

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

Interim Condensed Consolidated
Financial Statements
As at and for the Six-Month Period Ended
30 June 2017
With Independent Auditors' Report on Review of
Condensed Consolidated Interim
Financial Information

4 October 2017

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

Türkiye Sınai Kalkınma Bankası Anonim Şirketi and Its Subsidiaries

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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Türkiye Sınai Kalkınma Bankası A.Ş. and its subsidiaries ("the Group") as at June 30, 2017, comprising of the interim consolidated statement of financial position as at June 30, 2017 and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim financial reporting" (IAS 34). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Other Matter

The financial statements of the Group as of December 31, 2016 and June 30, 2016 were audited and reviewed by another an independent audit firm, who expressed an unqualified opinion and conclusion in their audit and review reports dated April 24, 2017 and September 2, 2016 respectively.

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



Yaşar Bivas, SMMM
Partner

4 October 2017
Istanbul, Turkey

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2017

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

ASSETS	Notes	30 June 2017	31 December 2016
Cash on hand		21	29
Balances with central bank	8	14,724	165,271
Reserve deposits at central bank	8	815,591	612,776
Loans and advances to banks		699,909	497,949
Interbank money market placements		-	254,033
Funds lent under repurchase agreements		449	901
Financial assets at fair value through profit or loss		347,456	387,037
- <i>Trading assets</i>		11,543	13,001
- <i>Derivative assets</i>	9	335,913	374,036
Loans and advances to customers	10	19,674,396	17,343,122
Investment securities		4,090,578	4,449,700
- <i>Available for sale investment securities</i>	11	2,664,992	3,073,971
- <i>Held to maturity investment securities</i>		1,425,586	1,375,729
Derivatives used for hedging purposes	9	14,387	272
Investments in equity-accounted investees		346,804	322,922
Goodwill		383	383
Property and equipment		229,314	231,327
Investment property		231,796	231,323
Intangible assets		2,077	2,094
Deferred tax assets		4,433	2,685
Other assets		255,751	361,680
Total assets		26,728,069	24,863,504

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

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2017

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

LIABILITIES	Notes	30 June 2017	31 December 2016
Obligations under repurchase agreements		692,514	295,354
Derivative liabilities	9	267,954	320,797
Funds borrowed		16,619,472	16,127,496
Debts securities issued	12	3,510,152	3,486,732
Payables to stock exchange money market		548,332	960,880
Current account of loan customers		25,848	5,317
Derivatives used for hedging purposes	9	30,916	51,433
Taxes and dues payable		7,795	6,713
Employee benefits		19,676	21,813
Corporate tax liability		44,148	5,066
Provisions		2,055	962
Other liabilities		205,473	182,684
Subordinated loan		1,086,704	-
Total liabilities		23,061,039	21,465,247
EQUITY			
Share capital			
Nominal paid in capital		2,400,000	2,050,000
Inflation adjustment to capital		13,563	13,563
Total capital	14	2,413,563	2,063,563
Share premium		428	428
Legal reserves		241,758	216,827
Fair value reserve		(14,039)	(65,888)
Revaluation reserve		200,047	200,047
Retained earnings		771,570	925,311
Total equity attributable to equity holders of the Bank		3,613,327	3,340,288
Non-controlling interests		53,703	57,969
Total equity		3,667,030	3,398,257
Total liabilities and equity		26,728,069	24,863,504
Commitments and contingencies	7	45,264,998	44,437,712

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

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2017

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

	Notes	1 January – 30 June 2017	1 January – 30 June 2016
Interest income			
Interest income on loans and advances to customers		594,266	385,677
Interest on money market placements		35,168	89,838
Interest income on securities		185,511	172,029
Interest income on loans and advances to banks		27,594	10,995
Interest income on reserve deposits at central banks		2,284	1,735
Interest income on finance leases		460	1
Other interest income		1,094	456
Total interest income		846,377	660,731
Interest expenses			
Interest expense on obligations under repurchase agreements and money market borrowings		(121,939)	(128,900)
Interest expense on funds borrowed and subordinated loan		(154,478)	(112,489)
Interest expense on debt securities issued		(116,484)	(58,189)
Other interest expenses		(489)	(83)
Total interest expense		(393,390)	(299,661)
Net interest income		452,987	361,070
Fee and commission income		24,487	18,819
Fee and commission expense		(5,744)	(5,916)
Net fee and commission income		18,743	12,903
Securities trading income / (loss), net		2,313	3,839
Derivative trading income / (loss), net		(136,219)	(126,839)
Foreign exchange gains / (loss), net		106,843	95,228
Net trading income / (loss), net		(27,063)	(27,772)
Net impairment loss on financial assets		(9,054)	(1,544)
Net operating income after impairment loss		435,613	344,657
Other operating income		6,463	7,067
Other operating expenses		(85,323)	(80,950)
Dividend income		5,421	11,486
Share of profit of equity-accounted investees		22,009	20,942
Profit before income tax		384,183	303,202
Income tax expense		(74,748)	(54,377)
Profit for the period		309,435	248,825

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

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2017

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

	Notes	1 January – 30 June 2017	1 January – 30 June 2016
Profit for the period		309,435	248,825
Items that will never be reclassified to profit or loss:			
Remeasurement of employee termination benefits		-	-
Revaluation of tangible assets		-	-
Related tax		-	-
		-	-
Items that are or may be reclassified subsequently to profit or loss:			
Net change in fair value of available-for-sale financial assets		60,643	75,399
Net change in fair value of available-for-sale financial assets transferred to profit or loss		24	1,884
Equity-accounted investees - share of OCI		1,874	(8,779)
Related tax		(10,402)	(15,479)
Other comprehensive income for the period, net of tax		52,139	53,025
Total comprehensive income for the period		361,574	301,850
Profit attributable to:	Notes	1 January – 30 June 2017	1 January – 30 June 2016
Equity holders of the Bank		313,991	249,903
Non-controlling interests		(4,556)	(1,078)
Profit for the period		309,435	248,825
Total comprehensive income attributable to:			
Equity holders of the Bank		365,840	302,938
Non-controlling interests		(4,266)	(1,088)
Total comprehensive income for the period		361,574	301,850
Earnings per share			
Basic earnings per share (in full TL)	15	0.1289	0.1214

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

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2017

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

	Notes	Attributable to equity holders of the Bank								Non-controlling interests	Total Equity
		Share Capital	Inflation adjustment to capital	Share premium	Legal reserves	Fair value reserve	Revaluation reserve	Retained earnings	Total		
Balance at 1 January 2016		1,750,000	13,563	428	195,538	(23,747)	173,518	819,477	2,928,777	65,490	2,994,267
Total comprehensive income for the period											
Profit for the period		-	-	-	-	-	-	249,903	249,903	(1,078)	248,825
Other comprehensive income											
Remeasurement of defined benefit liability		-	-	-	-	-	-	-	-	-	-
Net change in fair value of available for sale financial assets		-	-	-	-	75,409	-	-	75,409	(10)	75,399
Net change in fair value of available for sale financial assets transferred to profit or loss		-	-	-	-	1,884	-	-	1,884	-	1,884
Revaluation of tangible assets		-	-	-	-	-	-	-	-	-	-
Equity-accounted investees - share of OCI		-	-	-	-	(8,779)	-	-	(8,779)	-	(8,779)
Tax on other comprehensive income		-	-	-	-	(15,479)	-	-	(15,479)	-	(15,479)
Total other comprehensive income		-	-	-	-	53,035	-	-	53,035	(10)	53,025
Total comprehensive income for the period		-	-	-	-	53,035	-	249,903	302,938	(1,088)	301,850
Transactions with owners of the Company											
Contributions and distributions											
Capital increase	14	300,000	-	-	-	-	-	(300,000)	-	-	-
Dividend distribution		-	-	-	-	-	-	(61,839)	(61,839)	-	(61,839)
Transfer to legal reserves		-	-	-	21,289	-	-	(21,289)	-	-	-
Changes in ownership interests											
Acquisition of non-controlling interests without a change in control		-	-	-	-	-	-	-	-	-	-
Total transactions with the owners of the Company		300,000	-	-	21,289	-	-	(383,128)	(61,839)	-	(61,839)
Balance at 30 June 2016	14	2,050,000	13,563	428	216,827	29,288	173,518	686,252	3,169,876	64,402	3,234,278

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

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2017

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

	Attributable to equity holders of the Bank										
	Notes	Share Capital	Inflation adjustment to capital	Share premium	Legal reserves	Fair value reserve	Revaluation reserve	Retained earnings	Total	Non-controlling interests	Total Equity
Balance at 1 January 2017		2,050,000	13,563	428	216,827	(65,888)	200,047	925,311	3,340,288	57,969	3,398,257
Total comprehensive income for the period											
Profit for the period		-	-	-	-	-	-	313,991	313,991	(4,556)	309,435
Other comprehensive income											
Remeasurement of defined benefit liability		-	-	-	-	-	-	-	-	-	-
Net change in fair value of available for sale financial assets		-	-	-	-	60,353	-	-	60,353	290	60,643
Net change in fair value of available for sale financial assets transferred to profit or loss		-	-	-	-	24	-	-	24	-	24
Revaluation of tangible assets		-	-	-	-	-	-	-	-	-	-
Equity-accounted investees - share of OCI		-	-	-	-	1,874	-	-	1,874	-	1,874
Tax on other comprehensive income		-	-	-	-	(10,402)	-	-	(10,402)	-	(10,402)
Total other comprehensive income		-	-	-	-	51,849	-	-	51,849	290	52,139
Total comprehensive income for the period		-	-	-	-	51,849	-	313,991	365,840	(4,266)	361,574
Transactions with owners of the Company											
Contributions and distributions											
Capital increase	14	350,000	-	-	-	-	-	(350,000)	-	-	-
Dividend distribution		-	-	-	-	-	-	(92,801)	(92,801)	-	(92,801)
Transfer to legal reserves		-	-	-	24,931	-	-	(24,931)	-	-	-
Changes in ownership interests											
Acquisition of non-controlling interests without a change in control		-	-	-	-	-	-	-	-	-	-
Total transactions with the owners of the Company		350,000	-	-	24,931	-	-	(467,732)	(92,801)	-	(92,801)
Balance at 30 June 2017	14	2,400,000	13,563	428	241,758	(14,039)	200,047	771,570	3,613,327	53,703	3,667,030

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

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE INTERIM PERIOD ENDED 30 JUNE 2017

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

	30 June 2017	30 June 2016
Notes		
Cash flows from operating activities:		
Interests and commissions received	828,406	553,947
Other operating activities, net	(4,903)	16,303
Cash payments to employees and suppliers	(63,697)	(60,699)
Interests and commissions paid	(433,265)	(175,998)
Dividends received	5,421	11,486
Operating profit before changes in operating assets / liabilities	331,962	345,039
(Increase)/decrease in operating assets:		
Loans and advances to customers	(1,704,725)	(977,227)
Balances with central Banks	(202,310)	802
Financial assets at fair value through profit or loss	2,430	(2,834)
Other assets	108,187	75,545
(Increase)/decrease in operating liabilities:		
Funds borrowed	(147,775)	166,168
Obligations under repurchase agreements and money market fundings	(15,319)	45,439
Other liabilities	23,150	1,647
Net cash outflows from operating activities before taxes and duties paid	(1,604,400)	(345,421)
Income taxes and other duties paid	(47,593)	(77,910)
Net cash outflows from operating activities	(1,651,993)	(423,331)
Cash flows from investing activities:		
Cash paid for purchase of investment securities	(286,088)	(437,481)
Cash obtained from sale of investment securities	744,442	236,903
Proceeds from sale of tangible assets	182	262
Purchase of tangible assets	(1,442)	(2,281)
Other	(379)	(1,304)
Net cash inflows/ outflows from investing activities	456,715	(203,901)
Cash flows from financing activities:		
Increase in loans and advances from banks and other institutions, net	1,077,000	878,309
Dividends paid	(92,801)	(61,839)
Net cash inflows from financing activities	984,199	816,470
Effect of exchange rate changes	58	(6,049)
Net increase in cash and cash equivalents	(211,021)	183,189
Cash and cash equivalents at 1 January	913,649	1,868,915
Cash and cash equivalents at 30 June	702,628	2,052,104

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

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TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE PERIOD ENDED 30 JUNE 2017

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

1. REPORTING ENTITY

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

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

TSKB started its activities in 1950 financing the private sector investments in Turkey and today it provides loans and project finance with the goal of sustainable development to corporations in different fields. As a leader in meeting the long term finance needs of the private sector, TSKB also continues to offer solutions with respect to the newest needs and client demands. Furthermore, through offering the equity shares of such companies to the public, TSKB has been a significant milestone in this field and thus assumed a prominent and vital role in fostering the development of capital markets. The main shareholders of TSKB are T. İş Bankası Group and T. Vakıflar Bankası T.A.O. with the percentages of 50.71% and 8.38%, respectively (31 December 2016: 50.65% and 8.38%, respectively). The Bank’s 38.96% shares are traded in Borsa Istanbul (“BIST”).

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

The interim condensed consolidated financial statements of the Bank as at and for the period ended 30 June 2017 are available upon request from the Bank’s registered office and website.

Information about the consolidated subsidiaries and equity accounted associates

Yatırım Finansman Menkul Değerler AŞ

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

TSKB Gayrimenkul Yatırım Ortaklığı AŞ

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

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE PERIOD ENDED 30 JUNE 2017

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

1. REPORTING ENTITY (continued)

Information about the consolidated subsidiaries and equity accounted associates (continued)

İş Finansal Kiralama AŞ

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

İş Faktoring AŞ

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

İş Girişim Sermayesi Yatırım Ortaklığı AŞ

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

2. BASIS OF ACCOUNTING

These interim condensed consolidated financial statements have been prepared in accordance with IAS 34 "*Interim Financial Reporting*", and should be read in conjunction with the Group's last annual consolidated financial statements as at and for the year ended 31 December 2016 ("last annual financial statements"). They do not include all the information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards.

The Bank maintains its books of accounts and prepares its statutory financial statements in accordance with the Banking Law and the "Regulation on Accounting Applications for Banks and Safeguarding of Documents" published in the Official Gazette No. 26333 dated 1 November 2006, which refers to Turkish Accounting Standards and Turkish Financial Reporting Standards issued by Public Oversight Accounting and Auditing Standards Authority "POAASA" and additional explanations and notes related to them and other decrees, notes and explanations related to accounting and financial reporting principles published by the Banking Regulation and Supervision Agency ("BRSA") and other relevant rules promulgated by the Turkish Commercial Code, Capital Markets Board and Tax Regulations.

The amendments of IFRS and IFRIC interpretations, effective date is on 1 January 2017, have no material impact on the Bank's accounting policies, financial position and performance. The amendments of IFRS and IFRIC interpretations, except IFRS 9 Financial Instruments will have no impact on the accounting policies, financial condition and performance of the Bank. The Bank assesses the impact of IFRS 9 Financial Instruments standard.

The accompanying condensed consolidated financial statements were authorized for issue by the Bank management on 4 October 2017.

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE PERIOD ENDED 30 JUNE 2017

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

3. USE OF JUDGEMENTS AND ESTIMATES

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

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended 31 December 2016.

Measurement of fair values

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

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

Significant valuation issues are reported to Audit Committee.

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

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

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

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

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

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE PERIOD ENDED 30 JUNE 2017

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

4. FINANCIAL INSTRUMENTS

Carrying amounts and fair values

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

Financial assets	Carrying amount			Fair value			
	Loans and receivables	Investments, including derivatives	Total	Level 1	Level 2	Level 3	Total
30 June 2017							
Financial assets at fair value through profit or loss:							
-Trading securities	-	11,543	11,543	11,543	-	-	11,543
-Derivative financial instruments	-	335,913	335,913	-	335,913	-	335,913
Derivatives used for hedging purposes	-	14,387	14,387	-	14,387	-	14,387
Investment securities:							
-Available-for-sale investment securities (*)	-	2,664,992	2,664,992	1,480,131	1,148,445	25,793	2,654,369
Financial assets not measured at fair value							
Due from banks (including central banks)	1,530,224	-	1,530,224				
Loans and advances to customers	19,674,396	-	19,674,396				
Investment securities:							
-Held-to-maturity	-	1,425,586	1,425,586				
	21,204,620	4,452,421	25,657,041				
31 December 2016							
Financial assets at fair value through profit or loss:							
-Trading securities	-	13,001	13,001	13,001	-	-	13,001
-Derivative financial instruments	-	374,036	374,036	-	374,036	-	374,036
Derivatives used for hedging purposes	-	272	272	-	272	-	272
Investment securities:							
-Available-for-sale investment securities	-	3,073,971	3,073,971	1,908,683	1,142,431	22,480	3,073,594
Financial assets not measured at fair value							
Due from banks (including central banks)	1,275,996	-	1,275,996	-	-	-	-
Loans and advances to customers	17,343,122	-	17,343,122	-	-	-	-
Investment securities:							
-Held-to-maturity	-	1,375,729	1,375,729	-	-	-	-
	18,619,118	4,837,009	23,456,127				

(*) As of 30 June 2017, securities that are not publicly traded and the determination of fair values could not be obtained reliably amounting to TL 10,623 have been measured at cost

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4. FINANCIAL INSTRUMENTS (continued)

Carrying amounts and fair values (continued)

	Carrying amount			Fair value			
	Loans and borrowings	Derivatives	Total	Level 1	Level 2	Level 3	Total
Financial liabilities							
30 June 2017							
Derivative financial instruments	-	267,954	267,954	-	267,954	-	267,954
Derivatives used for hedging purposes	-	30,916	30,916	-	30,916	-	30,916
Financial liabilities not measured at fair value							
Obligations under repurchase agreements	692,514	-	692,514	-	-	-	-
Funds borrowed and subordinated loans	16,619,472	-	16,619,472	-	-	-	-
Payables to stock exchange money market	548,332	-	548,332	-	-	-	-
Debt securities issued	3,510,152	-	3,510,152	3,510,152	-	-	3,510,152
Subordinated loan	1,086,704	-	1,086,704	1,086,704	-	-	1,086,704
	22,457,174	298,870	22,756,044				
31 December 2016							
Derivative financial instruments	-	320,797	320,797	-	320,797	-	320,797
Derivatives used for hedging purposes	-	51,433	51,433	-	51,433	-	51,433
Financial liabilities not measured at fair value							
Obligations under repurchase agreements	295,354	-	295,354	-	-	-	-
Funds borrowed and subordinated loans	16,127,496	-	16,127,496	-	-	-	-
Payables to stock exchange money market	960,880	-	960,880	-	-	-	-
Debt securities issued	3,486,732	-	3,486,732	3,414,029	-	-	3,414,029
Subordinated loan	-	-	-	-	-	-	-
	20,870,462	372,230	21,242,692				

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5. OPERATING SEGMENTS

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

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

Principal activities of the Group are as follows:

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

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

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5. OPERATING SEGMENTS (continued)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS (1 January – 30 June 2017)	Banking	Stock brokerage and other	Combined	Eliminations	Total
Interest income	825,515	20,899	846,414	(37)	846,377
Interest expense	(361,026)	(32,401)	(393,427)	37	(393,390)
Net interest income	464,489	(11,502)	452,987	-	452,987
Net fee and commission income	5,829	12,914	18,743	-	18,743
Net securities trading income / (loss)	2,352	(39)	2,313	-	2,313
Net derivative trading income / (loss)	(161,800)	27,408	(134,392)	(1,827)	(136,219)
Net foreign currency gain / (loss)	135,359	(28,516)	106,843	-	106,843
Net impairment loss on financial assets	(8,324)	(730)	(9,054)	-	(9,054)
Net operating income after impairment losses	437,905	(465)	437,440	(1,827)	435,613
Other operating income	1,291	10,358	11,649	(5,186)	6,463
Other operating expenses	(67,326)	(22,797)	(90,123)	4,800	(85,323)
Dividend income	18,002	2,151	20,153	(14,732)	5,421
Share of profit of equity-accounted investees	22,009		22,009		22,009
Profit before income tax	411,881	(10,753)	401,128	(16,945)	384,183

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5. OPERATING SEGMENTS (continued)

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

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5. OPERATING SEGMENTS (continued)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	Banking	Stock brokerage and other	Combined	Eliminations	Total
<u>At 30 June 2017</u>					
Total assets	25,811,656	1,003,945	26,815,601	(87,532)	26,728,069
Total liabilities	22,316,858	744,360	23,061,218	(179)	23,061,039
Equity before net profit & non-controlling interests	3,178,531	271,481	3,450,012	(150,676)	3,299,336
Net profit attributable to equity holders of the Bank	316,267	(11,896)	304,371	9,620	313,991
Non-controlling interests	-	-	-	53,703	53,703
Total equity	3,494,798	259,585	3,754,383	(87,353)	3,667,030
Total liabilities and equity	25,811,656	1,003,945	26,815,601	(87,532)	26,728,069
<u>At 31 December 2016</u>					
Total assets	24,032,718	981,648	25,014,366	(150,862)	24,863,504
Total liabilities	20,804,771	717,043	21,521,814	(56,567)	21,465,247
Equity before net profit & non-controlling interests	2,711,357	296,552	3,007,909	(155,844)	2,852,065
Net profit attributable to equity holders of the Bank	516,590	(31,947)	484,643	3,580	488,223
Non-controlling interests	-	-	-	57,969	57,969
Total equity	3,227,947	264,605	3,492,552	(94,295)	3,398,257
Total liabilities and equity	24,032,718	981,648	25,014,366	(150,862)	24,863,504

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6. RELATED PARTIES

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

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

	30 June 2017	31 December 2016
<u>Balances with related parties</u>		
Loans and advances to customers	430,244	384,327
Non-cash loans	1,448	7,878
Loans and advances to banks	1,345	22,437
Available for sale investment securities	11,762	12,922
Other assets	5	6
Other liabilities	6	25
Payables to stock exchange money market	809	1,119
Derivatives	1,300	3,743
	1 January- 30 June 2017	1 January- 30 June 2016
<u>Transactions with related parties</u>		
Interest income / (expense), net	11,566	6,232
Dividend income	5,421	11,486
Share of profit of equity-accounted investees	22,009	20,942
Foreign exchange gain / (loss), net	11,455	1,219
Derivative trading income / (loss), net	8,227	(12,842)
Net fee and commission income / (expense), net	184	183
Other income	195	295

Compensation of Key Management Personnel of the Group

Benefits provided to key management personnel in the current period amount to TL 10,410 (30 June 2016: TL 9,897).

7. COMMITMENTS AND CONTINGENCIES

	30 June 2017	31 December 2016
Swap and forward agreements	21,740,559	19,378,549
Derivative financial instruments for hedging purposes	9,877,050	7,747,800
Option agreements	5,858,802	6,931,936
Revocable and irrevocable commitments	5,334,509	8,524,308
Letters of guarantee	1,413,294	975,391
Letters of credit	856,290	676,367
Capital commitments for subsidiaries and associates (*)	72,511	68,367
Bank acceptances	-	17,450
Other commitments	111,983	117,544
	45,264,998	44,437,712

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7. COMMITMENTS AND CONTINGENCIES (continued)

(*) “As of 25 July 2016, the Bank has paid Euro 1.1 Million share for which is promised to buy shares with the nominal value of EUR 20 Million to the fund which is planned to be created by the European Investment Fund – EIF with the targeted size of Euro 335 Million and established with the name of Turkish Growth and Innovation Fund – TGIF.”

Fiduciary Activities

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

The nominal values of the assets held by the Group in agency or custodian capacities and financial assets under portfolio management amounted to TL 1,269,462 as at 30 June 2017 (31 December 2016: TL 1,340,913). As at 30 June 2017, securities at custody with market value amounted to TL 4,090,000 (31 December 2016: TL 3,442,799).

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

As at 30 June 2017, according to the general requirements of the BIST, letters of guarantee amounting to TL 416,100 (31 December 2016: TL 433,593) had been obtained from various local banks and were provided to BIST for bond and stock market transactions. Also, as at 30 June 2017 there is no letter of guarantee were given to the CMB (31 December 2016: none).

The Group’s trading securities given as collateral or blocked amounted to TL 1,313 at the reporting date (31 December 2016: TL 1,298).

Litigations

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

There are 54 legal cases against the Group which are amounting to TL 4,925 as of the reporting date (31 December 2016: TL 7,215 for 45 legal cases).

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

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7. COMMITMENTS AND CONTINGENCIES (continued)

Litigations (continued)

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

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

Plaintiff ultimately filed a lawsuit against IBB and Karacan Yapı at Pendik 2nd Court of First Instance Pendorya Mall claiming the road intersects his own property and demanding compensation amounting TL 7 TSKB GYO has been involved in the lawsuit as intervening party.

Relating to immovable property, subject of litigation discovery review and expert reports were submitted to the court file. Objections to the report and statement of TSKB GYO has been given. IBB Presidency has declared that expropriation proceedings related to the subject have been initiated. For this reason, lawsuit was removed from "Possessory Actions" and converted to the "Confiscating without expropriating" by the judge.

Accepting in the new case, the plaintiff claimed compensation from the Administration and in order to determine the amount of compensation the Court decided an expert examination since the information provided by the Land Registry and the Municipality was not deemed sufficient.

Expert reports submitted to the Court on 30 May 2013 and the Court decided to add Pendik Municipality as a defendant in the case. At the latest hearing on 24 December 2013 it was decided to accept the expert reports and Pendik Municipality to pay the relevant amount (TL 645) to the plaintiff.

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 Law Department of the Bank, other cases which are to the detriment of the bank has no significant effect on the financial statements.

Other

The Group's head office and 9 branches, including branches of subsidiaries, are subject to operational leasing. Additionally, 26 cars and 262 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).

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8. BALANCES WITH CENTRAL BANK

As at 30 June 2017 balances with Central Bank include restricted reserve deposits amounting to TL 815,591 (31 December 2016: TL 612,776) at the Central Bank of Turkey and unrestricted reserve deposits amounting to TL 14,724 (31 December 2016: TL 165,271).

As per the Communiqué numbered 2005/1 “Reserve Deposits” of Central Bank of Republic of Turkey (CBRT), banks keep reserve deposits at the CBRT for their TL and FC liabilities mentioned in the communiqué. Reserves are calculated and set aside every two weeks on Fridays for 14-days periods. In accordance with the related communiqué, no interest is paid for reserve requirements. The CBRT has started to pay interest to the Required Reserves held in Turkish Lira according to regulation released at 5 November 2014.

In accordance with the regulation issued at 27 January 2015, CBRT has began to collect monthly commissions over daily balances of Two Days Notice Deposit Accounts and Required Reserves held in the foreign currencies, to be valid from 1 February 2015. As of 5 May 2015, the CBRT has started to pay interest to the Required reserves, reserve options and unrestricted account held in US dollars according to regulation released at 2 May 2015.

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

Reserve Rates for TL Liabilities

Original maturity	Required Reserve rate (%)
Other liabilities until 1 year maturity (1 year included)	10,5
Other liabilities until 3 year maturity (3 year included)	7
Other liabilities more than 3 year maturity	4

Reserve Rates for Foreign Currency Liabilities

Original maturity	Required Reserve rate (%) If the fund borrowed before 28 August 2015	Required Reserve rate (%) If the fund borrowed after 28 August 2015
Other liabilities until 1 year maturity (1 year included)	19	24
Other liabilities until 1-2 year maturity (2 year included)	13	19
Other liabilities until 2-3 year maturity (3 year included)	7	14
Other liabilities until 3-5 year maturity (5 year included)	6	6
Other liabilities more than 5 year maturity	5	4

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9. DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2017	30 June 2017	31 December 2016	31 December 2016
	Assets	Liabilities	Assets	Liabilities
Currency swaps	165,243	(127,628)	168,044	(141,415)
Options	80,591	(80,558)	125,627	(125,627)
Foreign currency forward contracts	22,801	(22,596)	22,108	(17,873)
Interest rate swaps	67,278	(37,172)	58,257	(35,882)
	335,913	(267,954)	374,036	(320,797)

Derivatives held for risk management

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

In this respect, the fixed rate Eurobond and Greenbond issued by the Bank and a portion of fixed rate funds borrowed are subject to fair value hedge accounting. The Bank enters into interest rate swap agreements in order to hedge the change in fair values of its fixed rate financial liabilities. The changes in the fair value of the hedged fixed rate financial liabilities and hedging interest rate swaps are recognised under the statement of profit/loss. At the beginning and later period of the hedging transaction, the aforementioned hedging transactions are expected to offset changes occurred in the relevant period of the hedging transaction and hedged risk (attributable to hedging risk) and effectiveness tests are performed in this regard.

The fair value of derivatives designated as fair value hedges are as follows:

Instrument type	30 June 2017	30 June 2017	31 December 2016	31 December 2016
	Assets	Liabilities	Assets	Liabilities
Interest Rate Swap	14,387	(30,916)	272	(51,433)
	14,387	(30,916)	272	(51,433)

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

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9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

	30 June 2017	31 December 2016
Forward foreign exchange contracts – buy	1,044,639	567,798
Forward foreign exchange contracts – sell	1,044,312	563,317
Currency swaps – buy	3,571,376	3,822,916
Currency swaps – sell	3,422,518	3,650,808
Interest rate swaps – buy	6,328,857	5,386,855
Interest rate swaps – sell	6,328,857	5,386,855
Currency option – buy	2,929,901	3,465,968
Currency option – sell	2,928,901	3,465,968
Other – sell	111,983	117,544

10. LOANS AND ADVANCES TO CUSTOMERS

	30 June 2017	31 December 2016
Short-term and current portion of long term loans	1,235,063	707,707
Long-term loans	18,404,382	16,628,121
Finance leases, net	32,740	3,792
Total performing loans	19,672,185	17,339,620
Non-performing loans	56,406	51,615
Total loans	19,728,591	17,391,235
Less: Specific reserve for impairment losses on loans	(14,478)	(10,485)
Less: Portfolio reserve for impairment losses on loans	(39,717)	(37,628)
Total loans	19,674,396	17,343,122

Movements in the reserve for impairment losses on loans for the six-month period ended 30 June 2017 and 2016 are as follows:

	1 January – 30 June 2017	1 January – 30 June 2016
Specific reserve for cash loans:		
As at 1 January	10,485	8,729
Charge for the period	5,969	1,470
Reserve released and write offs	(1,976)	(1,399)
	14,478	8,800
Portfolio reserve for cash loans:		
As at 1 January	37,628	33,697
Charge for the period	2,089	-
Reserve released and write offs	-	(879)
	39,717	32,818
Total reserve for impairment losses on loans	54,195	41,618

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11. INVESTMENT SECURITIES

Available-for-sale investment securities

At 30 June 2017 and 31 December 2016, available for sale securities portfolio comprised the following:

	30 June 2017	31 December 2016
Government bonds and treasury bills in TL	1,439,729	1,823,078
Debt securities issued by corporations	147,543	230,817
Eurobonds	1,009,551	967,855
Equity shares	68,169	52,221
Total	2,664,992	3,073,971

12. DEBTS SECURITIES ISSUED

	Current Period		Prior Period	
	TL	FC	TL	FC
Nominal	-	3,502,500	-	3,490,000
Cost	-	3,493,090	-	3,476,185
Book Value	-	3,510,152	-	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 semi-annual 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 semi-annual 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%.

13. INCOME TAXES

The Group is subject to taxation in accordance with the tax procedures and the legislation effective in Turkey. Corporate income tax is 20% on the statutory corporate income tax base, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes as at 30 June 2017 (31 December 2016: 20%). Provision is made in the accompanying consolidated financial statements for the estimated charge based on the Group's results for the period. The Group's consolidated effective tax rate in respect of continuing operations as at and for the six-month period ended 30 June 2017 is 19% (30 June 2016: 18%).

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

14. SHARE CAPITAL

	30 June 2017	31 December 2016
TL 1 (in full TL), par value	2,050,000	1,750,000
Share increase	350,000	300,000
Total number of shares	2,400,000	2,050,000
Paid-in capital	2,400,000	2,050,000
Inflation restatement effect	13,563	13,563
Shared capital issued	2,413,563	2,063,563

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.

15. EARNINGS PER SHARE

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

A summary of the weighted average number of shares outstanding for the interim periods ended 30 June 2017 and 2016 and the basic earnings per share calculation is as follows (assuming that the cash increases did not involve a bonus element):

	1 January – 30 June 2017	1 January – 30 June 2016
Number of shares outstanding at 1 January	2,050,000,000	1,750,000,000
<i>New shares issued</i>		
Conversion of existing reserves	350,000,000	300,000,000
Number of shares outstanding at the period end	2,400,000,000	2,050,000,000
Weighted average number of shares during the period	2,400,000,000	2,050,000,000
Profit for equity holders of the Bank	309,435	248,825
Basic earnings per share (in full Kurus)	0.1289	0.1214

There is no dilution of shares as of 30 June 2017.

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16. EVENTS AFTER THE REPORTING PERIOD

The issue of merger between TSKB Gayrimenkul Yatırım Ortaklığı, which is a subsidiary of the Parent Bank, and İş Gayrimenkul Yatırım Ortaklığı through the acquisition of TSKB Gayrimenkul Yatırım Ortaklığı with all assets and liabilities, decided in the meeting of Board of Directors of TSKB Gayrimenkul Yatırım Ortaklığı dated 18 April 2017, and pursued in accordance with the related regulations has been cancelled due to the developments occurred after the decision and the recognition that merger cannot be completed on time if financial statements of 31 December 2016 are taken as basis for the merger.

17. SIGNIFICANT ACCOUNTING POLICIES

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