

# EMPOWERING DEVELOPMENT



# ORDINARY GENERAL ASSEMBLY MEETING AGENDA DATED 23.03.2018

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 2017,
3. Review, discussion and approval of the balance sheet and profit and loss statements of the Bank for the year of 2017,
4. Approval of the appointment of the members of the Board of Directors substituting the members leaving their post until the date of the General Assembly,
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. Appointment of the Members of the Board of Directors and the Independent Board Member,
8. Determination of allowance for the Members of the Board of Directors,
9. Election of the Independent Audit Firm,
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 2018,
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

**We support equal opportunities in employment for an inclusive and sustainable development in our country.**

Since the foundation of our Bank in 1950, we have been backing not only investments by the Turkish private sector but also inclusive development through our financing, consultancy and social responsibility projects. In the context of “equal opportunities in employment”, TSKB proudly presents women employees from various departments of the Bank in the 2017 Annual Report.

## CORPORATE PROFILE

TSKB'S EXPERIENCE IN VALUATION AND FINANCIAL ANALYSIS IDENTIFIES THE BANK AS A CONSULTANT IN ADDITION TO BEING A CONVENTIONAL FINANCIAL INSTITUTION.

### THE TRUE BUSINESS PARTNER IN INCLUSIVE AND SUSTAINABLE DEVELOPMENT

Serving Turkey's development since 1950, TSKB creates value for the inclusive and sustainable growth of our country through its financing and consultancy solutions. Having a visionary perspective in addition to innovative services, TSKB aims to be the true business partner and manages its operations at its headquarters in Findikli, Istanbul as well as its branch offices in Ankara and Izmir.

As of December 31, 2017, TSKB ranks the second among development and investment banks with an asset size of TL 29 billion.

### WELL-ESTABLISHED INTERNATIONAL COOPERATION

Since its establishment, TSKB has been working in close and strong cooperation with international financial institutions and financing the investment capital and working capital needs of companies in various sectors, chiefly in renewable energy, energy and resource efficiency, environment, industry and utilities sectors. Throughout its 67-year history, TSKB has assumed a key role in helping many companies from various industries make their investments via the long-term funds it secured from international financial institutions and extended through either direct lending or APEX banking.

TSKB enjoys a high level of brand recognition and reputation in international development finance platforms. Most reputed financial institutions including the World Bank, the European Investment Bank, the German Development Bank - KfW, the Council of Europe Development Bank, the International Finance Corporation,

the European Bank for Reconstruction and Development, the Japan Bank for International Cooperation, the French Development Agency - AFD, and the Islamic Development Bank are among TSKB's global business partners.

### A CONSULTANT BANK APPROACH DISTILLED FROM 67 YEARS OF EXPERIENCE

TSKB's experience in valuation and financial analysis identifies the Bank as a consultant in addition to being a conventional financial institution. TSKB's strong analysis team incorporates engineers as well as economic and sectoral experts. The Bank offers services that make a difference in the fields of financial and technical consultancy.

### PIONEER IN SUSTAINABILITY

TSKB, Turkey's leading bank in sustainable development, takes innovative sustainability steps through the projects it supports and the business model it implements. TSKB has an experience of 15 years and eight years in financing renewable energy projects and energy and resource efficiency projects respectively, with the Bank's funding for sustainability investments corresponding to almost 70% of its total portfolio. TSKB reinforces its commitment on transition to a low-carbon economy by measuring the environmental and social impact of all investment projects it funds.

Focusing on developing pioneering and innovative products in financing sustainability, TSKB issued the first Green/ Sustainable Bond in Turkey and in the region in 2016. The Bank received several global awards with this issuance. In 2017, TSKB broke another new ground, this time thanks to the issuance of the world's first Subordinated Sustainable Bond.

TSKB also prioritizes sustainability in the management of internal environmental impact and stands out as Turkey's first carbon neutral bank having ISO 14001 and ISO 14064 certification.

Having published not only the first GRI-approved Sustainability Report in the banking sector but also the first Integrated Report in the private sector in 2017, TSKB transposes its pioneering approach in sustainability to reporting.

### POWERFUL SYNERGY WITH SUBSIDIARIES

TSKB expands its sphere of influence through its affiliates that operate in the fields of monetary and capital market brokerage, real estate and sustainability. The powerful synergy TSKB has created with its affiliates diversifies the range of products and services offered to customers and creates permanent added value.

For detailed information on services offered in cooperation with Subsidiaries, please refer to page 44.

### A MARKET VALUE OF TL 3.5 BILLION

Traded on BIST Stars under the ticker "TSKB" with a free float ratio of 39%, TSKB shares had a year-end market value of TL 3.5 billion (USD 921 million) with an annual increase of 23%.

TSKB, who is the pioneer of sustainable banking in Turkey, retains its position on BIST Sustainability Index and FTSE4Good Emerging Markets Index.

50.7% of TSKB shares are held by Isbank Group of Turkey. Detailed information on the performance of TSKB stocks is provided on page 13 of this report.





**TSKB'S STRONG ANALYSIS TEAM INCORPORATES ENGINEERS AS WELL AS ECONOMIC AND SECTORAL EXPERTS. THE BANK OFFERS SERVICES THAT MAKE A DIFFERENCE IN THE FIELDS OF FINANCIAL AND TECHNICAL CONSULTANCY.**

## Our Mission

Is to focus on creating value for the inclusive and sustainable development of our country through the financing and consultancy solutions powered by our experience in development and investment banking as well as the visionary approach and well-established international collaboration initiatives we maintain.

## Our Vision

Is to be the business partner that stakeholders consult and prefer as the first choice towards the economic, environmental and social development of Turkey.

## Our Values

PIONEERING	HUMAN-FOCUSED	SOLUTION-ORIENTED	RELIABLE & RESPECTFUL
<p>We create long-term value for customers, society and the future of our country, using a <b>visionary</b> perspective and <b>innovative</b> services as leverage.</p> <p>We keep a close eye on international banking practices and <b>lead</b> our sector as a <b>pioneer</b>.</p>	<p>With a human-oriented approach for a qualified economic growth we contribute to employment, equal opportunities and social development through <b>inclusive</b> banking solutions.</p> <p>We make business decisions together based on <b>collective intelligence</b>.</p> <p>We value team success over individual success. We work in harmony both within the Bank and with the organizations we <b>cooperate</b>.</p> <p>We <b>never discriminate</b> among our employees. We protect the rights of employees and ensure they always have equal opportunities.</p> <p>We contribute to employees' <b>professional and personal development</b> and encourage them to take initiatives.</p>	<p>We produce <b>flexible, fast and efficient solutions</b> in order to optimally meet our customers' expectations and needs.</p> <p>We are utterly prudent about the <b>quality</b> of the work we do and resolute in fulfilling commitments.</p> <p>Knowing that we are the <b>leaders in our job</b>, we take <b>responsibility</b> and act timely and swiftly at each stage without need for any prior guidance.</p>	<p>We build <b>trustful and respectful</b> relations with all our stakeholders.</p> <p>We never compromise on a <b>fair, accountable, transparent and ethical</b> banking approach, and the contemporary rules of corporate governance.</p> <p>We create value for <b>sustainable</b> development through an <b>environment-friendly</b> banking approach, and take responsibility to leave future generations a world to live in.</p>





#### OUR STRENGTHS

- » A 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

- » SUPPORT SUSTAINABLE DEVELOPMENT
- » PROVIDE ENTREPRENEURS WITH MONEY- AND CAPITAL MARKET BROKERAGE AND ADVISORY SUPPORT
- » ENSURE SUSTAINABLE PROFITABILITY AND GROWTH
- » STRENGTHEN THE CORPORATE STRUCTURE
- » COMMUNICATE EFFECTIVELY WITH STAKEHOLDERS

## BUSINESS MODEL

### OUR AREAS OF ACTIVITY

### OUR STRATEGIES

### OUR OUTPUTS

#### DEVELOPMENT BANKING



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

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

#### INVESTMENT BANKING SERVICES



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

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

#### CONSULTANCY SERVICES

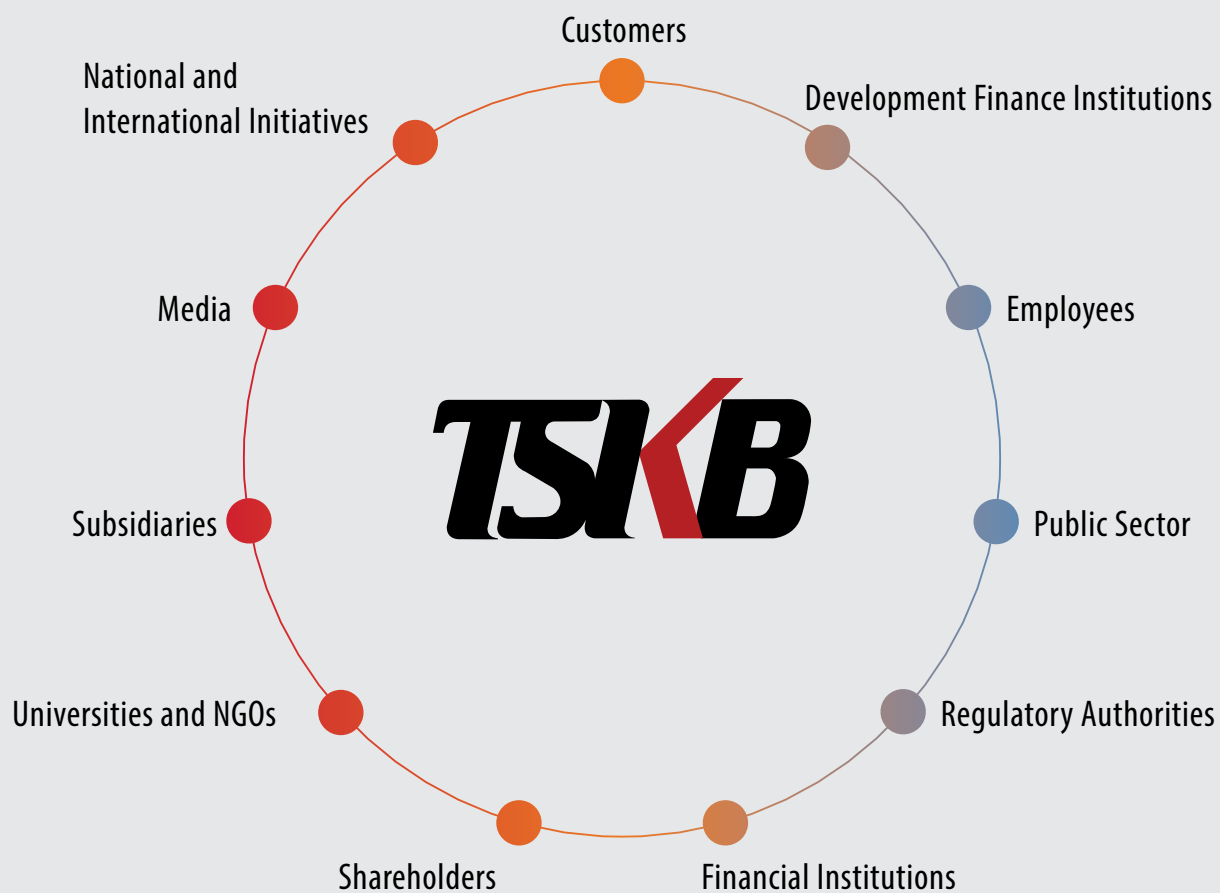


- » Provision of consultancy services in fields of finance, real estate and sustainability geared towards the assets and needs of customers backed by accumulation of knowledge acquired over a long span of time

- » Offering integrated solutions to our customers
- » Creating value added to investments and investors
- » Cooperation with public entities
- » Qualified consulting services



## OUR STAKEHOLDERS



## TSKB'S PORTFOLIO OF PRODUCTS AND SERVICES

TSKB OFFERS CORPORATE LENDING, INVESTMENT BANKING AND CONSULTANCY SOLUTIONS TO CREATE VALUE FOR AN INCLUSIVE AND SUSTAINABLE GROWTH IN OUR COUNTRY.

### 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
- » WOMEN'S EMPLOYMENT
- » OCCUPATIONAL HEALTH AND SAFETY
- » 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 FINANCIAL 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 REPORTS
- » GREEN BUILDING ANALYSIS
- » URBAN TRANSFORMATION CONSULTANCY
- » CONCEPT DEVELOPMENT CONSULTANCY

##### SUSTAINABILITY AND ENVIRONMENT\*

- » 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.



**TSKB WILL CONTINUE TO EMPLOY  
ITS SUCCESSFULLY-PROVEN  
SUSTAINABLE GROWTH STRATEGY  
TO INCREASE THE VALUE IT CREATES  
FOR OUR COUNTRY.**

## KEY INDICATORS AND RATIOS

METICULOUSLY COUPLING ITS STABLE GROWTH WITH ITS STRONG CAPITAL STRUCTURE, TSKB'S EQUITY ROSE BY 20.7% TO REACH TL 3.5 BILLION.

KEY FINANCIAL INDICATORS (TL MILLION)	2013	2014	2015	2016	2017
Total Assets	12,911	15,701	20,735	24,002	28,910
Loan Portfolio	9,177	10,981	13,675	17,322	22,924
Shareholders' Equity	1,885	2,288	2,489	2,928	3,535
Net Profit	326	369	407	476	596

(%)	2013	2014	2015	2016	2017
Average Return on Equity	17.9	17.7	17.0	17.6	18.4
Average Return on Assets	2.8	2.6	2.2	2.1	2.3
Capital Adequacy Ratio	18.2	18.1	14.9	14.3	17.1

### TOTAL ASSETS (TL MILLION)



### LOAN PORTFOLIO (TL MILLION)



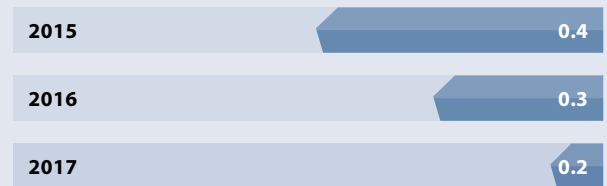




#### SHAREHOLDERS' EQUITY (TL MILLION)



#### NON-PERFORMING LOANS (%)



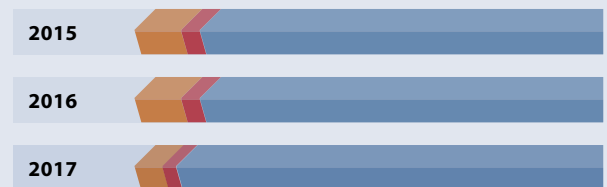
#### ASSETS COMPOSITION (%)

	2015	2016	2017
Liquidity	31	25	20
Loans	66	72	77
Other	3	3	3



#### INCOME BREAKDOWN (%)

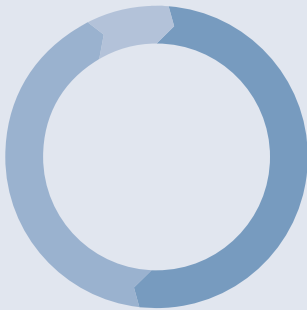
	2015	2016	2017
Net Interest Income	86	86	91
Gross Commissions	4	4	3
Other Income	10	10	6



## OWNERSHIP STRUCTURE, CREDIT RATINGS AND TSKB STOCK PERFORMANCE

TSKB SUCCESSFULLY RETAINS ITS POSITION ON BIST CORPORATE GOVERNANCE AND SUSTAINABILITY INDICES AS WELL AS ON FTSE4GOOD EMERGING MARKETS INDEX.

### TSKB'S OWNERSHIP STRUCTURE (%)



T. İş Bankası Group 50.7  
Türkiye Vakıflar Bankası T.A.O. 8.4  
Free Float and Other 40.9

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 2,400 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.

### CREDIT RATINGS

#### Fitch Ratings

Fitch Ratings has affirmed TSKB's all current ratings and the outlook. Fitch Ratings has also assigned a Viability Rating (VR) on 4 October 2017.

#### Foreign Currency

Long Term	BB+
Outlook	Stable
Short Term	B

#### Local Currency

Long-term	BBB-
Outlook	Stable
Short-term	F3

#### Other

Support Rating	3
Support Rating Floor	BB+
National Long Term Rating	AAA (tur)
Outlook	Stable
Viability Rating	bb

#### Moody's Investors Service

TSKB's ratings were revised by Moody's on 20 March 2017. Baseline Credit Assessment has affirmed as "ba2".

Baseline Credit Assessment Rating (BCA)	ba2
Long-Term Foreign Currency Issuer Rating	Ba1
Long-Term Local Currency Issuer Rating	Ba1
Outlook	Negative
Short-Term Foreign Currency Issuer Rating	NP
Short-Term Local Currency Issuer Rating	NP

## 2017 PERFORMANCE OF TSKB STOCKS

TSKB has made a key contribution to the formation of capital markets in Turkey. The Bank's shares were publicly offered back in 1986. TSKB shares are traded on BIST Stars under the ticker "TSKB". Furthermore, TSKB retains its position on BIST Corporate Governance Index, BIST Sustainability Index and FTSE4Good Emerging Markets Index. The free float ratio for TSKB shares is 39%.

Following two years of frequent fluctuations, 2017 still drew a similar picture to previous years in terms of volatility in global and domestic markets. Portfolio flows into emerging economies were backed by an improvement in growth expectations in the world, the weak outlook of US Dollars and the sustained global liquidity. In 2017, a portfolio of USD 235 billion flowed into developing countries while the portfolio flows into Turkey stood at USD 24 billion. This saw BIST-100 appreciate by 48% and BIST Bank Index rise by 32%.

TSKB's market value stood at TL 2.9 billion (USD 828 million) at 2016 year-end but increased by 23% to stand at TL 3.5 billion (USD 921 million) at 2017 year-end. Daily transaction volume stood at an average TL 9.7 million in the last 12 months. At year-end, the Bank's market value/book value ratio was 1, and the price/earnings ratio was 5.8.

## INVESTOR RELATIONS

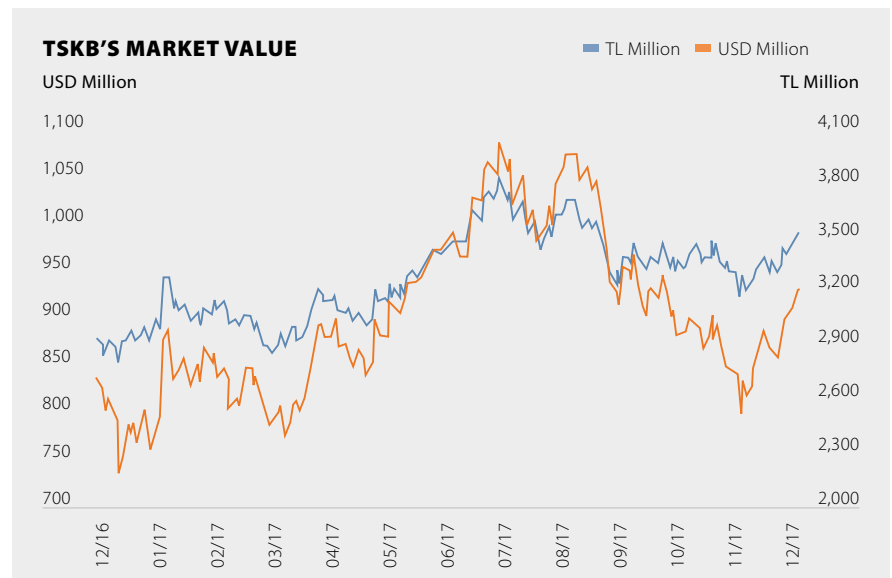
The percentage of free float TSKB shares held by foreign investors is 55.3%. The shareholders list obtained from the Central Securities Depository Institution (MKK) in March 2017 indicates that, among foreign investors holding TSKB shares, American investors hold the lead by 38% of shares, followed by investors from the United Kingdom, Luxembourg and Norway by 15%, 10% and 9% respectively.

Several domestic and international brokerage houses closely monitor and report on TSKB shares. At 2017 year-end, the number of brokerage houses monitoring the Bank reached 17. All of the said brokerage houses maintained 'BUY' on TSKB shares.

Investor base is continuously expanded through participation in international conferences and roadshows under investor relations activities. In 2017, a total of 118 investor relations meetings including eight NDRs/conferences and 84 meetings abroad were held. Almost 24% of these investors were new investors. Under Investor Relations, the established practice of holding teleconferences for analysts and investors every six months

after the announcement of financial results continued in 2017, this time on a quarterly basis. In such events, investors and analysts were explicitly informed on the Bank's performance and their questions were answered in detail. The relevant records are available on the Bank's web site.

In 2018, efforts to expand the Bank's investor base in order to increase TSKB's market recognition and visibility will continue.



Source: Finnet

	2015	2016	2017
Closing price for TSKB stocks (TL)	1.06	1.17	1.45
Change (%)**	-10.0	10.7	23.8
BIST Bank Index	119,917	129,549	170,352
Change (%)**	-24.6	8.0	31.5
BIST 100 Index	71,727	78,139	114,480
Change (%)**	-16.3	8.9	46.5
BIST 100 Relative (%)	19.3	2.4	-5.8
BIST 100 Relative (%)	7.5	1.6	-15.5

Source: Finnet

\* 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 2017

STANDING BY THE TURKISH ECONOMY SINCE ITS ESTABLISHMENT IN 1950, TSKB CONTINUES TO CREATE VALUE FOR NATIONAL ECONOMY.



**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.



**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.



**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.



**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.



**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.



**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.

For three years in a row, TSKB won first prize for the Eastern Europe Region at the "Sustainable Banking Awards" program, 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. The best sustainability practices of the Bank were 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.

Reinforcing its leading position in sustainability, TSKB becomes the first Turkish bank to issue a "Green/Sustainable Bond" on international markets in 2016. Encouraged by the interest shown in this issuance, TSKB breaks a new global ground and issues a Subordinated Sustainable Bond.

In 2016, TSKB takes a major step in social inclusion when the Bank obtains 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.

Having published the first GRI-approved Sustainability Report in the banking sector, TSKB transposes its trailblazing approach in sustainability to reporting and publishes the first Integrated Report in the private sector in 2017.

Based on its experience in sustainable development, TSKB engages in a key project in 2017 and cooperates with Escarus, a TSKB subsidiary, to coordinate the Turkish Ministry of Development project called "Due Diligence for Turkey Under the UN Sustainable Development Goals".

Opening a new chapter on women's employment within its social responsibility projects for sustainability which it has implemented since early 2000s, TSKB takes key steps to empower the women employees of tomorrow in terms of education and equal opportunities.

## FIRSTS & INNOVATIONS

TSKB OFFERS THE WORLD'S FIRST "SUBORDINATED SUSTAINABLE BOND" TO CAPITAL MARKETS.



**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 İKSV 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
- » The world's first "Subordinated Sustainable Bond"
- » The first Integrated Report in Turkish private sector
- » Scholarship fund "Empower Through Education" for women employees of future
- » Music education support project "Woman Stars of Tomorrow"

## AWARDS & ACHIEVEMENTS

THE DOMESTIC AND INTERNATIONAL AWARDS TSKB RECEIVED ARE ALL PROOF OF SUSTAINABLE SUCCESS.

### BANKING AWARDS

- |  |  |   |
|--|--|---|
| »  <b>BEST SYNDICATED LOAN IN CENTRAL AND EASTERN EUROPE TREDAS (2017)</b><br>EMEA FINANCE  | »  <b>BEST INFRASTRUCTURE PROJECT KIZILDERE 3 GEOTHERMAL (2016)</b><br>EMEA FINANCE                     | »  <b>EUROPEAN GEOTHERMAL DEAL OF THE YEAR (2008)</b><br>EUROMONEY                                     |
| »  <b>BEST SYNDICATED LOAN IN CENTRAL AND EASTERN EUROPE AKSA NATURAL GAS DISTRIBUTION AND KAZANCI HOLDING (2017)</b><br>EMEA FINANCE | »  <b>BEST NATIONAL RESOURCE PROJECT FINANCE/YENİKÖY KEMERKÖY (2015)</b><br>BONDS, LOANS & SUKUK TURKEY | »  <b>INFRASTRUCTURE DEAL OF THE YEAR (2008)</b><br>PFI  |
| »  <b>BEST INFRASTRUCTURE DEAL GALATAPORT (2017)</b><br>EMEA FINANCE  | »  <b>BEST STRUCTURED FINANCE PROJECT/ETLIK PPP (2015)</b><br>BONDS, LOANS & SUKUK TURKEY             | »  <b>PROJECT FINANCE DEAL OF THE YEAR (2008)</b><br>EUROMONEY                                       |
| »  <b>BEST PRIVATIZATION DEAL IN THE MIDDLE EAST AND AFRICA GALATAPORT (2017)</b><br>EMEA FINANCE                                   | »  <b>BEST ENERGY INFRASTRUCTURE DEAL IN EUROPE (2011)</b><br>EUROMONEY                               | »  <b>BEST CORPORATE MERGER AND ACQUISITION (2005)</b><br>EUROMONEY                                  |
| »  <b>FINANCIAL INSTITUTIONS FINANCING DEAL OF THE YEAR (THIRD PLACE) (2017)</b><br>BONDS&LOANS TURKEY                              | »  <b>BEST HYDROELECTRIC PROJECT IN EUROPE (2011)</b><br>EUROMONEY                                    | »  <b>BEST LOCAL BUSINESS PARTNER (2004)</b><br>EUROMONEY  |
| »  <b>INFRASTRUCTURE FINANCE DEAL OF THE YEAR (WINNER) (2017)</b><br>BONDS&LOANS TURKEY   | »  <b>BEST EQUITY HOUSE (2011)</b><br>EMEA FINANCE  | »  <b>BEST INVESTMENT BANK IN TURKEY (1997, 1998, 1999)</b><br>EUROMONEY                             |
| »  <b>SYNDICATED LOAN DEAL OF THE YEAR (WINNER) (2017)</b><br>BONDS&LOANS TURKEY  | »  <b>BEST CLEAN TECHNOLOGY AND NEW ENERGY INVESTOR (2011)</b><br>THE NEW ECONOMY MAGAZINE            | »  <b>HIGHEST RATING GIVEN TO A BANK - DEVELOPING COUNTRIES CATEGORY (1998)</b><br>THOMSON BANKWATCH |
| »  <b>TRANSPORT FINANCE DEAL OF THE YEAR (RUNNER-UP) (2017)</b><br>BONDS&LOANS TURKEY   | »  <b>BEST SOLUTION PARTNER IN WIND POWER IN TURKEY (2011)</b><br>TIREC                               | »  <b>BEST RESEARCH INSTITUTION IN TURKEY (1997)</b><br>EMERGING MARKETS INVESTOR MAGAZINE           |



## SUSTAINABILITY AWARDS

» **BEST GREEN BOND IN CENTRAL AND EASTERN EUROPE (2017)**  
EMEA FINANCE

» **STRUCTURED FINANCE DEAL OF THE YEAR (WINNER) (2017)**  
BONDS&LOANS TURKEY

» **INTERNATIONAL BOND DEAL OF THE YEAR (RUNNER-UP) (2017)**  
BONDS&LOANS TURKEY

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

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

» **LOW CARBON HERO (2016)**  
SUSTAINABILITY PRODUCTION AND CONSUMPTION ASSOCIATION

» **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

WHAT LIES BENEATH TSKB'S SUCCESS IS OUR APPROACH THAT IS BASED ON ECONOMIC DEVELOPMENT IN THE LONG RUN RATHER THAN SHORT-TERM FINANCIAL PROFITABILITY.

Esteemed Shareholders,

2017 was a year when the moderate growth in the global economy accelerated in all developed and developing countries. Despite the growth dynamics improving under the impact of ample liquidity and stable performance of commodity prices, the inflation outlook remains fragile. This forced the central banks of developed countries to pursue a cautious attitude in terms of monetary tightening. In 2017, market perception towards emerging economies including Turkey turned positive, leading to a visible recovery in capital inflows. As it was the case in 2017, the global movement of capital will be shaped by growth outlook, current and potential geopolitical risks and the steps to be taken by the central banks of developed countries in 2018.

### **TURKEY HAD A STRONG GROWTH IN 2017**

Meanwhile, Turkish economy exhibited a significant growth potential as a result of the support for domestic demand facilitated by the Credit Guarantee Fund (CGF) and financial incentives, and of the improvement in net exports. Furthermore, the risk appetite trend towards developing countries led to an increase in the demand for Turkish financial assets in 2017. On the other hand, the sharp depreciation in Turkish Lira caused by the increase in production costs resulted in a double-digit inflation. The Central Bank maintains its tight stance in the monetary policy despite this inflationary pressure.

The banking sector, as the main support mechanism for the Turkish economy, not only facilitated the transfer of CGF funds to productive areas but also maintained a healthy loan growth. In a period when external financing imposes tougher conditions and savings are not at the desired level yet, the sector retained its asset quality and attained a return on equity of almost 15%. Recently, the Turkish banking sector has rapidly internalized efficiency-based new business models such as digitization and will continue to play a guiding and transforming role among all sectors.

### **TSKB CONTINUES TO SUPPORT TURKEY'S DEVELOPMENT**

Remaining faithful to its founding mission for the last 67 years and supporting Turkey's inclusive and sustainable development, TSKB continued to power our country in terms of international competitiveness through the funding and consultancy products it provided in 2017. At TSKB, we are delighted to have completed the year by growing our balance sheet soundly without compromising on the principles of sustainability and efficiency.

What lies beneath TSKB's success is our approach that is based on economic development in the long run rather than short-term financial profitability. To this end, sustainability is not only among our corporate priorities but also a management approach for us. Fostering this very same approach in 2017 as well, TSKB published the 2016 Integrated Report, a

### **LONG-ESTABLISHED AND DYNAMIC CORPORATE CULTURE**

As it has been the case so far, it is going to remain a focus of all operations for TSKB to uphold Turkey's economy using our know-how and experience in development and investment banking, our visionary approach, and our financing and consultancy solutions driven by the long-established international cooperation initiatives we have. Our deep-rooted and dynamic corporate culture, our strong capital structure and our employees who are always at the heart of our success constitute the guarantee for our value proposition to our stakeholders.



H. ERSİN ÖZİNCE CHAIRMAN OF THE BOARD

groundbreaking initiative in the Turkish private sector, to provide its entire set of stakeholders with the details of its business model focusing on creating economic, social and environmental added value. TSKB's groundbreaking work on sustainability in 2017 was not only restricted to its Integrated Report. Our 'Subordinated Sustainable Bond' issuance in the first quarter of the year was a global first as regards the theme of sustainability.

#### WE TAKE CONFIDENT STEPS INTO THE FUTURE

As it has been the case so far, it is going to remain a focus of all operations for TSKB to uphold Turkey's economy using our know-how and experience in development and investment banking, our visionary approach, and our financing and consultancy solutions driven by the long-established international cooperation initiatives we have. Our deep-

rooted and dynamic corporate culture, our strong capital structure and our employees who are always at the heart of our success constitute the guarantee for our value proposition to our stakeholders.

I would like to take this opportunity to thank, first and foremost, our shareholders who confided in and contributed to TSKB, our employees, customers, business partners and, last but not the least, our stakeholders.

Sincerely,

H. ERSİN ÖZİNCE  
Chairman

## MESSAGE FROM THE CEO

TSKB, A FUNDAMENTAL ELEMENT IN DEVELOPMENT BANKING IN TURKEY, COMPLETED ITS 67<sup>TH</sup> YEAR OF OPERATIONS CONTRIBUTING TANGIBLY TO THE COUNTRY'S DEVELOPMENT, REINFORCING ITS REPUTATION DOMESTICALLY AND INTERNATIONALLY, AND FURTHER STRENGTHENING ITS POSITION IN THE INDUSTRY.

Distinguished Shareholders, Customers, Business Partners and Esteemed Members of TSKB Family,

TSKB, a fundamental element in development banking in Turkey, completed its 67<sup>th</sup> year of operations contributing tangibly to the country's development, reinforcing its reputation domestically and internationally, and further strengthening its position in the industry. Using its innovative approach, qualified workforce, expertise and experience to create added value for all its stakeholders, our Bank maintained a healthy growth and increased the added value for the sustainable and inclusive development of Turkey thanks to a successful financial and operational performance in 2017.

The successful operations we delivered during 2017 enabled us to expand our assets by 20% year on year to TL 28.9 billion. We are delighted to have successfully attained our updated annual loan growth target of 15%, revised after we accomplished, as of the end of the third quarter, our year-end fx-adjusted loan growth target of 10-13% which was announced at the beginning of the year. In 2017, our Bank widened the number of its active customers by 25% year on year, and provided its customers with cash and non-cash loans totaling USD 2.5 billion. Our total cash loan portfolio rose by 29% to TL 22.3 billion. Having increased its loan volume while maintaining its healthy and sound asset quality at the same time, our Bank recorded a further decrease in the rate of non-performing loans, which dropped down to 0.2% compared to 2016 year-end.

As of January 1, 2018, the Bank completed its transition to IFRS 9 in accordance with the legislation, proving the soundness of its portfolio once again. The Bank has no additional provision requirement within the framework of the amendments set forth in IFRS 9.

Our Bank continues to strengthen its capital structure through a stable growth. Despite increasing its general and free provisions by 60% at 2017 year-end in order to support growth in the upcoming period, TSKB posted a net income of TL 596 million with an annual increase of 25%. Our Bank's total equity rose by 21% to TL 3.5 billion. At 2017 year-end, our return on equity and return on assets were 18.4% and 2.3% respectively.

### NEW GROUNDS BROKEN IN SUSTAINABILITY BOLSTER OUR LEADING POSITION

Our Bank places sustainability at the heart of its business model, thus maintaining its leadership in the field. TSKB broke a new ground in the world when it issued its "Subordinated Sustainable Bond" in 2017, proving once again how much it deserved emerging as a brand synonymous with sustainability. Our issuance totaling USD 300 million on a 10-year maturity was four times oversubscribed by international investors. Such demand was highly welcome as an indicator of the confidence in Turkey's economy as well as our Bank.

TSKB's firsts in sustainability also had their repercussions in strategy and reporting. Adopting an approach that went beyond performance reporting and providing information on our economic, social and environmental strategies as well as our forward looking expectations and guidances, TSKB published its Integrated Report at the beginning of 2017. This is the first Integrated Report in Turkish private sector and is included in the integrated reporting examples database of the International Integrated Reporting Council (IIRC), thus earning a place as a new milestone that cements our leadership in sustainability.

In 2017, we offered our contribution, together with TSKB Sustainability Consultancy (Escarus), an affiliate of our Bank, to the Ministry of Development project called "Due Diligence for Turkey Under the UN Sustainable Development Goals", a proud involvement by us in a sustainable development initiative. TSKB is the only representative of the Turkish financial sector at the International Development Finance Club (IDFC) and is among the first to support the Climate Action in Financial Institutions Initiative launched in 2015. In 2017, our Bank hosted the distinguished representatives of this major initiative in our country for their annual meeting. Furthermore, TSKB shared its experience in financing sustainability with the world's leading financial institutions during the One Planet Summit held by the IDFC in Paris to keep bolstering the recognition it receives and the brand value it has on international platforms.





**SUAT İNCE** CEO AND BOARD MEMBER

Our innovative and leading efforts continued to attract interest and acknowledgment on international platforms in 2017. It took a very short time for Turkey's first Green/Sustainable Bond that we issued in 2016 to receive five awards on prestigious platforms such as Thomson Reuters, Bonds&Loans and EMEA Finance.

#### **TSKB NOT ONLY PLANS THE NEXT 5 TO 10 YEARS BUT ALSO TAKES CRUCIAL STEPS TO PREPARE FOR THE FUTURE**

The transition of the business world to more efficient and flexible models has accelerated recently when technology advances at an astounding, blistering pace. On the other hand, life-enriching investments which place humans at their core attract more and more attention each day.

TSKB made considerable progress last year under its transformation program, "A Prospective Glance", which was started in 2016 with a view to extending the Bank's

current success into the future which will be shaped by high technology, new business models and the expectations of the younger generations.

"A Prospective Glance" enabled significant improvements in 2017 in organizational structure, customer management, provision and management of funds, lending processes, brand recognition, internal customer satisfaction and performance management.

2017 was also a significant year for emphasizing TSKB's identity as an advisor bank, a factor positively differentiating our Bank in the banking sector. For the future, it is our ultimate goal to reinforce our identity as "an advisor bank as well as a financial lender." It is a key focus for us to utilize all collaboration opportunities to the fullest to diversify and mobilize collective intelligence on our way to becoming "the first advisor bank that comes to customers' minds".

#### **UPDATED MISSION AND VISION, BRAND-NEW VALUES**

Under the program "A Prospective Glance", TSKB updated its mission and vision in line with the new fields it focused on, and put its values shaped by collective intelligence down in black and white for the first time.

Other major projects completed in 2017 included increasing our brand visibility and reflecting our common values through architectural work launched in our buildings and workspaces in order to physically strengthen our corporate transformation.

#### **EXPONENTIALLY INCREASING CONTRIBUTION TO INCLUSIVE ECONOMIC GROWTH**

The involvement of people from all walks of life in economic activity introduces both qualitative and quantitative contribution to development. The banking sector has an important role in rendering growth an inclusive one. TSKB attaches a special importance to the concept of inclusion and particularly underlines it in its updated

## MESSAGE FROM THE CEO

IN THE PERIOD AHEAD, WE WILL CONTINUE TO STRENGTHEN OUR FUNDING STRUCTURE AND EXPONENTIALLY INCREASE OUR SUPPORT TO THE COUNTRY'S SUSTAINABLE DEVELOPMENT WITH THE FUNDING FROM DEVELOPMENT FINANCE INSTITUTIONS UNDER VARIOUS THEMES AND THE BOND ISSUANCES AND OTHER KINDS OF BORROWINGS IN INTERNATIONAL MARKETS.

mission. Inclusion will become a most essential component of our business model in the future. It is among our priority goals to facilitate the transformation of our country's potential into production. To this end, our Bank will exponentially increase its contribution to inclusive economic growth through its support to qualified development investments such as those in energy, infrastructure, education, healthcare, efficiency, women's employment and technological transformation.

### WOMEN DRIVING SUSTAINABLE DEVELOPMENT

Female workforce has a significant potential in emerging economies such as Turkey. Any support for female workforce thus contributes directly to the country's growth. Equal opportunities are an indispensable element of inclusive development and have been among the policies of our Bank for years.

At the beginning of 2017, TSKB availed itself of the loan for social development it secured from AFD to create a new funding opportunity for "women-friendly" firms, a vital step to ensure women join the labor force and be empowered socially and economically. In a time frame as short as a year, significant developments took place at firms to which we provided loans,

including additional employment of women and the launching of exemplary projects to introduce more favorable working conditions for women.

Our Bank is willing to assume more responsibility to realize this potential for Turkey's development and has made a decision to support women's employment through social responsibility projects in addition to loans. Given the fact that a qualified education is a must for joining the workforce, the "Empower Through Education" scholarship fund has been established for female university students in collaboration with the Turkish Education Foundation (TEV). The scholarship fund aims to support more women in joining the workforce.

Our Bank develops in-depth expertise in any field it focuses on. We are fully confident that we will deliver many more investments and projects in the field of women's employment.

I would like to take this opportunity to thank our female employees who hold 55% of our executive positions drive development through their successful work and inspire us regarding the design of our 2017 annual report.

### WE ARE HOPEFUL FOR THE FUTURE

We believe the Turkish economy will maintain its positive course in 2018 and our Bank will fulfill all its goals of attaining growth and profitability rates which are almost parallel with the previous year. In the period ahead, we will continue to strengthen our funding structure and exponentially increase our support to the country's sustainable development with both the funding we will obtain from development finance institutions under various themes and the bond issuances and other kinds of borrowings we will be involved in international markets. We are fully confident that our Bank will deliver further successful and seminal results for Turkey thanks to the dedicated contribution of our best-in-the-sector employees, the uninterrupted support of our shareholders and business partners, and the strong synergy we have created together with all our stakeholders.

On behalf of TSKB, I hereby thank our shareholders for their endless support, our customers and business partners for their confidence, and our employees for their efforts.

Sincerely,



**SUAT INCE**  
**CEO**  
**Board Member**



## MACROECONOMIC AND SECTORAL EVALUATION

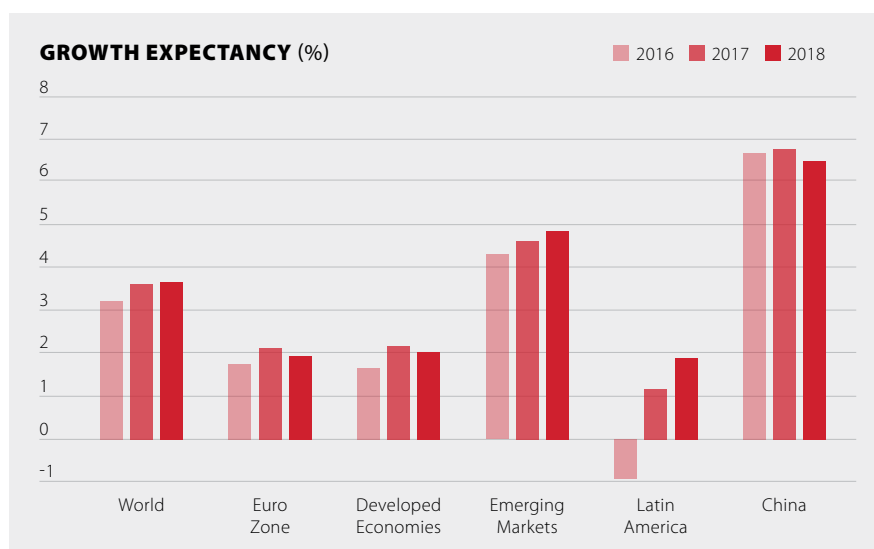
GROWTH DYNAMICS WERE FED BY SUSTAINED FAVORABLE FINANCING CONDITIONS GLOBALLY AND THE STABILITY IN COMMODITY PRICES, CHIEFLY IN INDUSTRIAL METALS AND OIL.

### GLOBAL ECONOMIC OPERATIONS GAINED MOMENTUM

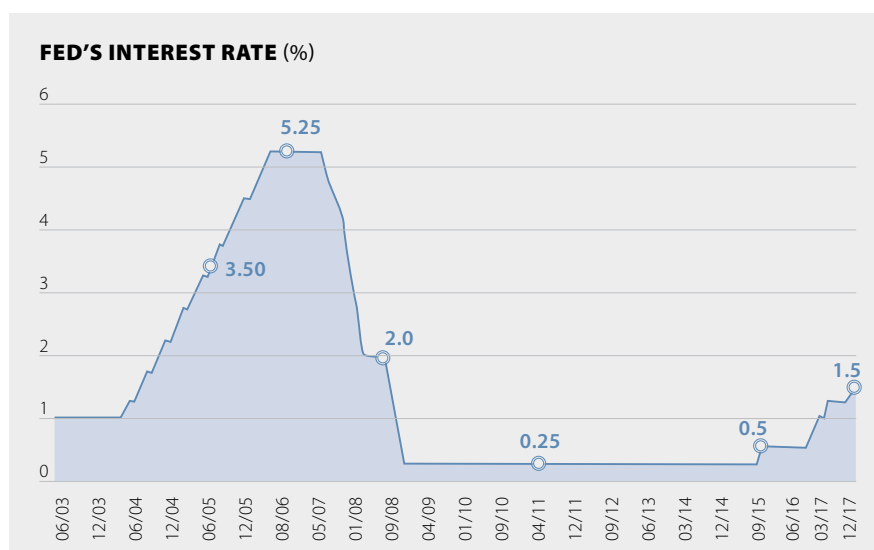
In developed and developing countries alike, the growth dynamics were fed by sustained favorable financing conditions globally and the stability in commodity prices, chiefly in industrial metals and oil. Unemployment rates fell specifically in developed countries while some major developing countries such as Argentina, Brazil and Russia managed to recover from recession. This enabled organizations such as the International Monetary Fund (IMF) and the Organization for Economic Co-operation and Development (OECD) to revise their global growth projections upwards. Global growth projections of the IMF surpassed the 3.2% projection for 2016 and were 3.6% and 3.7% for 2017 and 2018 respectively. In addition, OECD revised its global growth projection for 2017 from 3.5% to 3.6% and declared its 3.7% projection for 2018 in its report of November 2017.

### SLOWDOWN IN THE NORMALIZATION OF MONETARY POLICIES IN DEVELOPED COUNTRIES

A weak global inflation against an accelerated economic recovery led to a moderate progress in the normalization processes of monetary policies by the central banks of developed countries. In 2017, the US Federal Reserve (Fed) hiked the interest rates three times. Moreover, three further rate hikes are expected in 2018. The European Central Bank (ECB), on the other hand, declared that the monthly EUR 60 billion purchases under its asset purchase program would be reduced to EUR 30 billion starting from 2018 and that the bond purchase process would continue as long as required.



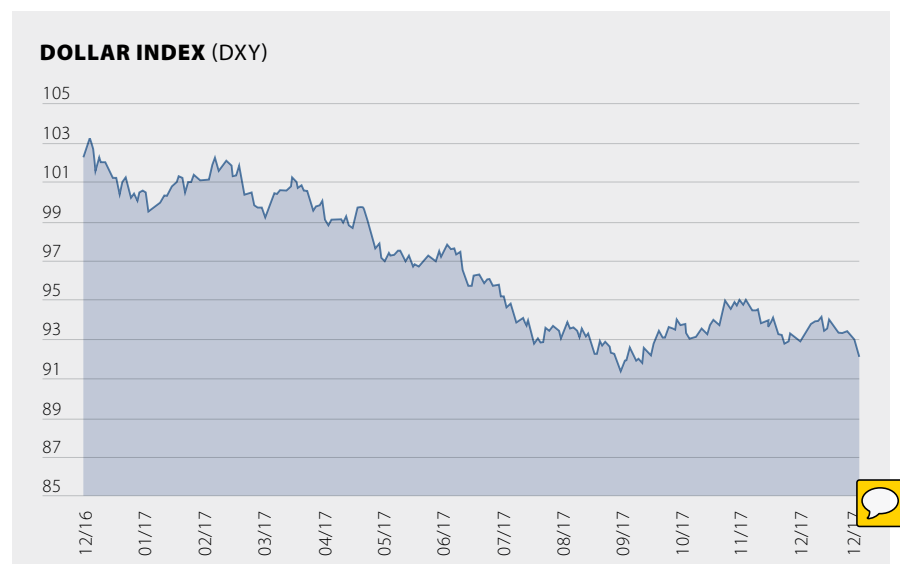
Source: IMF



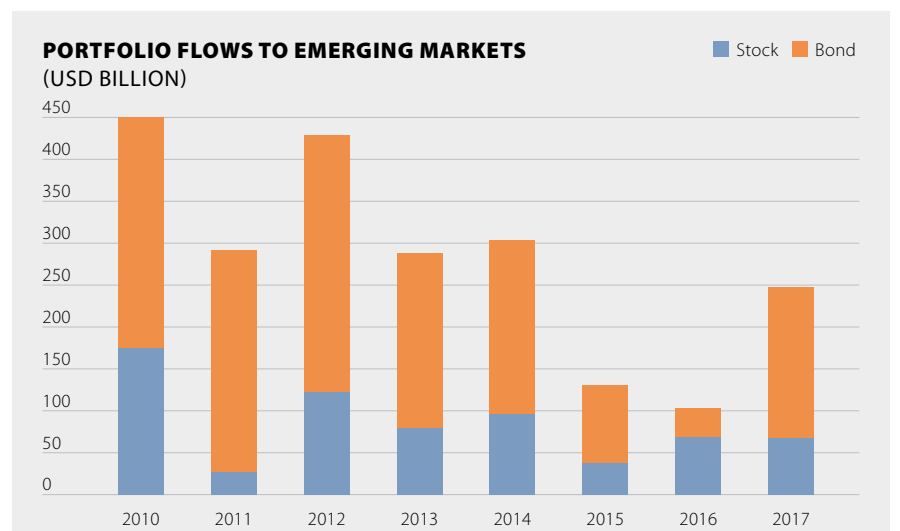
Source: Federal Reserve

The European and Japanese central banks are not expected to hike interest rates in 2018. Following the Fed, the Bank of Canada hiked the policy interest rate once while the rising inflation in the Brexit process and a rather positive progress in growth indicators against expectations allowed the Bank of England (BoE) to hike the rate by only 25 basis points, a very limited tightening.

An upward pressure on the USD was prevented by the Fed's signaling for tightening measures in advance and the fact that these measures proved to be in parallel with the projected pathway. The U.S. Dollar Index (DXY) closed 2017 with a 9.9% decline. Against a depreciating USD, the EUR/USD parity pursued a year-long upward trend after the economic recovery rallied in the Eurozone and the election results in the Netherlands, France and Germany favored the minimization of political risks in the European Union. It is possible for the US economy to set on a higher growth pathway as facilitated by the divergence between the interest regimes and balance sheet scale-back actions in the policies of central banks globally, coupled with fiscal expansion. In a cycle when the costs of USD increase and EUR positions hit record highs, it is estimated that the EUR/USD parity would be subject to a downward pressure in 2018.



Source: Thomson Reuters



Source: IIF



## MACROECONOMIC AND SECTORAL EVALUATION

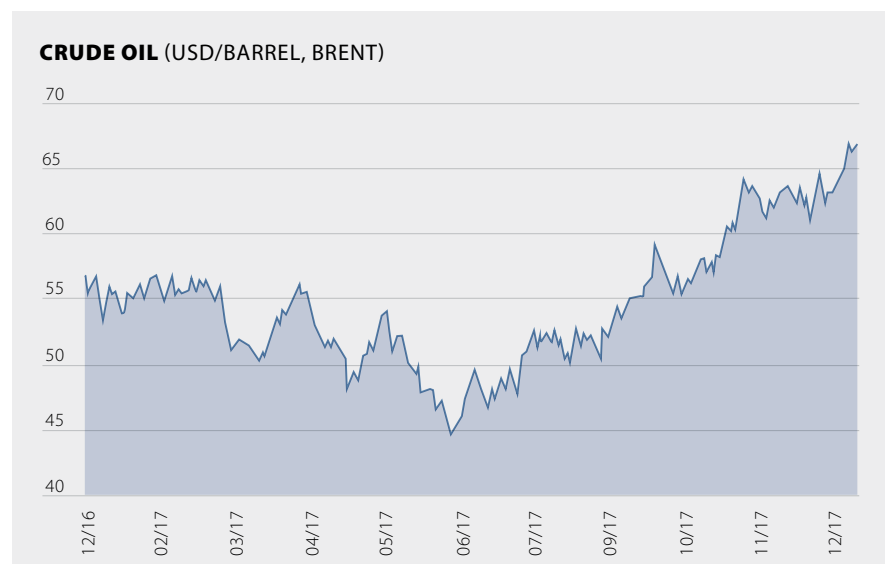
A SUSTAINED AND AMPLE GLOBAL LIQUIDITY IN ADDITION TO IMPROVED MACROECONOMIC INDICATORS LED TO PORTFOLIO FLOWS INTO DEVELOPING COUNTRIES.

### A POSITIVE OUTLOOK IN DEVELOPING COUNTRIES

In developing countries, on the other hand, the improvement in growth indicators led by Russia and Brazil, coupled with the declining inflation rates, made room for loosening monetary policies. Since the start of the year, Russia reduced interest rates by 225 basis points while Brazil and India followed by a decrease of 675 and 25 basis points respectively. A sustained and ample global liquidity in addition to improved macroeconomic indicators increased portfolio flows into developing countries. Data from the Institute of International Finance (IIF) shows that the portfolio flows into developing countries, which stood at a total of USD 99 billion including stocks and bonds in 2016, rose to USD 240 billion in 2017.

### RIISING OIL PRICES

Hitting the lowest of the last 12 years in 2016 at USD 27, the price of Brent Crude reached USD 67 following a 2-year journey upwards. This rise was kicked off with the contraction in production led by low prices and the recovery in global growth expectations. The following production cuts by the Organization of Petroleum Exporting Countries (OPEC) and non-OPEC producers in January-June 2017 backed the rise in oil price to USD 58. Producers extended production cuts until the end of 2018, ensuring that the oil price exceeds USD 65. For 2018, the expectation is that the rise in oil price may be replaced by a horizontal progress.



Source: Thomson Reuters

### POSITIVE OUTLOOK IN FINANCIAL MARKETS

Recovery in global growth indicators and moderate normalization steps by central banks made a positive impact on stock prices and led to limited increases in interest rates for bonds. In 2017, the Emerging Markets Index (MSCI EM), the European exchanges (Stoxx600) and the U.S. exchange (S&P500) rose by 34%, 8% and 19% respectively. The U.S. 10-year interest rate started the year at 2.45% to reach as far as 2.63% before going down to 2.41% by year-end. The German 10-year interest rate started and ended the year at 0.2% and 0.42% respectively.

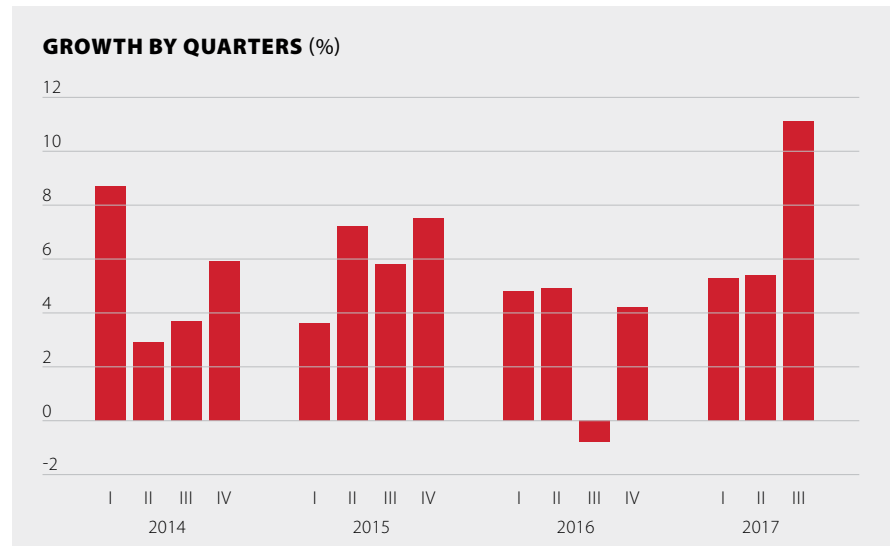
### LEADING INDICATORS POINT OUT TO A RECOVERY IN THE LAST QUARTER

In the third quarter of 2017, Turkish economy recorded the highest growth in the last 24 quarters with 11.1%, leading to a growth rate of 7.4% in the first three quarters of 2017. On expenditures side, the scope and guarantee levels of the Credit Guarantee Fund (CGF) were expanded in the first quarter of the year through public finance incentives, influencing an increase of 11.7% and 12.4% in household consumption and fixed capital formation respectively. In addition, exports rising under the impact of global economic recovery emerged as yet another factor supporting growth. On production side, a double-digit growth as high as 14.8% and 20.7% were observed in industrial production and services respectively, as influenced by the



rising exports and recovery in tourism. The construction sector grew by 18.7%, making a strong positive contribution to the economic outlook. Data adjusted for seasonal and calendar effects indicated that the GDP increased by 1.2% in the third quarter of 2017 when compared to the previous quarter. Thus, the size of Turkish economy stood at TL 2.9 trillion (USD 844 billion) as of the end of September 2017.

Data for the last quarter of the year points out to a sustained trend of economic growth. In October 2017, industrial production rose by 7.5% (adjusted for calendar effect) and maintained a strong position through increases in November and December, 7% and 8.7% respectively. Retail data and developments in foreign trade point out to a recovery in domestic and foreign demand. Such data is indicative of an expected 4.3% growth in the last quarter of 2017 and an expected 6.5% annual growth. It is estimated that the rapid growth which was mainly driven by significant incentives in 2017 will be moderate in 2018.

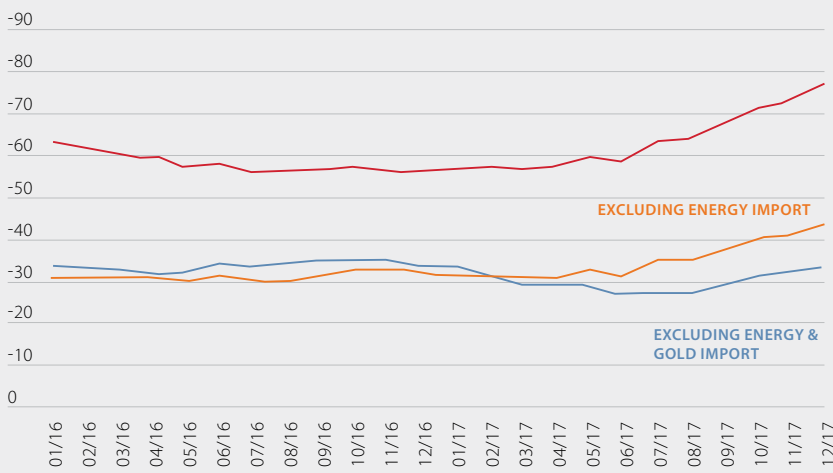


Source: TÜİK

## MACROECONOMIC AND SECTORAL EVALUATION

BIST-100 INDEX EXCEEDED ITS RECORD-HIGH LEVEL OF 93,000 TO REACH 115,000 AND COMPLETED THE YEAR AT 115,333 WITH A RETURN OF 47%.

**TRADE DEFICIT (USD THOUSAND, YOY BASIS)**



Source: TÜİK

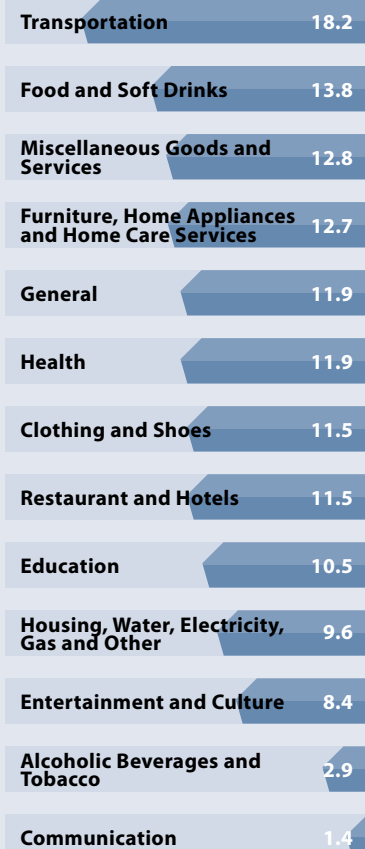
### DEVELOPMENTS IN FOREIGN TRADE

Despite positive developments in exports, the high gold imports and the rise in the cost of energy imports led to a rise in foreign trade deficit. Exports increased mainly in iron&steel, energy and automotive sectors while the textile exports tended to recover. On imports side, gold imports as well as the rise in commodity and energy prices served as determining factors. In 2017, although Turkey's exports to the European Union (EU) increased by 7.5%, the share of exports to the EU in total exports declined from 48% to 47.1%. Exports to Russia recovered

significantly with an increase of 58%. In 2017, exports increased by 10% to USD 157 billion, imports rose to USD 234 billion with an increase of 18% and the foreign trade deficit surged by 37% to USD 77 billion.

The rise in gold imports and oil prices triggered an increase in foreign trade deficit, which further lead to a similar trend in current account deficit. In 2017, current account deficit rose by 42% to USD 47.1 billion. It is estimated that the current account deficit/GDP ratio will be 5.5% at 2017 year-end.

**ANNUAL INFLATION (%)**



Source: TÜİK



#### INFLATION TENDED TO RISE

A strong domestic demand, the depreciation in TL, the rise in USD-denominated import prices and the base effect in food prices as a legacy of the previous year increased the inflationary pressure. The annual inflation rate which stood at 8.53% at 2016 year-end rose to 11.92% at 2017 year-end. In 2017, the inflationary impact spread to the entire basket and the pricing behavior was disrupted. Annual inflation rates for food, clothing and shoes, and transportation stood at 13.8%, 11.5% and 18.2% respectively. This was reflected in the rise in core inflation. Core inflation (excluding unprocessed food, energy, tobacco and alcohol) stood at 12.3% at the end of December, maintaining a double-digit rate for five months in a row and marking the 13-year high. In 2018, a significant rise in oil prices is not expected while the US expectations for a rise in inflation and the continuation of tightening measures point out to an appreciation in USD. Therefore, inflation is expected to decline in the first quarter of the year under the base effect but may otherwise remain close to double digits throughout 2018.

#### TCMB (CENTRAL BANK OF THE REPUBLIC OF TURKEY) IMPLEMENTED A TIGHT MONETARY POLICY

To control inflation and curb volatility in exchange rates, the Central Bank implemented tightening measures throughout the year. Furthermore, it changed its market funding mechanism from the quotation method to the late liquidity window facility, thus raising the weighted average cost of funding by 200 basis points. Late liquidity window interest rate was gradually increased by 175 basis points during the year, eventually rising the cost of funding in markets by 445 basis points to 12.75% compared to the beginning of the year. In 2017, the Central Bank started to launch foreign exchange swap auctions against TL deposits and Turkish Lira-settled forward foreign exchange sale auctions.

#### STOCKS HIT RECORD HIGH

BIST-100 Index started the year 2017 at 78,139. Influenced by the expectation that the positive growth outlook will have positive repercussions on corporate profits and by portfolio flows into developing countries, the Index exceeded its record-high level of 93,000 to reach 115,000 in 2017 and completed the year at 115,333 with a return of 47%. Upward trends in global bond interest rates, tightening measures by the Central Bank and the rise in inflation caused the two-year bond interest rate to move up from 10.63% to 13.40%. Despite a weakening USD abroad, the USD/TL parity was influenced by domestic developments, fluctuating within a wide range of 3.39 to 3.98 and completing the year at 3.77.

## MACROECONOMIC AND SECTORAL EVALUATION

BACKED BY CGF-SUPPORTED LOANS, TL LOANS ROSE BY 26.8%, WHEREAS THE TL-DENOMINATED SME LOANS AND TL-DENOMINATED INSTALLMENT COMMERCIAL LOANS GREW BY 22.9% AND 64.2% RESPECTIVELY.



### TURKISH BANKING SECTOR

#### SECTORAL GROWTH ACCELERATED IN 2017

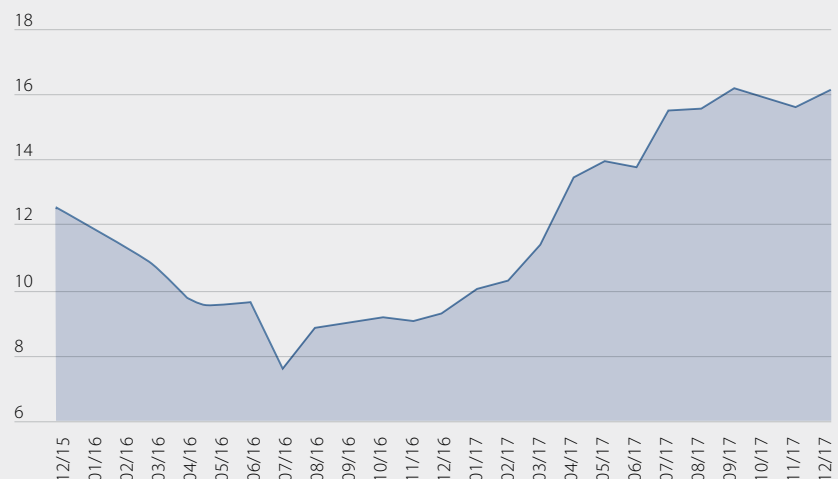
The total number of banks as of 2017 year-end in the Turkish banking sector stood at 49. In 2017, the assets in the sector grew by 14.2% as adjusted for currency impact to reach TL 3.3 trillion.

Constituting 65% of total assets, loans grew by a nominal 16.8% and by 9.4% on a currency-adjusted basis in 2016 while they rose by 21.1% nominally and by 16.2% on a currency-adjusted basis in 2017. The accelerated loan growth in 2017 was mainly influenced by the CGF support in lending. Backed by CGF-supported loans, total TL loans rose by 26.8%, with the TL-denominated SME loans and TL-denominated installment commercial loans growing by 25.4% and 68.5% respectively. On the other hand, Foreign Currency (FX) loans recorded a limited contraction on a currency-adjusted basis. In 2017, the growth in personal loans gained momentum and reached 16.3%.

In 2017, new sectoral funds were mainly allocated to loans, and the securities portfolio grew by 10.4%.

Although the growth in deposits which constitute about 55.1% of sectoral funds increased as well, this growth was still inferior to the loan growth rate. In 2017, total deposits grew by 10.6% on a currency-adjusted basis.

#### SECTOR'S LOAN GROWTH (RECENT ONE YEAR) (%)



Source: BRSA

Total TL deposits increased by 12.2% while the FX deposits rose by 8.6% on a currency-adjusted basis.

In 2017, the loan-to-deposit ratio in the banking sector exceeded 121% in total and 151% on a TL basis. On the other hand, when other main FX funds are considered, the ratio of loans to FX funds stood at 88.4%.

FX funds shrank in a limited fashion in 2016 but increased by 9.9% on a USD basis in 2017. Constituting about half of FX funds, loans grew by 7.0%. As of 2017 year-end, FX funding makes up 21% of the sectoral balance sheet.

The CGF practices also helped maintain the asset quality in the sector. In 2017, NPL growth was limited to 9.9% while the rate of NPLs in the sector decreased from 3.2% at 2016 year-end to 2.9% under the impact of portfolio sales. 2017 data from the top 10 banks in the sector indicate that NPLs corresponding to 10.5% of NPLs and 0.3% of total loans were written off and thus removed from portfolios. 2017 data from the top 10 banks also show that closely-monitored loans surged by 40.4% after a large-scale loan was flagged as a closely-monitored loan in the last quarter, with the closely-monitored loans rising to 4.5% following a year-on-year increase of 63 basis points approximately. Although the growth rate in loans with extended repayment plans stood at 62% in 2016 but fell down to 26.5%





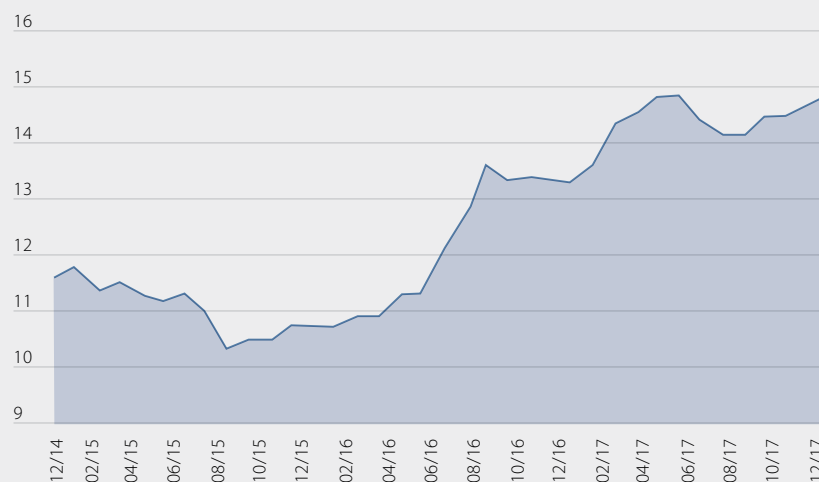
in 2017, the ratio of such loans to total loans rose to 3.6% from 3.4% at 2016 year-end. The reserve ratio in the sector stood at 79.4%.

#### ACCELERATION IN THE RETURN ON EQUITY LOST MOMENTUM

Net income in the sector grew by 30.9% in 2017. Although the rise in return on equity observed since 2015 was interrupted in summer months, it gained momentum once again in September 2017 and completed the year at 14.8%. Return on equity was pressured by a contracting net interest margin and an expanding cost/income during the year.

The capital adequacy ratio in the sector stood at 16.9% at 2017 year-end, marking an approximate increase of 130 basis points on a year-on-year basis. The practice of applying a zero risk weight to that portion of the CGF-supported loans for which a guarantee is taken led to a positive impact of approximately 110 basis points on the capital adequacy ratio. Core capital adequacy ratio in the sector rose by 90 basis points since the beginning of the year and stood at 14.1%.

#### SECTOR'S RETURN ON EQUITY (%)



Source: BRSA

#### A LOAN GROWTH OF 14 TO 15% IS EXPECTED IN 2018

In 2018, the sector is expected to attain a 14 to 15% nominal growth in loans and a 12 to 13% growth in deposits. It is projected that

the net profit increase in the sector will be 10 to 11% and return on equity will remain flat at around 14% levels.

## AN EVALUATION OF 2017: STRATEGIES, ACHIEVEMENTS AND PROJECTIONS

TSKB HAS A STRONG LOAN PORTFOLIO. IN 2017, THE BANK'S TOTAL LOAN VOLUME GREW BY 29% IN TL TERMS AND BY 15% ON A CURRENCY ADJUSTED BASIS.

### HIGHLIGHTS

#### STRONG ASSET GROWTH

In 2017, TSKB's total asset size rose to TL 28.9 billion with an increase of 20% on a year-on-year basis, mainly thanks to a growing loan portfolio. About 78% of TSKB's assets were comprised of foreign currency (FX) assets and the Bank's capital adequacy ratio stood at 17.1% in 2017.

#### A LOAN PORTFOLIO SIZE POWERING REAL ECONOMY

TSKB has a strong loan portfolio. In 2017, the Bank's total loan volume grew by 29% on TL basis and by 15% when adjusted for currency impact. Such growth was over the sectoral average in FX loans and, as a result, the Bank's total loans stood at about TL 22.3 billion while the loan-to-total assets ratio was as high as 77%.

#### LINES OF CREDIT EXTENDED TO CLIENTS TOTALED USD 4.5 BILLION

As a result of successful operations in 2017, TSKB extended a cash and non-cash credit line of USD 4.5 billion (excluding APEX) to its customers and signed new loan contracts amounting to a total of USD 2.4 billion.

#### 25% INCREASE IN THE NUMBER OF ACTIVE CUSTOMERS

In 2017, TSKB continued to acquire new customers through active marketing operations. The Bank increased the number of its active customers by 25% year-on-year and signed 44% of its loan contracts with new customers.

#### USD 1.9 BILLION CASH LOAN DISBURSEMENT

In 2017, TSKB extended a total loan of USD 1.9 billion including APEX loans to its customers. In the same period, APEX loans extended stood at USD 230 million.

#### AN ASSET QUALITY ENABLING GROWTH TARGETS

TSKB continues to pursue its goal to serve a wider network of customers but attaches maximum importance to maintaining its healthy asset quality in the meantime. At 2017 year-end, the ratio of NPLs to total loans was as low as 0.2%.

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

As of 2017 year-end, TSKB ranked the second among development and investment banks in terms of asset size and had a market share of 37% in long-term loans.

#### SUBORDINATED SUSTAINABLE BOND ISSUANCE

In 2017, TSKB issued its first subordinated bond, which was also a Subordinated Sustainable Bond and was thus crowned as the first of its kind in the world. The bond issuance worth USD 300 million was four times oversubscribed through investor diversification, reflecting the long-term confidence investors had in the Bank's issuance.

#### A SUSTAINABLE NET PROFIT INCREASE

TSKB has a sustainable financial performance. The Bank's net income for 2017 reached TL 596 million with an increase of 25% year-on-year. TSKB's return on equity stood at 18.4% as of the end of 2017 while the Bank's return on assets was 2.3%.

#### SUPPORTING ENVIRONMENTAL AND SOCIAL INFRASTRUCTURE PROJECTS

Sustainability loans attained a weight of 68% within the total loan portfolio of TSKB. In 2017, lending operations predominantly focused on renewable energy projects, and the Bank added two new themes into the type of investments it finances, namely occupational health and safety, and women's employment.

#### SHARE OF INVESTMENT LOANS STANDS AT 74%

Throughout the year, TSKB extended not only investment loans but also short-term lending products to respond to the daily working capital needs of its customers. As of 2017 year-end, investment loans, working capital loans and APEX loans constituted 74%, 18% and 8% of the total loan portfolio respectively.

A total of 90% of the loan portfolio is comprised of FX loans, with 49% being in USD and 41% in EUR. The share of TL loans within the total loan portfolio rose from last year's 7% to 10% as of the end of 2017.

#### MEDIUM AND LONG-TERM LOANS HAVE A SHARE OF 79% 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 2017 year-end, an analysis of TSKB's loan portfolio shows that 21% of loan portfolio is comprised of loans with a maturity of less than 1 year and 51% is comprised of loans with a maturity of 5 years and longer.

#### A MARKET SHARE OF 4.5%

TSKB has key experience and know-how in project finance and enjoys a market share of 4.5% according to December 2017 data published by the Banks Association of Turkey.

On the other hand, 49% of the loans having a maturity of 5 years and longer is loans with a maturity of more than 8 years. At TSKB, the average loan maturity is 5.3 years and the average loan amount is USD 15 million.

#### ESSENTIAL EXPERTISE IN PROJECT FINANCE

TSKB has key experience and know-how in project finance and enjoys a market share of 4.5% according to December 2017 data published by the Banks Association of Turkey.

Under 2017 project finance operations, TSKB lent cash loans worth about USD 600 million. Funding for power generation plants received the highest share within the cash loans extended under project finance operations. Similar to the previous year, other sectors getting a share from lending were power distribution zones, privatization finance, purchases, real estate, tourism and utilities sectors.

In addition to long-term investment loans, 2017 operations also included working capital loans on short-term and medium-term maturities to meet the operational needs of project finance customers.

In 2018, it is expected that key items on project finance agenda will include the financing of PPP projects for integrated health campuses, of private investments for wind, solar and geothermal power plants and biomass plants, of other utilities investments, chiefly in the transportation sector, and of corporate mergers and acquisitions.

#### TYPE OF INVESTMENTS FOR WHICH TSKB EXTENDS PROJECT FINANCE

##### Energy

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

##### Real Estate Projects

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

##### Utilities/Transportation

- » Logistics, transportation projects (Ports and Airports)
- » Telecommunications

##### Public-Private Partnerships (PPP)

- » Integrated Health Campus

#### LOAN PORTFOLIO'S SECTORAL BREAKDOWN (%)



<sup>(\*)</sup> Automotive: %1.6, Textile: %1.9 Other: %2.8

## AN EVALUATION OF 2017: STRATEGIES, ACHIEVEMENTS AND PROJECTIONS

WITH RESPECT TO RENEWABLE ENERGY PROJECTS, IT HAS BEEN GEOTHERMAL AND SOLAR POWER PLANTS, FOLLOWED BY WIND AND BIOMASS PROJECTS THAT WERE GIVEN WEIGHT DURING 2017.

### TOTAL POWER PLANTS 245 - TOTAL INSTALLED CAPACITY 5,617 MW



93 HPP

Number of Projects Under  
Construction: **4**

Installed Capacity (MW):  
**3,794 MW**



11 GPP

Number of Projects Under  
Construction: **3**

Installed Capacity (MW):  
**484 MW**



29 Wind Farms

Number of Projects Under  
Construction: **4**

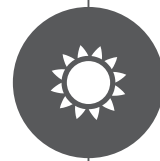
Installed Capacity (MW):  
**1,112 MW**



18 BPP

Number of Projects Under  
Construction: **13**

Installed Capacity (MW):  
**132 MW**



94 SPP

Number of Projects Under  
Construction: **15**

Installed Capacity (MW):  
**95 MW**

#### RENEWABLE ENERGY SECTOR AND TSKB

Combating climate change and an efficient and accurate use of renewable energy resources during Turkey's transition to a low carbon economy bear key importance. Renewable energy resources also enjoy a key position in terms of reducing Turkey's foreign dependency in the field of energy. Power generation has the largest share in the Bank's loan portfolio with a rate of 34%.

#### A TOTAL INSTALLED CAPACITY OF 5,617 MW FINANCED

Since 2002, TSKB has been supporting the renewable energy projects in our country through long-term funding. The Bank has a market share of 7% in energy loans. The energy projects financed by TSKB range

from hydropower plants to solar, wind and geothermal power plants. The total estimated installed capacity for the 245 projects financed stood at 5,617 MW, which represents 15% of Turkey's total installed capacity in renewable energy.

In 2017, renewable energy projects, chiefly geothermal and solar power plants, followed by wind and biomass power plants, were given weight. Between 2015 and 2017, the Bank financed geothermal power plant investments of 264 MW and solar power plant investments of 93.5 MW. 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, it is expected that the investments for

geothermal, biomass and solar power projects will continue at the same pace and the Bank's funding support to such projects will be increased.

84% of the power plant projects receiving funding from the Bank by 2017 year-end started generating power. The total installed capacity of the commissioned projects was 4,722 MW. While the total investment amount in power plant projects funded between 2003 and 2017 was USD 9.6 billion, the amount of loans TSKB allocated to these projects was around USD 4.1 billion.

**131 ENERGY AND RESOURCE EFFICIENCY PROJECTS HAVE BEEN FINANCED SO FAR, MAKING UP 6% OF TSKB'S TOTAL LOAN PORTFOLIO**



**RESOURCE EFFICIENCY**  
53 PROJECTS

Sectors:

**Tourism, Chemistry, Automotive, Steel, Cement and Textile**



**ENERGY EFFICIENCY**  
78 PROJECTS

Sectors:

**Chemistry, Automotive, Cement, Mining, Energy, Steel and Textile**

**FUNDING SERVICES FOR RESOURCE EFFICIENCY**

For the last 8 years, TSKB has been supporting efforts to improve resource efficiency in our country's private sector by offering medium-term and long-term funding. The Bank extended a funding of approximately USD 900 million for 131 projects on energy and raw material efficiency as well as production processes and waste management.

Energy and resource efficiency projects represented 6% of TSKB's loan portfolio as of 2017 year-end. In a cycle when combating climate change gradually becomes more important, TSKB anticipates that the importance of resource efficiency including energy efficiency will increase further.

**SUPPORT FOR SMES**

Since the day it was established, TSKB has been in support of SMEs, the heart of Turkish economy. SMEs are evaluated according to the funding criteria of financial institutions. 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, and from energy efficiency to environmental projects. As of 2017 year-end, the share of SME loans within the total portfolio stood at 19%.

**WOMEN'S EMPLOYMENT**

Following a funding agreement it signed with the French Development Agency (AFD) in December 2016, TSKB added two new funding themes to its present portfolio,

namely "occupational health and safety" and "women's employment". The said funding was used to support the occupational health and safety investments of firms operating in Turkey in 2017 and finance the investments by firms that observe gender equality in working environment and provide opportunities for women to join the workforce. In 2017, employment opportunities were created for nearly 700 women.

**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 8.2 billion to the real sector in the last five years in sectors such as renewable energy, energy efficiency, utilities and logistics.

Taking USD 654 million worth of APEX loans lent to SMEs into account, the total funding extended to the real sector reaches USD 8.9 billion.

**STRONG SUPPORT IN TURKEY'S DEVELOPMENT TO CONTINUE IN 2018**

In 2018, funding of investments that will support sustainable development goals in a way to place priority on investments by firms supporting women's employment, highlighting environmental and occupational health and safety, transferring human and cash capital to R&D investments, and targeting energy and resource efficiency will continue, and the customer portfolio



## AN EVALUATION OF 2017: STRATEGIES, ACHIEVEMENTS AND PROJECTIONS

THROUGHOUT 2017, TSKB CONTINUED ITS EFFORTS FOR OBTAINING NEW FUNDS FROM DEVELOPMENT FINANCE INSTITUTIONS.

will be expanded. When renewable energy is concerned, it is considered that the financing of not only unlicensed Solar Power Plant (SPP) investments but also licensed SPP investments will bear a potential in 2018. Furthermore, the Bank has plans to increase lending to firms operating in the prioritized sectors of chemistry, textiles, automotive supply industry, machinery and health.

### A BALANCED NON-CASH LOAN PORTFOLIO

Brokering for letters of guarantee, import and other foreign trade transactions as required by investment and utilities projects, TSKB offered its customers a total non-cash loan of USD 590 million in 2017. Throughout the year, the Bank focused on responding to the non-cash loan needs of its customers in power distribution, power generation, metal and machinery sectors.

### CLOSE COOPERATION WITH DEVELOPMENT FINANCE INSTITUTIONS

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 2017, TSKB continued its efforts for obtaining new funds from development finance institutions. The total amount of

funding agreements on a specific theme that are signed during the year stood at USD 160 million. Details on the said funds are provided below:

#### IFC - Sustainable Climate Loan

TSKB signed a "Sustainable Climate Loan" agreement worth USD 75 million with the International Finance Corporation (IFC). The Bank aims to extend the said funds for the financing of investments on renewable energy, energy and resource efficiency, production of recycling and energy/resource efficiency equipment and end-user or intermediate products ensuring energy/resource efficiency, production of renewable energy equipment, green buildings, occupational health and safety, innovation and R&D, and adaptation to climate change.

#### EBRD – MidSEFF III (Mid-Size Sustainable Energy Financing Facility III) Loan

In December, the Bank signed a "MidSEFF III Loan (Mid-size Sustainable Energy Financing Facility III)" agreement with the European Bank for Reconstruction and Development (EBRD). This USD 85 million funding will be used to support the financing of mid-size renewable energy and resource efficiency investments around Turkey.

### STRONG RELATIONS WITH INTERNATIONAL FINANCIAL INSTITUTIONS

In 2017, TSKB continued to focus on enriching its relations with banks in line with the goals of diversifying funds and product development.

Furthermore, it pursued an effective communication with rating agencies. Major operations throughout the year are elaborated on below.

#### First Subordinated Sustainable Bond Issuance in the World

In March 2017, TSKB issued its first subordinated bond, which was also a Subordinated Sustainable Bond and was thus crowned as the first of its kind in the world. The bond issued was a USD 300 million bond on a 10-year maturity in accordance with Regulation S with an option for early redemption at year five. The issuance of the Basel III-compliant subordinated bond was four times oversubscribed.

#### Syndicated Loan

On 4 July 2017, TSKB signed a syndicated loan agreement under the coordination of Commerzbank Aktiengesellschaft, Filiale Luxemburg that was participated by a total of 18 banks including Bayerische Landesbank, which also acted as the facility agent. The USD 300 million-worth syndicated loan was extended on a 367-day maturity and comprised of two different tranches, one in EUR and the other in USD. The loan was renewed at a renewal rate of 108%.

#### Policy Issuances and Bilateral Borrowing Agreements

As part of cash flow management, funds totaling about USD 80 million are extended to finance foreign trade throughout the year.

## LONG-TERM FUNDS SECURED BY TSKB 2013-2017

### 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

### 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

#### 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

### 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

### 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

### 2017

#### TSKB Subordinated Sustainable Bond

Amount: USD 300 million

Maturity: 10 years (5 years callable)

#### IFC - Sustainable Climate Loan

Amount: USD 75 million

Maturity: 7 years

#### EBRD - MidSEFF III (Mid-Size Sustainable Energy Financing Facility III) Loan

Amount: USD 85 million

Maturity: 7 years

## AN EVALUATION OF 2017: STRATEGIES, ACHIEVEMENTS AND PROJECTIONS

TSKB WORKS VIA COMMERCIAL BANKS AND LEASING COMPANIES TO EXTEND SME LOANS THAT CONTRIBUTE TO INCREASING EMPLOYMENT.

### MAIN INDICATORS FOR TSKB'S APEX LOANS

NAME OF PROGRAM	YEAR	AMOUNT AGREED	(AS OF 2017 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	223	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>				
TSKB FUNDING	2017	Euro 150 million	114	Ongoing
CEB V APEX	2016	Euro 100 million	-	Ongoing
CEB IV APEX	2013	Euro 100 million	416	Completed
CEB III APEX	2010	Euro 100 million*	223	Completed
KfW APEX	2004	Euro 7.7 million	54	Completed
EIB APEX	2005	Euro 150 million	343	Completed

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

### LEADERS IN APEX BANKING IN TURKEY

TSKB is the leader for APEX banking in Turkey. In 2017 operating period, the Bank continued to extend to its customers the international special-theme apex funding it procured. 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" (IA2F) secured from the World Bank in 2014. Furthermore, in 2016, the Council of Europe Development Bank provided a

loan to our Bank and the Development Bank of Turkey (TKB) under the same program with a view to financing the investments of micro, small and medium-sized firms around Turkey to be made in order to create new employment opportunities or maintain the current levels of employment. To this end, end users are provided with co-financing through leasing companies under the cooperation of our Bank and TKB. Moreover, the practice of providing funding to leasing companies started in 2017 by using the amounts which TSKB secured from funding agencies, extended for the first time and got the repayment of. So far, TSKB

has carried out effective business processes in cooperation with 30 brokerage houses under APEX banking.

In 2017, the total of loans extended via APEX banking reached USD 230 million and the share of such loans within the total portfolio stood at 8%.

The preferred business partner in our country for the World Bank under its EFIL (Export Finance Intermediation Loan) program between 2004 and 2011 and under IA2F loan programs in 2014, TSKB extended a total loan of USD 1,208 million to 649



firms under 4 different EFIL programs it was actively involved in and to 223 firms under the IA2F program which is still under way as of the end of 2017. EFIL loans aim to not only support operations to boost exports by firms but also create new business areas and increase employment. Under the “Innovative Access to Finance Project Loan (IA2F)” agreement, the working capital and investment expenditures of private sector SMEs and mid-size exporting companies operating around Turkey were financed.

Through other APEX loans it secured from Development Finance Institutions, TSKB works via commercial banks and leasing companies to extend SME loans that contribute to increasing employment. To this end, 1,150 SMEs were provided with a total loan of USD 483 million. Moreover, the total number of new employment created through “SME and Export Support” and “SME” funds amounted to 5,899.

#### AN INDISPENSABLE PLAYER IN CORPORATE FINANCE

Under the corporate finance operations, TSKB attained key achievements with regard to mergers and acquisitions, IPOs, bonds, valuation and feasibility consultancy and successfully completed 2017, a year when there were frequent fluctuations both domestically and internationally. Contrary to the downward trend in the Turkish mergers and acquisitions market, the Bank brokered the successful completion of two major M&A transactions in 2017. The first of these transactions was the selling of a leading Turkish company in animal health to a U.S.-based pharmaceutical giant with TSKB acting as the exclusive consultant to the seller. For the second transaction, TSKB provided buyer’s consultancy services to a chemical company which acquired three companies. In addition to these successful transactions, TSKB Corporate Finance maintained its focus on creating new business opportunities and secured a total of 8 authorizations including 6 seller’s authorizations and 2 buyer’s authorizations.

Such authorizations will play a significant role in enabling TSKB Corporate Finance to have a confident start for 2018.

In 2017, a new momentum was attained in the field of private sector bond issuances through issuances for non-bank financial institutions, and the Bank also brokered 5 issuances by major companies operating in factoring and asset management sectors. In 2018, it is expected that 5 bond issuances will be completed.

Regarding IPOs, three IPO transactions were completed in 2017, the first of which was successfully carried out in January. In 2017, contacts were made with companies from various sectors in terms of IPO consultancy, and assessments were made.

In 2018, it is expected that IPOs will continue in the market depending on the existing conditions, and there will be efforts to actively market consultancy services to companies having a scale that is fit for a public offering. There are plans to complete at least one IPO transaction during 2018.

## AN EVALUATION OF 2017: STRATEGIES, ACHIEVEMENTS AND PROJECTIONS

WITH ITS ACCUMULATED SECTORAL EXPERIENCE OF 67 YEARS, TSKB REGULARLY ISSUES SECTORAL REPORTS, PERIODICAL BULLETINS AND COMMENTS AND SUBMITS THESE TO ITS CUSTOMERS.

### ECONOMIC RESEARCH ACTIVITIES

Having a key experience in closely monitoring the global and Turkish economies from a macro and sectoral perspective, in market analysis and in strategic projections, TSKB regularly issues sectoral reports, periodical bulletins and comments and submits these to its customers. In addition to such products provided externally under consultancy operations, 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 international organizations, public, academic and sectoral institutions on various platforms.

### WELL-ESTABLISHED EXPERIENCE IN MONEY AND CAPITAL MARKETS

2017 stood out as a year when the impact of increasing domestic and international political and geopolitical risks as well as price volatility was deeply felt. The variations in the monetary policies implemented by the central banks of developed countries come up as risk factors increasing volatility in emerging markets.

In line with these developments, TSKB applied a flexible management strategy in 2017 in a way to make use of opportunities in money and capital markets. Managing risks and taking the opportunities in the market in line with market expectations, the Bank's balance sheet structure was adapted to meet the requirements of such a period when volatility was high.

As it was the case in previous years, exchange rates followed a fluctuating path throughout the year. An approximate change of 18% was observed between the lowest and highest USD/TL exchange rates. However, the Bank's foreign exchange exposure was managed successfully in consideration of the risk elements and market conditions within the framework of treasury policies, preventing a negative impact on the balance sheet due to fluctuations.

In 2017, the average asset size of TSKB in TL, excluding affiliates, reached TL 7.1 billion, a 10% year-on-year rise on average. The most significant increase when compared to 2016 was observed in TL loans and TL lending through swap transactions. In the management of TL liabilities, repo transactions continued, and the average repo was approximately worth TL 1.7 billion. Furthermore, a cost advantage was gained through transactions on the swap market. Structured long-term TL borrowing transactions through pledging securities from the Securities Portfolio continued in 2017.

The Bank's cash capital was used to invest in risk-free and high-return securities. 61.5% of the securities portfolio was comprised of CPI-indexed and other floating-rate securities while 38.5% was comprised of fixed-rate securities. In 2017, the amount of purchases was about as much as redemptions in the TL Securities Portfolio. In order to reduce the duration of the portfolio in an environment of rising interest rates, purchases rather concentrated on short-term discount bonds. The average portfolio duration was reduced down to 3 years, and

the high return of the bank portfolio was maintained in a period of rising interest rates, resulting in a yield of 12.5% which is above the sectoral average. The share of private sector bond investments which are performed selectively within TL securities declined to 5.5%. There was no significant change in the size of FX Securities Portfolio.

In 2017, the Bank employed an active marketing strategy targeting its customers and outperformed its goals for Derivative Transactions and Treasury Sales income. As it was the case in past years, a significant portion of income originated from derivative transactions. In 2017, the number of customers for whom derivative transactions were performed increased by 85% year-on-year.

### FULL COMPLIANCE WITH CORPORATE GOVERNANCE

A leading institution in corporate governance, the Bank attained a corporate governance rating in 2017 that enabled it to maintain its position among the highest-rated institutions. TSKB's corporate governance rating of 9.53 over 10 was increased to 9.54 following the update by Saha Rating on October 21, 2017.

### STRATEGIC PROJECTS, BUSINESS DEVELOPMENT, INFORMATION TECHNOLOGY AND PROCESS IMPROVEMENT EFFORTS

In 2017, TSKB delivered work that introduced improvements in customer satisfaction, service quality, process efficiency and compliance within the framework of the goals stated in the 2017-2019 strategic plan as well as the corporate architecture principles. During the year, projects under the implementation plan for "A Prospective Glance" in addition to





process and infrastructure improvement efforts under "IFRS 9 and IRB transition" received highlight. Efforts were made regarding the revision, measurement and evaluation of key performance indicators in order to hierarchically spread strategic goals within the entire organization under the corporate performance management system. In 2017, the Bank ran a survey for the first time in an effort to measure internal customer satisfaction, and action steps to improve the satisfaction level were consequently planned.

Process and infrastructure improvement work was delivered and automated contracting processes were increased in order to render the lending process more effective. A corporate data dictionary was formed, and data warehouse and reporting efforts took place. Process and infrastructure arrangements were made together with the Development Bank of Turkey (TKB) regarding APEX cooperation and participation in the Credit Guarantee Fund (CGF). Integration efforts with regulatory bodies took place in an effort to ensure compliance with legal obligations.

#### TSKB'S CORPORATE GOVERNANCE RATING

MAIN ITEMS	WEIGHT	RATING
Shareholders	0.25	9.49
Public Disclosure and Transparency	0.25	9.69
Stakeholders	0.15	9.85
Board of Directors	0.35	9.33
<b>TOTAL</b>		<b>9.54</b>

Process and infrastructure arrangements were carried out to improve the efficiency of business continuity management, and a new data center was established for the physical redundancy of critical systems. In the field of security and infrastructure, security solutions were developed to manage the controlled external release of the Bank's sensitive and confidential information. Efforts to improve the performance of the Bank's network infrastructure were delivered. Solutions to improve the security level of the infrastructure were applied in order to allow for a safer and more secure message exchange under the SWIFT payment system.

In line with the strategic plan, TSKB will continue to perform significant work on banking processes in addition to IT hardware and application infrastructure in 2018. Plans are in place to improve the corporate performance management and reporting systems. Action steps to improve the internal customer satisfaction level will remain an item on the agenda. Reporting and data quality work will continue, and dynamic reporting systems will be developed. Infrastructure update and development efforts will take place in order to maintain the Bank's business continuity, and the main data storage unit will be renewed to ensure a higher performance for the systems at the Emergency Center.

## TSKB'S SUBSIDIARIES

EARNING A REPUTED PLACE IN CAPITAL MARKETS THANKS TO THE RAPID AND STABLE PROGRESS IT ATTAINED SINCE THE DAY IT WAS FOUNDED, YATIRIM FINANSMAN IS ONE OF THE LEADING PLAYERS IN THE MARKET AND EMERGES AS "A SYMBOL OF TRUST".

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

Yatırım Finansman Menkul Değerler A.Ş., Turkey's first brokerage house, was founded on October 15, 1976 by 13 major banks led by İşbank 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 personal and corporate investors from Turkey and the world high quality, reliable and rapid services to access capital markets through its robust and widespread network of branches around the country, and its online and mobile applications. Yatırım Finansman uses its know-how, experience and specialization distilled from its 41-year history as well as its strong capital structure to create added value for its customers.

Yatırım Finansman welcomed 2017 in a strong synergy with TSKB, the parent company, and other group companies and continues to provide its customers with the most convenient financial instruments and add value to their investments thanks to its employees who utilize their knowledge, experience and competences to the best of their abilities.

Acting within the framework of the "Responsible Profitability" principle and realizing its goals to provide its investors and stakeholders with a satisfactory return, Yatırım Finansman is a Fully Authorized Brokerage House pursuant to the capital markets law and communiques, and makes a difference in the sector through the diverse range of products and services it offers, the investments it makes and the advanced technological infrastructure it has.

TSKB holds 95.8% of the shares in Yatırım Finansman, which has 10 service points in major cities of Turkey. Yatırım Finansman also has an equity worth TL 83.7 million and total customer assets over TL 4.7 billion, making it a leading investment institution and raising the service bar high above.

As it was the case in past years, Yatırım Finansman contributed to the development of financial literacy and of the sector through the seminars it organized and attendance to events organized by sectoral institutions and universities in 2017.

A trendsetter rather than a trend tracker, Yatırım Finansman plans to commission the trading platform called YFTRADEINT. The work for YFTRADEINT started towards the end of 2017, and the platform aims to offer - rapidly, safely and without brokerage - investors a wide range of products traded in 25 countries and 100 markets all over the world at any location where Internet access is available.

[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 67-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 51%, 34% and 15% 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 50 percent 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 2018

The process of TSKB REIT's merger with Is Gayrimenkul Yatırım Ortaklığı A.Ş. by transferring all assets and liabilities as a whole, a process held on the basis of the Board resolution of April 18, 2017, was terminated by the Board resolution of July 18, 2017 due to physical and technical reasons, and TSKB REIT will continue with its regular operations in 2018 in line with its investment strategy to increase current rental revenues and diversify its portfolio. 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 2018.

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

## TSKB'S SUBSIDIARIES

TSKB REAL ESTATE APPRAISAL OFFERS CONSULTANCY SERVICES IN ALL PHASES OF REAL ESTATE PROJECTS STARTING FROM INCEPTION VIA ITS STRONG ORGANIZATIONAL STRUCTURE AND APPRAISAL EXPERTS ACROSS TURKEY.

### TSKB GAYRIMENKUL 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 a capital of TL 300,000 and 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 2017 year-end, the number of reports issued on an annual basis by the company reached almost 35,000.

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 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 that 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. The employees at TSKB Real Estate Appraisal have the highest number of international licenses in Turkey in relation to appraisal and consultancy services.

Pursuing a vision to become the sectoral leaders and a reference point in real estate appraisal and consultancy, TSKB Gayrimenkul Değerleme A.Ş. acts within its 3-year Strategic Plan in which it sets prospective strategies in line with this vision.

[www.tskbgd.com.tr](http://www.tskbgd.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

In the light of the know-how and experience it has and it accumulates, Escarus takes sustainability as a business model and focuses its efforts on offering consultancy services towards improving competitiveness and added value in organizations.

Escarus consultants are aware that sustainability stands out as a process that pursues and safeguards the prospective and long-term stability of an organization, and they proceed within an approach exclusively tailored to the strategies and needs of companies and organizations rather than following "standard, conventional practices" in consultancy.

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 İşbank Group:

COMPANY	SECTOR	CAPITAL (TL MILLION)	TSKB'S SHARE (%)	WEB SİTE
İş Finansal Kiralama A.Ş.	Finance	650.3	29.46*	<a href="http://www.isleasing.com">www.isleasing.com</a>
İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.	Finance	74.7	16.67	<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>

\* The shares purchased from free float are included.



## FINANCING AND MANAGEMENT OF SUSTAINABILITY

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.

### TURKEY'S FIRST CARBON NEUTRAL BANK

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 delivering operations pursuant to the Environmental Management System, TSKB has reduced its power consumption by 36%, natural gas consumption by 45%, paper consumption by 46% and water consumption by 49%.

### 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 119 firms and 119 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.

In 2017, the Bank calculated its emissions to be 901 tCO<sub>2</sub>e before verifying and offsetting them with reference to ISO 14064 certificate.

### 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 Disclosure Project 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 Business Council for Sustainable Development Turkey (SKD)

#### THE FIRST INTEGRATED REPORT IN THE FINANCE SECTOR

Issuing its first Sustainability Report in 2009 to break a new ground in the Turkish banking sector, TSKB broke another new ground in reporting when it issued the first Integrated Report in the finance sector in 2017. TSKB's Integrated Report was also included in the examples database of the International Integrated Reporting Council (IIRC).

#### SUPPORTING WOMEN'S EMPLOYMENT FOR INCLUSIVE AND SUSTAINABLE DEVELOPMENT

TSKB added a new dimension to its work on sustainable development in 2017 and included women's employment among its loan themes. The loan secured from the French Development Agency (AFD) has been used to finance the investments by firms that observe gender equality in working environment and provide

opportunities for women to join the workforce. TSKB supports this work on women's employment with tailor made consultancy services for its clients. To this end, companies are assessed in consideration of various criteria including but not limited to ensuring gender equality and equal opportunities in recruitment, performance and promotion, offering equal opportunities in training and professional capacity building, establishing mechanisms to support the work-life balance, ensuring an increased representation of women in senior/middle management, and providing opportunities to make life easier such as transportation, childcare units and lactation room. Through the women's employment loan, employment opportunities were created for about 700 women in 2017.

#### SYNERGY WITH SUBSIDIARIES IN SUSTAINABILITY

TSKB delivers best practices in sustainability via its affiliates. 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.

#### SUSTAINABLE DEVELOPMENT GOALS AND TSKB

Using its experience in sustainable development, TSKB was involved in a major project as a stakeholder in 2017. The project called "Due Diligence for Turkey Under the UN Sustainable Development Goals" kicked off by the Turkish Ministry of Development in order to establish the current status of SDGs in Turkey is coordinated by TSKB and Escarus - TSKB Sürdürülebilirlik Danışmanlığı A.Ş., a TSKB subsidiary offering consultancy services on sustainability. The project aims to establish the current status of Sustainable Development Goals and Objectives in our country, identify those goals that overlap with the policies and priorities of Turkey, determine the areas in which our country lacks policies, projects and indicators in consideration of the goals, and develop policy recommendations.

## FINANCING AND MANAGEMENT OF SUSTAINABILITY

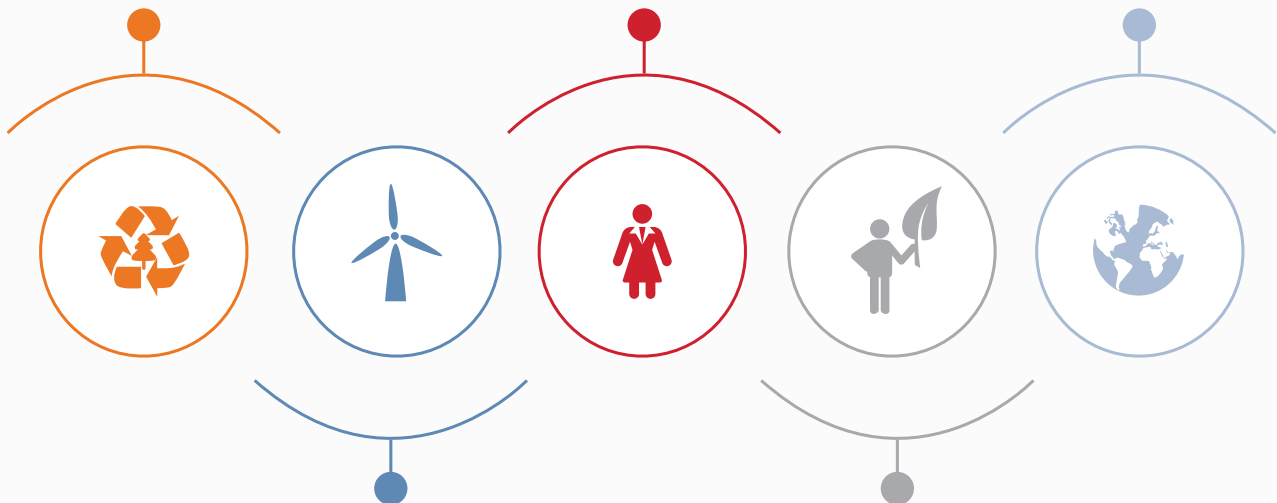
THE FINANCIAL SUPPORT AND CONSULTANCY SERVICES TSKB OFFERED TO WOMEN-FRIENDLY COMPANIES HELPED CREATE EMPLOYMENT OPPORTUNITIES FOR NEARLY 700 WOMEN.

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

The projected total installed capacity for a total of 245 renewable energy projects funded by TSKB is around 5,617 MW. This represents 15% of Turkey's total installed capacity for renewable energy.

The financial support and consultancy services TSKB offered to women-friendly companies helped create employment opportunities for nearly 700 women.

Annual carbon emissions in Turkey were reduced by 12 million tons thanks to the renewable energy, energy efficiency and resource efficiency investments funded by TSKB.



In 2017, TSKB funded various projects in sectors such as renewable energy (including energy efficiency), power distribution and utilities. 68% 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 and via Escarus, an affiliate of the Bank.



### 245 RENEWABLE ENERGY PROJECTS

The projected total installed capacity for a total of 245 renewable energy projects funded by TSKB is around 5,617 MW. This represents 15% of Turkey's total installed capacity for renewable energy.

### SUSTAINABILITY AWARDS TSKB RECEIVED

- » Best green bond in CEE – EMEA Finance (2017)
- » Structured Finance Deal of the Year (Winner) - Bonds & Loans Awards Turkey (2017)
- » International Bond Deal of the Year (runner up) - Bonds & Loans Awards Turkey (2017)
- » SRI Bond of the Year-IFR (2016)
- » Green/SRI Bond Deal of the Year-Global Capital (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

IN 2017, TSKB NOT ONLY LAUNCHED A NEW LOAN THEME AND STARTED TO SUPPORT INVESTMENTS BY FIRMS THAT OFFER A WOMEN-FRIENDLY WORKING ENVIRONMENT BUT ALSO INTRODUCED THE SCHOLARSHIP FUND CALLED EMPOWER THROUGH EDUCATION.

### ADDING SUSTAINABILITY DIMENSION TO CORPORATE SOCIAL RESPONSIBILITY SINCE 2007.

- » Supporting female university students through the scholarship fund called Empower Through Education
- » 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 affiliates
- » [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
- » Resource efficiency portal - [www.kaynakverimlilik.com](http://www.kaynakverimlilik.com)
- » Energy efficiency portal - [www.tskbenerjiverimlilik.com](http://www.tskbenerjiverimlilik.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 climate change, transition to low carbon economy and equal opportunities. The Bank engages in fruitful collaborative work with the business world, universities and NGOs in order to boost social responsibility projects with a broader impact.

Major social responsibility projects by TSKB are as follows:

#### EMPOWER THROUGH EDUCATION: "EACH WOMAN CONTRIBUTING TO PRODUCTION IS YET ANOTHER REASON FOR US TO FEEL MORE CONFIDENT ABOUT THE FUTURE"

TSKB launched a new corporate social responsibility project in 2017 to focus on the social dimension of sustainable development. In 2017, the Bank not only launched a new loan theme and started to back investments by firms that offer a women-friendly working environment but also transposed this new focus

into corporate social responsibility and introduced the scholarship fund called Empower Through Education. The project "Empower Through Education" is developed in cooperation with the Turkish Education Foundation (TEV) and supports female university students. This project is beyond a traditional scholarship fund and involves steps such as mentoring, training and internship in order to ensure more women joins the workforce each day.



#### CEVRECIYIZ.COM

[cevreciyiz.com](http://cevreciyiz.com) is one of the first TSKB projects to raise awareness on sustainability. The contents of this web portal, the most comprehensive environmental portal in Turkey, have been regularly updated since 2007. [cevreciyiz.com](http://cevreciyiz.com) shares sustainability business ideas, environmentally-friendly designs, alternative energy sources, nature-friendly consumption trends, examples of green architecture and successful,

exemplary practices from around the world, and aims to inspire for a sustainable business world.

Actively sharing contents on social media platforms such as Facebook, Twitter and Instagram, [cevreciyiz.com](http://cevreciyiz.com) has 50,000 followers on social media as of 2017 year-end.

TSKB also posts on various web sites to share its experience in fields that it extends funding for. The web portal [tskbenerjiverimlilik.com](http://tskbenerjiverimlilik.com) launched in 2011 continues to be an important reference for energy efficiency. In addition, the web portal [www.kaynakverimlilik.com](http://www.kaynakverimlilik.com) was launched in 2016 to raise awareness on resource efficiency.

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

Attaching great importance to raising a widespread social awareness on sustainability, TSKB has been holding Sustainability Workshops since 2012, the first literacy program on sustainability that targets university students - the managers of the future - and offers them an opportunity to develop their first sustainability projects. This project is run in cooperation with Escarus, the Bank's subsidiary offering consultancy services on sustainability, and brings together university students, academics and private sector representatives to perform case analyses within the scope of a measurement methodology. During workshops, students build teams and come up with different case studies. Each team is led by participants having key private sector experience. The project outcomes are interpreted, and discussions are held in terms of data and methodology.



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 events organized in the scope of "Experience Sharing" enhances TSKB's dialogue with stakeholders and significantly improves the awareness level of participants with respect to sustainability.

In 2017, TSKB sponsored six organizations. TSKB representatives delivered 26 distinct speeches and presentations on various platforms focusing on sustainability, energy efficiency, carbon and integrated reporting as well as Banking meetings.

### LONG-TERM COOPERATION WITH STAKEHOLDERS

TSKB attaches importance to sharing its experience through domestic and international memberships that it deems relevant to its operations and goals and assumes active roles within the initiatives it is a member of. To this end, TSKB has close relations with the Foreign Economic Relations Board (DEİK), Turkish Industry and Business Association (TUSIAD), Global Compact Turkey, and Business World and Sustainable Development Association (SKD) domestically and with the Long-Term Investors Club (LTIC), International Development Finance Club (IDFC) and European Long-Term Investors (ELTI) internationally.

As part of its memberships to various institutions, TSKB holds positions such as the Chair of Working Group and shares its experience with other players in the sector. To this end, TSKB acts as:

- » the chair of SKD's Working Group on Women's Employment and Equal Opportunities,
- » the chair of IDFC's Working Group on Equal Opportunities.

Furthermore, TSKB supports its activities at the associations it is a member of through various working groups. Thus, TSKB assumes active roles in the following working groups:

- » SKD's Working Groups on Sustainable Finance, Energy, Circular Economy
- » United Nations Global Compact Working Groups on Sustainable Banking and Finance, Women's Employment and Equal Opportunities



- » TUSIAD's Working Groups on Environment and Climate Change, Energy, Industrial Transformation, Sustainable Development, Women's Employment and Equal Opportunities
- » Membership to DEİK's Energy Business Council

### "SUSTAINABLE" 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.

The Bank sponsored "The Sound of Colors: Kandinsky & Chagall Concert", with pianist Mikhail Rudy's music accompanying a visual show of Kandinsky's paintings during the 45<sup>th</sup> Istanbul Music Festival. Evolving into a visual feast with Chagall's colors unlike the usual concerts, this show received a good deal of attention from art lovers.

Furthermore, as of 2014, TSKB started to regularly offset the carbon footprint 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 SUPPORT FOR 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 İsbank 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 has been led by Prof. Fahri Işık and Prof. Havva Işkan Işık from the Department of Classical Archaeology at Akdeniz University.

### TSKB VOLUNTEERS

In 2017, the Bank took a major step in integrating all TSKB employees into corporate social responsibility projects and launched the TSKB Volunteers program. Employees have started to develop their own volunteering projects under the TSKB Volunteers program and they focus specifically on projects that will create sustainable value within the society.

The first volunteering project launched in 2017 was FIT-TSKB, a project that aims to ensure TSKB employees attain healthier habits in life. 6.5 million steps evolved into charity under FIT-TSKB, which comprised healthy living seminars as well as trekking and running activities on weekends and after the end of working hours. The total kilometers covered in the project were converted into donation to the Turkish Foundation for Children in Need of Protection (Koruncuk Foundation), which used the donations to allocate a "Mind Games Room" in Koruncuk Village established by the foundation in Urla.

## INVESTMENT IN HUMAN CAPITAL

DRIVEN BY THE SUSTAINABILITY STRATEGY FOR HUMAN RESOURCES, TSKB INVESTS IN HUMAN RESOURCES, WHICH IS ITS MAIN STRONGHOLD, THROUGH TAILORED ASSESSMENT AND DEVELOPMENT PROGRAMS.

### BANKERS' EDUCATIONAL BACKGROUND



Bachelor's Degree 98%  
Woman 54%, Man 46%

Other 2%  
Woman 88%, Man 12%

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 15 management trainees through the "8<sup>th</sup> Career Workshop by TSKB", the eighth of which was held in April 2017, in addition to 36 experienced employees recruited for various departments, making a total of 51 new employees joining the TSKB family.

Under the Internal Transfer project, the departments of 22 TSKB employees were changed, giving them an opportunity to develop themselves in different fields. The "HR Representatives" project was kicked off in cooperation with the employees in order to improve the communication channels of the Bank and listen to the employees more. This project enabled the Bank to launch new practices. "Month 5 Bilateral Meetings" were held with each employee completing five months of service at TSKB and the manager of that employee in order to get feedback from the managers and employees alike.

"The Last Day Before Weekend" practice involved freedom from any dress code and aimed to improve employee motivation.

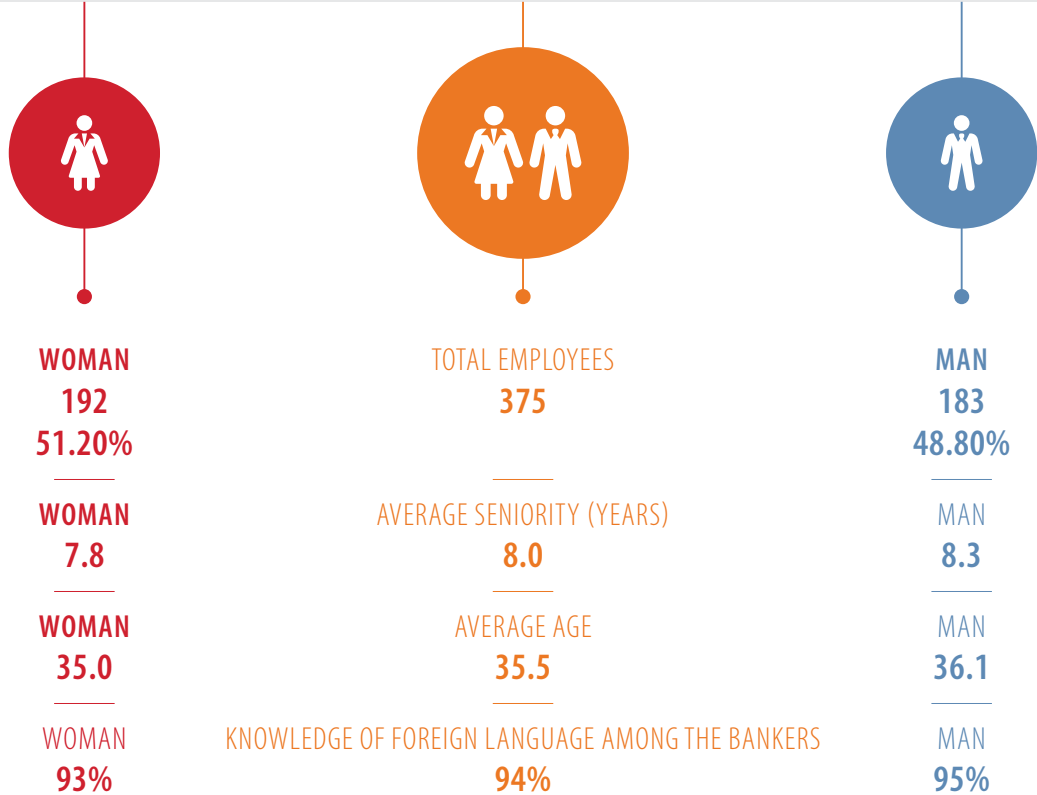
The Flexible Working Model, a project recommended during the Development Workshop that included Bank managers, was piloted as a more efficient working method.

Action steps were planned to improve the efficiency of Teamwork. In 2017, "Internal Customer Satisfaction Action Meetings" and "Inter-Team Field Work" were carried out. "Team Coaching" work was planned as well to strengthen communication among employees.

Human Resources Consultancy services have been outsourced in order to review and update all Human Resources processes and systems at the Bank. The outsourced consultancy services include work on career architecture, performance, remuneration and reward management.



## HUMAN RESOURCES PROFILE



Implemented for the first time between 2014 and 2016, the Development Workshop Program was structured for the Bank's group managers and managers. The second term for the Program started back in 2016 with 45 participants and is planned for completion in March 2018. Department Heads were also included in the 2<sup>nd</sup> Development Workshop, ensuring that they learn the outputs their employees will be equipped with under the training program and speak the same language as them. Furthermore, 135 Bank employees joined the Catalogue Trainings which are prepared on the basis of TSKB Core Competences and comprised of 14 trainings under 10 different main subjects in integration with the performance assessment process and in order to support those employee competences that present a room for improvement.

In 2017, an English training program was launched to contribute to and improve the verbal and written English skills of assistants.

"Leadership Development Program", which focuses on strategy, leadership and negotiation skills, as well as the personal coaching program for managers continued in 2017. In addition to internal training programs held to support technical knowledge and skills, a 45-day MT Development Program for recently-recruited Bank staff as well as Basic Occupational Health and Safety, First Aid and Ergonomics training events were completed.

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 9,306,864 was paid to 210 employees in 2017 for their 2016 performance.

For 2018, 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 this year as well 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.

## BOARD OF DIRECTORS

H. ERSİN ÖZİNCE



MEHMET ŞENCAN



SUAT İNCE



YAVUZ CANEVİ



MEHMET EMİN ÖZCAN



EBRU ÖZŞUCA



MİTHAT RENDE



ZEYNEP HANSU UÇAR



KAMİL YILMAZ



CAN YÜCEL



## ERSİN ÖZİNCE

### Chairman of the Board

H. Ersin Özince was born in Havran in 1953 and graduated from Middle East Technical University, Faculty of Administrative Sciences, Business Administration Department. He started his professional career at İşbank as an Assistant Inspector on the Board of Inspectors in 1976. After working in various managerial positions at İşbank, Mr. Özince was promoted to the post of Deputy Chief Executive in 1994 responsible for Treasury, Financial Management, Capital Markets, Loans and the Credit Information and Financial Analysis departments of the Bank. On 28 October 1998, Mr. Özince was appointed as the 15<sup>th</sup> Chief Executive Officer of İşbank.

Elected as a Board member on 31 March 2011, 28 March 2014 and 31 March 2017, Mr. Özince has been serving as the Chairman since 1 April 2011. He also serves as the Chairman of the Remuneration Committee since 29 December 2011, as a member of the Audit Committee, T.R.N.C. Internal Systems Committee and an alternate member of the Credit Committee since 4 April 2017.

Mr. Özince served as the Chairman of the Board of Directors of the Banks Association of Turkey between 2 November 1998 - 31 May 2000, and 3 June 2002 - 1 April 2011, as the Chairman of the Board of Directors of TSKB between 17 April 2009 - 1 April 2011, and the Chairman of the Board of Directors of T. Şişe ve Cam Fabrikaları A.Ş. between 28 November 1998 - 14 April 2006, and 1 April 2011 - 6 April 2017.

In addition to his duties at the Bank, he serves as the Chairman of the Board of Türkiye İş Bankası A.Ş. Members Supplementary Pension Fund and as a member of the Board of Trustees of Turkish Foundation for Combating Soil Erosion for Reforestation and the Protecting of Natural Habitats (TEMA Foundation). Mr. Özince is also the Chairman of TSKB's Board of Directors since 4 May 2017.

## MEHMET ŞENCAN

### Vice Chairman

Having born in Adapazarı in 1964, Mr. Mehmet Şencan graduated from Management Engineering Department of Istanbul Technical University. He began his career at İşbank as an Officer at Galata Branch in 1988 and joined the Board of Inspectors as an Assistant Inspector in 1989. He was appointed to Bursa Branch as an Assistant Manager in 1997. Mr. Şencan served as the Manager of Antakya, Gebze, Denizli and Bursa Branches, and was appointed as the Manager of Bursa Corporate Branch in 2007, Başkent Corporate Branch in 2011 and Kozyatağı Corporate Branch in 2016. Mr. Şencan was appointed as Deputy Chief Executive on 27 April 2017. Mr. Şencan, who was elected as a board member of TSKB on 7 June 2017, has been appointed as the Vice Chairman of the TSKB's Board of Directors.

## 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. On 1 April 2016, Mr. Ince was elected as a member of the TSKB's Board of Directors and appointed as the Bank's Chief Executive Officer.

## YAVUZ CANEVI

### 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 on 26 March 2015.

## MEHMET EMİN ÖZCAN

### Board Member

Mehmet Emin Özcan was born in 1960 and graduated from Ankara University, Faculty of Political Science and Department of Economics. Having started his professional career as an Assistant Auditor at İşbank in 1983, he held several managerial positions at Albaraka Türk Katılım Bankası. Between 2003 and 2005, he served as a Managing Board Member at Halkbank. During the same period, Mr. Özcan was a representative of the Bank in the IIF (Institute of International Finance) and a Board member of Demir-Halk Bank/Netherlands, Halk Yatırım Menkul Değerler and Halk Finansal Kiralama. Between 2005 and 2010, he was a member of the Board of Directors of Ziraatbank; he also served as Chairman and board member at various Ziraatbank subsidiaries. Between 2010 and 2013, he was assigned as Deputy Chairman of the Board of Directors at T. Halk Bankası A.Ş. and board member of Demir-Halk Bank Rotterdam. In 2013, he was elected as Deputy Chairman of Vakıfbank and held deputy and board chairman positions in several Vakıfbank subsidiaries. Having been appointed as the Turkish Republic of Northern Cyprus Central Bank Governor in 2017, he resigned from his position at Vakıfbank. In 9 June 2017, he was appointed as the general manager in Vakıfbank. Since 20 June 2017, Mr. Özcan has been a member of Board of Directors at TSKB.

## EBRU ÖZŞUCA

### Board Member

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 İşbank 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 İşbank. Ms. Özşuca has been a TSKB board member since 17 April 2014.

## MİTHAT RENDE

### Board Member

Born in 1953 in Antakya, Mithat Rende graduated from the Faculty of Political Science of the University of Ankara. After graduation he worked in the Ministry of Commerce and then was admitted to the Ministry of Foreign Affairs, where he held posts in Damascus, Rome, Brussels (NATO), Sofia, Vienna (OSCE) and London. Mr. Rende also served as the Director of the Human Rights Department at the Ministry after completing the post-graduate program in Security

and International Relations at the London-Royal College of Defence Studies. In 2005, he was appointed as Deputy Director General of Energy Environment and Water Affairs, served as Chairman of the Trade and Transit Working Group of the Energy Charter Conference in Brussels between 2005 and 2008, and was appointed as Ambassador to Doha (Qatar) in 2007. Mr. Rende served as Director General of Multilateral Economic Affairs and Turkey's Chief Negotiator for Climate Change between 2010-2013. He was also a member on the Turkish Nuclear Energy Commission during the same period. Mr. Rende was appointed as the OECD Permanent Representative of Turkey in 2013, and was elected as Chairman of the Executive Committee of the OECD in 2014. Having retired in 2016, he has been a member of the TSKB Board of Directors since 4 April 2017.

## ZEYNEP HANSU UÇAR

### Board Member

Ms. 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 İşbank 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 27 November 2015.

## KAMİL YILMAZ

### Independent Board Member

Prof. Dr. Kamil Yılmaz is an academic 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 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 academic 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 at İş Investment Trust since 2012 and at TSKB since 27 March 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 İşbank 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. On 2 June 2016, Mr. Yücel has also been elected as a member of the TSKB's Board of Directors.

## SENIOR MANAGEMENT



**From Left to Right**

Ece Börü, Aslı Z. Hancı, A. Ferit Eraslan, Çiğdem İçel, Ufuk Bala Yücel, Hakan Aygen, H. Yetkin Kesler, Suat İnce, Gökhan Çanakpınar

## 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. On 1 April 2016, Mr. Ince was elected as a member of the TSKB's Board of Directors and appointed as the Bank's Chief Executive Officer.

## 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 on 29 January 2006. Ms. İçel is currently responsible for the Development Finance Institutions, Financial Institutions, Economic Research, Engineering and Technical Consultancy Departments since 1 January 2017.

## UFUK BALA YÜCEL

### Executive Vice President

Ufuk Bala Yücel was born in Istanbul 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 on 25 December 2007. Ms. Yücel has been responsible for the Loans, Loan Monitoring and Loan Operations Departments since 1 January 2017.

## 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 27 December 2011 he has been working as an Executive Vice President. He has been in charge of System and Network Support, Application Development, Support Services Departments since 1 January 2017.

## ECE BÖRÜ

### Executive Vice President

Ece Börü was born in Istanbul 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 28 November 2013, Ms. Börü has been serving as the Executive Vice President of TSKB. She has been responsible for Budget Planning&Investor Relations, Financial Analysis&Valuation and Financial Control Departments since 1 January 2017.

## 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 28 November 2013. Mr. Aygen has been in charge of Corporate Finance, Corporate Banking and Project Finance Departments since 1 January 2017.

## AZİZ FERİT ERASLAN

### Executive Vice President

Aziz Ferit Eraslan was born in Istanbul 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 ZERRİN HANCI

### Executive Vice President

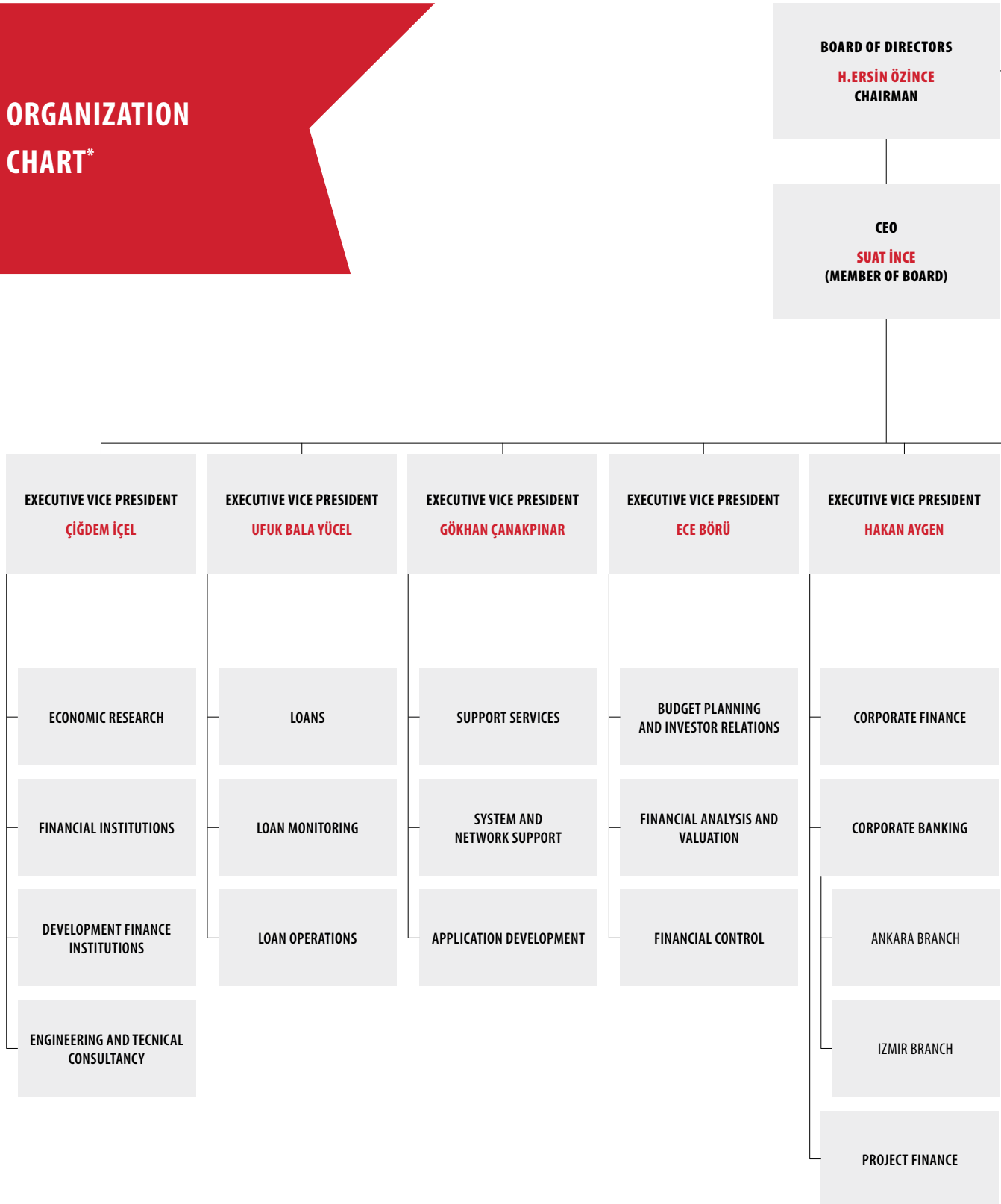
Aslı Hancı was born in Ankara in 1969 and graduated from the Faculty of Business Administration at İstanbul University in 1990. Ms. Hancı began her professional career at Citibank in 1991. She worked at the Treasury department of Chase Manhattan and BNP Ak Dresdner Bank respectively. Ms. Hancı joined 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.

## HİDAYET YETKİN KESLER

### Executive Vice President

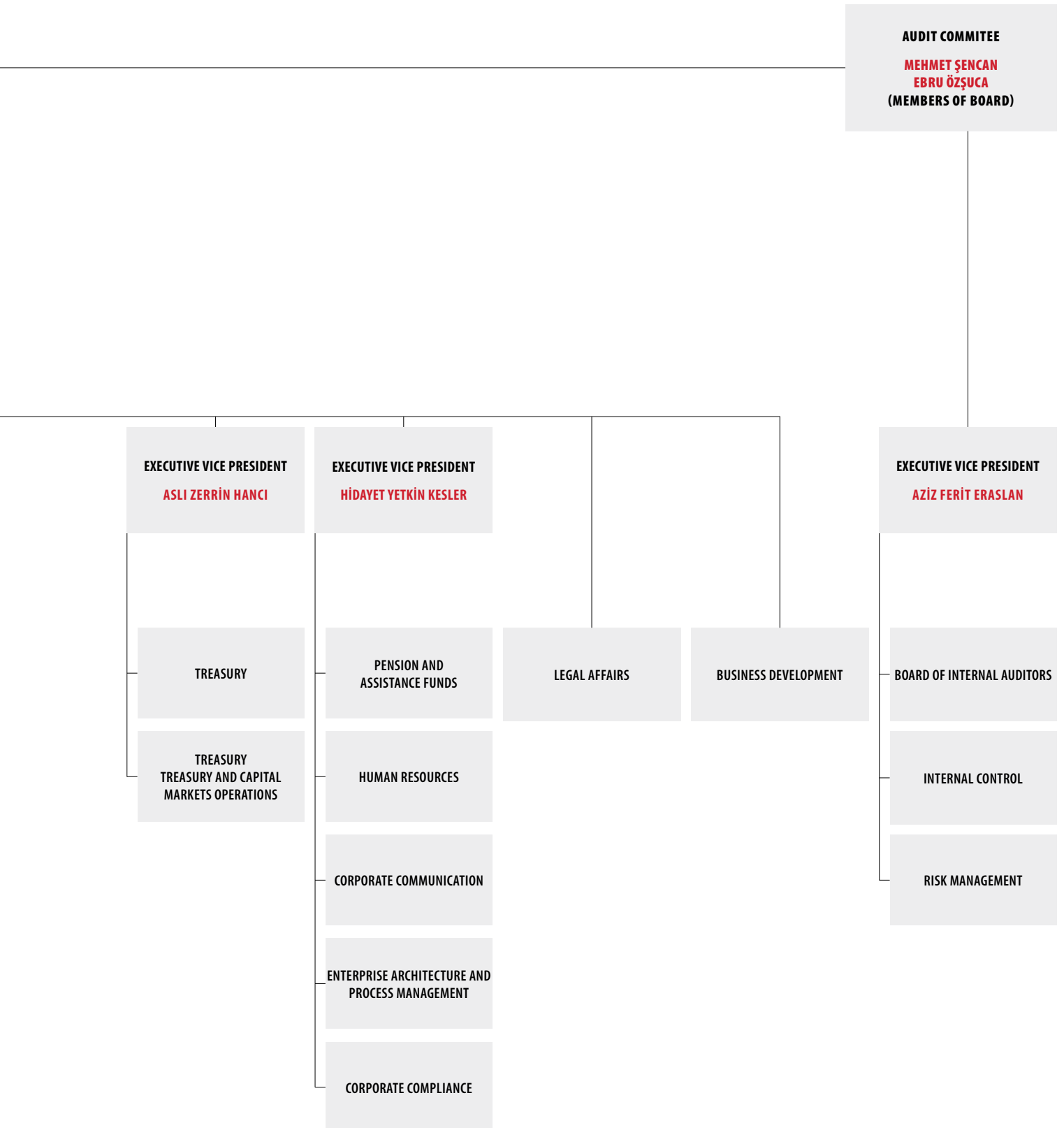
H. Yetkin Kesler was born in Istanbul in 1966 and graduated from the Department of Industrial Engineering at Boğaziçi University in 1989. He started his career as an Assistant Internal Auditor at Koçbank in 1992. Then he completed his master's degree of Management Engineering at İstanbul Technical University 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. Since 1 January 2017, Kesler has been 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 31 December 2017





# 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 3 January 2014, Edition No: 28871, and those of CMB Principle Decision No: 2/35 Dated 27 January 2014, and in line with the international principles and sector principles. In the activity period of 2017, 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” are executed pursuant to the fundamentals of corporate governance which are transparency, accountability, responsibility and equality by the departments of Budget Planning&Investor Relations and Legal Affairs. “Investor Relations Department Manager”, who holds Capital Market Activities Advanced Level Certificate and Corporate Governance Rating Specialist Certificate, serves as a member of Corporate Governance Committee as per the provisions of the governing legislation.

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 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.

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&Valuation	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. 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).

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 28 November 2017, there are two woman board members in the board.

Responding to all shareholder and analyst information claims received via telephone and e-mail in 2017, Investor Relations Department conducted total of 118 informatory meetings with investors and analysts in Turkey and abroad. Of these meetings, 4 were conducted over the telephone, 34 were conducted at the Bank's head office, and remaining 84 were conducted during 7 roadshows / conferences.

Moreover, the Bank has started to organize teleconference meetings quarterly instead of organizing in six month intervals for the domestic and international investors and analysts. As a result, 4 teleconference meetings were held during 2017.

## 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 31 May 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 1 January and 31 December 2017, 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.

## 2.3. General Assembly Meetings

In 2017, one General Assembly Meeting was held, which was the Ordinary General Assembly Meeting for 2016 that was held on 23 March 2017. 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 29 August 2012.

General Assembly Meeting was attended by shareholders that represent 82.8% of the Bank's paid-in capital of TL 2,050 million, namely 1 billion 697 million 437 thousand TL 629 and 27 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.

## CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

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 2017, 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 2016,
- » Review and approval of the balance sheet and profit and loss statement of the Bank for the year 2016,
- » 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,
- » Approval of the amendment of Article 5 of the Bank's Articles of Association,

- » Determination of the upper limit for the donations to be made in 2017.
- » Empowering the Members of the Board of Directors with regards to responsibilities and transactions set forth in Turkish Commerce Code, Articles 395 and 396.

Since the amount of special disbursement to be paid to employees according to their performances in 2016 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 181,351.97 that was donated throughout the year.

Pursuant to the principle 1.3.6. of the Corporate Governance Principles, shareholders were informed that İş 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 İş 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' member 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](http://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 are 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 dividend payment 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 cash dividend of the year 2016 equivalent to TL 82,000,000 was distributed on 27 March 2017, whereas the TL 350,000,000 was distributed as bonus shares subsequent to the registration of the said shares by the Capital Markets Board on 31 May 2017.

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 1 November 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.

## CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

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. Having gathered employees from every department and put the "HR Representatives" project into practice, the Bank continues to develop mechanisms to include employees into decision processes.

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 have 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 since 2006. The revised version of the "Code of Banking Ethics" amended by the Banks Association of Turkey in 2014 was 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. The management trainees are trained on the Bank's Code of Ethics and Anti-Bribery and Anti-Corruption Policy. Moreover, the informative presentation pertaining to aforementioned policy and principles are uploaded to the intranet for all employees' access.

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 52.

## 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.

FULL NAME	TITLE	EDUCATIONAL BACKGROUND	WORKING EXPERIENCE	DATE OF APPOINTMENT	EMPLOYER AND POSITION
H. Ersin Özince	Board Chairman	Middle East Technical University, Economics and Administrative Sciences / Business Administration	41 years	4 May 2017	T. İş Bankası A.Ş. Board Chairman
Mehmet Şencan*	Board Vice Chairman	Istanbul Technical University/Management Engineering	29 years	7 June 2017	T. İş Bankası A.Ş. Executive Vice President
Suat İnçe	Board of Directors' Member and CEO	Middle East Technical University, Economics and Administrative Sciences / Economy	30 years	1 April 2016	TSKB A.Ş. Chief Executive Officer
Yavuz Canevi	Board of Directors' Member	University of Southern California / M.A. in Economics	37 years	26 March 2015	T. Ekonomi Bankası A.Ş., Board Chairman
Mehmet Emin Özcan	Board of Directors' Member	Ankara University / Economics	34 years	20 June 2017	T. Vakıflar Bankası T.A.O. Chief Executive Officer
Ebru Özşuca*	Board of Directors' Member	Southampton University / International Banking and Finance	24 years	17 April 2014	T. İş Bankası A.Ş. Executive Vice President
Mithat Rende	Board of Directors' Member	London-RCDS/Security and International Relations	29 years	4 April 2017	Retired Ambassador
Z. Hansu Uçar	Board of Directors' Member	Middle East Technical University, Economics and Administrative Sciences / Business Administration	24 years	27 November 2015	T. İş Bankası A.Ş. Affiliates Manager
Kamil Yılmaz	Independent Board Member	University of Maryland / Ph.D. in Economics	25 years	27 March 2014	Koç University Faculty of Economics and Administrative Sciences, Lecturer
Can Yücel	Independent Board Member	Middle East Technical University, Economics and Administrative Sciences / Economy	18 years	2 June 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 Communiqué No: II.17.1., Article 6/(3)-a.

## CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

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 26 March 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. The aforementioned declaration was published at the 2016 Corporate Governance Compliance Report. The new independent board member candidate will be elected in 2018 to submit to the approval of the General Assembly.

The "Policy for Female Participation in the Board of Directors" 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 is 2 according to the report dated 28 November 2017. The Bank continues to spend effort to fulfill its target provisioned by the Bank's "Policy for Female Participation in Board of Directors".

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 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 2017, no member of the Board cast a dissenting vote at Board meetings.

The Board of Directors convened 43 times between 1 January 2017 and 31 December 2017. 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**

The governing principles with respect to the board committees' duties and responsibilities are disclosed at the Bank's corporate website.

#### **Audit Committee**

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. Mehmet Şencan and Ms. Ebru Özşuca.

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

Audit Committee has gathered 29 times in the period of 1 January - 31 December 2017.

#### **Corporate Governance Committee**

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 Ms. Zeynep Hansu Uçar (Chairman), Mr. Can Yücel (Member) and Ms. Özen Çaylı (Member) in 2017.

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 as of 26 January 2017. Consequently, Ms. Özen Çaylı has been a natural member of Corporate Governance Committee pursuant to the Communiqué.

In accordance with the Communiqué, the duties of the Nomination Committee are incorporated into the duties and responsibilities of the Corporate Governance Committee.

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 2017 at the Bank's head office with full attendance.

#### **Remuneration Committee**

The committee is comprised of two Members of the Board, namely Ms. Ebru Özşuca 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.

## CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

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

The Bank carries out its activities regarding remuneration policies within the framework of the related banking regulations and Capital Market regulations. TSKB's Remuneration Policy is available on the Bank's corporate website in Investor Relations section. This policy covers all managers and employees.

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 11,209 thousand.

Other payments with respect to travelling, accommodation and etc. paid to members of Board of Directors and senior management is TL 1,574,560.

## PROFIT DISTRIBUTION PROPOSAL

Pursuant to Our Directors Board's Resolution dated 23 February 2018; the General Assembly shall be offered to reserve and distribute 2017 Net Profit of TL 595,668,250.22 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 29,783,412.51 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 169,817,951.31 as first dividend,
3. Out of the TL 396,066,886.40, 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 1,650.28, 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 16.50 to each founder share;
  - b) to the distribution of gross amount of TL 1,980,334.43, 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 11,882,006.59, 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 240 Billion shares, paid-up and non-paid-up, with 1 Kuruş nominal value, (on account of 13.59091%) to be 0.1359091 Kuruş to each of them, the total amount of TL 326,182,048.69 as second profit share,
  5. in accordance with 519<sup>th</sup> article of Turkish Trade Code, to the allocation of TL 1,386,399.13 as statutory reserve fund,
  6. to the allocation of TL 54,634,447.28 the remainder, as extraordinary reserve fund,
  7. to the distribution of TL 496,000,000 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 96,000,000 which is 4% of the paid-in capital is to be distributed to shareholders as cash dividend and remaining TL 400,000,000 which is 16.67% of the paid-in capital, shall be distributed as stock dividend in the capital increase from TL 2,400,000,000 to TL 2,800,000,000,
  8. to the distribution of dividends of the year of 2017 equivalent to TL 400,000,000 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 96,000,000 starting 26 March 2018; 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 68<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 2017 accounting period as well as profit and loss statements.

Last year, global economic operations accelerated thanks to the favorable liquidity conditions and stable commodity prices. A weak inflation led to a moderate progress in the policy normalization processes by the central banks of developed countries. In 2017, the US Federal Reserve (Fed) hiked the interest rates three times. Furthermore, the European Central Bank continued to purchase bonds throughout the year. The positive growth outlook is expected to continue in 2018 under the impact of the variations among the monetary policies of central banks in developed countries and fiscal expansion.

Developing countries including Turkey, on the other hand, attracted more portfolio flows thanks to a weak USD and improving macroeconomic indicators. The main items on the domestic agenda in 2017 were the referendum on Constitutional amendments, the government's incentive programs, the

foundation of the Sovereign Wealth Fund, the increase in the Credit Guarantee Fund (CGF) to TL 250 billion, the increase in loan volume and the geopolitical developments in neighboring countries. Both domestic demand and economy recovered noticeably under the impact of fiscal incentives and the CGF. For 2018, it is expected that such positive outlook will be maintained and a growth of about 4.1% will be attained.

Driven by the supportive impact of the CGF and other incentives, the banking sector maintained its successful performance in 2017 as well. At year-end, the total size of assets in the sector rose to TL 3.3 trillion with an annual increase of 19% while the credit stock grew by 21% to exceed TL 2.1 trillion. At the end of the last year, the percentage of non-performing loans was 3.2%, which declined to 2.9% by the end of 2017. In the same period, the industry increased its equity by 20% to TL 359 billion. Capital adequacy ratio in the banking sector stood at 16.9% as of December 2017. Furthermore, the total number of banks was 50 in the previous year but decreased to 49 as of 2017 year-end.

TSKB maintained a robust and resilient growth trend. As of 31 December 2017, on a year-on-year basis, the Bank increased:

- » its equity by 20.7% to reach TL 3,534,717 thousand,
- » its credit stock by 28.7% to reach TL 22,294,423 thousand,
- » its total assets by 20.5% to reach TL 28,910,252 thousand.

The Bank's net income for 2017 was TL 595,668 thousand with an increase of 25% year-on-year. As of 2017 year-end, our capital adequacy ratio, return on equity, return on assets and percentage of non-performing loans stood at 17.1%, 18.4%, 2.3% and 0.2% respectively.

Esteemed shareholders, we hereby submit to your examination and approval our annual report that covers our 2017 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



Güney Bağımsız Denetim ve  
SMMM A.Ş.  
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## (Convenience translation of a report originally issued in Turkish) INDEPENDENT AUDITOR'S REPORT ON THE ANNUAL REPORT OF THE BOARD OF DIRECTORS

To the Shareholders of Türkiye Sınai Kalkınma Bankası Anonim Şirketi

### 1) Opinion

We have audited the annual report of Türkiye Sınai Kalkınma Bankası A.Ş. (the Bank) for the period of 1 January 2017 - 31 December 2017.

In our opinion, the financial information provided in the annual report of the Board of Directors and the discussions made by the Board of Directors on the situation of the Bank are presented fairly and consistent, in all material respects, with the audited full set financial statements and the information we obtained during the audit.

### 2) Basis for Opinion

We conducted our audit in accordance with "Regulation on independent audit of the Banks" published in the Official Gazette no.29314 dated 2 April 2015 by BRSA (BRSA Independent Audit Regulation) and Independent Auditing Standards ("ISA") which are the part of Turkish Auditing Standards issued by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Annual Report section of our report. We are independent of the Bank in accordance with the Code of Ethics for Independent Auditors (Code of Ethics) as issued by the POA, and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### 3) Our Auditor's Opinion on the Full Set Financial Statements

We have expressed a qualified opinion in our auditor's report dated 30 January 2018 on the full set financial statements of the Bank for the period of 1 January 2017 - 31 December 2017.

### 4) The Responsibility of the Board of Directors on the Annual Report

In accordance with Articles 514 and 516 of the Turkish Commercial Code 6102 ("TCC"), the management of the Bank is responsible for the following items:

- Preparation of the annual report within the first three months following the balance sheet date and submission of the annual report to the general assembly.
- Preparation and fair presentation of the annual report; reflecting the operations of the Bank for the year, along with its financial position in a correct, complete, straightforward, true and honest manner. In this report, the financial position is assessed according to the financial statements. The development of the Bank and the potential risks to be encountered are also noted in the report. The evaluation of the board of directors is also included in this report.
- The annual report also includes the matters below:
  - Subsequent events occurred after the end of the fiscal year which have significance,
  - The research and development activities of the Bank,
  - Financial benefits such as salaries and bonuses paid to the board members and to those charged governance, allowances, travel, accommodation and representation expenses, financial aids and aids in kind, insurances and similar deposits.

When preparing the annual report, the board of directors takes into account the secondary legislative arrangements published by the Ministry of Customs and Trade and related institutions

### 5) Auditor's Responsibilities for the Audit of the Annual Report

Our aim is to express an opinion, based on the independent audit we have performed on the annual report in accordance with provisions of the Turkish Commercial Code and the Communiqué, on whether the financial information provided in this annual report and the discussions of the Board of Directors are presented fairly and consistent with the Bank's audited financial statements and to prepare a report including our opinion.

The independent audit we have performed is conducted in accordance with InAS and BRSA Independent Audit Regulation. These standards require compliance with ethical provisions and the independent audit to be planned and performed to obtain reasonable assurance on whether the financial information provided in the annual report and the discussions of the Board of Directors are free from material misstatement and consistent with the financial statements.

The name of the engagement partner who supervised and concluded this audit is Yaşar Bivas.

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi  
A member firm of Ernst & Young Global Limited



Yaşar Bivas, SMMM  
Partner

28 February 2018  
İstanbul, Türkiye

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

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

In the current period, there has not been any special audit at the Bank under the scope of the Turkish Commercial Code 207, 438 and 439. The Bank is subject to public scrutiny; including institutions such as BRSA, CBRT, Capital Markets Board, Competition Authority. In relation to these inspections, should there be any point where disclosure is necessary, the aforementioned issues are disclosed at the public disclosure platform.

### 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 2017 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 2017 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.
5. Internal Rating Model and Asset-Liability Management Infrastructure and Maintenance Service from Prometeia SPA.

### AMENDMENTS IN THE ARTICLES OF ASSOCIATION

The amendment to Article 5 related to increasing our Bank's issued capital from TL 2,050,000,000 to TL 2,400,000,000 was announced in Trade Registry Gazette dated 12 June 2017 and numbered 9345 with the registration to İstanbul Trade Registry on 6 June 2017.

# 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 back testing 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.

## RISK MANAGEMENT POLICIES

### 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 repricing 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 THE 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. Mehmet Şencan and Mr. Ebru Özşuca.

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 29 meetings held by the Audit Committee in 2017.

### 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
2 Years	25 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
4 Years	24.5 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
1.5 Years	19 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
1 Year	19 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 2017

Audit Committee held 29 meetings in 2017. 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, Executive Vice President who is in charge of internal systems, and Departments of Internal Audit, Internal Control and Risk Management.

### 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 Bank's information systems and processes, and evaluates whether or not internal control, risk management and corporate governance systems are compliant, effective and efficient as well as examining the accuracy and reliability of accounting records and financial reports.

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.

In 2017, Board of Auditors conducted 40 audits in total, covering the departments, Bank's 2 branches and 2 subsidiaries as well as 5 firms from which the Bank procured banking processes and support services.

As a result of the audits and assessments made in 2017, 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 2017. Necessary control points were determined and established actively 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 reporting, are made with an approach developed in internal models besides the standard approach used in legal reporting, 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 2017, 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. In 2017, activities were carried out to comply with the various legal regulations and Risk Guidelines under the scope of which the Reputation Risk Policy was designed and released. Besides, 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.

Other than routine operations in 2017; the loan clients internal ratings model, which is going to be active in 2018, was revised pursuant to the relevant regulation and present needs, as part of the IFRS 9 and IRB (Internal Ratings Based) Approach Standards Compliance Project. The efforts to revise the software and system infrastructure used related to "Asset Liability Risk Management" and "Market Risk Management" continued, while it is planned to be put into service in 2018.

The Audit Committee continued to report to Board of Directors regarding the operational results, necessary measures, practices and its comments on other critical issues that ensure the Bank's operations to continue reliably.

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 2017; we believe that the activities performed were highly qualified and satisfactory.



**MEHMET ŞENCAN**  
Member of the  
Audit Committee



**EBRU ÖZŞUCA**  
Member of the  
Audit Committee

## ASSESSMENT OF FINANCIAL STANDING, PROFITABILITY AND SOLVENCY

2017 was a year when uncertainties dominated the domestic and international agenda. Despite that, TSKB maintained a healthy growth in 2017 and exceeded its targets for the year. The total size of TL assets grew by 20.5% year-on-year and reached TL 28,910 million. The size of USD assets, on the other hand, stood at USD 7,704 million.

In 2017, loan agreements worth a total of USD 2.4 billion were signed. The amount of new lending stood at USD 2.1 billion as a result of successful performance in marketing operations. The total loan portfolio grew by 28.7% on a TL basis and 15% on a currency-adjusted basis in 2017 to stand at TL 22,294 million.

The loan-to-total assets ratio stood at 77.1% at 2017 year-end (2016: 72.2%).

The breakdown of the loan portfolio in accordance with various FX types (including the FX-indexed loans) is in parallel with the secured loans which are recorded as liabilities. The FX loan breakdown indicates that 41% of loans are in EUR and 49% in USD. TL loans make up 10% of our Bank's portfolio. Furthermore, 74% of our loan portfolio is comprised of investment loans in line with our mission banking approach.

2017 was a year when sectoral diversification exhibited a stronger pattern and we extended loans to various sectors. Funding operations targeted renewable energy projects, power distribution and organized industrial zone investments and commercial real estate projects with green certificates as well as firms in the corporate

and SME segments operating in logistics, cement, plastics, healthcare and food industries. A sectoral breakdown of loans indicates that 34% of loans are allocated to the power generation sector, followed by finance and logistics sectors with 13% and 9% respectively. Energy and resource efficiency projects have a share of 6% within the total loan portfolio.

The ratio of NPLs with full reserves for loan losses to total gross loans stood at 0.2% in 2017 (2016: 0.3%). The nominal amount of NPLs is TL 49.5 million. Non-cash loan portfolio increased by 54% year-on-year and reached TL 2,574 million. (2016: TL 1,669 million).

The securities portfolio has the largest share in assets with 15.7%, only second to loans. The total size of securities rose by 3.4% year-on-year and reached TL 4,550 million. At year-end, 73% of the securities portfolio was comprised of TL securities. 66% of the securities portfolio was made up of securities available for sale and 34% was comprised of securities held to maturity. A comparison of year-beginning and year-end showed that the percentage of "Inflation-Indexed Securities" in the TL portfolio increased from 35% to 40%, while the weight of total "Floating Rate Securities" including CPI-linkers fell from 70% to 65%. The fixed-interest portion of the TL securities portfolio moved from 30% to 35% in 2017. In 2017, funding costs increased year-on-year, and the yield of the total TL portfolio stood at 12.5% excluding CPI-linkers. The duration of the portfolio, which is almost entirely funded by free equity, is 2.7 years.

Secured loans increased by 17.9% to TL 18,682 million. The said loans almost entirely consist of FX funds secured from international institutions. Medium and long-term loans constitute 87% of our funding structure. The long-term funds we secured from development finance institutions are used as funds in our loans portfolio on assets side and 83% of such funds are allocated under the guarantee of the Undersecretariat of Treasury of the Republic of Turkey. In 2017, our Bank successfully maintained relations with international financial institutions. As a result of talks during 2017, TSKB joined the MidSEFF (renewable energy and energy efficiency) program by the EBRD, and a loan agreement of USD 85 million was signed in December. Another loan agreement worth USD 75 million was signed with the IFC in December again. Our Bank reinforced its equity base through the "Subordinated Sustainable Bond" it issued for the first time in 2017. About four times oversubscribed, the bond issued was a USD 300 million bond on a 10-year maturity in accordance with Regulation S with an option for early redemption at year five. The Bank's syndicated loan agreement worth USD 300 million was signed on July 4, 2017 and was participated by 18 foreign banks. Participated by 3 new banks, the loan was extended on a renewal rate of 108%.

Our Bank is exposed to no imbalances regarding interests or liquidity as the interest rate structure for borrowing and lending vary in terms of the balance of assets and liabilities and as the maturity of funds is longer than that of lending. FX risk is almost zero since the loans extended and the funds have FX rates that match.

The Bank's equity grew by 20.7% year-on-year to reach TL 3,535 million, and its capital adequacy ratio (CAR) stood at 17.0% which is above the legally set level (2016 CAR: 14.3%). Having a free capital of TL 2.9 billion, our Bank has a free capital-to-total assets ratio of 10.1% (2016: 10.3%). The free capital entirely consists of liquid assets.

Profit before tax rose by 22.6% to TL 727.3 million while the net income for the period grew by 25% to stand at TL 595.7 million. In parallel with that, annual average return on equity and return on assets exceeded the goals and stood at 18.4% and 2.3% respectively.

In 2017, net interest income rose by 33.7% year-on-year to reach TL 1,039.3 million. Although the subordinated sustainable bond issuance in March had an impact to increase the average cost of funding slightly, the net profit margin stood at 3.9% thanks to the increase in loan pricing and the positive impact of CPI-linked securities (2016 net profit margin: 3.5%). For next year, the net profit margin is expected to decrease slightly.

Dividend income decreased by 40.2% year-on-year, while other operating incomes increased by an annual 131% under the impact of non-recurring income secured in 2017.

The item of other expenses which also includes the personnel and operating expenses of the Bank increased by 14.5% year-on-year. TSKB's expense-to-income ratio stood at 12.5% as of the end of 2017 (2016: 15%).

The Bank's donations and charity during the year amounted to TL 175,000 in total. The total expenses incurred for the social responsibility projects stood at TL 294,199.

At 2017 year-end, the ratio of interest-bearing assets to total assets was as high as 94%. Such a high ratio is a factor improving solvency. Furthermore, loans are entirely funded through long-term funds. The Bank has a long-term and sustainable funding structure as a result of its well-established and close relations with supranational financial institutions and it assumes an active role on international capital markets. The positive impact of these two facts on both profitability and solvency is expected to continue.

Having delivered a highly successful performance in 2017 in terms of both growth and profitability, the Bank expects to attain a currency-adjusted loan growth of 12% to 15% in 2018. The Bank is expected to offer loans in several sectors, particularly for renewable energy, resource efficiency, women's employment, occupational health and safety, R&D and technological transformation investments and increase its contribution to inclusive economic growth exponentially in 2018. TSKB aims to maintain its strong asset quality and attain a return on equity of about 18% and a net profit margin in the range of 3.6% to 3.8% by 2018 year-end. Furthermore, the Bank's capital adequacy ratio is expected to remain above 16%.



# **TÜRKİYE SİNAİ KALKINMA BANKASI ANONİM ŞİRKETİ**

## **INDEPENDENT AUDITOR'S AUDIT REPORT, UNCONSOLIDATED FINANCIAL STATEMENTS AND NOTES FOR THE YEAR ENDED DECEMBER 31, 2017**

(CONVENIENCE TRANSLATION OF UNCONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT  
AUDITOR'S AUDIT REPORT ORIGINALLY ISSUED IN TURKISH, SEE NOTE I. OF SECTION THREE)



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**Convenience Translation of the Independent Auditors' Report Originally Issued in Turkish (See Note I in Section Three)**

## **INDEPENDENT AUDITOR'S REPORT**

**To the Board of Directors of Türkiye Sınai Kalkınma Bankası A.Ş.:**

### **Audit of Unconsolidated Financial Statements**

#### **Qualified Opinion**

We have audited the accompanying unconsolidated financial statements of Türkiye Sınai Kalkınma Bankası A.Ş. (the Bank), which comprise the statement of financial position as at 31 December 2017 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter on the unconsolidated financial statements described in the Basis for Qualified Opinion paragraph, the accompanying unconsolidated financial statements present fairly, in all material respects, the unconsolidated financial position of Türkiye Sınai Kalkınma Bankası A.Ş. as at 31 December 2017 and unconsolidated financial performance and unconsolidated its cash flows for the year then ended in accordance with the Banking Regulation and Supervision Agency ("BRSA") Accounting and Financial Reporting Legislation which includes "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 Agency and circulars and interpretations published by BRSA and Turkish Accounting Standards ("TAS") for those matters not regulated by the aforementioned regulations.

#### **Basis for Qualified Opinion**

As explained in Note 7 in the Explanations and Disclosures related to the Liabilities, the accompanying unconsolidated financial statements as at 31 December 2017 include a free reserve for possible risks amounting to TL 190.000 thousand, which is provided by the Bank Management for possible results of the circumstances which may arise from possible changes in the economy and market conditions. In addition to that; a deferred tax asset is provided based on this reserve amounting to TL 41.800 thousand in the accompanying unconsolidated financial statements as at 31 December 2017. Due to this provision which does not meet the accounting principles of TAS 37, the net income as of 31 December 2017 is understated by TL 148.200 thousand, the other provisions and deferred tax assets are overstated by TL 190.000 thousand and TL 41.800 thousand, respectively.

Our audit was conducted in accordance with Independent Auditing Standards ("ISA") which are the part of Turkish Auditing Standards issued by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with of Code of Ethics for Independent Auditors (Code of Ethics) published by POA and have fulfilled our *other* responsibilities in accordance with the code of ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

#### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the unconsolidated financial statements of the current period. Key audit matters were addressed in the context of our audit of the unconsolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Basis for Qualified Opinion section we have determined the matters described below to be the key audit matters to be communicated in our report.





Key Audit Matter	How the Key Audit Matter is addressed in our audit
<b><i>Impairment of Loans and Receivables</i></b>	
<p>Impairment of loans and receivables to customer is a key area of judgement for the management. There is a potential risk of impairment losses/provisions provided/will be provided may not meet the requirements of BRSA Accounting and Financial Reporting Legislation. Failure in determining the loans and receivables which are impaired and not recording the adequate provision for these impaired loans is the aforementioned risk. Related Explanations relating to the impairment of loans and receivables have been disclosed in Note 5 in the Explanations and Disclosures related to the Assets.</p>	<p>Our audit procedures included among others, selecting samples of loans and advances based on our judgement and considering whether there is objective evidence that impairment exists on these loans and receivables and the assessment of impairment losses of loans and receivables were reasonably determined in accordance with the requirements of BRSA Accounting and Financial Reporting Legislation. In addition we considered, assessed and tested the relevant controls over granting, booking, monitoring and settlement, and those relating to the calculation of credit provisions, to confirm the operating effectiveness of the key controls in place, which identify the impaired loans and receivables and the required provisions against them.</p>
<b><i>Pension Fund Obligations</i></b>	
<p>Employees of the Bank are members of “TSKB A.Ş. Memur ve Müstahdemleri Yardım ve Emekli Vakfı”, (“the Fund”), which is established in accordance with the temporary Article 20 of the Social Security Act No. 506 and related regulations. The Fund is a separate legal entity and foundation recognized by an official decree, providing all qualified employees with pension and post-retirement benefits. As disclosed in the Explanations on Liabilities regarding employee benefits to the financial statements, Banks will transfer their pension fund to the Social Security Institution and the Council of Ministers has been authorized to determine the transfer date.</p> <p>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 2017 has been calculated by an independent actuary in accordance with the actuarial assumptions in the Law and as per actuarial report dated 16 January 2018, there is no need for technical or actual deficit to book provision as of 31 December 2017.</p> <p>The valuation of the Pension Fund liabilities requires judgment in determining appropriate assumptions such as defining the transferrable social benefits, discount rates, salary increases, demographic assumptions, inflation rate estimates and the impact of any changes in individual pension plans. The Bank Management uses Fund actuaries to assist in assessing these assumptions.</p>	<p>It has been addressed whether there have been any significant changes in regulations governing pension liabilities, employee benefits plans during the period, that could lead to adjust the valuation of employee benefits.</p> <p>Support from actuarial auditor who is in the same audit network within our firm, has been taken to assess the appropriateness of the actuarial assumptions and calculations performed by the external actuary. We further focused on the accuracy and adequacy of the deficit and also disclosures on key assumptions related to pension fund.</p>



Considering the subjectivity of key assumptions and estimate used in the calculations of transferrable liabilities and the effects of the potential changes in the estimates used together with the uncertainty around the transfer date and given the fact that technical interest rate is prescribed under the law, we considered this to be a key audit matter.

#### ***Derivative Financial Instruments***

Derivative financial instruments including foreign exchange contracts, currency and interest rate swaps, currency and interest rate options, futures and other derivative financial instruments which are held for trading are initially recognized on the statement of financial position at fair value and subsequently are re-measured at their fair value. Details of related amounts are explained in differences related to derivative financial assets/liabilities held-for-trading disclosures.

Fair value of the derivative financial instruments is determined by selecting most convenient market data and applying valuation techniques to those particular derivative products. Derivative Financial Instruments are considered by us as a key audit matter because of the subjectivity in the estimates, assumptions and judgements used.

Our audit procedures involve obtaining written confirmations from the third parties and comparing the details of the related derivative transactions. Our audit procedures included among others involve reviewing policies regarding fair value measurement accepted by the bank management fair value calculations of the selected derivative financial instruments which is carried out by valuation experts in our audit team and the assessment of used estimations and the judgements and testing operating effectiveness of the key controls in the process of fair value determination.

Our procedures included, amongst others, recalculating fair value calculation and disclosures relating to derivative financial instruments considering the requirements of Turkey Accounting Standards ("TAS") and Turkey Financial Reporting Standards ("TFRS").

#### **Other Matter**

The unconsolidated financial statements of the Bank as of December 31, 2016 were audited by another independent audit firm, who expressed an unqualified opinion in their audit reports dated February 1, 2017.

#### **Responsibilities of Management and Directors for the Unconsolidated Financial Statements**

Bank management is responsible for the preparation and fair presentation of the unconsolidated financial statements in accordance with the BRSA Accounting and Reporting Legislation and for such internal control as management determines is necessary to enable the preparation of the financial statement that is free from material misstatement, whether due to fraud or error.

In preparing the unconsolidated financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.



## Auditor's Responsibilities for the Audit of the Unconsolidated Financial Statements

In an independent audit, the responsibilities of us as independent auditors are:

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the unconsolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. (The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.)
- Obtain an understanding of internal control relevant to the audit 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 Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the unconsolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the unconsolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with government with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the unconsolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

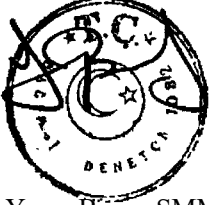


### Report on Other Legal and Regulatory Requirements

- 1) In accordance with Article 402 paragraph 4 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 and financial statements for the period 1 January – 31 December 2017 are not in compliance with the TCC and provisions of the Bank’s articles of association in relation to financial reporting.
- 2) In accordance with Article 402 paragraph 4 of the TCC; the Board of Directors submitted to us the necessary explanations and provided required documents within the context of audit.

The engagement partner who supervised and concluded this independent auditor’s report is Yaşar Bivas.

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi  
A member firm of Ernst & Young Global Limited



Yaşar Bivas, SMMM  
Partner

30 January 2018  
İstanbul, Türkiye

**THE UNCONSOLIDATED FINANCIAL REPORT OF  
TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.  
FOR THE YEAR ENDED 31 DECEMBER 2017**

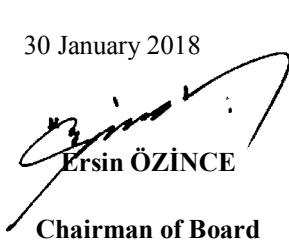
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The unconsolidated financial report for the year includes the following sections in accordance with “Communiqué on the Financial Statements and Related Explanations and Notes that will be made Publicly Announced” as sanctioned by the Banking Regulation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

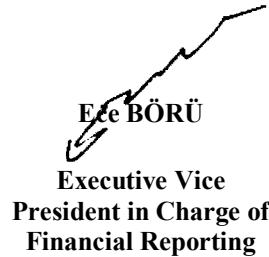
30 January 2018

  
**Ersin ÖZİNCE**

**Chairman of Board  
of Directors**

  
**Süre ÖZİNCE**

**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**

  
**Mehmet ŞENCAN**

**Member of Audit Committee**

  
**Ebru ÖZŞUCA**

**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 UNCONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

(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:

<b>Current Period</b>				
<b>Name Surname/Commercial Title</b>	<b>Share Capital</b>	<b>Shareholding Rate (%)</b>	<b>Paid in Capital</b>	<b>Unpaid Capital</b>
T. İş Bankası A.Ş. Group	1.217.027	50,71	1.217.027	-
T. Vakıflar Bankası T.A.O.	201.060	8,38	201.060	-
Under Custody at Merkezi Kayıt Kuruluşu (Other Institutions and Individuals)	981.913	40,91	981.913	-
<b>Total</b>	<b>2.400.000</b>	<b>100,00</b>	<b>2.400.000</b>	<b>-</b>

<b>Prior Period</b>				
<b>Name Surname/Commercial Title</b>	<b>Share Capital</b>	<b>Shareholding Rate (%)</b>	<b>Paid in Capital</b>	<b>Unpaid Capital</b>
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>

The Bank shares are traded in Istanbul Stock Exchange ("BIST") since 26 December 1986. The Bank's 50,71% of the shares belongs to İş Bank Group and 38,97% 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 UNCONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

(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 (1)
H. Ersin Özince (2)	Chairman of the Board of Directors
Mehmet Şencan (5)	Vice Chairman of the Board of Directors and Audit Committee
Yavuz Canevi	Member of the Board of Directors
Suat İnce	Member of the Board of Directors and General Manager
Mehmet Emin Özcan (6)	Member of the Board of Directors
Ebru Özşuca (4)	Member of the Board of Directors and Audit Committee
Mithat Rende (3)	Member of the Board of Directors
Zeynep Hansu Uçar	Member of the Board of Directors
Kamil Yılmaz	Member of the Board of Directors
Can Yücel	Member of the Board of Directors

**General Manager and Vice Presidents**

Name Surname	Title / Area of Responsibility
Suat İnce	General Manager
Çiğdem İçel	Vice President – Economic Research, Financial Institutions, Development Finance Institutions and Engineering and Technical Consultancy
Ufuk Bala Yücel	Vice President – Loans, Loan Monitoring and Loan Operations
B. Gökhan Çanakpınar	Vice President – Support Services, System And Network Support and Application Development
Ece Börü	Vice President – Budget Planning and Investor Relations, Financial Analysis and Valuation and Financial Control
Hakan Aygen	Vice President – Corporate Finance, Corporate Banking and Project Finance
A. Ferit Eraslan	Vice President – Board of Internal Auditors, Internal Control and Risk Management
Aslı Zerrin Hancı	Vice President – Treasury, Treasury and Capital Markets Operations
H. Yetkin Kesler	Vice President – Pension and Assistance Funds, Human Resources and Corporate Communication, Enterprise Architecture and Process Management and Corporate Compliance

(1) The shares of above directors in the Bank are symbolic.

(2) In the Board of Directors meeting held on 07 April 2017, Mr. H. Ersin Özince was appointed as Chairman of the Board of Directors due to Mr. Adnan Bali's resignation from his duty in accordance with the 363<sup>rd</sup> article of the Turkish Commercial Code and the 16<sup>th</sup> article of The Bank's core contract.

(3) In the Board of Directors meeting held on 22 March 2017, Mr. Mithat Rende was appointed as member of the Board of Directors due to Mr. Kemal Saç's resignation from his duty. Mr. Rende has started his duty on 4 April 2017 by taking his oath.

(4) In the Board of Directors meeting held on 3 April 2017, Mrs. Ebru Özşuca was appointed to Audit Committee due to changing in members.

(5) In the Board of Directors meeting held on 7 June 2017, Mr. Mehmet Şencan was appointed as member of Audit Committee and the Vice Chairman of Board of Directors due to Mr. Fikret Utku Özdemir's resignation from his duty.

(6) In the Board of Directors meeting held on 14 June 2017, Mr. Mehmet Emin Özcan was appointed as member of the Board of Directors due to Mr. Halil Aydoğan's resignation from his duty.

According to the regulations on auditing in Articles 397-406 of the Turkish Commercial Code numbered 6102, Güney Bağımsız Denetim ve Serbest Muhasebeci ve Mali Müşavirlik A.Ş. has been elected as the independent auditor for the year 2017 in the General Assembly Meeting held on 23 March 2017.

**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**  
**NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**  
 (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 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. 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 executed marketing and valuation operations efficiently with two branches opened in Izmir and Ankara on April 2006.

**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 UNCONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

(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 16,67% in which the share of İş Yatırım Menkul Değerler A.Ş. is 29,16% and the share of İş Faktoring A.Ş. is 0,89%. 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)**  
**AS OF 31 DECEMBER 2017**

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

ASSETS	Note Ref.	Audited Current Period 31 December 2017			Audited Prior Period 31 December 2016		
		TL	FC	Total	TL	FC	Total
<b>I. CASH AND BALANCES WITH THE CENTRAL BANK</b>	(1)	10.591	836.540	847.131	161.303	616.771	778.074
<b>II. FINANCIAL ASSETS AT F.V. THROUGH PROFIT AND LOSS (Net)</b>	(2)	194.100	132.688	326.788	130.477	249.626	380.103
2.1 Trading financial assets		194.100	132.688	326.788	130.477	249.626	380.103
2.1.1 Government debt securities		-	-	-	4.658	-	4.658
2.1.2 Share certificates		-	-	-	-	-	-
2.1.3 Derivative financial assets held for trading		194.100	132.688	326.788	125.819	249.626	375.445
2.1.4 Other marketable securities		-	-	-	-	-	-
2.2 Financial assets at fair value through profit and loss		-	-	-	-	-	-
2.2.1 Government debt securities		-	-	-	-	-	-
2.2.2 Share certificates		-	-	-	-	-	-
2.2.3 Other marketable securities		-	-	-	-	-	-
2.2.4 Loans		-	-	-	-	-	-
<b>III. BANKS</b>	(3)	419	6.033	6.452	15.360	48.093	63.453
<b>IV. MONEY MARKET PLACEMENTS</b>		-	-	-	62.895	191.138	254.033
4.1 Interbank money market placements		-	-	-	-	191.138	191.138
4.2 Istanbul Stock Exchange money market placements		-	-	-	62.895	-	62.895
4.3 Receivables from reverse repurchase agreements		-	-	-	-	-	-
<b>V. FINANCIAL ASSETS AVAILABLE FOR SALE (Net)</b>	(4)	2.048.302	1.038.542	3.086.844	2.050.318	1.020.104	3.070.422
5.1 Share certificates		40.731	27.821	68.552	30.091	18.582	48.673
5.2 Government debt securities		1.821.667	1.009.955	2.831.622	1.823.078	967.854	2.790.932
5.3 Other marketable securities		185.904	766	186.670	197.149	33.668	230.817
<b>VI. LOANS AND RECEIVABLES</b>	(5)	3.889.490	18.341.523	22.231.013	2.595.797	14.722.796	17.318.593
6.1 Loans and receivables		3.889.490	18.341.523	22.231.013	2.595.797	14.722.796	17.318.593
6.1.1 Loans to the risk group of the Bank		104.450	229.951	334.401	245.062	212.410	457.472
6.1.2 Government debt securities		-	-	-	-	-	-
6.1.3 Other		3.785.040	18.111.572	21.896.612	2.350.735	14.510.386	16.861.121
6.2 Non-performing loans		48.540	982	49.522	47.077	1.362	48.439
6.3 Specific provisions (-)		(48.540)	(982)	(49.522)	(47.077)	(1.362)	(48.439)
<b>VII. FACTORING RECEIVABLES</b>		-	-	-	-	-	-
<b>VIII. HELD TO MATURITY INVESTMENTS (Net)</b>	(6)	1.334.721	197.326	1.532.047	1.188.990	186.739	1.375.729
8.1 Government debt securities		1.334.721	197.326	1.532.047	1.188.990	186.739	1.375.729
8.2 Other marketable securities		-	-	-	-	-	-
<b>IX. INVESTMENTS IN ASSOCIATES (Net)</b>	(7)	308.497	-	308.497	222.908	-	222.908
9.1 Accounted for under equity method		-	-	-	-	-	-
9.2 Unconsolidated associates		308.497	-	308.497	222.908	-	222.908
9.2.1 Financial investments		307.441	-	307.441	221.353	-	221.353
9.2.2 Non-financial investments		1.056	-	1.056	1.555	-	1.555
<b>X. INVESTMENTS IN SUBSIDIARIES (Net)</b>	(8)	136.355	-	136.355	129.363	-	129.363
10.1 Unconsolidated financial subsidiaries		134.976	-	134.976	127.984	-	127.984
10.2 Unconsolidated non-financial subsidiaries		1.379	-	1.379	1.379	-	1.379
<b>XI. ENTITIES UNDER COMMON CONTROL (JOINT VENT.) (Net)</b>	(9)	-	-	-	-	-	-
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>	(10)	-	63.410	63.410	-	3.792	3.792
12.1 Finance lease receivables		-	73.957	73.957	-	4.393	4.393
12.2 Operating lease receivables		-	-	-	-	-	-
12.3 Other		-	-	-	-	-	-
12.4 Unearned income (-)		-	(10.547)	(10.547)	-	(601)	(601)
<b>XIII. DERIVATIVE FINANCIAL ASSETS FOR HEDGING PURPOSES</b>	(11)	-	-	-	-	272	272
13.1 Fair value hedge		-	-	-	-	272	272
13.2 Cash flow hedge		-	-	-	-	-	-
13.3 Hedge of net investment in foreign operations		-	-	-	-	-	-
<b>XIV. TANGIBLE ASSETS (Net)</b>	(12)	50.853	-	50.853	51.112	-	51.112
<b>XV. INTANGIBLE ASSETS (Net)</b>	(13)	1.640	-	1.640	949	-	949
15.1 Goodwill		-	-	-	-	-	-
15.2 Other		1.640	-	1.640	949	-	949
<b>XVI. INVESTMENT PROPERTY (Net)</b>	(14)	-	-	-	-	-	-
<b>XVII. TAX ASSET</b>	(15)	39.366	-	39.366	14.195	-	14.195
17.1 Current tax asset		-	-	-	-	-	-
17.2 Deferred tax asset		39.366	-	39.366	14.195	-	14.195
<b>XVIII. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (Net)</b>	(16)	-	-	-	-	-	-
18.1 Assets held for sale		-	-	-	-	-	-
18.2 Assets of discontinued operations		-	-	-	-	-	-
<b>XIX. OTHER ASSETS</b>	(17)	69.206	210.650	279.856	61.734	276.841	338.575
<b>TOTAL ASSETS</b>		<b>8.083.540</b>	<b>20.826.712</b>	<b>28.910.252</b>	<b>6.685.401</b>	<b>17.316.172</b>	<b>24.001.573</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)**  
**AS OF 31 DECEMBER 2017**

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

		Audited Current Period 31 December 2017			Audited Prior Period 31 December 2016		
LIABILITIES	Note Ref.	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)	123.710	108.693	232.403	110.645	210.003	320.648
<b>III. FUNDS BORROWED</b>	(3)	190.972	18.490.756	18.681.728	100.083	15.740.884	15.840.967
<b>IV. MONEY MARKET BALANCES</b>		652.183	161.138	813.321	844.500	60.998	905.498
4.1 Interbank money market takings		202.143	-	202.143	610.144	-	610.144
4.2 Istanbul Stock Exchange money market takings		-	-	-	-	-	-
4.3 Funds provided under repurchase agreements		450.040	161.138	611.178	234.356	60.998	295.354
<b>V. MARKETABLE SECURITIES ISSUED (Net)</b>	(3)	-	3.746.229	3.746.229	-	3.486.732	3.486.732
5.1 Bills		-	-	-	-	-	-
5.2 Asset backed securities		-	-	-	-	-	-
5.3 Bonds		-	3.746.229	3.746.229	-	3.486.732	3.486.732
<b>VI. BORROWER FUNDS</b>		1.178	11.723	12.901	1.511	3.806	5.317
6.1 Borrower funds		1.178	11.723	12.901	1.511	3.806	5.317
6.2 Others		-	-	-	-	-	-
<b>VII. SUNDRY CREDITORS</b>		5.985	48.959	54.944	3.868	73.329	77.197
<b>VIII. OTHER LIABILITIES</b>	(4)	113.609	2.318	115.927	96.608	133	96.741
<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>DERIVATIVE FINANCIAL LIABILITIES FOR HEDGING PURPOSES</b>	(6)	-	78.682	78.682	-	51.433	51.433
11.1 Fair value hedge		-	78.682	78.682	-	51.433	51.433
11.2 Cash flow hedge		-	-	-	-	-	-
11.3 Hedge of net investment in foreign operations		-	-	-	-	-	-
<b>XII. PROVISIONS</b>	(7)	441.174	-	441.174	278.392	-	278.392
12.1 General loan loss provisions		150.275	-	150.275	178.463	-	178.463
12.2 Restructuring provisions		-	-	-	-	-	-
12.3 Reserve for employee benefits		10.316	-	10.316	9.346	-	9.346
12.4 Insurance technical reserves (Net)		-	-	-	-	-	-
12.5 Other provisions		280.583	-	280.583	90.583	-	90.583
<b>XIII. TAX LIABILITY</b>	(8)	51.990	-	51.990	10.309	-	10.309
13.1 Current tax liability		51.990	-	51.990	10.309	-	10.309
13.2 Deferred tax liability		-	-	-	-	-	-
<b>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)	-	1.146.236	1.146.236	-	-	-
<b>XVI. SHAREHOLDERS' EQUITY</b>		3.522.277	12.440	3.534.717	2.955.113	(26.774)	2.928.339
16.1 Paid-in capital	(11)	2.400.000	-	2.400.000	2.050.000	-	2.050.000
16.2 Capital reserves		94.081	12.440	106.521	29.784	(26.774)	3.010
16.2.1 Share premium		-	-	-	-	-	-
16.2.2 Share cancellation profits		-	-	-	-	-	-
16.2.3 Marketable securities value increase fund	(11)	60.963	12.440	73.403	(5.695)	(26.774)	(32.469)
16.2.4 Tangible assets revaluation differences	(11)	32.571	-	32.571	34.702	-	34.702
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		547	-	547	777	-	777
16.3 Profit reserves		432.528	-	432.528	398.884	-	398.884
16.3.1 Legal reserves	(11)	238.854	-	238.854	213.923	-	213.923
16.3.2 Statutory reserves		75.641	-	75.641	75.641	-	75.641
16.3.3 Extraordinary reserves	(11)	115.113	-	115.113	106.400	-	106.400
16.3.4 Other profit reserves		2.920	-	2.920	2.920	-	2.920
16.4 Profit or loss		595.668	-	595.668	476.445	-	476.445
16.4.1 Prior years' income/losses		-	-	-	-	-	-
16.4.2 Current year income/loss		595.668	-	595.668	476.445	-	476.445
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>5.103.078</b>	<b>23.807.174</b>	<b>28.910.252</b>	<b>4.401.029</b>	<b>19.600.544</b>	<b>24.001.573</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**  
**AS OF 31 DECEMBER 2017**

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

	Note Ref.	Audited Current Period 31 December 2017			Audited Prior Period 31 December 2016		
		TL	FC	Total	TL	FC	Total
<b>A. OFF BALANCE SHEET COMMITMENTS AND CONTINGENCIES (I+II+III)</b>		<b>7.082.272</b>	<b>40.593.244</b>	<b>47.675.516</b>	<b>7.170.085</b>	<b>32.061.570</b>	<b>39.231.655</b>
<b>I. GUARANTEES AND COLLATERALS</b>	(1)	<b>563.000</b>	<b>2.010.713</b>	<b>2.573.713</b>	<b>210.450</b>	<b>1.458.760</b>	<b>1.669.210</b>
1.1 Letters of guarantee		563.000	912.647	1.475.647	210.450	764.943	975.393
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		563.000	912.647	1.475.647	210.450	764.943	975.393
1.2 Bank acceptances		-	18.763	18.763	-	17.450	17.450
1.2.1 Import letters of acceptance		-	18.763	18.763	-	17.450	17.450
1.2.2 Other bank acceptances		-	-	-	-	-	-
1.3 Letters of credit		-	1.079.303	1.079.303	-	676.367	676.367
1.3.1 Documentary letters of credit		-	1.079.303	1.079.303	-	676.367	676.367
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>	(1)	<b>840.009</b>	<b>3.907.115</b>	<b>4.747.124</b>	<b>579.263</b>	<b>2.664.964</b>	<b>3.244.227</b>
2.1 Irrevocable commitments		434.140	325.439	759.579	239.369	298.218	537.587
2.1.1 Forward asset purchase and sales commitments		40.933	58.218	99.151	23.159	55.320	78.479
2.1.2 Forward deposit purchase and sales commitments		-	-	-	-	-	-
2.1.3 Share capital commitment to associates and subsidiaries		-	78.890	78.890	-	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		393.207	188.331	581.538	216.210	174.531	390.741
2.2 Revocable commitments		405.869	3.581.676	3.987.545	339.894	2.366.746	2.706.640
2.2.1 Revocable loan granting commitments		405.869	3.581.676	3.987.545	339.894	2.366.746	2.706.640
2.2.2 Other revocable commitments		-	-	-	-	-	-
<b>III. DERIVATIVE FINANCIAL INSTRUMENTS</b>	(2)	<b>5.679.263</b>	<b>34.675.416</b>	<b>40.354.679</b>	<b>6.380.372</b>	<b>27.937.846</b>	<b>34.318.218</b>
3.1 Derivative financial instruments for hedging purposes		-	10.582.050	10.582.050	-	7.747.800	7.747.800
3.1.1 Fair value hedge		-	10.582.050	10.582.050	-	7.747.800	7.747.800
3.1.2 Cash flow hedge		-	-	-	-	-	-
3.1.3 Hedge of net investment in foreign operations		-	-	-	-	-	-
3.2 Held for trading transactions		5.679.263	24.093.366	29.772.629	6.380.372	20.190.046	26.570.418
3.2.1 Forward foreign currency buy/sell transactions		981.505	3.844.600	4.826.105	249.785	881.330	1.131.115
3.2.1.1 Forward foreign currency transactions-buy		485.006	1.928.162	2.413.168	126.329	441.469	567.798
3.2.1.2 Forward foreign currency transactions-sell		496.499	1.916.438	2.412.937	123.456	439.861	563.317
3.2.2 Swap transactions related to f.c. and interest rates		2.378.082	17.843.640	20.221.722	2.891.385	15.498.438	18.389.823
3.2.2.1 Foreign currency swaps-buy		576.866	2.996.840	3.573.706	954.500	2.939.433	3.893.933
3.2.2.2 Foreign currency swaps-sell		1.766.440	1.667.336	3.433.776	1.896.061	1.826.119	3.722.180
3.2.2.3 Interest rate swaps-buy		17.388	6.589.732	6.607.120	20.412	5.366.443	5.386.855
3.2.2.4 Interest rate swaps-sell		17.388	6.589.732	6.607.120	20.412	5.366.443	5.386.855
3.2.3 Foreign currency, interest rate and securities options		2.319.676	2.332.296	4.651.972	3.239.202	3.692.734	6.931.936
3.2.3.1 Foreign currency options-buy		1.159.838	1.166.148	2.325.986	1.619.601	1.846.367	3.465.968
3.2.3.2 Foreign currency options-sell		1.159.838	1.166.148	2.325.986	1.619.601	1.846.367	3.465.968
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		-	72.830	72.830	-	117.544	117.544
<b>B. CUSTODY AND PLEDGED SECURITIES (IV+V+VI)</b>		<b>58.811.358</b>	<b>240.601.901</b>	<b>299.413.259</b>	<b>42.733.558</b>	<b>190.380.447</b>	<b>233.114.005</b>
<b>IV. ITEMS HELD IN CUSTODY</b>		<b>345.091</b>	<b>243.801</b>	<b>588.892</b>	<b>239.987</b>	<b>130.993</b>	<b>370.980</b>
4.1 Customers' securities held		-	-	-	-	-	-
4.2 Investment securities held in custody		40.935	243.801	284.736	34.244	130.993	165.237
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		304.156	-	304.156	205.743	-	205.743
<b>V. PLEDGED ITEMS</b>		<b>44.620.472</b>	<b>137.020.472</b>	<b>181.640.944</b>	<b>31.660.545</b>	<b>112.960.070</b>	<b>144.620.615</b>
5.1 Marketable securities		448.045	8.985.543	9.433.588	450.941	7.564.328	8.015.269
5.2 Guarantee notes		108.232	2.361.726	2.469.958	96.871	2.041.938	2.138.809
5.3 Commodity		-	-	-	-	-	-
5.4 Warranty		-	-	-	-	-	-
5.5 Real estates		1.662.623	36.518.097	38.180.720	428.385	29.854.058	30.282.443
5.6 Other pledged items		42.401.572	89.155.106	131.556.678	30.684.348	73.499.746	104.184.094
5.7 Pledged items-depositary		-	-	-	-	-	-
<b>VI. ACCEPTED BILLS OF EXCHANGE AND COLLATERALS</b>		<b>13.845.795</b>	<b>103.337.628</b>	<b>117.183.423</b>	<b>10.833.026</b>	<b>77.289.384</b>	<b>88.122.410</b>
<b>TOTAL OFF BALANCE SHEET ITEMS (A+B)</b>		<b>65.893.630</b>	<b>281.195.145</b>	<b>347.088.775</b>	<b>49.903.643</b>	<b>222.442.017</b>	<b>272.345.660</b>

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

**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**  
**UNCONSOLIDATED STATEMENT OF INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

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

	Note Ref.	Audited Current Period 1 January 2017 – 31 December 2017	Audited Prior Period 1 January 2016 – 31 December 2016
<b>I. INTEREST INCOME</b>	(1)	<b>1.826.236</b>	<b>1.376.480</b>
1.1 Interest on loans		1.298.914	845.107
1.2 Interest received from reserve deposits		5.617	3.371
1.3 Interest received from banks		35.019	12.021
1.4 Interest received from money market placements		51.422	162.956
1.5 Interest received from marketable securities portfolio		431.900	352.241
1.5.1 Financial assets held for trading		1.032	1.391
1.5.2 Financial assets at fair value through profit and loss		-	-
1.5.3 Available-for-sale financial assets		240.899	263.787
1.5.4 Investments held-to-maturity		189.969	87.063
1.6 Finance lease income		1.659	27
1.7 Other interest income		1.705	757
<b>II. INTEREST EXPENSES</b>	(2)	<b>(786.945)</b>	<b>(599.292)</b>
2.1 Interest on deposits		-	-
2.2 Interest on funds borrowed		(322.678)	(242.405)
2.3 Interest on money market borrowings		(200.412)	(206.844)
2.4 Interest on securities issued		(262.943)	(149.831)
2.5 Other interest expense		(912)	(212)
<b>III. NET INTEREST INCOME (I - II)</b>		<b>1.039.291</b>	<b>777.188</b>
<b>IV. NET FEES AND COMMISSIONS INCOME</b>		<b>14.435</b>	<b>4.935</b>
4.1 Fees and commissions received		20.992	11.968
4.1.1 Non-cash loans		16.335	10.876
4.1.2 Other		4.657	1.092
4.2 Fees and commissions paid		(6.557)	(7.033)
4.2.1 Non-cash loans		(796)	(303)
4.2.2 Other		(5.761)	(6.730)
<b>V. DIVIDEND INCOME</b>	(3)	<b>18.001</b>	<b>30.102</b>
<b>VI. NET TRADING INCOME</b>	(4)	<b>(45.515)</b>	<b>(54.782)</b>
6.1 Securities trading gains/ (losses)		5.863	5.917
6.2 Derivative financial instruments gains/losses		(219.765)	174
6.3 Foreign exchange gains/losses (net)		168.387	(60.873)
<b>VII. OTHER OPERATING INCOME</b>	(5)	<b>34.834</b>	<b>15.078</b>
<b>VIII. TOTAL OPERATING INCOME (III+IV+V+VI+VII)</b>		<b>1.061.046</b>	<b>772.521</b>
<b>IX. PROVISION FOR LOAN LOSSES AND OTHER RECEIVABLES (-)</b>	(6)	<b>(201.300)</b>	<b>(63.635)</b>
<b>X. OTHER OPERATING EXPENSES (-)</b>	(7)	<b>(132.443)</b>	<b>(115.634)</b>
<b>XI. NET OPERATING INCOME/(LOSS) (VIII-IX-X)</b>		<b>727.303</b>	<b>593.252</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>	(8)	<b>727.303</b>	<b>593.252</b>
<b>XVI. TAX PROVISION FOR CONTINUED OPERATIONS (±)</b>	(9)	<b>(131.635)</b>	<b>(116.807)</b>
16.1 Provision for current income taxes		(161.659)	(98.641)
16.2 Provision for deferred taxes		30.024	(18.166)
<b>XVII. NET PROFIT/(LOSS) FROM CONTINUED OPERATIONS (XV±XVI)</b>	(10)	<b>595.668</b>	<b>476.445</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>	(11)	<b>595.668</b>	<b>476.445</b>
Earnings / (losses) per share (Full Kuruş)		0,248	0,232

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

**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**  
**UNCONSOLIDATED STATEMENT OF INCOME AND EXPENSE ITEMS UNDER**  
**SHAREHOLDERS' EQUITY**  
**AS OF 31 DECEMBER 2017**

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

	Audited Current Period 1 January 2017– 31 December 2017	Audited Prior Period 1 January 2016– 31 December 2016
<b>PROFIT AND LOSS ITEMS ACCOUNTED FOR UNDER SHAREHOLDER'S EQUITY</b>		
<b>ADDITIONS TO MARKETABLE SECURITIES REVALUATION DIFFERENCES FOR</b>		
I. AVAILABLE FOR SALE FINANCIAL ASSETS	26.270	(43.241)
II. TANGIBLE ASSETS REVALUATION DIFFERENCES	-	3.530
III. INTANGIBLE ASSETS REVALUATION DIFFERENCES	-	-
IV. TRANSLATION DIFFERENCES FOR TRANSACTIONS IN FOREIGN CURRENCIES	3.604	1.816
<b>GAIN/LOSS ON DERIVATIVE FINANCIAL ASSETS HELD FOR CASH FLOW</b>		
V. HEDGES (Effective Portion of Fair Value Differences)	-	-
<b>GAIN/LOSS ON DERIVATIVE FINANCIAL ASSETS HELD FOR HEDGES OF NET</b>		
VI. INVESTMENT IN FOREIGN OPERATIONS (effective portion)	-	-
<b>EFFECTS OF CHANGES IN ACCOUNTING POLICIES AND CORRECTIONS OF</b>		
VII. ERRORS	-	-
<b>OTHER PROFIT/LOSS ITEMS ACCOUNTED FOR UNDER SHAREHOLDERS'</b>		
VIII. EQUITY AS PER TAS	78.490	53.471
IX. DEFERRED TAX OF VALUATION DIFFERENCES	(4.853)	9.450
<b>NET PROFIT/LOSS ACCOUNTED FOR DIRECTLY UNDER SHAREHOLDERS'</b>		
X. EQUITY (I+II+...+IX)	103.511	25.026
<b>XI. CURRENT YEAR PROFIT/LOSS</b>		
11.1 Net changes in fair value of securities (Recycled to Profit/Loss)	(305)	3.402
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	595.973	473.043
<b>XII. TOTAL PROFIT/LOSS ACCOUNTED FOR THE CURRENT PERIOD (X±XI)</b>	<b>699.179</b>	<b>501.471</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 2017**  
 (Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

	Note Ref.	Audited Current Period 31 December 2017	Audited Prior Period 31 December 2016
<b>A. CASH FLOWS FROM BANKING OPERATIONS</b>			
<b>1.1 Operating profit before changes in operating assets and liabilities</b>		<b>865.402</b>	<b>987.789</b>
1.1.1 Interest received		1.529.787	1.039.218
1.1.2 Interest paid		(780.028)	(514.523)
1.1.3 Dividends received		3.270	9.478
1.1.4 Fees and commissions received		20.992	11.968
1.1.5 Other income	(1)	41.077	21.286
1.1.6 Collections from previously written off loans		3.827	12.658
1.1.7 Payments to personnel and service suppliers		(84.635)	(74.135)
1.1.8 Taxes paid		(122.638)	(135.445)
1.1.9 Others	(1)	253.750	617.284
<b>1.2 Changes in operating assets and liabilities</b>		<b>(2.403.690)</b>	<b>(2.661.477)</b>
1.2.1 Net (increase) decrease in financial assets		4.658	23.487
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		(2.801.974)	(1.385.915)
1.2.5 Net (increase) decrease in other assets	(1)	(154.905)	71.697
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		661.810	(118.993)
1.2.9 Net increase (decrease) in matured payables		-	-
1.2.10 Net increase (decrease) in other liabilities	(1)	(113.279)	(1.251.753)
<b>I. Net cash provided by/(used in) banking operations</b>		<b>(1.538.288)</b>	<b>(1.673.688)</b>
<b>B. CASH FLOWS FROM INVESTING ACTIVITIES</b>			
<b>II. Net cash provided by/(used in) investing activities</b>		<b>91.693</b>	<b>(353.216)</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)	(3.580)	(2.234)
2.4 Fixed asset sales	(3)	300	203
2.5 Cash paid for purchase of financial assets available for sale		(781.787)	(1.002.141)
2.6 Cash obtained from sale of financial assets available for sale		878.041	652.646
2.7 Cash paid for purchase of investment securities		-	-
2.8 Cash obtained from sale of investment securities		-	-
2.9 Others	(2)	(1.281)	(690)
<b>C. CASH FLOWS FROM FINANCING ACTIVITIES</b>			
<b>III. Net cash provided by/(used in) financing activities</b>		<b>984.199</b>	<b>816.470</b>
3.1 Cash obtained from funds borrowed and securities issued		1.077.000	878.309
3.2 Cash used for repayment of funds borrowed and securities issued		-	-
3.3 Capital increase		-	-
3.4 Dividends paid		(92.801)	(61.839)
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>659</b>	<b>40.069</b>
<b>V. Net increase / (decrease) in cash and cash equivalents</b>		<b>(461.737)</b>	<b>(1.170.365)</b>
<b>VI. Cash and cash equivalents at beginning of the period</b>	(4)	<b>481.913</b>	<b>1.652.278</b>
<b>VII. Cash and cash equivalents at end of the period</b>	(4)	<b>20.176</b>	<b>481.913</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 2017**

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

	Audited Current Period 31 December 2017 (*)	Audited Prior Period 31 December 2016
<b>I. DISTRIBUTION OF CURRENT YEAR INCOME</b>		
1.1 CURRENT YEAR INCOME	727.303	593.252
1.2 TAXES AND DUTIES PAYABLE	(131.635)	(116.807)
1.2.1 Corporate Tax (Income tax)	(161.659)	(98.641)
1.2.2 Income withholding tax	-	-
1.2.3 Other taxes and duties	30.024	(18.166)
<b>A. NET INCOME FOR THE YEAR (1.1-1.2)</b>	<b>595.668</b>	<b>476.445</b>
1.3 PRIOR YEARS LOSSES (-)	-	-
1.4 FIRST LEGAL RESERVES (-)	-	23.822
1.5 OTHER STATUTORY RESERVES (-)	-	-
<b>B. NET PROFIT AVAILABLE FOR DISTRIBUTION [(A-(1.3+1.4+1.5)]</b>	<b>595.668</b>	<b>452.623</b>
1.6 FIRST DIVIDEND TO SHAREHOLDERS (-)	-	135.841
1.6.1 To owners of ordinary shares	-	135.841
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 (-)	-	9.503
1.8 DIVIDENDS TO BOARD OF DIRECTORS (-)	-	1.585
1.9 SECOND DIVIDEND TO SHAREHOLDERS (-)	-	296.159
1.9.1 To owners of ordinary shares	-	296.159
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 (-)	-	1.109
1.11 STATUTORY RESERVES (-)	-	-
1.12 GENERAL RESERVES	-	8.426
1.13 OTHER RESERVES	-	-
1.14 SPECIAL FUNDS	-	-
<b>II. DISTRIBUTION OF RESERVES</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 (**)</b>		
3.1 TO OWNERS OF ORDINARY SHARES	0,25	0,23
3.2 TO OWNERS OF ORDINARY SHARES (%)	24,82	23,24
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	-	0,21
4.2 TO OWNERS OF ORDINARY SHARES (%)	-	21,07
4.3 TO OWNERS OF PRIVILEGED SHARES	-	-
4.4 TO OWNERS OF PRIVILEGED SHARES (%)	-	-

(\*) Since the Board of Directors has not prepared any proposal for profit distribution relating to the year 2017 yet, only profit available for distribution for the year 2017 is presented.

(\*\*) 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.



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**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 unconsolidated financial statements have been prepared in TL, under the historical cost convention except for the financial asset, liabilities and buildings revaluation model which are carried at fair value.

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.”

The amendments of TAS and TFRS, effectiveness date is 1 January 2017, have no material impact on the Bank’s accounting policies, financial position and performance. The amendments of TAS and TFRS, except TFRS 9 Financial Instruments will have no impact on the accounting policies, financial condition and performance of the Bank. In accordance with TFRS 9 Financial Instruments Standard, the Bank calculates the general loan loss provision to be approximately at an amount of TL 120 – 150 Million in the opening balance of 1 January 2018.

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 effects of differences between accounting principles and standards set out by regulations in conformity with BRSA Accounting and Financial Reporting Legislation, accounting principles generally accepted in countries in which the accompanying unconsolidated financial statements are to be distributed and International Financial Reporting Standards (“IFRS”) have not been quantified in the accompanying unconsolidated financial statements. Accordingly, the accompanying unconsolidated financial statements are not intended to present the financial position, results of operations and changes in financial position and cash flows 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.

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**SECTION THREE (Continued)**

**ACCOUNTING POLICIES (Continued)**

**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 Subordinated bond, 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.

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:

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**SECTION THREE (Continued)**

**ACCOUNTING POLICIES (Continued)**

**II. Explanations on usage strategy of financial assets and foreign currency transactions (continued)**

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 depends 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%.

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**SECTION THREE (Continued)**

**ACCOUNTING POLICIES (Continued)**

**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 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 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. Commission income received from non-cash loans are recorded on accrual basis.

**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.

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.

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**SECTION THREE (Continued)**

**ACCOUNTING POLICIES (Continued)**

**VI. Explanations on financial assets (continued)**

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.

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**SECTION THREE (Continued)**

**ACCOUNTING POLICIES (Continued)**

**VI. Explanations on financial assets (continued)**

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.

The Bank considered expected inflation index of future cash flows prevailing at the reporting date while calculating internal rate of return of the Consumer Price Indexed (CPI) marketable securities. The effect of this application is accounted as interest received from marketable securities in the unconsolidated financial statements.

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.

In the securities portfolio of the Bank, there are Consumer Price Indexed (CPI) Government Bonds. These securities are valued and accounted according to the effective interest method based on the real coupon rates and the reference inflation index at the issue date and the estimated inflation rate. As stated in the Investor’s Guide of CPI Government Bonds by Republic of Turkey Undersecretariat of Treasury the reference indices used to calculate the actual coupon payment amounts of these securities are based on the previous two months CPI’s. The Bank determines the estimated inflation rate accordingly. The inflation rate is estimated by considering the expectancies of the Central Bank and the Bank which are updated as needed within the year.

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.

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**SECTION THREE (Continued)**

**ACCOUNTING POLICIES (Continued)**

**VI. Explanations on financial assets (continued)**

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.

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 loan loss provision for loans and other receivables classified in accordance with the Regulation on Identification of and Provision against Non-Performing Loans and Other Receivables.



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**SECTION THREE (Continued)**

**ACCOUNTING POLICIES (Continued)**

**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. This assets are not amortized and presented separately in the financial statements. In order to classify a tangible fixed asset as held for sale, the asset (or the disposal group) should be available for an immediate sale in its present condition subject to the terms of any regular sales of such asset (or such disposal groups) and the sale should be highly probable. For a highly probable sale, the appropriate level of management must be committed to a plan to sell the asset (or the disposal groups) , and an active programme to complete should be initiated to locate a customer. Also the asset (or the disposal group) should have an active market sale value, which is a reasonable value in relation to its current fair value. Also, the sale is expected to be accounted as a completed sale beginning from one year after the classification date; and the essential procedures to complete the plan should indicate the possibility of making significant changes on the plan or lower probability of cancelling.

Events or circumstances may extend the completion of the sale more than one year. Such assets are still classified as held for sale if there is sufficient evidence that the delay in the sale process is due to the events and circumstances occurred beyond the control of the entity or the entry remains committed to its plan to sell the asset (or disposal group).

A discontinued operation is a component of a bank that either has been disposed of , or is classified as held for sale. Gains or losses relating to discontinued operations are presented separately in the income statement.

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**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 on a straight line basis 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" (TAS 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' equity. Related valuation models such as cost model, market value and discounted cash flow projections approaches are used in valuation of real estates. 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.

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**SECTION THREE (Continued)**

**ACCOUNTING POLICIES (Continued)**

**XII. Explanations on tangible assets (continued)**

Depreciation rates and estimated useful lives of tangible assets are as follows.

<b>Tangible Assets</b>	<b>Expected Useful Lives (Years)</b>	<b>Depreciation Rate (%)</b>
Cashvault	4-50	2-25
Vehicles	5	20
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.

***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.

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**SECTION THREE (Continued)**

**ACCOUNTING POLICIES (Continued)**

**XV. Explanations on liabilities regarding employee benefits**

Bank calculates a provision for severance pay to allocate that employees need to be paid upon retirement or involuntarily leaving by estimating the present value of probable amount. 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.

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**SECTION THREE (Continued)**

**ACCOUNTING POLICIES (Continued)**

**XV. Explanations on liabilities regarding employee benefits (continued)**

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 the transfer of Pension Fund was postponed to an unknown date. 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 2017 has been calculated by an independent actuary in accordance with the actuarial assumptions in the Law and as per actuarial report dated 16 January 2018. There is no need for technical or actual deficit to book provision as of 31 December 2017. 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 charge and deferred tax benefit or charge. 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. 20% is used in the calculation of the corporate tax. In accordance with the Temporary Article 10 added to the Corporate Tax Law, 20% of the Corporate Tax will be applied as 22% for corporate earnings for the taxation periods of 2018, 2019 and 2020.

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 loan loss provisions 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.

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**SECTION THREE (Continued)**

**ACCOUNTING POLICIES (Continued)**

**XVI. Explanations on taxation (continued)**

*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.

The funds borrowed are recorded at their purchase costs and valued at amortised costs using the effective interest method. Some of the securities issued by the Bank and resources used with fixed interest rates are subject to fair value hedge accounting. While the credit risk and rediscounted accumulated interest on hedging liabilities are recorded in the income statement under the interest expense, the credit risk and net amount excluding accumulated interest results from hedge accounting are accounted in the income statement under the derivative financial instruments gains/losses by fair value. 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 23 March 2017, it has been resolved that, paid-in capital of the Bank will be increased from TL 2.050.000 to TL 2.400.000 by adding TL 350.000. In respect of the resolution of the General Assembly, all of this increase will be incorporated from the profit of the year 2016. The increase in paid-in capital was approved by the BRSA on 27 April 2017 and disclosed in the dated 12 June 2017 and numbered 9345 Turkish Trade Registry Gazette.

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 increase in paid-in capital was approved by the BRSA on 6 May 2016 and disclosed in the dated 4 July 2016 and numbered 9110 Turkish Trade Registry Gazette.

**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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**SECTION THREE (Continued)**

**ACCOUNTING POLICIES (Continued)**

**XXI. Explanations on segment reporting**

In accordance with its mission, the Bank mainly operates in corporate and investment banking segments. The corporate banking is serving financial solutions and banking services for its medium and large-scale corporate customers. Services given to corporate customers are; investment credits, project financing, TL and foreign exchange operating loans, letters of credit, letters of guarantees and foreign trade transaction services covering letters of guarantee with external guarantees.

Income from the activities of investment banking includes income from the operations of Treasury and Corporate Finance. Under the investment banking activities, portfolio management for corporate, 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.

<b>Current Period</b>	<b>Corporate Banking</b>	<b>Investment Banking</b>	<b>Other</b>	<b>Total</b>
Net Interest Income	494.491	544.800	-	1.039.291
Net Fees and Commission Income	15.521	(1.086)	-	14.435
Other Income	34.150	-	18.685	52.835
Other Expense	(119.127)	(60.193)	(199.938)	(379.258)
Profit Before Tax	425.035	483.521	(181.253)	727.303
Tax Provision	-	-	-	(131.635)
<b>Net Profit</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>595.668</b>
<b>Current Period</b>				
Segment Assets	22.294.423	5.799.030	371.947	28.465.400
Investment in Associates and Subsidiaries	-	-	444.852	444.852
<b>Total Assets</b>	<b>22.294.423</b>	<b>5.799.030</b>	<b>816.799</b>	<b>28.910.252</b>
Segment Liabilities	24.312.703	398.797	664.035	25.375.535
Shareholders' Equity	-	-	3.534.717	3.534.717
<b>Total Liabilities</b>	<b>24.312.703</b>	<b>398.797</b>	<b>4.198.752</b>	<b>28.910.252</b>

<b>Prior Period</b>	<b>Corporate Banking</b>	<b>Investment Banking</b>	<b>Other</b>	<b>Total</b>
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>
<b>Prior Period</b>				
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>

**XXII. Explanations on other matters**

None.



**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**  
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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 2017, the capital adequacy ratio of Bank has been calculated as 17,05%.

	Current Period	Prior Period
<b>CORE EQUITY TIER 1 CAPITAL</b>		
Paid-in capital to be entitled for compensation after all creditors	2.400.374	2.050.374
Share premiums	-	-
Reserves	432.528	398.884
Other comprehensive income according to TAS	198.640	120.231
Profit	595.668	476.445
Current Period Profit	595.668	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>3.627.210</b>	<b>3.045.934</b>
<b>Deductions from Core Equity Tier 1 Capital</b>		
Valuation adjustments calculated as per the 1 <sup>st</sup> 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	92.666	117.998
Leasehold improvements on operational leases	5.032	5.255
Goodwill (net of related tax liability)	-	-
Other intangible assets other than mortgage-servicing rights (net of related tax liability)	1.312	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	173	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)**

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 I Capital</b>	<b>99.183</b>	<b>124.225</b>
<b>Core Equity Tier I Capital</b>	<b>3.528.027</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>Deductions from Additional Tier I Capital</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>		
Goodwill and other intangible assets and related deferred tax liabilities 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 (-)	328	380
Net deferred tax asset/liability which is not deducted from Core Equity Tier I 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>328</b>	<b>380</b>
<b>Total Additional Tier I Capital</b>	-	-
<b>Total Tier I Capital (Tier I Capital=Core Equity Tier I Capital+Additional Tier I Capital)</b>	<b>3.527.699</b>	<b>2.921.329</b>
<b>TIER II CAPITAL</b>		
Debt instruments and the related issuance premiums defined by the BRSA	1.125.750	-
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)	150.275	178.463
<b>Tier II Capital Before Deductions</b>	<b>1.276.025</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.	-	-
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 (-)	-	-

**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**  
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**SECTION FOUR (Continued)**

**INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)**

**I. Explanations related to shareholders' equity (continued)**

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>1.276.025</b>	<b>178.463</b>
<b>Total Capital (The sum of Tier I Capital and Tier II Capital)</b>	<b>4.803.724</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 and financial 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, and financial 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 and financial 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 (Total of Tier I Capital and Tier II Capital)	4.803.724	3.099.423
Total Risk Weighted Assets	28.175.215	21.631.077
<b>CAPITAL ADEQUACY RATIOS</b>		
Core Capital Adequacy Ratio (%)	12,52	13,51
Tier I Capital Adequacy Ratio (%)	12,52	13,51
Capital Adequacy Ratio (%)	17,05	14,33
<b>BUFFERS</b>		
Total buffer requirement (%)	1,255	0,632
Capital conservation buffer requirement (%)	1,250	0,630
Bank specific counter-cyclical buffer requirement (%)	0,005	0,002
Systematic significant buffer (%)	-	-
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	8,02	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	328.237	230.570
Remaining mortgage servicing rights	-	-
Excess amount arising from deferred tax assets from temporary differences	-	-

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**SECTION FOUR (Continued)**

**INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)**

**I. Explanations related to shareholder's equity (continued)**

<b>Limits Related to Provisions Considered in Tier II Calculation</b>		
General provisions for standard based receivables (before tenthousandtwentyfive limitation)	150.275	178.463
Up to 1,25% of total risk-weighted amount of general reserves for receivables where the standard approach used	150.275	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</b>		
<b>(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	-	-

**Explanations on the reconciliation between amounts related to equity items and on balance sheet**

There are no differences between the amounts related to equity items and on balance sheet figures.

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**SECTION FOUR (Continued)**

**INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)**

**I. Explanations related to shareholders' equity (continued)**

**Details on Subordinated Liabilities**

Issuer	Türkiye Sınai Kalkınma Bankası A.Ş.
Unique identifier (eg CUSIP, ISIN etc.)	XS1584113184
Governing law(s) of the instrument	BRSA, Cominque on Subordinated Liabilities of CMB numbered CMB-II-31.1
<b>Regulatory treatment</b>	
Subject to 10% deduction as of 1/1/2015	No
Eligible on unconsolidated and/or consolidated basis	Eligible on unconsolidated and consolidated
Instrument type	Secondary subordinated loan which is categorized in subordinated loans equalling bill of exchanges
Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date – Million USD )	300
Par value of instrument (Million USD)	300
Accounting classification	347011 (Liability) - Subordinated Loans
Original date of issuance	28 March 2017
Perpetual or dated	Dated
Original starting and maturity date	28 March 2017 - 29 March 2027 (10 years)
Issuer call subject to prior supervisory approval	Yes
Optional call date, contingent call dates and redemption amount	There is an early repayment option on 29 March 2022 (After 5th year)
Subsequent call dates, if applicable	After 5th year only for once
Fixed or floating dividend/coupon	Fixed
Coupon rate and any related index	7.625%
Existence of a dividend stopper	None
Fully discretionary, partially discretionary or mandatory	None
Existence of step up or other incentive to redeem	None
Noncumulative or cumulative	Noncumulative
<b>Convertible or non-convertible</b>	
If convertible, conversion trigger (s)	None
If convertible, fully or partially	None
If convertible, conversion rate	None
If convertible, mandatory or optional conversion	None
If convertible, specify instrument type convertible into	None
If convertible, specify issuer of instrument it converts into	None
<b>Write-down feature</b>	
If write-down, write-down trigger(s)	According to number 5411 article, 71th article of Law of Banking and number 6102 article of Turkish Code of Commerce, if BRSA has seem in case of default.
If write-down, full or partial	Full or Partial
If write-down, permanent or temporary	Permanent
If temporary write-down, description of write-up mechanism	None
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	After the senior creditors, before the TIER 1 subdebt, same with TIER 2.
In compliance with article number 7 and 8 of "Own fund regulation"	Based on the conditions written on 8th article.
Details of incompliances with article number 7 and 8 of "Own fund regulation"	Not based on the conditions written on 7th article.

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**SECTION FOUR (Continued)**

**INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)**

**II. Explanations related to 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.

Limits have also been set for transactions with banks. Credit risks are managed on the counterparty's creditworthiness and limits.

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 Loan Loss Provision" is calculated for these loans.

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**SECTION FOUR (Continued)**

**INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)**

**II. 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*

	Current Period		Prior Period	
	Risk Amount (*)	Average Risk Amount(**)	Risk Amount (*)	Average Risk Amount(*)
Exposures to sovereigns and their central banks	5.467.281	5.231.481	5.349.704	4.839.243
Exposures to regional and local governments	-	-	-	-
Exposures to administrative bodies and noncommercial entities	-	7.216	8.743	8.023
Exposures to multilateral development banks	-	-	-	-
Exposures to international organizations	-	-	-	-
Exposures to banks and securities firms	1.408.496	2.656.436	1.917.561	3.330.263
Exposures to corporates	34.294.108	29.934.919	24.049.655	18.623.281
Retail exposures	-	-	-	-
Exposures secured by property	991.399	1.049.534	1.152.136	1.243.116
Past due receivables	-	-	-	-
Exposures in higher-risk categories	583	97	-	30
Exposures in the form of bonds secured by mortgages	-	-	-	-
Securitization positions	-	-	-	-
Short term exposures to banks, brokerage houses and corporates	-	-	-	-
Equity investments in the form of collective investment undertakings	-	-	-	-
Equity investments	513.404	451.670	400.945	214.765
Other exposures	660.749	647.563	189.842	495.286

(\*) Includes total risk amounts before the effect of credit risk mitigation.

(\*) Average risk amount are the arithmetical average of the amounts in monthly reports prepared starting from 1 January 2017 to the period end.

There are control limits on positions held in the form of futures and options contracts and other similar contracts. Limits are continuously checked by the bank management. Credit risk is managed together with the potential risks arising from market movements. Credit risk, market risk, liquidity risk and other risks are considered as a whole. When exposed to significant credit risk, the Bank is on the verge of reducing total risk by concluding futures and similar contracts, exercising their rights, fulfilling or selling their performances in a short period of time. Indemnified non-cash loans are subject to the same risk weight as the unpaid credits when they occur.

Except for the monitoring method determined by the related legislation of the renewed and re-amortized loans, the current rating of the relevant company is changed within the Bank within the scope of internal rating application and all kinds of measures are taken for risk classification. The Bank follows concentration on a maturity basis and examines the risks that differ from the normal course. Foreign transactions are made with many correspondent banks in many countries. The counterparty limits have been set in transactions with banks. As an active participant in the international banking market, the Bank does not have significant credit risk concentration when evaluated together with the financial activities of other financial institutions.



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**SECTION FOUR (Continued)**

**INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)**

**II. Explanations related to credit risk (Continued)**

The first 100 and 200 largest cash loans constitute 74,33% and 93,26% of the total cash loans portfolio of the Bank respectively (31 December 2016: 80,63% and 96,98%)

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 2016: 100% and 100%).

The first 100 and 200 largest cash and non cash loans constitute 72,84% and 92,33% of the total on and off balance sheet accounts of the Bank respectively (31 December 2016: 78,84% and 96,37%).

The Bank calculated the general loan loss provision of TL 150.275 (31 December 2016: TL 178.463).

Credit risk is evaluated according to the Bank's internal rating. Non financial services customers included in credit portfolio are rated with respect to the 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. Information of credit amounts rated by internal rating model is given table below.

Basic Loan Quality Categories	Current Period	Prior Period
Top Grade	872.974	591.176
High Grade	1.941.211	1.878.714
Average Grade	20.098.076	15.520.292
Below Average Grade	722.407	538.242
Impaired	50.688	49.608
<b>Total</b>	<b>23.685.356</b>	<b>18.578.032</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 24.917.658 and TL 1.232.302 of these customers have not been rated (31 December 2016: TL 19.040.034 , TL 462.002 ).

The aging analysis of the receivables past due but not impaired in terms of financial asset classes, is as follows:

	Current Period (1)				Prior Period			
	31- 60 Days	61- 90 Days	Other	Total	31- 60 Days	61- 90 Days	Other	Total
Corporate Loans	-	1.212	36.513	37.725	-	-	7.330	7.330
SME Loans	-	-	-	-	-	-	-	-
Consumer Loans	-	-	-	-	-	-	-	-
<b>Total</b>	-	<b>1.212</b>	<b>36.513</b>	<b>37.725</b>	-	-	<b>7.330</b>	<b>7.330</b>

(1) Only the overdue amounts of the loans included in the related items are included and the total credit amount of the related loans is TL 296.391.

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**SECTION FOUR (Continued)**

**INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)**

**II. Explanations related to credit risk (continued)**

*Profile of significant exposures in major region*

	Risk Types (*)																
	Exposures to sovereigns and their central banks	Exposures to regional and local governments	Exposures to administrative bodies and noncommercial entities	Exposures to multilateral development banks	Exposures to international organizations	Exposures to banks and securities firms	Exposures to corporates	Retail exposures	Exposures secured by property	Past due receivables	Exposures in higher-risk categories	Exposures in the form of bonds secured by mortgages	Short term exposures to banks, brokerage houses and corporates	Equity investments in the form of collective investment undertakings	Equity investments	Other exposures	Total
Current Period	5,475,205	-	-	-	-	794,320	22,823,188	-	987,801	-	292	-	-	-	19,059	106,991	30,206,856
Domestic																	
European Union (EU) Countries	-	-	-	-	-	150,422	-	-	-	-	-	-	-	-	27,821	78,902	257,145
OECD Countries (**)	-	-	-	-	-	14,370	-	-	-	-	-	-	-	-	-	-	14,370
Off-Shore Banking Regions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
USA, Canada	-	-	-	-	-	19,412	-	-	-	-	-	-	-	-	-	-	19,412
																	163,735
Other Countries Associates, Subsidiaries and Joint-Ventures	-	-	-	-	-	54,983	108,752	-	-	-	-	-	-	-	-	-	-
																	466,524
Unallocated Assets/Liabilities (***)	-	-	-	-	-	-	998	-	-	-	-	-	-	-	466,524	-	466,524
Total	5,475,205	-	-	-	-	1,033,507	22,932,938	-	987,801	-	292	-	-	-	513,404	221,115	31,164,262

(\*) 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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**SECTION FOUR (Continued)**

**INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)**

**II. Explanations related to credit risk (continued)**

*Profile of significant exposures in major region*

	Risk Types (*)																
	Exposures to sovereigns and their central banks	Exposures to regional and local governments	Exposures to administrative bodies and noncommercial entities	Exposures to multilateral development banks	Exposures to international organizations	Exposures to banks and securities firms	Exposures to corporates	Retail exposures	Exposures secured by property	Part due receivables	Exposures in higher-risk categories	Exposures in the form of bonds secured by mortgages	Securitization positions	Short term exposures to banks, brokerage houses and corporates	Equity investments in the form of collective investment undertakings	Other exposures	Total
Current Period	5,189,971	-	1,749	-	-	1,008,419	16,940,327	-	1,129,502	-	-	-	-	-	12,447	57,700	24,340,111
Domestic	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
European Union (EU)	-	-	-	-	-	256,090	-	-	-	-	-	-	-	-	12,818	-	268,908
Countries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
OECD Countries (**)	-	-	-	-	-	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	-	-	-	-	-	-	214,238	-	-	-	-	-	-	-	369,916	-	584,154
Unallocated Assets/ Liabilities (***)	-	-	-	-	-	17,600	5,212	-	-	-	-	-	-	-	5,764	121,107	149,683
Total	5,189,971	-	1,749	-	-	1,470,378	17,229,784	-	1,129,502	-	-	-	-	-	400,945	178,807	25,601,131

(\*) 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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**SECTION FOUR (Continued)**

**INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)**

**II. Explanations related to credit risk (continued)**

*Risk profile by sectors or counterparties*

	Risk Types (*)																		
Current Period	Exposures to sovereigns and their central banks	Exposures to regional and local governments	Exposures to administrative bodies and noncommercial entities	Exposures to multilateral development banks	Exposures to international organizations	Exposures to banks and securities firms	Exposures to corporates	Retail exposures	Exposures secured by property	Past due receivables	Exposures in higher-risk categories	Exposures in the form of bonds secured by mortgages	Short term exposures to banks, brokerage houses and corporates	Equity investments in the form of collective investment undertakings	Equity investments	Other exposures	TL	FC	Total
Agriculture	-	-	-	-	-	-	41.146	-	-	-	-	-	-	-	-	340	36.934	4.552	41.486
Farming and Stockbreeding	-	-	-	-	-	-	41.146	-	-	-	-	-	-	-	-	-	36.594	4.552	41.146
Forestry	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	340	340	-	340
Fishery	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Manufacturing	-	-	-	-	-	-	15.321.470	-	259.336	-	292	-	-	-	7	2.553	1.312.378	14.271.280	15.583.658
Mining and Quarrying	-	-	-	-	-	-	167.944	-	-	-	-	-	-	-	-	-	-	167.944	167.944
Production	-	-	-	-	-	-	4.936.560	-	259.336	-	-	-	-	-	7	-	1.015.197	4.180.706	5.195.903
Electricity, Gas and Water	-	-	-	-	-	-	10.216.966	-	-	-	292	-	-	-	-	2.553	297.181	9.922.630	10.219.811
Construction	-	-	-	-	-	-	1.066.096	-	111.298	-	-	-	-	-	-	72	172.732	1.004.734	1.177.466
Services	847.110	-	-	-	-	1.033.507	6.357.239	-	607.130	-	-	-	-	-	513.397	90.055	1.541.303	7.907.135	9.448.438
Wholesale and Retail Trade	-	-	-	-	-	-	486.664	-	-	-	-	-	-	-	-	8.045	102.329	392.380	494.709
Accommodation and Dining	-	-	-	-	-	-	283.442	-	532.342	-	-	-	-	-	-	-	65.872	749.912	815.784
Transportation and Telecommunication	-	-	-	-	-	-	1.242.091	-	-	-	-	-	-	-	1.056	-	21.278	1.221.869	1.243.147
Financial Institutions	847.110	-	-	-	-	1.033.507	2.244.466	-	-	-	-	-	-	-	510.962	82.010	1.081.922	3.636.133	4.718.055
Real Estate and Rental Services	-	-	-	-	-	-	742.817	-	51.533	-	-	-	-	-	-	-	556	793.794	794.350
Professional Services	-	-	-	-	-	-	502.905	-	-	-	-	-	-	-	1.379	-	239.070	265.214	504.284
Educational Services	-	-	-	-	-	-	107.892	-	23.255	-	-	-	-	-	-	-	2.632	128.515	131.147
Health and Social Services	-	-	-	-	-	-	746.962	-	-	-	-	-	-	-	-	-	27.644	719.318	746.962
Others	4.628.095	-	-	-	-	-	146.987	-	10.037	-	-	-	-	-	-	128.095	3.463.911	1.449.303	4.913.214
Total	5.475.205	-	-	-	-	1.033.507	22.932.938	-	987.801	-	292	-	-	-	513.404	221.115	6.527.258	24.637.004	31.164.262

(\*) 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

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**SECTION FOUR (Continued)**

**INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)**

**II. Explanations related to credit risk (continued)**

***Risk profile by sectors or counterparties (continued)***

Prior Period	Risk Types (*)													TL	FC	Total
	Exposures to sovereigns and their central banks	Exposures to regional and local governments	Exposures to administrative bodies and noncommercial entities	Exposures to multilateral development banks	Exposures to international organizations	Exposures to banks and securities firms	Exposures to corporates	Retail exposures	Exposures secured by property	Past due receivables	Exposures in higher-risk categories	Exposures in the form of bonds secured by mortgages	Short term exposures to banks, brokerage houses and corporates	Equity investments in the form of collective investment undertakings	Equity investments	Other exposures
Agriculture	-	-	-	-	-	-	11.735	-	-	752	-	-	-	-	359	10.809
Farming and Stockbreeding	-	-	-	-	-	-	11.735	-	-	752	-	-	-	-	-	10.450
Forestry	-	-	-	-	-	-	-	-	-	-	-	-	-	-	359	2.037
Fishery	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Manufacturing	-	-	-	-	-	-	12.324.849	-	495.824	-	-	-	-	-	-	1.020.073
Mining and Quarrying	-	-	-	-	-	-	86.022	-	-	-	-	-	-	-	-	86.022
Production	-	-	-	-	-	-	3.548.502	-	474.374	-	-	-	-	-	7	593.201
Electricity, Gas and Water	-	-	-	-	-	-	8.690.325	-	21.450	-	-	-	-	-	-	426.872
Construction	-	-	-	-	-	-	178.218	-	7.390	-	-	-	-	-	-	9.375
Services	969.182	-	-	-	-	1.470.378	4.589.850	-	612.335	-	-	-	-	-	395.174	1.337.450
Wholesale and Retail Trade	-	-	-	-	-	-	229.913	-	6.843	-	-	-	-	-	-	849
Accommodation and Dining	-	-	-	-	-	-	467.364	-	189.879	-	-	-	-	-	-	657.243
Telecommunication	-	-	-	-	-	-	740.738	-	111.524	-	-	-	-	-	1.555	852.262
Financial Institutions	969.182	-	-	-	-	1.470.378	1.625.171	-	-	-	-	-	-	-	392.240	1.132.259
Real Estate and Rental Services	-	-	-	-	-	-	316.391	-	262.595	-	-	-	-	-	-	2.493
Professional Services	-	-	-	-	-	-	593.783	-	-	-	-	-	-	-	1.379	195.907
Educational Services	-	-	-	-	-	-	123.427	-	14.927	-	-	-	-	-	-	4.387
Health and Social Services	-	-	-	-	-	-	493.063	-	26.567	-	-	-	-	-	-	133.967
Others	4.220.789	-	1.749	-	-	-	125.132	-	13.201	-	-	-	-	-	-	3.117.844
<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>-</b>	<b>-</b>	<b>400.945</b>	<b>5.495.551</b>
																<b>20.105.585</b>
																<b>25.601.136</b>

(\*) The risk classes included in the Regulation on Measurement and Evaluation of Capital Adequacy of Banks are taken into consideration

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**SECTION FOUR (Continued)**

**INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)**

**II. Explanations related to credit risk (continued)**

*Analysis of maturity-bearing exposures according to remaining maturities*

Risk Types	Term to Maturity				
	1 month	1-3 months	3-6 months	6-12 months	Over 1 year
Current Period					
Exposures to sovereigns and their central banks	833.407	99.329	90.978	178.503	3.991.484
Exposures to regional and local governments	-	-	-	-	-
Exposures to administrative bodies and noncommercial entities	-	-	-	-	-
Exposures to multilateral development banks	-	-	-	-	-
Exposures to international organizations	-	-	-	-	-
Exposures to banks and securities firms	210.243	77.457	76.105	4	662.895
Exposures to corporates	829.133	903.970	1.311.583	1.444.613	18.302.190
Retail exposures	-	-	-	-	-
Exposures secured by property	3.141	1.049	51.094	65.371	866.781
Past due receivables	-	-	-	-	-
Exposures in higher-risk categories	-	-	165	-	126
Exposures in the form of bonds secured by mortgages	-	-	-	-	-
Securitization positions	-	-	-	-	-
Short term exposures to banks, brokerage houses and corporates	-	-	-	-	-
Equity investments in the form of collective investment undertakings	-	-	-	-	-
Equity investments	-	-	-	-	-
Other exposures	1.923	-	-	-	44.162
<b>Total</b>	<b>1.877.847</b>	<b>1.081.805</b>	<b>1.529.925</b>	<b>1.688.491</b>	<b>23.867.638</b>

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**INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)**

**II. Explanations related to credit risk (continued)**

*Analysis of maturity-bearing exposures according to remaining maturities*

Risk Types	Term to Maturity				
	1 month	1-3 months	3-6 months	6-12 months	Over 1 year
Prior Period					
Exposures to sovereigns and their central banks	612.776	1.165	377.492	148.307	3.286.448
Exposures to regional and local governments	-	-	-	-	-
Exposures to administrative bodies and noncommercial entities	60	-	-	-	1.674
Exposures to multilateral development banks	-	-	-	-	-
Exposures to international organizations	-	-	-	-	-
Exposures to banks and securities firms	178.260	133.540	188.064	54.380	662.116
Exposures to corporates	93.951	545.345	528.065	1.202.850	14.730.991
Retail exposures	-	-	-	-	-
Exposures secured by property	1.939	395	21.327	11.868	1.084.680
Past due receivables	-	-	-	-	-
Exposures in higher-risk categories	-	-	-	-	-
Exposures in the form of bonds secured by mortgages	-	-	-	-	-
Securitization positions	-	-	-	-	-
Short term exposures to banks, brokerage houses and corporates	-	-	-	-	-
Equity investments in the form of collective investment undertakings	-	-	-	-	-
Equity investments	-	-	-	-	-
Other exposures	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>



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**SECTION FOUR (Continued)**

**INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)**

**II. Explanations related to credit risk (continued)**

***Credit risk under standard approach***

The ratings given by international credit rating agency Fitch Ratings are used to determine the risk weights in capital adequacy calculation regarding exposures to banks and securities firm and corporates reside abroad, 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:

Credit Quality Grades	Fitch Ratings	Risk Types			
		Claims on Sovereigns	Claims on Banks and Capital Market Intermediary		Claims on Corporate Receivables
			Claims with Original Maturities Less Than 3 Months	Claims with Original 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				
Unrated	D	100%	20% (*)	50% (*)	100%
	Unrated				

(\*) Used in case when the risk weight of the sovereign of the Bank's country is not higher.

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**SECTION FOUR (Continued)**

**INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)**

**II. Explanations related to credit risk (continued)**

**Exposures by risk weights**

<b>Current Period</b>										
<b>Risk Weights</b>	<b>0%</b>	<b>10%</b>	<b>20%</b>	<b>50%</b>	<b>75%</b>	<b>100%</b>	<b>150%</b>	<b>200%</b>	<b>1250%</b>	<b>Deducted from Equity</b>
Exposures Before Credit Risk Mitigation	4.047.606	-	352.227	392.959	-	26.371.470	-	-	-	99.511
Exposures After Credit Risk Mitigation	4.231.281	-	352.227	1.380.760	-	25.199.994	-	-	-	99.511

<b>Prior Period</b>										
<b>Risk Weights</b>	<b>0%</b>	<b>10%</b>	<b>20%</b>	<b>50%</b>	<b>75%</b>	<b>100%</b>	<b>150%</b>	<b>200%</b>	<b>1250%</b>	<b>Deducted from Equity</b>
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

**Miscellaneous information by key sectors or counterparty**

All of the Bank's impaired and underdeveloped receivables consist of domestic buyers.

<b>Current Period</b>		<b>Loans</b>		
<b>Major Sectors / Counterparties</b>	<b>Impaired Loans</b>	<b>Past Due Loans(1)</b>	<b>Value Adjustments(2)</b>	<b>Provisions(3)</b>
Agriculture	-	-	-	-
Farming and Stockbreeding	-	-	-	-
Forestry	-	-	-	-
Fishery	-	-	-	-
Manufacturing	40.800	-	-	(40.800)
Mining and Quarrying	193	-	-	(193)
Production	6.866	-	-	(6.866)
Electricity, Gas and Water	33.741	-	-	(33.741)
Construction	8.722	1.212	24	(8.722)
Services	-	36.513	5.904	-
Wholesale and Retail Trade	-	-	-	-
Accommodation and Dining	-	-	-	-
Transportation and Telecommunication	-	36.513	5.904	-
Financial Institutions	-	-	-	-
Real Estate and Rental Services	-	-	-	-
Professional Services	-	-	-	-
Educational Services	-	-	-	-
Health and Social Services	-	-	-	-
Others	-	-	-	-
<b>Total</b>	<b>49.522</b>	<b>37.725</b>	<b>5.928</b>	<b>(49.522)</b>

(1) Represents loans under follow-up and delayed between 31-90 days. Only the overdue amounts of the loans included in the related items and the total credit amount of the related loans is TL 296.391.

(2) Represents the general provision amounts, which are calculated by considering both due and non due amounts of past due loans.

(3) Represents specific provisions reserved for impaired loans.

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**SECTION FOUR (Continued)**

**INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)**

**II. 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(1)	Value Adjustments(2)	Provisions(3)
Agriculture	3.446	-	-	(3.446)
Farming and Stockbreeding	3.446	-	-	(3.446)
Forestry	-	-	-	-
Fishery	-	-	-	-
Manufacturing	35.902	-	-	(35.902)
Mining and Quarrying	193	-	-	(193)
Production	1.972	-	-	(1.972)
Electricity, Gas and Water	33.737	-	-	(33.737)
Construction	9.091	-	-	(9.091)
Services	-	7.330	2.578	-
Wholesale and Retail Trade	-	-	-	-
Accommodation and Dining	-	-	-	-
Transportation and Telecommunication	-	7.330	2.578	-
Financial Institutions	-	-	-	-
Real Estate and Rental Services	-	-	-	-
Professional Services	-	-	-	-
Educational Services	-	-	-	-
Health and Social Services	-	-	-	-
Others	-	-	-	-
<b>Total</b>	<b>48.439</b>	<b>7.330</b>	<b>2.578</b>	<b>(48.439)</b>

(1) Represents loans delayed between 31-90 days. Only the overdue amounts of the loans included in the related items and the total credit amount of the related loans is TL 257.761.

(2) Represents the general provision amounts, which are calculated by considering both due and non due amounts of past due loans.

(3) Represents specific provisions reserved for impaired loans.

*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	48.439	4.910	(3.827)	-	49.522
General Loan Loss Provision(1)	178.463	13.283	(41.471)	-	150.275

(\*)Minimum provision rates for general provision calculation is used for first group standart loans and all non cash loans in Regulation "Regulation on Procedures and principles For Determination of Qualifications of Loans and Other Receivables by Banks and Provisions to be set aside" published on the Official Gazette numbered 29918 dated 14 December 2016.

Prior 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

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**SECTION FOUR (Continued)**

**INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)**

**II. Explanations related to credit risk (continued)**

**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.

<b>Current Period</b>	<b>Private Sector Loans in Banking Book</b>	<b>Risk Weighted Amount calculations for Trading Book</b>	<b>Total</b>
<b>Country risk taken ultimately</b>			
United States	3.389	-	3.389
Georgia	108.752	-	108.752
England	3.135	-	3.135
Turkey	24.832.289	268.623	25.100.912
<b>Total</b>	<b>24.947.565</b>	<b>268.623</b>	<b>25.216.188</b>

<b>Prior Period</b>	<b>Private Sector Loans in Banking Book</b>	<b>Risk Weighted Amount calculations for Trading Book</b>	<b>Total</b>
<b>Country risk taken ultimately</b>			
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>

**III. Explanations related to 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 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:

	<b>1 US Dollar</b>	<b>1 Euro</b>
<b>The Bank's "Foreign Exchange Valuation Rate"</b>		
31 December 2017	3,7525	4,4824
<b>Prior Five Workdays:</b>		
29 December 2017	3,7525	4,4824
28 December 2017	3,7875	4,5174
27 December 2017	3,7825	4,4925
26 December 2017	3,7775	4,4831
25 December 2017	3,7800	4,4823

Simple arithmetic thirty-day averages of the US Dollar and Euro buying rates of the Bank before the reporting date are full TL 3,8195 and 4,5225 respectively.

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**SECTION FOUR (Continued)**

**INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)**

**III. Explanations related to currency risk (continued)**

*Information on the Bank's foreign currency risk:*

Current Period	Euro	US Dollar	Other FC	Total
<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	354.145	409.565	72.830	836.540
Banks	1.043	3.391	1.599	6.033
Financial Assets at Fair Value Through Profit and Loss (1)	25.936	30.715	1.365	58.016
Money Market Placements	-	-	-	-
Available-For-Sale Financial Assets	55.335	983.207	-	1.038.542
Loans (2)	9.136.079	10.951.604	-	20.087.683
Subsidiaries, Associates and Entities Under Common Control (Joint Vent.)	-	-	-	-
Held-To-Maturity Investments	-	197.326	-	197.326
Derivative Financial Assets for Hedging Purposes	-	-	-	-
Tangible Assets	-	-	-	-
Intangible Assets	-	-	-	-
Other Assets (3)	73.652	199.842	-	273.494
<b>Total Assets</b>	<b>9.646.190</b>	<b>12.775.650</b>	<b>75.794</b>	<b>22.497.634</b>
<b>Liabilities</b>				
Bank Deposits	-	-	-	-
Foreign Currency Deposits	-	-	-	-
Money Market Borrowings	98.426	62.712	-	161.138
Funds Provided From Other Financial Institutions	9.299.256	9.191.493	7	18.490.756
Marketable Securities Issued (5)	-	4.892.465	-	4.892.465
Miscellaneous Payables	16.781	32.054	124	48.959
Derivative Financial Liabilities for Hedging Purposes	-	78.682	-	78.682
Other Liabilities (4)	25.560	16.525	2.573	44.658
<b>Total Liabilities</b>	<b>9.440.023</b>	<b>14.273.931</b>	<b>2.704</b>	<b>23.716.658</b>
<b>Net Balance Sheet Position</b>	<b>206.167</b>	<b>(1.498.281)</b>	<b>73.090</b>	<b>(1.219.024)</b>
<b>Net Off-Balance Sheet Position</b>	<b>(194.420)</b>	<b>1.508.745</b>	<b>(72.110)</b>	<b>1.242.215</b>
Financial Derivative Assets	1.090.414	4.529.407	487.346	6.107.167
Financial Derivative Liabilities	(1.284.834)	(3.020.662)	(559.456)	(4.864.952)
Non-Cash Loans (6)	883.016	1.125.806	1.891	2.010.713
<b>Prior Period</b>				
Total Assets	7.089.744	11.233.297	121.859	18.444.900
Total Liabilities	7.153.677	12.307.033	2.503	19.463.213
<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 (6)	714.093	730.990	13.677	1.458.760

(1) Exchange rate differences arising from derivative transactions amounting to TL 74.672 is deducted from "Financial Assets at Fair Value through Profit and Loss".

(2) Loans include TL 1.746.160 foreign currency indexed loans.

(3) Forward foreign exchange purchase transaction rediscounts amounting to TL 566 have not been included in "Other Assets".

(4) Marketable securities valuation increase fund amounting to TL 12.440, exchange rate differences arising from derivative transactions amounting to TL 78.060 and forward foreign exchange purchase transaction rediscounts amounting TL 16 based on foreign currencies have not been included in "Other Liabilities".

(5) Includes Tier 2 subordinated bonds which are classified on the balance sheet as subordinated loans.

(6) Has no effect on net off-balance sheet position.

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**SECTION FOUR (Continued)**

**INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)**

**III. Explanations related to 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 (*)		Effect on Equity(**)	
		Current Period	Prior Period	Current Period	Prior Period
US Dollar	10	447	1.083	600	(3.185)
Euro	10	1.009	643	166	337
Other	10	98	74	-	-

	Decrease in Currency Rate	Effect on Profit / Loss (*)		Effect on Equity(**)	
		Current Period	Prior Period	Current Period	Prior Period
US Dollar	10	(447)	(1.083)	(600)	3.185
Euro	10	(1.009)	(643)	(166)	(337)
Other	10	(98)	(74)	-	-

(\*) Values expressed are before the tax effect.

(\*\*) Effect on equity does not include effect on profit/loss.

**IV. Explanations related to 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.

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**SECTION FOUR (Continued)**

**INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)**

**IV. Explanations related to 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 (1)	Total
<b>Assets</b>							
Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Checks Purchased) and Balances with the Central Bank of Turkey	420.135	-	-	-	-	426.996	847.131
Banks	-	-	-	-	-	6.452	6.452
Financial Assets at Fair Value Through Profit and Loss	74.832	147.030	79.523	25.403	-	-	326.788
Money Market Placements	-	-	-	-	-	-	-
Available-for-Sale Financial Assets	88.570	155.606	1.047.061	971.432	755.623	68.552	3.086.844
Loans	3.387.581	6.649.087	8.107.041	3.372.960	714.344	-	22.231.013
Held-to-Maturity Investments	201.806	723.091	409.824	-	197.326	-	1.532.047
Other Assets	1.851	-	3.861	46.593	11.105	816.567	879.977
<b>Total Assets</b>	<b>4.174.775</b>	<b>7.674.814</b>	<b>9.647.310</b>	<b>4.416.388</b>	<b>1.678.398</b>	<b>1.318.567</b>	<b>28.910.252</b>
<b>Liabilities</b>							
Bank Deposits	-	-	-	-	-	-	-
Other Deposits	-	-	-	-	-	-	-
Money Market Borrowings	779.112	87	34.122	-	-	-	813.321
Miscellaneous Payables	-	-	-	-	-	54.944	54.944
Marketable Securities Issued (3)	-	-	-	3.746.229	1.146.236	-	4.892.465
Funds Provided from Other Financial Institutions	3.728.663	6.477.021	3.969.277	2.343.537	2.163.230	-	18.681.728
Other Liabilities (2)	44.825	128.938	98.428	46.791	5.004	4.143.808	4.467.794
<b>Total Liabilities</b>	<b>4.552.600</b>	<b>6.606.046</b>	<b>4.101.827</b>	<b>6.136.557</b>	<b>3.314.470</b>	<b>4.198.752</b>	<b>28.910.252</b>
<b>Balance Sheet Long Position</b>	<b>-</b>	<b>1.068.768</b>	<b>5.545.483</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6.614.251</b>
<b>Balance Sheet Short Position</b>	<b>(377.825)</b>	<b>-</b>	<b>-</b>	<b>(1.720.169)</b>	<b>(1.636.072)</b>	<b>(2.880.185)</b>	<b>(6.614.251)</b>
<b>Off-Balance Sheet Long Position</b>	<b>35.614</b>	<b>-</b>	<b>-</b>	<b>4.878.400</b>	<b>412.774</b>	<b>-</b>	<b>5.326.788</b>
<b>Off-Balance Sheet Short Position</b>	<b>-</b>	<b>(1.508.556)</b>	<b>(3.750.901)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(5.259.457)</b>
<b>Total Position</b>	<b>(342.211)</b>	<b>(439.788)</b>	<b>1.794.582</b>	<b>3.158.231</b>	<b>(1.223.298)</b>	<b>(2.880.185)</b>	<b>67.331</b>

(1) 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.

(2) Borrower funds amounting to TL 12.901 are presented in "Other Liabilities" within 1-month maturity column.

(3) Includes Tier 2 subordinated bonds which are classified on the balance sheet as subordinated loans.



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**INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)**

**IV. Explanations related to 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 (1)	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	-	-	-	-	-	77.197	77.197
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 (2)	34.989	98.963	174.741	64.075	4.630	3.313.781	3.691.179
<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>
<b>Balance Sheet Long Position</b>	-	1.074.106	4.586.739	-	-	-	5.660.845
<b>Balance Sheet Short Position</b>	(1.289.116)	-	-	(1.531.977)	(632.697)	(2.207.055)	(5.660.845)
<b>Off-Balance Sheet Long Position</b>	-	14.246	-	18.604	228.421	-	261.271
<b>Off-Balance Sheet Short Position</b>	(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>

(1) 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.

(2) Borrower funds amounting to TL 5.317 are presented in "Other Liabilities" within 1-month maturity column.

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**SECTION FOUR (Continued)**

**INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)**

**IV. Explanations related to 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	-	1,43	-	3,48
Banks	-	-	-	-
Financial Assets at Fair Value Through Profit and Loss	-	-	-	-
Money Market Placements	-	-	-	-
Available-for-Sale Financial Assets	5,61	4,55	-	11,71
Loans	4,00	6,16	-	14,73
Held-to-Maturity Investments	-	5,59	-	11,69
<b>Liabilities</b>				
Bank Deposits	-	-	-	-
Other Deposits	-	-	-	-
Money Market Borrowings	0,28	0,50	-	12,27
Miscellaneous Payables	-	-	-	-
Marketable Securities Issued	-	5,71	-	-
Borrower Funds	0,25	0,50	-	8,00
Funds Provided From Other Financial Institutions	0,99	2,37	-	9,00

*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	-	0,50	-	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

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**SECTION FOUR (Continued)**

**INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)**

**V. Explanations related to stock position risk**

The Bank is exposed to equity shares risk arising from investments on firms traded in Borsa Istanbul (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>313.164</b>	-	<b>313.164</b>
Quoted	313.164	-	313.164
<b>Investment in Shares-Grade B</b>	<b>77.891</b>	-	<b>77.891</b>
Quoted	77.891	-	77.891

Prior Period	Comparison		
Share Certificate Investments	Book Value	Fair Value	Market Value
<b>Investment in Shares-Grade A</b>	<b>224.536</b>	-	<b>224.536</b>
Quoted	224.536	-	224.536
<b>Investment in Shares-Grade B</b>	<b>69.496</b>	-	<b>69.496</b>
Quoted	69.496	-	69.496

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.

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**SECTION FOUR (Continued)**

**INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)**

**V. Explanations related to stock position risk (continued)**

*Equity shares risk due from banking book (continued)*

Current Period	Realized Revenues and Losses in Period	Revaluation Value Increases		Unrealized Gains and Losses		
Portfolio		Total	Included in Core Capital	Total	Included in Core Capital	Included in Supplementary Capital
Private Equity Investments	-	-	-	-	-	-
Share Certificates Quoted on a Stock Exchange	-	-	-	75.054	75.054	-
Other Share Certificates	-	12.634	12.634	-	-	-
<b>Total</b>	<b>-</b>	<b>12.634</b>	<b>12.634</b>	<b>75.054</b>	<b>75.054</b>	<b>-</b>

Prior Period	Realized Revenues and Losses in Period	Revaluation Value Increases		Unrealized Gains and Losses		
Portfolio		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>

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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)**

**1. Explanations related to the 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 directors**

Liquidity risk management is conducted by Treasury Department in line with the strategies set by Asset and Liability Committee within the limits and policies approved by Board of Directors, and is monitored and controlled through reportings from Risk Management, Budget Planning and Financial Control Departments to Audit Committee, Board of Directors, Senior Management and relevant departments.

The Bank's liquidity risk capacity is determined by the Bank's internal limits and the regulations on liquidity coverage ratio and liquidity adequacy. Regarding its risk appetite, in addition to legal limits, the Bank also applies internal limits for monitoring and controlling the liquidity risk.

Considering the Bank's strategies and competitive conditions, Asset and Liability Committee has the responsibility of taking the relevant decisions regarding optimal balance sheet management of the Bank, and monitoring the implementations. Treasury Department performs cash position management within the framework of the decisions taken at Asset and Liability Committee meetings.

The Risk Management Department reports to the Board of Directors and the Asset and Liability Committee regarding liquidity risk within the scope of internal limits and legal regulations. Additionally, liquidity stress tests are performed based on various scenarios and reported with their impact on legal limit utilization. Treasury Control Unit under the Budget Planning and Investor Relations Department also makes cash flow projection reportings to the Treasury Department and the Asset Liability Committee at certain periods and when needed.

**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**

Within the scope of consolidation, liquidity management is not centralized and each subsidiary is responsible for its own liquidity management. However, the Bank monitors the liquidity risk of each subsidiary within the defined limits.

**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 Bank, there are development bank credits, capital market transactions, syndicated loans, bilateral contractual resources, repo transactions and money market transactions and these sources are diversified to minimize the liquidity risk within the terms of market conditions. The funding planning based on those loans is performed long term such as a minimum of one year and the performance is monitored by the Asset and Liability Committee.

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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)**

**1. Explanations related to the liquidity risk (continued)**

**1.ç Information on liquidity management on the basis of currencies constituting a minimum of five percent of the Bank's total liabilities:**

The Bank's obligations consist of Turkish Lira (TRY), US Dollar (USD) and Euro (EUR) currency types. Turkish Lira obligations mainly consist of equity and repurchase agreements, whereas foreign currency obligations consist of foreign currency credits, securities issued and repurchase agreements. All loans provided from foreign sources are in foreign currencies. For this reason, foreign resources can be used in TL funding by currency swap transactions when necessary.

**1.d Information on unconsolidated liquidity risk mitigation techniques**

Unconsolidated Liquidity limits are defined for the purpose of monitoring and keeping the risk under certain levels. The Bank monitors those limits' utilization and informs the Board of Directors, the Bank Senior Management and the relevant departments regularly. Regarding those limits, the Treasury Department performs the required transactions with the relevant cost and term composition in accordance with market conditions from the sources previously defined in Article C. The Bank minimizes the liquidity risk by holding high quality liquid assets and diversification of funds.

**1.e Information on the use of stress tests**

Within the scope of liquidity stress tests, the deteriorations that may occur in the cash flow structure of the Bank are assessed by the Bank's scenarios. The results are analyzed by taking into account the risk appetite and capacity of the Bank and reported to the senior management by the Risk Management Department ensuring the necessary actions are taken.

**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. In contingent periods outflows due to the irrevocable commitments, contingencies and derivative transactions can be deferred temporarily in a way that won't hurt the Bank's reputation. TSKB has the optionality of choosing one or more of the following for meeting its liquidity requirement that are selling liquid assets off, increasing short term borrowing, decreasing illiquid assets, increasing capital.

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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)**

**2. 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 are shown below:

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			1.884.551	963.562
<b>CASH OUTFLOWS</b>				
2 Retail and Customers Deposits	87	17	4	1
3 Stable deposits	-	-	-	-
4 Less stable deposits	87	17	4	1
5 Unsecured Funding other than Retail and Small Business, Customers Deposits	1.257.720	854.342	927.292	613.194
6 Operational deposits	48.977	45.735	12.244	11.434
7 Non-Operational Deposits	-	-	-	-
8 Other Unsecured Funding	1.208.743	808.607	915.048	601.760
9 Secured funding	-	-	-	-
10 Other Cash Outflows	1.740.244	888.105	1.740.244	888.105
11 Liquidity needs related to derivatives and market valuation changes on derivatives transactions	1.740.244	888.105	1.740.244	888.105
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	6.853.758	5.284.298	342.688	264.215
15 Other irrevocable or conditionally revocable commitments	7.188.125	5.848.569	1.041.472	800.410
16 <b>TOTAL CASH OUTFLOWS</b>			<b>4.051.700</b>	<b>2.565.925</b>
<b>CASH INFLOWS</b>				
17 Secured Lending Transactions	-	-	-	-
18 Unsecured Lending Transactions	2.208.700	627.888	1.727.758	451.703
19 Other contractual cash inflows	1.731.416	1.465.954	1.731.415	1.465.955
20 <b>TOTAL CASH INFLOWS</b>	3.940.116	2.093.842	3.459.173	1.917.658
			Upper Limit Applied Amounts	
21 <b>TOTAL HQLA STOCK</b>			<b>1.884.551</b>	<b>963.562</b>
22 <b>TOTAL NET CASH OUTFLOWS</b>			<b>1.012.925</b>	<b>648.267</b>
23 <b>LIQUIDITY COVERAGE RATIO (%)</b>			<b>186</b>	<b>149</b>



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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)**

**2. 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			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
16 <b>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
20 <b>TOTAL CASH INFLOWS</b>	3.635.235	1.098.698	3.409.452	982.476
			Upper Limit Applied Amounts	
21 <b>TOTAL HQLA STOCK</b>			<b>1.022.831</b>	<b>550.669</b>
22 <b>TOTAL NET CASH OUTFLOWS</b>			<b>534.528</b>	<b>743.750</b>
23 <b>LIQUIDITY COVERAGE RATIO (%)</b>			<b>188</b>	<b>88</b>

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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:**

As per The Regulation on The Calculation of Liquidity Coverage Ratio, Liquidity Coverage Ratio is the ratio of high quality liquid assets to net cash outflows. During the implementation process, the minimum limits increase gradually until 2019, and for total and foreign currency limits 100% and 80% are assigned on consolidated and unconsolidated basis respectively. For the development and investment banks, Banking Regulations and Supervision Agency decided to apply zero percent to the total and foreign currency consolidated and unconsolidated liquidity coverage ratios unless stated otherwise.

In the Liquidity Coverage Ratio calculation, the items with the highest impact are high quality liquid assets, foreign funds and money market transactions. High quality liquid assets mainly consist of the required reserves held in the Central Bank of the Republic of Turkey and unencumbered securities issued by the Treasury.

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 67%. The total ratio of the securities issued in purpose of funding diversification and loans attained through syndication loans in overall borrowing is 27%. 6% of the Bank's total funding is provided from repurchase agreements.

30-day cash flows arising from derivative transactions are included in the calculation in accordance with the Regulation. The Bank also takes into consideration the liabilities depending on the possibility of changing the fair values of the derivative transactions in accordance with the Regulation.

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**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 (1)	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	426.996	420.135	-	-	-	-	-	847.131
Banks	6.452	-	-	-	-	-	-	6.452
Financial Assets at Fair Value Through Profit and Loss	-	6.965	44.058	46.610	160.597	68.558	-	326.788
Money Market Placements	-	-	-	-	-	-	-	-
Financial Assets Available-for-Sale	-	-	87.338	405.362	1.769.969	755.623	68.552	3.086.844
Loans	-	864.749	1.307.271	4.763.252	10.358.823	4.936.918	-	22.231.013
Held-to-Maturity Investments	-	-	-	-	859.079	672.968	-	1.532.047
Other Assets	-	1.851	-	3.861	46.593	11.105	816.567	879.977
<b>Total Assets</b>	<b>433.448</b>	<b>1.293.700</b>	<b>1.438.667</b>	<b>5.219.085</b>	<b>13.195.061</b>	<b>6.445.172</b>	<b>885.119</b>	<b>28.910.252</b>
<b>Liabilities</b>								
Bank Deposits	-	-	-	-	-	-	-	-
Other Deposits	-	-	-	-	-	-	-	-
Funds Provided from Other Financial Institutions	-	227.370	339.472	2.925.150	7.621.504	7.568.232	-	18.681.728
Money Market Borrowings	-	779.112	87	34.122	-	-	-	813.321
Marketable Securities Issued (3)	-	-	-	-	3.746.229	1.146.236	-	4.892.465
Miscellaneous Payables	-	-	-	-	-	-	54.944	54.944
Other Liabilities (2)	-	37.015	43.662	46.889	150.696	45.724	4.143.808	4.467.794
<b>Total Liabilities</b>	<b>-</b>	<b>1.043.497</b>	<b>383.221</b>	<b>3.006.161</b>	<b>11.518.429</b>	<b>8.760.192</b>	<b>4.198.752</b>	<b>28.910.252</b>
<b>Liquidity Gap</b>	<b>433.448</b>	<b>250.203</b>	<b>1.055.446</b>	<b>2.212.924</b>	<b>1.676.632</b>	<b>(2.315.020)</b>	<b>(3.313.633)</b>	<b>-</b>
<b>Net Off-balance sheet Position</b>	<b>-</b>	<b>(19.773)</b>	<b>527</b>	<b>316</b>	<b>81.569</b>	<b>4.692</b>	<b>-</b>	<b>67.331</b>
Financial Derivative Assets	-	1.397.780	2.836.475	2.775.523	8.614.737	4.586.490	-	20.211.005
Financial Derivative Liabilities	-	1.417.553	2.835.948	2.775.207	8.533.168	4.581.798	-	20.143.674
Non-cash Loans (4)	-	46.294	268.206	843.606	621.648	771.147	22.812	2.573.713
<b>Prior Period</b>								
Total Assets	378.148	1.391.553	1.387.905	3.614.367	9.889.301	6.534.524	805.775	24.001.573
Total Liabilities	-	1.105.249	309.013	2.200.631	10.125.068	6.870.634	3.390.978	24.001.573
<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 (4)	-	21.227	5.182	33.578	551.991	508.482	548.750	1.669.210

(1) 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.

(2) Borrower funds amounting to TL 12.901 are presented in "Other Liabilities" within 1-month maturity column.

(3) Includes Tier 2 subordinated bonds which are classified on the balance sheet as subordinated loans.

(4) Has no effect on net off-balance sheet position.

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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 undiscounted cashflow of 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	179.943	381.319	3.156.859	8.420.210	8.229.087	(1.685.690)	18.681.728
Money Market Borrowings	779.549	88	34.143	-	-	(459)	813.321
Marketable Securities Issued	-	42.919	235.703	4.404.866	1.514.306	(1.305.329)	4.892.465
Funds	12.901	-	-	-	-	-	12.901
<b>Total</b>	<b>972.393</b>	<b>424.326</b>	<b>3.426.705</b>	<b>12.825.076</b>	<b>9.743.393</b>	<b>(2.991.478)</b>	<b>24.400.415</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	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>

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	1.916.591	1.013.302	1.765.510	16.989.336	9.188.531	(69.498)	30.803.772
Forward Contracts	434.377	2.454.434	1.737.976	199.318	-	-	4.826.105
Futures Transactions	-	-	-	-	-	-	-
Options	391.076	2.209.193	2.051.703	-	-	-	4.651.972
Other	72.830	-	-	-	-	-	72.830
<b>Total</b>	<b>2.814.874</b>	<b>5.676.929</b>	<b>5.555.189</b>	<b>17.188.654</b>	<b>9.188.531</b>	<b>(69.498)</b>	<b>40.354.679</b>

Prior 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>

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**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 2017, leverage ratio of the Bank calculated from the arithmetic average of the three months is 10,36% (31 December 2016: 10,61%). Leverage ratio is almost on the same level in the current and prior period. Total balance sheet assets are increased by 22,22% compared to prior period.

**b) Leverage Ratio**

		Current Period(*)	Prior Period(*)
	<b>Balance sheet Assets</b>		
1	Balance sheet assets (excluding derivative financial assets and credit derivatives, including collaterals)	28.964.409	23.709.190
2	(Assets deducted from Core capital)	(110.313)	(100.807)
3	Total risk amount of balance sheet assets (sum of lines 1 and 2)	<b>28.854.096</b>	<b>23.608.383</b>
	<b>Derivative financial assets and credit derivatives</b>		
4	Cost of replenishment for derivative financial assets and credit derivatives	360.058	216.502
5	Potential credit risk amount of derivative financial assets and credit derivatives	253.692	203.512
6	Total risk amount of derivative financial assets and credit derivatives (sum of lines 4 and 5)	<b>613.750</b>	<b>420.014</b>
	<b>Financing transactions secured by marketable security or commodity</b>		
7	Risk amount of financing transactions secured by marketable security or commodity	507.688	352.423
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)	<b>507.688</b>	<b>352.423</b>
	<b>Off-balance sheet transactions</b>		
10	Gross notional amount of off-balance sheet transactions	7.205.248	6.132.156
11	(Correction amount due to multiplication with credit conversion rates)	(3.581.505)	(3.174.771)
12	Total risk of off-balance sheet transactions (sum of lines 10 and 11)	<b>3.623.743</b>	<b>2.957.385</b>
	<b>Capital and total risk</b>		
13	Core Capital	3.480.315	2.899.693
14	Total risk amount (sum of lines 3, 6, 9 and 12)	33.599.277	27.338.205
	<b>Leverage ratio</b>		
15	<b>Leverage ratio</b>	<b>10,36%</b>	<b>10,61%</b>

(\*)The arithmetic average of the last three months in the related periods.

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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>26.919.766</b>	<b>22.086.022</b>	<b>27.071.260</b>	<b>22.972.274</b>
Money Market Placements	-	254.033	-	254.033
Banks	6.452	63.453	6.452	63.453
Available-For-Sale Financial Assets	3.086.844	3.070.422	3.086.844	3.070.422
Held-To-Maturity Investments	1.532.047	1.375.729	1.528.305	1.363.859
Loans (1)	22.294.423	17.322.385	22.449.659	18.220.507
<b>Financial Liabilities</b>	<b>24.455.359</b>	<b>20.315.711</b>	<b>24.472.157</b>	<b>20.243.008</b>
Bank Deposits	-	-	-	-
Other Deposits	-	-	-	-
Funds Provided From Other Financial Institutions (3)	19.507.950	16.751.782	19.507.950	16.751.782
Marketable Securities Issued (2)	4.892.465	3.486.732	4.909.263	3.414.029
Miscellaneous Payables	54.944	77.197	54.944	77.197

(1) Loans include financial lease receivables.

(2) Includes Tier 2 subordinated bonds which are classified on the balance sheet as subordinated loans.

(3) Funds provided from other financial institutions include funds borrowed, borrower funds and money market borrowings

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 issued, 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).

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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)**

Current Period	Level I	Level II	Level III
<b>Financial Assets</b>			
Financial Assets Held for Trading	-	326.788	-
Financial Assets Available For Sale	2.900.400	29.832	151.709
Associates and Subsidiaries	360.429	-	82.366
Derivative Financial Assets For Hedging Purposes	-	-	-
<b>Financial Liabilities</b>			
Derivative Financial Liabilities Held For Trading	-	232.403	-
Derivative Financial Liabilities For Hedging Purposes	-	78.682	-

Prior Period	Level I	Level II	Level III
<b>Financial Assets</b>			
Financial Assets held for Trading	4.658	375.445	-
Financial Assets Available For Sale	2.893.119	18.583	158.503
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	

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.



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**SECTION FOUR (Continued)**

**INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)**

**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.

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**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**

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.

**Overview of risk weighted assets**

		Risk Weighted Amount		Minimum Capital Requirement
		Current Period	Prior Period	Current Period
1	Credit risk (excluding counterparty credit risk)	25.960.821	19.232.205	2.076.866
2	Standardised approach	25.960.821	19.232.205	2.076.866
3	Internal rating-based approach	-	-	-
4	Counterparty credit risk	805.591	693.359	64.447
5	Standardised approach for counterparty credit risk	805.591	693.359	64.447
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	187.713	634.525	15.017
17	Standardised approach	187.713	634.525	15.017
18	Internal model approaches	-	-	-
19	Operational risk	1.221.150	1.070.988	97.692
20	Basic indicator approach	1.221.150	1.070.988	97.692
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	-	-	-
25	<b>Total (1+4+7+8+9+10+11+12+16+19+23+24)</b>	<b>28.175.275</b>	<b>21.631.077</b>	<b>2.254.022</b>

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**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 linkage between asset and liabilities' carrying values in financial statements and amounts in capital adequacy calculation**

Current Period	Carrying values in financial statements prepared as per TAS	Carrying values of items in accordance with Turkish Accounting Standards				
		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
<b>Assets</b>						
Cash and balances at central bank	847.131	847.131	-	-	-	-
Financial Assets Held for Trading	-	-	-	-	-	-
Financial Assets at Fair Value through Profit and Loss	326.788	-	326.788	-	132.986	-
Banks	6.452	6.452	-	-	-	-
Money Market Placements	-	-	-	-	-	-
Financial Assets Available-for-Sale (net)	3.086.844	3.086.844	1.091.425	-	-	-
Loans and Receivables	22.231.013	22.231.013	-	-	-	-
Factoring Receivables	-	-	-	-	-	-
Investment Held-to-Maturity (net)	1.532.047	1.532.047	552.078	-	-	-
Investment in Associates (net)	308.497	308.497	-	-	-	-
Investment in Subsidiaries (net)	136.355	136.355	-	-	-	-
Joint-Ventures (net)	-	-	-	-	-	-
Finance Lease Receivables	63.410	63.410	-	-	-	-
Derivative Financial Assets Held for Risk	-	-	-	-	-	-
Tangible Assets (net)	50.853	45.820	-	-	-	5.033
Intangible Assets (net)	1.640	-	-	-	-	1.640
Investment Properties (net)	-	-	-	-	-	-
Tax Assets	39.366	39.366	-	-	-	-
Assets Held for Sale and Discontinued Operations (net)	-	-	-	-	-	-
Other Assets	279.856	249.870	-	-	-	29.986
<b>Total Assets</b>	<b>28.910.252</b>	<b>28.546.805</b>	<b>1.970.291</b>	<b>-</b>	<b>132.986</b>	<b>36.659</b>

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**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 linkage between asset and liabilities' carrying values in financial statements and amounts in capital adequacy calculation**

Current Period	Carrying values in financial statements prepared as per TAS	Carrying values of items in accordance with Turkish Accounting Standards				
		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
Liabilities						
Deposits	-	-	-	-	-	-
Derivative Financial Liabilities Held for Trading	232.403	-	-	-	118.724	113.679
Funds Borrowed	18.681.728	-	693.378	-	-	17.988.350
Money Market Funds	813.321	-	611.178	-	-	202.143
Securities Issued	3.746.229	-	-	-	-	3.746.229
Funds	12.901	-	-	-	-	12.901
Miscellaneous Payables	54.944	-	-	-	-	54.944
Other Liabilities	115.927	-	-	-	-	115.927
Factoring Payables	-	-	-	-	-	-
Lease Payables	-	-	-	-	-	-
Derivative Financial Liabilities Held for Risk Management	78.682	-	-	-	-	78.682
Provisions	441.174	-	-	-	-	441.174
Tax Liability	51.990	-	-	-	-	51.990
Liabilities for Assets Held for Sale and Discontinued Operations (net)	-	-	-	-	-	-
Subordinated Debts	1.146.236	-	-	-	-	1.146.236
Shareholders' Equity	3.534.717	-	-	-	-	3.534.717
Total Liabilities	<b>28.910.252</b>	-	<b>1.304.556</b>	-	<b>118.724</b>	<b>27.486.972</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.

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**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 linkage between asset and liabilities' carrying values in financial statements and amounts in capital adequacy calculation**

Prior Period	Carrying values in financial statements prepared as per TAS	Carrying values of items in accordance with Turkish Accounting Standards				
		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
<b>Assets</b>						
Cash and balances at central bank	778.074	778.074	-	-	-	-
Financial Assets Held for Trading	-	-	-	-	-	-
Financial Assets at Fair Value through Profit and Loss	380.103	-	375.442	-	380.103	-
Banks	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	-	-	-	-
Investment in Subsidiaries (net)	129.363	129.363	-	-	-	-
Joint-Ventures (net)	-	-	-	-	-	-
Finance Lease Receivables	3.792	3.792	-	-	-	-
Derivative Financial Assets Held for Risk	272	-	272	-	-	-
Tangible Assets (net)	51.112	45.857	-	-	-	5.255
Intangible Assets (net)	949	-	-	-	-	949
Investment Properties (net)	-	-	-	-	-	-
Tax Assets	14.195	14.195	-	-	-	-
Assets Held for Sale and Discontinued Operations (net)	-	-	-	-	-	-
Other Assets	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>380.103</b>	<b>28.649</b>

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**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 linkage between asset and liabilities' carrying values in financial statements and amounts in capital adequacy calculation**

Prior Period	Carrying values in financial statements prepared as per TAS	Carrying values of items in accordance with Turkish Accounting Standards				
Liabilities		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	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
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
Liabilities for Assets Held for Sale and Discontinued Operations (net)	-	-	-	-	-	-
Subordinated Debts	-	-	-	-	-	-
Shareholders' Equity	2.928.339	-	-	-	-	2.928.339
Total Liabilities	<b>24.001.573</b>	-	<b>827.585</b>	-	<b>326.564</b>	<b>22.847.424</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.

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**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**

	<b>Current Period</b>	<b>Total</b>	<b>Credit Risk (*)</b>	<b>Securitization Positions</b>	<b>Counterparty credit risk (*)</b>	<b>Market risk (**)</b>
1	Asset carrying value amount under scope of regulatory consolidation	28.910.252	28.546.804	-	1.970.291	132.986
2	Liabilities carrying value amount under regulatory scope of consolidation	28.910.252	-	-	1.304.556	118.724
3	<b>Total net amount</b>	-	<b>28.546.804</b>	-	<b>665.735</b>	<b>14.262</b>
4	Off-balance sheet amounts	47.675.516	2.617.458	-	263.746	-
5	Differences due to prudential filters	-	-	-	114.829	-
6	<b>Risk Amounts</b>	-	<b>31.164.262</b>	-	<b>1.044.310</b>	<b>14.262</b>

(\*)The risk amount before the Credit Risk Mitigation are given in credit risk and the counterparty credit risk.

(\*\*)The valuation amounts of the financial instruments included in the trading accounts in accordance with TAS are stated.

	<b>Prior Period</b>	<b>Total</b>	<b>Credit Risk (*)</b>	<b>Securitization Positions</b>	<b>Counterparty credit risk (*)</b>	<b>Market risk (**)</b>
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
3	<b>Total net amount</b>	-	<b>23.592.549</b>	-	<b>573.385</b>	<b>53.539</b>
4	Off-balance sheet amounts	43.794.254	2.008.586	-	230.653	-
5	Differences due to prudential filters	-	-	-	(37.621)	-
6	<b>Risk Amounts</b>	-	<b>25.601.135</b>	-	<b>766.417</b>	<b>53.539</b>

(\*)The risk amount before the Credit Risk Mitigation are given in credit risk and the counterparty credit risk.

(\*\*)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. Explanations on financial assets" in section "Accounting Policies" of chapter three of the report.



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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**

**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**

Current Period	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	49.522	24.045.988	49.522	24.045.988
2 Debt Securities	-	4.598.435	48.096	4.550.339
3 Off-balance sheet exposures	1.166	7.320.254	583	7.320.837
4 Total	50.688	35.964.677	98.201	35.917.164

Prior Period	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
4 Total	49.605	33.142.880	123.900	33.068.585

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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)**

**Changes in stock of default loans and debt securities**

	<b>Current Period</b>	<b>Balance</b>
1	<b>Defaulted loans and debt securities at end of the previous reporting period</b>	<b>49.605</b>
2	Loans and debt securities that have defaulted since the last reporting period	4.910
3	Receivables back to non-defaulted status	3.827
4	Amounts written off	-
5	Other changes	-
6	<b>Defaulted loans and debt securities at end of the reporting period (1+2+3+4+5)</b>	<b>50.688</b>

	<b>Prior Period</b>	<b>Balance</b>
1	<b>Defaulted loans and debt securities at end of the previous reporting period</b>	<b>60.571</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	-
6	<b>Defaulted loans and debt securities at end of the reporting period (1+2+3+4+5)</b>	<b>49.605</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 Loan Loss Provision” is calculated for these loans.

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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)**

**Additional disclosure related to the credit quality of assets (continued)**

Loans and other receivables, including overdue interests, are restructured under the Provisional Regulation by providing additional credits, if necessary, in order to provide liquidity to the borrower and to collect the receivables of the borrower in case the failure to fulfill the payment obligation to the bank related to the loans and other receivables arises from temporary liquidity difficulties.

Provisional liquidity risk is accounted for as a manageable cash inflow arising from the fact that a borrower with credit risk that is able to fulfill its obligations in a timely and complete manner is subject to funding and outflows from normal operations resulting from fluctuations in sales revenue or operating income due to an unexpected and temporary cause it is taken.

The restructured loans are classified as such and continue to be followed in the groups they follow. During this period, the group to which they are entitled will continue to be charged for the specific or general loan loss provision rates applied.

***Breakdown of receivables according to major regions, sector and remaining maturities***

Breakdown of receivables by major regions, sectors and remaining maturities is included in footnotes under Section Four, Note II, "Explanations Related to Credit Risk."

***Impaired loans on the basis of major regions and sectors and amounts written off corresponding provisions***

On the basis of geographical regions, the receivables from the Bank consist of domestic receivables.

On sectoral basis, the amount of the Bank's impaired loans and related provisions is included in footnotes under Section Four, Note II. "Information of major sectors or type of counterparties" explanations credit risk explanations .

The Bank allocates 100% provision for these receivables. As of 31 December 2017, there are no amounts written off. (31 December 2016: None )

***Aging analysis for overdue receivables***

The aging analysis of the receivables past due is included in footnotes under Section Four, Note II. "Explanations related to credit risk".

**Credit risk mitigation**

**Qualitative disclosure on credit risk mitigation techniques**

In valuations made within the scope of credit risk mitigation techniques, the methods used in relation to the valuation and management of collateral are carried out in parallel with the Communiqué on Credit Risk Reduction Techniques. Offsetting is not used as credit risk reduction technique.

Financial guarantees are assessed on a daily basis at the Bank. Depending on the use of the comprehensive financial guarantee method, the risk-mitigating effects of the collateral are taken into account by means of standard volatility adjustments. Valuations of real estate mortgages used in capital adequacy calculations are regularly reviewed.

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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)**

**Credit risk mitigation (continued)**

**Qualitative disclosure on credit risk mitigation techniques (continued)**

The value of the real estates is determined by the valuation institutions authorized by the Capital Markets Board.

The main guarantees that the Bank may use within the scope of credit risk mitigation techniques; financial guarantees, guarantees and mortgages. At 31 December 2017, mortgages were used as the credit risk mitigation technique in the calculation of the amount subject to credit risk.

**Credit risk mitigation techniques - Standard approach**

	<b>Current Period</b>	<b>Exposures unsecured: value in accordance with TAS.</b>	<b>Exposures secured by collateral</b>	<b>Exposures secured by collateral, of which: secured amount</b>	<b>Exposures secured by financial guarantees</b>	<b>Exposures secured by financial guarantees of which: secured amount</b>	<b>Exposures secured by credit derivatives</b>	<b>Exposures secured by credit derivatives, of which: secured amount</b>
1	Loans	22.649.346	1.171.159	984.202	225.483	183.675	-	-
2	Debt securities	4.550.339	-	-	-	-	-	-
3	<b>Total</b>	<b>27.199.685</b>	<b>1.171.159</b>	<b>984.202</b>	<b>225.483</b>	<b>183.675</b>	<b>-</b>	<b>-</b>
4	Of which defaulted	49.522	-	-	-	-	-	-

	<b>Prior Period</b>	<b>Exposures unsecured: value in accordance with TAS.</b>	<b>Exposures secured by collateral</b>	<b>Exposures secured by collateral, of which: secured amount</b>	<b>Exposures secured by financial guarantees</b>	<b>Exposures secured by financial guarantees of which: secured amount</b>	<b>Exposures secured by credit derivatives</b>	<b>Exposures secured by credit derivatives, of which: secured amount</b>
1	Loans	17.916.659	1.278.412	1.089.582	-	-	-	-
2	Debt securities	4.397.478	-	-	-	-	-	-
3	<b>Total</b>	<b>22.314.137</b>	<b>1.278.412</b>	<b>1.089.582</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
4	Of which defaulted	48.439	-	-	-	-	-	-

**Credit risk under standard approach**

***Qualitative disclosures on banks' use of external credit ratings under the standardised approach for credit risk***

The related disclosures are included in footnotes under Section Four, Note II "Explanations related to credit risk"

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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)**

**Credit risk under standard approach**

***Credit risk exposure and credit risk mitigation effects***

	Curent Period	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
	<b>Risk Groups</b>						
1	Exposures to sovereigns and their central banks	5.247.592	219.689	5.431.267	43.938	1.244.307	22,7%
2	Exposures to regional and local governments	-	-	-	-	-	-
3	Exposures to administrative bodies and noncommercial entities	-	-	-	-	-	-
4	Exposures to multilateral development banks	-	-	-	-	-	-
5	Exposures to international organizations	-	-	-	-	-	-
6	Exposures to banks and securities firms	929.641	478.855	929.640	103.867	834.198	80,7%
7	Exposures to corporates	20.731.288	13.562.819	20.547.612	2.385.325	22.654.132	98,8%
8	Retail exposures	-	-	-	-	-	-
9	Exposures secured by residential real estate property	-	-	-	-	-	-
10	Exposures secured by commercial real estate property	984.202	7.197	984.203	3.598	493.900	50,0%
11	Past due receivables	49.522	-	-	-	-	-
12	Exposures in higher-risk categories	-	1.167	-	292	146	50,0%
13	Exposures in the form of bonds secured by mortgages	-	-	-	-	-	-
14	Short term exposures to banks, brokerage houses and corporates	-	-	-	-	-	-
15	Equity investments in the form of collective investment undertakings	-	-	-	-	-	-
16	Other exposures	140.678	520.071	140.679	80.437	220.734	99,8%
17	Equity Investments	513.404	-	513.404	-	513.404	100,0%
18	<b>Total</b>	<b>28.596.327</b>	<b>14.789.798</b>	<b>28.546.805</b>	<b>2.617.457</b>	<b>25.960.821</b>	<b>83,3%</b>

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**INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)**

**X. Explanations Related to risk management (continued)**

**Explanations related to credit risk (continued)**

**Credit risk under standard approach**

*Credit risk exposure and credit risk mitigation effects*

	Prior Period	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	5.150.038	199.666	5.150.038	39.933	996.206	19,2%
2	Exposures to regional and local governments	-	-	-	-	-	-
3	Exposures to administrative bodies and noncommercial 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 real estate property	-	-	-	-	-	-
10	Exposures secured by commercial real estate property	1.089.582	62.554	1.089.582	39.920	564.751	50,0%
11	Past due receivables	48.439	-	-	-	-	-
12	Exposures in higher-risk categories	-	-	-	-	-	-
13	Exposures in the form of bonds secured by mortgages	-	-	-	-	-	-
14	Short term exposures to banks, brokerage houses and corporates	-	-	-	-	-	-
15	Equity investments in the form of collective investment undertakings	-	-	-	-	-	-
16	Other exposures	107.934	81.908	107.934	70.873	178.780	100,0%
17	Equity Investments	400.945	-	400.945	-	400.945	100,0%
18	<b>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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**INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)**

**X. Explanations related to risk management (continued)**

**Explanations related to credit risk (continued)**

**Credit risk under standardised approach (continued)**

**Exposures by asset classes and risk weights**

	Current Period		0%	10%	20%	Secured by Real Estate Property	50%	75%	100%	150%	200%	Other	Total Risk Amount
	Risk Groups/ Risk Weight												
1	Exposures to sovereigns and their central banks	4,230,898	-	-	-	-	-	-	1,244,307	-	-	-	5,475,205
2	Exposures to regional and local governments	-	-	-	-	-	-	-	-	-	-	-	-
3	Exposures to administrative bodies and noncommercial entities	-	-	-	-	-	-	-	-	-	-	-	-
4	Exposures to multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-
5	Exposures to international organizations	-	-	-	-	-	-	-	-	-	-	-	-
6	Exposures to banks and securities firms	-	-	214,671	55,144	-	-	-	763,692	-	-	-	1,033,507
7	Exposures to corporates	-	-	137,556	337,523	-	-	-	22,457,859	-	-	-	22,932,938
8	Retail exposures	-	-	-	-	-	-	-	-	-	-	-	-
9	Exposures secured by property	-	-	-	987,801	-	-	-	-	-	-	-	987,801
10	Past due receivables	-	-	-	-	-	-	-	-	-	-	-	-
11	Exposures in higher-risk categories	-	-	-	292	-	-	-	-	-	-	-	292
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	-	-	-	-	-	-	-	513,404	-	-	-	513,404
16	Other exposures	383	-	-	-	-	-	-	220,732	-	-	-	221,115
17	<b>Total</b>	<b>4,231,281</b>	<b>-</b>	<b>-</b>	<b>352,227</b>	<b>1,380,760</b>	<b>-</b>	<b>-</b>	<b>25,199,994</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>31,164,262</b>



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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)**

**Credit risk under standardised approach (continued)**

**Exposures by asset classes and risk weights**

	Prior Period		0%	10%	20%	Secured by Real Estate Property	75%	100%	150%	200%	Other	Total Risk Amount
	Risk Groups/	Risk Weight										
1	Exposures to sovereigns and their central banks	3,197,558	-	-	-	1,992,413	-	-	-	-	-	5,189,971
2	Exposures to regional and local governments	-	-	-	-	-	-	-	-	-	-	-
3	Exposures to administrative bodies and noncommercial entities	-	-	-	-	-	-	1,749	-	-	-	1,749
4	Exposures to multilateral development banks	-	-	-	-	-	-	-	-	-	-	-
5	Exposures to international organizations	-	-	-	-	-	-	-	-	-	-	-
6	Exposures to banks and securities firms	-	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 receivables	-	-	-	-	-	-	-	-	-	-	-
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>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>

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**INFORMATION ON 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**

	Current Period	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)	326.787	263.746	-	-	590.533	339.111
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)	-	-	-	-	453.778	264.414
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>603.525</b>

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**SECTION FOUR (Continued)**

**INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)**

**X. Explanations related to risk management (continued)**

**Disclosures on counterparty credit risk (CCR)**

**Analysis of counterparty credit risk exposure by approach (continued)**

	Prior Period	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
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)	-	-	-	-	229.704	133.023
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>489.867</b>

**Credit valuation adjustment (CVA) for capital charge**

	Current Period	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 3×multiplier)	-	-
2	(ii) Stressed VaR component (including the 3×multiplier)	-	-
3	All portfolios subject to the Standardised CVA capital charge	590.533	202.064
4	Total subject to the CVA capital charge	<b>590.533</b>	<b>202.064</b>

	Prior Period	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 3×multiplier)	-	-
2	(ii) Stressed VaR component (including the 3×multiplier)	-	-
3	All portfolios subject to the Standardised CVA capital charge	536.713	203.492
4	Total subject to the CVA capital charge	<b>536.713</b>	<b>203.492</b>

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**INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)**

**X. Explanations related to risk management (continued)**

**Disclosures on counterparty credit risk (CCR) (continued)**

**Counterparty credit risk exposures (CCR) by regulatory portfolio and risk weights**

Current Period									
Risk weight									
Risk groups	0%	10%	20%	50%	75%	100%	150%	Other	Total credit exposure(*)
Exposures to sovereigns and their central banks	-	-	-	-	-	300	-	-	300
Exposures to regional and local governments	-	-	-	-	-	-	-	-	-
Exposures to administrative bodies and noncommercial entities	-	-	-	-	-	1.626	-	-	1.626
Exposures to multilateral development banks	-	-	-	-	-	-	-	-	-
Exposures to international organizations	-	-	-	-	-	-	-	-	-
Exposures to banks and securities firms	-	-	173.741	601.314	-	98	-	-	775.153
Exposures to corporates	-	-	-	2.269	-	262.701	-	-	264.970
Retail exposures	-	-	-	-	-	-	-	-	-
Exposures secured by property	-	-	-	-	-	-	-	-	-
Past due receivables	-	-	-	-	-	-	-	-	-
Exposures in higher-risk categories	-	-	-	-	-	-	-	-	-
Exposures in the form of bonds secured by mortgages	-	-	-	-	-	-	-	-	-
Securitization positions	-	-	-	-	-	-	-	-	-
Short term exposures to banks, brokerage houses and corporates	-	-	-	-	-	-	-	-	-
Equity investments in the form of collective investment undertakings	-	-	-	-	-	-	-	-	-
Equity investments	-	-	-	-	-	-	-	-	-
Other exposures	-	-	-	-	-	2.261	-	-	2.261
Other assets	-	-	-	-	-	-	-	-	-
<b>Total</b>	-	-	<b>173.741</b>	<b>603.583</b>	-	<b>266.986</b>	-	-	<b>1.044.310</b>

(\*) 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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**INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)**

**X. Explanations related to risk management (continued)**

**Disclosures on counterparty credit risk (CCR) (continued)**

**Counterparty credit risk (CCR) exposures by regulatory portfolio and risk weights (continued)**

Prior Period									
Risk weight									
Risk groups	0%	10%	20%	50%	75%	100%	150%	Other	Total credit exposure(*)
Exposures to sovereigns and their central banks	1.450	-	-	-	-	-	-	-	1.450
Exposures to regional and local governments	-	-	-	-	-	-	-	-	-
Exposures to administrative bodies and noncommercial entities	-	-	-	-	-	521	-	-	521
Exposures to multilateral development banks	-	-	-	-	-	-	-	-	-
Exposures to international organizations	-	-	-	-	-	-	-	-	-
Exposures to banks and securities firms	-	-	29.851	485.940	-	-	-	-	515.791
Exposures to corporates	-	-	-	16.498	-	230.316	-	-	246.814
Retail exposures	-	-	-	-	-	-	-	-	-
Exposures secured by property	-	-	-	-	-	-	-	-	-
Past due receivables	-	-	-	-	-	-	-	-	-
Exposures in higher-risk categories	-	-	-	-	-	-	-	-	-
Exposures in the form of bonds secured by mortgages	-	-	-	-	-	-	-	-	-
Securitization positions	-	-	-	-	-	-	-	-	-
Short term exposures to banks, brokerage houses and corporates	-	-	-	-	-	-	-	-	-
Equity investments in the form of collective investment undertakings	-	-	-	-	-	-	-	-	-
Equity 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>

(\*) 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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**INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)**

**X. Explanations related to risk management (continued)**

**Disclosures on counterparty credit risk (CCR) (continued)**

**Collaterals used for CCR**

Current Period	Collaterals received		Collaterals given		Collaterals received	Collaterals given
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash – domestic currency	-	-	-	-	641.012	-
Cash – foreign currency	-	-	-	-	663.544	-
Domestic sovereign debt	-	-	-	-	-	-
Other sovereign debt	-	-	-	-	-	-
Government agency debt	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
<b>Total</b>	-	-	-	-	<b>1.304.556</b>	-

Prior Period	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>69.654</b>	-	-	<b>827.585</b>	-

**Credit derivatives**

None.

**Exposures to central counterparties (CCP)**

None.

**Explanations on securitizations**

None.

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**SECTION FOUR (Continued)**

**INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)**

**X. Explanations related to risk management (continued)**

**Explanations 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**

		<b>Risk Weighted Amount (RWA)</b>	
		<b>Current Period</b>	<b>Prior Period</b>
	<b>Outright products</b>	-	-
1	Interest rate risk (general and specific)	141.363	610.262
2	Equity risk (general and specific)	-	-
3	Foreign exchange risk	46.350	24.263
4	Commodity risk	-	-
	<b>Options</b>	-	-
5	Simplified approach	-	-
6	Delta-plus method	-	-
7	Scenario approach	-	-
8	Securitisation	-	-
9	<b>Total</b>	<b>187.713</b>	<b>634.525</b>

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**SECTION FOUR (Continued)**

**INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)**

**X. Explanations related to risk management (continued)**

**Explanations on operational risk**

**Information to be disclosed to the public regarding operational 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".

	31/12/2014	31/12/2015	31/12/2016	Toplam/Pozitif BG yılı sayısı	Oran (%)	Toplam
Gross Income	578.876	644.577	730.383	651.279	15	97.692
Value at Operational Risk (Total*12,5)						1.221.150

**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.

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	(91.944) / 83.505	(1,91%) / 1,74%
2	Euro	+200 / (200) basis point	56.563 / (18.688)	1,18% / (0,39%)
3	US Dollar	+200 / (200) basis point	(70.306) / 79.127	(1,46%) / 1,65%
	<b>Total (for Negative Shocks)</b>		<b>143.944</b>	<b>3,00%</b>
	<b>Total (for Positive Shocks)</b>		<b>(105.687)</b>	<b>(2,20%)</b>

	Prior 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%
	<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>



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**SECTION FIVE**

**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS**

**I. Explanations and disclosures related to the 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	20	-	27	-
Balances with the Central Bank of Turkey	10.571	836.540	161.276	616.771
Other	-	-	-	-
<b>Total</b>	<b>10.591</b>	<b>836.540</b>	<b>161.303</b>	<b>616.771</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	10.571	4.862	161.276	3.995
Unrestricted time deposits	-	-	-	-
Restricted time deposits	-	-	-	-
Other (*)	-	831.678	-	612.776
<b>Total</b>	<b>10.571</b>	<b>836.540</b>	<b>161.276</b>	<b>616.771</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 2017 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

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**SECTION FIVE (Continued)**

**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**I. Explanations and disclosures related to the 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 2016: 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 2016: 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 2016: 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 2016: 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	14.734	7.175	13.290	8.819
Swap Transactions	179.366	82.997	112.529	115.180
Futures Transactions	-	-	-	-
Options	-	42.516	-	125.627
Other	-	-	-	-
<b>Total</b>	<b>194.100</b>	<b>132.688</b>	<b>125.819</b>	<b>249.626</b>

As part of its economic hedging strategy, the Bank has implemented TL cross currency interest rate swap transactions in which the Bank's default risk is the reference. These swap agreements are subject to a direct closing condition for both the Bank and the counterparty, in the event of a credit default event (such as a non-payment) related to the Bank, to cancel the amounts accrued in the contract and all future payments. The market rediscount value of these swaps with a nominal value of USD 200 million as of 31 December 2017 is TL 134.631 income and the average rates are between 2020 and 2021.

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**SECTION FIVE (Continued)**

**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**I. Explanations and disclosures related to the assets (continued)**

**3. Information on banks and foreign banks account (continued)**

**3.a Information on banks:**

	Current Period		Prior Period	
	TL	FC	TL	FC
Banks				
Domestic	419	1.897	350	1.695
Foreign	-	4.136	15.010	46.398
Branches and head office abroad	-	-	-	-
<b>Total</b>	<b>419</b>	<b>6.033</b>	<b>15.360</b>	<b>48.093</b>

**3.b Information on foreign banks:**

	Unrestricted Amount		Restricted Amount	
	Current Period	Prior Period	Current Period	Prior Period
European Union Countries	887	8.486	-	-
USA and Canada	2.140	1.948	-	-
OECD Countries (*)	1.109	1.041	-	-
Off-shore banking regions	-	-	-	-
Other	-	49.933	-	-
<b>Total</b>	<b>4.136</b>	<b>61.408</b>	<b>-</b>	<b>-</b>

(\*) 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	16.347	-	111.173	-
Treasury bills	-	-	-	-
Other debt securities	-	155.306	-	101.682
Bank bonds and bank guaranteed bonds	-	-	-	-
Asset backed securities	-	-	-	-
Other	-	-	-	-
<b>Total</b>	<b>16.347</b>	<b>155.306</b>	<b>111.173</b>	<b>101.682</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 1.389.292 (31 December 2016: TL 1.252.789).

	Current Period		Prior Period	
	TL	FC	TL	FC
Share certificates	-	-	-	-
Bond, treasury bill and similar investment securities	603.852	785.440	497.581	755.208
Other	-	-	-	-
<b>Total</b>	<b>603.852</b>	<b>785.440</b>	<b>497.581</b>	<b>755.208</b>

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**SECTION FIVE (Continued)**

**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**I. Explanations and disclosures related to the assets (continued)**

**4. Information on available-for-sale financial assets (continued)**

**4.b Major types of available for sale financial assets:**

Available for sale financial assets comprised of government bonds 59,01%, Eurobonds 32,72% and shares and other securities 8,27% (31 December 2016: government bonds 59,38%, Eurobonds 31,52% and shares and other securities 9,10%).

**4.c Information on available for sale financial assets portfolio:**

	Current Period	Prior Period
Debt securities	3.066.387	3.096.626
Quoted on a stock exchange	2.039.864	2.040.539
Unquoted	1.026.523	1.056.087
Share certificates	74.933	56.458
Quoted on a stock exchange	32.121	29.579
Unquoted	42.812	26.879
Other Impairment provision(-)	(54.476)	(82.662)
<b>Total</b>	<b>3.086.844</b>	<b>3.070.422</b>

The net book value of unquoted available for sale share certificates is TL 37.927 (31 December 2016: TL 21.992).

**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	44.909	-	21.131	-
Corporate shareholders	44.909	-	21.131	-
Real person shareholders	-	-	-	-
Indirect loans granted to shareholders	-	-	-	-
Loans granted to employees	173	-	217	-
<b>Total</b>	<b>45.082</b>	<b>-</b>	<b>21.348</b>	<b>-</b>

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**SECTION FIVE (Continued)**

**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

- I. Explanations and disclosures related to the 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 (1)	Standard Loans and Other Receivables			Loans and Other Receivables Under Close Monitoring (2)		
	Loans and Other Receivables (Total)	Amendments on Conditions of Contract		Loans and Other receivables (Total)	Amendments on Conditions of Contract	
Cash Loans		Amendments Related To The Extension Of The Payment Plan	Other		Amendments Related To The Extension Of The Payment Plan	Other
Non-specialized loans	21.757.352	48.415	-	473.661	143.423	-
Working Capital loans	2.930.594	-	-	1.212	1.212	-
Export loans	248.568	-	-	48.440	48.440	-
Import loans	-	-	-	-	-	-
Loans given to financial sector	2.795.036	-	-	-	-	-
Consumer loans	173	-	-	-	-	-
Credit cards	-	-	-	-	-	-
Other	15.782.981	48.415	-	424.009	93.771	-
Specialized loans	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-
<b>Total</b>	<b>21.757.352</b>	<b>48.415</b>	<b>-</b>	<b>473.661</b>	<b>143.423</b>	<b>-</b>

(1) According to Bank account plan purchasing Loans, Fleet Leasing Credits, Refinancing Loans and Portfolio Transfer Credits amounting to TL 4.523.571 shown under "Working Capital Loans", due to the nature of "Investment" shown under the category "other" in the above footnote.

(2) The syndicated loans granted to a company amounting to USD 78.661.835 are classified under Close Monitoring Loans and Other receivables as of 31 December 2017. Discussions between creditor banks and related sovereign institutions about restructuring of loan of this company are proceeding.

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**SECTION FIVE (Continued)**

**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**I. Explanations and disclosures related to the 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):**

Prior Period (1)	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
Cash Loans						
Non-specialized loans	17.123.481	49.896	-	195.112	142.768	2.330
Working Capital loans	1.433.893	-	-	3.349	3.349	-
Export loans	157.895	-	-	44.994	44.994	-
Import loans	-	-	-	-	-	-
Loans given to financial sector	2.263.434	-	-	-	-	-
Consumer loans	217	-	-	-	-	-
Credit cards	-	-	-	-	-	-
Other	13.268.042	49.896	-	146.769	94.425	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>

(1) According to Bank account plan purchasing Loans, Fleet Leasing Credits, Refinancing Loans and Portfolio Transfer Credits amounting to TL 4.035.717 shown under "Working Capital Loans", due to the nature of "Investment" shown under the category "other" in the above footnote.

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**SECTION FIVE (Continued)**

**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

- I. Explanations and disclosures related to the 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):**

<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	48.415	142.211
Extended for 3-4 or 5 times	-	1.212
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	49.896	139.419
Extended for 3-4 or 5 times	-	3.349
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	-	27.946
2-5 Years	48.415	96.688
5 Years	-	18.789

<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	-	32.789
2-5 Years	49.896	95.327
5 Years	-	14.652

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**SECTION FIVE (Continued)**

**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**I. Explanations and disclosures related to the 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 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	1.347.133	-	-	-
Non-specialized loans	1.347.133	-	-	-
Specialized loans	-	-	-	-
Other receivables	-	-	-	-
Medium and Long-term loans	20.410.219	48.415	473.661	143.423
Non-specialized loans	20.410.219	48.415	473.661	143.423
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	645.279	-	-	-
Non-specialized loans	645.279	-	-	-
Specialized loans	-	-	-	-
Other receivables	-	-	-	-
Medium and Long-term loans	16.478.202	49.896	195.112	145.098
Non-specialized loans	16.478.202	49.896	195.112	145.098
Specialized loans	-	-	-	-
Other receivables	-	-	-	-



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**SECTION FIVE (Continued)**

**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**I. Explanations and disclosures related to the assets (continued)**

**5. Information on loans (continued)**

**5.d Information on consumer loans, individual credit cards, personnel loans and credit cards given to personnel:**

<b>Current Period</b>	<b>Short Term</b>	<b>Medium and Long Term</b>	<b>Total</b>
Consumer Loans-TL	-	-	-
Real Estate Loans	-	-	-
Vehicle Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Consumer Loans –Indexed to FC	-	-	-
Real Estate Loans	-	-	-
Vehicle Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Consumer Loans-FC	-	-	-
Real Estate Loans	-	-	-
Vehicle Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Individual Credit Cards-TL	-	-	-
With Instalments	-	-	-
Without Instalments	-	-	-
Individual Credit Cards-FC	-	-	-
With Instalments	-	-	-
Without Instalments	-	-	-
Personnel Loans-TL	5	168	173
Real Estate Loans	-	-	-
Vehicle Loans	-	-	-
General Purpose Loans	5	168	173
Other	-	-	-
Personnel Loans- Indexed to FC	-	-	-
Real Estate Loans	-	-	-
Vehicle Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Personnel Loans-FC	-	-	-
Real Estate Loans	-	-	-
Vehicle 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>5</b>	<b>168</b>	<b>173</b>

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**SECTION FIVE (Continued)**

**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**I. Explanations and disclosures related to the 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	-	-	-
Real Estate Loans	-	-	-
Vehicle Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Consumer Loans –Indexed to FC	-	-	-
Real Estate Loans	-	-	-
Vehicle Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Consumer Loans-FC	-	-	-
Real Estate Loans	-	-	-
Vehicle 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
Real Estate Loans	-	-	-
Vehicle Loans	-	-	-
General Purpose Loans	18	199	217
Other	-	-	-
Personnel Loans- Indexed to FC	-	-	-
Real Estate Loans	-	-	-
Vehicle Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Personnel Loans-FC	-	-	-
Real Estate Loans	-	-	-
Vehicle 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>

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**SECTION FIVE (Continued)**

**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**I. Explanations and disclosures related to the 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 2016: None).

**5.f Loans according to borrowers:**

	Current Period	Prior Period
Public	878.502	125.356
Private	21.352.511	17.193.237
<b>Total</b>	<b>22.231.013</b>	<b>17.318.593</b>

**5.g Domestic and foreign loans:**

	Current Period	Prior Period
Domestic loans	22.123.201	17.246.461
Foreign loans	107.812	72.132
<b>Total</b>	<b>22.231.013</b>	<b>17.318.593</b>

**5.h Loans granted to subsidiaries and associates:**

	Current Period	Prior Period
Direct loans granted to subsidiaries and associates	257.470	346.306
Indirect loans granted to subsidiaries and associates	-	-
<b>Total</b>	<b>257.470</b>	<b>346.306</b>

**5.i Specific provisions provided against loans:**

	Current Period	Prior Period
Loans and receivables with limited collectability	985	3.092
Loans and receivables with doubtful collectability	4.894	-
Uncollectible loans and receivables	43.643	45.347
<b>Total</b>	<b>49.522</b>	<b>48.439</b>

The Bank allocates 100% provision for all non-performing loans regardless of the collaterals.

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**SECTION FIVE (Continued)**

**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**I. Explanations and disclosures related to the 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:**

	<b>III. Group</b>	<b>IV. Group</b>	<b>V. Group</b>
	Loans and Receivables With Limited Collectability	Loans and Receivables With Doubtful Collectability	Uncollectible Loans and Receivables
<b>Current Period</b>			
(Gross amounts before provisions)	-	-	7.266
Restructured loans and other receivables	-	-	-
Rescheduled loans and other receivables	-	-	7.266
<b>Prior Period</b>			
(Gross amounts before provisions)	-	-	10.707
Restructured loans and other receivables	-	-	-
Rescheduled loans and other receivables	-	-	10.707

**5.j.2 Movement of non-performing loans:**

	<b>III. Group</b>	<b>IV. Group</b>	<b>V. Group</b>
	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>3.092</b>	<b>-</b>	<b>45.347</b>
Additions (+)	4.895	1	14
Transfers from other categories of non-performing Loans (+)	-	6.621	1.728
Transfers to other categories of non-performing loans (-)	(6.621)	(1.728)	-
Collections (-)	(381)	-	(3.446)
Write-offs (-)	-	-	-
Corporate and Commercial Loans	-	-	-
Retail Loans	-	-	-
Credit Cards	-	-	-
Other	-	-	-
<b>Current period end balance</b>	<b>985</b>	<b>4.894</b>	<b>43.643</b>
Specific provision (-)	(985)	(4.894)	(43.643)
<b>Net Balances on Balance Sheet</b>	<b>-</b>	<b>-</b>	<b>-</b>

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**SECTION FIVE (Continued)**

**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**I. Explanations and disclosures related to the 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):**

	<b>III. Group</b>	<b>IV. Group</b>	<b>V. Group</b>
	Loans and Receivables With Limited Collectability	Loans and Receivables With Doubtful Collectability	Uncollectible Loans and Receivables
<b>Prior Period</b>			
<b>Prior period end balance</b>	<b>3.603</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>45.347</b>
Specific provision (-)	(3.092)	-	(45.347)
<b>Net Balances on Balance Sheet</b>	-	-	-

**5.j.3 Information on foreign currency non-performing loans and other receivables:**

	<b>III. Group</b>	<b>IV. Group</b>	<b>V. Group</b>
	Loans and Receivables With Limited Collectability	Loans and Receivables With Doubtful Collectability	Uncollectible Loans and Receivables
<b>Current Period</b>			
Period End Balance	982	-	-
Specific Provision (-)	(982)	-	-
<b>Net Balance on Balance Sheet</b>	-	-	-
<b>Prior Period</b>			
Period End Balance	1.362	-	-
Specific Provision (-)	(1.362)	-	-
<b>Net Balance on Balance Sheet</b>	-	-	-

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**SECTION FIVE (Continued)**

**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**I. Explanations and disclosures related to the 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:**

	<b>III. Group</b>	<b>IV. Group</b>	<b>V. Group</b>
	Loans and Receivables With Limited Collectability	Loans and Receivables With Doubtful	Uncollectible Loans and Receivables
<b>Current Period (Net)</b>			
Loans to Real Persons and Legal Entities (Gross)	985	4.894	43.643
Specific Provision Amount (-)	(985)	(4.894)	(43.643)
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>			
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)	-	-	-

**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.

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**SECTION FIVE (Continued)**

**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**I. Explanations and disclosures related to the assets (continued)**

**5.1 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.

**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	145.439	45.742	-	186.736
Investments Subject to Repurchase Agreements	455.539	96.539	129.784	-
<b>Total</b>	<b>600.978</b>	<b>142.281</b>	<b>129.784</b>	<b>186.736</b>

**6.2 Information on government debt investments held-to-maturity:**

	Current Period	Prior Period
Government Bonds	1.532.047	1.375.729
Treasury Bills	-	-
Other Government Securities	-	-
<b>Total</b>	<b>1.532.047</b>	<b>1.375.729</b>

**6.3 Information on held-to-maturity investments:**

	Current Period	Prior Period
<b>Debt Securities</b>		
Quoted at stock Exchange	1.334.722	1.188.990
Unquoted at stock Exchange	199.228	186.739
<b>Value Increase/ (Decrease)</b>	<b>(1.903)</b>	<b>-</b>
<b>Total</b>	<b>1.532.047</b>	<b>1.375.729</b>

**6.4 Movement of held to maturity investments within the year:**

	Current Period	Prior Period
<b>Balances at Beginning of Period</b>	<b>1.375.729</b>	<b>872.602</b>
Foreign currency differences on monetary assets	13.915	31.581
Purchases during the period (*)	-	417.241
Cash obtained from sale and amortization	(836)	(1.597)
Value changes	(1.903)	-
Interest income accruals	145.142	55.902
<b>Balances at End of Period</b>	<b>1.532.047</b>	<b>1.375.729</b>

(\*) The Consumer Price Indexed (CPI) government bonds with the nominal value of TL 339.321 are reclassified to Held to Maturity Investments in current period.

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**SECTION FIVE (Continued)**

**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**I. Explanations and disclosures related to the 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	57,38
3	İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. (İş Girişim)	Istanbul/Turkey	16,67	57,83
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	4.267.774	188.753	1.355	309.226	-	49.530	32.939	-
2	İş Finansal	5.068.687	839.681	2.238	366.137	-	74.200	81.800	273.946
3	İş Girişim	259.379	256.923	45	7.576	3.368	946	1.060	21.612
4	Terme (*)	16.292	3.030	197	-	-	(166)	21	-
5	Ege Tarım	11.229	9.972	8.527	97	-	(534)	(600)	-

(\*) Represents for the period ended 30 June 2017 financial statements. Prior year profit/loss is obtained from 30 June 2016 financial statements.



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**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**I. Explanations and disclosures related to the assets (continued)**

**7. Information on associates (net) (continued)**

**7.a.2 Information on associates:**

	<b>Current Period</b>	<b>Prior Period</b>
<b>Balance at the Beginning of the Period</b>	<b>222.908</b>	<b>156.008</b>
Movements During the Period	85.589	66.900
Purchases	-	-
Bonus Shares Obtained	14.280	19.993
Current Year Share of Profit	-	-
Sales	-	-
Revaluation Increase	71.808	46.907
Provision for Impairment	(499)	-
<b>Balance at the End of the Period</b>	<b>308.497</b>	<b>222.908</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 not purchased any associates.

**7.a.3 Sectoral information of associates subject to consolidation and the related carrying amounts in the legal books:**

	<b>Current Period</b>	<b>Prior Period</b>
Banks	-	-
Insurance Companies	-	-
Factoring Companies	11.882	11.882
Leasing Companies	273.946	190.820
Financial Service Companies	-	-
Other Financial Associates	21.613	18.651

**7.a.4 Information on associates subject to consolidation quoted on stock market:**

	<b>Current Period</b>	<b>Prior Period</b>
Associates quoted on domestic stock exchanges	295.559	209.471
Associates quoted on foreign stock exchanges	-	-

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**SECTION FIVE (Continued)**

**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**I. Explanations and disclosures related to the assets (continued)**

**8. Information on subsidiaries (net)**

**8.a.1 Information related to equity component of subsidiaries:**

Current Period	YF (*)	TSKB GYO (*)
<b>CORE CAPITAL</b>		
Paid-in Capital	64.275	150.000
Share Premium	-	593
Legal Reserves	2.514	8.787
Other Comprehensive Income according to TAS	9.759	4
Current and Prior Years' Profit/Loss	8.239	17.094
Leasehold Improvements (-)	(408)	-
Intangible Assets (-)	(915)	(25)
<b>Total Core Capital</b>	<b>83.464</b>	<b>176.453</b>
<b>Supplementary Capital</b>	-	-
<b>Capital</b>	-	-
<b>Net Available Capital</b>	<b>83.464</b>	<b>176.453</b>

(\*) The information is obtained from financial statements subject to consolidation as of 31 December 2017.

Prior Period	YF (*)	TSKB GYO (*)
<b>CORE CAPITAL</b>		
Paid-in Capital	64.275	150.000
Share Premium	-	593
Legal Reserves	2.514	8.787
Other Comprehensive Income according to TAS	(891)	(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>Capital</b>	-	-
<b>Net Available Capital</b>	<b>63.855</b>	<b>198.156</b>

(\*) The information is obtained from financial statements subject to consolidation as of 31 December 2016.

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.

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**SECTION FIVE (Continued)**

**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**I. Explanations and disclosures related to the assets (continued)**

**8. Information on subsidiaries (net) (continued)**

**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	20.325	15.585	1.187	1.269	-	2.717	3.272	-
2	YF (*)	1.281.667	84.787	1.366	47.355	1.088	8.401	(3.973)	-
3	TSKB GYO (*)	468.324	176.478	374	276	-	(21.724)	(26.140)	64.871
4	TSKB SD	1.012	754	13	125	-	(560)	(293)	-

(\*) 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>129.363</b>	<b>122.699</b>
Movements in the period	6.992	6.664
Purchases	-	1.000
Bonus shares obtained	-	-
Current year share of profit	-	-
Sales	-	-
Revaluation increase	6.992	5.664
Provision for impairment	-	-
<b>Balance at the end of the period</b>	<b>136.355</b>	<b>129.363</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 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.

*Subsidiaries purchased in the current period*

During the current period, the Bank has no subsidiaries acquired.

**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	134.976	127.984

**8.b.4 Subsidiaries subject to consolidation quoted on stock market:**

	Current Period	Prior Period
Subsidiaries quoted on domestic stock exchanges	64.871	57.879
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 2016: 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	8.627	7.439	1.552	1.367
Between 1- 4 years	40.269	34.632	1.704	1.455
More than 4 years	25.061	21.339	1.137	970
<b>Total</b>	<b>73.957</b>	<b>63.410</b>	<b>4.393</b>	<b>3.792</b>

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**SECTION FIVE (Continued)**

**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**I. Explanations and disclosures related to the assets (continued)**

**10. Information on finance lease receivables (net)**

**10.b The information on net investments in finance leases:**

	Current Period	Prior Period
Gross investments in finance leases	73.957	4.393
Unearned revenue from finance leases (-)	(10.547)	(601)
Cancelled finance leases (-)	-	-
Net investments in finance leases	63.410	3.792

**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
Cash Flow Hedge	-	-	-	-
Hedge of net investment in foreign operations	-	-	-	-
Total	-	-	-	272

As of 31 December 2017, 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	10.582.050	-	(78.682)	7.747.800	272	(51.433)
FC	10.582.050	-	(78.682)	7.747.800	272	(51.433)
TL	-	-	-	-	-	-

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**SECTION FIVE (Continued)**

**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**I. Explanations and disclosures related to the assets (continued)**

**11. Explanation on derivative financial assets held for hedging purposes**

**11.a.1 Information on fair value hedge accounting**

Current Period						Income Statement Effect (Profit/Loss Through Derivative Financial Instruments)
Hedging Item	Hedged Item	Type of Risk	Fair Value Change of Hedged Item(*)	Fair Value of Hedging Instrument(*)		
				Assets	Liabilities	
Interest Rate Swap Transactions	Fixed Rate Issued Eurobond and Greenbond	Interest Rate Risk	60.540	-	(71.434)	(10.894)
Interest Rate Swap Transactions	Fixed Rate Loans Used	Interest Rate Risk	8.988	-	(10.600)	(1.612)

(\*) The fair value of hedged item and hedging instrument are presented as net market value excluding credit risk and accumulated interest.

Prior Period						Income Statement Effect (Profit/Loss Through Derivative Financial Instruments)
Hedging Item	Hedged Item	Type of Risk	Fair Value Change of Hedged Item(*)	Fair Value of Hedging Instrument(*)		
				Assets	Liabilities	
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	3.880	-	(4.378)	(498)

(\*) 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)**

Since the third quarter of 2015, the Bank has changed its accounting policy and adopted the revaluation method under TAS 16 in the valuation of properties included in property, plant and equipment. The appraisal companies authorized by CMB and BRSA are valued for the year 2017 and are not accounted as there is no significant change with the valuation amount recorded in the previous period.

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**SECTION FIVE (Continued)**

**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**I. Explanations and disclosures related to the assets (continued)**

**12. Explanations on tangible assets (net) (continued)**

Current Period	Prior Period End	Current Period Additions	Current Period Disposals	Revaluation Surplus	Other	Current Period End
Cost						
Land and buildings	40.370	-	-	-	-	40.370
Assets held under finance leases	2.380	-	(21)	-	-	2.359
Vehicles	938	-	(266)	-	-	672
Assets held for resale	576	-	-	-	(576)	-
Other	21.221	3.580	(44)	-	-	24.757
<b>Total Cost</b>	<b>65.485</b>	<b>3.580</b>	<b>(331)</b>	<b>-</b>	<b>(576)</b>	<b>68.158</b>
Accumulated depreciation						
Land and buildings	(122)	(89)	-	-	-	(211)
Assets held under finance leases	(2.124)	(115)	21	-	-	(2.218)
Vehicles	(590)	(134)	226	-	-	(498)
Assets held for resale	-	-	-	-	-	-
Other	(11.330)	(3.075)	27	-	-	(14.378)
<b>Total accumulated depreciation</b>	<b>(14.166)</b>	<b>(3.413)</b>	<b>274</b>	<b>-</b>	<b>-</b>	<b>(17.305)</b>
Impairment provision						
Land and buildings	-	-	-	-	-	-
Assets held under finance leases	-	-	-	-	-	-
Vehicles	-	-	-	-	-	-
Assets held for resale	(207)	(18)	-	-	225	-
Other	-	-	-	-	-	-
<b>Total impairment provision</b>	<b>(207)</b>	<b>(18)</b>	<b>-</b>	<b>-</b>	<b>225</b>	<b>-</b>
<b>Net book value</b>	<b>51.112</b>	<b>149</b>	<b>(57)</b>	<b>-</b>	<b>(351)</b>	<b>50.853</b>

(1) Impairment on assets for resale is classified under other assets from tangible assets in current period.

Prior Period	Prior Period End	Current Period Additions	Current Period Disposals	Revaluation Surplus	Other	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>-</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>-</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>-</b>	<b>(207)</b>
<b>Net book value</b>	<b>48.515</b>	<b>(883)</b>	<b>(30)</b>	<b>3.510</b>	<b>-</b>	<b>51.112</b>

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**SECTION FIVE (Continued)**

**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**I. Explanations and disclosures related to the assets (continued)**

**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	2.864	(1.915)	4.145	(2.505)

Prior Period	Beginning of Period		End of Period	
	Gross Book Value	Accumulated Amortization	Gross Book Value	Accumulated Amortization
Software	4.618	(3.932)	2.864	(1.915)

**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	2.864	1.281	-	4.145
<b>Total Cost</b>	<b>2.864</b>	<b>1.281</b>	<b>-</b>	<b>4.145</b>
Accumulated amortization:				
Software	(1.915)	(590)	-	(2.505)
<b>Total Accumulated Amortization</b>	<b>(1.915)</b>	<b>(590)</b>	<b>-</b>	<b>(2.505)</b>
Impairment provision:				
Software	-	-	-	-
<b>Total Impairment provision</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Book Value</b>	<b>949</b>	<b>691</b>	<b>-</b>	<b>1.640</b>



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**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**I. Explanations and disclosures related to the assets (continued)**

**13. Information on intangible assets (continued)**

**13.d Movement of cost and accumulated amortization for the period:**

Prior 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>

**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 2016: 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 2016: 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 2016: 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 2016: 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 2016: None).

**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 2016: 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 2016: None).

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**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**I. Explanations and disclosures related to the assets (continued)**

**13. Information on intangible assets (continued)**

**13.1 Information on goodwill:**

As at the reporting date, the Bank has no goodwill (31 December 2016: 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 2016: 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 2016: None).

**14. Information on investment property**

The Bank has no investment property (31 December 2016: 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.

<b>Deferred tax asset:</b>	<b>Current Period</b>	<b>Prior Period</b>
Loan commissions accrual adjustment	22.563	17.378
Other provisions	61.600	18.000
Employee benefit provision	2.269	1.869
Other	717	568
<b>Total Deferred Tax Asset</b>	<b>87.149</b>	<b>37.815</b>
<b>Deferred tax liability:</b>		
Marketable securities	(20.808)	(7.493)
Valuation of derivative instruments	(8.823)	(3.635)
Loan commissions accrual adjustment	(10.869)	(8.791)
Useful life difference of fixed assets	(535)	(362)
Other	(6.748)	(3.339)
<b>Total Deferred Tax Liability</b>	<b>(47.783)</b>	<b>(23.620)</b>
<b>Net Deferred Tax Asset</b>	<b>39.366</b>	<b>14.195</b>

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**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**I. Explanations and disclosures related to the assets (continued)**

**15. Information on deferred tax 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:**

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 2016: None).

**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 2016: None).

**16. Explanation on assets held for sale**

In the current period, the Bank has no assets held for sale (31 December 2016: 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 2016: None).

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**SECTION FIVE (Continued)**

**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**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	14.804	6.867	13.094	4.779
Swap Transactions	108.906	59.403	97.551	79.597
Futures Transactions	-	-	-	-
Options	-	42.423	-	125.627
Other	-	-	-	-
<b>Total</b>	<b>123.710</b>	<b>108.693</b>	<b>110.645</b>	<b>210.003</b>

**3. Information on banks and other financial institutions**

**3.a General 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	-	272.079	-	73.741
From Foreign Banks, Institutions and Funds	190.972	18.218.677	100.083	15.667.143
<b>Total</b>	<b>190.972</b>	<b>18.490.756</b>	<b>100.083</b>	<b>15.740.884</b>

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**SECTION FIVE (Continued)**

**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**II. Explanations and disclosures related to the liabilities (continued)**

**3. Information on banks and other financial institutions (continued)**

**3.b Maturity analysis of funds borrowed:**

	Current Period		Prior Period	
	TL	FC	TL	FC
Short-term	-	134.812	-	73.741
Medium and long-term	190.972	18.355.944	100.083	15.667.143
<b>Total</b>	<b>190.972</b>	<b>18.490.756</b>	<b>100.083</b>	<b>15.740.884</b>

**3.c Information on marketable securities issued**

	Current Period		Prior Period	
	TL	FC	TL	FC
Nominal	-	3.752.500	-	3.490.000
Cost	-	3.743.915	-	3.476.185
Book Value	-	3.746.229	-	3.486.732

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	450.037	127.078	234.353	60.998
Financial institutions and organizations	415.776	-	208.657	-
Other institutions and organizations	33.813	124.383	25.209	58.387
Real persons	448	2.695	487	2.611
From Foreign Transactions	3	34.060	3	-
Financial institutions and organizations	-	34.060	-	-
Other institutions and organizations	2	-	2	-
Real persons	1	-	1	-
<b>Total</b>	<b>450.040</b>	<b>161.138</b>	<b>234.356</b>	<b>60.998</b>

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**SECTION FIVE (Continued)**

**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**II. Explanations and disclosures related to the 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 2016: None).

**5. Informations on financial lease obligations (net)**

**5.a Explanations on finance lease payables:**

The Bank has no financial lease payables (31 December 2016: None).

**5.b Explanations regarding operational leases:**

As of the reporting date, the Bank's 2 head office buildings, 1 branch, 13 cars and 291 computers are subject to operational leasing. The Bank has no liability for operational leases in the current period (31 December 2016: 2 head office buildings, 1 branch, 12 cars and 215 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 2016: None).

**6. Negative differences on derivative financial instruments held for hedging purposes:**

	Current Period		Prior Period	
	TL	FC	TL	FC
Fair Value Hedge	-	78.682	-	51.433
Cash Flow Hedge	-	-	-	-
Net Investment Hedge in a foreign operation	-	-	-	-
<b>Total</b>	-	<b>78.682</b>	-	<b>51.433</b>

**7. Explanations on provisions**

**7.a Information on general provisions:**

	Current Period	Prior Period
<b>General Provisions</b>	<b>150.275</b>	<b>178.463</b>
Provisions for First Group Loans and Receivables	107.597	155.061
Provisions for Second Group Loans and Receivables	9.473	3.902
Provisions for Non-Cash Loans	2.447	2.714
Other	30.758	16.786

(1) Minimum provision rates for general provision calculation is used for first group standart loans and all non cash loans in Regulation "Regulation on Procedures and principles For Determination of Qualifications of Loans and Other Receivables by Banks and Provisions to be set aside" published on the Official Gazette numbered 29918 dated 14 December 2016.

**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 4.724 (31 December 2016: TL 247). The foreign exchange losses on the foreign currency indexed loans are net off from the loans line in the financial statements.

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**SECTION FIVE (Continued)**

**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**II. Explanations and disclosures related to the liabilities (continued)**

**7. Information on provisions (continued)**

**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 2016: TL 583).

**7.d Information on other provisions (continued):**

**7.d.1 Provision for possible losses:**

Free provision amounting to TL 190.000 provided by the Bank management in the current period for possible results of the circumstances which may arise from possible changes in the economy and market conditions. (31 December 2016: None)

**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 2017, employee termination benefits is amounting TL 8.312 reflected in financial statements (31 December 2016: TL 7.906). As of 31 December 2017, the Bank has provided a reserve for unused vacation amounting to TL 2.004 (31 December 2016: TL 1.440). This balance is classified under reserve for employee benefits in the financial statements.

Actuarial gains and losses amount of TL 311 are consisted after 1 January 2017, are recognised under equity in accordance with revised TAS 19 standard (31 December 2016: TL 900 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 2017, the Bank has no obligations on pension rights (31 December 2016: None).

***Liabilities for pension funds established in accordance with Social Security Institution***

None (31 December 2016: 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 2017 has been calculated by an independent actuary in accordance with the actuarial assumptions in the Law and as per actuarial report dated 16 January 2018, there is no need for technical or actual deficit to book provision as of 31 December 2017.

Accordingly, as of 31 December 2017 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 (*)	90.583	90.583
<b>Total</b>	<b>90.583</b>	<b>90.583</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 2016: TL 90.000 and TL 583 provision respectively ).

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**SECTION FIVE (Continued)**

**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**II. Explanations and disclosures related to the liabilities (continued)**

**8. Explanations on taxes payable**

**8.a Explanations on current taxes payable:**

**8.a.1 Explanations on taxes payable:**

	Current Period		Prior Period	
	TL	FC	TL	FC
Corporate Taxes and Deferred Taxes				
Corporate tax payable	43.662	-	5.066	-
Deferred tax liability	-	-	-	-
<b>Total</b>	<b>43.662</b>	<b>-</b>	<b>5.066</b>	<b>-</b>

**8.a.2 Information on taxes payable:**

	Current Period	Prior Period
Corporate taxes payable	43.662	5.066
Taxation of securities	171	334
Property tax	-	-
Banking and Insurance Transaction Tax (BITT)	6.106	3.374
Foreign Exchange Transaction Tax	-	-
Value Added Tax Payable	399	130
Other	1.553	1.320
<b>Total</b>	<b>51.891</b>	<b>10.224</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	33	28
Unemployment insurance-Employer	66	57
Other	-	-
<b>Total</b>	<b>99</b>	<b>85</b>

**8.b Information on deferred taxes liabilities:**

As at the reporting date, the Bank has no deferred tax liability (31 December 2016: None).

**9. Explanations on liabilities regarding assets held for sale**

None. (31 December 2016: 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:**

As of 28 March 2017, The Bank issued the sustainable subordinated debt securities which have nominal value of USD 300 Million, redemption date of 29 March 2022 with fixed interest rate of 7,625% semiannual coupon payment. As of the end of the period, the value of the borrowing instrument is TL 1.146.236.



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**SECTION FIVE (Continued)**

**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**II. Explanations and disclosures related to the liabilities (continued)**

**11. Information on shareholders' equity**

**11.a Presentation of paid-in capital:**

	Current Period	Prior Period
Common stock	2.400.000	2.050.000
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	2.400.000	4.500.000

**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 23 March 2017, it has been resolved that, paid in capital of the Bank will be increased for TL 2.050.000 to TL 2.400.000 by adding TL 350.000. In respect of the resolution of the General Assembly, all of this increase will be incorporated from the profit of the year 2016. Aforementioned increase was approved by the BRSA dated 27 April 2017 and was announced in the Turkish Trade Registry Gazette dated 12 June 2017 and No. 9345.

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.

**11.d Information on share capital increases from capital reserves:**

None (31 December 2016: None).

**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.

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**SECTION FIVE (Continued)**

**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**II. Explanations and disclosures related to the liabilities (continued)**

**11. Information on shareholders' equity (continued)**

**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 2016: 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	95.378	-	16.577	-
Available for Sale Financial Assets	(34.415)	12.440	(22.272)	(26.774)
Valuation Differences	(42.262)	12.440	(26.515)	(26.774)
Foreign Exchange Difference	7.847	-	4.243	-
<b>Total</b>	<b>60.963</b>	<b>12.440</b>	<b>(5.695)</b>	<b>(26.774)</b>

**11.i Informations on legal reserves:**

	Current Period	Prior Period
First legal reserve	154.571	130.749
Second legal reserve	84.283	83.174
Other legal reserves appropriated in accordance with special legislation	-	-
<b>Total</b>	<b>238.854</b>	<b>213.923</b>

**11.j Informations on extraordinary reserves:**

	Current Period	Prior Period
Reserves appropriated by the General Assembly	115.113	106.400
Retained earnings	-	-
Accumulated losses	-	-
Foreign currency share capital exchange differences	-	-
<b>Total</b>	<b>115.113</b>	<b>106.400</b>

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**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**II. Explanations and disclosures related to the liabilities (continued)**

**11. Information on shareholders' equity (continued)**

**11.k Explanations related to equity:**

Movement of equity reserves during the period

<b>Current Period</b>	<b>Value Increase Funds of Marketable Securities from Available for Sale</b>	<b>Value Increase Funds of Marketable Securities from Subsidiaries and Associates</b>	<b>Revaluation value increase Subsidiaries and Associates(*)</b>	<b>Others Equity Reserves</b>	<b>Total</b>
<b>As at 1 January</b>	<b>(49.046)</b>	<b>16.577</b>	<b>34.702</b>	<b>777</b>	<b>3.010</b>
Value increase/decrease of available for sale investments recognized directly under equity	30.179	78.801	-	-	108.980
Profit/loss on disposal of available for sale investments recycled to income statement from equity	(305)	-	-	-	(305)
Tax effect of gains on available for sale investments	(2.798)	-	-	-	(2.798)
Other (1)	(5)	-	(2.131)	(230)	(2.366)
<b>As at 31 December</b>	<b>(21.975)</b>	<b>95.378</b>	<b>32.571</b>	<b>547</b>	<b>106.521</b>

(1) The valuation of real estates are made by expertise firms that are endowed with the authority by CMB and BRSA in accordance with the revaluation method in according to the scope of TAS 16 and have no changes from the previous term. The revaluation difference amounting to 2.131 TL for 2017 is the effect of deferred tax changes rating. The actuarial valuation method stated in TAS 19 has been used in the calculation of employee termination benefit and the emerging actuarial gains and losses after 1 January 2017 amounting to 311 TL and the related deferred tax effect amounting to 81 TL have been accounted under equity in accordance with the revised TAS 19 standard.

<b>Prior Period</b>	<b>Value Increase Funds of Marketable Securities from Available for Sale</b>	<b>Value Increase Funds of Marketable Securities from Subsidiaries and Associates</b>	<b>Revaluation value increase Subsidiaries and Associates</b>	<b>Others Equity Reserves</b>	<b>Total</b>
<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	-	-	7.744
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 (1)	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>

(1) The appraisal companies authorized by the CMB and BRSA were valued in accordance with the revaluation method stated in TAS 16, and revaluation difference of TL 3.510 and deferred tax effect of TL 176 for the year ended 31 December 2016 were recorded under equity. The actuarial valuation method specified in TAS 19 has been applied in the calculation of employee rights provision and actuarial gains and losses amounting to TL 900 after 1 January 2016 and the related deferred tax effect amounting to TL 180 have been accounted under equity under the revised TAS 19 standard.

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**SECTION FIVE (Continued)**

**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**III. Explanations and disclosures related to the off-balance sheet items**

**1. Explanation on off-balance sheet liabilities**

**1.a Types and amount of irrevocable loan commitments:**

	Current Period	Prior Period
Commitments for Forward Purchase and Sales of Assets	99.151	78.479
Commitments for Stock Brokerage Purchase and Sales	158.451	68.274
Commitments for Letter of Credit	197.571	118.050
Commitments from Forward Short Term Borrowing and Transfers	93	-
Capital commitments for subsidiaries and associates (1)	78.890	68.367
Other	225.423	204.417
<b>Total</b>	<b>759.579</b>	<b>537.587</b>

(1) The Bank, the European Investment Fund (European Investment Fund - EIF), to be established by Turkey, Growth and Innovation Fund (Turkish Growth and Innovation Fund - TGIF) purchase of shares of the fund established under the name situated remaining amount that commitment. "

**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 1.098.066 (31 December 2016: TL 693.817).

**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 1.475.647 TL (31 December 2016: TL 975.393).

**1.c.1 Total amount of non-cash loans:**

	Current Period	Prior Period
Non-cash loans given against obtaining cash loans	736.637	741.806
With maturity of one year or less than one year	25.877	32.575
With maturity of more than one year	710.760	709.231
Other non-cash loans	1.837.076	927.404
<b>Total</b>	<b>2.573.713</b>	<b>1.669.210</b>

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**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**III. Explanations and disclosures related to the off-balance sheet items (continued)**

**1. Explanation on off-balance sheet liabilities (continued)**

**1.c.2 Information on sectoral risk concentration 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	561.688	99	1.811.654	91	203.711	97	1.320.782	91
Mining	-	-	-	-	-	-	-	-
Manufacturing Industry	381.548	68	937.466	48	6.740	3	647.831	44
Electricity, Gas, Water	180.140	31	874.188	43	196.971	94	672.951	47
Construction	146	-	-	-	2.900	1	-	-
Services	1.166	1	199.059	9	3.839	2	133.905	8
Wholesale and Retail Trade	-	-	9.410	-	-	-	-	-
Hotel, Food and Beverage Services	-	-	-	-	-	-	-	-
Transportation and Communication	62	-	44.463	2	-	-	-	-
Financial Institutions	321	-	145.186	7	321	-	133.905	8
Real Asset and Leasing Services	783	1	-	-	3.518	2	-	-
Self-employment Services	-	-	-	-	-	-	-	-
Education Services	-	-	-	-	-	-	-	-
Health and Social Services	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
<b>Total</b>	<b>563.000</b>	<b>100</b>	<b>2.010.713</b>	<b>100</b>	<b>210.450</b>	<b>100</b>	<b>1.458.760</b>	<b>100</b>

**1.c.3 Information on non cash loans classified under Group I and Group II:**

	Ist Group				IInd Group			
	Current Period		Prior Period		Current Period		Prior Period	
	TL	FC	TL	FC	TL	FC	TL	FC
Non-cash Loans	559.683	2.010.713	206.783	1.458.760	3.317	-	3.667	-
Letters of Guarantee	559.683	912.647	206.783	764.943	3.317	-	3.667	-
Bank Acceptances	-	18.763	-	17.450	-	-	-	-
Letters of Credit	-	1.079.303	-	676.367	-	-	-	-
Endorsements	-	-	-	-	-	-	-	-
Purchase Guarantees on Issuance of Securities	-	-	-	-	-	-	-	-
Factoring Guarantees	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-

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**SECTION FIVE (Continued)**

**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**III. Explanations and disclosures related to the off-balance sheet items (continued)**

**2. Explanation related to derivative financial instruments**

	Current Period	Prior Period
Foreign currency related derivative transactions (I)	16.485.559	15.679.164
Forward transactions	4.826.105	1.131.115
Swap transactions	7.007.482	7.616.113
Futures transactions	-	-
Option transactions	4.651.972	6.931.936
Interest related derivative transactions (II)	13.214.240	10.773.710
Interest rate swap transactions	13.214.240	10.773.710
Interest option transactions	-	-
Futures interest transactions	-	-
Other trading derivative transactions (III)	72.830	117.544
A. Total trading derivative transactions (I+II+III)	29.772.629	26.570.418
Types of hedging transactions		
Fair value hedges	10.582.050	7.747.800
Cash flow hedges	-	-
Net investment hedges	-	-
B. Total hedging related derivatives	10.582.050	7.747.800
<b>Total Derivative Transactions (A+B)</b>	<b>40.354.679</b>	<b>34.318.218</b>

As of 31 December 2017, 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	485.006	496.499	594.254	1.783.828	1.159.838	1.159.838	-	-	-
US Dollar	1.161.362	1.149.585	6.235.835	4.790.697	918.051	918.051	-	-	10.582.050
Euro	423.419	423.467	3.139.039	3.323.127	248.097	248.097	-	-	-
Other	343.381	343.386	211.698	143.244	-	-	-	72.830	-
<b>Total</b>	<b>2.413.168</b>	<b>2.412.937</b>	<b>10.180.826</b>	<b>10.040.896</b>	<b>2.325.986</b>	<b>2.325.986</b>	<b>-</b>	<b>72.830</b>	<b>10.582.050</b>

	Forward Buy	Forward Sell	Swap Buy	Swap Sell	Option Buy	Option Sell	Futures Buy	Futures Sell	Fair Value Hedge
<b>Prior 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	135.548	-	-	-	117.544	-
<b>Total</b>	<b>567.798</b>	<b>563.317</b>	<b>9.280.788</b>	<b>9.109.035</b>	<b>3.465.968</b>	<b>3.465.968</b>	<b>-</b>	<b>117.544</b>	<b>7.747.800</b>

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**SECTION FIVE (Continued)**

**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**III. Explanations and disclosures related to the off-balance sheet items (continued)**

**2. Explanation related to derivative financial instruments (continued)**

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	203.692	(135.793)	7.007.482	153.173	(141.268)	7.616.113
Interest Rate Swap Transactions	55.695	(32.518)	13.214.240	58.255	(35.880)	10.773.710
Forward Transactions	21.909	(21.669)	4.826.105	22.109	(17.873)	1.131.115
Futures Transactions	-	-	-	-	-	-
Option Transactions	42.519	(42.423)	4.651.972	125.627	(125.627)	6.931.936
Other	2.973	-	72.830	16.281	-	117.544
<b>Total</b>	<b>326.788</b>	<b>(232.403)</b>	<b>29.772.629</b>	<b>375.445</b>	<b>(320.648)</b>	<b>26.570.418</b>

***Fair value hedge***

For the year ended 31 December 2017, the Bank has interest rate swaps for hedging purposes nominal amount of TL 10.582.050 (31 December 2016: 7.747.800)

***Hedging from the cash-flow risk***

As of 31 December 2017 there is no cash-flow hedging transactions (31 December 2016: None).

**3. Explanations on loan derivatives and risk exposures**

The Bank has no loan derivatives and such risk exposures to this respect (31 December 2016: None).

**4. Explanations on contingent liabilities and assets**

There are 34 legal cases against the Bank which are amounting to TL 2.176 as of the reporting date (31 December 2016: TL 2.115 - 37 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.

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**SECTION FIVE (Continued)**

**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**III. Explanations and disclosures related to the off-balance sheet items (continued)**

**4. Explanations on contingent liabilities and assets (continued)**

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 Bank in relation to the 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 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 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.



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**SECTION FIVE (Continued)**

**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**IV. Explanations and disclosures related to the 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 (*)				
Short term loans	193.578	9.179	69.426	6.504
Medium and long term loans	216.065	876.636	166.011	599.067
Interest on non-performing loans	3.369	87	4.015	84
Premiums received from Resource Utilization Support Fund	-	-	-	-
<b>Total</b>	<b>413.012</b>	<b>885.902</b>	<b>239.452</b>	<b>605.655</b>

(\*) 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 (*)	5.617	-	3.371	-
Domestic banks	31.709	1.805	10.117	1.186
Foreign banks	1.337	168	155	563
Branches and head office abroad	-	-	-	-
<b>Total</b>	<b>38.663</b>	<b>1.973</b>	<b>13.643</b>	<b>1.749</b>

(\*) 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	1.031	1	1.361	30
Financial Assets at Fair Value Through Profit and Loss	-	-	-	-
Available for Sale Financial Assets	190.262	50.637	218.692	45.095
Investments Held to Maturity	177.715	12.254	78.270	8.793
<b>Total</b>	<b>369.008</b>	<b>62.892</b>	<b>298.323</b>	<b>53.918</b>

As indicated in accounting policies, the bank evaluate its Consumer Price Indexed (CPI) government bonds which are in securities portfolio of the Bank base on reference index at date of issue and estimated CPI's. The estimated CPI's is updated when it is seem necessary. The subjected securities is evaluated based on actual index on the annual balance sheet date as of 31 December 2017.

**1.d Information on interest income received from associates and subsidiaries:**

	Current Period	Prior Period
Interest received from associates and subsidiaries	20.793	8.595

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**SECTION FIVE (Continued)**

**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**IV. Explanations and disclosures related to the 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	24.848	40.252	16.177	25.041
The Central Bank of Turkey	-	-	-	-
Domestic banks	13.220	3.689	5.017	1.193
Foreign banks	11.628	36.563	11.160	23.848
Branches and head office abroad	-	-	-	-
Other financial institutions	2.794	254.784	2.487	198.700
<b>Total (*)</b>	<b>27.642</b>	<b>295.036</b>	<b>18.664</b>	<b>223.741</b>

(\*) 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 2016: None).

**2.c Information on interest expense to securities issued:**

	Current Period		Prior Period	
	TL	FC	TL	FC
Interest on Securities Issued (*)	-	262.943	-	149.831

(\*) 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	2.368	2.711
Other	15.633	27.391
<b>Total</b>	<b>18.001</b>	<b>30.102</b>

**4. Information on net trading income (net)**

	Current Period	Prior Period
<b>Profit</b>	<b>1.822.348</b>	<b>1.402.637</b>
Gains on capital market operations	9.080	7.098
Gains on derivative financial instruments (*)	986.955	882.298
Foreign exchange gains	826.313	513.241
<b>Losses (-)</b>	<b>(1.867.863)</b>	<b>(1.457.419)</b>
Losses on capital market operations	(3.217)	(1.181)
Losses on derivative financial instruments (*)	(1.206.720)	(882.124)
Foreign exchange losses	(657.926)	(574.114)

(\*) The foreign exchange gain from derivative transactions amounting to TL 367.511 is presented in "Gains on derivative financial instruments" (31 December 2016: TL 398.300 ), foreign exchange loss from derivative transactions amounting to TL (602.607) is presented in "Losses on derivative financial instruments" (31 December 2016: TL (418.234)).

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**SECTION FIVE (Continued)**

**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**IV. Explanations and disclosures related to the income statement (continued)**

**5. Explanation related to other operating income**

	<b>Current Period</b>	<b>Prior Period</b>
Provisions Released (1)	32.016	12.658
Gains on Sale of Assets	244	173
From Associate and Subsidiary Sales	-	114
From Immovable Fixed Asset Sales	-	-
From Property Sales	244	59
From Other Asset Sales	-	-
Other	2.574	2.247
<b>Total</b>	<b>34.834</b>	<b>15.078</b>

(1) Includes TL 28.188 General provision released in the current period

**6. Provision expenses related to loans and other receivables of the Bank**

	<b>Current Period</b>	<b>Prior Period</b>
Specific provisions for loans and other receivables	4.910	1.692
III. Group Loans and Receivables	-	20
IV. Group Loans and Receivables	4.896	-
V. Group Loans and Receivables	14	1.672
General provision expenses	-	28.134
Provision expenses for possible losses	190.000	-
Marketable securities impairment expenses	3.988	3.809
Trading securities	-	-
Investment securities available for sale	3.988	3.809
Impairment provisions	2.402	-
Associates	499	-
Subsidiaries	-	-
Entities under common control (joint vent.)	-	-
Investment securities held to maturity	1.903	-
Other (*)	-	30.000
<b>Total</b>	<b>201.300</b>	<b>63.635</b>

(\*) Other provision contains amounting to TL 30.000 allocated for the risks related to the loan portfolio.

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**SECTION FIVE (Continued)**

**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**IV. Explanations and disclosures related to the income statement (continued)**

**7. Information related to other operating expenses**

	Current Period	Prior Period
Personnel expenses	82.574	72.694
Reserve for employee termination benefits	95	958
Bank social aid fund deficit provision	-	-
Impairment expenses of fixed assets	-	-
Depreciation expenses of fixed assets	3.413	3.096
Impairment expenses of intangible assets	-	-
Impairment expense of goodwill	-	-
Amortization expenses of intangible assets	590	427
Impairment on subsidiaries accounted for under equity method	-	-
Impairment on assets for resale	18	21
Depreciation expenses of assets for resale	-	-
Impairment expenses of assets held for sale	-	-
Other operating expenses	25.067	21.175
Rent expenses	9.871	8.852
Maintenance expenses	708	512
Advertisement expenses	936	873
Other expenses	13.552	10.938
Loss on sale of assets	1.340	-
Other	19.346	17.263
<b>Total</b>	<b>132.443</b>	<b>115.634</b>

**8. Information on net profit from continued and discontinued operations before tax:**

As of 31 December 2017, the Bank's profit before tax has increased by 22,6 % compared to the prior period (31 December 2016: 16,68% increase). Net interest income of the Bank has increased by 33,72 % compared to the prior period (31 December 2016: 24,34% 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 161.659 (31 December 2016: TL 98.641). Deferred tax income is TL 30.024 (31 December 2016: TL 18.166 deferred tax charge).

**9.b Explanation related to deferred tax benefit or charge on temporary differences:**

Deferred tax income calculated on temporary differences is TL 30.024 (31 December 2016: TL 18.166 deferred tax charge).

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**SECTION FIVE (Continued)**

**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**IV. Explanations and disclosures related to the income statement (continued)**

**9.c Explanation related to deferred tax benefit / charge on temporary differences, losses, tax deductions and exceptions:**

There has no deferred tax revenues or expenses reflected in the income statement in respect of financial losses, tax deductions and exemptions (31 December 2016: TL None).

**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 1.826.236 of interest income, TL 786.945 of interest expenses and TL 14.435 of net fee and commission income from banking operations (31 December 2016: TL 1.376.480 interest income, TL 599.292 interest expense, TL 4.935 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 2016: 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.

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**SECTION FIVE (Continued)**

**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**V. Explanations related to the statement of changes in shareholders' equity**

**1. Informations related to capital**

As of the balance sheet date, Paid in capital is TL 2.400.000, legal reserves is TL 238.854  
Extraordinary legal reserves is TL 115.113.

The change in the account of other capital reserves in the current period arises from the actuarial  
difference related to the retirement pay liability.

**2. Information on the increase arising from the revaluation of securities available-for-sale**

The details of the securities increase fund are given in the footnote to Section II-11-h of Section Five  
within the valuation differences that comprise of available for sale financial assets amounting to TL  
29.822 (31 December 2016: TL 53.289) comprised deferred tax effect of TL (11.235) (31 December  
2016: TL 14.038).

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**SECTION FIVE (Continued)**

**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**V. Explanations related to the 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 2017, increasing amount of TL 3.604 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 2016: TL 1.816)

**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 24.931 was transferred to the legal reserves (31 December 2016: TL 21.289).

**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.**  
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**SECTION FIVE (Continued)**

**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**VI. Explanations related to the 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 41.077, consists of gain on sale of assets and non-interest income (31 December 2016: TL 21.286 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 253.750 consists of derivative financial transaction losses, taxes paid except employee termination benefits provision and depreciation expense, other operating expenses, fees and commissions paid and trading income/loss. (31 December 2016: TL 617.284 consists of derivative financial transaction losses, taxes paid except loss employee termination benefits provision and depreciation expense, other operating expenses, fees and commissions paid and trading income/loss).

In the current period, net increase/decrease item in other assets amounting to TL (154.905) (31 December 2016: TL 71.697), consists of change in miscellaneous receivables, reserve requirement and other assets items.

In the current period, other payables amounting to TL (113.279) (31 December 2016: (TL 1.251.753)), 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 659 (31 December 2016: TL 40.069).

**2. Information about cash flows from acquisition of associates, subsidiaries and other investments**

In the current period, the Bank has invested TL 3.580 of movable and immovable property and TL 1.281 of intangible assets.

In the prior period, the Bank has invested TL 2.234 of movable and immovable property and TL 690 of intangible assets. In the prior period, there is TL 1.000 investment on subsidiaries and affiliates.

**3. Information about disposal of associates, subsidiaries, and other investments**

In the current period, the Bank has generated a cash inflow of TL 300 on sale of movable fixed assets and properties (31 December 2016: TL 203).



**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**  
**NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

(Amounts are 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 statement of cash flows (continued)**

**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	27	12
Cash Equivalents	481.886	1.652.266
<b>Total</b>	<b>481.913</b>	<b>1.652.278</b>

Information on cash and cash equivalents at the end of the period:

	End of the Current Period	End of the Prior Period
Cash	20	27
Cash Equivalents	20.156	481.886
<b>Total</b>	<b>20.176</b>	<b>481.913</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 831.678 (31 December 2016: TL 612.776) 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 UNCONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

(Amounts are 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	346.306	7.878	21.131	-	90.035	-
Balance at End of Period	257.470	262	-	-	76.931	-
Interest and Commission Income	20.076	717	251	-	6.609	-

**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	451.705	322	53.167	117.412	91.272	-
Balance at End of Period	346.306	7.878	21.131	-	90.035	-
Interest and Commission Income	8.360	235	1.080	67	4.104	-

**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 Bank	Subsidiaries and Associates		Direct and Indirect Shareholders of the 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	849.378	116.656	-	-	-	-
End of the Period	444.536	849.378	-	-	-	-
Total Profit / Loss	(23.426)	6.801	-	-	1.920	-
<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 11.209 (31 December 2016: TL 10.026).

**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**  
**NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

(Amounts are 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	Country of Incorporation		
Domestic branches	2	375			
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.

**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**  
**NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**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)	BB+
Long-term Maturity Foreign Currency Outlook (issuer)	Stable
Short-term Maturity Foreign Currency (issuer)	B
Long-term Maturity National Currency (issuer)	BBB-
Long-term Maturity National Currency Outlook (issuer)	Stable
Short-term Maturity National Currency (issuer)	F3
Support Note	3
Support Note Base	BB+
National Note	AAA
National Note Outlook	Stable
Privileged Unsecured Debt Rating Note	BB+
Subordinated Debt Rating Note	BB-
Financial Capacity Note	bb

International credit rating agency Fitch Ratings confirmed the Bank's ratings and outlook on 4 October 2017 and determined Bank's "Financial Capacity Note"

**MOODY'S**

Reference Financial Rating Note	Ba2
<b>Foreign Currency (issuer)</b>	
Long-term Maturity	Ba1
Outlook	Negative
Short-term Maturity	NP
<b>Domestic Currency (issuer)</b>	
Long-term Maturity	Ba1
Outlook	Negative
Short-term Maturity	NP
<b>Unsecured Debt-Foreign Currency</b>	
Long-term Maturity	Ba1
Outlook	Negative
Foreign Currency/Domestic Currency MTN Note:	(P) Ba1

Information above represents updated information as of 20 March 2017.

**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 95,37% (9,54 over 10) as of 20 October 2017. Ratings under the main topics of weighted Shareholders, Public Disclosure and Transparency, Stakeholders and Board of Directors are declared as; 9,49 (Weight: 25%), 9,69 (Weight: 25%), 9,85 (Weight: 15%), 9,33 (Weight: 35%) over 10 respectively.

**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**  
**NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**SECTION SIX (Continued)**

**OTHER EXPLANATIONS (Continued)**

**II. Other explanations related to the events after the reporting date**

As of 16 January 2018, the Bank issued the debt instruments which have nominal value of USD 350 Million, redemption date of 16 January 2023 with fixed interest rate of 5,50%, five years maturity and semiannual coupon payment.

**SECTION SEVEN**

**AUDITORS' REPORT**

**I. Explanations on the auditors' report**

The unconsolidated financial statements for the period ended 31 December 2017 have been audited by Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (A member firm of Ernst & Young Global Limited). The independent auditor's audit report dated 30 January 2018 is presented preceding the financial statements.

**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**

**INDEPENDENT AUDITOR’S AUDIT REPORT, CONSOLIDATED FINANCIAL STATEMENTS  
AND NOTES FOR THE YEAR ENDED DECEMBER 31, 2017**

(CONVENIENCE TRANSLATION OF CONSOLIDATED FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR’S AUDIT REPORT ORIGINALLY ISSUED IN TURKISH, SEE NOTE I.  
OF SECTION THREE)



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**Convenience Translation of the Independent Auditors' Report Originally Issued in Turkish (See Note I in Section Three)**

## INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors of Türkiye Sınai Kalkınma Bankası A.Ş.:**

### Audit of Consolidated Financial Statements

#### Qualified Opinion

We have audited the consolidated financial statements of Türkiye Sınai Kalkınma Bankası A.Ş. (the Bank) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter on the consolidated financial statements described in the Basis for Qualified Opinion paragraph, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Türkiye Sınai Kalkınma Bankası A.Ş (the Bank) and its subsidiaries as at 31 December 2017 and consolidated financial performance and consolidated its cash flows for the year then ended in accordance with the Banking Regulation and Supervision Agency ("BRSA") Accounting and Financial Reporting Legislation which includes "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 Agency and circulars and interpretations published by BRSA and Turkish Accounting Standards ("TAS") for those matters not regulated by the aforementioned regulations.

#### Basis for Qualified Opinion

As explained in Note 7 in the Explanations and Disclosures related to the Liabilities, the accompanying consolidated financial statements as at 31 December 2017 include a free reserve for possible risks amounting to TL 190.000 thousand, which is provided by the Group Management for possible results of the circumstances which may arise from possible changes in the economy and market conditions. In addition to that; a deferred tax asset is provided based on this reserve amounting to TL 41.800 thousand in the accompanying consolidated financial statements as at 31 December 2017. Due to this provision which does not meet the accounting principles of TAS 37, the net income as of 31 December 2017 is understated by TL 148.200 thousand, the other provisions and deferred tax assets are overstated by TL 190.000 thousand and TL 41.800 thousand, respectively.

Our audit was conducted in accordance with Independent Auditing Standards ("ISA") which are the part of Turkish Auditing Standards issued by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with of Code of Ethics for Independent Auditors (Code of Ethics) published by POA and have fulfilled our *other* responsibilities in accordance with the code of ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. Key audit matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the Basis for Qualified Opinion section we have determined the matter described below to be the key audit matters to be communicated in our report.





Key Audit Matter	How the Key Audit Matter is addressed in our audit
<b><i>Impairment of Loans and Receivables</i></b>	
<p>Impairment of loans and receivables to customer is a key area of judgement for the management. There is a potential risk of impairment losses/provisions provided/will be provided may not meet the requirements of BRSA Accounting and Financial Reporting Legislation. Failure in determining the loans and receivables which are impaired and not recording the adequate provision for these impaired loans is the aforementioned risk. Related Explanations relating to the impairment of loans and receivables have been disclosed in Note 5 in the Explanations and Disclosures related to the Assets.</p>	<p>Our audit procedures included among others, selecting samples of loans and advances based on our judgement and considering whether there is objective evidence that impairment exists on these loans and receivables and the assessment of impairment losses of loans and receivables were reasonably determined in accordance with the requirements of BRSA Accounting and Financial Reporting Legislation. In addition we considered, assessed and tested the relevant controls over granting, booking, monitoring and settlement, and those relating to the calculation of credit provisions, to confirm the operating effectiveness of the key controls in place, which identify the impaired loans and receivables and the required provisions against them.</p>
<b><i>Pension Fund Obligations</i></b>	
<p>Employees of the Bank are members of “TSKB A.Ş. Memur ve Müstahdemleri Yardım ve Emekli Vakfı”, (“the Fund”), which is established in accordance with the temporary Article 20 of the Social Security Act No. 506 and related regulations. The Fund is a separate legal entity and foundation recognized by an official decree, providing all qualified employees with pension and post-retirement benefits. As disclosed in the Explanations on liabilities regarding employee benefits to the financial statements, Banks will transfer their pension fund to the Social Security Institution and the Council of Ministers has been authorized to determine the transfer date.</p> <p>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 2017 has been calculated by an independent actuary in accordance with the actuarial assumptions in the Law and as per actuarial report dated 16 January 2018, there is no need for technical or actual deficit to book provision as of 31 December 2017.</p> <p>The valuation of the Pension Fund liabilities requires judgment in determining appropriate assumptions such as defining the transferrable social benefits, discount rates, salary increases, demographic assumptions, inflation rate estimates and the impact of any changes in individual pension plans. The Bank Management uses Fund actuaries to assist in assessing these assumptions.</p>	<p>It has been addressed whether there have been any significant changes in regulations governing pension liabilities, employee benefits plans during the period, that could lead to adjust the valuation of employee benefits.</p> <p>Support from actuarial auditor who is in the same audit network within our firm, has been taken to assess the appropriateness of the actuarial assumptions and calculations performed by the external actuary. We further focused on the accuracy and adequacy of the deficit and also disclosures on key assumptions related to pension fund.</p>



Considering the subjectivity of key assumptions and estimate used in the calculations of transferrable liabilities and the effects of the potential changes in the estimates used together with the uncertainty around the transfer date and given the fact that technical interest rate is prescribed under the law, we considered this to be a key audit matter.

#### ***Derivative Financial Instruments***

Derivative financial instruments including foreign exchange contracts, currency and interest rate swaps, currency and interest rate options, futures and other derivative financial instruments which are held for trading are initially recognized on the statement of financial position at fair value and subsequently are re-measured at their fair value. Details of related amounts are explained in differences related to derivative financial assets/liabilities held-for-trading disclosures.

Fair value of the derivative financial instruments is determined by selecting most convenient market data and applying valuation techniques to those particular derivative products. Derivative Financial Instruments are considered by us as a key audit matter because of the subjectivity in the estimates, assumptions and judgements used.

Our audit procedures involve obtaining written confirmations from the third parties and comparing the details of the related derivative transactions. Our audit procedures included among others involve reviewing policies regarding fair value measurement accepted by the bank management fair value calculations of the selected derivative financial instruments which is carried out by valuation experts in our audit team and the assessment of used estimations and the judgements and testing of operating effectiveness of the key controls in the process of fair value determination.

Our procedures included, amongst others, recalculating fair value calculation and disclosures relating to derivative financial instruments considering the requirements of Turkey Accounting Standards ("TAS") and Turkey Financial Reporting Standards ("TFRS").

#### **Other Matter**

The consolidated financial statements of the Group as of December 31, 2016 were audited by another independent audit firm, who expressed an unqualified opinion in their audit reports dated February 1, 2017.

#### **Responsibilities of Management and Directors for the Consolidated Financial Statements**

Group management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the BRSA Accounting and Reporting Legislation and for such internal control as management determines is necessary to enable the preparation of the financial statement that is free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Bank's and its subsidiaries ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank and its subsidiaries or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.



## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

In an independent audit, the responsibilities of us as independent auditors are:

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. (The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.)
- Obtain an understanding of internal control relevant to the audit 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 Bank and its subsidiaries' internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank and its subsidiaries' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank and its subsidiaries' to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



We also provide those charged with government with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

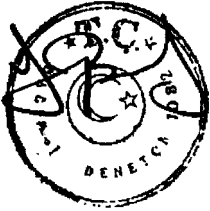
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### Report on Other Legal and Regulatory Requirements

- 1) In accordance with Article 402 paragraph 4 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 and financial statements for the period 1 January – 31 December 2017 are not in compliance with the TCC and provisions of the Bank's articles of association in relation to financial reporting.
- 2) In accordance with Article 402 paragraph 4 of the TCC; the Board of Directors submitted to us the necessary explanations and provided required documents within the context of audit.

The engagement partner who supervised and concluded this independent auditor's report is Yaşar Bivas.

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi  
A member firm of Ernst & Young Global Limited



Yaşar Bivas, SMMM  
Partner

30 January 2018  
İstanbul, Türkiye

**THE CONSOLIDATED FINANCIAL REPORT OF  
TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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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
- OTHER EXPLANATIONS
- INDEPENDENT AUDITORS’ REPORT

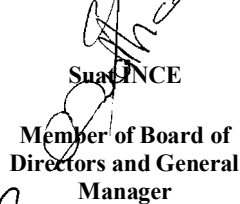
The subsidiaries, associates and joint ventures, financial statements of which are consolidated within the framework of the reporting package, are as follows.

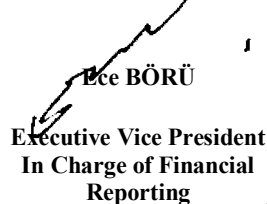
Subsidiaries	Associates
Yatırım Finansman Menkul Değerler A.Ş. TSKB Gayrimenkul Yatırım Ortaklığı A.Ş.	İş Finansal Kiralama A.Ş. İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. İş Faktoring A.Ş.

The accompanying consolidated financial statements and the explanatory footnotes and disclosures for the year 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.


30 January 2018

  
**Ersin ÖZİNCE**  
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

  
**Ebru ÖZSUCA**  
Member of Audit Committee

  
**Mehmet ŞENCAN**  
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 2017**

(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 license 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:

<b>Current Period</b>				
<b>Name Surname/Commercial Title</b>	<b>Share Capital</b>	<b>Shareholding Rate (%)</b>	<b>Paid in Capital</b>	<b>Unpaid Capital</b>
T. İş Bankası A.Ş. Group	1.217.027	50,71	1.217.027	-
T. Vakıflar Bankası T.A.O.	201.060	8,38	201.060	-
Under Custody at Merkezi Kayıt Kuruluşu (Other Institutions and Individuals)	981.913	40,91	981.913	-
<b>Total</b>	<b>2.400.000</b>	<b>100,00</b>	<b>2.400.000</b>	<b>-</b>

<b>Prior Period</b>				
<b>Name Surname/Commercial Title</b>	<b>Share Capital</b>	<b>Shareholding Rate (%)</b>	<b>Paid in Capital</b>	<b>Unpaid Capital</b>
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>

The Parent Bank shares are traded in Istanbul Stock Exchange ("BIST") since 26 December 1986. The Parent Bank's 50,71% of the shares belongs to İş Bank Group and 38,97% 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**  
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(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 (1)
H. Ersin Özince (2)	Chairman of the Board of Directors
Mehmet Şencan (5)	Vice Chairman of the Board of Directors and Audit Committee
Yavuz Canevi	Member of the Board of Directors
Suat İnce	Member of the Board of Directors and General Manager
Mehmet Emin Özcan (6)	Member of the Board of Directors
Ebru Özşuca (4)	Member of the Board of Directors and Audit Committee
Mithat Rende (3)	Member of the Board of Directors
Zeynep Hansu Uçar	Member of the Board of Directors
Kamil Yılmaz	Member of the Board of Directors
Can Yücel	Member of the Board of Directors

**General Manager and Vice Presidents**

Name Surname	Title / Area of Responsibility
Suat İnce	General Manager
Çiğdem İçel	Vice President – Economic Research, Financial Institutions, Development Finance Institutions and Engineering and Technical Consultancy
Ufuk Bala Yücel	Vice President – Loans, Loan Monitoring and Loan Operations
B. Gökhan Çanakpınar	Vice President – Support Services, System And Network Support and Application Development
Ece Börü	Vice President – Budget Planning and Investor Relations, Financial Analysis and Valuation and Financial Control
Hakan Aygen	Vice President – Corporate Finance, Corporate Banking and Project Finance
A. Ferit Eraslan	Vice President – Board of Internal Auditors, Internal Control and Risk Management
Aslı Zerrin Hancı	Vice President – Treasury, Treasury and Capital Markets Operations
H. Yetkin Kesler	Vice President – Pension and Assistance Funds, Human Resources and Corporate Communication, Enterprise Architecture and Process Management and Corporate Compliance

(1) The shares of above directors in the Bank are symbolic.

(2) In the Board of Directors meeting held on 07 April 2017, Mr. H. Ersin Özince was appointed as Chairman of the Board of Directors due to Mr. Adnan Bali's resignation from his duty in accordance with the 363<sup>rd</sup> article of the Turkish Commercial Code and the 16<sup>th</sup> article of The Bank's core contract.

(3) In the Board of Directors meeting held on 22 March 2017, Mr. Mithat Rende was appointed as member of the Board of Directors due to Mr. Kemal Saç's resignation from his duty. Mr. Rende has started his duty on 4 April 2017 by taking his oath.

(4) In the Board of Directors meeting held on 3 April 2017, Mrs. Ebru Özşuca was appointed to Audit Committee due to changing in members.

(5) In the Board of Directors meeting held on 7 June 2017, Mr. Mehmet Şencan was appointed as member of Audit Committee and the Vice Chairman of Board of Directors due to Mr. Fikret Utku Özdemir's resignation from his duty.

(6) In the Board of Directors meeting held on 14 June 2017, Mr. Mehmet Emin Özcan was appointed as member of the Board of Directors due to Mr. Halil Aydoğan's resignation from his duty.

According to the regulations on auditing in Articles 397-406 of the Turkish Commercial Code numbered 6102, Güney Bağımsız Denetim ve Serbest Muhasebeci ve Mali Müşavirlik A.Ş. has been elected as the independent auditor for the year 2017 in the General Assembly Meeting held on 23 March 2017.



**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

(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 Bank has executed marketing and valuation operations efficiently with two branches opened in Izmir and Ankara on April 2006.

**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

(Amounts are 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**

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.

**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.

**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

(Amounts are 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)**

**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 16,67% in which the share of İş Yatırım Menkul Değerler A.Ş. is 29,16% and the share of İş Faktoring A.Ş. is 0,89% . 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 2017**

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

ASSETS	Note Ref.	Audited Current Period 31 December 2017			Audited Prior Period 31 December 2016		
		TL	FC	Total	TL	FC	Total
<b>I. CASH AND BALANCES WITH THE CENTRAL BANK</b>	(1)	<b>10.595</b>	<b>836.540</b>	<b>847.135</b>	<b>161.305</b>	<b>616.771</b>	<b>778.076</b>
<b>II. FINANCIAL ASSETS AT F.V. THROUGH PROFIT AND LOSS (Net)</b>	(2)	<b>203.405</b>	<b>132.688</b>	<b>336.093</b>	<b>139.799</b>	<b>247.238</b>	<b>387.037</b>
2.1 Trading financial assets		203.405	132.688	336.093	139.799	247.238	387.037
2.1.1 Government debt securities		-	-	-	5.947	-	5.947
2.1.2 Share certificates		21	-	21	980	-	980
2.1.3 Derivative financial assets held for trading		194.100	132.688	326.788	126.798	247.238	374.036
2.1.4 Other marketable securities		9.284	-	9.284	6.074	-	6.074
2.2 Financial assets at fair value through profit and loss		-	-	-	-	-	-
2.2.1 Government debt securities		-	-	-	-	-	-
2.2.2 Share certificates		-	-	-	-	-	-
2.2.3 Other marketable securities		-	-	-	-	-	-
2.2.4 Loans		-	-	-	-	-	-
<b>III. BANKS</b>	(3)	<b>464.978</b>	<b>28.709</b>	<b>493.687</b>	<b>75.108</b>	<b>422.841</b>	<b>497.949</b>
<b>IV. MONEY MARKET PLACEMENTS</b>		<b>3</b>	<b>-</b>	<b>3</b>	<b>63.796</b>	<b>191.138</b>	<b>254.934</b>
4.1 Interbank money market placements		-	-	-	-	191.138	191.138
4.2 Istanbul Stock Exchange money market placements		-	-	-	62.895	-	62.895
4.3 Receivables from reverse repurchase agreements		3	-	3	901	-	901
<b>V. FINANCIAL ASSETS AVAILABLE FOR SALE (Net)</b>	(4)	<b>2.052.830</b>	<b>1.038.542</b>	<b>3.091.372</b>	<b>2.048.308</b>	<b>1.020.104</b>	<b>3.068.412</b>
5.1 Share certificates		45.259	27.821	73.080	28.081	18.582	46.663
5.2 Government debt securities		1.821.667	1.009.955	2.831.622	1.823.078	967.854	2.790.932
5.3 Other marketable securities		185.904	766	186.670	197.149	33.668	230.817
<b>VI. LOANS AND RECEIVABLES</b>	(5)	<b>3.995.707</b>	<b>18.341.523</b>	<b>22.337.230</b>	<b>2.613.249</b>	<b>14.722.796</b>	<b>17.336.045</b>
6.1 Loans and receivables		3.995.707	18.341.523	22.337.230	2.613.249	14.722.796	17.336.045
6.1.1 Loans to risk group of the Bank		104.450	229.951	334.401	193.048	212.410	405.458
6.1.2 Government debt securities		-	-	-	-	-	-
6.1.3 Other		3.891.257	18.111.572	22.002.829	2.420.201	14.510.386	16.930.587
6.2 Non performing loans		52.593	982	53.575	50.253	1.362	51.615
6.3 Specific provisions (-)		(52.593)	(982)	(53.575)	(50.253)	(1.362)	(51.615)
<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>	(6)	<b>1.334.721</b>	<b>197.326</b>	<b>1.532.047</b>	<b>1.188.990</b>	<b>186.739</b>	<b>1.375.729</b>
8.1 Government debt securities		1.334.721	197.326	1.532.047	1.188.990	186.739	1.375.729
8.2 Other marketable securities		-	-	-	-	-	-
<b>IX. INVESTMENTS IN ASSOCIATES (Net)</b>	(7)	<b>375.481</b>	<b>-</b>	<b>375.481</b>	<b>324.477</b>	<b>-</b>	<b>324.477</b>
9.1 Accounted for under equity method		374.425	-	374.425	322.922	-	322.922
9.2 Unconsolidated associates		1.056	-	1.056	1.555	-	1.555
9.2.1 Financial investments		-	-	-	-	-	-
9.2.2 Non-financial investments		1.056	-	1.056	1.555	-	1.555
<b>X. INVESTMENTS IN SUBSIDIARIES (Net)</b>	(8)	<b>1.609</b>	<b>-</b>	<b>1.609</b>	<b>1.609</b>	<b>-</b>	<b>1.609</b>
10.1 Unconsolidated financial subsidiaries		-	-	-	-	-	-
10.2 Unconsolidated non-financial subsidiaries		1.609	-	1.609	1.609	-	1.609
<b>XI. ENTITIES UNDER COMMON CONTROL (JOINT VENT.) (Net)</b>	(9)	<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>	(10)	<b>-</b>	<b>63.410</b>	<b>63.410</b>	<b>-</b>	<b>3.792</b>	<b>3.792</b>
12.1 Finance lease receivables		-	73.957	73.957	-	4.393	4.393
12.2 Operating lease receivables		-	-	-	-	-	-
12.3 Other		-	-	-	-	-	-
12.4 Unearned income ( - )		-	(10.547)	(10.547)	-	(601)	(601)
<b>XIII. DERIVATIVE FINANCIAL ASSETS FOR HEDGING PURPOSES</b>	(11)	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>272</b>	<b>272</b>
13.1 Fair value hedge		-	-	-	-	272	272
13.2 Cash flow hedge		-	-	-	-	-	-
13.3 Hedge of net investment in foreign operations		-	-	-	-	-	-
<b>XIV. TANGIBLE ASSETS (Net)</b>	(12)	<b>245.798</b>	<b>-</b>	<b>245.798</b>	<b>231.328</b>	<b>-</b>	<b>231.328</b>
<b>XV. INTANGIBLE ASSETS (Net)</b>	(13)	<b>3.585</b>	<b>-</b>	<b>3.585</b>	<b>3.098</b>	<b>-</b>	<b>3.098</b>
15.1 Goodwill		1.005	-	1.005	1.005	-	1.005
15.2 Other		2.580	-	2.580	2.093	-	2.093
<b>XVI. INVESTMENT PROPERTY (Net)</b>	(14)	<b>243.145</b>	<b>-</b>	<b>243.145</b>	<b>231.323</b>	<b>-</b>	<b>231.323</b>
<b>XVII. TAX ASSET</b>	(15)	<b>45.338</b>	<b>-</b>	<b>45.338</b>	<b>21.214</b>	<b>-</b>	<b>21.214</b>
17.1 Current tax asset		4.448	-	4.448	3.032	-	3.032
17.2 Deferred tax asset		40.890	-	40.890	18.182	-	18.182
<b>XVIII. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (Net)</b>	(16)	<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>	(17)	<b>89.293</b>	<b>210.650</b>	<b>299.943</b>	<b>81.592</b>	<b>276.839</b>	<b>358.431</b>
<b>TOTAL ASSETS</b>		<b>9.068.248</b>	<b>20.849.388</b>	<b>29.917.636</b>	<b>7.186.956</b>	<b>17.688.530</b>	<b>24.875.486</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 2017**

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

		Audited Current Period 31 December 2017			Audited Prior Period 31 December 2016		
LIABILITIES	Note Ref	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)	123.710	108.693	232.403	115.009	205.788	320.797
<b>III. FUNDS BORROWED</b>	(3)	221.012	18.780.615	19.001.627	147.252	15.980.244	16.127.496
<b>IV. MONEY MARKET BALANCES</b>		1.150.784	161.138	1.311.922	1.195.236	60.998	1.256.234
4.1 Interbank money market takings		202.143	-	202.143	610.144	-	610.144
4.2 Istanbul Stock Exchange money market takings		499.004	-	499.004	350.736	-	350.736
4.3 Funds provided under repurchase agreements		449.637	161.138	610.775	234.356	60.998	295.354
<b>V. MARKETABLE SECURITIES ISSUED (Net)</b>	(3)	-	3.746.229	3.746.229	-	3.486.732	3.486.732
5.1 Bills		-	-	-	-	-	-
5.2 Asset backed securities		-	-	-	-	-	-
5.3 Bonds		-	3.746.229	3.746.229	-	3.486.732	3.486.732
<b>VI. FUNDS</b>		1.178	11.723	12.901	1.511	3.806	5.317
6.1 Borrower funds		1.178	11.723	12.901	1.511	3.806	5.317
6.2 Others		-	-	-	-	-	-
<b>VII. MISCELLANEOUS PAYABLES</b>		15.134	59.961	75.095	16.774	80.097	96.871
<b>VIII. OTHER LIABILITIES</b>	(4)	113.609	2.318	115.927	96.608	133	96.741
<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)	-	78.682	78.682	-	51.433	51.433
11.1 Fair value hedge		-	78.682	78.682	-	51.433	51.433
11.2 Cash flow hedge		-	-	-	-	-	-
11.3 Hedge of net investment in foreign operations		-	-	-	-	-	-
<b>XII. PROVISIONS</b>	(7)	431.625	-	431.625	279.033	-	279.033
12.1 General loan loss provisions		136.131	-	136.131	177.167	-	177.167
12.2 Restructuring provisions		-	-	-	-	-	-
12.3 Reserve for employee benefits		12.151	-	12.151	10.904	-	10.904
12.4 Insurance technical reserves (Net)		-	-	-	-	-	-
12.5 Other provisions		283.343	-	283.343	90.962	-	90.962
<b>XIII. TAX LIABILITY</b>	(8)	53.648	-	53.648	11.779	-	11.779
13.1 Current tax liability		53.648	-	53.648	11.779	-	11.779
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)	-	1.146.236	1.146.236	-	-	-
<b>XVI. SHAREHOLDERS' EQUITY</b>		3.698.901	12.440	3.711.341	3.169.827	(26.774)	3.143.053
16.1 Paid-in capital	(11)	2.400.000	-	2.400.000	2.050.000	-	2.050.000
16.2 Capital reserves		175.046	12.440	187.486	159.098	(26.774)	132.324
16.2.1 Share premium		428	-	428	428	-	428
16.2.2 Share cancellation profits		-	-	-	-	-	-
16.2.3 Marketable securities value increase fund	(11)	(41.078)	12.440	(28.638)	(43.122)	(26.774)	(69.896)
16.2.4 Tangible assets revaluation differences	(11)	215.352	-	215.352	201.168	-	201.168
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		344	-	344	624	-	624
16.3 Profit reserves		441.740	-	441.740	408.096	-	408.096
16.3.1 Legal reserves	(11)	241.292	-	241.292	216.361	-	216.361
16.3.2 Statutory reserves		75.641	-	75.641	75.641	-	75.641
16.3.3 Extraordinary reserves	(11)	121.888	-	121.888	113.175	-	113.175
16.3.4 Other profit reserves		2.919	-	2.919	2.919	-	2.919
16.4 Profit or loss		629.396	-	629.396	494.664	-	494.664
16.4.1 Prior years' profit/loss		18.219	-	18.219	51.233	-	51.233
16.4.2 Current year profit/loss		611.177	-	611.177	443.431	-	443.431
16.5 Non-controlling interests		52.719	-	52.719	57.969	-	57.969
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>5.809.601</b>	<b>24.108.035</b>	<b>29.917.636</b>	<b>5.033.029</b>	<b>19.842.457</b>	<b>24.875.486</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 2017**

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

		Audited Current Period 31 December 2017			Audited Prior Period 31 December 2016		
	Note Ref	TL	FC	Total	TL	FC	Total
<b>A. OFF BALANCE SHEET COMMITMENTS AND CONTINGENCIES (I+II+III)</b>		<b>8.544.955</b>	<b>40.594.900</b>	<b>49.139.855</b>	<b>8.837.735</b>	<b>35.599.977</b>	<b>44.437.712</b>
<b>I. GUARANTEES AND COLLATERALS</b>	(1)	<b>562.998</b>	<b>2.010.713</b>	<b>2.573.711</b>	<b>210.448</b>	<b>1.458.760</b>	<b>1.669.208</b>
1.1 Letters of guarantee		562.998	912.647	1.475.645	210.448	764.943	975.391
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		562.998	912.647	1.475.645	210.448	764.943	975.391
1.2 Bank acceptances		-	18.763	18.763	-	17.450	17.450
1.2.1 Import letters of acceptance		-	18.763	18.763	-	17.450	17.450
1.2.2 Other bank acceptances		-	-	-	-	-	-
1.3 Letters of credit		-	1.079.303	1.079.303	-	676.367	676.367
1.3.1 Documentary letters of credit		-	1.079.303	1.079.303	-	676.367	676.367
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>	(1)	<b>2.302.694</b>	<b>3.908.771</b>	<b>6.211.465</b>	<b>2.318.595</b>	<b>6.274.080</b>	<b>8.592.675</b>
2.1 Irrevocable commitments		1.896.825	327.095	2.223.920	1.022.236	301.200	1.323.436
2.1.1 Forward asset purchase and sales commitments		40.933	58.218	99.151	23.159	55.320	78.479
2.1.2 Forward deposit purchase and sales commitments		-	-	-	-	-	-
2.1.3 Share capital commitment to associates and subsidiaries		-	78.890	78.890	-	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		1.855.892	189.987	2.045.879	999.077	177.513	1.176.590
2.2 Revocable commitments		405.869	3.581.676	3.987.545	1.296.359	5.972.880	7.269.239
2.2.1 Revocable loan granting commitments		405.869	3.581.676	3.987.545	1.296.359	5.972.880	7.269.239
2.2.2 Other revocable commitments		-	-	-	-	-	-
<b>III. DERIVATIVE FINANCIAL INSTRUMENTS</b>	(2)	<b>5.679.263</b>	<b>34.675.416</b>	<b>40.354.679</b>	<b>6.308.692</b>	<b>27.867.137</b>	<b>34.175.829</b>
3.1 Derivative financial instruments for hedging purposes		-	10.582.050	10.582.050	-	7.747.800	7.747.800
3.1.1 Fair value hedge		-	10.582.050	10.582.050	-	7.747.800	7.747.800
3.1.2 Cash flow hedge		-	-	-	-	-	-
3.1.3 Hedge of net investment in foreign operations		-	-	-	-	-	-
3.2 Held for trading transactions		5.679.263	24.093.366	29.772.629	6.308.692	20.119.337	26.428.029
3.2.1 Forward foreign currency buy/sell transactions		981.505	3.844.600	4.826.105	249.785	881.330	1.131.115
3.2.1.1 Forward foreign currency transactions-buy		485.006	1.928.162	2.413.168	126.329	441.469	567.798
3.2.1.2 Forward foreign currency transactions-sell		496.499	1.916.438	2.412.937	123.456	439.861	563.317
3.2.2 Swap transactions related to f.c. and interest rates		2.378.082	17.843.640	20.221.722	2.819.705	15.427.739	18.247.434
3.2.2.1 Foreign currency swaps-buy		576.866	2.996.840	3.573.706	1.098.878	2.724.038	3.822.916
3.2.2.2 Foreign currency swaps-sell		1.766.440	1.667.336	3.433.776	1.680.003	1.970.805	3.650.808
3.2.2.3 Interest rate swaps-buy		17.388	6.589.732	6.607.120	20.412	5.366.443	5.386.855
3.2.2.4 Interest rate swaps-sell		17.388	6.589.732	6.607.120	20.412	5.366.443	5.386.855
3.2.3 Foreign currency, interest rate and securities options		2.319.676	2.332.296	4.651.972	3.239.202	3.692.734	6.931.936
3.2.3.1 Foreign currency options-buy		1.159.838	1.166.148	2.325.986	1.619.601	1.846.367	3.465.968
3.2.3.2 Foreign currency options-sell		1.159.838	1.166.148	2.325.986	1.619.601	1.846.367	3.465.968
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		-	72.830	72.830	-	117.544	117.544
<b>B. CUSTODY AND PLEDGED SECURITIES (IV+V+VI)</b>		<b>60.080.879</b>	<b>240.634.947</b>	<b>300.715.826</b>	<b>43.886.431</b>	<b>190.051.234</b>	<b>233.937.665</b>
<b>IV. ITEMS HELD IN CUSTODY</b>		<b>1.611.893</b>	<b>276.526</b>	<b>1.888.419</b>	<b>1.390.976</b>	<b>132.226</b>	<b>1.523.202</b>
4.1 Customers' securities held		-	-	-	-	-	-
4.2 Investment securities held in custody		1.307.737	276.526	1.584.263	1.185.233	132.226	1.317.459
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		304.156	-	304.156	205.743	-	205.743
<b>V. PLEDGED ITEMS</b>		<b>44.623.191</b>	<b>137.020.793</b>	<b>181.643.984</b>	<b>31.662.429</b>	<b>112.629.624</b>	<b>144.292.053</b>
5.1 Marketable securities		448.045	8.985.543	9.433.588	450.941	7.564.328	8.015.269
5.2 Guarantee notes		108.486	2.362.047	2.470.533	97.196	2.042.232	2.139.428
5.3 Commodity		-	-	-	-	-	-
5.4 Warranty		-	-	-	-	-	-
5.5 Real estates		1.662.868	36.518.097	38.180.965	428.385	29.854.058	30.282.443
5.6 Other pledged items		42.403.792	89.155.106	131.558.898	30.685.907	73.169.006	103.854.913
5.7 Pledged items-depository		-	-	-	-	-	-
<b>VI. ACCEPTED BILLS OF EXCHANGE AND COLLATERALS</b>		<b>13.845.795</b>	<b>103.337.628</b>	<b>117.183.423</b>	<b>10.833.026</b>	<b>77.289.384</b>	<b>88.122.410</b>
<b>TOTAL OFF BALANCE SHEET ITEMS (A+B)</b>		<b>68.625.834</b>	<b>281.229.847</b>	<b>349.855.681</b>	<b>52.724.166</b>	<b>225.651.211</b>	<b>278.375.377</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 2017**

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

	Note Ref.	Audited Current Period 1 January 2017 – 31 December 2017	Audited Prior Period 1 January 2016 – 31 December 2016
<b>I. INTEREST INCOME</b>	(1)	<b>1.873.822</b>	<b>1.409.679</b>
1.1 Interest on loans		1.314.800	856.109
1.2 Interest received from reserve deposits		5.617	3.371
1.3 Interest received from banks		65.034	32.686
1.4 Interest received from money market placements		51.435	162.976
1.5 Interest received from marketable securities portfolio		432.988	353.658
1.5.1 Financial assets held for trading		2.120	2.808
1.5.2 Financial assets at fair value through profit and loss		-	-
1.5.3 Available-for-sale financial assets		240.899	263.787
1.5.4 Investments held-to-maturity		189.969	87.063
1.6 Finance lease income		1.659	27
1.7 Other interest income		2.289	852
<b>II. INTEREST EXPENSES</b>	(2)	<b>(856.543)</b>	<b>(650.876)</b>
2.1 Interest on deposits		-	-
2.2 Interest on funds borrowed		(339.360)	(263.391)
2.3 Interest on money market borrowings		(253.328)	(237.442)
2.4 Interest on securities issued		(262.943)	(149.831)
2.5 Other interest expense		(912)	(212)
<b>III. NET INTEREST INCOME (I - II)</b>		<b>1.017.279</b>	<b>758.803</b>
<b>IV. NET FEES AND COMMISSIONS INCOME</b>		<b>42.662</b>	<b>25.017</b>
4.1 Fees and commissions received		53.752	36.387
4.1.1 Non-cash loans		15.625	10.650
4.1.2 Other	(11)	38.127	25.737
4.2 Fees and commissions paid		(11.090)	(11.370)
4.2.1 Non-cash loans		(2.400)	(1.401)
4.2.2 Other		(8.690)	(9.969)
<b>V. DIVIDEND INCOME</b>	(3)	<b>5.421</b>	<b>11.486</b>
<b>VI. NET TRADING INCOME</b>	(4)	<b>(65.028)</b>	<b>(67.771)</b>
6.1 Securities trading gains/ (losses)		5.851	3.832
6.2 Derivative financial instruments gains/losses		(209.793)	864
6.3 Foreign exchange gains/losses (net)		138.914	(72.467)
<b>VII. OTHER OPERATING INCOME</b>	(5)	<b>68.409</b>	<b>26.643</b>
<b>VIII. TOTAL OPERATING INCOME (III+IV+V+VI+VII)</b>		<b>1.068.743</b>	<b>754.178</b>
<b>IX. PROVISION FOR LOAN LOSSES AND OTHER RECEIVABLES (-)</b>	(6)	<b>(202.826)</b>	<b>(70.499)</b>
<b>X. OTHER OPERATING EXPENSES (-)</b>	(7)	<b>(170.186)</b>	<b>(168.863)</b>
<b>XI. NET OPERATING INCOME/(LOSS) (VIII-IX-X)</b>		<b>695.731</b>	<b>514.816</b>
<b>XII. AMOUNT IN EXCESS RECORDED AS GAIN AFTER MERGER</b>		-	-
<b>XIII. PROFIT / (LOSS) ON EQUITY METHOD</b>		<b>43.861</b>	<b>38.805</b>
<b>XIV. GAIN / (LOSS) ON NET MONETARY POSITION</b>		-	-
<b>XV. PROFIT/(LOSS) FROM CONTINUED OPERATIONS BEFORE TAXES (XI+XII+XIII+XIV)</b>	(8)	<b>739.592</b>	<b>553.621</b>
<b>XVI. TAX PROVISION FOR CONTINUED OPERATIONS (±)</b>	(9)	<b>(134.117)</b>	<b>(117.708)</b>
16.1 Provision for current income taxes		(161.659)	(98.641)
16.2 Provision for deferred taxes		27.542	(19.067)
<b>XVII. NET PROFIT/(LOSS) FROM CONTINUED OPERATIONS (XV±XVI)</b>	(10)	<b>605.475</b>	<b>435.913</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>	(10)	<b>605.475</b>	<b>435.913</b>
23.1 Group's profit / loss		611.177	443.431
23.2 Minority shares		(5.702)	(7.518)
Earnings / (losses) per share (Full Kuruş)		0,255	0,216

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**  
**AS OF 31 DECEMBER 2017**

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

	Audited Current Period 1 January 2017 – 31 December 2017	Audited Prior Period 1 January 2016 – 31 December 2016
<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>32.813</b>	<b>(45.816)</b>
<b>II. TANGIBLE ASSETS REVALUATION DIFFERENCES</b>	<b>16.315</b>	<b>26.725</b>
<b>III. INTANGIBLE ASSETS REVALUATION DIFFERENCES</b>	<b>-</b>	<b>-</b>
<b>IV. TRANSLATION DIFFERENCES FOR TRANSACTIONS IN FOREIGN CURRENCIES</b>	<b>3.604</b>	<b>1.816</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>7.264</b>	<b>(6.965)</b>
<b>IX. DEFERRED TAX OF VALUATION DIFFERENCES</b>	<b>(4.834)</b>	<b>9.450</b>
<b>X. NET PROFIT/LOSS ACCOUNTED FOR DIRECTLY UNDER SHAREHOLDERS' EQUITY (I+II+...+IX)</b>	<b>55.162</b>	<b>(14.790)</b>
<b>XI. CURRENT YEAR PROFIT/LOSS</b>	<b>605.475</b>	<b>435.913</b>
11.1 Net changes in fair value of securities (Recycled to Profit/Loss)	(305)	3.402
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	605.780	432.511
<b>XII. TOTAL PROFIT/LOSS ACCOUNTED FOR THE CURRENT PERIOD (X±XI)</b>	<b>660.637</b>	<b>421.123</b>

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



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 2017**

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

	Notes	Audited Current Period 31 December 2017	Audited Prior Period 31 December 2016
<b>A. CASH FLOWS FROM BANKING OPERATIONS</b>			
<b>1.1 Operating profit before changes in operating assets and liabilities</b>		<b>842.031</b>	<b>947.791</b>
1.1.1 Interest received		1.578.190	1.072.495
1.1.2 Interest paid		(846.414)	(566.925)
1.1.3 Dividends received		5.421	11.486
1.1.4 Fees and commissions received		53.752	36.387
1.1.5 Other income		99.565	82.952
1.1.6 Collections from previously written off loans		4.477	12.953
1.1.7 Payments to personnel and service suppliers		(122.637)	(128.739)
1.1.8 Taxes paid		(122.638)	(135.445)
1.1.9 Others	(1)	192.315	562.627
<b>1.2 Changes in operating assets and liabilities</b>		<b>(2.318.417)</b>	<b>(2.405.281)</b>
1.2.1 Net (increase) decrease in financial assets		4.853	26.525
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		(2.839.528)	(1.387.620)
1.2.5 Net (increase) decrease in other assets		(154.658)	67.160
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		639.937	(33.866)
1.2.9 Net increase (decrease) in matured payables		-	-
1.2.10 Net increase (decrease) in other liabilities	(1)	30.979	(1.077.480)
<b>I. Net cash provided by/(used in) banking operations</b>		<b>(1.476.386)</b>	<b>(1.457.490)</b>
<b>B. CASH FLOWS FROM INVESTING ACTIVITIES</b>			
<b>II. Net cash provided by/(used in) investing activities</b>		<b>79.838</b>	<b>(355.952)</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)	(4.736)	(4.065)
2.4 Fixed asset sales	(3)	329	306
2.5 Cash paid for purchase of financial assets available for sale		(781.787)	(1.002.141)
2.6 Cash obtained from sale of financial assets available for sale		867.314	652.646
2.7 Cash paid for purchase of investment securities		-	-
2.8 Cash obtained from sale of investment securities		-	-
2.9 Others	(2)	(1.282)	(1.698)
<b>C. CASH FLOWS FROM FINANCING ACTIVITIES</b>			
<b>III. Net cash provided by/(used in) financing activities</b>		<b>984.199</b>	<b>816.470</b>
3.1 Cash obtained from funds borrowed and securities issued		1.077.000	878.309
3.2 Cash used for repayment of funds borrowed and securities issued		-	-
3.3 Capital increase		-	-
3.4 Dividends paid		(92.801)	(61.839)
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>751</b>	<b>42.458</b>
<b>V. Net increase / (decrease) in cash and cash equivalents</b>		<b>(411.598)</b>	<b>(954.514)</b>
<b>VI. Cash and cash equivalents at beginning of the period</b>	(4)	<b>915.846</b>	<b>1.870.360</b>
<b>VII. Cash and cash equivalents at end of the period</b>	(4)	<b>504.248</b>	<b>915.846</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 2017**

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

	Audited Current Period 31 December 2017 (*)	Audited Prior Period 31 December 2016
<b>I. DISTRIBUTION OF CURRENT YEAR INCOME (**)</b>		
1.1 CURRENT YEAR INCOME	727.303	593.252
1.2 TAXES AND DUTIES PAYABLE	(131.635)	(116.807)
1.2.1 Corporate Tax (Income tax)	(161.659)	(98.641)
1.2.2 Income withholding tax	-	-
1.2.3 Other taxes and duties	30.024	(18.166)
<b>A. NET INCOME FOR THE YEAR (1.1-1.2)</b>	<b>595.668</b>	<b>476.445</b>
1.3 PRIOR YEARS LOSSES (-)	-	-
1.4 FIRST LEGAL RESERVES (-)	-	23.822
1.5 OTHER STATUTORY RESERVES (-)	-	-
<b>B. NET PROFIT AVAILABLE FOR DISTRIBUTION [(A)-(1.3+1.4+1.5)]</b>	<b>595.668</b>	<b>452.623</b>
1.6 FIRST DIVIDEND TO SHAREHOLDERS (-)	-	135.841
1.6.1 To owners of ordinary shares	-	135.841
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 (-)	-	9.503
1.8 DIVIDENDS TO BOARD OF DIRECTORS (-)	-	1.585
1.9 SECOND DIVIDEND TO SHAREHOLDERS (-)	-	296.159
1.9.1 To owners of ordinary shares	-	296.159
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 (-)	-	1.109
1.11 STATUTORY RESERVES (-)	-	-
1.12 GENERAL RESERVES	-	8.426
1.13 OTHER RESERVES	-	-
1.14 SPECIAL FUNDS	-	-
<b>II. DISTRIBUTION OF RESERVES</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(***)</b>		
3.1 TO OWNERS OF ORDINARY SHARES	0,25	0,23
3.2 TO OWNERS OF ORDINARY SHARES (%)	24,82	23,24
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	-	0,21
4.2 TO OWNERS OF ORDINARY SHARES (%)	-	21,07
4.3 TO OWNERS OF PRIVILEGED SHARES	-	-
4.4 TO OWNERS OF PRIVILEGED SHARES ( % )	-	-

(\*) Since the Board of Directors has not prepared any proposal for profit distribution relating to the year 2017 yet, only profit available for distribution for the year 2017 is presented.

(\*\*) According to the regulation in Turkey, companies do not distribute profits based on consolidated. Profit distribution is based on non-consolidated financial statements.

(\*\*\*) A nominal value of 1 Kuruş 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 Kuruş.

**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

(Amounts 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 consolidated financial statements have been prepared in TL, under the historical cost convention except for the financial asset, liabilities and investment properties revaluation model which are carried at fair value.

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.”

The amendments of TAS and TFRS, effectiveness date is 1 January 2017, have no material impact on the Parent Bank’s accounting policies, financial position and performance. The amendments of TAS and TFRS, except TFRS 9 Financial Instruments will have no impact on the accounting policies, financial condition and performance of the Parent Bank. In accordance with TFRS 9 Financial Instruments Standard, the Bank calculates the general loan loss provision to be approximately at an amount of TL 120 – 150 Million in the opening balance of 1 January 2018.

Amounts in the consolidated 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 effects of differences between accounting principles and standards set out by regulations in conformity with BRSA Accounting and Financial Reporting Legislation, accounting principles generally accepted in countries in which the accompanying consolidated financial statements are to be distributed and International Financial Reporting Standards (“IFRS”) have not been quantified in the accompanying consolidated financial statements. Accordingly, the accompanying consolidated financial statements are not intended to present the financial position, results of operations and changes in financial position and cash flows 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 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.

**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

*(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**

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 Subordinated bond, 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 Parent 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.

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.

**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES**  
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(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)**

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 depends 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.

**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES**  
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(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

**SECTION THREE (Continued)**

**ACCOUNTING POLICIES (Continued)**

**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. Commission income received from non-cash loans are recorded on accrual basis.

**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.

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.

**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES**  
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*(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)*

**SECTION THREE (Continued)**

**ACCOUNTING POLICIES (Continued)**

**VII. Explanations on financial assets (continued)**

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. The Parent Bank considered expected inflation index of future cash flows prevailing at the reporting date while calculating internal rate of return of the Consumer Price Indexed (CPI) marketable securities. The effect of this application is accounted as interest received from marketable securities in the consolidated financial statements.

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. In the securities portfolio of the Parent Bank, there are Consumer Price Indexed (CPI) Government Bonds. These securities are valued and accounted according to the effective interest method based on the real coupon rates and the reference inflation index at the issue date and the estimated inflation rate. As stated in the Investor’s Guide of CPI Government Bonds by Republic of Turkey Undersecretariat of Treasury the reference indices used to calculate the actual coupon payment amounts of these securities are based on the previous two months CPI’s. The Parent Bank determines the estimated inflation rate accordingly. The inflation rate is estimated by considering the expectancies of the Central Bank and the Parent Bank which are updated as needed within the year.



**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES**  
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(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

**SECTION THREE (Continued)**

**ACCOUNTING POLICIES (Continued)**

**VII. Explanations on financial assets (continued)**

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.

Cash loans are composed of foreign currency indexed loans, working capital loans, investment loans and export financing 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.

**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES**  
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(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

**SECTION THREE (Continued)**

**ACCOUNTING POLICIES (Continued)**

**VIII. Explanations on impairment on financial assets (continued)**

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 loan loss 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. This assets are not amortized and presented separately in the financial statements. In order to classify a tangible fixed asset as held for sale, the asset (or the disposal group) should be available for an immediate sale in its present condition subject to the terms of any regular sales of such asset (or such disposal groups) and the sale should be highly probable. For a highly probable sale, the appropriate level of management must be committed to a plan to sell the asset (or the disposal groups), and an active programme to complete should be initiated to locate a customer. Also the asset (or the disposal group) should have an active market sale value, which is a reasonable value in relation to its current fair value. Also, the sale is expected to be accounted as a completed sale beginning from one year after the classification date; and the essential procedures to complete the plan should indicate the possibility of making significant changes on the plan or lower probability of cancelling. Events or circumstances may extend the completion of the sale more than one year. Such assets are still classified as held for sale if there is sufficient evidence that the delay in the sale process is due to the events and circumstances occurred beyond the control of the entity or the entry remains committed to its plan to sell the asset (or disposal group). A discontinued operation is a component of a bank that either has been disposed of, or is classified as held for sale. Gains or losses relating to discontinued operations are presented separately in the income statement.

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**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 on a straight line basis 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 except properties, 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.

Regular 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.

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**SECTION THREE (Continued)**

**ACCOUNTING POLICIES (Continued)**

**XIII. Explanations on tangible assets (continued)**

<b>Tangible Assets</b>	<b>Expected Useful Lives (Years)</b>	<b>Depreciation Rate (%)</b>
Cashvault	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 Lesser***

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.

**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.

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**SECTION THREE (Continued)**

**ACCOUNTING POLICIES (Continued)**

**XVI. Explanations on liabilities regarding employee benefits**

Bank calculates a provision for severance pay to allocate that employees need to be paid upon retirement or involuntarily leaving by estimating the present value of probable amount. 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.

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**SECTION THREE (Continued)**

**ACCOUNTING POLICIES (Continued)**

**XVI. Explanations on liabilities regarding employee benefits (continued)**

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 the transfer of Pension Fund was postponed to an unknown date. 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 2017 has been calculated by an independent actuary in accordance with the actuarial assumptions in the Law and as per actuarial report dated 16 January 2018. There is no need for technical or actual deficit to book provision as of 31 December 2017.

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.

**XVII. Explanations on taxation**

The income tax charge is composed of the sum of current tax charge and deferred tax benefit or charge. 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. 20% is used in the calculation of the corporate tax. In accordance with the Temporary Article 10 added to the Corporate Tax Law, 20% of the Corporate Tax will be applied as 22% for corporate earnings for the taxation periods of 2018, 2019 and 2020.

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 loan loss 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.

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**SECTION THREE (Continued)**

**ACCOUNTING POLICIES (Continued)**

**XVII. Explanations on taxation (continued)**

***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.

The funds borrowed are recorded at their purchase costs and valued at amortised costs using the effective interest method. Some of the funds issued by the Bank and resources used with fixed interest rates are subject to fair value hedge accounting. While the credit risk and rediscounted accumulated interest on hedging liabilities are recorded in the income statement under the interest expense, the credit risk and net amount excluding accumulated interest results from hedge accounting are monitored in the income statement under the derivative financial instruments gains/losses by fair value. 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 23 March 2017, it has been resolved that, paid-in capital of the Parent Bank will be increased from TL 2.050.000 to TL 2.400.000 by adding TL 350.000. In respect of the resolution of the General Assembly, all of this increase will be incorporated from the profit of the year 2016. The increase in paid-in capital was approved by the BRSA on 27 April 2017 and disclosed in the dated 12 June 2017 and numbered 9345 Turkish Trade Registry Gazette.

In the meeting of the General Assembly held on 24 March 2016, it has been resolved that, paid-in capital of the Parent 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 increase in paid-in capital was approved by the BRSA on 6 May 2016 and disclosed in the dated 4 July 2016 and numbered 9110 Turkish Trade Registry Gazette.

**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.

**XXII. Explanations on segment reporting**

In accordance with its mission, the Parent Bank mainly operates in investment and corporate banking segments.

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**SECTION THREE (Continued)**

**ACCOUNTING POLICIES (Continued)**

**XXII. Explanations on segment reporting (continued)**

The corporate banking is serving financial solutions and banking services for its medium and large-scale corporate customers. Services given to corporate customers are; investment credits, project financing, TL and foreign exchange operating loans, letters of credit, letters of guarantees and foreign trade transaction services covering letters of guarantee with external guarantees.

Income from the activities of investment banking includes income from the operations of Treasury and Corporate Finance. Under the investment banking activities, portfolio management for corporate, 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	494.462	544.800	(21.983)	1.017.279
Net Fees and Commission Income	15.521	(1.086)	28.227	42.662
Other Income	34.150	-	109.585	143.735
Other Expense	(119.127)	(60.193)	(284.764)	(464.084)
Profit Before Tax	425.006	483.521	(168.935)	739.592
Tax Provision				(134.117)
<b>Net Profit</b>				<b>605.475</b>
Group's profit / loss				611.177
Minority share profit / loss				(5.702)
Current Period	Corporate Banking	Investment Banking	Other	Total
Segment Assets	22.294.423	5.777.357	1.467.006	29.538.786
Investment in Associates and Subsidiaries	-	-	378.850	378.850
<b>Total Assets</b>	<b>22.294.423</b>	<b>5.777.357</b>	<b>1.845.856</b>	<b>29.917.636</b>
Segment Liabilities	24.312.703	398.797	1.494.795	26.206.295
Shareholders' Equity	-	-	3.711.341	3.711.341
<b>Total Liabilities</b>	<b>24.312.703</b>	<b>398.797</b>	<b>5.206.136</b>	<b>29.917.636</b>

Prior 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)
Prior 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>

**XXIII. Explanations on other matters**

None.



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**SECTION FOUR**

**INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT**

**I. Explanations related to consolidated 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 at 31 December 2017 capital adequacy ratio of Bank has been calculated as 17,03%.

	Consolidated	Consolidated
	Current Period(*)	Prior Period(*)
<b>CORE EQUITY TIER 1 CAPITAL</b>		
Paid-in capital to be entitled for compensation after all creditors	2.401.116	2.050.374
Share premiums	428	428
Reserves	441.740	408.096
Other comprehensive income according to TAS	279.380	249.270
Profit	629.396	494.664
Current Period Profit	611.177	443.431
Prior Period Profit	18.219	51.233
Bonus shares from associates, subsidiaries and joint-ventures not accounted in current period's profit	-	-
Minority shareholder	52.719	57.969
<b>Core Equity Tier 1 Capital Before Deductions</b>	<b>3.804.779</b>	<b>3.260.801</b>
<b>Deductions from Core Equity Tier 1 Capital</b>		
Valuation adjustments calculated as per the 1 <sup>st</sup> 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	92.666	117.998
Leasehold improvements on operational leases	5.440	5.986
Goodwill (net of related tax liability)	804	603
Other intangible assets other than mortgage-servicing rights (net of related tax liability)	2.064	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	(772)	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	20.892	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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**INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT**  
**(Continued)**

**I. Explanations related to consolidated shareholders' equity (continued)**

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 I Capital</b>	<b>121.094</b>	<b>145.429</b>
<b>Core Equity Tier I Capital</b>	<b>3.683.685</b>	<b>3.115.372</b>
<b>ADDITIONAL TIER I 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)	-	-
Shares of Third Parties in Additional Tier I Capital	-	-
Shares of Third Parties in Additional Tier I Capital (Temporary Article 4)	-	-
<b>Additional Tier I Capital before Deductions</b>	-	-
<b>Deductions from Additional Tier I Capital</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>	-	-
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 (-)	717	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>717</b>	<b>1.239</b>
<b>Total Additional Tier I Capital</b>	-	-
<b>Total Tier I Capital (Tier I Capital=Core Equity Tier I Capital+Additional Tier I Capital)</b>	<b>3.682.968</b>	<b>3.114.133</b>
<b>TIER II CAPITAL</b>	-	-
Debt instruments and the related issuance premiums defined by the BRSA	1.125.750	-
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)	136.131	177.167
Shares of Third Parties in Tier II Capital	-	-
Shares of Third Parties in Tier II Capital (Temporary Article 3)	-	-
<b>Tier II Capital Before Deductions</b>	<b>1.261.881</b>	<b>177.167</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 CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)**

**I. Explanations related to consolidated shareholders' equity (continued)**

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>1.261.881</b>	<b>177.167</b>
<b>Total Capital (The sum of Tier I Capital and Tier II Capital)</b>	<b>4.944.849</b>	<b>3.291.300</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	5.223	12.891
<b>CAPITAL</b>		
Total Capital (Total of Tier I Capital and Tier II Capital)	4.939.626	3.278.040
Total Risk Weighted Assets	29.002.503	22.507.376
<b>CAPITAL ADEQUACY RATIOS</b>	-	-
Core Capital Adequacy Ratio (%)	12,70	13,84
Tier I Capital Adequacy Ratio (%)	12,70	13,84
Capital Adequacy Ratio (%)	17,03	14,56
<b>BUFFERS</b>	-	-
Total buffer requirement (%)	1,255	0,632
Capital conservation buffer requirement (%)	1,250	0,630
Bank specific counter-cyclical buffer requirement (%)	0,005	0,002
Systematic significant buffer (%)	-	-
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	8,20	6,63
<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	-	-
Remaining mortgage servicing rights	-	-
Excess amount arising from deferred tax assets from temporary differences	-	-

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**INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT**  
**(Continued)**

**I. Explanations related to consolidated shareholders' equity (continued)**

<b>Limits Related to Provisions Considered in Tier II Calculation</b>		
General provisions for standard based receivables (before tenthousandtwentyfive limitation)	136.131	177.167
Up to 1,25% of total risk-weighted amount of general reserves for receivables where the standard approach used	136.131	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	-	-

*(\*)Under this heading, total amounts which will be reached at the end of the transition process by the items exposed to gradual transition in accordance with the "Regulation on Equities of Banks", which was enacted on 1/1/2014.*

**Explanations on the reconciliation between amounts related to equity items and on balance sheet**

There are no differences between the amounts related to equity items and on balance sheet figures.

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**SECTION FOUR (Continued)**

**INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT**  
**(Continued)**

**Details on Subordinated Liabilities:**

Issuer	Türkiye Sınai Kalkınma Bankası A.Ş.
Unique identifier (eg CUSIP, ISIN etc.)	XS1584113184
Governing law(s) of the instrument	BRSA, Cominque on Subordinated Liabilities of CMB numbered CMB-II-31.1
<b>Regulatory treatment</b>	
Subject to 10% deduction as of 1/1/2015	No
Eligible on unconsolidated and/or consolidated basis	Eligible on unconsolidated and consolidated
Instrument type	Secondary subordinated loan which is categorized in subordinated loans equalling bill of exchanges
Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date – Million USD )	300
Par value of instrument (Million USD)	300
Accounting classification	347011 (Liability) - Subordinated Loans
Original date of issuance	28 March 2017
Perpetual or dated	Dated
Original starting and maturity date	28 March 2017 - 29 March 2027 (10 years)
Issuer call subject to prior supervisory approval	Yes
Optional call date, contingent call dates and redemption amount	There is an early repayment option on 29 March 2022 (After 5th year)
Subsequent call dates, if applicable	After 5th year only for once
Fixed or floating dividend/coupon	Fixed
Coupon rate and any related index	7,625%
Existence of a dividend stopper	None
Fully discretionary, partially discretionary or mandatory	None
Existence of step up or other incentive to redeem	None
Noncumulative or cumulative	Noncumulative
<b>Convertible or non-convertible</b>	
If convertible, conversion trigger (s)	None
If convertible, fully or partially	None
If convertible, conversion rate	None
If convertible, mandatory or optional conversion	None
If convertible, specify instrument type convertible into	None
If convertible, specify issuer of instrument it converts into	None
<b>Write-down feature</b>	
If write-down, write-down trigger(s)	According to number 5411 article, 71th article of Law of Banking and number 6102 article of Turkish Code of Commerce, if BRSA has seem in case of default.
If write-down, full or partial	Full or Partial
If write-down, permanent or temporary	Permanent
If temporary write-down, description of write-up mechanism	None
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	After the senior creditors, before the TIER 1 subdebt, same with TIER 2.
In compliance with article number 7 and 8 of "Own fund regulation"	Based on the conditions written on 8th article.
Details of incompliances with article number 7 and 8 of "Own fund regulation"	Not based on the conditions written on 7th article.

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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.

Limits have also been set for transactions with banks. Credit risks are managed on the counterparty's creditworthiness and limits.

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 Loan Loss Provision" is calculated for these loans.

**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)**

*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*

	Current Period		Prior Period	
	Risk Amount (1)	Average Risk Amount(2)	Risk Amount (1)	Average Risk Amount(2)
Exposures to sovereigns and their central banks	5.480.685	5.241.800	5.366.381	4.851.148
Exposures to regional and local governments	3.000	3.000	3.000	2.761
Exposures to administrative bodies and noncommercial entities	1.526	8.741	10.269	8.924
Exposures to multilateral development banks	-	-	-	-
Exposures to international organizations	-	-	-	-
Exposures to banks and securities firms	3.226.191	4.382.330	3.065.003	4.516.002
Exposures to corporates	34.308.386	29.940.592	24.072.266	18.644.361
Retail exposures	-	-	-	-
Exposures secured by property	991.399	1.049.534	1.152.136	1.243.116
Past due receivables	-	-	-	-
Exposures in higher-risk categories	583	97	-	30
Exposures in the form of bonds secured by mortgages	-	-	-	-
Securitization positions	-	-	-	-
Short term exposures to banks, brokerage houses and	-	-	-	-
Equity investments in the form of collective investment undertakings	-	-	-	286
Equity investments	399.609	366.478	326.615	167.833
Other exposures	1.208.795	1.155.102	675.058	691.233

(1) Includes total risk amounts before the effect of credit risk mitigation.

(2) Average risk amount are the arithmetical average of the amounts in monthly reports prepared starting from 1 January 2017 to the period end.

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.

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**SECTION FOUR (Continued)**

**INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT**  
**(Continued)**

**II. Explanations related to consolidated credit risk (continued)**

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 73,98% and 92,82% of the total cash loans portfolio of the Group respectively (31 December 2016: 80,64% and 96,98%)

The first 100 and 200 largest non cash loans constitute 100% and 100% of the total non cash loans portfolio of the Group respectively (31 December 2016: 100% and 100%).

The first 100 and 200 largest cash and non cash loans constitute 72,53% and 91,93% of the total on and off balance sheet accounts of the Group respectively (31 December 2016: 78,80% and 96,38%).

The Parent Bank calculated the general loan loss provision of TL 136.131 (31 December 2016: TL 177.167).

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.



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**SECTION FOUR (Continued)**

**INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK**  
**MANAGEMENT (Continued)**

**II. Explanations related to consolidated credit risk (continued)**

Basic Loan Quality Categories	Current Period	Prior Period
Top Grade	872.974	591.176
High Grade	1.941.211	1.826.700
Average Grade	20.098.076	15.520.292
Below Average Grade	722.407	538.242
Impaired	54.741	52.784
<b>Total</b>	<b>23.689.409</b>	<b>18.529.194</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 Group’s cash and non-cash loans and financial lease receivables (gross amount including the non performing loans, excluding the specific provisions) is TL 25.027.926 and TL 1.338.517 of these customers have not been rated (31 December 2016: TL 19.060.660, TL 531.466).

The aging analysis of the receivables past due but not impaired in terms of financial asset classes, is as follows:

	Current Period (1)				Prior Period			
	31- 60 Days	61- 90 Days	Other	Total	31- 60 Days	61- 90 Days	Other	Total
Corporate Loans	-	1.212	36.513	37.725	-	-	7.330	7.330
SME Loans	-	-	-	-	-	-	-	-
Consumer Loans	-	-	-	-	-	-	-	-
<b>Total</b>	-	<b>1.212</b>	<b>36.513</b>	<b>37.725</b>	-	-	<b>7.330</b>	<b>7.330</b>

(1) Only the overdue amounts of the loans included in the related items are included and the total credit amount of the related loans is TL 296.391 .

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**SECTION FOUR (Continued)**

**INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)**

**II. Explanations related to consolidated credit risk (continued)**

**Profile of Significant Exposures in Major Region**

	Risk Types (*)																
	Exposures to sovereigns and central banks	Exposures to regional and local governments	Exposures to administrative bodies and non-financial entities	Exposures to multilateral development banks	Exposures to international organizations	Exposures to banks and securities firms	Exposures to corporates	Retail exposures	Exposures secured by property	Past due receivables	Exposures in higher-risk categories	Exposures in the form of loans secured by mortgages	Short term exposures to banks, brokerage houses and corporates	Equity investments in the form of collective undertakings	Equity investments	Other exposures	Total
Current Period																	
Domestic	5,488,609	600	1,342	-	-	1,596,257	22,834,531	-	987,801	-	292	-	-	-	119,992	548,749	31,578,173
European Union (EU)	-	-	-	-	-	150,422	-	-	-	-	-	-	-	-	-	-	-
Countries	-	-	-	-	-	150,422	-	-	-	-	-	-	-	-	27,821	78,902	257,145
OECD Countries (**)	-	-	-	-	-	14,371	-	-	-	-	-	-	-	-	-	-	14,371
Off-Shore Banking Regions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
USA, Canada	-	-	-	-	-	19,412	-	-	-	-	-	-	-	-	-	-	19,412
Other Countries	-	-	-	-	-	54,983	108,752	-	-	-	-	-	-	-	-	-	163,735
Associates, Subsidiaries and Joint Ventures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	251,796	-	251,796
Unallocated Assets/ Liabilities (***)	-	-	-	-	-	-	999	-	-	-	-	-	-	-	-	35,292	36,291
Total	5,488,609	600	1,342	-	-	1,835,445	22,944,282	-	987,801	-	292	-	-	-	399,609	662,943	32,320,923

(\*) 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.

(\*\*) 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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**INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)**

**II. Explanations related to consolidated credit risk (continued)**

**Profile of Significant Exposures in Major Region (continued)**

	Risk Types (*)																
Prior Period	Exposures to sovereigns and their central banks	Exposures to regional and local governments	Exposures to administrative bodies and non-financial entities	Exposures to multilateral development banks	Exposures to international organizations	Exposures to banks and securities firms	Exposures to corporates	Retail exposures	Exposures secured by property	Past due receivables	Exposures in higher-risk categories	Exposures in the form of bonds secured by mortgages	Short term exposures to banks, brokerage houses and corporates	Equity investments in the form of collective investments and undertakings	Equity investments	Other exposures	Total
Domestic	5,206,648	600	3,091	-	-	1,589,710	16,952,527	-	1,129,502	-	-	-	-	-	82,632	473,784	25,438,494
European Union (EU)	-	-	-	-	-	256,090	-	-	-	-	-	-	-	-	12,818	-	268,908
OECD Countries (**)	-	-	-	-	-	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 (***)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	5,206,648	600	3,091	-	-	2,034,069	17,241,649	-	1,129,502	-	-	-	-	-	326,615	594,557	26,536,731

(\*) 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.

(\*\*) 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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**INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)**

**II. Explanations related to consolidated credit risk (continued)**

**Explanations related to credit risk (continued)**

**Risk profile by sectors or counterparties**

	Risk Types (*)																		
	Exposures to sovereigns and their central banks	Exposures to regional and local governments	Exposures to administrative bodies and noncommercial entities	Exposures to multilateral development banks	Exposures to international organizations	Exposures to banks and securities firms	Exposures to corporates	Retail exposures	Exposures secured by property	Exposures in higher-risk categories	Exposures in the form of bonds secured by mortgages	Short term exposures to banks, brokerage houses and corporates	Equity investments in the form of collective investment undertakings	Equity investments	Other exposures	TL	FC	Total	
Current Period																			
Agriculture	-	-	-	-	-	-	-	41,147	-	-	-	-	-	-	-	340	36,935	4,552	41,487
Farming and Stockbreeding	-	-	-	-	-	-	-	41,147	-	-	-	-	-	-	-	-	36,595	4,552	41,147
Forestry	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fishery	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	340	-	340
Manufacturing	-	-	-	-	-	-	-	15,321,606	259,337	-	-	-	-	-	-	-	1,312,515	14,271,280	15,583,795
Mining and Quarrying	-	-	-	-	-	-	-	167,944	-	292	-	-	-	-	-	7	2,553	167,944	167,944
Production	-	-	-	-	-	-	-	4,936,560	259,337	-	-	-	-	-	-	7	1,015,198	4,180,706	5,195,904
Electricity, Gas and Water	-	-	-	-	-	-	-	10,217,102	-	292	-	-	-	-	-	-	297,317	9,922,630	10,219,947
Construction	-	-	-	-	-	-	-	1,066,097	111,297	-	-	-	-	-	-	72	172,732	1,004,734	1,177,466
Services	847,110	-	-	-	-	-	-	6,368,136	607,131	-	-	-	-	399,602	90,055	2,217,338	7,930,141	10,147,479	
Wholesale and Retail Trade	-	-	-	-	-	-	-	487,101	-	-	-	-	-	-	8,045	102,766	392,380	495,146	
Accommodation and Dining	-	-	-	-	-	-	-	283,463	-	-	-	-	-	1,760	-	67,653	749,912	817,565	
Transportation and Telecommunication	-	-	-	-	-	-	-	1,242,094	-	-	-	-	-	1,056	-	21,281	1,221,869	1,243,150	
Financial Institutions	847,110	-	-	-	-	-	-	2,254,901	-	-	-	-	-	395,176	82,010	1,755,503	3,659,139	5,414,642	
Real Estate and Rental Services	-	-	-	-	-	-	-	742,817	51,534	-	-	-	-	-	-	-	557	793,794	794,351
Professional Services	-	-	-	-	-	-	-	502,906	-	-	-	-	-	1,610	-	239,302	265,214	504,516	
Educational Services	-	-	-	-	-	-	-	107,892	23,255	-	-	-	-	-	-	2,632	128,515	131,147	
Health and Social Services	-	-	-	-	-	-	-	746,962	-	-	-	-	-	-	-	27,644	719,318	746,962	
Others	4,641,499	600	1,342	-	-	-	-	147,296	10,036	-	-	-	-	-	-	569,923	3,921,393	1,449,303	5,370,696
Total	5,488,609	600	1,342	-	-	-	1,835,445	22,944,282	987,801	292	-	-	-	399,609	662,943	7,660,913	24,660,010	32,320,923	

(\*) Since there is no securitization position, risk class of "Securitization Positions" has not been included in the table.

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**INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)**

**II. Explanations related to consolidated credit risk (continued)**

**Analysis of maturity-bearing exposures according to remaining maturities**

Risk Types	Term to Maturity				
	1 month	1-3 months	3-6 months	6-12 months	Over 1 year
Current Period					
Exposures to sovereigns and their central banks	833.407	99.329	90.978	178.503	3.991.484
Exposures to regional and local governments	-	-	-	-	-
Exposures to administrative bodies and noncommercial entities	-	-	-	-	-
Exposures to multilateral development banks	-	-	-	-	-
Exposures to international organizations	-	-	-	-	-
Exposures to banks and securities firms	700.266	272.029	76.105	4	662.893
Exposures to corporates	829.608	903.970	1.311.584	1.444.613	18.302.190
Retail exposures	-	-	-	-	-
Exposures secured by property	3.141	1.049	51.094	65.371	866.781
Past due receivables	-	-	-	-	-
Exposures in higher-risk categories	-	-	165	-	126
Exposures in the form of bonds secured by mortgages	-	-	-	-	-
Securitization positions	-	-	-	-	-
Short term exposures to banks, brokerage houses and corporates	-	-	-	-	-
Equity investments in the form of collective investment undertakings	-	-	-	-	-
Equity investments	-	-	-	-	-
Other exposures	2.193	-	-	-	44.162
<b>Total</b>	<b>2.368.615</b>	<b>1.276.377</b>	<b>1.529.926</b>	<b>1.688.491</b>	<b>23.867.636</b>

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**II. Explanations related to consolidated credit risk (continued)**

**Analysis of maturity-bearing exposures according to remaining maturities (continued)**

Risk Types	Term to Maturity				
	1 month	1-3 months	3-6 months	6-12 months	Over 1 year
Prior Period					
Exposures to sovereigns and their central banks	622.367	1.165	377.492	148.307	3.286.448
Exposures to regional and local governments	-	-	-	-	-
Exposures to administrative bodies and noncommercial entities	1.357	-	-	-	1.674
Exposures to multilateral development banks	-	-	-	-	-
Exposures to international organizations	-	-	-	-	-
Exposures to banks and securities firms	688.888	92.659	188.064	54.380	662.115
Exposures to corporates	98.556	545.345	528.064	1.202.850	14.730.991
Retail exposures	-	-	-	-	-
Exposures secured by property	1.939	395	21.327	11.868	1.084.680
Past due receivables	-	-	-	-	-
Exposures in higher-risk categories	-	-	-	-	-
Exposures in the form of bonds secured by mortgages	-	-	-	-	-
Securitization positions	-	-	-	-	-
Short term exposures to banks, brokerage houses and corporates	-	-	-	-	-
Equity investments in the form of collective investment undertakings	-	-	-	-	-
Equity investments	-	-	-	-	-
Other exposures	5.552	-	-	-	16.866
<b>Total</b>	<b>1.418.659</b>	<b>639.564</b>	<b>1.114.947</b>	<b>1.417.405</b>	<b>19.782.774</b>

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**II. Explanations related to consolidated credit risk (continued)**

**Credit risk under standard approach**

The ratings given by international credit rating agency Fitch Ratings are used to determine the risk weights in capital adequacy calculation regarding exposures to banks and securities firms 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:

Credit Quality Grades	Fitch Ratings	Claims on Sovereigns	Risk Types		
			Claims on Banks and Capital Market Intermediary		Claims on Corporate Receivables
			Claims with Original Maturities Less Than 3 Months	Claims with Original 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				
Unrated	Unrated	100%	20% (*)	50% (*)	100%

(\*) Used in case when the risk weight of the sovereign of the Bank's country is not higher.



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**II. Explanations related to consolidated credit risk (continued)**

**Exposures by risk weights**

<b>Current Period</b>										
<b>Risk Weights</b>	<b>0%</b>	<b>10%</b>	<b>20%</b>	<b>50%</b>	<b>75%</b>	<b>100%</b>	<b>150%</b>	<b>200%</b>	<b>1250%</b>	<b>Deducted from Equity</b>
Exposures Before Credit Risk Mitigation	4.061.014	-	1.028.509	496.367	-	26.841.250	-	-	-	127.034
Exposures After Credit Risk Mitigation	4.244.689	-	1.028.509	1.484.168	-	25.563.557	-	-	-	127.034

(\*) The figures represent total risk amounts before credit risk mitigation and after credit conversion factor.

<b>Prior Period</b>										
<b>Risk Weights</b>	<b>0%</b>	<b>10%</b>	<b>20%</b>	<b>50%</b>	<b>75%</b>	<b>100%</b>	<b>150%</b>	<b>200%</b>	<b>1250%</b>	<b>Deducted from Equity</b>
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

(\*) The figures represent total risk amounts before credit risk mitigation and after credit conversion factor.

**Information of major sectors or type of counterparties**

The Parent Bank's all impaired and non-performing receivables comprise of domestic receivables.

Current Period	Loans			
Major Sectors / Counterparties	Impaired Loans	Past Due Loans (1)	Value Adjustments (2)	Provisions (3)
Agriculture	-	-	-	
Farming and Stockbreeding	-	-	-	-
Forestry	-	-	-	-
Fishery	-	-	-	-
Manufacturing	40.800	-	-	(40.800)
Mining and Quarrying	193	-	-	(193)
Production	6.866	-	-	(6.866)
Electricity, Gas and Water	33.741	-	-	(33.741)
Construction	8.722	1.212	24	(8.722)
Services	3.945	36.513	5.904	(3.945)
Wholesale and Retail Trade	931	-	-	(931)
Accommodation and Dining	710	-	-	(710)
Transportation and Telecommunication	57	36.513	5.904	(57)
Financial Institutions	2.091	-	-	(2.091)
Real Estate and Rental Services	-	-	-	-
Professional Services	156	-	-	(156)
Educational Services	-	-	-	-
Health and Social Services	-	-	-	-
Others	108	-	-	(108)
Total	53.575	37.725	5.928	(53.575)

(1) Represents loans under follow-up and delayed between 31-90 days. Only the overdue amounts of the loans included in the related items and the total credit amount of the related loans is TL 296.391.

(2) Represents the general provision amounts, which are calculated by considering both due and non due amounts of past due loans.

(3) Represents specific provisions reserved for impaired loans.

**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES**  
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**INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT**  
**(Continued)**

**II. Explanations related to consolidated credit risk (continued)**

*Information of major sectors or type of counterparties (continued)*

Prior Period	Loans		Value	
Major Sectors / Counterparties	Impaired Loans	Past Due Loans (1)	Adjustments (2)	Provisions (3)
Agriculture	3.446	-	-	(3.446)
Farming and Stockbreeding	3.446	-	-	(3.446)
Forestry	-	-	-	-
Fishery	-	-	-	-
Manufacturing	35.902	-	-	(35.902)
Mining and Quarrying	193	-	-	(193)
Production	1.972	-	-	(1.972)
Electricity, Gas and Water	33.737	-	-	(33.737)
Construction	9.091	-	-	(9.091)
Services	3.044	7.330	2.578	(3.044)
Wholesale and Retail Trade	870	-	-	(870)
Accommodation and Dining	674	-	-	(674)
Transportation and Telecommunication	57	7.330	2.578	(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>7.330</b>	<b>2.578</b>	<b>(51.615)</b>

(1) Represents loans delayed between 31-90 days. Only the overdue amounts of the loans included in the related items and the total credit amount of the related loans is TL 257.761.

(2) Represents the general provision amounts, which are calculated by considering both due and non due amounts of past due loans.

(3) Represents specific provisions reserved for impaired loans.

*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	51.615	6.436	(4.476)	-	53.575
General Loan Loss Provision	177.167	-	(41.036)	-	136.131

Prior 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

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**II. Explanations related to consolidated credit risk (continued)**

**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:**

Current Period Country risk taken ultimately	Private Sector Loans in Banking Book	Risk Weighted Amount calculations for Trading Book	Total
United States	3.389	-	3.389
Georgia	108.752	-	108.752
England	3.135	-	3.135
Turkey	25.401.525	268.023	25.669.548
<b>Total</b>	<b>25.516.801</b>	<b>268.023</b>	<b>25.784.824</b>

Prior Period 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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**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:

	<b>1 US Dollar</b>	<b>1 Euro</b>
<b>The Parent Bank's "Foreign Exchange Valuation Rate"</b>		
31 December 2017	3,7525	4,4824
<b><u>Prior Five Workdays:</u></b>		
29 December 2017	3,7525	4,4824
28 December 2017	3,7875	4,5174
27 December 2017	3,7825	4,4925
26 December 2017	3,7775	4,4831
25 December 2017	3,7800	4,4823

Simple arithmetic thirty-day averages of the US Dollar and Euro buying rates of the Parent Bank before the reporting date are full TL 3,8195 and 4,5225 respectively.

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**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	354.145	409.565	72.830	836.540
Banks	14.819	12.131	1.759	28.709
Financial Assets at Fair Value Through Profit and Loss (1)	25.936	30.715	1.365	58.016
Money Market Placements	-	-	-	-
Available-For-Sale Financial Assets	55.335	983.207	-	1.038.542
Loans (2)	9.136.079	10.951.604	-	20.087.683
Subsidiaries, Associates and Entities Under Common Control (Joint Vent.)	-	-	-	-
Held-To-Maturity Investments	-	197.326	-	197.326
Derivative Financial Assets for Hedging Purposes	-	-	-	-
Tangible Assets	-	-	-	-
Intangible Assets	-	-	-	-
Other Assets (3)	73.652	199.842	-	273.494
<b>Total Assets</b>	<b>9.659.966</b>	<b>12.784.390</b>	<b>75.954</b>	<b>22.520.310</b>
<b>Liabilities</b>				
Bank Deposits	-	-	-	-
Foreign Currency Deposits	-	-	-	-
Money Market Borrowings	98.426	62.712	-	161.138
Funds Provided From Other Financial Institutions	9.559.098	9.221.510	7	18.780.615
Marketable Securities Issued (4)	-	4.892.465	-	4.892.465
Miscellaneous Payables	18.882	40.794	285	59.961
Derivative Financial Liabilities for Hedging Purposes	-	78.682	-	78.682
Other Liabilities (5)	25.560	16.525	2.573	44.658
<b>Total Liabilities</b>	<b>9.701.966</b>	<b>14.312.688</b>	<b>2.865</b>	<b>24.017.519</b>
<b>Net Balance Sheet Position</b>	<b>(42.000)</b>	<b>(1.528.298)</b>	<b>73.089</b>	<b>(1.497.209)</b>
<b>Net Off-Balance Sheet Position</b>	<b>(194.420)</b>	<b>1.508.745</b>	<b>(72.110)</b>	<b>1.242.215</b>
Financial Derivative Assets	1.090.414	4.529.407	487.346	6.107.167
Financial Derivative Liabilities	(1.284.834)	(3.020.662)	(559.456)	(4.864.952)
Non-Cash Loans (6)	883.016	1.125.806	1.891	2.010.713
<b>Prior Period</b>				
Total Assets	7.458.950	11.238.541	122.155	18.819.646
Total Liabilities	7.363.483	12.343.057	2.801	19.709.341
<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	714.093	730.990	13.677	1.458.760

(1) Exchange rate differences arising from derivative transactions amounting to TL 74.672 is deducted from "Financial Assets at Fair Value through Profit and Loss".

(2) Loans include TL 1.746.160 foreign currency indexed loans.

(3) Forward foreign exchange purchase transaction rediscounts amounting to TL 566 have not been included in "Other Assets".

(4) Includes Tier 2 subordinated bonds which are classified on the balance sheet as subordinated loans.

(5) Marketable securities value increase fund amounting to TL 12.440 and exchange rate differences arising from derivative transactions amounting to TL 78.060 and forward foreign exchange purchase transaction rediscounts amounting to TL 16 have not been included in "Other Liabilities".

(6) Has no effect on net off-balance sheet position.

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**INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT**  
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**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.

	<b>Increase in Currency Rate</b>	<b>Effect on Profit / Loss (1)</b>		<b>Effect on Equity (2)</b>	
	%	Current Period	Prior Period	Current Period	Prior Period
US Dollar	10	(2.555)	(1.955)	600	(3.185)
Euro	10	(23.808)	(19.425)	166	337
Other	10	98	73	-	-

	<b>Decrease in Currency Rate</b>	<b>Effect on Profit / Loss (1)</b>		<b>Effect on Equity (2)</b>	
	%	Current Period	Prior Period	Current Period	Prior Period
US Dollar	10	2.555	1.955	(600)	3.185
Euro	10	23.808	19.425	(166)	(337)
Other	10	(98)	(73)	-	-

(\*) Values expressed are before the tax effect.

(\*\*) 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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**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 (1)	Total
<b>Assets</b>							
Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Checks Purchased) and Balances with the Central Bank of Turkey	420.135	-	-	-	-	427.000	847.135
Banks	279.626	194.572	-	-	-	19.489	493.687
Financial Assets at Fair Value Through Profit and Loss	74.832	148.151	83.756	28.334	-	1.020	336.093
Money Market Placements	3	-	-	-	-	-	3
Available-for-Sale Financial Assets	88.570	155.606	1.047.061	971.432	755.623	73.080	3.091.372
Loans	3.493.798	6.649.087	8.107.041	3.372.960	714.344	-	22.337.230
Held-to-Maturity Investments	201.806	723.091	409.824	-	197.326	-	1.532.047
Other Assets	1.851	-	3.861	46.593	11.105	1.216.659	1.280.069
<b>Total Assets</b>	<b>4.560.621</b>	<b>7.870.507</b>	<b>9.651.543</b>	<b>4.419.319</b>	<b>1.678.398</b>	<b>1.737.248</b>	<b>29.917.636</b>
<b>Liabilities</b>							
Bank Deposits	-	-	-	-	-	-	-
Other Deposits	-	-	-	-	-	-	-
Money Market Borrowings	1.277.713	87	34.122	-	-	-	1.311.922
Miscellaneous Payables	-	-	-	-	-	75.095	75.095
Marketable Securities Issued (2)	-	-	-	3.746.229	1.146.236	-	4.892.465
Funds Provided from Other Financial Institutions	3.922.001	6.507.042	4.065.817	2.343.537	2.163.230	-	19.001.627
Other Liabilities (3)	44.825	128.938	98.428	46.791	5.004	4.312.541	4.636.527
<b>Total Liabilities</b>	<b>5.244.539</b>	<b>6.636.067</b>	<b>4.198.367</b>	<b>6.136.557</b>	<b>3.314.470</b>	<b>4.387.636</b>	<b>29.917.636</b>
Balance Sheet Long Position	-	1.234.440	5.453.176	-	-	-	6.687.616
Balance Sheet Short Position	(683.918)	-	-	(1.717.238)	(1.636.072)	(2.650.388)	(6.687.616)
Off-Balance Sheet Long Position	-	-	-	4.878.400	412.774	-	5.291.174
Off-Balance Sheet Short Position	35.614	(1.508.556)	(3.750.901)	-	-	-	(5.223.843)
<b>Total Position</b>	<b>(648.304)</b>	<b>(274.116)</b>	<b>1.702.275</b>	<b>3.161.162</b>	<b>(1.223.298)</b>	<b>(2.650.388)</b>	<b>67.331</b>

(1) Amounts in investments in associates and subsidiaries, deferred tax asset, 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.

(2) Includes Tier 2 subordinated bonds which are classified on the balance sheet as subordinated loans.

(3) Borrower funds amounting to TL 12.901 are presented in "Other Liabilities" within 1-month maturity column.

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**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 (1)	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 (2)	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>
<b>Balance Sheet Long Position</b>	-	1.082.599	4.356.024	-	-	-	5.438.623
<b>Balance Sheet Short Position</b>	(1.255.230)	-	-	(1.531.977)	(632.697)	(2.018.719)	(5.438.623)
<b>Off-Balance Sheet Long Position</b>	-	14.267	-	18.604	228.421	-	261.292
<b>Off-Balance Sheet Short Position</b>	(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>

(1) Amounts in investments in associates and subsidiaries, deferred tax asset, 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.

(2) Borrower funds amounting to TL 5.317 are presented in "Other Liabilities" within 1-month maturity column.



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**IV. Explanations related to consolidated interest rate risk (continued)**

*Average interest rates applied to monetary financial instruments: %*

	<b>Euro</b>	<b>US Dollar</b>	<b>Yen</b>	<b>TL</b>
<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	-	1,43	-	3,48
Banks	1,00	-	-	15,47
Financial Assets at Fair Value Through Profit and Loss	-	-	-	14,90
Money Market Placements	-	-	-	11,01
Available-for-Sale Financial Assets	5,61	4,55	-	11,71
Loans	4,00	6,16	-	14,90
Held-to-Maturity Investments	-	5,59	-	11,69
<b>Liabilities</b>				
Bank Deposits	-	-	-	-
Other Deposits	-	-	-	-
Money Market Borrowings	0,28	0,50	-	12,98
Miscellaneous Payables	-	-	-	-
Marketable Securities Issued	-	5,71	-	-
Borrower Funds	0,25	0,50	-	8,00
Funds Provided From Other Financial Institutions	1,01	2,37	-	7,74

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**(Continued)**

**IV. Explanations related to consolidated interest rate risk (continued)**

*Average interest rates applied to monetary financial instruments in prior period: %*

Prior Period	Euro	US Dollar	Yen	TL
<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

**V. Explanations related to consolidated stock position risk**

The Group is exposed to equity shares risk arising from investments on firms traded in Borsa Istanbul (BIST). 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	301.878	-	314.891
Quoted	301.878	-	314.891

Prior 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

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**V. Explanations related to consolidated stock position risk (continued)**

***Equity shares risk due from banking book (continued)***

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		Revaluation Value Increases		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	-	-	-	75	75	-
Other Share Certificates	-	12.634	12.634	-	-	-
<b>Total</b>	<b>-</b>	<b>12.634</b>	<b>12.634</b>	<b>-</b>	<b>-</b>	<b>-</b>

Prior Period		Revaluation Value Increases		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	-	-	-	159	159	-
Other Share Certificates	114	7.610	7.610	-	-	-
<b>Total</b>	<b>114</b>	<b>7.610</b>	<b>7.610</b>	<b>159</b>	<b>159</b>	<b>-</b>

**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES**  
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**INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT**  
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**VI. Consolidated liquidity risk management and coverage ratio**

**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**

Liquidity risk management is conducted by Treasury Department in line with the strategies set by Asset and Liability Committee within the limits and policies approved by Board of Directors, and is monitored and controlled through reportings from Risk Management, Budget Planning and Financial Control Departments to Audit Committee, Board of Directors, Senior Management and relevant departments. The Bank's liquidity risk capacity is determined by the Bank's internal limits and the regulations on liquidity coverage ratio and liquidity adequacy. Regarding its risk appetite, in addition to legal limits, the Bank also applies internal limits for monitoring and controlling the liquidity risk.

Considering the Bank's strategies and competitive conditions, Asset and Liability Committee has the responsibility of taking the relevant decisions regarding optimal balance sheet management of the Bank, and monitoring the implementations. Treasury Department performs cash position management within the framework of the decisions taken at Asset and Liability Committee meetings. The Risk Management Department reports to the Board of Directors and the Asset and Liability Committee regarding liquidity risk within the scope of internal limits and legal regulations. Additionally, liquidity stress tests are performed based on various scenarios and reported with their impact on legal limit utilization. Treasury Control Unit under the Budget Planning and Investor Relations Department also makes cash flow projection reportings to the Treasury Department and the Asset Liability Committee at certain periods and when needed.

**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**

Within the scope of consolidation, liquidity management is not centralized and each subsidiary is responsible for its own liquidity management. However, the Bank monitors the liquidity risk of each subsidiary within the defined limits.

**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 Bank, there are development bank credits, capital market transactions, syndicated loans, bilateral contractual resources, repo transactions and money market transactions and these sources are diversified to minimize the liquidity risk within the terms of market conditions. The funding planning based on those loans is performed long term such as a minimum of one year and the performance is monitored by the Asset and 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:**

The Bank's obligations consist of Turkish Lira (TRY), US Dollar (USD) and Euro (EUR) currency types. Turkish Lira obligations mainly consist of equity and repurchase agreements, whereas foreign currency obligations consist of foreign currency credits, securities issued and repurchase agreements. All loans provided from foreign sources are in foreign currencies. For this reason, foreign resources can be used in TL funding by currency swap transactions when necessary.

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**VI. Consolidated liquidity risk management and coverage ratio (continued)**

**1. Explanations related to the consolidated liquidity risk (continued)**

**1.d Information on consolidated liquidity risk mitigation techniques:**

Liquidity limits are defined for the purpose of monitoring and keeping the risk under certain levels. The Bank monitors those limits' utilization and informs the Board of Directors, the Bank Senior Management and the relevant departments regularly. Regarding those limits, the Treasury Department performs the required transactions with the relevant cost and term composition in accordance with market conditions from the sources previously defined in Article C. The Bank minimizes the liquidity risk by holding high quality liquid assets and diversification of funds.

**1.e Information on the use of stress tests**

Within the scope of liquidity stress tests, the deteriorations that may occur in the cash flow structure of the Bank are assessed by the Bank's scenarios. The results are analyzed by taking into account the risk appetite and capacity of the Bank and reported to the senior management by the Risk Management Department ensuring the necessary actions are taken.

**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 Parent Bank's 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. In contingent periods outflows due to the irrevocable commitments, contingencies and derivative transactions can be deferred temporarily in a way that won't hurt the Bank's reputation. TSKB has the optionality of choosing one or more of the following for meeting its liquidity requirement that are selling liquid assets off, increasing short term borrowing, decreasing illiquid assets, increasing capital.

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**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 consolidated 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			2.334.272	977.670
<b>CASH OUTFLOWS</b>				
2 Retail and Customers Deposits	40	7	13	3
3 Stable deposits	-	-	-	-
4 Less stable deposits	40	7	13	3
5 Unsecured Funding other than Retail and Small Business Customers Deposits	1.782.191	764.625	1.437.070	550.440
6 Operational deposits	39.136	35.159	9.784	8.790
7 Non-Operational Deposits	-	-	-	-
8 Other Unsecured Funding	1.743.055	729.466	1.427.286	541.650
9 Secured funding			-	-
10 Other Cash Outflows	1.400.848	809.493	1.400.848	809.493
11 Liquidity needs related to derivatives and market valuation changes on derivatives transactions	1.400.848	809.493	1.400.848	809.493
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	6.963.447	5.415.996	348.172	270.800
15 Other irrevocable or conditionally revocable commitments	8.860.567	5.967.301	1.682.121	829.224
16 <b>TOTAL CASH OUTFLOWS</b>			<b>4.868.224</b>	<b>2.459.960</b>
<b>CASH INFLOWS</b>				
17 Secured Lending Transactions	436	-	-	-
18 Unsecured Lending Transactions	2.619.706	836.510	2.103.804	650.284
19 Other contractual cash inflows	1.375.296	1.294.475	1.375.296	1.294.475
20 <b>TOTAL CASH INFLOWS</b>	<b>3.995.438</b>	<b>2.130.985</b>	<b>3.479.100</b>	<b>1.944.759</b>
			Upper Limit Applied Amounts	
21 <b>TOTAL HQLA STOCK</b>			<b>2.334.272</b>	<b>977.670</b>
22 <b>TOTAL NET CASH OUTFLOWS</b>			<b>1.389.124</b>	<b>614.990</b>
23 <b>Liquidity Coverage Ratio (%)</b>			<b>168</b>	<b>159</b>

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**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			1.383.881	494.908
<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	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
16 <b>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
20 <b>TOTAL CASH INFLOWS</b>	<b>4.197.502</b>	<b>1.452.474</b>	<b>3.991.456</b>	<b>1.344.059</b>
			Upper Limit Applied Amounts	
21 <b>TOTAL HQLA STOCK</b>			<b>1.383.881</b>	<b>494.908</b>
22 <b>TOTAL NET CASH OUTFLOWS</b>			<b>788.323</b>	<b>435.129</b>
23 <b>Liquidity Coverage Ratio (%)</b>			<b>148</b>	<b>88</b>

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**VI. Consolidated liquidity risk management and coverage ratio (continued)**

**3. Minimum explanations related to the liquidity coverage ratio by Banks:**

As per The Regulation on The Calculation of Liquidity Coverage Ratio, Liquidity Coverage Ratio is the ratio of high quality liquid assets to net cash outflows. During the implementation process, the minimum limits increase gradually until 2019, and for total and foreign currency limits 100% and 80% are assigned on consolidated and unconsolidated basis respectively. For the development and investment banks, Banking Regulations and Supervision Agency decided to apply zero percent to the total and foreign currency consolidated and unconsolidated liquidity coverage ratios unless stated otherwise.

In the Liquidity Coverage Ratio calculation, the items with the highest impact are high quality liquid assets, foreign funds and money market transactions. High quality liquid assets mainly consist of the required reserves held in the Central Bank of the Republic of Turkey and unencumbered securities issued by the Treasury.

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 67%. The total ratio of the securities issued in purpose of funding diversification and loans attained through syndication loans in overall borrowing is 27%. 6% of the Parent Bank's total funding is provided from repurchase agreements.

30-day cash flows arising from derivative transactions are included in the calculation in accordance with the Regulation. The Bank also takes into consideration the liabilities depending on the possibility of changing the fair values of the derivative transactions in accordance with the Regulation.



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**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 (1)	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	427.000	420.135	-	-	-	-	-	847.135
Banks	19.489	279.626	194.572	-	-	-	-	493.687
Financial Assets at Fair Value Through Profit and Loss	1.020	6.965	45.179	50.843	163.529	68.557	-	336.093
Money Market Placements	-	3	-	-	-	-	-	3
Financial Assets Available-for-Sale	-	-	87.338	405.362	1.769.969	755.623	73.080	3.091.372
Loans	-	970.966	1.307.271	4.763.252	10.358.822	4.936.919	-	22.337.230
Held-to-Maturity Investments	-	-	-	-	859.079	672.968	-	1.532.047
Other Assets	569.537	1.851	-	3.861	46.593	11.105	647.122	1.280.069
<b>Total Assets</b>	<b>1.017.046</b>	<b>1.679.546</b>	<b>1.634.360</b>	<b>5.223.318</b>	<b>13.197.992</b>	<b>6.445.172</b>	<b>720.202</b>	<b>29.917.636</b>
<b>Liabilities</b>								
Bank Deposits	-	-	-	-	-	-	-	-
Other Deposits	-	-	-	-	-	-	-	-
Funds Provided from Other Financial Institutions	-	261.633	341.301	3.027.738	7.696.854	7.674.101	-	19.001.627
Money Market Borrowings	-	-	87	34.122	-	-	-	1.311.922
Marketable Securities Issued (2)	-	-	-	-	3.746.229	1.146.236	-	4.892.465
Miscellaneous Payables	-	-	-	-	-	-	75.095	75.095
Other Liabilities (3)	-	37.015	43.662	46.889	150.696	45.724	4.312.541	4.636.527
<b>Total Liabilities</b>	<b>-</b>	<b>1.576.361</b>	<b>385.050</b>	<b>3.108.749</b>	<b>11.593.779</b>	<b>8.866.061</b>	<b>4.387.636</b>	<b>29.917.636</b>
<b>Liquidity Gap</b>	<b>1.017.045</b>	<b>103.185</b>	<b>1.249.310</b>	<b>2.114.569</b>	<b>1.604.213</b>	<b>(2.420.889)</b>	<b>(3.667.434)</b>	<b>-</b>
Net Off-balance sheet Position	-	(19.773)	527	316	81.569	4.692	-	67.331
Financial Derivative Assets	-	1.397.780	2.836.475	2.775.523	8.614.737	4.586.490	-	20.211.005
Financial Derivative Liabilities	-	1.417.553	2.835.948	2.775.207	8.533.168	4.581.798	-	20.143.674
Non-cash Loans (4)	-	46.294	268.206	843.606	621.648	771.147	22.810	2.573.711
<b>Prior Period</b>								
Total Assets	388.855	1.823.493	1.399.104	3.620.305	9.889.301	6.534.525	1.219.903	24.875.486
Total Liabilities	-	1.505.615	310.523	2.272.667	10.179.329	6.979.875	3.627.477	24.875.486
<b>Liquidity Gap</b>	<b>388.855</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>
<b>Net Off-balance sheet Position</b>	<b>-</b>	<b>7.762</b>	<b>399</b>	<b>782</b>	<b>38.040</b>	<b>12.062</b>	<b>-</b>	<b>59.045</b>
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 (4)	-	21.227	5.182	33.578	551.991	508.482	548.748	1.669.208

(1) 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, deferred tax asset, other miscellaneous receivables, investments in subsidiaries and associates, entities under common control, office supply inventory, prepaid expenses and non-performing loans are classified under "Undistributed" column.

(2) Includes Tier 2 subordinated bonds which are classified on the balance sheet as subordinated loans.

(3) Borrower funds amounting to TL 12.901 are presented in "Other Liabilities" within 1-month maturity column.

(4) Has no effect on net off-balance sheet position.

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**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	218.189	384.059	3.267.276	8.525.381	8.343.922	(1.737.200)	19.001.627
Money Market Borrowings	1.278.961	88	34.143	-	-	(1.270)	1.311.922
Marketable Securities Issued	-	42.919	235.703	4.404.866	1.514.306	(1.305.329)	4.892.465
Funds	12.901	-	-	-	-	-	12.901
<b>Total</b>	<b>1.510.051</b>	<b>427.066</b>	<b>3.537.122</b>	<b>12.930.247</b>	<b>9.858.228</b>	<b>(3.043.799)</b>	<b>25.218.915</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	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
Funds	-	-	179.300	1.580.100	2.376.364	(649.032)	3.486.732
<b>Total</b>	<b>5.317</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5.317</b>
<b>Prior Period</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>

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	1.916.591	1.013.302	1.765.510	16.989.336	9.188.531	(69.498)	30.803.772
Forward Contracts	434.377	2.454.434	1.737.976	199.318	-	-	4.826.105
Futures Transactions	-	-	-	-	-	-	-
Options	391.076	2.209.193	2.051.703	-	-	-	4.651.972
Other	72.830	-	-	-	-	-	72.830
<b>Total</b>	<b>2.814.874</b>	<b>5.676.929</b>	<b>5.555.189</b>	<b>17.188.654</b>	<b>9.188.531</b>	<b>(69.498)</b>	<b>40.354.679</b>

Prior 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>

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**INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT**  
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**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 2017, leverage ratio of the Bank calculated from the arithmetic average of the three months is 9,83% (31 December 2016: 10,51%). Leverage ratio is almost on the same level in the current and prior period. Total balance sheet assets increased by 21,89% 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
1	Total Amount of Asset and Risk Situated in The Consolidated Financial Statements Prepared in Accordance with TAS (**)	26.728.069	22.546.046
2	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 (**)	(13.814)	(3.224)
3	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 (*)	(312.337)	(157.005)
4	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 (*)	1.829.247	2.297.925
5	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 (*)	(3.581.505)	(3.174.771)
6	The other differences between amount of assets and risk in the Communiqué on Preparation of Consolidated Financial Statements of Banks (*)	-	-
7	Total Exposures (*)	36.730.076	29.431.796

(\*) The arithmetic average of the last 3 months in the related periods.

(\*\*) 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 2017 figures used in this table due to the current period and 31 December 2016 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**

		Current Period(*)	Prior Period(*)
	<b>Balance sheet Assets</b>		
1	Balance sheet assets (excluding derivative financial assets and credit derivatives, including collaterals)	30.429.254	24.963.768
2	(Assets deducted from Core capital)	(134.589)	(122.235)
3	Total risk amount of balance sheet assets (sum of lines 1 and 2)	<b>30.294.665</b>	<b>24.841.533</b>
	<b>Derivative financial assets and credit derivatives</b>		
4	Cost of replenishment for derivative financial assets and credit derivatives	374.558	309.871
5	Potential credit risk amount of derivative financial assets and credit derivatives	264.567	221.170
6	Total risk amount of derivative financial assets and credit derivatives (sum of lines 4 and 5)	<b>639.125</b>	<b>531.041</b>
	<b>Financing transactions secured by marketable security or commodity</b>		
7	Risk amount of financing transactions secured by marketable security or commodity	507.764	346.184
8	Risk amount arising from intermediary transactions	77.417	38.688
9	Total risk amount of financing transactions secured by marketable security or commodity (sum of lines 7 and 8)	<b>585.181</b>	<b>384.872</b>
	<b>Off-balance sheet transactions</b>		
10	Gross notional amount of off-balance sheet transactions	8.792.610	6.849.121
11	(Correction amount due to multiplication with credit conversion rates)	(3.581.505)	(3.174.771)
12	Total risk of off-balance sheet transactions (sum of lines 10 and 11)	<b>5.211.105</b>	<b>3.674.350</b>
	<b>Capital and total risk</b>		
13	Core Capital	3.610.277	3.093.277
14	Total risk amount (sum of lines 3, 6, 9 and 12)	36.730.076	29.431.796
	<b>Leverage ratio</b>		
15	Leverage ratio	<b>9,83%</b>	<b>10,51%</b>

(\*) Arithmetic average of the last 3 months in the related periods.

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**INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT**  
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**VII. 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>27.517.749</b>	<b>22.536.861</b>	<b>27.669.243</b>	<b>23.426.905</b>
Money Market Placements	3	254.934	3	254.934
Banks	493.687	497.949	493.687	497.949
Available-For-Sale Financial Assets	3.091.372	3.068.412	3.091.372	3.068.412
Held-To-Maturity Investments	1.532.047	1.375.729	1.528.305	1.363.859
Loans (1)	22.400.640	17.339.837	22.555.876	18.241.751
<b>Financial Liabilities</b>	<b>25.294.010</b>	<b>21.069.391</b>	<b>25.310.808</b>	<b>20.996.688</b>
Bank Deposits	-	-	-	-
Other Deposits	-	-	-	-
Funds Provided From Other Financial Institutions (3)	20.326.450	17.389.047	20.326.450	17.389.047
Marketable Securities Issued (2)	4.892.465	3.486.732	4.909.263	3.414.029
Miscellaneous Payables	75.095	96.871	75.095	96.871

(1) Loans include financial lease receivables.

(2) Includes Tier 2 subordinated bonds which are classified on the balance sheet as subordinated loans.

(3) Funds provided from other financial institutions include funds borrowed, borrower funds and money market borrowings.

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).

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**(Continued)**

**VIII. Explanations related to presentation of financial assets and liabilities at fair value (continued)**

Current Period	Level I	Level II	Level III
<b>Financial Assets</b>			
Financial Assets Held for Trading	-	326.788	-
Financial Assets Available For Sale	2.902.126	51.301	154.715
Derivative Financial Assets For Hedging Purposes	-	-	-
<b>Financial Liabilities</b>			
Derivative Financial Liabilities Held For Trading	-	232.403	-
Derivative Financial Liabilities For Hedging Purposes	-	78.682	-

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.

Current Period	Level I	Level II	Level III
<b>Financial Assets</b>			
Financial Assets Held for Trading	13.001	374.036	-
Financial Assets Available For Sale	2.894.863	18.583	172.233
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	-

**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.

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**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.

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**INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT**  
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**X. Explanations related to consolidated risk management (continued)**

**Overview of risk weighted assets**

		Risk Weighted Amount		Minimum Capital Requirement
		Current Period	Prior Period	Current Period
1	Credit risk (excluding counterparty credit risk)	26.511.342	19.834.989	2.120.907
2	Standardised approach	26.511.342	19.834.989	2.120.907
3	Internal rating-based approach	-	-	-
4	Counterparty credit risk	805.591	695.368	64.447
5	Standardised approach for counterparty credit risk	805.591	695.368	64.447
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	433.000	863.475	34.640
17	Standardised approach	433.000	863.475	34.640
18	Internal model approaches	-	-	-
19	Operational risk	1.252.570	1.113.544	100.206
20	Basic indicator approach	1.252.570	1.113.544	100.206
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	-	-	-
25	<b>Total (1+4+7+8+9+10+11+12+16+19+23+24)</b>	<b>29.002.503</b>	<b>22.507.376</b>	<b>2.320.200</b>

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**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**

Current Period	Carrying values in financial statements prepared as per TAS (1)	Carrying values in consolidated financial statements prepared as per TAS	Carrying values of items in accordance with Turkish Accounting Standards				
Assets			Subject to credit risk	Subject to counterparty credit risk	Securitization Positions	Subject to market risk (2)	Not subject to capital requirements or subject to deduction from capital
Cash and balances at central bank	830.336	847.135	847.135	-	-	-	-
Financial Assets Held for Trading	-	-	-	-	-	-	-
Financial Assets at Fair Value through Profit and Loss	11.543	336.093	-	326.788	-	142.292	-
Bank	699.909	493.687	493.687	-	-	-	-
Money Market Placements	449	3	-	3	-	-	-
Financial Assets Available-for-Sale (net)	2.664.992	3.091.372	3.091.372	1.091.425	-	-	-
Loans and Receivables	19.674.396	22.337.230	22.337.230	-	-	-	-
Factoring Receivables	-	-	-	-	-	-	-
Investment Held-to-Maturity (net)	1.425.586	1.532.047	1.532.047	552.078	-	-	-
Investment in Associates (net)	346.804	375.481	349.360	-	-	-	26.121
Investment in Subsidiaries (net)	-	1.609	1.609	-	-	-	-
Joint-Ventures (net)	-	1.760	1.760	-	-	-	-
Finance Lease Receivables	-	63.410	63.410	-	-	-	-
Derivative Financial Assets Held for Risk Management	350.300	-	-	-	-	-	-
Tangible Assets (net)	229.314	245.798	240.765	-	-	-	5.033
Intangible Assets (net)	2.460	3.585	-	-	-	-	3.585
Investment Properties	231.796	243.145	243.145	-	-	-	-
Tax Assets	4.433	45.338	45.338	-	-	-	-
Assets Held for Sale and Discontinued Operations (net)	-	-	-	-	-	-	-
Other Assets	255.751	299.943	269.958	-	-	-	29.985
Total Assets	26.728.069	29.917.636	29.516.816	1.970.294	-	142.292	64.724

(1) 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 2017 are used.

(2) 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.



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**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 (continued)**

Current Period	Carrying values in financial statements prepared as per TAS (1)	Carrying values in consolidated financial statements prepared as per TAS	Carrying values of items in accordance with Turkish Accounting Standards				
Liabilities			Subject to credit risk	Subject to counterparty credit risk	Securitization Positions	Subject to market risk (2)	Not subject to capital requirements or subject to deduction from capital
Deposits	-	-	-	-	-	-	-
Derivative Financial Liabilities Held for Trading	298.870	232.403	-	-	-	118.724	113.679
Funds Borrowed	16.619.472	19.001.627	-	693.378	-	-	18.308.249
Money Market Funds	1.240.846	1.311.922	-	611.178	-	-	700.744
Securities Issued	3.510.152	3.746.229	-	-	-	-	3.746.229
Funds	-	12.901	-	-	-	-	12.901
Miscellaneous Payables	-	75.095	-	-	-	-	75.095
Other Liabilities	-	115.927	-	-	-	-	115.927
Factoring Payables	-	-	-	-	-	-	-
Lease Payables	-	-	-	-	-	-	-
Derivative Financial Liabilities Held for Risk Management	-	78.682	-	-	-	-	78.682
Provisions	304.995	431.625	-	-	-	-	431.625
Tax Liability	-	53.648	-	-	-	-	53.648
Liabilities for Assets Held for Sale and Discontinued Operations (net)	-	-	-	-	-	-	-
Subordinated Debts	1.086.704	1.146.236	-	-	-	-	1.146.236
Shareholders' Equity	3.667.030	3.711.341	-	-	-	-	3.711.341
Total Liabilities	26.728.069	29.917.636	-	1.304.556	-	118.724	28.494.356

(1) 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 2017 are used.

(2) 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.

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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 (continued)**

Prior Period  Assets	Carrying values in financial statements prepared as per TAS (1)	Carrying values in consolidated financial statements prepared as per TAS	Carrying values of items in accordance with Turkish Accounting Standards				
			Subject to credit risk	Subject to counterparty credit risk	Securitization Positions	Subject to market risk (2)	Not subject to capital requirements or subject to deduction from capital
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	32.561	387.037	-	374.032	-	387.037	-
Bank	682.510	497.949	497.949	-	-	-	-
Money Market Placements	1.353.572	254.934	254.033	901	-	901	-
Financial Assets Available-for-Sale (net)	3.241.665	3.068.412	3.068.412	895.472	-	-	-
Loans and Receivables	14.329.504	17.336.045	17.336.045	-	-	-	-
Factoring Receivables	-	-	-	-	-	-	-
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>-</b>	<b>387.938</b>	<b>63.434</b>

(1) 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 2017 are used.

(2) The amount of the financial instruments included in the trading accounts in accordance with T-AS within the scope of the "Regulation on Measurement and Assessment of Capital Adequacy of Banks", has been included.

Report Enquiries	22/01/2016 TO	22/01/2016 TO	02/07/17
(1) The consolidated financial statements prepared in accordance with the sixth paragraph of the Article 5 in the Communication on Preparation of Consolidated Financial Statements of the Banks as at 30 June 2017 are used.			
(2) The amount of the financial instruments included in the trading accounts in accordance with T&S within the scope of the "Regulation on Measurement and Assessment of Capital Adequacy of Banks", has been included.			

**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)**

**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**

	Current Period	Total	Credit Risk (*)	Securitization Positions	Counterparty credit risk (*)	Market risk (**)
1	Asset carrying value amount under scope of regulatory consolidation	29,917,636	29,516,816	-	1,970,294	142,292
2	Liabilities carrying value amount under regulatory scope of consolidation	29,917,636	-	-	1,304,556	118,724
	<b>Total net amount</b>	-	<b>29,516,816</b>	-	<b>665,738</b>	<b>23,568</b>
3	Off-balance sheet amounts	49,139,855	2,910,324	-	263,746	-
4	Differences due to prudential filters	-	(106,217)	-	114,826	-
	<b>Risk Amounts</b>	-	<b>32,320,923</b>	-	<b>1,044,310</b>	<b>23,568</b>

(\*) The risk amount before the Credit Risk Mitigation are given in credit risk and the counterparty credit risk.

(\*\*) The valuation amounts of financial instruments included in trading accounts in accordance with TAS are included

	Current Period	Total	Credit Risk (*)	Securitization Positions	Counterparty credit risk (*)	Market risk (**)
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</b>	-	<b>24,423,842</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>26,536,731</b>	-	<b>776,236</b>	<b>26,489,254</b>

(\*) The risk amount before the Credit Risk Mitigation are given in credit risk and the counterparty credit risk.

(\*\*) Gross position amounts included in the calculation of market risk are taken as basis.

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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)**

**The differences between the risk amounts and the amounts assessed in accordance with TAS in the financial statements**

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.

**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 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)
Current Period		Defaulted(a)	Non-defaulted (b)	(c)	(d)
1	Loans	53.575	25.020.052	53.575	25.020.052
2	Debt Securities	-	4.598.435	48.096	4.550.339
3	Off-balance sheet exposures	1.166	8.784.593	583	8.785.176
4	<b>Total</b>	<b>54.741</b>	<b>38.403.080</b>	<b>102.254</b>	<b>38.355.567</b>

		Gross Carrying Value in Financial Statements Prepared in Accordance with Turkish Accounting Standards (TAS)		Allowances/ amortization and impairments	Net Values (a+b+c)
Prior Period		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
4	<b>Total</b>	<b>52.781</b>	<b>34.760.020</b>	<b>127.076</b>	<b>34.685.725</b>

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**INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT**  
**(Continued)**

**X. Explanations related to consolidated risk management (continued)**

**Explanations related to credit risk (continued)**

**Changes in stock of default loans and debt securities**

	<b>Current Period</b>	<b>Balance</b>
1	<b>Defaulted loans and debt securities at end of the previous reporting</b>	<b>52.781</b>
2	Loans and debt securities that have defaulted since the last reporting period	6.436
3	Receivables back to non-defaulted status	(4.476)
4	Amounts written off	-
5	Other changes	-
6	<b>Defaulted loans and debt securities at end of the reporting period (1+2+3+4+5)</b>	<b>54.741</b>

	<b>Prior Period</b>	<b>Balance</b>
1	<b>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	-
6	<b>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 Loan Loss Provision” is calculated for these loans.

In both types of receivables, the collection of receivables is delayed and the general loan loss provision is allocated for receivables with overdue receivables up to 90 days and the specific provision is allocated for overdue receivables over 90 days.

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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)**

**Additional disclosure related to the credit quality of assets (continued)**

Provisional liquidity risk is accounted for as a manageable cash inflow arising from the fact that a borrower with credit risk that is able to fulfill its obligations in a timely and complete manner is subject to funding and outflows from normal operations resulting from fluctuations in sales revenue or operating income due to an unexpected and temporary cause it is taken.

The restructured loans are classified as such and continue to be followed in the groups they follow. During this period, the group to which they are entitled will continue to be charged for the specific or general loan loss provision rates applied.

***Breakdown of receivables according to major regions, sectors and remaining maturities***

Breakdown of receivables by major regions, sectors and remaining maturities is included in footnotes under Section Four, Note II, "Explanations Related to Consolidated Credit Risk."

***Impaired loans on the basis of major regions and sectors and amounts written off corresponding provisions***

On the basis of major regions impaired loans of the bank consist of domestic receivables. On sectoral basis, the amount of the Bank's impaired loans and related provisions is presented in footnote II. "Information of major sectors or type of counterparties" under Section Four explanations consolidated credit risk explanations. The Bank allocates 100% Provision for these receivables. As of 31 December 2017 there are no amounts written off. (31 December 2016:None)

***The aging analysis of the receivables past due***

The aging analysis of the receivables past due is presented in footnote under Section Four II. "Explanations related to consolidated credit risk".

**Credit Risk Mitigation**

**Qualitative disclosure on credit risk mitigation techniques**

In valuations made within the scope of credit risk mitigation techniques, the methods used in relation to the valuation and management of collateral are carried out in parallel with the Communiqué on Credit Risk Reduction Techniques. Offsetting is not used as 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 2017, financial collaterals, guarantees and mortgages were used as the credit risk reduction technique in the calculation of credit risk exposure.



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**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 mitigation techniques - Standard approach**

<b>Current Period</b>		<b>Exposures unsecured: value in accordance with TAS.</b>	<b>Exposures secured by collateral</b>	<b>Exposures secured by collateral, of which: secured amount</b>	<b>Exposures secured by financial guarantees</b>	<b>Exposures secured by financial guarantees of which: secured amount</b>	<b>Exposures secured by credit derivatives</b>	<b>Exposures secured by credit derivatives, of which: secured amount</b>
1	Loans	23.517.193	1.277.376	1.090.419	225.483	183.675	-	-
2	Debt securities	4.550.339	-	-	-	-	-	-
3	<b>Total</b>	<b>28.067.532</b>	<b>1.277.376</b>	<b>1.090.419</b>	<b>225.483</b>	<b>183.675</b>	-	-
4	Of which default	53.575	-	-	-	-	-	-

<b>Prior Period</b>		<b>Exposures unsecured: value in accordance with TAS.</b>	<b>Exposures secured by collateral</b>	<b>Exposures secured by collateral, of which: secured amount</b>	<b>Exposures secured by financial guarantees</b>	<b>Exposures secured by financial guarantees of which: secured amount</b>	<b>Exposures secured by credit derivatives</b>	<b>Exposures secured by credit derivatives, of which: secured amount</b>
1	Loans	18.678.486	1.347.878	1.159.048	-	-	-	-
2	Debt securities	4.397.478	-	-	-	-	-	-
3	<b>Total</b>	<b>23.075.964</b>	<b>1.347.878</b>	<b>1.159.048</b>	-	-	-	-
4	Of which default	51.615	-	-	-	-	-	-

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**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**

*Qualitative disclosures on banks' use of external credit ratings under the standardised approach for credit risk*

The related disclosures are presented footnote II "Explanations related to consolidated credit risk" in Section Four.

**Credit risk exposure and credit risk mitigation effects**

	Current Period	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
	<b>Risk Groups</b>						
1	Exposures to sovereigns and their central banks	5.260.996	219.689	5.444.671	43.938	1.244.307	23%
2	Exposures to regional and local governments	-	3.000	-	600	300	50%
3	Exposures to administrative bodies and noncommercial entities	1.297	229	1.297	45	1.342	100%
4	Exposures to multilateral development banks	-	-	-	-	-	-
5	Exposures to international organizations	-	-	-	-	-	-
6	Exposures to banks and securities firms	1.440.091	1.786.100	1.440.091	395.354	1.043.706	57%
7	Exposures to corporates	20.741.899	13.566.487	20.558.224	2.386.058	22.665.476	99%
8	Retail exposures	-	-	-	-	-	-
9	Exposures secured by residential real estate property	-	-	-	-	-	-
10	Exposures secured by commercial real estate property	984.202	7.197	984.202	3.599	493.900	50%
11	Past due receivables	53.575	-	-	-	-	-
12	Exposures in higher-risk categories	-	1.167	-	292	146	50%
13	Exposures in the form of bonds secured by mortgages	-	-	-	-	-	-
14	Short term exposures to banks, brokerage houses and corporates	-	-	-	-	-	-
15	Equity investments in the form of collective investment undertakings	-	-	-	-	-	-
16	Other exposures	688.721	520.073	582.506	80.437	662.556	100%
17	Equity investments	399.609	-	399.609	-	399.609	100%
18	<b>Total</b>	<b>29.570.390</b>	<b>16.103.942</b>	<b>29.410.600</b>	<b>2.910.323</b>	<b>26.511.342</b>	<b>82%</b>

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**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)**

**Credit risk exposure and credit risk mitigation effects (continued)**

	Prior Period	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 noncommercial 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 securities firms	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 real estate property	-	-	-	-	-	-
10	Exposures secured by commercial real estate property	1.089.582	62.554	1.089.582	39.920	564.751	50%
11	Past due receivables	51.615	-	-	-	-	-
12	Exposures in higher-risk categories	-	-	-	-	-	-
13	Exposures in the form of bonds secured by mortgages	-	-	-	-	-	-
14	Short term exposures to banks, brokerage houses and corporates	-	-	-	-	-	-
15	Equity investments in the form of collective investment undertakings	-	-	-	-	-	-
16	Other exposures	593.151	81.908	523.683	70.874	594.528	100%
17	Equity investments	326.615	-	326.615	-	326.615	100%
18	<b>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>

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**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)**

**Exposures by asset classes and risk weights**

Current Period	0%	10%	20%	50% Secured by Real Estate Property	75%	100%	150%	200%	Others	Total Risk Amount (after CCR and CVA)
<b>Risk Groups/ Risk Weight</b>	<b>0%</b>	<b>10%</b>	<b>20%</b>	<b>50%</b>	<b>75%</b>	<b>100%</b>	<b>150%</b>	<b>200%</b>	<b>Others</b>	<b>Total Risk Amount (after CCR and CVA)</b>
1 Exposures to sovereigns and their central banks	4,244,302	-	-	-	-	1,244,307	-	-	-	5,488,609
2 Exposures to regional and local governments	-	-	-	600	-	-	-	-	-	600
3 Exposures to administrative bodies and noncommercial entities	-	-	-	-	-	1,342	-	-	-	1,342
4 Exposures to multilateral development banks	-	-	-	-	-	-	-	-	-	-
5 Exposures to international organizations	-	-	-	-	-	-	-	-	-	-
6 Exposures to banks and securities firms	-	-	890,953	157,953	-	786,539	-	-	-	1,835,445
7 Exposures to corporates	-	-	137,556	337,522	-	22,469,203	-	-	-	22,944,281
8 Retail exposures	-	-	-	-	-	-	-	-	-	-
9 Exposures secured by property	-	-	-	987,801	-	-	-	-	-	987,801
10 Past due receivables	-	-	-	-	-	-	-	-	-	-
11 Exposures in higher-risk categories	-	-	-	292	-	-	-	-	-	292
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	-	-	-	-	-	399,609	-	-	-	399,609
16 Other exposures	387	-	-	-	-	662,557	-	-	-	662,944
<b>Total</b>	<b>4,244,689</b>	<b>-</b>	<b>1,028,509</b>	<b>1,484,168</b>	<b>-</b>	<b>25,563,557</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>32,320,923</b>

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**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)**

**Exposures by asset classes and risk weights**

	Prior Period	0%	10%	20%	50% Secured by Real Estate Property	75%	100%	150%	200%	Others	Total Risk Amount (after CCR and CVA)
<b>Risk Groups/ Risk Weight</b>											
1 Exposures to sovereigns and their central banks		3.214.235	-	-	1.992.413	-	-	-	-	-	5.206.648
2 Exposures to regional and local governments		-	-	-	-	-	600	-	-	-	600
3 Exposures to administrative bodies and noncommercial entities		-	-	-	-	-	3.091	-	-	-	3.091
4 Exposures to multilateral development banks		-	-	-	-	-	-	-	-	-	-
5 Exposures to international organizations		-	-	-	-	-	-	-	-	-	-
6 Exposures to banks and securities firms		-	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 receivables		-	-	-	-	-	-	-	-	-	-
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		-	-	-	-	-	-	-	-	-	-
Equity investments in the form of collective investment undertakings		-	-	-	-	-	-	-	-	-	-
14		-	-	-	-	-	-	-	-	-	-
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>

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**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 (continued)**

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 (CCR) 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
	<b>Current Period</b>						
1	Standardised Approach (for derivatives)	326.787	263.746	-	-	590.533	339.111
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)	-	-	-	-	453.778	264.414
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>603.525</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)**

**X. Explanations related to consolidated risk management (continued)**

**Disclosures on counterparty credit risk (CCR) (continued)**

**Analysis of counterparty credit risk (CCR) exposure by approach (continued)**

	Prior Period	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>

**Credit valuation adjustment (CVA) for capital charge**

	Current Period	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 3×multiplier)	-	-
2	(ii) Stressed VaR component (including the 3×multiplier)	-	-
3	All portfolios subject to the Standardised CVA capital charge	590.533	202.064
4	<b>Total subject to the CVA capital charge</b>	<b>590.533</b>	<b>202.064</b>

	Prior Period	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 3×multiplier)	-	-
2	(ii) Stressed VaR component (including the 3×multiplier)	-	-
3	All portfolios subject to the Standardised CVA capital charge	545.632	204.672
4	<b>Total subject to the CVA capital charge</b>	<b>545.632</b>	<b>204.672</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)**

**Standardised approach – Counterparty credit risk exposures by regulatory portfolio and risk weights**

Current Period									
Risk Weight									
Risk Groups	0%	10%	20%	50%	75%	100%	150%	Other	Total credit exposure(*)
Exposures to sovereigns and their central banks	-	-	-	-	-	300	-	-	300
Exposures to regional and local governments	-	-	-	-	-	-	-	-	-
Exposures to administrative bodies and noncommercial entities	-	-	-	-	-	1.626	-	-	1.626
Exposures to multilateral development banks	-	-	-	-	-	-	-	-	-
Exposures to international organizations	-	-	-	-	-	-	-	-	-
Exposures to banks and securities firms	-	-	173.741	601.314	-	98	-	-	775.153
Exposures to corporates	-	-	-	2.269	-	262.701	-	-	264.970
Retail exposures	-	-	-	-	-	-	-	-	-
Exposures secured by property	-	-	-	-	-	-	-	-	-
Past due receivables	-	-	-	-	-	-	-	-	-
Exposures in higher-risk categories	-	-	-	-	-	-	-	-	-
Exposures in the form of bonds secured by mortgages	-	-	-	-	-	-	-	-	-
Securitization positions	-	-	-	-	-	-	-	-	-
Short term exposures to banks, brokerage houses and corporates	-	-	-	-	-	-	-	-	-
Equity investments in the form of collective investment undertakings	-	-	-	-	-	-	-	-	-
Equity investments	-	-	-	-	-	-	-	-	-
Other exposures	-	-	-	-	-	2.261	-	-	2.261
Other assets	-	-	-	-	-	-	-	-	-
Total	-	-	173.741	603.583	-	266.986	-	-	1.044.310

(\*) Total Credit Exposures Amount: The amount which is related to capital adequacy calculation after implementation of counter party credit risk mitigation techniques.



**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES**  
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**INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT**  
**(Continued)**

**X. Explanations related to consolidated risk management (continued)**

**Explanations on counterparty credit risk (CCR) (continued)**

**Standardised approach – Counterparty credit risk exposures by regulatory portfolio and risk weights (continued)**

Prior Period									
Risk Weight									
Risk Classes	0%	10%	20%	50%	75%	100%	150%	Other	Total credit exposure(*)
Exposures to sovereigns and their central banks	1.450	-	-	-	-	-	-	-	1.450
Exposures to regional and local governments	-	-	-	-	-	-	-	-	-
Exposures to administrative bodies and noncommercial entities	-	-	-	-	-	521	-	-	521
Exposures to multilateral development banks	-	-	-	-	-	-	-	-	-
Exposures to international organizations	-	-	-	-	-	-	-	-	-
Exposures to banks and securities firms	-	-	43.451	482.160	-	-	-	-	525.611
Exposures to corporates	-	-	-	16.498	-	230.316	-	-	246.814
Retail exposures	-	-	-	-	-	-	-	-	-
Exposures secured by property	-	-	-	-	-	-	-	-	-
Past due receivables	-	-	-	-	-	-	-	-	-
Exposures in higher-risk categories	-	-	-	-	-	-	-	-	-
Exposures in the form of bonds secured by mortgages	-	-	-	-	-	-	-	-	-
Securitization positions	-	-	-	-	-	-	-	-	-
Short term exposures to banks, brokerage houses and corporates	-	-	-	-	-	-	-	-	-
Equity investments in the form of collective investment undertakings	-	-	-	-	-	-	-	-	-
Equity 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>

(\*) 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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**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**

Current Period	Collaterals received		Collaterals given		Collaterals received	Collaterals given
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash – domestic currency	-	-	-	-	641.015	-
Cash – foreign currency	-	-	-	-	663.544	-
Domestic sovereign debt	-	-	-	-	-	-
Other sovereign debt	-	-	-	-	-	-
Government agency debt	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
<b>Total</b>	-	-	-	-	<b>1.304.559</b>	-

Prior Period	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>	-	69.654	-	-	<b>827.585</b>	-

**Credit derivatives**

None.

**Exposure to central counterparties (CCP)**

None.

**Explanations on securitizations**

None.

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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**

**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.

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**

		Risk Weighted Amount (RWA)	
		Current Period	Prior Period
	<b>Outright products</b>	-	-
1	Interest rate risk (general and specific)	149.650	614.262
2	Equity risk (general and specific)	50	1.950
3	Foreign exchange risk	283.300	247.263
4	Commodity risk	-	-
	<b>Options</b>	-	-
5	Simplified approach	-	-
6	Delta-plus method	-	-
7	Scenario approach	-	-
8	Securitisation	-	-
9	<b>Total</b>	<b>433.000</b>	<b>863.475</b>

**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES**  
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**INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT**  
**(Continued)**

**X. Explanations related to consolidated risk management (continued)**

**Disclosure on operational risk**

**Information to be disclosed to the public regarding operational 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".

	31/12/2014	31/12/2015	31/12/2016	Total/No. of years of positive gross	Rate (%)	Total
Gross Income	617.694	654.288	732.130	668.037	15	100.206
Capital Requirement for Operational Risk (Total*12,5)						1.252.570

**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.

**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	(91.944) / 83.505	(1,91%) / 1,74%
Euro	+200 / (200) basis point	56.563 / (18.688)	1,18% / (0,39)%
US Dollar	+200 / (200) basis point	(70.306) / 79.127	(1,46%) / 1,65%
<b>Total (for Negative Shocks)</b>		<b>143.944</b>	<b>3,00%</b>
<b>Total (for Positive Shocks)</b>		<b>(105.687)</b>	<b>2,20%</b>

Prior 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>

**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES**  
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**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	24	-	29	-
Balances with the Central Bank of Turkey	10.571	836.540	161.276	616.771
Other	-	-	-	-
<b>Total</b>	<b>10.595</b>	<b>836.540</b>	<b>161.305</b>	<b>616.771</b>

	Current Period		Prior Period	
	TL	FC	TL	FC
Unrestricted demand deposits	10.571	4.862	161.276	3.995
Unrestricted time deposits	-	-	-	-
Restricted time deposits	-	-	-	-
Other (*)	-	831.678	-	612.776
<b>Total</b>	<b>10.571</b>	<b>836.540</b>	<b>161.276</b>	<b>616.771</b>

(\*) Deposits at Central Bank of Turkey held as reserve requirement.

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 2017 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

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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.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 has no trading securities given as collateral or blockage. (31 December 2016: TL 1.298).

**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 2016: 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 2016: 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 2016: None).

**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	14.734	7.175	13.290	8.819
Swap Transactions	179.366	82.997	113.508	112.792
Futures Transactions	-	-	-	-
Options	-	42.516	-	125.627
Other	-	-	-	-
<b>Total</b>	<b>194.100</b>	<b>132.688</b>	<b>126.798</b>	<b>247.238</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 2017, the fair value of such swaps is TL 134.631 income with a total outstanding notional amount of USD 200 million. The average maturity of such swaps range between 2020 and 2021 years.

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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)**

**3. Information on banks and foreign bank accounts**

**3.a Information on banks:**

	Current Period		Prior Period	
	TL	FC	TL	FC
Banks				
Domestic	464.978	24.573	60.098	376.443
Foreign	-	4.136	15.010	46.398
Branches and head office abroad	-	-	-	-
<b>Total</b>	<b>464.978</b>	<b>28.709</b>	<b>75.108</b>	<b>422.841</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	887	8.486	-	-
USA and Canada	2.140	1.948	-	-
OECD Countries (*)	1.109	1.041	-	-
Off-shore banking regions	-	-	-	-
Other	-	49.933	-	-
<b>Total</b>	<b>4.136</b>	<b>61.408</b>	<b>-</b>	<b>-</b>

(\*) OECD countries other than European Union countries, USA and Canada.

**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	15.944	-	111.173	-
Treasury bills	-	-	-	-
Other government debt securities	-	155.306	-	101.682
Bank bonds and bank guaranteed bonds	-	-	-	-
Asset backed securities	-	-	-	-
Other	-	-	-	-
<b>Total</b>	<b>15.944</b>	<b>155.306</b>	<b>111.173</b>	<b>101.682</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 1.389.292 (31 December 2016: TL 1.252.789).

	Current Period		Prior Period	
	TL	FC	TL	FC
Share certificates	-	-	-	-
Bond, Treasury bill and similar investment securities	603.852	785.440	497.581	755.208
Other	-	-	-	-
<b>Total</b>	<b>603.852</b>	<b>785.440</b>	<b>497.581</b>	<b>755.208</b>

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**EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**I. Explanations and disclosures related to the consolidated assets (continued)**

**4. Information on available-for-sale financial assets (continued)**

**4.b Major types of available for sale financial assets:**

Available for sale financial assets comprised of government bonds 58,93%, Eurobonds 32,67% and shares and other securities 8,40% (31 December 2016: government bonds 59,38%, Eurobonds 31,52% and shares and other securities 9,1%).

**4.c Information on financial assets available-for-sale:**

	Current Period	Prior Period
Debt securities	3.066.387	3.096.626
Quoted on a stock exchange	2.039.864	2.040.539
Unquoted	1.026.523	1.056.087
Share certificates	81.194	53.695
Quoted on a stock exchange	13.907	11.834
Unquoted	67.287	41.861
Impairment provision(-)	(56.209)	(81.909)
<b>Total</b>	<b>3.091.372</b>	<b>3.068.412</b>

The net book value of unquoted available for sale share certificates of the Group is TL 62.401 (31 December 2016: TL 35.882).

**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	44.909	-	21.131	-
Corporate shareholders	44.909	-	21.131	-
Real person shareholders	-	-	-	-
Indirect loans granted to shareholders	-	-	-	-
Loans granted to employees	173	-	217	-
<b>Total</b>	<b>45.082</b>	<b>-</b>	<b>21.348</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)**

**5. Explanations on loans (continued)**

**5.b Information on the first and second group loans and other receivables including restructured or rescheduled loans:**

Current Period (1)	Standard Loans and Other Receivables			Loans and Other Receivables Under Close Monitoring (2)		
	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
Cash Loans						
Non-specialized loans	21.757.352	48.415	-	473.661	143.423	-
Working Capital loans	2.930.594	-	-	1.212	1.212	-
Export loans	248.568	-	-	48.440	48.440	-
Import loans	-	-	-	-	-	-
Loans given to financial sector	2.795.036	-	-	-	-	-
Consumer loans	173	-	-	-	-	-
Credit cards	-	-	-	-	-	-
Other	15.782.981	48.415	-	424.009	93.771	-
Specialized loans	-	-	-	-	-	-
Other receivables	106.217	-	-	-	-	-
<b>Total</b>	<b>21.863.569</b>	<b>48.415</b>	<b>-</b>	<b>473.661</b>	<b>143.423</b>	<b>-</b>

(1) According to Bank account plan purchasing Loans, Fleet Leasing Credits, Refinancing Loans and Portfolio Transfer Credits amounting to TL 4.523.571 shown under "Working Capital Loans", due to the nature of "Investment" shown under the category "other" in the above footnote.

(2) The syndicated loans granted to a company amounting to USD 78.661.835 are classified under Close Monitoring Loans and Other receivables as of 31 December 2017. Discussions between creditor banks and related sovereign institutions about restructuring of loan of this company are proceeding.

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**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 (1)	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	
Cash Loans		Amendments Related to the Extension of the Payment Plan	Other		Amendments Related to the Extension of the Payment Plan	Other
Non-specialized loans	17.071.467	49.896	-	195.112	142.768	2.330
Working Capital loans	1.433.893	-	-	3.349	3.349	-
Export loans	157.895	-	-	44.994	44.994	-
Import loans	-	-	-	-	-	-
Loans given to financial sector	2.211.495	-	-	-	-	-
Consumer loans	217	-	-	-	-	-
Credit cards	-	-	-	-	-	-
Other	13.267.967	49.896	-	146.769	94.425	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>

(1) According to Bank account plan purchasing Loans, Fleet Leasing Credits, Refinancing Loans and Portfolio Transfer Credits amounting to TL 4.035.717 shown under "Working Capital Loans", due to the nature of "Investment" shown under the category "other" in the above footnote.

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**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):**

<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	48.415	142.211
Extended for 3-4 or 5 times	-	1.212
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	49.896	139.419
Extended for 3,4 or 5 times	-	3.349
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	-	27.946
2-5 Years	48.415	96.688
5 Years and Over	-	18.789

<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	-	32.789
2-5 Years	49.896	95.327
5 Years and Over	-	14.652

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**EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**I. Explanations and disclosures related to the assets (continued)**

**5. Explanations on loans (continued)**

**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	1.453.350	-	-	-
Non-specialized loans	1.347.133	-	-	-
Specialized loans	-	-	-	-
Other receivables	106.217	-	-	-
Medium and Long-term loans	20.410.219	48.415	473.661	143.423
Non-specialized loans	20.410.219	48.415	473.661	143.423
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	662.731	-	-	-
Non-specialized loans	593.265	-	-	-
Specialized loans	-	-	-	-
Other receivables	69.466	-	-	-
Medium and Long-term loans	16.478.202	49.896	195.112	145.098
Non-specialized loans	16.478.202	49.896	195.112	145.098
Specialized loans	-	-	-	-
Other receivables	-	-	-	-

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**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:**

<b>Current Period</b>	<b>Short Term</b>	<b>Medium and Long Term</b>	<b>Total</b>
Consumer Loans-TL	-	-	-
Real Estate Loans	-	-	-
Vehicle Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Consumer Loans –Indexed to FC	-	-	-
Real Estate Loans	-	-	-
Vehicle Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Consumer Loans-FC	-	-	-
Real Estate Loans	-	-	-
Vehicle Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Individual Credit Cards-TL	-	-	-
With Instalments	-	-	-
Without Instalments	-	-	-
Individual Credit Cards-FC	-	-	-
With Instalments	-	-	-
Without Instalments	-	-	-
Personnel Loans- TL	5	168	173
Real Estate Loans	-	-	-
Vehicle Loans	-	-	-
General Purpose Loans	5	168	173
Other	-	-	-
Personnel Loans- Indexed to FC	-	-	-
Real Estate Loans	-	-	-
Vehicle Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Personnel Loans-FC	-	-	-
Real Estate Loans	-	-	-
Vehicle 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>5</b>	<b>168</b>	<b>173</b>

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**EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS**

**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):**

<b>Prior Period</b>	<b>Short Term</b>	<b>Medium and Long Term</b>	<b>Total</b>
Consumer Loans-TL	-	-	-
Real Estate Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Consumer Loans –Indexed to FC	-	-	-
Real Estate Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Consumer Loans-FC	-	-	-
Real Estate 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
Real Estate Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	18	199	217
Other	-	-	-
Personnel Loans- Indexed to FC	-	-	-
Real Estate Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Personnel Loans-FC	-	-	-
Real Estate 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>

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**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 2016: None).

**5.f Loans according to borrowers:**

	Current Period	Prior Period
Public	878.502	125.356
Private	21.458.728	17.210.689
<b>Total</b>	<b>22.337.230</b>	<b>17.336.045</b>

**5.g Domestic and foreign loans:**

	Current Period	Prior Period
Domestic Loans	22.229.418	17.263.913
Foreign Loans	107.812	72.132
<b>Total</b>	<b>22.337.230</b>	<b>17.336.045</b>

**5.h Loans granted to subsidiaries and associates:**

	Current Period	Prior Period
Direct loans granted to subsidiaries and associates	257.470	294.292
Indirect loans granted to subsidiaries and associates	-	-
<b>Total</b>	<b>257.470</b>	<b>294.292</b>

**5.i Specific provisions provided against loans:**

	Current Period	Prior Period
Loans and receivables with limited collectability	985	3.092
Loans and receivables with doubtful collectability	4.894	-
Uncollectible loans and receivables	47.696	48.523
<b>Total</b>	<b>53.575</b>	<b>51.615</b>

Group allocates 100 % provision for all non-performing loans regardless of the collaterals.

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**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):**

**5.j.1 Information on loans and other receivables restructured or rescheduled from non-performing loans:**

	<b>III. Group</b>	<b>IV. Group</b>	<b>V. Group</b>
	Loans and Receivables With Limited Collectability	Loans and Receivables With Doubtful Collectability	Uncollectible Loans and Receivables
<b>Current Period</b>			
(Gross amounts before provisions)	-	-	7.266
Restructured loans and other receivables	-	-	-
Rescheduled loans and other receivables	-	-	7.266
<b>Prior Period</b>			
(Gross amounts before provisions)	-	-	10.707
Restructured loans and other receivables	-	-	-
Rescheduled loans and other receivables	-	-	10.707

**5.j.2 Movement of non-performing loans:**

	<b>III. Group</b>	<b>IV. Group</b>	<b>V. Group</b>
	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>3.092</b>	<b>-</b>	<b>48.523</b>
Additions (+)	4.895	1	1.540
Transfers from Other Categories of Non-performing Loans (+)	-	6.621	1.728
Transfers to Other Categories of Non-performing Loans (-)	(6.621)	(1.728)	-
Collections (-)	(381)	-	(4.095)
Write-offs (-)	-	-	-
Corporate and Commercial Loans	-	-	-
Retail Loans	-	-	-
Credit Cards	-	-	-
Other	-	-	-
<b>Current Period End Balance</b>	<b>985</b>	<b>4.894</b>	<b>47.696</b>
Specific Provisions (-)	(985)	(4.894)	(47.696)
<b>Net Balance on Balance Sheet</b>	<b>-</b>	<b>-</b>	<b>-</b>



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**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 (continued):**

	<b>III. Group</b>	<b>IV. Group</b>	<b>V. Group</b>
	Loans and Receivables With Limited Collectability	Loans and Receivables With Doubtful Collectability	Uncollectible Loans and Receivables
<b>Prior Period</b>			
<b>Prior Period End Balance</b>	<b>3.603</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>48.523</b>
Specific Provisions (-)	(3.092)	-	(48.523)
<b>Net Balance on Balance Sheet</b>	-	-	-

**5.j.3 Information on foreign currency non-performing loans and other receivables:**

	<b>III. Group</b>	<b>IV. Group</b>	<b>V. Group</b>
	Loans and Receivables With Limited Collectability	Loans and Receivables With Doubtful Collectability	Uncollectible Loans and Receivables
<b>Current Period</b>			
Period End Balance	982	-	-
Specific Provision (-)	(982)	-	-
<b>Net Balance on Balance Sheet</b>	-	-	-
<b>Prior Period</b>			
Period End Balance	1.362	-	-
Specific Provision (-)	(1.362)	-	-
<b>Net Balance on Balance Sheet</b>	-	-	-

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**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.4 Information regarding gross and net amounts of non-performing loans with respect to user groups:**

	<b>III. Group</b>	<b>IV. Group</b>	<b>V. Group</b>
	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)	985	4.894	45.605
Specific Provision Amount (-)	(985)	(4.894)	(45.605)
Loans to Real Persons and Legal Entities (Net)	-	-	-
Banks (Gross)	-	-	-
Specific Provision Amount (-)	-	-	-
Banks (Net)	-	-	-
Other Loans and Receivables (Gross)	-	-	2.091
Specific Provision Amount (-)	-	-	(2.091)
Other Loans and Receivables (Net)	-	-	-
<b>Prior 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)	-	-	-

**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.

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**EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**I. Explanations and disclosures related to the consolidated assets (continued)**

**5.1 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.

**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	145.439	45.742	-	186.736
Subject to Repurchase Agreements	455.539	96.539	129.784	-
<b>Total</b>	<b>600.978</b>	<b>142.281</b>	<b>129.784</b>	<b>186.736</b>

**6.2 Information on government debt investments held-to-maturity :**

	Current Period	Prior Period
Government Bonds	1.532.047	1.375.729
Treasury Bills	-	-
Other Government Debt Securities	-	-
<b>Total</b>	<b>1.532.047</b>	<b>1.375.729</b>

**6.3 Information on held-to-maturity investments :**

	Current Period	Prior Period
<b>Debt Securities</b>		
Quoted on a Stock Exchange	1.334.722	1.188.990
Not Quoted	199.228	186.739
<b>Impairment provision (-)</b>	<b>(1.903)</b>	<b>-</b>
<b>Total</b>	<b>1.532.047</b>	<b>1.375.729</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>1.375.729</b>	<b>872.602</b>
Foreign Currency Differences on Monetary Assets	13.914	31.581
Purchases During The Period (*)	-	417.241
Disposals Through Sales And Redemptions	(836)	(1.597)
Impairment Provision	(1.903)	-
Interest Income Accruals	145.143	55.902
<b>Balance at End of Period</b>	<b>1.532.047</b>	<b>1.375.729</b>

(\*) The Consumer Price Indexed (CPI) government bonds with the nominal value of TL 339.321 are reclassified to Held to Maturity Investments in prior period.

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**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):**

**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 (*)	16.292	3.030	197	-	-	(166)	21	-
2	Ege Tarım	11.229	9.972	8.527	97	-	(534)	(600)	-

(\*) Represents for the period ended 30 June 2017 financial statements. Prior year profit/loss is obtained from 30 June 2016 financial statements.

***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	57,38
3	İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. (İş Girişim)	Istanbul/Turkey	16,67	68,94

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**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.3 Information on the consolidated associates (continued):**

		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	4.267.774	188.753	1.355	309.226	-	49.530	32.939	-
2	İş Finansal	5.068.687	839.681	2.238	366.137	-	74.200	81.800	273.946
3	İş Girişim	259.379	256.923	45	7.576	3.368	946	1.060	21.612

	Current Period	Prior Period
<b>Balance at the Beginning of the Period</b>	<b>322.922</b>	<b>291.988</b>
Movements During the Period	51.503	30.934
Purchases	-	-
Bonus Shares Received	-	-
Current Year Share of Profit	43.861	38.805
Sales	-	-
Revaluation Increase	7.642	-
Provision for Impairment	-	(7.871)
<b>Balance at the End of the Period</b>	<b>374.425</b>	<b>322.922</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 Group has not purchased any associates.

**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	83.226	56.801
Leasing Companies	247.371	222.466
Financial Service Companies	-	-
Other Financial Associates	43.828	43.655

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**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	291.199	266.121
Associates Quoted on Foreign Stock Markets	-	-

**8. Information related to subsidiaries (net)**

**8.a.1 Information related to equity component of subsidiaries:**

	YF (*)	TSKB GYO (*)
	Current Period	Current Period
<b>CORE CAPITAL</b>		
Paid-in Capital	64.275	150.000
Share Premium	-	593
Legal Reserves	2.514	8.787
Other Comprehensive Income according to TAS	9.759	4
Current and Prior Years' Profit / Loss	8.239	17.094
Leasehold Improvements (-)	(408)	-
Intangible Assets (-)	(915)	(25)
<b>Total Core Capital</b>	<b>83.464</b>	<b>176.453</b>
<b>Supplementary Capital</b>	-	-
<b>Capital</b>	-	-
<b>Net Available Capital</b>	<b>83.464</b>	<b>176.453</b>

(\*) The information is obtained from financial statements subject to consolidation as of 31 December 2017.

	YF (*)	TSKB GYO (*)
	Prior Period	Prior Period
<b>CORE CAPITAL</b>		
Paid-in Capital	64.275	150.000
Share Premium	-	593
Legal Reserves	2.514	8.787
Other Comprehensive Income according to TAS	(891)	(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>Capital</b>	-	-
<b>Net Available Capital</b>	<b>63.855</b>	<b>198.156</b>

(\*) The information is obtained from financial statements subject to consolidation as of 31 December 2016.

**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES**  
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**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	99,99	99,99
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 Portfolio	Current Period Profit/Loss	Prior Period Profit/Loss	Fair Value
1	TSKB GMD (*)	20.325	15.585	1.187	1.269	-	2.717	3.272	-
2	SD A.Ş. (*)	1.012	754	13	125	-	(560)	(293)	-

(\*) The financial data are belongs to period ended 31 December 2017. The prior profit/loss has taken from the table belongs to 31 December 2016.

***Subsidiaries disposed in the current period***

In the current period, the Group has not disposed any subsidiaries.

***Subsidiaries purchased in the current period***

In the current period, the Group has not purchased any subsidiaries.

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**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.4 Information related to consolidated subsidiaries:**

	<b>Title</b>	<b>Address (City/ Country)</b>	<b>Bank's share percentage-If different voting percentage (%)</b>	<b>Bank's risk group share percentage (%)</b>
1	Yatırım Finansman Menkul Değerler A.Ş.(YF)	Istanbul /Turkey	95,78	98,51
2	TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. (TSKB GYO)	Istanbul/Turkey	59,00	72,48

	<b>Total Assets</b>	<b>Equity</b>	<b>Total Fixed Assets</b>	<b>Interest Income</b>	<b>Income from Marketable Securities Portfolio</b>	<b>Current Period Profit/Loss</b>	<b>Prior Period Profit/Loss</b>	<b>Fair Value</b>
YF (*)	1.281.667	84.787	1.366	47.355	1.088	8.401	(3.973)	-
TSKB GYO (*)	468.324	176.478	374	276	-	(21.724)	(26.140)	64.871

(\*) The consolidated financial data of the subsidiaries are prepared in accordance with BRSA regulations.

Unconsolidated movement related subsidiaries subjected to consolidation is as follows:

	<b>Current Period</b>	<b>Prior Period</b>
<b>Balance at the Beginning of the Period</b>	<b>127.984</b>	<b>122.320</b>
Movements During the Period	6.992	5.664
Purchases	-	-
Bonus Shares Obtained	-	-
Current Year Shares of Profit	-	-
Sales	-	-
Revaluation Increase	6.992	5.664
Provision for Impairment	-	-
<b>Balance At the End of the Period</b>	<b>134.976</b>	<b>127.984</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***

In the current period, the Group has not disposed any subsidiaries.

***Subsidiaries purchased in the current period***

In the current period, the Group has not purchased any subsidiaries.



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**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.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	134.976	127.984

**8.a.6 Subsidiaries quoted on stock exchange:**

	Current Period	Prior Period
Quoted in Domestic Stock Exchange	79.351	57.879
Quoted in Foreign Stock Exchange	-	-

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**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 AŞ 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	11.406	(9.267)	10.183	-	-	(2.244)	(2.420)	-
Anavarza Hotelier Corporation	3.411	(317)	114	32	-	321	(548)	-

**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	8.627	7.439	1.552	1.367
Between 1- 4 years	40.269	34.632	1.704	1.455
More than 4 years	25.061	21.339	1.137	970
<b>Total</b>	<b>73.957</b>	<b>63.410</b>	<b>4.393</b>	<b>3.792</b>

**10.b The information on net investments in finance leases:**

	Current Period	Prior Period
<b>Gross investments in finance leases</b>	73.957	4.393
Unearned revenue from finance leases (-)	(10.547)	(601)
Cancelled finance leases (-)	-	-
<b>Net investments in finance leases</b>	<b>63.410</b>	<b>3.792</b>

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**EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**I. Explanations and disclosures related to the consolidated assets (continued)**

**10. Information on finance lease receivables (net) (continued)**

**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.

**11. Information on derivative financial assets for hedging purposes**

	Current Period		Prior Period	
	TL	FC	TL	FC
Fair Value Hedge	-	-	-	272
Cash Flow Hedge	-	-	-	-
Hedge of net investment in foreign operations	-	-	-	-
<b>Total</b>	-	-	-	<b>272</b>

As of 31 December 2017, 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	10.582.050	-	(78.682)	7.747.800	272	(51.433)
FC	10.582.050	-	(78.682)	7.747.800	272	(51.433)
TL	-	-	-	-	-	-

**11.a.1 Information on fair value hedge accounting**

Current Period	Hedging Item	Hedged Item	Type of Risk	Fair Value Change of Hedged Item (*)	Fair Value of Hedging Instrument (*)		Income St Effect (Profit/Loss Through Derivative Financial Instruments)
					Asset	Liability	
Interest Rate Swap Transactions	Fixed Rate Eurobond and Green bond Issued	Interest Rate Risk		60.540	-	(71.434)	(10.894)
Interest Rate Swap Transactions	Fixed Rate Loans Used	Interest Rate Risk		8.988	-	(10.600)	(1.612)

(\*) The fair value of hedged item is presented as net market value less credit risk and accumulated interest.

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**I. Explanations and disclosures related to the consolidated assets (continued)**

**11.a.1 Information on fair value hedge accounting (continued)**

Prior Period	Hedged Item	Type of Risk	Fair Value Change of Hedged Item (*)	Fair Value of Hedging Instrument (*)		Income St Effect (Profit/Loss Through Derivative Financial Instruments)
Hedging 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)

(\*) The fair value of hedged item is presented as net market value less credit risk and accumulated interest.

**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 16.315 (31 December 2016: TL 26.705) 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	Other (1)	Current Period End
Cost						
Land and buildings	225.925	-	-	16.315	-	242.240
Assets held under finance leases	5.242	-	(21)	-	-	5.221
Vehicles	1.475	-	(418)	-	-	1.057
Assets held for resale	576	-	-	-	(576)	-
Other	25.479	3.750	(241)	-	-	28.988
<b>Total Cost</b>	<b>258.697</b>	<b>3.750</b>	<b>(680)</b>	<b>16.315</b>	<b>(576)</b>	<b>277.506</b>
Accumulated depreciation						
Land and buildings	515	(793)	-	-	-	(278)
Assets held under finance leases	(4.999)	(115)	21	-	-	(5.093)
Vehicles	(825)	(234)	356	-	-	(703)
Assets held for resale	-	-	-	-	-	-
Other	(21.853)	(4.000)	219	-	-	(25.634)
<b>Total accumulated depreciation</b>	<b>(27.162)</b>	<b>(5.142)</b>	<b>596</b>	<b>-</b>	<b>-</b>	<b>(31.708)</b>
Impairment provision						
Land and buildings	-	-	-	-	-	-
Assets held under finance leases	-	-	-	-	-	-
Vehicles	-	-	-	-	-	-
Assets held for resale	(207)	(18)	-	-	225	-
Other	-	-	-	-	-	-
<b>Total impairment provision</b>	<b>(207)</b>	<b>(18)</b>	<b>-</b>	<b>-</b>	<b>225</b>	<b>-</b>
<b>Net book value</b>	<b>231.328</b>	<b>(1.410)</b>	<b>(84)</b>	<b>16.315</b>	<b>(351)</b>	<b>245.798</b>

(1) Impairment on assets for resale is classified under other assets from tangible assets in current period.

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**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	Other	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>-</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>-</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>-</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>-</b>	<b>231.328</b>

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**I. Explanations and disclosures related to the consolidated assets (continued)**

**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	Gross Book Value
Software	5.232	(3.139)	6.537	(3.957)
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	3.534	(2.483)	5.232	(3.139)
Goodwill	1.005	-	1.005	-

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**I. Explanations and disclosures related to the consolidated 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	5.232	1.305	-	6.537
Goodwill	1.005	-	-	1.005
<b>Total Cost</b>	<b>6.237</b>	<b>1.305</b>	<b>-</b>	<b>7.542</b>
Accumulated Amortization				
Software	(3.139)	(818)	-	(3.957)
Goodwill	-	-	-	-
<b>Total Accumulated Amortization</b>	<b>(3.139)</b>	<b>(818)</b>	<b>-</b>	<b>(3.957)</b>
Impairment Provision	-	-	-	-
Software	-	-	-	-
<b>Total Impairment Provision</b>				
<b>Net Book Value</b>	<b>3.098</b>	<b>487</b>	<b>-</b>	<b>3.585</b>

Prior 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>

**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 2016: 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 2016: 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 2016: None).

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**EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS**  
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**I. Explanations and disclosures related to the consolidated assets (continued)**

**13. Information on intangible assets (continued)**

**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 2016: 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 2016: 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 2016: 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 2016: 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 2016: None).



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**EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS**  
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**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 243.145 (31 December 2016: TL 231.323) belonging to the Parent Bank's subsidiary operating in the real-estate investment trust sector. Investment properties movement table as of 31 December 2017 and 31 December 2016 is as follows:

Current Period	Opening Balance of Current Period	Additions	Disposals	Change in Fair Value	Closing Balance of Current Period
Tahir Han	23.020	-	-	2.405	25.425
Pendorya Mall	143.690	947	-	8.353	152.990
Adana Hotel Project	64.613	10	-	107	64.730
<b>Total</b>	<b>231.323</b>	<b>957</b>	<b>-</b>	<b>10.865</b>	<b>243.145</b>

Prior Period	Closing Balance of Prior Period	Additions	Disposals	Change in Fair Value	Closing Balance of Prior 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>

**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	22.563	17.378
Other provisions	61.603	18.003
Employee benefit provision	2.605	2.151
Valuation of derivative instruments	-	-
Other	1.839	3.848
<b>Total Deferred Tax Asset</b>	<b>88.610</b>	<b>41.380</b>
Deferred tax liabilities:		
Marketable securities	(20.635)	(7.345)
Borrowings commissions accrual adjustment	(10.869)	(8.791)
Valuation of derivative instruments	(8.823)	(2.958)
Useful life difference of fixed assets	(592)	(457)
Others	(6.801)	(3.647)
<b>Total Deferred Tax Liability</b>	<b>(47.720)</b>	<b>(23.198)</b>
<b>Net Deferred Tax Asset</b>	<b>40.890</b>	<b>18.182</b>

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**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:**

YF has unused tax losses that can be offset against future profits of TL 12.522 (31 December 2016: TL 26.099 ) and TL 316 (31 December 2016: TL 3.032) deferred tax assets are recorded over TL 1.582 (31 December 2016: TL 15.159) of these losses.

**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 2016: None).

**16. Explanations on assets held for sale:**

In the current period, the Group has no assets held for sale (31 December 2016: 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 2016: 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.

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**II. Explanations and disclosures related to the consolidated liabilities (continued)**

**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	14.804	6.867	13.094	4.779
Swap Transactions	108.906	59.403	101.915	75.382
Futures Transactions	-	-	-	-
Options	-	42.423	-	125.627
Other	-	-	-	-
<b>Total</b>	<b>123.710</b>	<b>108.693</b>	<b>115.009</b>	<b>205.788</b>

**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	30.040	561.938	47.169	313.101
From Foreign Banks, Institutions and Funds	190.972	18.218.677	100.083	15.667.143
<b>Total</b>	<b>221.012</b>	<b>18.780.615</b>	<b>147.252</b>	<b>15.980.244</b>

**3.b Maturity analysis of funds borrowed:**

	Current Period		Prior Period	
	TL	FC	TL	FC
Short-term	30.040	134.812	47.180	73.741
Medium and long-term	190.972	18.645.803	100.072	15.906.503
<b>Total</b>	<b>221.012</b>	<b>18.780.615</b>	<b>147.252</b>	<b>15.980.244</b>

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**II. Explanations and disclosures related to the consolidated liabilities (continued)**

**3. Information on banks and other financial institutions (continued)**

**3.c Additional information about the concentrated areas of liabilities:**

	Current Period		Prior Period	
	TL	FC	TL	FC
Nominal	-	3.752.500	-	3.490.000
Cost	-	3.743.915	-	3.476.185
Book Value	-	3.746.229	-	3.486.732

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	449.634	127.078	234.353	60.998
Financial institutions and organizations	415.373	-	208.657	-
Other institutions and organizations	33.813	124.383	25.209	58.387
Real persons	448	2.695	487	2.611
From Foreign Transactions	3	34.060	3	-
Financial institutions and organizations	-	34.060	-	-
Other institutions and organizations	2	-	2	-
Real persons	1	-	1	-
<b>Total</b>	<b>449.637</b>	<b>161.138</b>	<b>234.356</b>	<b>60.998</b>

**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 2016: None).

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**II. Explanations and disclosures related to the consolidated liabilities (continued)**

**5. Explanations on financial lease obligations (net)**

**5.a Explanations on finance lease payables:**

The Group has no finance lease payables (31 December 2016: None).

**5.b Explanations regarding operational leases:**

As of the reporting date, 9 branches of the Group companies are subject to operational leasing. Additionally, 24 cars and 291 computers are within the context of operational leasing. The Group has no liability for operational leases as of the reporting date (31 December 2016: 1 head office, 11 branches and 25 cars and 160 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 2016: None).

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**II. Explanations and disclosures related to the consolidated liabilities (continued)**

**6. Information on derivative financial liabilities held for risk management**

	Current Period		Prior Period	
	TL	FC	TL	FC
Fair Value Hedge	-	78.682	-	51.433
Cash Flow Hedge	-	-	-	-
Hedge of net investment in foreign operations	-	-	-	-
<b>Total</b>	<b>-</b>	<b>78.682</b>	<b>-</b>	<b>51.433</b>

**7. Information on provisions**

**7.a Information on general loan loss provisions:**

	Current Period	Prior Period
<b>General Provisions</b>	<b>136.131</b>	<b>177.167</b>
I.Provisions for First Group Loans and Receivables	107.597	154.541
II.Provisions for Second Group Loans and Receivables	9.473	3.902
Provisions for Non-Cash Loans	2.447	2.714
Other	16.614	16.010

(1)Minimum provision rates for general provision calculation is used for first group standart loans and all non cash loans in Regulation “Regulation on Procedures and principles For Determination of Qualifications of Loans and Other Receivables by Banks and Provisions to be set aside” published on the Official Gazette numbered 29918 dated 14 December 2016.

**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 4.724 (31 December 2016: TL 247). 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 2016: TL 583).

**7.d Information related to other provisions:**

**7.d.1 Provisions for possible losses:**

Free provision amounting to TL 190.000 provided by the Bank management in the current period for possible results of the circumstances which may arise from possible changes in the economy and market conditions. (31 December 2016: None)

**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 2017, employee termination benefits is amounting TL 9.763 reflected in financial statements (31 December 2016: TL 9.101). As of 31 December 2017, the Group has provided a reserve for unused vacation amounting to TL 2.388 (31 December 2016: TL 1.803). This balance is classified under reserve for employee benefits in the financial statements.

The actuarial gains amounting to TL 380 after 1 January 2017 have been accounted under equity in accordance with the revised TAS 19 standard (31 December 2016: TL 903 actuarial loss).

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**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:**

*Liabilities on pension rights*

As explained on the Section Three, Accounting Policies, XVI. Explanations on Liabilities Regarding Employee Benefits as of 31 December 2017, the Group has no obligations on pension rights (31 December 2016: None).

*Liabilities for pension funds established in accordance with Social Security Institution*

None (31 December 2016: 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 2017 has been calculated by an independent actuary in accordance with the actuarial assumptions in the Law and as per actuarial report dated 16 January 2018, there is no need for technical or actual deficit to book provision as of 31 December 2017.

Accordingly, as of 31 December 2017 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 (*)	93.343	90.962
<b>Total</b>	<b>93.343</b>	<b>90.962</b>

(\*) Other provisions balance includes amount to TL 90.000 for the risks related to loan portfolio. (31 December 2016: TL 90.000).

**8. Information on taxes payable**

**8.a Information on current taxes payable**

**8.a.1 Information on taxes payable:**

	Current Period		Prior Period	
	TL	FC	TL	FC
Corporate Taxes and Deferred Taxes				
Corporate Taxes Payable	43.662	-	5.066	-
Deferred Tax Liability	-	-	-	-
<b>Total</b>	<b>43.662</b>	<b>-</b>	<b>5.066</b>	<b>-</b>

**8.a.2 Information on taxes payable:**

	Current Period	Prior Period
Corporate Taxes Payable	43.662	5.066
Taxation of Securities	754	753
Capital gains tax on property	-	-
Banking and Insurance Transaction Tax (BITT)	6.358	3.564
Foreign Exchange Transaction Tax	-	-
Value Added Tax Payable	478	246
Other	1.951	1.742
<b>Total</b>	<b>53.203</b>	<b>11.371</b>

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**EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**II. Explanations and disclosures related to the consolidated liabilities (continued)**

**8. Information on taxes payable (continued)**

**8.a Information on current taxes payable (continued)**

**8.a.3 Information on premiums:**

	<b>Current Period</b>	<b>Prior Period</b>
Social Security Premiums-Employee	132	121
Social Security Premiums-Employer	149	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	43	37
Unemployment Insurance-Employer	86	74
Other	35	41
<b>Total</b>	<b>445</b>	<b>408</b>

**8.b Explanations on deferred taxes liabilities:**

As of the reporting date, the Group has no deferred tax liability (31 December 2016: None).

**9. Information on liabilities regarding assets held for sale**

None (31 December 2016: 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:**

As of 28 March 2017, the Parent Bank issued the sustainable subordinated debt securities which have nominal value of USD 300 Million, redemption date of 29 March 2022 with fixed interest rate of 7,625% semiannual coupon paymet. As of the end of the period, the value of the borrowing insturement is TL 1.146.236



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**EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**II. Explanations and disclosures related to the consolidated liabilities (continued)**

**11. Information on shareholders' equity**

**11.a Presentation of paid-in capital:**

	Current Period	Prior Period
Common Stock	2.400.000	2.050.000
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	2.400.000	4.500.000

**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 23 March 2017, it has been resolved tahat, paid in capital of the Bank will be increased fol TL 2.050.000 to TL 2.400.000 by adding TL 350.000. In respect of the resolution of the General Assembly, all of this increase will be incorporated from the profit of the year 2016. Aforementioned increase was approved by the BRSA dated 27 April 2017 and was announced in the Turkish Trade Registry Gazette dated 12 June 2017 and No. 9345.

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.

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**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.d Information on share capital increases from capital reserves:**

None. (31 December 2016: None)

**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 2016: 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.

**11.g Information on preferred shares:**

The Parent Bank has no preferred shares (31 December 2016: 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	(13.878)	-	(21.522)	-
From Available for Sale Financial Assets	(27.200)	12.440	(21.600)	(26.774)
Valuation Differences	(35.047)	12.440	(25.843)	(26.774)
Foreign Exchange Difference	7.847	-	4.243	-
<b>Total</b>	<b>(41.078)</b>	<b>12.440</b>	<b>(43.122)</b>	<b>(26.774)</b>

**11.i Information on legal reserves:**

	Current Period	Prior Period
First legal reserve	156.707	132.885
Second legal reserve	84.531	83.422
Other Legal Reserves Appropriated In Accordance with Special Legislation	54	54
<b>Total</b>	<b>241.292</b>	<b>216.361</b>

**11.j Information on extraordinary reserves:**

	Current Period	Prior Period
Reserves Appropriated by the General Assembly	121.888	113.175
Retained Earnings	-	-
Accumulated Losses	-	-
Foreign Currency Share Capital Exchange Differences	-	-
<b>Total</b>	<b>121.888</b>	<b>113.175</b>

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**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.k Explanations related to equity:**

Movement of equity reserves during the 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>Current Period</b>					
<b>As of 1 January</b>	<b>(48.374)</b>	<b>(21.522)</b>	<b>201.168</b>	<b>624</b>	<b>131.896</b>
Value increase/decrease of available for sale investments recognized directly under equity	36.722	-	-	-	36.722
Profit/loss on disposal of available for sale investments recycled to income statement from equity	(305)	-	-	-	(305)
Tax effect of gains on available for sale investments	(2.798)	-	-	-	(2.798)
Other (*)	(5)	7.644	14.184	(280)	21.543
<b>As of 31 December</b>	<b>(14.760)</b>	<b>(13.878)</b>	<b>215.352</b>	<b>344</b>	<b>187.058</b>

(\*)The valuation of real estates are made in accordance with the revaluation method in according to the scope of TAS 16. In 2017, the revaluation difference amounting to TL 14.184 and the related deferred tax effect which are determined by the certified valuation companies authorized by CMB and BRSA are recorded under the shareholders' equity. The actuarial valuation method specified in TAS 19 has been used in the calculation of employee rights provision and actuarial gains and losses amounting to TL 380 and the related deferred tax effect amounting to TL 100 after 1 January 2017 have been accounted under equity under the revised TAS 19 standards.

	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>Prior Period</b>					
<b>As at 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 at 31 December</b>	<b>(48.374)</b>	<b>(21.522)</b>	<b>201.168</b>	<b>624</b>	<b>131.896</b>

(\*) 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 26.549 which are determined by the certified valuation companies, authorized by CMB and BRSA, are recorded under the shareholders' equity.

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**EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**II. Explanations and disclosures related to the consolidated liabilities (continued)**

**12. Information on minority shares:**

	<b>Current Period</b>	<b>Prior Period</b>
Paid-in-Capital	44.416	44.416
Other Capital Reserves	25	19
Share Premium	165	165
Securities Value Increase Fund	447	1
Legal Reserves	118	118
Extraordinary Reserves	1.682	1.682
Other Profit Reserves	-	-
Retained Earnings / Accumulated Losses	11.568	19.086
Net Profit or Loss	(5.702)	(7.518)
<b>Total</b>	<b>52.719</b>	<b>57.969</b>

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**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	99.151	78.479
Commitments for Money Market Brokerage Purchase and Sales	84.711	45.194
Commitments for Stock Brokerage Purchase and Sales	1.058.598	373.763
Commitments for Letter of Credit	611.167	467.812
Commitments from Forward Short Term Borrowing and Transfers	93	-
Capital commitments for subsidiaries and associates (*)	78.890	68.367
Other	291.310	289.821
<b>Total</b>	<b>2.223.920</b>	<b>1.323.436</b>

(\*) It includes the remaining amount of the Parent Bank to commit purchase the shares of the fund as established with the name of Turkish Growth and Innovation Fund – TGIF which is planned to be created by the European Investment Fund – EIF.

**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 1.098.066 (31 December 2016: TL 693.817).

**1.b.2 Certain guarantees, tentative guarantees, surety ships and similar transactions:**

As of the reporting date, total letters of guarantee is TL 1.475.645 (31 December 2016: TL 975.391).

**1.c.1 Total amount of non-cash loans:**

	Current Period	Prior Period
Non-cash Loans Given Against Achieving Cash Loans	736.635	741.804
With Maturity of One Year or Less than One Year	25.875	278.690
With Maturity of More than One Year	710.760	463.114
Other Non-Cash Loans	1.837.076	927.404
<b>Total</b>	<b>2.573.711</b>	<b>1.669.208</b>

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**EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**III. Explanations and disclosures related to the consolidated off-balance sheet items**  
**(continued)**

**1. Information on off-balance sheet liabilities (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	561.688	99	1.811.654	91	203.711	97	1.320.782	90
Mining	-	-	-	-	-	-	-	-
Manufacturing Industry	381.548	68	937.466	48	6.740	3	647.831	44
Electricity, Gas, Water	180.140	31	874.188	43	196.971	94	672.951	46
Construction	146	-	-	-	2.900	1	-	-
Services	1.164	1	199.059	9	3.837	2	133.905	9
Wholesale and Retail Trade	-	-	9.410	-	-	-	-	-
Hotel, Food and Beverage	-	-	-	-	-	-	-	-
Services	-	-	-	-	-	-	-	-
Transportation and	-	-	-	-	-	-	-	-
Communication	62	-	44.463	2	-	-	-	-
Financial Institutions	321	-	145.186	7	321	-	133.905	9
Real Estate and Leasing Services	781	1	-	-	3.516	2	-	-
Self-employment Services	-	-	-	-	-	-	-	-
Education Services	-	-	-	-	-	-	-	-
Health and Social Services	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
<b>Total</b>	<b>562.998</b>	<b>100</b>	<b>2.010.713</b>	<b>100</b>	<b>210.448</b>	<b>100</b>	<b>1.458.760</b>	<b>100</b>

**1.c.3 Information on non cash loans classified under Group I and Group II:**

	Ist Group				IInd Group			
	Current Period		Prior Period		Current Period		Prior Period	
	TL	FC	TL	FC	TL	FC	TL	FC
Non-cash Loans	559.681	2.010.713	206.781	1.458.760	3.317	-	3.667	-
Letters of Guarantee	559.681	912.647	206.781	764.943	3.317	-	3.667	-
Bank Acceptances	-	18.763	-	17.450	-	-	-	-
Letters of Credit	-	1.079.303	-	676.367	-	-	-	-
Endorsements	-	-	-	-	-	-	-	-
Purchase Guarantees on	-	-	-	-	-	-	-	-
Factoring Guarantees	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-

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**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)	16.485.559	15.536.775
Forward transactions	4.826.105	1.131.115
Swap transactions	7.007.482	7.473.724
Futures transactions	-	-
Option transactions	4.651.972	6.931.936
Interest related derivative transactions (II)	13.214.240	10.773.710
Interest rate swap transactions	13.214.240	10.773.710
Interest option transactions	-	-
Futures interest transactions	-	-
Other trading derivative transactions (III)	72.830	117.544
A. Total trading derivative transactions (I+II+III)	29.772.629	26.428.029
Types of hedging transactions		
Fair value hedges	10.582.050	7.747.800
Cash flow hedges	-	-
Net investment hedges	-	-
B. Total hedging related derivatives	10.582.050	7.747.800
<b>Total Derivative Transactions (A+B)</b>	<b>40.354.679</b>	<b>34.175.829</b>

As of 31 December 2017, 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	Other Buy	Other Sell	Fair Value Hedge
<b>Current Period</b>									
TL	485.006	496.499	594.254	1.783.828	1.159.838	1.159.838	-	-	-
US Dollar	1.161.362	1.149.585	6.235.835	4.790.697	918.051	918.051	-	-	10.582.050
Euro	423.419	423.467	3.139.039	3.323.127	248.097	248.097	-	-	-
Other	343.381	343.386	211.698	143.244	-	-	-	72.830	-
<b>Total</b>	<b>2.413.168</b>	<b>2.412.937</b>	<b>10.180.826</b>	<b>10.040.896</b>	<b>2.325.986</b>	<b>2.325.986</b>	<b>-</b>	<b>72.830</b>	<b>10.582.050</b>

	Forward Buy	Forward Sell	Swap Buy	Swap Sell	Option Buy	Option 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	135.548	-	-	-	117.544	-
<b>Total</b>	<b>567.798</b>	<b>563.317</b>	<b>9.209.771</b>	<b>9.037.663</b>	<b>3.465.968</b>	<b>3.465.968</b>	<b>-</b>	<b>117.544</b>	<b>7.747.800</b>

**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES**  
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**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)**

Derivative Financial Liabilities Held For Trading	Current Period			Prior Period		
	Fair value assets	Fair value liabilities	Fair value assets	Fair value liabilities	Fair value assets	Fair value liabilities
Swap Transactions	203.692	(135.793)	7.007.482	151.764	(141.417)	7.473.724
Interest Rate Swap Transactions	55.695	(32.518)	13.214.240	58.255	(35.880)	10.773.710
Forward Transactions	21.909	(21.669)	4.826.105	22.109	(17.873)	1.131.115
Futures Transactions	-	-	-	-	-	-
Option Transactions	42.519	(42.423)	4.651.972	125.627	(125.627)	6.931.936
Other	2.973	-	72.830	16.281	-	117.544
<b>Total</b>	<b>326.788</b>	<b>(232.403)</b>	<b>29.772.629</b>	<b>374.036</b>	<b>(320.797)</b>	<b>26.428.029</b>

***Fair value hedges***

For the year ended 31 December 2017, the Parent Bank has interest rate swaps for hedging purposes nominal amount of TL 10.582.050 (31 December 2016: TL 7.747.800).

***Hedging from the cash-flow risk***

As of 31 December 2017 there is no cash-flow hedging transactions (31 December 2016: None).

**3. Explanations on loan derivatives and risk exposures**

The Bank has no loan derivatives and such risk exposures to this respect (31 December 2016: None).

**4. Explanations on contingent liabilities and assets**

There are 56 legal cases against the Group which are amounting to TL 4.976 as of the reporting date (31 December 2016: TL 7.215 - 48 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 been 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.



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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):**

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 IBB and Karacan Yapı at Pendik 2<sup>nd</sup> 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. 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 (IMM). The decision has been requested adjustment by IMM and plaintiff Sağlam Satış ve Paz. A.Ş. (Malazlar A.Ş.). Breaking decision of the Supreme Court is expected to evaluate the requests for correction of decision.

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 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.

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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**

**1. Information on interest income**

**1.a Information on interest on loans:**

	Current Period		Prior Period	
	TL	FC	TL	FC
Interest on Loans (*)				
Short Term Loans	209.464	9.179	80.498	6.504
Medium and Long Term Loans	216.065	876.636	165.941	599.067
Interest on Non-performing Loans	3.369	87	4.015	84
Premiums received from Resource Utilization Support Fund	-	-	-	-
<b>Total</b>	<b>428.898</b>	<b>885.902</b>	<b>250.454</b>	<b>605.655</b>

(\*) 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 (*)	5.617	-	3.371	-
Domestic Banks	54.372	9.157	26.321	5.647
Foreign Banks	1.337	168	155	563
Branches and Head Office Abroad	-	-	-	-
<b>Total</b>	<b>61.326</b>	<b>9.325</b>	<b>29.847</b>	<b>6.210</b>

(\*) 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	2.119	1	2.778	30
Financial Assets at Fair Value Through Profit and Loss	-	-	-	-
Available for Sale Financial Assets	190.262	50.637	218.692	45.095
Investments Held to Maturity	177.715	12.254	78.270	8.793
<b>Total</b>	<b>370.096</b>	<b>62.892</b>	<b>299.740</b>	<b>53.918</b>

As indicated in accounting policies, the Parent Bank evaluate its Consumer Price Indexed (CPI) government bonds which are in securities portfolio of the Parent Bank base on reference index at date of issue and estimated CPI's. The estimated CPI's is updated when it seems necessary. The subjected securities is evaluated based on actual index on the annual balance sheet date as of 31 December 2017.

**1.d Information on interest income received from associates and subsidiaries:**

	Current Period	Prior Period
Interest Received from Associates and Subsidiaries	20.054	8.511

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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)**

**2. Information on interest expense**

**2.a Information on interest on funds borrowed:**

	Current Period		Prior Period	
	TL	FC	TL	FC
Banks	28.387	53.395	26.733	35.470
The Central Bank of Turkey	-	-	-	-
Domestic Banks	16.759	16.832	15.573	11.622
Foreign Banks	11.628	36.563	11.160	23.848
Branches and Head Office Abroad	-	-	-	-
Other Financial Institutions	2.794	254.784	2.487	198.701
<b>Total (*)</b>	<b>31.181</b>	<b>308.179</b>	<b>29.220</b>	<b>234.171</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 2016: None).

**2.c Information on interest expense to securities issued:**

	Current Period		Prior Period	
	TL	FC	TL	FC
Interest on securities issued (*)	-	262.943	-	149.831

(\*) Commissions given to issuance have been included to interest expense.

**3. Information on dividend income**

	Current period	Prior period
Trading Securities	-	-
Financial Assets at Fair Value Through Profit and Loss	-	-
Available-for-Sale Securities	4.519	2.007
Other	902	9.479
<b>Total</b>	<b>5.421</b>	<b>11.486</b>

**4. Information on net trading income (net)**

	Current period	Prior period
<b>Profit</b>	<b>2.104.270</b>	<b>1.561.049</b>
Gains on capital market operations	9.212	7.125
Gains on derivative financial instruments (*)	1.044.199	902.244
Foreign exchange gains	1.050.859	651.680
<b>Losses (-)</b>	<b>(2.169.298)</b>	<b>(1.628.820)</b>
Losses on capital market operations	(3.361)	(3.293)
Losses on derivative financial instruments (*)	(1.253.992)	(901.380)
Foreign exchange losses	(911.945)	(724.147)

(\*) Foreign exchange gain from derivative transactions amounting to TL 423.893 is presented in "Gains on derivative financial instruments" (31 December 2016: TL 418.146), foreign exchange loss from derivative transactions amounting to TL (645.396) is presented in "Losses on derivative financial instruments" (31 December 2016: TL (445.777)).

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**EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**IV. Explanations and disclosures related to the consolidated income statement (continued)**

**5. Information related to other operating income**

	Current Period	Prior Period
Provisions Released (1)	45.514	12.952
Gains on Sale of Assets	244	235
From Associate and Subsidiary Sales	-	114
From Immovable Fixed Asset Sales	-	-
From Property Sales	244	59
From Other Asset Sales	-	62
Other (2)	22.651	13.456
<b>Total</b>	<b>68.409</b>	<b>26.643</b>

(1) Includes TL 41.036 General provision released in the current period.

(2) Other includes TL 9.464 rental income and TL 10.865 value increases of investment properties.

**6. Provision expenses related to loans and other receivables of the Group**

	Current Period	Prior Period
Specific provisions for loans and other receivables	6.436	3.566
III. Group Loans and Receivables	-	18
IV. Group Loans and Receivables	4.896	-
V. Group Loans and Receivables	1.540	3.548
General provision expenses	-	33.124
Provision expenses for possible losses	190.000	-
Marketable securities impairment expenses	3.988	3.809
Trading securities	-	-
Investment securities available for sale	3.988	3.809
Impairment provisions	2.402	-
Associates	499	-
Subsidiaries	-	-
Entities under common control (Joint Vent.)	-	-
Investment securities held to maturity	1.903	-
Other (*)	-	30.000
<b>Total</b>	<b>202.826</b>	<b>70.499</b>

(\*) 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	102.719	93.795
Reserve for Employee Termination Benefits	523	1.717
Bank Social Aid Fund Deficit Provision	-	-
Impairment Expenses of Fixed Assets	-	-
Depreciation Expenses of Fixed Assets	5.160	4.941
Impairment Expenses of Intangible Assets	-	-
Impairment Expense of Goodwill	-	-
Amortization Expenses of Intangible Assets	819	637
Impairment on Subsidiaries Accounted for Under Equity Method	-	-
Impairment on Assets for Resale	18	21
Depreciation Expenses of Assets Held for Resale	-	-
Impairment Expenses of Assets Held for Sale	-	-
Other Operating Expenses	35.317	48.332
Rent Expenses	2.818	3.300
Maintenance Expenses	1.972	1.847
Advertisement Expenses	1.121	1.364
Other Expenses	29.406	41.821
Loss on Sales of Assets	1.340	-
Other	24.290	19.420
<b>Total</b>	<b>170.186</b>	<b>168.863</b>

**8. Information on profit/loss before tax from continued and discontinued operations before tax**

As of 31 December 2017, profit before tax of the Group has increased by 33,59% as compared to the prior period (31 December 2016: 8,27% increase). In comparison with the prior period, the Group's net interest income has increased by 34,06% (31 December 2016: 26,78% 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 161.659 (31 December 2016: TL 98.641). Deferred tax income is TL 27.542 (31 December 2016: TL 19.067 deferred tax charge).

**9.b Information related to deferred tax benefit or charge on temporary differences:**

Deferred tax income calculated on temporary differences is TL 27.542 (31 December 2016: TL 19.067 deferred tax charge).

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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)**

**9. Information on tax provision for continued and discontinued operations (continued)**

**9.c Information related to deferred tax benefit / charge on temporary differences, losses, tax deductions and exceptions:**

As of 31 December 2017, the deferred tax charge calculated based on temporary timing differences is TL 28.073 (31 December 2016: TL 17.786 tax charge). Deferred tax expense reflected in the income statement on carry forward tax losses, tax deductions and exceptions amounts to TL 2.716 (31 December 2016: TL 1.281 expense).

In addition, TL 4.853 deferred tax charge 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 2016: TL 9.450 income).

**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 1.873.822 of interest income, TL 856.543 of interest expenses, TL 42.662 of net fee and commission income from banking operations (31 December 2016: TL 1.409.679 interest income, TL 650.876 interest expenses, TL 25.017 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 5.702 (31 December 2016: TL 7.518 loss). The total shareholders' equity, including current year profit attributable to minority shares is TL 52.719 (31 December 2016: TL 57.969).

**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	28.941	21.715
Commissions from Initial Public Offering	1.360	16
Investment Fund Management Income	2.092	1.597
Other	5.734	2.409
<b>Total</b>	<b>38.127</b>	<b>25.737</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**

**1. Information related to capital**

As of the balance sheet date, Paid in capital is TL 2.400.000 , legal reserves is TL 241.292  
Extraordinary legal reserves is TL 121.888.

The change in the account of other capital reserves in the current period arises from the actuarial difference related to the retirement pay liability.

**2. Information on the increase arising from the revaluation of securities available-for-sale**

The details of the securities increase fund are given in the footnote to Section II-11-h of Section Five within the valuation differences comprise of available for sale financial assets amounting to TL 22.607 (31.12.2016: TL 53.289) comprised deferred tax effect of TL 11.235 (31 December 2016: TL 14.038).

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**EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**V. Explanations related to consolidated 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 2017, increasing amount of TL 3.604 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 2016: 1.816)

**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 Parent Bank. 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 24.931 was transferred to the legal reserves (31 December 2016: TL 21.289).

**8. Offsetting of the prior period's losses**

There is no offsetting of accumulated losses made during the current and prior year.



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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 99.565 consists of gain from sale of assets and non-interest income (31 December 2016: TL 82.952 other income consists of other income, gain from sale of assets and non-interest income.)

Other caption in changes in assets and liabilities from banking operations amounting to TL 192.315 (31 December 2016: TL 562.627) consists of derivative financial transaction losses, other operating expenses, except employee termination benefits provision and depreciation expense and taxes paid, fees and commissions paid and foreign exchange gain and loss.

In the current period, net increase/decrease in other assets amounting to TL 154.658 (31 December 2016: TL 67.160) consists of changes in miscellaneous receivables, reserve requirement and other assets. In the current period, other liabilities amounting to TL 30.979 (31 December 2016: TL 1.077.480) 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 751 (31 December 2016: TL 42.458).

**2. Information about cash flows from acquisition of associates, subsidiaries, and other investments:**

In the current period, the Group invested TL 4.736 in tangible fixed assets and properties and invested TL 1.282 in intangible fixed assets. In the prior period, there is TL 1.000 investment on subsidiaries and affiliates.

In the prior period, the Group invested TL 4.065 in tangible fixed assets and properties and invested TL 1.698 in intangible fixed assets.

**3. Information about disposal of associates, subsidiaries, and other investments:**

In the current period, the Group has generated a cash inflow of TL 329 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 306 on sale of movable fixed assets and properties. The Group has not sold any associates and subsidiaries in the current period.

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**EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**VI. Explanations related to consolidated statement of cash flows**

**4. Cash and cash equivalents at the beginning and end of period:**

Cash and cash equivalents at the beginning of period:

	Beginning of the Current Period	Beginning of the Prior Period
Cash	29	21
Cash Equivalents	915.817	1.870.339
<b>Total</b>	<b>915.846</b>	<b>1.870.360</b>

Cash and cash equivalents at the end of period:

	End of the Current Period	End of the Prior Period
Cash	24	29
Cash Equivalents	504.224	915.817
<b>Total</b>	<b>504.248</b>	<b>915.846</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 831.678 (31 December 2016: TL 612.776) in Turkish Republic Central Bank represent of Turkish Lira, foreign currency and gold reserve requirements of the Parent Bank.

**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.

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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**

**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	294.292	7.878	21.131	-	90.035	-
Balance at the end of the period	257.470	260	-	-	76.931	-
Interest and commission income received	20.047	7	251	-	6.609	-

**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	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.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	417.925	-	-	-	-	-
End of the Period	444.536	417.925	-	-	-	-
Total Profit / Loss (*)	(32.621)	8.000	-	-	1.920	-
<b>Hedging Risk Transactions</b>						
Beginning of the Period	-	-	-	-	-	-
End of the Period	-	-	-	-	-	-
Total Profit / Loss	-	-	-	-	-	-

(\*) Prior period includes the informations belong to 31 December 2016.

**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 15.828 (31 December 2016: TL 14.233).

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**EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**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 (*)	2	375			
			Country of Incorporation		
Foreign representations	-	-			
				Total Asset	Statutory Share Capital
Foreign branches	-	-		-	-
Off-shore banking region branches	-	-		-	-

(\*) Consolidated subsidiaries have 9 branches and 111 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 2016: None).

**IX. Explanations and notes related to subsequent events**

As of 16 January 2018, The Bank issued the debt instruments which have nominal value of USD 350 Million, redemption date of 16 January 2023 with fixed interest rate of 5,50%, 5 years maturity and semiannual coupon payment.

**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**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)	BB+
Long-term Maturity Foreign Currency Outlook (issuer)	Stable
Short-term Maturity Foreign Currency (issuer)	B
Long-term Maturity National Currency (issuer)	BBB-
Long-term Maturity National Currency Outlook (issuer)	Stable
Short-term Maturity National Currency (issuer)	F3
Support Note	3
Base Support Note	BB+
National Note	AAA
National Note Outlook	Stable
Privileged Unsecured Debt Rating Note	BB+
Subordinated Debt Rating Note	BB-
Financial Capacity Note	bb

International credit rating agency Fitch Ratings confirmed the Bank's ratings and outlook on 4 October 2017 and determined Bank's "Financial Capacity Note".

**MOODY'S**

Reference Financial Rating Note	Ba2
<b>Foreign Currency (issuer)</b>	
Long-term Maturity	Ba1
Outlook	Negative
Short-term Maturity	NP
<b>Domestic Currency (issuer)</b>	
Long-term Maturity	Ba1
Outlook	Negative
Short-term Maturity	NP
<b>Unsecured Debt-Foreign Currency (issuer)</b>	
Long-term Maturity	Ba1
Outlook	Negative
Foreign Currency/Domestic Currency MTN Note	(P) Ba1

Information above represents updated information as of 20 March 2017.

**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

(Amounts 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)**

**1.b Informations on corporate governance rating of the Parent 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 95,37% (9,54 over 10) as of 20 October 2017. Ratings under the main topics of weighted Shareholders, Public Disclosure and Transparency, Stakeholders and Board of Directors are declared as; 9,49 (Weight: 25%), 9,69 (Weight: 25%), 9,85 (Weight: 15%), 9,33 (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 2017 have been audited by Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik AŞ (A Member firm of Ernst & Young Global Limited) and Auditors' Report dated 30 January 2018 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 operation.



# GLOSSARY

## APEX BANKING

Long-term, low interest loaning processes carried out using international financing opportunities, to support SME's investment and growth projects.

## BASEL III

An internationally agreed set of comprehensive reform measures developed by the Basel Committee on Banking Supervision aiming to strengthen the regulation, supervision and risk management of banks.

## 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.

## BIST SUSTAINABILITY INDEX

BIST Index listing the publicly traded companies that meet the sustainability performance indicators published by the Borsa İstanbul.

## CARBON FOOTPRINT

The measure of the environmental damage, as caused by human activities that generate greenhouse gases, expressed in carbon dioxide (CO<sub>2</sub>) equivalent.

## CARBON DISCLOSURE PROJECT (CDP)

An organization which is established in the UK in 2000 for combating climate change and reports the carbon management data it collects from investors and bodies authorized to make decisions on laws.

## CARBON NEUTRAL BANKING

The banking approach that sees the struggle against climate change as a priority

## 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.

## 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.

## ENVIRONMENTAL RISK EVALUATION MODEL (ERET)

The unique evaluation methodology that evaluates the environmental and social impacts of the projects TSKB allocates loans for.

## FTSE4GOOD EMERGING MARKETS INDEX

An independent organization which is jointly owned by the London Stock Exchange and the Financial Times and is designed to measure the environmental, social and governance performance of companies.

## GREEN/SUSTAINABLE BOND

Proceedings from the bond issuance are used in the finance of environment friendly/sustainable projects.

## GLOBAL REPORTING INITIATIVE (GRI)

A non-profit organization that focuses on establishing a standard reporting framework for global scale sustainability activities.

## 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

## MIDSEFF

Mid-size Sustainable Energy Financing Facility for Turkey implemented by the European Bank for Reconstruction and Development (EBRD) and supported by the European Investment Bank (EIB) and the European Commission (EC).

## MUDARABA

A kind of partnership in interest-free banking whereby one side contributes capital and the other side contributes work, and both share profit or loss.

## SUKUK

An interest-free banking product whereby a financial asset is securitized and leased/sold through certificates.

## UNITED NATIONS GLOBAL COMPACT

An initiative that encourages companies to operate responsibly and back the society in support of universal environmental and social principles.



## CONTACT INFORMATION

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