Current Period		Prior Period	
	TL	FC	TL	FC
Interest on Loans <sup>(*)</sup>				
Short Term Loans	80.498	6.504	36.400	3.229
Medium and Long Term Loans	165.941	599.067	130.139	498.839
Interest on Non-performing Loans	4.015	84	421	123
Premiums received from Resource Utilization Support Fund	-	-	-	-
<b>Total</b>	<b>250.454</b>	<b>605.655</b>	<b>166.960</b>	<b>502.191</b>

<sup>(\*)</sup> Commission income from loans has been included to the interest on loans.

##### 1.b Information on interest received from banks:

	Current Period		Prior Period	
	TL	FC	TL	FC
The Central Bank of Turkey <sup>(*)</sup>	3.371	-	1.235	-
Domestic Banks	26.321	5.647	4.271	8.909
Foreign Banks	155	563	225	209
Branches and Head Office Abroad	-	-	-	-
<b>Total</b>	<b>29.847</b>	<b>6.210</b>	<b>5.731</b>	<b>9.118</b>

<sup>(\*)</sup> Interests given to the Turkish Lira and US Dollar portion of the CBRT Required Reserves, reserve options and unrestricted accounts have been presented under "The Central Bank of Turkey" line in the financial statements.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES

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#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### IV. Explanations and disclosures related to the consolidated income statement (continued)

##### 1.c Information on interest received from marketable securities:

	Current Period		Prior Period	
	TL	FC	TL	FC
Trading Securities	2.778	30	2.922	35
Financial Assets at Fair Value Through Profit and Loss	-	-	-	-
Available for Sale Financial Assets	218.692	45.095	239.322	47.602
Investments Held to Maturity	78.270	8.793	25.854	3.001
<b>Total</b>	<b>299.740</b>	<b>53.918</b>	<b>268.098</b>	<b>50.638</b>

##### 1.d Information on interest income received from associates and subsidiaries:

	Current Period	Prior Period
Interest Received from Associates and Subsidiaries	8.511	7.592

#### 2. Information on interest expense

##### 2.a Information on interest on funds borrowed:

	Current Period		Prior Period	
	TL	FC	TL	FC
Banks	26.733	35.470	25.766	20.971
The Central Bank of Turkey	-	-	-	-
Domestic Banks	15.573	11.622	21.379	3.718
Foreign Banks	11.160	23.848	4.387	17.253
Branches and Head Office Abroad	-	-	-	-
Other Financial Institutions	2.487	198.701	-	147.905
<b>Total (*)</b>	<b>29.220</b>	<b>234.171</b>	<b>25.766</b>	<b>168.876</b>

(\*) Commissions given to the Banks and Other Institutions are presented under interest expense.

##### 2.b Information on interest expenses to associates and subsidiaries:

There is no interest expense to its associates and subsidiaries (31 December 2015: None).

##### 2.c Information on interest expense to securities issued:

	Current Period		Prior Period	
	TL	FC	TL	FC
Interest on securities issued (*)	-	149.831	-	92.869

(\*) Commissions given to issuance have been included to interest expense on funds borrowed.

#### 3. Information on dividend income

	Current period	Prior period
Trading Securities	-	385
Financial Assets at Fair Value Through Profit and Loss	-	-
Available-for-Sale Securities	2.007	9.595
Other	9.479	195
<b>Total</b>	<b>11.486</b>	<b>10.175</b>



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#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### IV. Explanations and disclosures related to the consolidated income statement (continued)

##### 4. Information on net trading income (net)

	Current period	Prior period
<b>Profit</b>	<b>1.561.049</b>	<b>1.639.309</b>
Gains on capital market operations	7.125	12.022
Gains on derivative financial instruments <sup>(*)</sup>	902.244	747.867
Foreign exchange gains	651.680	879.420
<b>Losses (-)</b>	<b>(1.628.820)</b>	<b>(1.633.529)</b>
Losses on capital market operations	(3.293)	(8.455)
Losses on derivative financial instruments <sup>(*)</sup>	(901.380)	(869.880)
Foreign exchange losses	(724.147)	(755.194)

<sup>(\*)</sup> Foreign exchange gain from derivative transactions amounting to TL 418.146 is presented in "Gains on derivative financial instruments" (31 December 2015: TL 353.529), foreign exchange loss from derivative transactions amounting to TL (445.777) is presented in "Losses on derivative financial instruments" (31 December 2015: TL (538,240)).

##### 5. Information related to other operating income

	Current Period	Prior Period
Provisions Released	12.952	24.508
Gains on Sale of Assets	235	84
From Associate and Subsidiary Sales	114	-
From Immovable Fixed Asset Sales	-	76
From Property Sales	59	1
From Other Asset Sales	62	7
Other <sup>(*)</sup>	13.456	26.545
<b>Total</b>	<b>26.643</b>	<b>51.137</b>

<sup>(\*)</sup> Includes income accrual in the amounting TL 12.750 in accordance with the subjects mentioned in Section Five in disclosure No:III-4 in the prior period.

##### 6. Provision expenses related to loans and other receivables of the Group

	Current Period	Prior Period
Specific provisions for loans and other receivables	3.566	44.681
III. Group Loans and Receivables	18	20
IV. Group Loans and Receivables	-	-
V. Group Loans and Receivables	3.548	44.661
General provision expenses	33.124	26.283
Provision expenses for possible losses	-	-
Marketable securities impairment expenses	3.809	7.599
Trading securities	-	-
Investment securities available for sale	3.809	7.599
Impairment provisions	-	-
Associates	-	-
Subsidiaries	-	-
Entities under common control (Joint Vent.)	-	-
Investment securities held to maturity	-	-
Other <sup>(*)</sup>	30.000	-
<b>Total</b>	<b>70.499</b>	<b>78.563</b>

<sup>(\*)</sup> Other provision contains amounting to TL 30.000 in the prior period allocated for the risks related to the loan portfolio.

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#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### IV. Explanations and disclosures related to the consolidated income statement (continued)

##### 7. Information related to other operating expenses

	Current Period	Prior Period
Personnel Expenses	93.795	84.133
Reserve for Employee Termination Benefits	1.717	1.191
Bank Social Aid Fund Deficit Provision	-	-
Impairment Expenses of Fixed Assets	-	-
Depreciation Expenses of Fixed Assets	4.941	3.982
Impairment Expenses of Intangible Assets	-	-
Impairment Expense of Goodwill	-	-
Amortization Expenses of Intangible Assets	637	543
Impairment on Subsidiaries Accounted for Under Equity Method	-	-
Impairment on Assets for Resale	21	21
Depreciation Expenses of Assets Held for Resale	-	13
Impairment Expenses of Assets Held for Sale	-	-
Other Operating Expenses	48.332	31.706
Rent Expenses	3.300	3.085
Maintenance Expenses	1.847	2.323
Advertisement Expenses	1.364	1.400
Other Expenses	41.821	24.898
Loss on Sales of Assets	-	52
Other	19.420	18.932
<b>Total</b>	<b>168.863</b>	<b>140.573</b>

##### 8. Information on profit/loss before tax from continued and discontinued operations before tax

As of 31 December 2016, profit before tax of the Group has decreased by 8,27% as compared to the prior period (31 December 2015: 9,64% increase). In comparison with the prior period, the Group's net interest income has increased by 26,78% (31 December 2015: 13,23% increase).

##### 9. Information on tax provision for continued and discontinued operations

###### 9.a Information on current tax charge or benefit and deferred tax charge or benefit:

The Group's current tax charge for the period is TL 98.641 (31 December 2015: TL 76.641). Deferred tax charge is TL 19.067 (31 December 2015: TL 24.094 deferred tax charge).

###### 9.b Information related to deferred tax benefit or charge on temporary differences:

Deferred tax charge calculated on temporary differences is TL 19.067 (31 December 2015: TL 24.094 deferred tax charge).

###### 9.c Information related to deferred tax benefit / charge on temporary differences, losses, tax deductions and exceptions:

As of 31 December 2016, the deferred tax charge calculated based on temporary timing differences is TL 17.786 (31 December 2015: TL 23.953 tax charge). Deferred tax expense reflected in the income statement on carry forward tax losses, tax deductions and exceptions amounts to TL 1.281 (31 December 2015: TL 141 expense).

In addition, TL 9.450 deferred tax income which is calculated over the fair value differences on available for sale securities, is offset against the available for sale securities value increase fund item under equity (31 December 2015: TL 32.960 income).

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS ARE EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### IV. Explanations and disclosures related to the consolidated income statement (continued)

##### 10. Information on net profit/loss

10.a The nature and amount of certain income and expense items from ordinary operation is disclosed if the disclosure for nature, amount and repetition rate of such items is required for the complete understanding of the Group's performance for the period:

The Group has generated TL 1.409.679 of interest income, TL 650.876 of interest expenses, TL 25.017 of net fee and commission income from banking operations (31 December 2015: TL 1.098.725 interest income, TL 500.183 interest expenses, TL 29.547 net fee and commission income).

10.b The effect of the change in accounting estimates to the net profit/loss; including the effects to the future period, if any:

There are no changes in the accounting estimates.

##### 10.c Minority share of profit and loss:

The current year loss attributable to minority shares is TL 7.518 (31 December 2015: TL 3.359 loss). The total shareholders' equity, including current year profit attributable to minority shares is TL 57.969 (31 December 2015: TL 65.490).

11. If the other items in the income statement exceed 10% of the income statement total, accounts amounting to at least 20% of these items are shown below

	Current Period	Prior Period
Gains on Other Fees and Commissions		
Gains on Brokerage Commissions	21.715	17.701
Commissions from Initial Public Offering	16	162
Investment Fund Management Income	1.597	1.584
Other	2.409	3.462
<b>Total</b>	<b>25.737</b>	<b>22.909</b>

#### V. Explanations related to consolidated statement of changes in shareholders' equity

##### 1. Information related to capital

As of 31 December 2016, shareholders are as follows:

Current Period				
Name Surname/Commercial Title	Share Capital	Shareholding Rate (%)	Paid in Capital	Unpaid Capital
T. İş Bankası A.Ş. Group <sup>(*)</sup>	1.038.383	50,65	1.038.383	-
T. Vakıflar Bankası T.A.O.	171.738	8,38	171.738	-
Under Custody at Merkezi Kayıt Kuruluşu (Other Institutions and Individuals)	839.879	40,97	839.879	-
<b>Total</b>	<b>2.050.000</b>	<b>100,00</b>	<b>2.050.000</b>	<b>-</b>
Prior Period				
Name Surname/Commercial Title	Share Capital	Shareholding Rate (%)	Paid in Capital	Unpaid Capital
T. İş Bankası A.Ş. Group	880.723	50,33	880.723	-
T. Vakıflar Bankası T.A.O.	146.606	8,38	146.606	-
Under Custody at Merkezi Kayıt Kuruluşu (Other Institutions and Individuals)	722.671	41,29	722.671	-
<b>Total</b>	<b>1.750.000</b>	<b>100,00</b>	<b>1.750.000</b>	<b>-</b>

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#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### V. Explanations related to consolidated statement of changes in shareholders' equity (continued)

In the meeting of the General Assembly held on 24 March 2016, it has been resolved that, paid-in capital of the Bank will be increased from TL 1.750.000 to TL 2.050.000 by TL 300.000. In respect of the resolution of the General Assembly, this increase will be incorporated from the profit of the year 2015. Aforementioned increase was approved by the BRSA dated 6 May 2016 and was announced in the Turkish Trade Registry Gazette dated 4 July 2016 and No. 9110.

In the meeting of the General Assembly held on 26 March 2015, it has been resolved that, paid-in capital of the Bank will be increased from TL 1.500.000 to TL 1.750.000 by adding TL 250.000. In respect of the resolution of the General Assembly, TL 234.000 of this increase will be incorporated from the profit of the year 2014, TL 16.000 of this increase will be incorporated from extraordinary reserves provided for gain on subsidiary and real estate based on article of CTL-5(1)/e. The increase in paid-in capital was approved by the BRSA on 15 May 2015.

##### 2. Information on the increase arising from the revaluation of securities available-for-sale

Remeasurement of available-for-sale investments with their fair values after netting of the deferred tax effect as of 31 December 2016 is TL 22.462 decrease (31 December 2015: 148.554 decrease) and TL 3.402 (31 December 2015: TL 9.844) is transferred from the securities value increase fund to the income statement, presented in the equity movement table.

##### 3. Information on increases in the cash flow hedges

There is no increase in the cash flow hedges.

##### 4. Reconciliation between beginning and ending balances for foreign currency differences

As of 31 December 2016, increasing amount of TL 1.816 arising from the revaluation of securities available for sale is disclosed under the exchange differences in the statement of changes in the consolidated equity. (31 December 2015: 2.427)

##### 5. Information on the decrease arising from the revaluation of securities available-for-sale

The increase/decrease arising from the revaluation of securities available-for-sale is explained in Note V.2, above.

##### 6. Information about dividends

##### 6.a Dividends declared subsequent to the reporting date, but before the announcement of the financial statements:

Dividends related with the equity shares are determined by the General Assembly of the Shareholders. Weighted average number of shares outstanding is taken into account in the calculation of earnings per share. In case the number of shares increases by way of bonus issues as a result of the capital increases made by using the internal sources, the calculation of earnings per share is made by adjusting the weighted average number of shares, which were previously calculated as at the comparable periods. The adjustment means that the number of shares used in calculation is taken into consideration as if the bonus issue occurred at the beginning of the comparable period. In case such changes in the number of shares occur after the balance sheet date, but before the approval of the financial statements to be published, the calculation of earnings per share are based on the number of new shares. The profit distribution will be approved at the General Assembly, which is not yet held as of the date of the financial statements authorized for issue.

##### 6.b Net dividend per share proposed after the reporting period:

As of the reporting date, there are no dividends proposed by the Parent Bank for the approval in the General Assembly as explained above.

##### 7. Amounts transferred to legal reserves

In the current year, TL 21.289 was transferred to the legal reserves (31 December 2015: TL 19.305).

##### 8. Offsetting of the prior period's losses

There is no offsetting of accumulated losses made during the current and prior year.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES

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#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### VI. Explanations related to consolidated statement of cash flows

##### 1. Explanations about other cash flows items and the effect of changes in foreign exchange rates in cash and cash equivalents

In the current period, other income amounting to TL 82.952 consists of gain from sale of assets and non-interest income (31 December 2015: TL 181.901 other income consists of other income rental income, securities trade gains, gain from sale of assets and non-interest income.)

Classification has been made in the prior period amounting to TL 13.489 in the columns of "Fixed Asset Purchases" in "Net cash provided by/(used in) investing activities" and "Other" in "Operating profit before changes in operating assets and liabilities" of the cash flow statement.

Other caption in changes in assets and liabilities from banking operations amounting to TL 1.226.706 (31 December 2015: TL 646.446) consists of derivative financial transaction losses, taxes paid except employee termination benefits provision and depreciation expense, other operating expenses and fees and commissions paid.

In the current period, net increase/decrease in other assets amounting to TL 99.971 (31 December 2015: TL 618.243) consists of changes in miscellaneous receivables, reserve requirement and other assets. In the current period, other liabilities amounting to TL 1.161.414 (31 December 2015: TL 218.631) consists of changes in funds, miscellaneous payables and funds provided under repurchase agreements.

In the current period, the effect of foreign currency differences on cash and cash equivalents is TL 40.998 (31 December 2015: TL 51.689).

##### 2. Information about cash flows from acquisition of associates, subsidiaries, and other investments:

In the current period, the Group invested TL 4.065 in tangible fixed assets and properties and invested TL 1.698 in intangible fixed assets. In the current period, there is TL 1.000 investment on subsidiaries and affiliates.

In the prior period, the Group invested TL 20.729 in tangible fixed assets and properties and invested TL 407 in intangible fixed assets. There is no investment in associates and subsidiaries.

##### 3. Information about disposal of associates, subsidiaries, and other investments:

The total amount of purchases or sales of related account and their cash and cash equivalent assets;

In the current period, the Group has generated a cash inflow of TL 306 on sale of movable fixed assets and properties. There is no sale of associates and subsidiaries in the current period.

In the prior period, the Group has generated cash inflows of TL 11.533 on sale of movable fixed assets and properties. The Group has not sold any associates and subsidiaries in the current period.

##### 4. Cash and cash equivalents at the beginning and end of period:

Cash and cash equivalents at the beginning of period:

	At the Beginning of Current Period	At the Beginning of Prior Period
Cash	21	14
Cash Equivalents	1.868.894	642.958
<b>Total</b>	<b>1.868.915</b>	<b>642.972</b>

Cash and cash equivalents at the end of period:

	At the Beginning of Current Period	At the Beginning of Prior Period
Cash	29	21
Cash Equivalents	861.789	1.868.894
<b>Total</b>	<b>861.818</b>	<b>1.868.915</b>

##### 5 Amount of cash and cash equivalents restricted for the usage of the Parent Bank and the shareholders by legal limitations and other reasons

Reserves amounting to TL 612.776 (31 December 2015: TL 767.239) in Turkish Republic Central Bank represent of Turkish Lira, foreign currency and gold reserve requirements of the Parent Bank.

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#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### VI. Explanations related to consolidated statement of cash flows (Continued)

###### 6. Additional information related to financial position and liquidity

###### 6.a Any unused financial borrowing facility which can be utilized in banking operations and unpaid capital commitments and any restrictions on such facilities:

There are not any unused financial borrowing facilities which can be utilized in banking operations and unpaid capital commitments and any restrictions on such facilities.

###### 6.b Apart from the cash flows needed to run ordinary operations of the Bank, total of cash flows that shows the increase in the operation capacity of the Bank:

Under current economical conditions, the cash flows are followed daily and cash flows showing the increase in the capacity of operations of the Bank are investigated.

##### VII. Explanations on the risk group of the Parent Bank

###### 1. Information on the volume of transactions related to the Parent Bank's own risk group, outstanding loan and deposit transactions and income and expenses of the period

###### 1.a Current period:

Risk Group of the Parent Bank	Subsidiaries and Associates		Direct and Indirect Shareholders of the Parent Bank		Other Entities Included in the Risk Group	
	Cash	Non-Cash	Cash	Non-Cash	Cash	Non-Cash
Loans and other receivables						
Balance at the beginning of the period	340.358	322	53.167	117.412	91.272	-
Balance at the end of the period	294.292	7.878	21.131	-	90.035	-
Interest and commission income received	8.276	235	1.080	67	4.104	-

###### 1.b Prior period:

Risk Group of the Parent Bank	Subsidiaries and Associates		Direct and Indirect Shareholders of the Parent Bank		Other Entities Included in the Risk Group	
	Cash	Non-Cash	Cash	Non-Cash	Cash	Non-Cash
Loans and other receivables						
Balance at the beginning of the period	119.901	264	72.954	117.412	79.003	-
Balance at the end of the period	340.358	322	53.167	117.412	91.272	-
Interest and commission income received	7.587	5	1.582	294	4.208	-

###### 1.c Information on deposit held by Parent Bank's own risk group:

The Parent Bank is not authorized to accept deposits.

###### 2. Information on forward and option agreements and other similar agreements made with related parties

Risk Group of the Parent Bank	Subsidiaries and Associates		Direct and Indirect Shareholders of the Parent Bank		Other Entities Included in the Risk Group	
	Current Period	Prior Period	Current Period	Prior Period	Current Period	Prior Period
<b>Fair Value Through Profit or Loss Transactions</b>						
Beginning of the Period	97.511	-	-	-	-	-
End of the Period	417.925	97.511	-	-	-	-
Total Profit / Loss <sup>(*)</sup>	8.000	(300)	-	-	-	-
<b>Hedging Risk Transactions</b>						
Beginning of the Period	-	-	-	-	-	-
End of the Period	-	-	-	-	-	-
<b>Total Profit / Loss</b>	-	-	-	-	-	-

<sup>(\*)</sup> Prior period includes the informations belong to 31 December 2015.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş AND ITS SUBSIDIARIES

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#### SECTION FIVE (Continued)

#### EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### VII. Explanations on the risk group of the Parent Bank (Continued)

##### 3. Total salaries and similar benefits provided to the key management personnel

Benefits provided to key management personnel in the current period amount to TL 14.233 (31 December 2015: TL 11.897).

##### VIII. Information and disclosures related to the domestic, foreign offshore branches and foreign representations of the Parent Bank

##### 1. Information and disclosures related to the domestic, foreign branches and foreign representations of the Group

	Number	Number of Employees		
Domestic branches <sup>(1)</sup>	2	337		
			Country of Incorporation	
Foreign representations	-	-		
			Total Asset	Statutory Share Capital
Foreign branches	-	-	-	-
Off-shore banking region branches	-	-	-	-

<sup>(1)</sup> Consolidated subsidiaries have 9 branches and 124 personnels which are not presented in the table.

##### 2. Explanation on opening, closing of a branch/agency of the Parent Bank or changing its organizational structure significantly:

In the current year, the Parent Bank has not opened any branch or agency and there is no significant change in the organization structure of the Parent Bank's operating branches (31 December 2015: None).

##### IX. Explanations and notes related to subsequent events

None.

#### SECTION SIX

#### OTHER EXPLANATIONS

##### I. Other explanations related to the operations of the Parent Bank

##### 1.a Brief information related to rating carried out by international rating firms:

	FITCH RATINGS
Long-term Maturity Foreign Currency (issuer)	BBB-
Long-term Maturity Foreign Currency Outlook (issuer)	Negative
Short-term Maturity Foreign Currency (issuer)	F3
Long-term Maturity National Currency (issuer)	BBB-
Long-term Maturity National Currency Outlook (issuer)	Negative
Short-term Maturity National Currency (issuer)	F3
Support Note	2
Base Support Note	BBB-
National Note	AAA
National Note Outlook	Stable
Privileged Unsecured Debt Rating Note	BBB-

International credit rating agency Fitch Ratings confirmed the Bank's ratings and outlook without changing on 18 October 2016 and determined Bank's "Privileged Unsecured Debt Notes" as BBB- for the Eurobonds maturity with 30 October 2019, 22 April 2020 and for "Green Sustainable Bonds" maturity with 18 May 2021.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES

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### FOR THE YEAR ENDED 31 DECEMBER 2016

(AMOUNTS ARE EXPRESSED IN THOUSANDS OF TURKISH LIRA (TL) UNLESS OTHERWISE STATED.)

#### SECTION SIX (Continued)

##### OTHER EXPLANATIONS (Continued)

##### I. Other explanations related to the operations of the Parent Bank (continued)

MOODY'S	
Reference Financial Rating Note	Ba2
<b>Foreign Currency (issuer)</b>	
Long-term Maturity	Ba1
Outlook	Stable
Short-term Maturity	NP
<b>Domestic Currency (issuer)</b>	
Long-term Maturity	Ba1
Outlook	Stable
Short-term Maturity	NP
<b>Unsecured Debt-Foreign Currency (issuer)</b>	
Long-term Maturity	Ba1
Outlook	Stable
Foreign Currency/Domestic Currency MTN Note:	(P) Ba1
Information above represents updated information as of 26 September 2016.	

International credit rating agency Moody's, assigned "Unsecured Debt - Foreign Currency" rating note for the Bank issuing Eurobonds and Green Sustainable Bond maturity with 30 October 2019, 22 April 2020 and 18 May 2021 respectively and this note has been appointed as Ba1.

##### 1.b Informations on corporate governance rating of the Bank:

SAHA Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş. (SAHA Corporate Governance and Credit Rating Services A.Ş.), a corporate governance rating institution with Capital Markets Board license, updated the Bank's corporate governance rating of 95,27% (9,53 over 10) as of 20 October 2016. Ratings under the main topics of weighted Shareholders, Public Disclosure and Transparency, Stakeholders and Board of Directors are declared as; 9,49 (Weight: 25%), 9,67 (Weight: 25%), 9,85 (Weight: 15%), 9,32 (Weight: 35%) over 10 respectively.

#### SECTION SEVEN

##### AUDITORS' REPORT

##### I. Explanations on the auditors' report

The consolidated financial statements as of and for the year ended 31 December 2016 were audited by Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik AŞ (the Turkish member firm of KPMG International Cooperative, a Swiss entity) and Auditors' Report dated 1 February 2017 is presented in the introduction of this report.

##### II. Explanations and notes prepared by independent auditors

There are no other explanations and notes not expressed in sections above related with the Group's operations.



## GLOSSARY

### **APEX BANKING**

Long-term, low interest loaning processes carried out using international financing opportunities, to support SME's investment and growth projects.

### **EFIL LOANS**

The objective of the EFIL loans is to create new business fields and increase employment besides supporting the activities firms carry out to increase their exports.

### **CARBON NEUTRAL BANKING**

The banking approach that sees the struggle against climate change as a priority.

### **GREEN/SUSTAINABLE BOND**

Proceedings from the bond issuance are used in the finance of environment friendly/sustainable projects.

### **BIST CORPORATE GOVERNANCE INDEX**

BIST Index listing the publicly traded companies that are rated by a Capital Markets Board approved rating agency and meet certain criteria with respect to their corporate governance rating.

### **CORPORATE GOVERNANCE RATING**

The rating system showing the companies' – companies that apply to listed in the BIST Corporate Governance Index – level of compliance with the CMB's Corporate Governance Principles.

### **BIST SUSTAINABILITY INDEX**

BIST Index listing the publicly traded companies that meet the sustainability performance indicators published by the Borsa Istanbul.

### **ENVIRONMENTAL RISK EVALUATION MODEL (ERET)**

The unique evaluation methodology that evaluates the environmental and social impacts of the projects TSKB allocates loans for.

### **ISO 14001**

ISO 14001 specifies the requirements of an environmental management system (EMS) for small to large organizations in order to minimize the negative environmental impacts resulting from their operations and their compliance to environmental regulations.

### **ISO 14064**

ISO 14064 specifies principles and requirements at the organization level for quantification, monitoring and reporting of greenhouse gas (GHG) emissions and removals

### **GLOBAL REPORTING INITIATIVE (GRI)**

A non-profit organization that focuses on establishing a standard reporting framework for global scale sustainability activities.

## CONTACT INFORMATION

### Head Office

Meclisi Mebusan Cad. No: 81 Fındıklı 34427 İstanbul

Phone: (+90 212) 334 50 50

Fax: (+90 212) 334 52 34

### Ankara Branch

Aziziye Mahallesi, Piyade Sok., B Blok, No: 3/7, Çankaya, Ankara

Phone: (+90 312) 441 75 22

Fax: (+90 312) 441 75 66

### İzmir Branch

Cumhuriyet Bulvarı Alan Apt, No: 140, Kat: 1 Pasaport, 35220, İzmir

Phone: (+90 232) 463 12 00

Fax: (+90 232) 463 33 50

### Investor Relations

Phone: (+90 212) 334 51 94

### Financial Institutions

Phone: (+90 212) 334 51 26

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

BIST Code: TSKB

SWIFT Code: TSKBTRIS

EFT Code: 0014

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