



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

Condensed Consolidated Interim
Financial Statements
As at and for the Six-Month Period Ended
30 June 2016
With Independent Auditors' Report on Review of
Condensed Consolidated Interim
Financial Information

2 September 2016

This report contains 2 pages of independent auditors' report on review of condensed consolidated interim financial information and 26 pages of condensed consolidated interim financial information.

Türkiye Sınai Kalkınma Bankası Anonim Şirketi and Its Subsidiaries

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

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

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Türkiye Sınai Kalkınma Bankası Anonim Şirketi ("the Bank") and its subsidiaries (collectively refer to as "the Group") as at 30 June 2016, the condensed consolidated statement of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and notes to the interim financial information ("the condensed consolidated interim financial information"). Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34 ("IAS 34") "*Interim Financial Reporting*". Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of review

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



Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information as at and for the six-month period ended 30 June 2016 is not prepared, in all material respects, in accordance with IAS 34 "*Interim Financial Reporting*".

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

Erdal Tıkmak
Partner

2 September 2016
İstanbul, TURKEY

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016

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

ASSETS	Notes	30 June 2016	31 December 2015
Cash on hand		16	21
Balances with central bank	8	31,555	43,863
Reserve deposits at central bank	8	766,741	767,239
Loans and advances to banks		682,510	751,545
Interbank money market placements		1,352,910	1,080,274
Funds lent under repurchase agreements		662	450
Financial assets at fair value through profit or loss		209,825	209,571
- <i>Trading assets</i>		32,561	39,777
- <i>Derivative assets</i>	9	177,264	169,794
Loans and advances to customers	10	14,329,504	13,651,492
Investment securities		4,136,502	3,849,323
- <i>Available for sale investment securities</i>	11	3,241,665	2,976,721
- <i>Held to maturity investment securities</i>		894,837	872,602
Derivatives used for hedging purposes	9	65,684	4,093
Investments in equity-accounted investees		304,152	291,988
Goodwill		383	383
Property and equipment		205,790	207,027
Investment property		242,340	241,293
Intangible assets		2,043	1,052
Deferred tax assets		18,230	15,605
Other assets		197,199	257,772
Total assets		22,546,046	21,372,991

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

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016

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

LIABILITIES	Notes	30 June 2016	31 December 2015
Obligations under repurchase agreements		2,124,920	2,168,035
Derivative liabilities	9	201,794	174,950
Funds borrowed		13,402,532	13,441,831
Debts securities issued		2,943,421	2,037,571
Payables to stock exchange money market		271,016	182,505
Current account of loan customers		8,468	30,677
Derivatives used for hedging purposes	9	-	5,799
Taxes and dues payable		6,885	6,555
Employee benefits		17,817	19,763
Corporate tax liability		36,443	41,871
Provisions		937	3,049
Other liabilities		152,457	120,282
Subordinated loan		145,078	145,836
Total liabilities		19,311,768	18,378,724
EQUITY			
Share capital			
Nominal paid in capital		2,050,000	1,750,000
Inflation adjustment to capital		13,563	13,563
Total capital	13	2,063,563	1,763,563
Share premium		428	428
Legal reserves		216,827	195,538
Fair value reserve		29,288	(23,747)
Revaluation reserve		173,518	173,518
Retained earnings		686,252	819,477
Total equity attributable to equity holders of the Bank		3,169,876	2,928,777
Non-controlling interests		64,402	65,490
Total equity		3,234,278	2,994,267
Total liabilities and equity		22,546,046	21,372,991
Commitments and contingencies	7	31,490,074	27,055,434

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

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2016

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

	Notes	1 January – 30 June 2016	1 January – 30 June 2015
Interest income			
Interest income on loans and advances to customers		385,677	315,342
Interest on money market placements		89,838	26,470
Interest income on securities		172,029	158,594
Interest income on loans and advances to banks		10,995	8,427
Interest income on reserve deposits at central banks		1,735	257
Interest income on finance leases		1	1
Other interest income		456	100
Total interest income		660,731	509,191
Interest expenses			
Interest expense on obligations under repurchase agreements and money market borrowings		(128,900)	(101,003)
Interest expense on funds borrowed and subordinated loan		(112,489)	(89,325)
Interest expense on debt securities issued		(58,189)	(36,268)
Other interest expenses		(83)	(69)
Total interest expense		(299,661)	(226,665)
Net interest income		361,070	282,526
Fee and commission income		18,819	16,451
Fee and commission expense		(5,916)	(2,433)
Net fee and commission income		12,903	14,018
Securities trading income / (loss), net		3,839	6,419
Derivative trading income / (loss), net		(126,839)	(87,428)
Foreign exchange gains / (loss), net		95,228	78,869
Net trading income / (loss), net		(27,772)	(2,140)
Net impairment loss on financial assets		(1,544)	(13,015)
Net operating income after impairment loss		344,657	281,389
Other operating income		7,067	21,620
Other operating expenses		(80,950)	(71,703)
Dividend income		11,486	10,175
Share of profit of equity-accounted investees		20,942	18,038
Profit before income tax		303,202	259,519
Income tax expense		(54,377)	(46,729)
Profit for the period		248,825	212,790
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Net change in fair value of available for sale financial assets		75,399	(130,775)
Net change in fair value of available for sale financial assets transferred to profit or loss		1,884	7,696
Non-controlling interest share on fair value change in subsidiaries		(8,779)	(6,339)
Related tax		(15,479)	24,319
Other comprehensive income for the period, net of tax		53,025	(105,099)
Total comprehensive income for the period		301,850	107,691

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

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2016 (Continued)

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

		1 January – 30 June 2016	1 January – 30 June 2015
Profit attributable to:	Notes		
Equity holders of the Bank		249,903	216,525
Non-controlling interests		(1,078)	(3,735)
Profit for the period		248,825	212,790
Total comprehensive income attributable to:			
Equity holders of the Bank		302,938	111,426
Non-controlling interests		(1,088)	(3,735)
Total comprehensive income for the period		301,850	107,691
Earnings per share			
Basic earnings per share (in full TL)	14	0.1214	0.1216

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

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2016

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

	Notes	Attributable to equity holders of the Bank								Non-controlling interests	Total Equity
		Share Capital	Inflation adjustment to capital	Share premium	Legal reserves	Fair value reserve	Revaluation reserve	Retained earnings	Total		
Balance at 1 January 2015		1,500,000	13,563	413	176,231	118,002	-	724,940	2,533,149	67,453	2,600,602
Total comprehensive income for the period											
Profit for the period		-	-	-	-	-	-	216,525	216,525	(3,735)	212,790
Other comprehensive income											
Remeasurement of defined benefit liability		-	-	-	-	-	-	-	-	-	-
Net change in fair value of available for sale financial assets		-	-	-	-	(130,775)	-	-	(130,775)	-	(130,775)
Net change in fair value of available for sale financial assets transferred to profit or loss		-	-	-	-	7,696	-	-	7,696	-	7,696
Revaluation of tangible assets		-	-	-	-	-	-	-	-	-	-
Equity-accounted investees - share of OCI		-	-	-	-	(6,339)	-	-	(6,339)	-	(6,348)
Tax on other comprehensive income		-	-	-	-	24,319	-	-	24,319	-	24,319
Total other comprehensive income		-	-	-	-	(105,099)	-	-	(105,099)	-	(105,099)
Total comprehensive income for the period		-	-	-	-	(105,099)	-	216,525	111,426	(3,735)	107,691
Transactions with owners of the Company											
Contributions and distributions											
Capital increase	13	250,000	-	-	-	-	-	(250,000)	-	-	-
Dividend distribution		-	-	-	-	-	-	(80,262)	(80,262)	-	(80,262)
Transfer to legal reserves		-	-	-	19,305	-	-	(19,305)	-	-	-
Changes in ownership interests											
Acquisition of non-controlling interests without a change in control		-	(11)	6	2	-	-	1,299	1,296	(2,346)	(1,050)
Total transactions with the owners of the Company		250,000	(11)	6	19,307	-	-	(348,268)	(78,966)	(2,346)	(81,312)
Balance at 30 June 2015	13	1,750,000	13,552	419	195,538	12,903	-	593,197	2,565,609	61,372	2,626,981

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

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2016

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

	Attributable to equity holders of the Bank										
	Notes	Share Capital	Inflation adjustment to capital	Share premium	Legal reserves	Fair value reserve	Revaluation reserve	Retained earnings	Total	Non-controlling interests	Total Equity
Balance at 1 January 2016		1,750,000	13,563	428	195,538	(23,747)	173,518	819,477	2,928,777	65,490	2,994,267
Total comprehensive income for the period											
Profit for the period		-	-	-	-	-	-	249,903	249,903	(1,078)	248,825
Other comprehensive income											
Remeasurement of defined benefit liability		-	-	-	-	-	-	-	-	-	-
Net change in fair value of available for sale financial assets		-	-	-	-	75,409	-	-	75,409	(10)	75,399
Net change in fair value of available for sale financial assets transferred to profit or loss		-	-	-	-	1,884	-	-	1,884	-	1,884
Revaluation of tangible assets		-	-	-	-	-	-	-	-	-	-
Equity-accounted investees - share of OCI		-	-	-	-	(8,779)	-	-	(8,779)	-	(8,779)
Tax on other comprehensive income		-	-	-	-	(15,479)	-	-	(15,479)	-	(15,479)
Total other comprehensive income		-	-	-	-	53,035	-	-	53,035	(10)	53,025
Total comprehensive income for the period		-	-	-	-	53,035	-	249,903	302,938	(1,088)	301,850
Transactions with owners of the Company											
Contributions and distributions											
Capital increase	13	300,000	-	-	-	-	-	(300,000)	-	-	-
Dividend distribution		-	-	-	-	-	-	(61,839)	(61,839)	-	(61,839)
Transfer to legal reserves		-	-	-	21,289	-	-	(21,289)	-	-	-
Total transactions with the owners of the Company		300,000	-	-	21,289	-	-	(383,128)	(61,839)	-	(61,839)
Balance at 30 June 2016	13	2,050,000	13,563	428	216,827	29,288	173,518	686,252	3,169,876	64,402	3,234,278

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

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE INTERIM PERIOD ENDED 30 JUNE 2016

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

	30 June 2016	30 June 2015 (Restated*)
Notes		
Cash flows from operating activities:		
Interests and commissions received	553,947	525,148
Other operating activities, net	16,303	(207,053)
Cash payments to employees and suppliers	(60,699)	174,111
Interests and commissions paid	(175,998)	(55,643)
Dividends received	11,486	10,175
Operating profit before changes in operating assets / liabilities	345,039	446,738
(Increase)/decrease in operating assets:		
Loans and advances to customers	(977,227)	(861,034)
Balances with central Banks	802	(144,652)
Financial assets at fair value through profit or loss	(2,834)	(15,634)
Other assets	75,545	(108,274)
(Increase)/decrease in operating liabilities:		
Funds borrowed	166,168	854,295
Obligations under repurchase agreements and money market fundings	45,439	(13,178)
Other liabilities	1,647	54,770
Net cash outflows from operating activities before taxes and duties paid	(345,421)	213,031
Income taxes and other duties paid	(77,910)	(35,436)
Net cash outflows from operating activities	(423,331)	177,595
Cash flows from investing activities:		
Cash paid for purchase of investment securities	(437,481)	(1,037,703)
Cash obtained from sale of investment securities	236,903	669,825
Proceeds from sale of tangible assets	262	4,767
Purchase of tangible assets	(2,281)	(20,937)
Other	(1,304)	(343)
Net cash inflows/ outflows from investing activities	(203,901)	(384,391)
Cash flows from financing activities:		
Increase in loans and advances from banks and other institutions, net	878,309	927,531
Dividends paid	(61,839)	(80,262)
Net cash inflows from financing activities	816,470	847,269
Effect of exchange rate changes	(6,049)	28,861
Net increase in cash and cash equivalents	183,189	669,334
Cash and cash equivalents at 1 January	1,868,915	642,972
Cash and cash equivalents at 30 June	2,052,104	1,312,306

(*) See note 16.

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

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TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE PERIOD ENDED 30 JUNE 2016

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

1. REPORTING ENTITY

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

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

TSKB started its activities in 1950 financing the private sector investments in Turkey and today it provides loans and project finance with the goal of sustainable development to corporations in different fields. As a leader in meeting the long term finance needs of the private sector, TSKB also continues to offer solutions with respect to the newest needs and client demands. Furthermore, through offering the equity shares of such companies to the public, TSKB has been a significant milestone in this field and thus assumed a prominent and vital role in fostering the development of capital markets. The main shareholders of TSKB are T. İş Bankası Group and T. Vakıflar Bankası T.A.O. with the percentages of 50.41% and 8.38%, respectively (31 December 2015: 50.33% and 8.38%, respectively). The Bank’s 39.3% shares are traded in Borsa Istanbul (“BIST”).

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

The condensed consolidated interim financial statements of the Bank as at and for the period ended 30 June 2016 are available upon request from the Bank’s registered office and website.

Information about the consolidated subsidiaries and associates

Yatırım Finansman Menkul Değerler AŞ

Yatırım Finansman Menkul Değerler AŞ was established and registered with Istanbul Trade Registry on 15 October 1976 and it was announced in the Turkish Trade Registry Gazette No: 81 on 25 October 1976. The company’s objective is to perform capital market operations specified in the Company’s main contract in accordance with the Capital Markets Board (“CMB”) and the related legislation. The company was merged with TSKB Menkul Değerler AŞ on 29 December 2006. The share of Türkiye Sınai Kalkınma Bankası A.Ş. is 95.78%. The company’s headquarters is located at Istanbul/Turkey.

TSKB Gayrimenkul Yatırım Ortaklığı AŞ

The core business of TSKB Gayrimenkul Yatırım Ortaklığı AŞ (“TSKB GYO”) is real estate trust to construct and develop a portfolio of properties and invest in capital market instruments linked to properties. The company was established on 3 February 2006. The company’s shares are traded in BIST since April 2010. The share of Türkiye Sınai Kalkınma Bankası A.Ş. is 59.00%. The company’s headquarters is located at Istanbul/Turkey.

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE PERIOD ENDED 30 JUNE 2016

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

1. REPORTING ENTITY (continued)

Information about the consolidated subsidiaries and associates (continued)

İş Finansal Kiralama AŞ

İş Finansal Kiralama AŞ was established on 8 February 1988 and it has been performing its operations in accordance with the Financial Leasing, Factoring and Financing Companies Law No: 6361. The company started its leasing operations in July 1998. The direct share of Türkiye Sınai Kalkınma Bankası AŞ is 28.56% and the share of Türkiye İş Bankası A.Ş. is 27.79%. The Company's headquarters is located at Istanbul/Turkey.

İş Faktoring AŞ

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

İş Girişim Sermayesi Yatırım Ortaklığı AŞ

The principal business of İş Girişim Sermayesi Yatırım Ortaklığı AŞ is to make long-term investments in existing companies in Turkey or to be established in Turkey, having a development potential and are in need of financing. The direct share of Türkiye Sınai Kalkınma Bankası AŞ is 16.67% in which the share of İş Yatırım Menkul Değerler A.Ş. is 29.04%. The company's headquarters is located at Istanbul/Turkey.

2. BASIS OF ACCOUNTING

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 "*Interim Financial Reporting*", and should be read in conjunction with the Group's last annual consolidated financial statements as at and for the year ended 31 December 2015 ("last annual financial statements"). They do not include all the information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards.

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

The accompanying condensed consolidated financial statements were authorized for issue by the Bank management on 2 September 2016.

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE PERIOD ENDED 30 JUNE 2016

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

3. USE OF JUDGEMENTS AND ESTIMATES

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

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended 31 December 2015.

Measurement of fair values

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

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

Significant valuation issues are reported to Audit Committee.

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

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

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

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

Further information about the assumptions made in measuring fair values is included in Note 4 financial instruments.

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE PERIOD ENDED 30 JUNE 2016

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

4. FINANCIAL INSTRUMENTS

Carrying amounts and fair values

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

	Carrying amount			Fair value			
	Loans and receivables	Investments, including derivatives	Total	Level 1	Level 2	Level 3	Total
Financial assets							
30 June 2016							
Financial assets at fair value through profit or loss:							
-Trading securities	-	32,561	32,561	23,629	8,932	-	32,561
-Derivative financial instruments	-	177,264	177,264	-	177,264	-	177,264
Derivatives used for hedging purposes	-	65,684	65,684	-	65,684	-	65,684
Investment securities:							
-Available-for-sale investment securities	-	3,241,446	3,241,446	2,126,882	1,092,920	21,644	3,241,446
	-	3,516,955	3,516,955				
31 December 2015							
Financial assets at fair value through profit or loss:							
-Trading securities	-	39,777	39,777	39,777	-	-	39,777
-Derivative financial instruments	-	169,794	169,794	-	169,794	-	169,794
Derivatives used for hedging purposes	-	4,093	4,093	-	4,093	-	4,093
Investment securities:							
-Available-for-sale investment securities	-	2,976,504	2,976,504	1,890,450	1,063,795	22,259	2,976,504
	-	3,190,168	3,190,168				

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4. FINANCIAL INSTRUMENTS (continued)

Carrying amounts and fair values (continued)

	Carrying amount			Fair value			
	Loans and borrowings	Derivatives	Total	Level 1	Level 2	Level 3	Total
Financial liabilities							
30 June 2016							
Derivative financial instruments	-	201,794	201,794	-	201,794	-	201,794
	-	201,794	201,794				
31 December 2015							
Derivative financial instruments	-	174,950	174,950	-	174,950	-	174,950
Derivatives used for hedging purposes	-	5,799	5,799	-	5,799	-	5,799
	-	180,749	180,749				

The reconciliation from the beginning balances to ending balances for fair value measurements in Level 3 for the six month period ended 30 June 2016 and 2015 is as follows:

	30 June 2016	30 June 2015
Balance at the beginning of the year	22,259	26,967
Purchases	2	249
Redemption or sales	(617)	-
Closing balance	21,644	27,216

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5. OPERATING SEGMENTS

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

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

Principal activities of the Group are as follows:

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

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

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5. OPERATING SEGMENTS (continued)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS (1 January – 30 June 2016)	Banking	Stock brokerage and other	Combined	Eliminations	Total
Interest income	646,461	14,340	660,801	(70)	660,731
Interest expense	(275,014)	(24,717)	(299,731)	70	(299,661)
Net interest income	371,447	(10,377)	361,070	-	361,070
Net fee and commission income	2,611	10,292	12,903	-	12,903
Net securities trading income / (loss)	5,395	(1,556)	3,839	-	3,839
Net derivative trading income / (loss)	(142,531)	15,692	(126,839)	-	(126,839)
Net foreign currency gain / (loss)	101,151	(5,923)	95,228	-	95,228
Net impairment loss on financial assets	(595)	(949)	(1,544)	-	(1,544)
Net operating income after impairment losses	337,478	7,179	344,657	-	344,657
Other operating income	2,213	8,749	10,962	(3,895)	7,067
Other operating expenses	(60,112)	(24,415)	(84,527)	3,577	(80,950)
Dividend income	30,103	2,007	32,110	(20,624)	11,486
Share of profit of equity-accounted investees	20,942	-	20,942	-	20,942
Profit before income tax	330,624	(6,480)	324,144	(20,942)	303,202

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5. OPERATING SEGMENTS (continued)

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

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5. OPERATING SEGMENTS (continued)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	Banking	Stock brokerage and other	Combined	Eliminations	Total
<u>At 30 June 2016</u>					
Total assets	21,840,814	822,281	22,663,095	(117,049)	22,546,046
Total liabilities	18,782,909	531,456	19,314,365	(2,597)	19,311,768
Equity before net profit & non-controlling interests	2,803,648	296,257	3,099,905	(179,932)	2,919,973
Net profit attributable to equity holders of the Bank	254,257	(5,432)	248,825	1,078	249,903
Non-controlling interests	-	-	-	64,402	64,402
Total equity	3,057,905	290,825	3,348,730	(114,452)	3,234,278
Total liabilities and equity	21,840,814	822,281	22,663,095	(117,049)	22,546,046
<u>At 31 December 2015</u>					
Total assets	20,839,034	752,546	21,591,580	(218,589)	21,372,991
Total liabilities	18,035,527	456,110	18,491,637	(112,913)	18,378,724
Equity before net profit & non-controlling interests	2,340,246	286,213	2,626,459	(139,197)	2,487,262
Net profit attributable to equity holders of the Bank	463,261	10,223	473,484	(31,969)	441,515
Non-controlling interests	-	-	-	65,490	65,490
Total equity	2,803,507	296,436	3,099,943	(105,676)	2,994,267
Total liabilities and equity	20,839,034	752,546	21,591,580	(218,589)	21,372,991

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6. RELATED PARTIES

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

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

	30 June 2016	31 December 2015
<u>Balances with related parties</u>		
Loans and advances to customers	454,990	484,797
Non-cash loans	462	117,734
Loans and advances to banks	36,523	54,174
Available for sale investment securities	11,370	21,306
Other assets	6	45
Other liabilities	3	20
	1 January- 30 June 2016	1 January- 30 June 2015
<u>Transactions with related parties</u>		
Interest income	6,235	4,291
Dividend income	11,486	10,175
Share of profit of equity-accounted investees	20,942	18,038
Foreign exchange gain / (loss), net	1,219	20,459
Derivative trading income / (loss), net	(12,842)	-
Net fee and commission income / (expense), net	189	455
Other income	295	263

Compensation of Key Management Personnel of the Group

Benefits provided to key management personnel in the current period amount to TL 9,897 (30 June 2015: TL 7,676).

7. COMMITMENTS AND CONTINGENCIES

	30 June 2016	31 December 2015
Swap and forward agreements	15,573,717	12,990,807
Derivative financial instruments for hedging purposes	6,389,160	4,689,900
Revocable and irrevocable commitments	5,180,027	5,026,305
Option agreements	2,316,184	2,476,548
Letters of guarantee	1,053,591	1,196,747
Letters of credit	507,104	566,890
Capital commitments for subsidiaries and associates (*)	63,869	-
Bank acceptances	14,390	19,027
Other commitments	392,032	89,210
	31,490,074	27,055,434

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7. COMMITMENTS AND CONTINGENCIES (continued)

(*) “As of 25 July 2016, the Bank has paid Euro 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 Euro 335 Million and established with the name of Turkish Growth and Innovation Fund – TGIF.”

Fiduciary Activities

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

The nominal values of the assets held by the Group in agency or custodian capacities and financial assets under portfolio management amounted to TL 1,147,725 as at 30 June 2016 (31 December 2015: TL 1,772,777). As at 30 June 2016, securities at custody with market value amounted to TL 3,008,101 (31 December 2015: TL 3,452,324).

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

As at 30 June 2016, according to the general requirements of the BIST, letters of guarantee amounting to TL 39,807 (31 December 2015: TL 25,509) had been obtained from various local banks and were provided to BIST for bond and stock market transactions. Also, as at 30 June 2016 there is no letter of guarantee were given to the CMB (31 December 2015: TL 2,102).

The Group’s trading securities given as collateral or blocked amounted to TL 2,963 at the reporting date (31 December 2015: TL 2,544).

Litigations

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

There are 48 legal cases against the Group which are amounting to TL 7,215 as of the reporting date (31 December 2015: TL 5,919 for 45 legal cases).

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

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7. COMMITMENTS AND CONTINGENCIES (continued)

Litigations (continued)

Some of the lawsuits are decided favourable, remaining of lawsuits are decided unfavourable by the tax courts of first instance. On the other hand, appeal and objection have been requested by the Parent Bank against the decision of the Court with respect to the Parent Bank and by the administration against the decision of the Court with respect to the administration and completion of appeal process is waited. The tax and penalty notices related to the decision of the tax court of first instance against the Parent Bank are accrued by administration depending on legal process and as of 31 July 2014 the Parent Bank has made total payments amounting to TL 22,091.

A similar case has been submitted to the Constitutional Court (AYM) in the form of individual remedies by the main shareholder of the parent Bank in relation to the parent Bank's liabilities to pay, the Constitutional Court gave the decision with court file number 2014/6192. According to court decision published in the Official Gazette dated 21 February 2015 and numbered 29274, the assessments against the parent Bank was contrary to the principle of legality and the Parent Bank's property rights has been violated. This decision is considered to be a precedent for the parent Bank and an amount of TL 12,750 corresponding to the portion that the parent Bank was obliged to pay for the related period is recognised as income in the current period.

Plaintiff ultimately filed a lawsuit against IBB 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. IBB 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.

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. Justified decision has been declared and the decision appealed by Pendik Municipality is being waited for the return from Supreme Court.

Other

The Group's head office and 10 branches, including branches of subsidiaries, 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 29 cars and 100 computers are subject to operational leasing).

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8. BALANCES WITH CENTRAL BANK

As at 30 June 2016 balances with Central Bank include restricted reserve deposits amounting to TL 766,741 (31 December 2015: TL 767,239) at the Central Bank of Turkey and unrestricted reserve deposits amounting to TL 31,555 (31 December 2015: TL 43,863).

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 began to collect monthly commissions over daily balances of Two Days Notice Deposit Accounts and Required Reserves held in the foreign currencies, to be valid from 1 February 2015. As of 5 May 2015, the CBRT has started to pay interest to the Required reserves, reserve options and unrestricted account held in US dollars according to regulation released at 2 May 2015.

As per the “Communiqué on Amendments to be Made on Communiqué on Required Reserves” of CBRT, numbered 2011/11 and 2011/13, required reserves for Turkish Lira and Foreign currency liabilities are set at CBRT based on rates mentioned below. Reserve rates prevailing at 30 June 2016 are presented in table below:

Reserve Rates for TL Liabilities

Original maturity	Required Reserve rate (%)
Other liabilities until 1 year maturity (1 year included)	11,5
Other liabilities until 3 year maturity (3 year included)	8
Other liabilities more than 3 year maturity	5

Reserve Rates for Foreign Currency Liabilities

Original maturity	Required Reserve rate (%) If the fund borrowed before 28 August 2015	Required Reserve rate (%) If the fund borrowed after 28 August 2015
Other liabilities until 1 year maturity (1 year included)	20	25
Other liabilities until 1-2 year maturity (2 year included)	14	20
Other liabilities until 2-3 year maturity (3 year included)	8	15
Other liabilities until 3-5 year maturity (5 year included)	7	7
Other liabilities more than 5 year maturity	6	5

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9. DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2016	30 June 2016	31 December 2015	31 December 2015
	Assets	Liabilities	Assets	Liabilities
Currency swaps	46,892	(93,117)	54,095	(76,957)
Options	34,310	(35,778)	73,596	(73,632)
Foreign currency forward contracts	9,318	(7,664)	3,375	(2,101)
Interest rate swaps	86,744	(65,235)	38,728	(22,260)
	177,264	(201,794)	169,794	(174,950)

Derivatives held for risk management

Due to the Bank and its affiliates' overall interest rate risk position and funding structure, its risk management policies require that it should minimize its exposure to changes in interest rates within certain guidelines. Interest rate swaps are used for this purposes as derivative financial instruments.

In this respect, 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. 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 fair value of derivatives designated as fair value hedges are as follows:

Instrument type	30 June 2016	30 June 2016	31 December 2015	31 December 2015
	Assets	Liabilities	Assets	Liabilities
Interest Rate Swap (*)	65,684	-	4,093	(5,799)
	65,684	-	4,093	(5,799)

The Group is party to a variety of foreign currency forward contracts, swaps and options in the management of its exchange rate exposures. The instruments are primarily denominated in TL, USD and Euro. At the reporting date, the total notional amounts of outstanding derivatives to which the Group is committed are as follows:

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9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

	30 June 2016	31 December 2015
Forward foreign exchange contracts – buy	476,535	204,454
Forward foreign exchange contracts – sell	475,189	202,634
Currency swaps – buy	3,438,877	2,718,071
Currency swaps – sell	3,365,916	2,676,768
Interest rate swaps – buy (*)	3,908,600	3,594,440
Interest rate swaps – sell (*)	3,908,600	3,594,440
Currency option – buy	1,158,324	1,238,199
Currency option – sell	1,157,860	1,238,349
Other – sell	392,032	89,360

(*) The bank has derivative financial instruments for hedging purposes amounting TL 6,389,160. As of June 2016, net gain from these transactions is TL 65,684 and this amount is associated with income statements (31 December 2015: TL 1,706 net loss).

10. LOANS AND ADVANCES TO CUSTOMERS

	30 June 2016	31 December 2015
Short-term and current portion of long term loans	959,297	687,635
Long-term loans	13,360,314	12,945,266
Finance leases, net	1,085	-
Total performing loans	14,320,696	13,632,901
Non-performing loans	50,426	61,017
Total loans	14,371,122	13,693,918
Less: Specific reserve for impairment losses on loans	(8,800)	(8,729)
Less: Portfolio reserve for impairment losses on loans	(32,818)	(33,697)
Total loans	14,329,504	13,651,492

Movements in the reserve for impairment losses on loans for the six-month period ended 30 June 2016 and 2015 are as follows:

	1 January – 30 June 2016	1 January – 30 June 2015
Specific reserve for cash loans:		
As at 1 January	8,729	6,895
Charge for the period	1,470	2,782
Reserve released and write offs	(1,399)	(858)
	8,800	8,819
Portfolio reserve for cash loans:		
As at 1 January	33,697	26,138
Charge for the period	-	7,727
Reserve released and write offs	(879)	-
	32,818	33,865
Total reserve for impairment losses on loans	41,618	42,684

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11. INVESTMENT SECURITIES

Available-for-sale investment securities

At 30 June 2016 and 31 December 2015, available for sale securities portfolio comprised the following:

	30 June 2016	31 December 2015
Government bonds and treasury bills in TL	2,116,716	1,793,224
Debt securities issued by corporations	229,134	309,397
Eurobonds	853,987	831,327
Equity shares	41,828	42,773
Total	3,241,665	2,976,721

12. INCOME TAXES

The Group is subject to taxation in accordance with the tax procedures and the legislation effective in Turkey. Corporate income tax is 20% on the statutory corporate income tax base, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes as at 30 June 2016 (31 December 2015: 20%). Provision is made in the accompanying consolidated financial statements for the estimated charge based on the Group's results for the period. The Group's consolidated effective tax rate in respect of continuing operations as at and for the six-month period ended 30 June 2016 is 18% (30 June 2015: 18%).

13. SHARE CAPITAL

	30 June 2016	31 December 2015
TL 1 (in full TL), par value	1,750,000	1,500,000
Share increase	300,000	250,000
Total number of shares	2,050,000	1,750,000
Paid-in capital	2,050,000	1,750,000
Inflation restatement effect	13,563	13,563
Shared capital issued	2,063,563	1,763,563

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14. EARNINGS PER SHARE

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

A summary of the weighted average number of shares outstanding for the interim periods ended 30 June 2016 and 2015 and the basic earnings per share calculation is as follows (assuming that the cash increases did not involve a bonus element):

	1 January – 30 June 2016	1 January – 30 June 2015
Number of shares outstanding at 1 January	1,750,000,000	1,500,000,000
<i>New shares issued</i>		
Conversion of existing reserves	300,000,000	250,000,000
Number of shares outstanding at the period end	2,050,000,000	1,750,000,000
Weighted average number of shares during the period ^(*)	2,050,000,000	1,750,000,000
Net profit (TL)	248,825	212,790
Basic earnings per share (in full TL)	0.1214	0.1216

There is no dilution of shares as of 30 June 2016.

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15. EVENTS AFTER THE REPORTING PERIOD

Events after the reporting period as presented below;

Sürdürülebilir Danışmanlık A.Ş.'s paid-in capital is increased from TL 240 to TL 1,240 with registration dated 20 July 2016 by the Bank that is indirectly owned to the company through Yatırım Finansman Menkul Değerler A.Ş. which is a subsidiary of the Bank's and its share in the Company is 80.65%.

The amount of Euro 1.1 million which is a part of the amount that is committed to pay to the Turkish Growth and Innovation Fund, described in Section Five III-1-1.a footnote, was paid as of 25 July 2016.

16. SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current period.

The Group has changed its cash flow method from indirect to direct and cash flow statement for the prior period ended 30 June 2015 has been restated based on this new method. Net cash outflows from operating activities are changed to TL (676,599) from TL 177,595 and net cash inflows from financing activities are changed to TL 1,701,463 from TL 847,269.