

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

Consolidated Financial Statements  
As at and for the Year Ended  
31 December 2017  
With Independent Auditors' Report

27 April 2018

*This report contains 5 pages of independent auditors' report on consolidated financial statement and 104 pages of consolidated financial statements and notes to the consolidated financial statements.*

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

**Table of Contents**

	<b>Pages</b>
Independent Auditors' Report	
Consolidated Statement of Financial Position	6-7
Consolidated Statement of Profit or Loss and Other Comprehensive Income	8-9
Consolidated Statement of Changes in Equity	10-11
Consolidated Statement of Cash Flows	12
Notes to the Consolidated Financial Statements	14-109

## **Report on the Audit of the Consolidated Financial Statements**

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

### **Qualified Opinion**

We have audited the consolidated financial statements of Türkiye Sınai Kalkınma Bankası A.Ş. (the "Bank") and its subsidiaries (together referred to as the "Group"), which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of profit or loss, consolidated statement of other 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 the Group as at December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

### **Basis for qualified opinion**

As explained in Note 26, the accompanying consolidated financial statements as at 31 December 2017 include a free reserve for possible risks amounting to TL 60.000 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 13.200 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 46.800 thousand, the other provisions and deferred tax assets are overstated by TL 60.000 thousand and TL 13.200 thousand, respectively.

We conducted our audit in accordance with International Standards on Auditing (ISAs). 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 Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Turkey, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. 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 judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the 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.

### ***Impairment of loans and advances***

Loans and advances to customers and lease receivables are key areas of judgement for the management. There is a potential risk that loans and advances to customers and lease receivables are impaired and no reasonable impairment losses are provided in accordance with the requirements of IFRS as determining the adequacy of impairment allowance on loans and advances to customers and lease receivables are key areas of judgement for the management. Accordingly, carrying amount of loans and advances to customers and lease receivables might be greater than the estimated recoverable amounts, therefore the impairment test of these loans of advances and lease receivables are key audit matters. Related Explanations relating to the impairment of loans and receivables have been disclosed in Note 26.

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 IFRS. 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.

### ***Pension Fund Obligations***

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.

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.

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.

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.

### ***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 International Accounting Standards ("IAS") and International Financial Reporting Standards ("IFRS").

### **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 April 24, 2017.

### **Responsibilities of the Board of Directors for the consolidated financial statements**

The Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors are responsible for overseeing the Group's financial reporting process.

### **Auditor's responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors
- Conclude on the appropriateness of the Board of Director'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 Group'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 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 Group 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 consolidated 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 the Board of Directors 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 the Board of Directors 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 the Board of Directors 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.

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  
Partner, SMMM

Istanbul, Turkey  
April 27, 2018

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2017**

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

<b>ASSETS</b>	<b>Notes</b>	<b>31 December 2017</b>	<b>31 December 2016</b>
Cash on hand	6	24	29
Balances with central bank	7	15,433	165,271
Reserve deposits at central bank	7	831,678	612,776
Loans and advances to banks	8	493,687	497,949
Interbank money market placements	6	-	254,033
Funds lent under repurchase agreements	6	3	901
Financial assets at fair value through profit or loss		336,093	387,037
- Trading financial assets	9	9,305	13,001
- Derivative financial instruments	36	326,788	374,036
Loans and advances to customers	10	22,304,828	17,343,122
Investment securities	11	4,628,479	4,449,700
- Available for sale investment securities		2,925,182	2,861,116
- Available for sale investment securities as pledged		171,250	212,855
- Held to maturity investment securities		979,969	1,245,945
- Held to maturity investment securities as pledged		552,078	129,784
Derivative assets held for hedging purposes	36	-	272
Investments in equity-accounted investees	12	374,425	322,922
Goodwill	13	383	383
Property, plant and equipment	14	245,798	231,327
Investment property	15	243,145	231,323
Intangible assets	16	2,580	2,094
Deferred tax assets	22	13,530	2,685
Other assets	17	304,564	361,680
<b>Total assets</b>		<b>29,794,650</b>	<b>24,863,504</b>

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

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2017**

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

<b>LIABILITIES</b>	<b>Notes</b>	<b>31 December 2017</b>	<b>31 December 2016</b>
Obligations under repurchase agreements	18	610,775	295,354
Derivative liabilities	36	232,403	320,797
Funds borrowed	19	19,001,627	16,127,496
Debts securities issued	20	3,746,229	3,486,732
Payables to money market	25	701,147	960,880
Current account of loan customers		12,901	5,317
Derivative liabilities held for hedging purposes	36	78,682	51,433
Taxes and dues payable		9,986	6,713
Employee benefits	23	24,886	21,813
Corporate tax liability	22	43,662	5,066
Provisions	26	63,343	962
Other liabilities	21	178,282	182,684
Subordinated loan	24	1,146,236	-
<b>Total liabilities</b>		<b>25,850,159</b>	<b>21,465,247</b>
<b>EQUITY</b>			
Share capital			
Nominal paid in capital	27	2,400,000	2,050,000
Inflation adjustment to capital	27	13,563	13,563
Total capital		2,413,563	2,063,563
Share premium		428	428
Legal reserves		241,758	216,827
Fair value reserve		(24,630)	(65,888)
Revaluation reserve		214,231	200,047
Retained earnings		1,046,422	925,311
<b>Total equity attributable to equity holders of the Bank</b>		<b>3,891,772</b>	<b>3,340,288</b>
Non-controlling interests	27	52,719	57,969
<b>Total equity</b>		<b>3,944,491</b>	<b>3,398,257</b>
<b>Total liabilities and equity</b>		<b>29,794,650</b>	<b>24,863,504</b>
<b>Commitments and contingencies</b>	35	<b>49,139,855</b>	<b>44,437,712</b>

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

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND**  
**OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

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

	Notes	1 January – 31 December 2017	1 January – 31 December 2016
Interest income			
Interest income on loans and advances to customers		1,314,800	856,109
Interest on money market placements		51,435	162,976
Interest income on securities		432,988	353,658
Interest income on loans and advances to banks		65,034	32,686
Interest income on reserve deposit at central bank		5,617	3,371
Interest income on finance leases		1,659	27
Other interest income		2,289	852
<b>Total interest income</b>		<b>1,873,822</b>	<b>1,409,679</b>
Interest expenses			
Interest expense on obligations under repurchase agreements and money market borrowings		(253,328)	(237,442)
Interest expense on funds borrowed		(339,360)	(263,391)
Interest expense on debt securities issued		(262,943)	(149,831)
Other interest expenses		(912)	(212)
<b>Total interest expense</b>		<b>(856,543)</b>	<b>(650,876)</b>
<b>Net interest income</b>		<b>1,017,279</b>	<b>758,803</b>
Fee and commission income	28	53,752	36,387
Fee and commission expense	28	(11,090)	(11,370)
<b>Net fee and commission income</b>		<b>42,662</b>	<b>25,017</b>
Securities trading income, net		5,851	3,832
Derivative trading income / (losses), net		(209,793)	864
Foreign exchange gains / (losses), net		138,914	(72,467)
<b>Net trading income / (loss)</b>		<b>(65,028)</b>	<b>(67,771)</b>
Net impairment loss on financial assets	29	(178,140)	(9,497)
<b>Operating income after impairment losses</b>		<b>816,773</b>	<b>706,552</b>
Other operating income	30	33,546	13,653
Other operating expenses	32	(170,186)	(168,787)
Dividend income	31	5,421	11,486
Share of profit of equity-accounted investees	12	43,861	38,805
<b>Profit before income tax</b>		<b>729,415</b>	<b>601,709</b>
Income tax expense	22	(145,980)	(121,011)
<b>Profit for the year</b>		<b>583,435</b>	<b>480,698</b>

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

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND**  
**OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

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

	Notes	1 January – 31 December 2017	1 January – 31 December 2016
<b>Profit for the year</b>		<b>583,435</b>	<b>480,698</b>
<b>Items that will never be reclassified to profit or loss:</b>			
Remeasurement of employee termination benefits		(380)	843
Revaluation of tangible assets		16,315	26,705
Related tax		(2,031)	(280)
		<b>13,904</b>	<b>27,268</b>
<b>Items that are or may be reclassified subsequently to profit or loss:</b>			
Net change in fair value of available-for-sale financial assets		37,548	(48,304)
Net change in fair value of available-for-sale financial assets transferred to profit or loss		(305)	3,402
Equity-accounted investees - share of OCI		7,264	(6,965)
Related tax		(2,803)	9,730
<b>Other comprehensive income for the year, net of tax</b>		<b>55,608</b>	<b>(14,869)</b>
<b>Total comprehensive income for the year</b>		<b>639,043</b>	<b>465,829</b>
<b>Profit attributable to:</b>			
Equity holders of the Bank		589,137	488,223
Non-controlling interests	27	(5,702)	(7,525)
<b>Profit for the year</b>		<b>583,435</b>	<b>480,698</b>
<b>Total comprehensive income attributable to:</b>			
Equity holders of the Bank		644,299	473,350
Non-controlling interests	27	(5,256)	(7,521)
<b>Total comprehensive income for the year</b>		<b>639,043</b>	<b>465,829</b>
<b>Earnings per share</b>			
Basic earnings per share (in full Kuruş)	38	0.2455	0.2382

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

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 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 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 year		-	-	-	-	-	-	488,223	488,223	(7,525)	480,698
Profit		-	-	-	-	-	-	-	-	-	-
Other comprehensive income, net of tax items that are or may be reclassified subsequently to profit or loss:											
Net change in fair value of available for sale financial assets		-	-	-	-	(38,578)	-	-	(38,578)	4	(38,574)
Net change in fair value of available for sale financial assets transferred to profit or loss		-	-	-	-	3,402	-	-	3,402	-	3,402
Equity-accounted investees - share of OCI		-	-	-	-	(6,965)	-	-	(6,965)	-	(6,965)
Items that are or may not be reclassified subsequently to profit or loss:											
Revaluation of tangible assets		-	-	-	-	-	26,529	-	26,529	-	26,529
Remeasurement of defined benefit liability		-	-	-	-	-	-	739	739	-	739
Total other comprehensive income		-	-	-	-	(42,141)	26,529	739	(14,873)	4	(14,869)
Total comprehensive income for the year		-	-	-	-	(42,141)	26,529	488,962	473,350	(7,521)	465,829
Transactions with owners of the Company											
Contributions and distributions											
Capital increase	27	300,000	-	-	-	-	-	(300,000)	-	-	-
Dividend distribution	37	-	-	-	-	-	-	(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 31 December 2016	27	2,050,000	13,563	428	216,827	(65,888)	200,047	925,311	3,340,288	57,969	3,398,257

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

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

(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 year											
Profit		-	-	-	-	-	-	589,137	589,137	(5,702)	583,435
Other comprehensive income, net of tax items that are or may be reclassified subsequently to profit or loss:											
Net change in fair value of available for sale financial assets		-	-	-	-	34,299	-	-	34,299	446	34,745
Net change in fair value of available for sale financial assets transferred to profit or loss		-	-	-	-	(305)	-	-	(305)	-	(305)
Equity-accounted investees - share of (XCI) items that are or may not be reclassified subsequently to profit or loss:		-	-	-	-	7,264	-	-	7,264	-	7,264
Revaluation of tangible assets		-	-	-	-	-	14,184	-	14,184	-	14,184
Remeasurement of defined benefit liability		-	-	-	-	-	-	(280)	(280)	-	(280)
Total other comprehensive income		-	-	-	-	41,258	14,184	(280)	55,162	446	55,608
Total comprehensive income for the year		-	-	-	-	41,258	14,184	588,857	644,299	(5,256)	639,043
Transactions with owners of the Company											
Contributions and distributions											
Capital increase	27	350,000	-	-	-	-	-	(350,000)	-	-	-
Dividend distribution	37	-	-	-	-	-	-	(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		-	-	-	-	-	-	(14)	(14)	6	(8)
Total transactions with the owners of the Company		350,000	-	-	24,931	-	-	(467,746)	(92,815)	6	(92,809)
Balance at 31 December 2017	27	2,400,000	13,563	428	241,758	(24,630)	214,231	1,046,422	3,891,772	52,719	3,944,491

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

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ 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	31 December 2017	31 December 2016
<b>Cash flows from operating activities:</b>			
Interests and commissions received		1,631,942	1,108,882
Interests and commissions paid		(846,414)	(566,925)
Other operating activities, net		296,357	658,532
Cash payments to employees and suppliers		(122,637)	(128,739)
Dividends received		5,421	11,486
<b>Operating profit before changes in operating assets / liabilities</b>		<b>964,669</b>	<b>1,083,236</b>
<b>(Increase)/decrease in operating assets:</b>			
Loans and advances to customers		(2,839,528)	(1,387,620)
Balances with central banks		(217,998)	154,701
Financial assets at fair value through profit or loss		4,853	26,525
Other assets		63,340	(87,541)
<b>(Increase)/decrease in operating liabilities:</b>			
Funds borrowed		639,937	(33,866)
Obligations under repurchase agreements and money market fundings		55,399	(1,094,283)
Other liabilities		(24,420)	(16,803)
<b>Net cash inflows / outflows from operating activities before taxes and duties paid</b>		<b>(1,353,748)</b>	<b>(1,322,045)</b>
<b>Income taxes and other duties paid</b>		<b>(122,638)</b>	<b>(135,445)</b>
<b>Net cash inflows / outflows from operating activities</b>		<b>(1,476,386)</b>	<b>(1,457,490)</b>
<b>Cash flows from investing activities:</b>			
Cash paid for purchase of investment securities		(781,787)	(1,002,141)
Cash obtained from sale of investment securities		867,314	652,646
Purchase of investments in equity participations		-	(1,000)
Proceeds from sale of tangible assets		329	306
Purchase of tangible assets		(4,736)	(4,065)
Other		(1,282)	(1,698)
<b>Net cash outflows from investing activities</b>		<b>79,838</b>	<b>(355,952)</b>
<b>Cash flows from financing activities:</b>			
Increase in loans and advances from banks and other institutions		1,077,000	878,309
Dividends paid		(92,801)	(61,839)
<b>Net cash inflows from financing activities</b>		<b>984,199</b>	<b>816,470</b>
<b>Effect of exchange rate changes</b>		<b>3,656</b>	<b>40,998</b>
<b>Net increase in cash and cash equivalents</b>		<b>(408,693)</b>	<b>(955,974)</b>
<b>Cash and cash equivalents at 1 January</b>	<b>6</b>	<b>912,941</b>	<b>1,868,915</b>
<b>Cash and cash equivalents at 31 December</b>	<b>6</b>	<b>504,248</b>	<b>912,941</b>

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

**Notes to the consolidated financial statements****Page**

1	Reporting entity	14
2	Basis of preparation	15
3	Significant accounting policies	17
4	Financial risk management	45
5	Financial instruments	66
6	Cash and cash equivalents	68
7	Balances with Central Bank	68
8	Loans and advances to banks	70
9	Financial assets at fair value through profit or loss	70
10	Loans and advances to customers	71
11	Investment securities	76
12	Investment in equity-accounted investees	78
13	Goodwill	79
14	Property and equipment	80
15	Investment property	82
16	Intangible assets	83
17	Other assets	84
18	Obligations under repurchase agreements	84
19	Funds borrowed	85
20	Debt securities issued	88
21	Other liabilities	88
22	Taxation	89
23	Employee benefits	93
24	Subordinated loan	94
25	Payables to stock exchange money market	94
26	Provisions	95
27	Capital and reserves	95
28	Net fee and commission income	97
29	Net Impairment loss on financial assets	97
30	Other operating income	98
31	Dividend income	98
32	Other operating expenses	98
33	Segment reporting	99
34	Related parties	103
35	Commitments and contingencies	104
36	Derivative financial instruments	106
37	Dividends	107
38	Earnings per share	108
39	Ratings	108
40	Events after the reporting period	109

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 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 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 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.

Türkiye İş Bankası A.Ş. is the controlling party of the Parent Bank's capital having both direct and indirect qualified shares.

**Information about the consolidated subsidiaries**

**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 the Bank in the Company is 95.78%.

**TSKB Gayrimenkul Yatırım Ortaklığı AŞ**

The core business of TSKB Gayrimenkul Yatırım Ortaklığı AŞ 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 the Bank in the Company is 59.00%.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**1. REPORTING ENTITY (continued)**

**Information about the equity accounted associates**

**İş Finansal Kiralama AŞ**

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

**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. The company's headquarters is located at Istanbul/Turkey. The share of the Bank in the Company is 21.75%.

**İş Girişim Sermayesi Yatırım Ortaklığı AŞ**

The principal business of İş Girişim Sermayesi Yatırım Ortaklığı AŞ as a private equity company, 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 company's headquarters is located at Istanbul/Turkey. The share of the Bank of the Company is 16.67%.

**2. BASIS OF PREPARATION**

**2.1. Statement of Compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). 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 subsidiaries maintain their books of accounts based on statutory rules and regulations applicable in their jurisdictions. The accompanying financial statements are derived from statutory financial statements with adjustments and reclassifications for the purpose of presentation in accordance with IFRS. The accompanying consolidated financial statements were authorized for issue by the Bank management on 27 April 2018.

**2.2. Basis of Measurement**

The consolidated financial statements have been prepared on the historical cost basis as adjusted for the effects of inflation that lasted until 31 December 2005, except for the following;

- derivative financial instruments are measured at fair value
- financial assets at fair value through profit or loss are measured at fair value
- available-for-sale financial assets are measured at fair value
- investment property and property and equipment are measured at fair value.

The methods used to measure fair values are discussed further in Note 3.8, 3.15, 3.16.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**2. BASIS OF PREPARATION (continued)**

**2.2. Basis of Measurement (continued)**

International Accounting Standard ("IAS") 29, which deals with the effects of inflation in the financial statements, requires that financial statements prepared in the currency of a hyperinflationary economy to be stated in terms of the measuring unit current at the reporting date and the corresponding figures for previous periods be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three year inflation rate approaching or exceeding 100%.

The cumulative three-year inflation rate in Turkey has been 35.61% at 31 December 2005, based on the Turkish nation-wide wholesale price indices announced by Turkish Statistical Institute. This, together with the sustained positive trend in the quantitative factors such as financial and economical stabilization, decrease in the interest rates and the appreciation of TL against the US Dollars ("USD"), have been taken into consideration to categorize Turkey as a non-hyperinflationary economy under IAS 29 effective from 1 January 2006. Therefore, IAS 29 has not been applied to the financial statements of the Company as at and for the year ended 31 December 2006 and thereafter.

**2.3 Functional and Presentation Currency**

These consolidated financial statements are presented in TL, which is the Bank's functional currency. Except as otherwise indicated, financial information presented in TL has been rounded to the nearest thousand.

**2.4 Use of Estimates and Judgments**

The preparation of the consolidated financial statements in conformity with IFRS requires management to 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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Critical accounting judgments made in applying the Bank's accounting policies include:

*Financial asset and liability classification*

The Bank's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances:

- In classifying financial assets or liabilities as "trading", the Bank has determined that it meets the description of trading assets and liabilities set out in accounting policy.
- In designating financial assets or liabilities at fair value through profit or loss, the Bank has determined that it has met one of the criteria for this designation set out in accounting policy.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**2. BASIS OF PREPARATION (Continued)**

**2.4 Use of Estimates and Judgments (Continued)**

*Key sources of estimation uncertainty*

*Allowances for credit losses*

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy Note 3.8.

The specific counterparty component of the total allowances for impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about the counterparty's financial situation and the net realizable value of any underlying collateral.

*Determining fair values*

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Group's accounting policy on fair value measurements is discussed in Note 3.8 – *measurement*.

*Income taxes*

The Bank is subject to income taxes. Significant estimates are required in determining the provision for income taxes. Management records deferred tax assets to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilized. The recoverability of the deferred tax assets is reviewed regularly.

*Reserve for employee severance payments*

In accordance with the existing social legislation, the Bank is required to make lump-sum payments to employees upon termination of their employment based on certain conditions. In calculating the related liability to be recorded in the financial statements, the Bank uses assumptions such as discount rate, turnover of employees and future change in salaries/limits in order to make the best estimate. These estimations disclosed in Note 3.24 are reviewed regularly.

**3. SIGNIFICANT ACCOUNTING POLICIES**

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

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

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.1 Basis of Consolidation**

The consolidated financial statements incorporate the consolidated financial statements of the Bank and entities controlled by the Bank (its subsidiaries). Control is achieved where the Bank has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the consolidated financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling share of changes in equity since the date of the combination. The consolidated financial statements of the entities below have been consolidated with those of the Bank in the accompanying consolidated financial statements. The ownership percentages stated below comprise the total of the Group's holdings used in consolidation:

<u>Subsidiaries</u>	<u>Sector</u>	<u>The Group's Share (%)</u>
Yatırım Finansman Menkul Değerler AŞ	Securities brokerage	95.78
TSKB Gayrimenkul Yatırım Ortaklığı AŞ	Real estate investment trust	72.12

The financial statements of the companies below are accounted for under the equity method:

<u>Associates</u>	<u>Sector</u>	<u>The Group's Share (%)</u>
İş Finansal Kiralama AŞ	Leasing	29.46
İş Girişim Sermayesi Yatırım Ortaklığı AŞ	Private equity	17.06
İş Faktoring AŞ	Factoring	44.09

The following equity investments have been accounted at cost; they have not been consolidated their consolidation would not have a material effect on income for the year or on equity.

<u>Entity</u>	<u>Sector</u>	<u>The Group's Share (%)</u>
TSKB Gayrimenkul Değerleme AŞ	Real-Estate Appraiser	99.99
TSKB Sürdürülebilirlik Danışmanlığı AŞ	Consultancy	99.42

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.1 Basis of Consolidation (continued)**

***Business Combinations***

Business combinations are accounted for using the acquisition method as at the acquisition date – i.e. when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

***Non-controlling interests***

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

***Subsidiaries***

Subsidiaries are investees controlled by the Group. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Group having power over an investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

***Investments in Associates (Equity-accounted Investees)***

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

As at the reporting date, the Group has investments in associates with a position to exercise significant influence through participation in the financial and operating policy decisions of the investee. Investments in associates are accounted for using the equity method (equity-accounted investees) and are recognized initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income, after adjustments to align the accounting policies with those of the Group, from the date that significant influence until the date that significant influence ceases.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.1 Basis of Consolidation (continued)**

***Investments in Associates (Equity-accounted Investees) (continued)***

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

***Loss of control***

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

***Transactions eliminated on consolidation***

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

**3.2 Foreign currency**

***Foreign currency transactions***

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, which are recognized directly in equity.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.2 Foreign currency (continued)**

*Foreign currency transactions (continued)*

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the accompanying consolidated financial statements, the results and financial position of each entity are expressed in Turkish Lira, which is the functional currency of the Group, and the presentation currency for the accompanying consolidated financial statements.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts, swaps and options (see below for details of the Group's accounting policies in respect of such derivative financial instruments).

As at 31 December 2017 and 31 December 2016, foreign currency assets and liabilities of the Group are mainly in US Dollar and Euro. As at 31 December 2017 and 31 December 2016, exchange rates of US Dollar and Euro are as follows:

	2017		2016	
	Period End	Average	Period End	Average
1 US Dollar	3.7525	3.8195	3.4900	3.4742
1 Euro	4.4824	4.5225	3.6757	3.6628

**3.3 Interest**

Interest income and expense are recognized in the profit or loss using the effective interest method except for the interest income on overdue loans. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instruments, but not future credit losses.

The calculation of the effective interest rate includes all transaction cost and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of financial assets or liabilities.

Interest income and expense presented in the statement of profit or loss and other comprehensive income include:

- interest on financial assets and liabilities measured at amortised cost calculated on an effective interest rate basis,
- interest on available-for-sale investment securities calculated on an effective interest rate basis,
- interest earned till the disposal of financial assets at fair value through profit or loss,
- coupons earned on fixed income securities and accrued discount and premium on treasury bills and other discounted instruments

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.4 Fees and commissions**

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognized as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognized on a straight-line basis over the commitment period.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

**3.5 Net trading income**

Net trading income includes gains and losses arising from disposals of financial assets at fair value through profit or loss, the disposal of available-for-sale financial assets, gains and losses on derivative financial instruments held for trading purpose and foreign exchange differences.

**3.6 Dividends**

Dividend income is recognized when the right to receive the income is established.

**3.7 Income tax**

Income tax comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.7 Income tax (continued)**

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date. The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Turkish tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

***Tax exposures***

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax position and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

**3.8 Financial assets and financial liabilities**

***Recognition and initial measurement***

The Group initially recognizes loans and advances, funds borrowed, debt securities issued and subordinated liabilities on the date at which they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Group commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognized on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

***Classification***

***Financial assets***

At inception, a financial asset is classified in one of the following categories:

- loans and receivables;
- available for sale; or
- at fair value through profit or loss and within the category as held for trading; or
- held to maturity.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.8 Financial assets and financial liabilities (continued)**

***Financial liabilities***

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or fair value through profit or loss.

***Derecognition***

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred) and the sum of (i) consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognized in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognized as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognized on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to repurchase transactions as the Group retains all or substantially all the risks and rewards of ownership of such assets.

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

***Offsetting***

Financial assets and liabilities are offset and the net amount presented in the separate statement of financial position when, and only when, the Group has a legal right to set off the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.8 Financial assets and financial liabilities (continued)**

***Amortised cost measurement***

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

***Fair value measurement***

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

***Identification and measurement of impairment***

At each reporting date the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.8 Financial assets and financial liabilities (continued)**

*Identification and measurement of impairment (continued)*

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for loans and advances and held to maturity investment securities measured at amortised costs at both a specific asset and collective level. All individually significant loans and advances and investment securities measured at amortised cost are assessed for specific impairment. All individually significant loans and advances and held to maturity investment securities measured at amortised cost found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and held to maturity investment securities measured at amortised cost that are not individually significant are collectively assessed for impairment by grouping together loans and advances and investment securities measured at amortised cost with similar risk characteristics.

In assessing collective impairment the Group uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognized in profit or loss and reflected in an allowance account against loans and advances. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss. Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income to profit or loss as a reclassification adjustment.

The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

The Group writes off loans and advances when they are determined to be uncollectible (Note 10). Reversals of impairment losses on debt instruments are reversed through profit or loss; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss. Any subsequent reversal of impairment loss is recognized in the consolidated statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

**3.9 Cash and cash equivalents**

Cash and cash equivalents include cash on hand, unrestricted balances held with central banks and highly liquid financial assets with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.10 Trading assets and liabilities**

Trading assets and liabilities are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking. These include investments and derivative contracts that are not designated as effective hedging instruments. These derivative transactions are considered as effective economic hedges under the Bank's risk management policies; however since they do not qualify for hedge accounting under the specific provisions of IAS 39, they are treated as derivatives held for trading. Derivative financial instruments are initially recognized in the statement of financial position at cost and subsequently are measured at their fair value.

Trading assets and liabilities are initially recognized and subsequently measured at fair value in the statement of financial position, with transaction costs recognized in profit or loss. All changes in fair value are recognized as part of net trading income in profit or loss. The Group did not reclassify any trading assets and liabilities subsequent to their initial recognition.

**3.11 Derivatives held for risk management purposes and hedge accounting**

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

The Group designates certain derivatives held for risk management as well as certain non-derivative financial instruments as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Group formally documents the relationship between the hedging instruments and hedged items, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125%. The Group makes an assessment for a cash flow hedge of a forecast transaction, of whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

*Fair value hedge*

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

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

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

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.12 Loans and advances**

Loans and advances are non-derivative financial assets with fixed or determinable payments, other than investment securities, that are not held for trading.

When the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognized and presented within loans and advances.

Loans and advances classified as loans and receivables are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method. Subsequent to initial recognition loans and advances are measured at amortised cost using the effective interest method.

**3.13 Investment securities**

Investment securities are initially measured at fair value plus, in the case of investment securities not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held to maturity, fair value through profit or loss or available-for-sale.

*Held-to-maturity financial assets*

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, and which were not designated as at fair value through profit or loss or as available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Group from classifying investment securities as held to maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the Group has collected substantially all of the asset's original principal; and
- sales or reclassifications attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

As of the reporting date, the Group has no held-to-maturity investments.

*Fair value through profit or loss*

The Group designates some investment securities as at fair value, with fair value changes recognised immediately in profit or loss as described in designation at fair value through profit or loss.

*Available-for-sale financial assets*

Available-for-sale investments are those non-derivative investments that were designated as available-for-sale or are not classified as another category of financial assets. Unquoted equity securities whose fair value cannot reliably be measured are carried at cost. All other available-for-sale investments are carried at fair value.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.13 Investment securities (continued)**

*Available-for-sale financial assets*

Interest income is recognized in profit or loss using the effective interest method. Dividend income is recognized in profit or loss when the Group become entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognized in profit or loss. Other fair value changes are recognized in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognized in other comprehensive income are reclassified to profit or loss as a reclassification adjustment.

A non-derivative financial asset is reclassified from the available-for-sale category to the loans and receivables category if it otherwise would meet the definition of loans and receivables and if the Group had the intention and ability to hold that financial asset for the foreseeable future or until maturity. The Group did not reclassify any available-for-sale asset subsequent to their initial recognition.

**3.14 Repurchase transactions**

The Group enters into purchases/sales of investments under agreements to resell/repurchase substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognized. The amounts paid are recognized as receivables from reverse repurchase agreements in the accompanying consolidated financial statements. The receivables are shown as collateralized by the underlying security. Investments sold under repurchase agreements continue to be recognized in the consolidated statement of financial position and are measured in accordance with the accounting policy for either assets held for trading, held to maturity or available-for-sale as appropriate. The proceeds from the sale of the investments are reported as obligations under repurchase agreements.

Income and expenses arising from the repurchase and resale agreements over investments are recognized on an accruals basis over the period of the transaction and are included in "interest income" or "interest expense".

**3.15 Property and equipment**

*Recognition and measurement*

Items of property and equipment except land and building are measured at cost less accumulated depreciation and accumulated impairment losses.

Items of property and equipment, which have been acquired before 31 December 2005, are measured at restated cost for the effects of inflation as at 31 December 2005, less accumulated depreciation and accumulated impairment losses. Items of property and equipment acquired after 31 December 2005 are measured at cost less accumulated depreciation and accumulated impairment losses.

As of the third quarter of the 2015, the Group changed its accounting policy and adopted revaluation method for land and buildings under scope of IAS 16. The useful life of real estates are mentioned in expertise reports. In case of the cost of tangible assets are over the fair value of the assets, within the framework of "Impairment of Assets" (IAS 36), the value of the asset is reduced to its "fair 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.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.15 Property and equipment (continued)**

***Recognition and measurement***

The initial cost of property and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the assets to its working condition and location for its intended use. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and is recognized in other income/other expenses in profit or loss.

***Subsequent costs***

The cost of replacing a component of an item of property or equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

***Depreciation***

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative years are as follows:

Buildings	50 years
Vehicles	5 years
Furniture and Fittings	5 years
Computer Equipment	4 years
Software	3 years
Leasehold and Leasehold Improvements	lease term or 5 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.16 Investment property**

Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at its fair value at the reporting date. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the year in which they arise. Fair value of investment properties are determined by using market value, discounted cash flow projections approach and cost model.

**3.17 Goodwill**

Goodwill arising on the acquisition of a subsidiary 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.

**3.18 Intangible assets**

Intangible assets acquired before 31 December 2005 are measured at restated cost for the effects of inflation as at 31 December 2005 less accumulated amortisation and accumulated impairment losses. Intangible assets acquired after 31 December 2005 are measured at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognized in profit or loss on a straight-line basis over the estimated useful lives of the intangible assets. The estimated useful life of intangible assets is 3 to 5 years.

Amortisation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted if appropriate.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.19 Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

**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. 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. Lease receivables are classified under loans in the accompanying statement of financial position.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

**The Group as lessee**

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position 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 charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.20 Impairment of non-financial assets**

The carrying amounts of the Group's non-financial assets, other than investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognized if the carrying amount of an asset or its Cash Generating Unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs) and then to reduce the carrying amount of the other assets in the CGU (group of CGUs) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognized.

**3.21 Funds borrowed, debt securities issued and subordinated liabilities**

Debt securities issued and subordinated liabilities are the Group's main sources of debt funding. funds borrowed, debt securities issued and subordinated liabilities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Group designates liabilities at fair value through profit or loss.

**3.22 Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.23 Provisions**

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

**3.24 Employee benefits**

*Defined benefit plans*

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee and his / her dependants will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

A provision is maintained for the present value of the defined benefit obligation, in respect of service up to the reporting date, based on the projected unit credit method. The charge in the income statement comprises current service cost and interest on the obligation.

"T. Sınai Kalkınma Bankası Memur ve Müstahdemleri Yardım ve Emekli Vakfı" and "T.Sınai Kalkınma Bankası AŞ Mensupları Munzam Sosyal Güvenlik ve Yardımlaşma Vakfı" (the "Pension Funds") are separate legal entities and foundations recognized by an official decree, providing all qualified Bank employees with pension plan benefits. The Pension Funds are defined benefit plan under which the Bank pays fixed contributions as employer share of monthly premium contributions, and is not obliged to pay any other additional obligation.

The liability to be recognized in the statement of financial position in respect of defined benefit plan is the present value of the defined benefit obligation at the reporting date less the fair value of assets. The Bank does not have the legal right to access the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan, and therefore, no assets are recognized in the accompanying statement of financial position in respect of any surplus in the fund. The defined benefit obligation is calculated annually by independent actuaries. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using expected interest rates for Turkish Lira.

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.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.24 Employee benefits (continued)**

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 the Council of Ministers published in the Official Gazette No. 28987 dated 30 April 2014 for one more year due to not to realize the transfer process.

In accordance with the Health and Safety Law which became effective on 4 April 2015 and published in the Official Gazette No: 29335 and dated 23 April 2015 and together with some amendments and statutory decree, Council of Ministers authorized for the determination of transfer date to the Social Security institution and there is no decision taken by the Cabinet with regards to issue date of financial statements.

Unmet social benefits and payments of the pension fund participants and other employees that receive monthly income although they are within the scope of the related settlement deeds would be met by pension funds and the institutions employ these participants after the transfer of pension funds to the Social Security Institution.

The present value of the liabilities, subject to the transfer to the Social Security Institution, of the Pension Fund as of 31 December 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. The income tax charge is composed of the sum of current tax and deferred tax.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.24 Employee benefits (continued)**

***Employment termination benefits***

In accordance with the existing labour law in Turkey, the Group entities are required to make lump-sum payments to employees who have completed one year of service and whose employment is terminated without cause or who retire, are called up for military service or die. Such payments are calculated on the basis of 30 days' pay maximum of pay ceiling announced by the Government per year of employment at the rate of pay applicable at the date of retirement or termination. Reserve for employee severance indemnity is computed and reflected in the consolidated financial statements on a current basis. The management of the Group used some assumptions (detailed in Note 23) in the calculation of the reserve for employee severance indemnity.

***Short-term benefits***

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognized for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

**3.25 Earnings per share**

Earnings per share from continuing operations disclosed in the accompanying consolidated income statement is determined by dividing the net profit for the year by the weighted average number of shares outstanding during the year attributable to the shareholders of the Bank. In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("Bonus Shares") to existing shareholders from retained earnings. For the purpose of earnings per share computations, such Bonus Shares issued are regarded as issued shares.

**3.26 Fiduciary assets**

Assets held by the Group in a fiduciary, agency or custodian capacity for its customers are not included in the consolidated statement of financial position, since such items are not treated as assets of the Group.

**3.27 Segment reporting**

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.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.28 Adoption of International Financial Reporting Standards (IFRS)**

The accounting policies adopted in preparation of the consolidated financial statements as at 31 December 2017 are consistent with those of the previous financial year, except for the adoption of new and amended IFRS and IFRIC interpretations effective as of 1 January 2017. The effects of these standards and interpretations on the Group's financial position and performance have been disclosed in the related paragraphs.

**i) The new standards, amendments and interpretations which are effective as at 1 January 2017 are as follows:**

**IAS 7 Statement of Cash Flows (Amendments)**

The IASB issued amendments to IAS 7 'Statement of Cash Flows'. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. The improvements to disclosures require companies to provide information about changes in their financing liabilities. When the Group first applies those amendments, it is not required to provide comparative information for preceding periods. The Group disclosed additional information in Note 35 in its annual consolidated financial statements for the year ended 31 December 2017.

**IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses (Amendments)**

The IASB issued amendments to IAS 12 Income Taxes. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value. The amendments clarify the requirements on recognition of deferred tax assets for unrealised losses, to address diversity in practice. These amendments are retrospectively applied for annual periods beginning on or after 1 January 2017. The amendments are not applicable for the Group and did not have an impact on the financial position or performance of the the Group.

**Annual Improvements to IFRSs - 2014-2016 Cycle**

The IASB issued Annual Improvements to IFRS Standards 2014-2016 Cycle, amending the following standards:

- IFRS 12 Disclosure of Interests in Other Entities: This amendment clarifies that an entity is not required to disclose summarised financial information for interests in subsidiaries, associates or joint ventures that is classified, or included in a disposal group that is classified, as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

The amendments did not have an impact on the financial position or performance of the Group.

**ii) Standards issued but not yet effective and not early adopted**

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the consolidated financial statements are as follows. The Group will make the necessary changes if not indicated otherwise, which will be affecting the consolidated financial statements and disclosures, when the new standards and interpretations become effective.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.28 Adoption of International Financial Reporting Standards (IFRS) (continued)**

**IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments)**

Amendments issued to IFRS 10 and IAS 28, to address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture, to clarify that an investor recognises a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The gain or loss resulting from the re-measurement at fair value of an investment retained in a former subsidiary should be recognised only to the extent of unrelated investors' interests in that former subsidiary. In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. Early application of the amendments is still permitted. An entity shall apply those amendments prospectively. The amendment is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

**IFRS 15 Revenue from Contracts with Customers**

The IASB issued IFRS 15 Revenue from Contracts with Customers. The new five-step model in the standard provides the recognition and measurement requirements of revenue. The standard applies to revenue from contracts with customers and provides a model for the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., the sale of property, plant and equipment or intangibles). IFRS 15 effective date is 1 January 2018, with early adoption permitted. Entities will transition to the new standard following either a full retrospective approach or a modified retrospective approach. The modified retrospective approach would allow the standard to be applied beginning with the current period, with no restatement of the comparative periods, but additional disclosures are required. The Group is in the process of assessing the impact of the interpretation on financial position or performance of the Group.

**Clarifications to IFRS 15 'Revenue from Contracts with Customers' (Amendment)**

IASB has published final clarifications to IFRS 15 in April 2016. The amendments address three of the five topics identified (identifying performance obligations, principal versus agent considerations, and licensing) and provide some transition relief for modified contracts and completed contracts. The amendments are effective for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted. There will be no material impact of the standard on financial position or performance of the Group.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.28 Adoption of International Financial Reporting Standards (IFRS) (continued)**

**IFRS 9 Financial Instruments**

The Group will adopt IFRS 9 on 1 January 2018 and will not restate the comparative information in accordance with International Financial Reporting Standards (IFRS). IFRS 9 will replace IAS 39 Financial Instruments: Recognition and Measurement and introduces new requirements for the classification and measurement of financial assets and financial liabilities, a new model based on expected credit losses for recognizing loan loss provisions and provides for simplified hedge accounting by aligning hedge accounting more closely with an entity's risk management methodology.

Along with the on going works on expected credit losses under IFRS 9, it is assumed that provisions will be approximately TL 140 – 150 Million in the opening balance of 1 January 2018.

A number of significant judgments are required in determining whether the risk of default on a financial instrument has increased significantly since initial recognition. The Group considers all reasonable and supportable information that includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment and including forward looking information, to make a relative assessment of any deterioration of credit quality as per IFRS9.

The above assessment of Significant Increase in Credit Risk (SICR) reflects the transitional estimate of ECL impact arising after considering all reasonable and supportable information from prior periods up to the reporting date.

**a) Classification and measurement**

The Group does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value.

The equity shares in non-listed companies are intended to be held for the foreseeable future. No impairment losses were recognised in profit or loss during prior periods for these investments. The Group will apply the option to present fair value changes in OCI and profit and loss will no longer be recycled under IFRS 9, and, therefore, the application of IFRS 9 will not have a significant impact.

Loans and advances to customers as well as lease and other receivables as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.28 Adoption of International Financial Reporting Standards (IFRS) (continued)**

**b) Expected credit losses**

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments. A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for SICR;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

**c) Hedge accounting:**

The Group determined that all existing hedge relationships that are currently designated in effective hedging relationships will continue to qualify for hedge accounting under IFRS 9. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of IFRS 9 will not have a significant impact on Group's financial statements.

**d) Disclosure**

IFRS 9 also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of IFRS 9.

**IFRS 16 Leases**

The IASB has published a new standard, IFRS 16 'Leases'. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 'Leases' and related interpretations and is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

**IFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments)**

The IASB issued amendments to IFRS 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments, provide requirements on the accounting for:

- a. the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- b. share-based payment transactions with a net settlement feature for withholding tax obligations; and

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.28 Adoption of International Financial Reporting Standards (IFRS) (continued)**

c. a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The amendment are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

**IFRS 4 Insurance Contracts (Amendments)**

In September 2016, the IASB issued amendments to IFRS 4 Insurance Contracts. The amendments introduce two approaches: an overlay approach and a deferral approach. These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The standard is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

**IAS 40 Investment Property: Transfers of Investment Property (Amendments)**

The IASB issued amendments to IAS 40 'Investment Property'. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The amendment are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

**IFRIC 22 Foreign Currency Transactions and Advance Consideration**

The interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.

The Interpretation states that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. An entity is not required to apply this Interpretation to income taxes; or insurance contracts (including reinsurance contracts) it issues or reinsurance contracts that it holds.

The interpretation is effective for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted. The interpretation is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.28 Adoption of International Financial Reporting Standards (IFRS) (continued)**

**Annual Improvements to IFRSs - 2014-2016 Cycle**

The IASB issued Annual Improvements to IFRS Standards 2014-2016 Cycle, amending the following standards:

- IFRS 1 First-time Adoption of International Financial Reporting Standards: This amendment deletes the short-term exemptions about some IFRS 7 disclosures, IAS 19 transition provisions and IFRS 10 Investment Entities. These amendments are to be applied for annual periods beginning on or after 1 January 2018.
- IAS 28 Investments in Associates and Joint Ventures: This amendment clarifies that the election to measure an investment in an associate or a joint venture held by, or indirectly through, a venture capital organisation or other qualifying entity at fair value through profit or loss applying IFRS 9 Financial Instruments is available for each associate or joint venture, at the initial recognition of the associate or joint venture. These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

The amendments are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

**IFRIC 23 Uncertainty over Income Tax Treatments**

The interpretation clarifies how to apply the recognition and measurement requirements in "IAS 12 Income Taxes" when there is uncertainty over income tax treatments.

When there is uncertainty over income tax treatments, the interpretation addresses:

- (a) whether an entity considers uncertain tax treatments separately;
- (b) the assumptions an entity makes about the examination of tax treatments by taxation authorities;
- (c) how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- (d) how an entity considers changes in facts and circumstances.

An entity shall apply this Interpretation for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. If an entity applies this Interpretation for an earlier period, it shall disclose that fact. On initial application, an entity shall apply the interpretation either retrospectively applying IAS 8, or retrospectively with the cumulative effect of initially applying the Interpretation recognised at the date of initial application.

The Group is in the process of assessing the impact of the interpretation on financial position or performance of the Group.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.28 Adoption of International Financial Reporting Standards (IFRS) (continued)**

**IFRS 17 - The new Standard for insurance contracts**

The IASB issued IFRS 17, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 model combines a current balance sheet measurement of insurance contract liabilities with the recognition of profit over the period that services are provided. Certain changes in the estimates of future cash flows and the risk adjustment are also recognised over the period that services are provided. Entities will have an option to present the effect of changes in discount rates either in profit and loss or in OCI. The standard includes specific guidance on measurement and presentation for insurance contracts with participation features. IFRS 17 will become effective for annual reporting periods beginning on or after 1 January 2021; early application is permitted. The amendments are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

**Amendments to IAS 28 Investments in Associates and Joint Ventures (Amendments)**

In October 2017, the IASB issued amendments to IAS 28 Investments in Associates and Joint Ventures. The amendments clarify that a company applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture.

IFRS 9 Financial Instruments excludes interests in associates and joint ventures accounted for in accordance with IAS 28 Investments in Associates and Joint Ventures. In this amendment the IASB clarified that the exclusion in IFRS 9 applies only to interests a company accounts for using the equity method. A company applies IFRS 9 to other interests in associates and joint ventures, including long-term interests to which the equity method is not applied and that, in substance, form part of the net investment in those associates and joint ventures.

The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted.

The amendments are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

**Prepayment Features with Negative Compensation (Amendments to IFRS 9)**

In October 2017, the IASB issued minor amendments to IFRS 9 Financial Instruments to enable companies to measure some prepayable financial assets at amortised cost.

Applying IFRS 9, a company would measure a financial asset with so-called negative compensation at fair value through profit or loss. Applying the amendments, if a specific condition is met, entities will be able to measure at amortised cost some prepayable financial assets with so-called negative compensation.

The amendments are effective from annual periods beginning on or after 1 January 2019, with early application permitted.

The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.28 Adoption of International Financial Reporting Standards (IFRS) (continued)**

**Annual Improvements – 2015–2017 Cycle**

In December 2017, the IASB announced Annual Improvements to IFRS Standards 2015–2017 Cycle, containing the following amendments to IFRSs:

- **IFRS 3 Business Combinations and IFRS 11 Joint Arrangements** — The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- **IAS 12 Income Taxes** — The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises.
- **IAS 23 Borrowing Costs** — The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

The amendment are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

**Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)**

On 7 February 2018, the IASB published Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement” to harmonise accounting practices and to provide more relevant information for decision-making. The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement occurs. An entity shall apply these amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact. The Group is in the process of assessing the impact of the interpretation on financial position or performance of the Group.

**3.29 Events after the reporting period**

Events after the reporting period that provide additional information about the Group’s position at the reporting dates (adjusting events) are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes when material.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**4. FINANCIAL RISK MANAGEMENT**

The Group has exposure to the following risks from its use of financial instruments:

- credit risk,
- liquidity risk,
- market risk,
- operational risk.

This note presents information about the Group's exposure to each of the risks below, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

*Risk management framework*

The Board of Directors of the Bank has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors monitors the effectiveness of the risk management system through the Audit Committee. Consequently, the Risk Management Department of the Bank, which carries out the risk management activities and works independently from executive activities, report to the Board of Directors.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The risks are measured using internationally accepted methodologies, in compliance with local and international regulations, and the Bank's structure, policy and procedures. It is aimed to develop these methodologies to enable the Bank to manage the risks effectively. At the same time, studies for compliance with the international banking applications, such as Basel II, are carried out.

Through its normal operations, the Group is exposed to a number of risks, the most significant of which are liquidity, credit, operational and market risk. The risk management group exercises its functions according to the International Regulations of the Risk Management Group, and directly reports to the Board of Directors. Responsibility for the management of these risks rests with the Board of Directors, which delegates the operational responsibility to the Bank's general management and appropriate sub-committees.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**4. FINANCIAL RISK MANAGEMENT (continued)**

**Credit risk**

Credit risk arises where the possibility exists of a counterparty defaulting on its obligations. The most important step in managing this risk is the initial decision whether or not to extend credit. The granting of credit is authorized at the Board level or at appropriate levels of management depending on the size of the proposed commitment, and in accordance with banking regulations in Turkey. The Group places strong emphasis on obtaining sufficient collateral from borrowers including, wherever possible, mortgages or security over other assets.

The credit portfolio is monitored according to the overall composition and quality of the credit portfolio considering factors such as loan loss reserves, existence and quality of collateral or guarantees according to the standards and limits set legally and internally. The Bank has also an internal credit risk rating system in managing the credit risk, which takes into account various financial and nonfinancial indicators for the evaluation of corporate and also guarantees.

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". The credit limits have been set by the Board of Directors, the Banks credit committee and the credit management. The Bank takes sufficient collateral for the loans and other receivables extended. The collaterals obtained consist of personal suretyship, mortgage, cash blockage and client checks.

The limits are also identified for the transactions made with the banks. The credit risk is managed by considering the creditworthiness and the limits of counterparties.

There are control limits over the positions on forwards, options and similar other agreements. Those limits are controlled by the management on a regular basis. The credit risk is managed together with the potential risks arising from the fluctuations in the market. Credit risk, market risk, liquidity risk and other risks are managed as a whole.

If exposed to a significant degree of credit risk, the Bank reduces the total risk by using, exercising or selling forward transactions and other similar contracts.

The compensated non-cash loans are evaluated at the same risk weight as the non-performing loans.

Rescheduled loans are monitored within the Bank's internal rating application, as well as the monitoring applications required by the related regulations. All precautions are taken in order to classify the companies' risks and their current rating may change within this internal rating applications.

The Bank monitors and investigates the maturity concentration and the risks which are different than their normal pattern.

The international operations are made with many correspondent banks in various countries. The counterparty limits are set with operations made with the banks.

The Bank being an active participant in international banking market is not exposed to a significant degree of credit risk when evaluated with the financial operations of other financial institutions.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**4. FINANCIAL RISK MANAGEMENT (continued)**

**Credit risk (continued)**

The credit portfolio is also monitored according to various criteria including industry sector, geographical area and risk categories. Credit risk by types of borrowers is as follows:

	Loans and Advances to Customers		Marketable Securities		Loans and Advances to Banks and Others	
	Current Period	Prior Period	Current Period	Prior Period	Current Period	Prior Period
<b>Loans according to borrowers</b>						
Private Sector	20,924,931	16,479,601	196,185	184,133	-	-
Public Sector	872,664	125,018	4,363,668	4,182,747	-	-
Banks	507,233	738,503	-	42,849	493,690	752,883
Share Certificates	-	-	77,931	52,972	-	-
<b>Total</b>	<b>22,304,828</b>	<b>17,343,122</b>	<b>4,637,784</b>	<b>4,462,701</b>	<b>493,690</b>	<b>752,883</b>

**Loans according  
to geographical  
concentration**

Domestic	22,197,732	17,270,990	4,609,963	4,444,119	489,554	691,476
European Union	-	2,125	27,821	18,582	887	8,486
OECD Countries (*)	-	-	-	-	1,109	1,041
USA, Canada	-	-	-	-	2,140	1,948
Other Countries	107,096	70,007	-	-	-	49,932
<b>Total</b>	<b>22,304,828</b>	<b>17,343,122</b>	<b>4,637,784</b>	<b>4,462,701</b>	<b>493,690</b>	<b>752,883</b>

*(\*) OECD countries except EU countries, USA and Canada*

The geographical concentration of assets, liabilities and other credit related commitments are as follows:

31 December 2017	Total Assets	%	Total Liabilities And Equity	%	Other Credit Related Commitments	%
Turkey	29,267,293	98	11,079,502	37	49,139,855	100
Euro Zone	386,087	1	10,629,810	36	-	-
Offshore	-	-	194,615	1	-	-
USA, Canada	19,086	-	6,374,317	21	-	-
OECD Countries (*)	14,371	-	263,489	1	-	-
Other Countries	107,813	1	1,252,917	4	-	-
	<b>29,794,650</b>		<b>29,794,650</b>		<b>49,139,855</b>	

*(\*) OECD countries except EU countries, USA and Canada*

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**4. FINANCIAL RISK MANAGEMENT (continued)**

**Credit risk (continued)**

<b>31 December 2016</b>	<b>Total Assets</b>	<b>%</b>	<b>Total Liabilities And Equity</b>	<b>%</b>	<b>Other Credit Related Commitments</b>	<b>%</b>
Turkey	24,249,700	97	8,931,751	36	44,437,712	100
Euro Zone	457,705	2	8,668,894	35	-	-
Offshore	-	-	2	-	-	-
USA, Canada	33,826	-	6,015,191	24	-	-
OECD Countries (*)	2,338	-	117,578	-	-	-
Other Countries	119,935	1	1,130,088	5	-	-
	<b>24,863,504</b>		<b>24,863,504</b>		<b>44,437,712</b>	

(\*) OECD countries except EU countries, USA and Canada

The table below shows the maximum exposure to credit risk for the components of the statement of financial position;

	<b>31 December 2017</b>	<b>31 December 2016</b>
<b><u>Gross maximum exposure</u></b>		
Cash and cash equivalents, balances and reserve deposit at the Central bank and other banks	1,340,822	1,276,025
Interbank money market placements	-	254,033
Funds lent under repurchase agreements	3	901
Trading financial asset	9,305	13,001
Derivatives held for trading	326,788	374,036
Derivatives held for hedging purposes	-	272
Loans and advances to customers	22,304,828	17,343,122
Held to maturity investment securities	1,532,047	1,375,729
Available-for-sale investment securities	3,096,432	3,073,971
Guarantees and collaterals	2,573,711	1,669,208
<b>Total</b>	<b>31,183,936</b>	<b>25,380,298</b>

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**4. FINANCIAL RISK MANAGEMENT (continued)**

**Credit risk (continued)**

Credit quality per class of loans and advances as at 31 December 2017 is as follows:

	Neither past due nor impaired	Past due not impaired and individually impaired	Specific reserve for impairment losses on loans	Portfolio reserve for impairment losses on loans	Total
Loans and advances to banks	493,687	-	-	-	493,687
Loans and advances to customers	21,535,738	918,304	(52,731)	(96,483)	22,304,828
Corporate lending	17,140,122	878,992	(14,676)	(75,761)	17,928,677
Small business lending	4,289,397	35,259	(34,415)	(14,278)	4,275,963
Other	106,219	4,053	(3,640)	(6,444)	100,188
<b>Total</b>	<b>22,029,425</b>	<b>918,304</b>	<b>(52,731)</b>	<b>(96,483)</b>	<b>22,798,515</b>

Credit quality per class of loans and advances as at 31 December 2016 is as follows:

	Neither past due nor impaired	Past due not impaired and individually impaired	Specific reserve for impairment losses on loans	Portfolio reserve for impairment losses on loans	Total
Loans and advances to banks	497,949	-	-	-	497,949
Loans and advances to customers	17,319,339	71,896	(10,485)	(37,628)	17,343,122
Corporate lending	14,210,576	33,090	(6,540)	(30,819)	14,206,307
Small business lending	3,039,297	35,630	(1,182)	(6,652)	3,067,093
Other	69,466	3,176	(2,763)	(157)	69,722
<b>Total</b>	<b>17,817,288</b>	<b>71,896</b>	<b>(10,485)</b>	<b>(37,628)</b>	<b>17,841,071</b>

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**4. FINANCIAL RISK MANAGEMENT (continued)**

**Credit risk (continued)**

Carrying amount per class of financial assets whose terms have been renegotiated:

	<b>31 December 2017</b>	<b>31 December 2016</b>
Loans and advances to customers		
Corporate lending	70,860	65,324
Small business lending	120,978	129,670
<b>Total</b>	<b>191,838</b>	<b>194,994</b>

Credit risk is evaluated according to the Bank's internal rating. Non-financial service customers included in credit portfolio are rated with respect to the Bank's internal rating and ratings of the financial service 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 grade) as below; at the bottom of the table there are credits in default (impaired) according to rating model.

	<b>31 December 2017</b>	<b>31 December 2016</b>
<b><u>Basic Loan Quality Categories</u></b>		
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 at 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 and portfolio provisions) is TL 25,027,926 and TL 1,338,517 of these customers have not been rated (31 December 2016: TL 19,060,443 and TL 531,249).

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**4. FINANCIAL RISK MANAGEMENT (continued)**

**Liquidity risk**

Liquidity risk is a substantial risk in Turkish markets, which exhibit significant volatility. The Group is exposed to a certain degree of mismatch between the maturities of its assets and liabilities.

In order to manage this risk, the Group measures and manages its cash flow commitments on a daily basis, and maintains liquid assets which it judges sufficient to meet its commitments.

The Group uses various methods, including predictions of daily cash positions, to monitor and manage its liquidity risk to avoid undue concentration of funding requirements at any point in time or from any particular source.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. For the purposes of monitoring and assessing the liquidity position of the Bank's assets and liabilities, the liquidity rate is weekly calculated. The ratio during the year was as follows:

	<b>31 December 2017 %</b>	<b>31 December 2016 %</b>
Average during the period	208.07	202.72

The table below presents the last three months' consolidated liquidity ratios in accordance with the BRSA regulations:

<b>Period</b>	<b>TL+FC</b>	<b>FC</b>
31 October 2017	123.54%	133.52%
30 November 2017	156.18%	135.99%
31 December 2017	178.65%	204.55%

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**4. FINANCIAL RISK MANAGEMENT (continued)**

**Liquidity risk (continued)**

As at 31 December 2017 the estimated maturity analysis for certain assets and liabilities is as follows:

	Up to 3 Months	3 to 12 Months	Over 1 Year	No Maturity	Total
<b>ASSETS</b>					
Cash and cash equivalents	-	-	-	24	24
Balances with central bank	-	-	-	15,433	15,433
Reserve deposits at central bank	420,135	-	-	411,543	831,678
Loans and advances to banks	474,198	-	-	19,489	493,687
Interbank money market placements	-	-	-	-	-
Funds lent under securities repurchase agreements	3	-	-	-	3
Trading financial assets	1,120	4,233	2,932	1,020	9,305
Derivative financial instruments	51,024	46,610	229,154	-	326,788
Derivative assets held for hedging purposes	-	-	-	-	-
Loans and advances to customers	2,270,316	4,746,682	15,287,830	-	22,304,828
Available-for-sale investment securities	87,338	405,362	2,525,592	78,140	3,096,432
Held-to-maturity investment securities	-	-	1,532,047	-	1,532,047
<b>Total</b>	<b>3,304,134</b>	<b>5,202,887</b>	<b>19,577,555</b>	<b>525,649</b>	<b>28,610,225</b>
<b>LIABILITIES</b>					
Obligations under repurchase agreements	576,653	34,122	-	-	610,775
Derivative liabilities	67,778	46,889	117,736	-	232,403
Derivative liabilities held for hedging purposes	-	-	78,682	-	78,682
Funds borrowed	602,934	3,027,738	15,370,955	-	19,001,627
Debt securities issued (1)	-	-	4,892,465	-	4,892,465
Payables to money market	701,147	-	-	-	701,147
Current account of loan customers	12,901	-	-	-	12,901
Taxes and dues payable	9,986	-	-	-	9,986
Corporate tax liability	43,662	-	-	-	43,662
Employee benefits	12,735	-	-	12,151	24,886
<b>Total</b>	<b>2,027,796</b>	<b>3,108,749</b>	<b>20,459,838</b>	<b>12,151</b>	<b>25,608,534</b>

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

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**4. FINANCIAL RISK MANAGEMENT (continued)**

**Liquidity risk (continued)**

As at 31 December 2016 the estimated maturity analysis for certain assets and liabilities is as follows:

	Up to 3 Months	3 to 12 Months	Over 1 Year	No Maturity	Total
<b>ASSETS</b>					
Cash and cash equivalents	-	-	-	29	29
Balances with central bank	-	-	-	165,271	165,271
Reserve deposits at central bank	413,451	-	-	199,325	612,776
Loans and advances to banks	477,102	-	-	20,847	497,949
Interbank money market placements	254,033	-	-	-	254,033
Funds lent under securities repurchase agreements	901	-	-	-	901
Trading financial assets	-	4,957	4,661	3,383	13,001
Derivative financial instruments	66,627	103,576	203,833	-	374,036
Derivative assets held for hedging purposes	-	-	272	-	272
Loans and advances to customers	1,490,892	3,258,758	12,593,472	-	17,343,122
Available-for-sale investment securities	519,873	253,631	2,248,245	52,222	3,073,971
Held-to-maturity investment securities	-	-	1,375,729	-	1,375,729
<b>Total</b>	<b>3,222,879</b>	<b>3,620,922</b>	<b>16,426,212</b>	<b>441,077</b>	<b>23,711,090</b>
<b>LIABILITIES</b>					
Obligations under repurchase agreements	295,354	-	-	-	295,354
Derivative liabilities	60,328	101,857	158,612	-	320,797
Derivative liabilities held for hedging purposes	-	-	51,433	-	51,433
Funds borrowed	494,259	2,170,810	13,462,427	-	16,127,496
Debt securities issued	-	-	3,486,732	-	3,486,732
Payables to money market	960,880	-	-	-	960,880
Current account of loan customers	5,317	-	-	-	5,317
Taxes and dues payable	6,713	-	-	-	6,713
Corporate tax liability	5,066	-	-	-	5,066
Employee benefits	9,500	-	-	12,313	21,813
<b>Total</b>	<b>1,837,417</b>	<b>2,272,667</b>	<b>17,159,204</b>	<b>12,313</b>	<b>21,281,601</b>

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**4. FINANCIAL RISK MANAGEMENT (continued)**

**Liquidity risk (continued)**

Analysis of financial liabilities by remaining contractual maturities;

As at 31 December 2017	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	Over 5 years	Adjustments	Total
<b>Liabilities</b>							
Payables to stock exchange money market	701,958	-	-	-	-	(811)	701,147
Funds borrowed	218,189	384,059	3,267,276	8,525,381	8,343,922	(1,737,200)	19,001,627
Obligations under repurchase agreements	577,003	88	34,143	-	-	(459)	610,775
Debt securities issued (1)	-	42,919	235,703	4,404,866	1,514,306	(1,305,329)	4,892,465
<b>Total</b>	<b>1,497,150</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>25,206,014</b>

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

As at 31 December 2016	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	Over 5 years	Adjustments	Total
<b>Liabilities</b>							
Payables to stock exchange money market	955,860	5,020	-	-	-	-	960,880
Funds borrowed	247,785	295,038	2,302,132	7,230,253	7,485,111	(1,432,823)	16,127,496
Obligations under repurchase agreements	295,399	75	-	-	-	(120)	295,354
Debt securities issued	-	-	179,300	1,580,100	2,376,364	(649,032)	3,486,732
<b>Total</b>	<b>1,499,044</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>20,870,462</b>

Analysis of contractual expiry by maturity of the Bank's derivative financial instruments;

As at 31 December 2017	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	Over 5 years	Adjustments	Total
<b>Gross settled:</b>							
Swap agreements	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
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>

As at 31 December 2016	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	Over 5 years	Adjustments	Total
<b>Gross settled:</b>							
Swap agreements	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
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>

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**4. FINANCIAL RISK MANAGEMENT (continued)**

**Market risk**

Market risk is the risk that changes in the level of interest rates, foreign exchange rates or the price of financial assets and liabilities and other financial contracts will have an adverse financial impact. The primary risks within the Group's activities are interest rate and exchange rate risk. Turkish interest rates can be volatile, and a substantial part of the Group's statement of financial position is denominated in currencies other than the Turkish Lira (principally the US Dollar and Euro-zone currencies).

The Group's management of its exposure to market risk is performed through the Asset and Liability Committee, comprising members of senior management, and through limits on the positions which can be taken by the Group's treasury and financial assets trading divisions.

The Group benefits from VAR methods, stress testing and scenario analysis for measuring market risk. VAR calculations are made by choosing the 90, 95 and 99% confidence intervals, 1 day/10 days holding periods.

**Interest Rate Risk**

The Group is exposed to interest rate risk either through market value fluctuations of statement of financial position items, i.e. price risk, or the impact of rate changes on interest sensitive assets and liabilities. In Turkey, interest rates are highly volatile and this may result in significant changes in prices of financial instruments including government bonds and treasury bills. The major sources of funding are borrowings. Interest rate sensitivity of the assets, liabilities and off-balance sheet items are managed by the Group. Progressive forecasting is determined with simulation reports, interest rate fluctuation effects are identified with sensitivity reports and scenario analyses.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**4. FINANCIAL RISK MANAGEMENT (continued)**

***Market risk (continued)***

***Interest Rate Risk (continued)***

The below table summarizes the Group's exposure to interest rate risks as at 31 December 2017:

	Up to 3 Months	3 to 12 Months	Over 1 Year	Non Interest Bearing	Total
<b>ASSETS</b>					
Cash and cash equivalents	-	-	-	24	24
Balance with the central bank	-	-	-	15,433	15,433
Reserve deposits at central bank	420,135	-	-	411,543	831,678
Loans and advances to banks	474,198	-	-	19,489	493,687
Interbank money market placements	-	-	-	-	-
Funds lent under securities resale agreements	3	-	-	-	3
Trading assets	1,120	4,233	2,932	1,020	9,305
Derivative assets	221,862	79,523	25,403	-	326,788
Derivative assets used for hedging purposes	-	-	-	-	-
Loans and advances to customers	10,101,230	8,076,128	4,127,470	-	22,304,828
Available-for-sale investment securities	244,176	1,047,061	1,727,055	78,140	3,096,432
Held-to-maturity investments securities	924,897	409,824	197,326	-	1,532,047
<b>Total</b>	<b>12,387,621</b>	<b>9,616,769</b>	<b>6,080,186</b>	<b>525,649</b>	<b>28,610,225</b>
<b>LIABILITIES</b>					
Obligations under repurchase agreements	576,653	34,122	-	-	610,775
Derivative liabilities	153,834	66,116	12,453	-	232,403
Derivative liabilities used for hedging purposes	7,030	32,311	39,341	-	78,682
Funds borrowed	10,429,043	4,065,817	4,506,767	-	19,001,627
Debt securities issued (1)	-	-	4,892,465	-	4,892,465
Payables to stock exchange money market	701,147	-	-	-	701,147
Current account of loan customers	12,901	-	-	-	12,901
Taxes and dues payable	-	-	-	9,986	9,986
Corporate tax liability	-	-	-	43,662	43,662
Employee benefits	-	-	-	24,886	24,886
<b>Total</b>	<b>11,880,608</b>	<b>4,198,366</b>	<b>9,451,026</b>	<b>78,534</b>	<b>25,608,534</b>
<b>Total Balance Sheet Position</b>	<b>507,013</b>	<b>5,418,403</b>	<b>(3,370,840)</b>	<b>447,115</b>	<b>3,001,691</b>
<b>Total Off Balance Sheet Position</b>	<b>(1,472,942)</b>	<b>(3,750,901)</b>	<b>5,291,174</b>	<b>-</b>	<b>67,331</b>
<b>Total Position</b>	<b>(965,929)</b>	<b>1,667,502</b>	<b>1,920,334</b>	<b>447,115</b>	<b>3,069,022</b>

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

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**4. FINANCIAL RISK MANAGEMENT (continued)**

**Market risk (continued)**

**Interest Rate Risk (continued)**

The below table summarizes the Group's exposure to interest rate risks as at 31 December 2016:

	Up to 3 Months	3 to 12 Months	Over 1 Year	Non Interest Bearing	Total
<b>ASSETS</b>					
Cash and cash equivalents	-	-	-	29	29
Balance with the Central Bank	-	-	-	165,271	165,271
Reserve deposits at central bank	413,451	-	-	199,325	612,776
Loans and advances to banks	477,102	-	-	20,847	497,949
Interbank money market placements	254,033	-	-	-	254,033
Funds lent under securities resale agreements	901	-	-	-	901
Trading assets	-	4,957	4,661	3,383	13,001
Derivative assets	146,492	130,464	97,080	-	374,036
Derivative assets used for hedging purposes	272	-	-	-	272
Loans and advances to customers	7,638,687	6,540,801	3,163,634	-	17,343,122
Available-for-sale investment securities	621,136	844,154	1,556,459	52,222	3,073,971
Held-to-maturity investments securities	826,395	362,595	186,739	-	1,375,729
<b>Total</b>	<b>10,378,469</b>	<b>7,882,971</b>	<b>5,008,573</b>	<b>441,077</b>	<b>23,711,090</b>
<b>LIABILITIES</b>					
Obligations under repurchase agreements	295,354	-	-	-	295,354
Derivative liabilities	124,939	127,153	68,705	-	320,797
Derivative liabilities used for hedging purposes	3,845	47,588	-	-	51,433
Funds borrowed	9,159,319	3,350,968	3,617,209	-	16,127,496
Debt securities issued	-	-	3,486,732	-	3,486,732
Payables to stock exchange money market	960,880	-	-	-	960,880
Current account of loan customers	5,317	-	-	-	5,317
Taxes and dues payable	-	-	-	6,713	6,713
Corporate tax liability	-	-	-	5,066	5,066
Employee benefits	-	-	-	21,813	21,813
<b>Total</b>	<b>10,549,654</b>	<b>3,525,709</b>	<b>7,172,646</b>	<b>33,592</b>	<b>21,281,601</b>

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**4. FINANCIAL RISK MANAGEMENT (continued)**

**Market risk (continued)**

**Interest Rate Sensitivity (continued)**

As at 31 December 2017, a summary of average interest rates for different assets and liabilities are as follows:

	<b>TL</b>	<b>Euro</b>	<b>US Dollar</b>
	<b>%</b>	<b>%</b>	<b>%</b>
<b><u>Assets</u></b>			
Cash & Balances with Central Bank	3.48	-	1.43
Banks	15.47	1.00	-
Interbank money market placements	-	-	-
Funds lent under repurchase agreements	11.01	-	-
Loans and advances to customers	14.90	4.00	6.16
Available-for-sale investment securities	11.71	5.61	4.55
Held-to-maturity investment securities	11.69	-	5.59
<b><u>Liabilities</u></b>			
Obligations under repurchase agreements	12.05	0.28	0.50
Funds borrowed	7.74	1.01	2.37
Payables to stock exchange money market	13.58	-	-
Marketable securities issued	-	-	5.71
Current account of loan customers	8.00	0.25	0.50

As at 31 December 2016, a summary of average interest rates for different assets and liabilities are as follows:

	<b>TL</b>	<b>Euro</b>	<b>US Dollar</b>
	<b>%</b>	<b>%</b>	<b>%</b>
<b><u>Assets</u></b>			
Cash & Balances with Central Bank	3.94	-	0.50
Banks	11.39	2.23	1.85
Interbank money market placements	10.96	-	-
Funds lent under repurchase agreements	8.00	-	-
Loans and advances to customers	13.29	3.56	5.47
Available-for-sale investment securities	9.95	5.59	4.77
Held-to-maturity investment securities	10.35	-	5.59
<b><u>Liabilities</u></b>			
Obligations under repurchase agreements	7.86	0.27	0.50
Funds borrowed	8.74	0.91	2.08
Payables to stock exchange money market	8.50	-	-
Marketable securities issued	-	-	5.38
Current account of loan customers	6.00	0.25	0.50

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**4. FINANCIAL RISK MANAGEMENT (continued)**

**Market risk (continued)**

**Interest Rate Sensitivity (continued)**

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.

<b>Current Period</b>	<b>Applied Shock</b>	<b>Revenue/ Loss</b>	<b>Revenue/Shareholders' Equity – Loss / Shareholders' Equity</b>
<b>Currency</b>	<b>(+/- x basis point)</b>		
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>

<b>Prior Period</b>	<b>Applied Shock</b>	<b>Revenue/ Loss</b>	<b>Revenue/Shareholders' Equity – Loss / Shareholders' Equity</b>
<b>Currency</b>	<b>(+/- x basis point)</b>		
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>

**Other Price Risks**

**Equity price sensitivity**

The sensitivity analysis below has been determined based on the exposure to stock price risks at the reporting date.

The Group is exposed to equity price risks arising from equity investments of firms traded in Istanbul Stock Exchange. Since these investments are classified as financial assets held for trading, only the net profit/loss will be affected.

As at the reporting date, equity price sensitivity of the Group has been analyzed. The analysis has been based on the assumption that the inputs (equity prices) to the valuation model are 20% higher/lower while all other variables are constant.

The Group classifies its equity investments both as held for trading and available for sale investments. Therefore, the net profit/loss is not affected as long as the Group does not sell its equity investments classified as available for sale investments.

Unless the equity share investments classified as assets available for sale are disposed of or impaired, the net profit/loss will not be affected.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**4. FINANCIAL RISK MANAGEMENT (continued)**

**Market risk (continued)**

**Currency risk (continued)**

The Group is exposed to currency risk through transactions in foreign currencies and through its investment in foreign operations.

**Management of currency risk**

Risk policy of the Group is based on keeping the transactions within defined limits and keeping the currency position well-balanced. The Group has established a foreign currency risk management policy that enables the Group to take a position between lower and upper limits which are determined, taking total equity of the Group into account.

The below table summarizes the foreign currency position of the Group as at 31 December 2017:

	<b>Euro</b>	<b>US Dollar</b>	<b>Other Foreign Currencies</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents including Central Bank	4,794	68	-	4,862
Reserve deposits at Central Bank	349,351	409,497	72,830	831,678
Loans and advances to banks	14,819	12,131	1,759	28,709
Derivative financial instruments	25,936	30,715	1,365	58,016
Money market placements	-	-	-	-
Loans and advances to customers	9,199,489	10,951,604	-	20,151,093
Available-for-sale investment securities	55,335	983,207	-	1,038,542
Held-to-maturity investments	-	197,326	-	197,326
Derivative assets held for hedging purposes	-	-	-	-
Other assets	10,242	199,842	-	210,084
<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>				
Obligations under repurchase agreements	98,426	62,712	-	161,138
Derivative financial liabilities held for trading	19,638	10,724	285	30,633
Funds borrowed	9,559,098	9,221,510	7	18,780,615
Marketable securities issued (1)	-	4,892,465	-	4,892,465
Current account of loan customers	5,922	5,801	-	11,723
Derivative liabilities held for hedging purposes	-	78,682	-	78,682
Other liabilities	18,882	40,794	2,573	62,534
<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 Statement of Financial Position</b>	<b>(42,000)</b>	<b>(1,528,298)</b>	<b>73,089</b>	<b>(1,497,209)</b>
<b>Off Balance Sheet Position</b>				
Derivatives to sell	1,090,414	4,529,407	487,346	6,107,167
Derivatives to buy	(1,284,834)	(3,020,662)	(559,456)	(4,864,952)
	<b>(194,420)</b>	<b>1,508,745</b>	<b>(72,110)</b>	<b>1,242,215</b>
<b>Net Position</b>	<b>(236,420)</b>	<b>(19,553)</b>	<b>979</b>	<b>(254,994)</b>

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

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**4. FINANCIAL RISK MANAGEMENT (continued)**

**Market risk (continued)**

**Currency risk (continued)**

The below table summarizes the foreign currency position of the Group as at 31 December 2016:

	<b>Euro</b>	<b>US Dollar</b>	<b>Other Foreign Currencies</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents including Central Bank	3,932	63	-	3,995
Reserve deposits at Central Bank	243,120	252,112	117,544	612,776
Loans and advances to banks	377,991	43,290	1,560	422,841
Derivative financial instruments	33,190	26,615	3,051	62,856
Money market placements	191,138	-	-	-
Loans and advances to customers	6,551,782	9,490,700	-	16,042,482
Available-for-sale investment securities	42,571	977,533	-	1,020,104
Held-to-maturity investments	-	186,739	-	186,739
Derivative Assets held for hedging purposes	-	272	-	272
Other assets	15,226	261,217	-	276,443
<b>Total Assets</b>	<b>7,458,950</b>	<b>11,238,541</b>	<b>122,155</b>	<b>18,819,646</b>
<b>Liabilities</b>				
Obligations under repurchase agreements	31,532	29,466	-	60,998
Derivative financial liabilities held for trading	27,233	16,278	-	43,511
Funds borrowed	7,297,962	8,682,282	-	15,980,244
Marketable securities issued	-	3,486,732	-	3,486,732
Current account of loan customers	2,652	1,154	-	3,806
Derivative liabilities held for hedging purposes	-	51,433	-	51,433
Other liabilities	4,104	75,712	2,801	82,617
<b>Total Liabilities</b>	<b>7,363,483</b>	<b>12,343,057</b>	<b>2,801</b>	<b>19,709,341</b>
<b>Net Statement of Financial Position</b>	<b>95,467</b>	<b>(1,104,516)</b>	<b>119,354</b>	<b>(889,695)</b>
<b>Off Balance Sheet Position</b>				
Derivatives to sell	1,418,329	3,491,955	134,472	5,044,756
Derivatives to buy	(1,704,679)	(2,439,243)	(253,093)	(4,397,015)
	<b>(286,350)</b>	<b>1,052,712</b>	<b>(118,621)</b>	<b>647,741</b>
<b>Net Position</b>	<b>(190,883)</b>	<b>(51,804)</b>	<b>733</b>	<b>(241,954)</b>

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**4. FINANCIAL RISK MANAGEMENT (continued)**

**Market risk (continued)**

**Foreign currency sensitivity**

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 a weekly and monthly basis under the standard method in the foreign currency risk table and their results are reported to the official authorities and the Group'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.

The Group is mostly exposed to Euro and US Dollar currencies.

The following table details the Group's sensitivity to 10% increase/decrease in the TL against US Dollar, Euro and other currencies.

	% Increase	Effect on profit or loss (1)		Effect on equity (2)	
		31 December 2017	31 December 2016	31 December 2017	31 December 2016
US Dollar	10%	(2,555)	(1,955)	600	(3,185)
Euro	10%	(23,808)	(19,425)	166	337
Other	10%	98	73	-	-

  

	% Decrease	Effect on profit or loss (1)		Effect on equity (2)	
		31 December 2017	31 December 2016	31 December 2017	31 December 2016
US Dollar	10%	2,555	1,955	(600)	3,185
Euro	10%	23,808	19,425	(166)	(337)
Other	10%	(98)	(73)	-	-

(1) Values expressed are before the tax effect.

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

The Group's sensitivity to foreign currency has increased during the current period mainly due to the change in currency position.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**4. FINANCIAL RISK MANAGEMENT (continued)**

***Capital management – regulatory capital***

BRSA, the regulatory body of the banking industry, sets and monitors capital requirements for the Bank. In implementing current capital requirements, BRSA requires the banks to maintain a prescribed ratio of a minimum of 8% of total capital to total risk-weighted assets. BRSA regulation requires the calculation of the capital adequacy ratio based on the consolidated financial statements of the Bank and its financial subsidiaries.

The Bank and its financial subsidiaries' consolidated regulatory capital is analysed into two tiers:

- Tier 1 capital, is composed of share capital, legal, statutory, other profit and extraordinary reserves, retained earnings, translation reserve and non-controlling interests after deduction of goodwill, prepaid expenses and other certain costs.
- Tier 2 capital, is composed of the total amount of general provisions for loans, restricted funds, fair value reserves of available-for-sale financial assets and equity investments, subordinated loans received and free reserves set aside for contingencies.
- Tier 1 capital, is composed of share capital, legal, statutory, other profit and extraordinary reserves, other comprehensive income, retained earnings, translation reserve and non-controlling interests after deduction of goodwill, leasehold improvements on operational leases and other certain costs.
- Tier 2 capital, which includes qualifying subordinated liabilities and general provisions.

The BRSA also requires the banks to maintain prescribed ratios of minimum 6% and 4.5% of Tier1 and Tier 2 capital, respectively, to total value at credit, market and operational risks starting from 1 January 2016.

Risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. Operational risk capital requirements and market risk capital requirements as at 31 December 2017 and 2016 are calculated using the Basic Indicator Approach and included in the capital adequacy calculations.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Bank and its individually regulated operations have complied with externally imposed capital requirements throughout the year and the previous year.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**4. FINANCIAL RISK MANAGEMENT (continued)**

***Capital management – regulatory capital (continued)***

The Bank's and its financial subsidiaries' regulatory capital position on a consolidated basis at 31 December 2017 and 31 December 2016 was as follows:

	2017	2016
Tier 1 capital	3,682,968	3,114,133
Tier 2 capital	1,261,881	177,167
Deductions from capital	(5,223)	(13,260)
<b>Total regulatory capital</b>	<b>4,939,626</b>	<b>3,278,040</b>
Credit risk (excluding counterparty credit risk)	26,511,342	19,834,989
Counterparty credit risk	805,591	695,368
Market risk	433,000	863,475
Operational risk	1,252,570	1,113,544
<b>Capital ratios</b>		
Total regulatory capital expressed as a percentage of total credit risk, counterparty credit risk, market risk and operational risk	17.03%	14.56%
Total Tier 1 capital expressed as a percentage of total credit risk, counterparty credit risk, market risk and operational risk	12.70%	13.84%

As at 31 December 2017, the Bank's capital adequacy ratio on an unconsolidated basis is 17.05% (31 December 2016: 14.33%). The Group's consolidated capital adequacy ratio as at 31 December 2017 is 17.03% (31 December 2016: 14.56%).

***Operational risk***

Operational risk amount of the Group is measured with Basic Indicator Method referring to "Regulation on Measurement and Assessment of Capital Adequacy of Banks" According to this method; the calculation is performed parallel to the practice within the country, by multiplying 15% of the Group's last three years' average gross revenue with 12.5. The amount, calculated as TL 1,252,570 as at 31 December 2017 (31 December 2016: TL 1,113,544) represents the operational risk.

Yearly gross income, as presented on the income statement; is calculated with net interest income plus net fee and commission, dividend income except from subsidiaries and associates, trading profit/loss and other operational income minus profit/loss gain on sale of assets other than of trading accounts, extraordinary income, operational expense for support service from a bank and recoveries from insurance.

***Fair values of financial instruments***

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**4. FINANCIAL RISK MANAGEMENT (continued)**

*Fair values of financial instruments (continued)*

• Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The consolidated financial statements include holdings in unlisted shares which are measured at their historical costs as fair values could not be determined reliably.

Based on the fair value hierarchy, the Group's financial assets and liabilities are categorized as follow:

31 December 2017	Total	Level 1	Level 2	Level 3
<b>Financial Assets</b>				
<b>Trading assets</b>	<b>9,305</b>	<b>21</b>	<b>9,284</b>	-
Government bonds and Treasury bills	-	-	-	-
Equity shares	21	21	-	-
Debt securities issued by corporations	9,284	-	9,284	-
<b>Derivative assets</b>	<b>326,788</b>	-	<b>326,788</b>	-
<b>Derivatives used for hedging purposes</b>	-	-	-	-
<b>Available for sale investment securities (*)</b>	<b>3,086,470</b>	<b>2,880,453</b>	<b>51,301</b>	<b>154,716</b>
Government bonds and Treasury bills	1,821,667	1,821,667	-	-
Eurobonds	1,009,955	1,009,955	-	-
Equity shares	68,178	10,680	51,301	6,197
Debt securities issued by corporations	186,670	38,151	-	148,519
<b>Financial Liabilities</b>				
<b>Derivative liabilities</b>	<b>232,403</b>	-	<b>232,403</b>	-
<b>Derivatives used for hedging purposes</b>	<b>78,682</b>	-	<b>78,682</b>	-

(\*) As of 31 December 2017, securities that are not publicly traded and the determination of fair values could not be obtained reliably amounting to TL 9,962 have been measured at cost.

31 December 2016	Total	Level 1	Level 2	Level 3
<b>Financial Assets</b>				
<b>Trading assets</b>	<b>13,001</b>	<b>13,001</b>	-	-
Government bonds and Treasury bills	5,947	5,947	-	-
Equity shares	980	980	-	-
Debt securities issued by corporations	6,074	6,074	-	-
<b>Derivative assets</b>	<b>374,036</b>	-	<b>374,036</b>	-
<b>Derivatives used for hedging purposes</b>	<b>272</b>	-	<b>272</b>	-
<b>Available for sale investment securities (*)</b>	<b>3,068,035</b>	<b>1,908,683</b>	<b>1,142,431</b>	<b>16,921</b>
Government bonds and Treasury bills	1,823,078	1,823,078	-	-
Eurobonds	967,855	-	967,855	-
Equity shares	46,285	10,782	18,582	16,921
Debt securities issued by corporations	230,817	74,823	-	155,994
<b>Financial Liabilities</b>				
<b>Derivative liabilities</b>	<b>320,797</b>	-	<b>320,797</b>	-
<b>Derivatives used for hedging purposes</b>	<b>51,433</b>	-	<b>51,433</b>	-

(\*) As of 31 December 2016, securities that are not publicly traded and the determination of fair values could not be obtained reliably amounting to TL 5,936 have been measured at cost.

The reconciliation from the beginning balances to ending balances for fair value measurements in Level 3 for the year ended 31 December 2017.

	31 December 2017	31 December 2016
Balance at the beginning of the year	16,921	16,921
Purchases	-	-
Redemption or sales	(10,724)	-
<b>Closing balance</b>	<b>6,197</b>	<b>16,921</b>



**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**5. FINANCIAL INSTRUMENTS (continued)**

***Carrying amounts and fair values (continued)***

	Carrying amount			Fair value		
	Loans and borrowings	Derivatives	Total	Level 1	Level 2	Level 3
<b>Financial liabilities</b>						
<b>31 December 2017</b>						
<b>Financial liabilities measured at fair value</b>						
Derivative financial instruments held for trading	-	232,403	232,403	-	232,403	-
Derivative liabilities held for hedge accounting	-	78,682	78,682	-	78,682	-
<b>Financial liabilities not measured at fair value</b>						
Obligations under repurchase agreements	610,775	-	610,775	-	-	-
Funds borrowed	19,001,627	-	19,001,627	-	-	-
Payables to stock exchange money market	701,147	-	701,147	-	-	-
Debt securities issued (1)	4,892,465	-	4,892,465	4,909,263	-	-
	<b>25,206,014</b>	<b>311,085</b>	<b>25,517,099</b>			<b>4,909,263</b>
<b>31 December 2016</b>						
<b>Financial liabilities measured at fair value</b>						
Derivative financial instruments held for trading	-	320,797	320,797	-	320,797	-
Derivative liabilities held for hedge accounting	-	51,433	51,433	-	51,433	-
<b>Financial liabilities not measured at fair value</b>						
Obligations under repurchase agreements	295,354	-	295,354	-	-	-
Funds borrowed	16,127,496	-	16,127,496	-	-	-
Payables to money market	960,880	-	960,880	-	-	-
Debt securities issued	3,486,732	-	3,486,732	3,414,029	-	-
	<b>20,870,462</b>	<b>372,230</b>	<b>21,242,692</b>			<b>3,414,029</b>

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

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**6. CASH AND CASH EQUIVALENTS**

	<b>31 December 2017</b>	<b>31 December 2016</b>
Cash on hand – Turkish Lira (“TL”)	24	29
<b>Total cash on hand</b>	<b>24</b>	<b>29</b>

There is no blockage on the use of cash and cash equivalents as of 31 December 2017 (31 December 2016: None).

	<b>31 December 2017</b>	<b>31 December 2016</b>
Cash on hand	24	29
Loans and advances to banks (with original maturity of less than 3 months)	493,687	497,949
Unrestricted balances with the central bank	15,433	165,271
Funds lent under repurchase agreements	3	901
Interbank money market placements	-	254,033
<b>Total cash and cash equivalents in the consolidated statement of financial position</b>	<b>509,147</b>	<b>918,183</b>
Accruals on cash and cash equivalents	(4,899)	(5,242)
<b>Total cash and cash equivalents in the consolidated statement of cash flows</b>	<b>504,248</b>	<b>912,941</b>

**7. BALANCES WITH CENTRAL BANK**

**a) Unrestricted balances with central bank**

	<b>31 December 2017</b>	<b>31 December 2016</b>
Demand deposits – TL	10,571	161,276
Demand deposits – FC	4,862	3,995
<b>Total</b>	<b>15,433</b>	<b>165,271</b>

**b) Reserve Deposits at central bank**

	<b>31 December 2017</b>	<b>31 December 2016</b>
Foreign currency reserves	831,678	612,776
<b>Total</b>	<b>831,678</b>	<b>612,776</b>

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.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**7. BALANCES WITH CENTRAL BANK (continued)**

**b) Reserve Deposits at central bank (continued)**

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 TL Liabilities**

<b>Original maturity</b>	<b>Required Reserve rate (%)</b>
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**

<b>Original maturity</b>	<b>Required Reserve rate (%) If the fund borrowed before 28 August 2015</b>	<b>Required Reserve rate (%) If the fund borrowed after 28 August 2015</b>
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

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**8. LOANS AND ADVANCES TO BANKS**

	31 December 2017	31 December 2016
<b><u>Domestic Banks</u></b>		
Demand deposits – TL	2,601	863
Time deposits – TL	462,377	59,235
Demand deposits – FC	12,753	8,681
Time deposits – FC	11,820	367,762
	<b>489,551</b>	<b>436,541</b>
<b><u>Foreign Banks</u></b>		
Time deposits – TL	-	15,010
Demand deposits – FC	4,136	11,480
Time deposits – FC	-	34,918
	<b>4,136</b>	<b>61,408</b>
<b>Total</b>	<b>493,687</b>	<b>497,949</b>

The time deposits above mature within 4 – 60 days and earn interest at rates ranging 12.60 -15.90% for TL balances, 0.45 – 1.00 % for foreign currency balances as at the reporting date (31 December 2016: Maturity: 1 - 37 days; interest rate 11-13.75% for TL balances and 0.05-2.65% for foreign currency).

**9. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	31 December 2017	31 December 2016
<b><u>Trading assets</u></b>		
Government bonds and treasury bills in TL	-	5,947
Debt securities issued by corporations	8,285	4,650
Equity shares	21	980
Mutual funds	999	1,424
<b>Total</b>	<b>9,305</b>	<b>13,001</b>

There are no government bonds and treasury bills include securities given as collateral or blocked as at the reporting date (31 December 2016: TL 1,289).

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**10. LOANS AND ADVANCES TO CUSTOMERS**

	<b>31 December 2017</b>	<b>31 December 2016</b>
Short-term and current portion of long term loans	1,509,224	707,707
Long-term loans	20,891,243	16,631,913
<b>Total performing loans</b>	<b>22,400,467</b>	<b>17,339,620</b>
Non-performing loans	53,575	51,615
<b>Total loans</b>	<b>22,454,042</b>	<b>17,391,235</b>
Less: Specific provision for impairment losses on loans	(52,731)	(10,485)
Less: Collective provision for impairment losses on loans	(96,483)	(37,628)
<b>Total loans</b>	<b>22,304,828</b>	<b>17,343,122</b>

Movements in the reserve for impairment losses on loans for the year ended 2017 and 2016 are as follows:

	<b>1 January – 31 December 2017</b>	<b>1 January – 31 December 2016</b>
Specific provision for cash loans:		
As at 1 January	10,485	8,729
Charge for the year	42,636	3,815
Reserve released and write offs	(390)	(2,059)
<b>As at 31 December</b>	<b>52,731</b>	<b>10,485</b>
Collective provision for cash loans:		
As at 1 January	37,628	33,697
Charge for the year	68,855	3,931
Provision released and write offs	(10,000)	-
<b>As at 31 December</b>	<b>96,483</b>	<b>37,628</b>
<b>Total reserve for impairment losses on loans</b>	<b>149,214</b>	<b>48,113</b>

Loans can be further analysed by customer groups as follows:

	<b>31 December 2017</b>	<b>31 December 2016</b>
<b>Sector</b>		
Corporate customers	18,019,114	14,243,666
Small business	4,324,656	3,074,927
Other	110,272	72,642
	<b>22,454,042</b>	<b>17,391,235</b>

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**10. LOANS AND ADVANCES TO CUSTOMERS (continued)**

	<b>31 December 2017</b>	<b>31 December 2016</b>
<b>Currency</b>		
US Dollar	10,256,493	8,920,778
Euro	8,149,422	5,807,172
Turkish Lira	2,301,967	1,347,391
Foreign currency indexed TL loans	1,746,160	1,315,894
<b>Total</b>	<b>22,454,042</b>	<b>17,391,235</b>

Foreign currency indexed loans represent loans extended in Turkish Lira but the related principal and interest are repaid in Turkish Lira equivalent of the currency to which they are indexed.

Performing loans, receivables and non-performing loans can be analysed by sector as follows:

<b>Sector</b>	<b>31 December 2017</b>		<b>31 December 2016</b>	
	<b>Loans</b>	<b>Non-performing</b>	<b>Loans</b>	<b>Non-performing</b>
Energy	9,024,403	33,741	7,707,330	33,739
Finance	2,901,311	-	2,374,392	-
Construction	1,107,287	8,722	174,300	9,090
Metal	1,048,327	-	1,075,819	-
Cement	988,440	59	570,343	59
Tourism	914,293	-	641,495	-
Health Services	839,439	-	486,578	-
Chemical	759,475	-	556,889	-
Textile	519,937	1,625	224,299	1,624
Food and Beverages	266,933	-	121,726	-
Plastics	247,592	-	228,916	-
Motor Vehicles	202,506	-	180,427	-
Education	120,045	-	138,356	-
Pulp and Paper	108,549	-	52,126	-
Ceramics	49,104	-	67,551	-
Farming	48,890	-	10,451	3,447
Lumber and Wood	29,197	-	27,929	-
Machinery Production	21,620	288	26,382	287
Rubber and Tires	18,488	-	19,297	-
Other	3,184,631	9,140	2,655,014	3,369
<b>Total</b>	<b>22,400,467</b>	<b>53,575</b>	<b>17,339,620</b>	<b>51,615</b>

TL 334,401 of the cash loans are due to related parties. Related parties have TL 260 non-cash loan risk as at the reporting date (31 December 2016: TL 405,458 and TL 7,878; respectively).

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**10. LOANS AND ADVANCES TO CUSTOMERS (continued)**

Interest rates ranges for short term loans are as follows:

	<b>31 December 2017</b>	<b>31 December 2016</b>
Euro	1.05-3.90%	0.45-3.00%
US Dollar	4.00-7.00%	1.54-4.90%
TL	9.80-17.75%	11.20-14.00%

Interest rates ranges for long term loans are as follows:

	<b>31 December 2017</b>	<b>31 December 2016</b>
Euro	0.98-6.98%	0.85-7.25%
US Dollar	2.05-9.08%	2.05-8.57%
TL	5.17-19.47%	5.18-16.55%

The collaterals for the loans due to the related parties are TL 62,548 as at the reporting date (31 December 2016: TL 68,835).

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**10. LOANS AND ADVANCES TO CUSTOMERS (continued)**

Set out below is an analysis of loans as at 31 December 2017 by customer groups and impairment:

	<b>Corporate</b>	<b>Small Business</b>	<b>Other</b>	<b>Portfolio Reserve</b>	<b>Total</b>
Neither past due nor impaired	17,140,122	4,289,397	106,219	-	21,535,738
Past due not impaired	864,729	-	-	-	864,729
Individually impaired	14,263	35,259	4,053	-	53,575
<b>Total gross</b>	<b>18,019,114</b>	<b>4,324,656</b>	<b>110,272</b>	<b>-</b>	<b>22,454,042</b>
Less: reserve for individually impaired loans	(14,676)	(34,415)	(3,640)	-	(52,731)
Less: reserve for collectively impaired loans	-	-	-	(96,483)	(96,483)
<b>Total reserve for impairment</b>	<b>(14,676)</b>	<b>(34,415)</b>	<b>(3,640)</b>	<b>(96,483)</b>	<b>(149,214)</b>
<b>Total, net</b>	<b>18,004,438</b>	<b>4,290,241</b>	<b>106,632</b>	<b>(96,483)</b>	<b>22,304,828</b>

The syndicated loans granted to a company amounting to USD 78.661.835 are classified under Past Due not Impaired column as of 31 December 2017. Discussions between creditor banks and related sovereign institutions about restructuring of loan of this company are in process.

Set out below is an analysis of loans as at 31 December 2016 by customer groups and impairment:

	<b>Corporate</b>	<b>Small Business</b>	<b>Other</b>	<b>Portfolio Reserve</b>	<b>Total</b>
Neither past due nor impaired	14,210,576	3,039,297	69,466	-	17,319,339
Past due not impaired	20,281	-	-	-	20,281
Individually impaired	12,809	35,630	3,176	-	51,615
<b>Total gross</b>	<b>14,243,666</b>	<b>3,074,927</b>	<b>72,642</b>	<b>-</b>	<b>17,391,235</b>
Less: reserve for individually impaired loans	(6,540)	(1,182)	(2,763)	-	(10,485)
Less: reserve for collectively impaired loans	-	-	-	(37,628)	(37,628)
<b>Total reserve for impairment</b>	<b>(6,540)</b>	<b>(1,182)</b>	<b>(2,763)</b>	<b>(37,628)</b>	<b>(48,113)</b>
<b>Total, net</b>	<b>14,237,126</b>	<b>3,073,745</b>	<b>69,879</b>	<b>(37,628)</b>	<b>17,343,122</b>

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**10. LOANS AND ADVANCES TO CUSTOMERS (continued)**

A reconciliation of the specific reserve for impairment losses by customer groups is as follows:

	Corporate	Small Business	Other	Total
At 1 January 2017	6,540	1,182	2,763	10,485
Charge for the year	8,214	33,250	1,172	42,636
Recoveries, releases and write offs	(78)	(17)	(295)	(390)
<b>At 31 December 2017</b>	<b>14,676</b>	<b>34,415</b>	<b>3,640</b>	<b>52,731</b>

  

	Corporate	Small Business	Other	Total
At 1 January 2016	5,257	2,273	1,199	8,729
Charge for the year	1,955	1	1,859	3,815
Recoveries, releases and write offs	(672)	(1,092)	(295)	(2,059)
<b>At 31 December 2016</b>	<b>6,540</b>	<b>1,182</b>	<b>2,763</b>	<b>10,485</b>

The fair value of collaterals that the Bank held for total of non-performing loans and advances to customers as at 31 December 2017 is TL 48,202 (31 December 2016: TL 47,165).

As at 31 December 2017 and 31 December 2016, the aging analysis of past due but not impaired loans per customer groups is as follows:

2017	Less than 30 days	31-60 days	61-90 days	More than 91 days	Total
Loans and advances to customers					
Corporate lending	568,338	-	296,391	-	864,729
<b>Total</b>	<b>568,338</b>	<b>-</b>	<b>296,391</b>	<b>-</b>	<b>864,729</b>

  

2016	Less than 30 days	31-60 days	61-90 days	More than 91 days	Total
Loans and advances to customers					
Corporate lending	20,281	-	-	-	20,281
<b>Total</b>	<b>20,281</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20,281</b>

Of the total aggregate amount of gross past due but not yet impaired loans and advances to customers, the fair value of collaterals, capped with the respective outstanding loan balances including those not past due, that Bank has TL 820,521 of loans as of 31 December 2017 (31 December 2016: TL 19,122).

Loans and advances to customers not impaired amounting to TL 13,512,101 have floating interest rates (31 December 2016: TL 11,687,620) and the remaining TL 8,888,366 have fixed interest rates (31 December 2016: TL 5,648,425).

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**II. INVESTMENT SECURITIES**

**Available-for-sale investment securities**

	<b>31 December 2017</b>	<b>31 December 2016</b>
Government bonds and treasury bills in TL	1,821,667	1,823,078
Eurobonds	1,009,955	967,855
Debt securities issued by corporations	186,670	230,817
Equity shares	78,140	52,221
<b>Total</b>	<b>3,096,432</b>	<b>3,073,971</b>

The above government bonds and treasury bills include those pledged under securities repurchase agreements with customers amounting to TL 171,250 as at the reporting date (31 December 2016: TL 212,855).

The blocked securities kept in the Central Bank, the Istanbul Stock Exchange and Takasbank ISE Settlement and Custody Bank Inc. (Clearing House) for the purposes of liquidity requirement and trading guarantee on interbank, bond, repurchase and reverse repurchase markets as at 31 December 2017 and 31 December 2016 are as follows:

	<b>2017 Nominal Value</b>	<b>2017 Carrying Value</b>	<b>2016 Nominal Value</b>	<b>2016 Carrying Value</b>
<b><u>Government Bonds and Treasury Bills</u></b>				
Central Bank- Open Market Operations	426,933	423,398	478,144	472,282
Clearing House – Blocked Securities	328,692	329,748	99,891	97,866
Other (International Bank) Foreign Currency	665,208	636,146	728,814	682,641
	<b>1,420,833</b>	<b>1,389,292</b>	<b>1,306,849</b>	<b>1,252,789</b>

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**11. INVESTMENT SECURITIES (continued)**

The Group's equity shares in available-for-sale investment securities are as follows:

	Ownership %	31 December 2017	Ownership %	31 December 2016
<b>Investee</b>				
İstanbul Takas ve Saklama AŞ	1.62	17,818	1.62	10,724
İş Yatırım Ortaklığı AŞ	6.95	10,680	6.95	10,782
European Investment Fund-EIF	0.17	15,713	0.18	12,818
Turkish Growth and Innovation Fund-TGIF	10	12,108	10	5,764
İş Portföy Yönetimi AŞ	9.9	6,197	9.9	6,197
Ege Tarım Ürünleri Lisanslı Depoculuk AŞ	10.05	1,056	10.05	1,555
Cam Elyaf Sanayi AŞ	-	-	-	-
TSKB Gayrimenkul Değerleme AŞ (*)	99.99	379	99.99	379
Borsa İstanbul A.Ş.	0.1	5,661	0.1	372
TSKB Sürdürülebilirlik Danışmanlığı AŞ (*)	99.19	1,230	99.19	1,230
Others	<1.00	7,298	<1.00	2,400
<b>Total equity shares in available for sale investments</b>		<b>78,140</b>		<b>52,221</b>

(\*) The investments in TSKB Gayrimenkul Değerleme AŞ and TSKB Sürdürülebilirlik Danışmanlığı AŞ have not been consolidated since their effect on consolidated income and net assets is not significant.

**Held to maturity investment securities**

	31 December 2017	31 December 2016
Government bonds and treasury bills in TL	1,532,047	1,375,729
<b>Total</b>	<b>1,532,047</b>	<b>1,375,729</b>

The movement of the held-to-maturity securities as follows:

	31 December 2017	31 December 2016
<b>Balance at 1 January</b>	1,375,729	872,602
Additions (*)	-	417,241
Redemptions	(836)	(1,597)
Impairment provision	(1,903)	-
Exchange differences	13,914	31,581
Interest income accruals	145,143	55,902
<b>Total</b>	<b>1,532,047</b>	<b>1,375,729</b>

(\*) The CPI indexed government bonds with the nominal value of TL 339,321 are reclassified to held to maturity investments in prior period. The remaining reclassification effect under equity is amounting to TL 9,784 as of December 31, 2017.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**12. INVESTMENTS IN EQUITY-ACCOUNTED INVESTEEES**

As at 31 December 2017 and 31 December 2016, the following entities are accounted for under the equity method in the accompanying consolidated financial statements:

	<b>Ownership (%)</b>	<b>Nominal</b>	<b>31 December 2017</b>
<b>Investee</b>			
İş Finansal Kiralama AŞ	28.56	185,726	247,371
İş Faktoring AŞ	21.75	13,811	83,226
İş Girişim Serm. Yat. Ort. AŞ	16.67	12,442	43,828
		<b>211,979</b>	<b>374,425</b>

	<b>Ownership (%)</b>	<b>Nominal</b>	<b>31 December 2016</b>
<b>Investee</b>			
İş Finansal Kiralama AŞ	28.56	171,446	222,466
İş Faktoring AŞ	21.75	13,811	56,801
İş Girişim Serm. Yat. Ort. AŞ	16.65	12,442	43,655
		<b>197,699</b>	<b>322,922</b>

The Group's share of profit in its equity-accounted investees for the year ended 31 December 2017 was TL 43,861 (31 December 2016: TL 38,805). In 2017 the Group has received dividends of TL 14,732 from its investments in equity-accounted investees (31 December 2016: TL 20,623).

The Group's equity-accounted investees are listed on BIST, except for İş Faktoring AŞ. Based on their closing prices of TL 1.48 of İş Finansal Kiralama AŞ and TL 1.74 of İş Girişim Serm. Yat. Ort. AŞ, the fair value of the Group's investment in listed entities is TL 295,558 (31 December 2016: TL 1.11 of İş Finansal Kiralama AŞ and TL 1.50 of İş Girişim Serm. Yat. Ort. AŞ, the fair value of the Group's investment is TL 209,471).

Summary financial information for equity-accounted investees is as follows:

<b>31 December 2017</b>	<b>Total assets</b>	<b>Equity</b>	<b>Current Period Profit</b>	<b>Fair Value</b>
İş Finansal Kiralama AŞ	5,068,687	839,681	74,200	273,946
İş Faktoring AŞ	4,267,774	188,753	49,530	-
İş Girişim Serm. Yat. Ort. AŞ	259,379	256,923	946	21,612
	<b>9,595,840</b>	<b>1,285,357</b>	<b>124,676</b>	<b>295,558</b>

<b>31 December 2016</b>	<b>Total assets</b>	<b>Equity</b>	<b>Current Period Profit</b>	<b>Fair Value</b>
İş Finansal Kiralama AŞ	4,508,334	755,147	81,800	190,820
İş Faktoring AŞ	3,025,426	128,821	32,939	-
İş Girişim Serm. Yat. Ort. AŞ	258,805	256,161	1,060	18,651
	<b>7,792,565</b>	<b>1,140,129</b>	<b>115,799</b>	<b>209,471</b>

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**13. GOODWILL**

**Cost**

Balance at 1 January 2016	383
Balance at 31 December 2016	383
Balance at 31 December 2017	<u>383</u>

**Impairment**

At 1 January 2016	-
At 31 December 2016	-
At 31 December 2017	<u>-</u>

**Carrying Amount**

Balance at 1 January 2016	383
Balance at 31 December 2016	383
Balance at 31 December 2017	<u>383</u>

The above goodwill is attributable to Yatırım Finansman Menkul Değerler AŞ.

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the investees are determined from cash flows projections. The Bank's management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the investees. The growth rates are based on industry growth forecasts.

As at 31 December 2017, the recoverable amount of the investee is higher than the amount of goodwill; therefore, no impairment on goodwill is realized.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**14. PROPERTY AND EQUIPMENT**

	Land	Leasehold Improvements	Buildings	Machinery and Equipment	Vehicles	Furniture and Fixture	Advances Given	Other (1)	Total
<b>Acquisition Cost</b>									
Balance at 1 January 2017	62,496	5,523	163,429	11,696	1,475	14,078	-	576	259,273
Additions	-	-	-	1,695	-	2,055	-	-	3,750
Disposals	-	(302)	-	(43)	(418)	(493)	-	(576)	(1,832)
Change in fair value	16,315	-	-	-	-	-	-	-	16,315
<b>Balance at 31 December 2017</b>	<b>78,811</b>	<b>5,221</b>	<b>163,429</b>	<b>13,348</b>	<b>1,057</b>	<b>15,640</b>	<b>-</b>	<b>-</b>	<b>277,506</b>
<b>Accumulated Depreciation</b>									
Balance at 1 January 2017	(161)	(5,986)	676	(8,922)	(824)	(12,153)	-	-	(27,370)
Charge for the year	-	(115)	(793)	(13)	(234)	(4,766)	-	-	(5,921)
Impairment during the year	-	-	-	-	-	-	-	-	-
Disposals	-	1,008	-	-	355	220	-	-	1,583
<b>Balance at 31 December 2017</b>	<b>(161)</b>	<b>(5,093)</b>	<b>(117)</b>	<b>(8,935)</b>	<b>(703)</b>	<b>(16,699)</b>	<b>-</b>	<b>-</b>	<b>(31,708)</b>
<b>Net Book Value at 31 December 2017</b>	<b>78,650</b>	<b>128</b>	<b>163,312</b>	<b>4,413</b>	<b>354</b>	<b>(1,059)</b>			<b>245,798</b>

(1) Impairment on assets for resale is classified under other assets from tangible assets in current period.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**14. PROPERTY AND EQUIPMENT (continued)**

	Land	Leasehold Improvements	Buildings	Machinery and Equipment	Vehicles	Furniture and Fixture	CIP & Advances Given	Total
<b>Acquisition Cost</b>								
Balance at 1 January 2016	35,791	5,842	161,498	11,006	1,604	13,790	-	229,531
Additions	-	446	1,931	690	-	830	-	3,897
Disposals	-	(765)	-	-	(129)	(542)	-	(1,436)
Change in fair value	26,705	-	-	-	-	-	-	26,705
<b>Balance at 31 December 2016</b>	<b>62,496</b>	<b>5,523</b>	<b>163,429</b>	<b>11,696</b>	<b>1,475</b>	<b>14,078</b>	<b>-</b>	<b>258,697</b>
<b>Accumulated Depreciation</b>								
Balance at 1 January 2016	(161)	(4,604)	1,156	(8,047)	(656)	(10,192)	-	(22,504)
Charge for the year	-	(2,009)	(480)	(875)	(267)	(2,528)	-	(6,159)
Impairment during the year	-	-	-	-	-	(21)	-	(21)
Disposals	-	627	-	-	99	588	-	1,314
Change in fair value	-	-	-	-	-	-	-	-
<b>Balance at 31 December 2016</b>	<b>(161)</b>	<b>(5,986)</b>	<b>676</b>	<b>(8,922)</b>	<b>(824)</b>	<b>(12,153)</b>	<b>-</b>	<b>(27,370)</b>
<b>Net Book Value at 31 December 2016</b>	<b>62,335</b>	<b>(463)</b>	<b>164,105</b>	<b>2,774</b>	<b>651</b>	<b>1,925</b>	<b>-</b>	<b>231,327</b>

At 31 December 2016, the net carrying amount of leased property and equipment is TL 243.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**15. INVESTMENT PROPERTY**

	<b>31 December 2017</b>	<b>31 December 2016</b>
Fair value of investment properties	243,145	231,323
	<b>243,145</b>	<b>231,323</b>

The Group's investment properties are held under freehold interests.

In the current period, the Group has 3 investment properties with a total net book value of TL 243,145 (31 December 2016: TL 231,323) belonging to the Bank's subsidiary operating in the real-estate investment trust sector.

The total external rent income earned by the Group from its investment properties is TL 9,464 in the current period (31 December 2016: TL 7,731).

The movement of investment properties as at 31 December 2017 and 31 December 2016 are as follows:

<u>Current Period</u>	<b>Closing Balance of Prior Period</b>	<b>Additions</b>	<b>Disposals</b>	<b>Change in Fair Value</b>	<b>Closing Balance of Current Period</b>
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>

<u>Prior Period</u>	<b>Closing Balance of Prior Period</b>	<b>Additions</b>	<b>Disposals</b>	<b>Change in Fair Value</b>	<b>Closing Balance of Current Period</b>
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>

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**15. INVESTMENT PROPERTY (continued)**

**Fair value measurement**

The Group's investment properties are valued annually by an independent real estate appraisal company. The fair value of investment properties are within the scope of Level 3 according to valuation techniques. Reconciliation of Level 3 is given at the following table:

	<b>1 January – 31 December 2017</b>	<b>1 January – 31 December 2016</b>
Balance 1 January	208,303	221,388
Addition	957	1,198
Disposal	-	(14)
<b>Recognized in other income from other operations</b>		
Change in fair value	-	-
<b>Recognized in other expense from other operations</b>		
Change in fair value	8,460	(14,269)
Transfer	-	-
<b>Total</b>	<b>217,720</b>	<b>208,303</b>

Tahir Han has considered as Level 2 as of December 31, 2017.

**16. INTANGIBLE ASSETS**

The intangible fixed assets include software that are amortised principally on straight line basis which amortise the assets over their expected useful lives.

	<b>31 December 2017</b>	<b>31 December 2016</b>
<b><u>Acquisition cost</u></b>		
Balance at 1 January	5,232	3,534
Additions	1,305	1,698
Disposals	-	-
<b>Balance at 31 December</b>	<b>6,537</b>	<b>5,232</b>
<b><u>Accumulated amortisation</u></b>		
Balance at 1 January	(3,139)	(2,483)
Charge for the year	(818)	(655)
Disposals	-	-
<b>Balance at 31 December</b>	<b>(3,957)</b>	<b>(3,138)</b>
<b>Net Book Value, as at 31 December</b>	<b>2,580</b>	<b>2,094</b>

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**17. OTHER ASSETS**

	<b>31 December 2017</b>	<b>31 December 2016</b>
Cash guarantees given	180,100	258,810
Prepaid expenses	54,997	49,310
VAT carried forward	7,395	9,591
Deposits, guarantees and collaterals given	7,134	39
Prepaid taxes	4,485	3,100
Trade receivables	3,100	4,482
Receivables from brokerage customers	322	1,178
Other (*)	47,031	35,170
<b>Total</b>	<b>304,564</b>	<b>361,680</b>

(\*) Positive market valuation differences for hedged items amounted TL 29,965 is included (December 31, 2016: TL 22,536).

**18. OBLIGATIONS UNDER REPURCHASE AGREEMENTS**

The securities sold under repurchase agreements and corresponding obligations are as follows:

	<b>2017 Carrying Value of Underlying Securities</b>	<b>2017 Carrying Value of Corresponding Liability</b>	<b>2017 Repurchase Value</b>
Available for sale investment securities	171,250	119,164	119,191
Held to maturity investment securities	552,078	491,611	492,303
	<b>723,328</b>	<b>610,775</b>	<b>611,494</b>

  

	<b>2016 Carrying Value of Underlying Securities</b>	<b>2016 Carrying Value of Corresponding Liability</b>	<b>2016 Repurchase Value</b>
Available for sale investment securities	212,855	172,327	172,394
Held to maturity investment securities	129,784	123,027	123,080
	<b>342,639</b>	<b>295,354</b>	<b>295,474</b>

The repurchase agreements have maturity periods between 4-372 days (31 December 2016: 3-91 days). The Group has applied interest rates of 0.25%-0.5% for foreign currency, 7.00%-12.31% for Turkish Lira agreements (31 December 2016: 0.25%-0.5% for foreign currency, 6.00%-8.04% for Turkish Lira). Included in the carrying value of the obligations under repurchase agreements, the interest accrued amounts to TL 381 (31 December 2016: TL 92).

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**19. FUNDS BORROWED**

	<b>31 December 2017</b>	<b>31 December 2016</b>
Short-term funds	164,852	120,921
Short-term portion of medium and long-term funds	3,360,542	2,510,103
Medium and long-term funds	15,476,233	13,496,472
<b>Total</b>	<b>19,001,627</b>	<b>16,127,496</b>
	<b>31 December 2017</b>	<b>31 December 2016</b>
Foreign currencies	18,780,615	15,980,244
Turkish Lira	221,012	147,252
<b>Total</b>	<b>19,001,627</b>	<b>16,127,496</b>

The Group did not have any default of principal, interest on redemption amounts or other breaches of loan covenants as of 31 December 2017 (31 December 2016: None).

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**19. FUNDS BORROWED (continued)**

As at 31 December 2017, interest rates and maturities of bank borrowings are as follows:

<b>31 December 2017</b>	<b>Amount</b>	<b>Maturity</b>		<b>Interest Rate (%)</b>	
		<b>Min</b>	<b>Max</b>	<b>Min</b>	<b>Max</b>
<b><u>Foreign Currency Borrowings</u></b>					
International Bank for Reconstruction and Development (IBRD)					
-EFIL II	286,762	15/01/2020		1.71	1.71
-EFIL III	392,392	15/01/2021		1.71	1.71
-EFIL IV	916,490	15/07/2036		1.51	1.51
-IBRD SME	157,706	15/03/2021		1.51	1.51
-IBRD-Renewable Energy Loan	2,311,153	15/03/2018	15/03/2044	0.39	2.42
-IBRD EFIL IV Limit Increase	1,069,792	15/12/2038		0.39	2.42
-IBRD Innovative Access to Finance	847,745	15/03/2042		0.38	2.11
	<b>5,982,240</b>				
European Investment Bank (EIB)	4,665,088	15/06/2005	31/05/2028	0.01	3.59
Kreditanstalt Für Wiederaufbau (KfW)	2,217,768	30/11/2006	30/12/2032	0.18	3.35
Council of European Development Bank (CEB)	711,849	16/04/2018	27/12/2024	0.05	2.57
Association of French Development (AFD)	679,051	30/11/2018	30/11/2026	0.25	1.23
Domestic bank borrowings	359,286	02/01/2018	02/01/2018	1.50	1.50
Syndicated Loan	1,170,096	16/07/2018	16/07/2018	1.15	2.61
European Bank for Reconstruction and Development EBRD	183,151	10/03/2022	10/03/2022	2.95	4.40
Intesa	89,980	28/02/2018	26/04/2018	1.40	1.40
Islam Development Bank (IDB)	1,212,503	19/02/2023	24/03/2030	2.72	3.95
International Finance Corporation	254,684	15/12/2018	15/12/2022	4.61	5.26
Credit Suisse	375,334	23/03/2023	23/03/2023	2.00	2.09
Banco De Sabadell	141,555	27/11/2028	03/01/2029	1.37	1.37
JP Morgan Securities	89,233	05/06/2020	05/06/2020	2.90	2.90
Oesterreichische Entwicklungsbank AG (OEB)	76,930	15/12/2026	15/12/2026	2.60	2.60
Citibank	113,927	25/09/2018	26/09/2022	2.34	3.79
JBIC-Japan Bank for International Cooperation	217,628	27/03/2027	27/03/2027	3.00	3.33
Doha Bank	44,832	26/03/2018	26/03/2018	1.40	1.40
Ing Bank	157,641	31/08/2018	31/08/2018	1.35	1.35
Standard Chartered Bank	37,839	18/09/2020	18/09/2020	2.91	2.91
	<b>12,798,375</b>				
<b>Total foreign currency borrowings</b>	<b>18,780,615</b>				
<b><u>Turkish Lira Borrowings</u></b>					
Credit Suisse	159,880	11/07/2019	23/09/2021	7.30	9.95
Domestic bank borrowings	61,132	02/01/2017	08/07/2020	9.05	9.05
<b>Total Turkish Lira borrowings</b>	<b>221,012</b>				
<b>Total</b>	<b>19,001,627</b>				

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**19. FUNDS BORROWED (continued)**

As at 31 December 2016, interest rates and maturities of bank borrowings are as follows:

<u>31 December 2016</u>	<u>Amount</u>	<u>Maturity</u>		<u>Interest Rate (%)</u>	
		<u>Min</u>	<u>Max</u>	<u>Min</u>	<u>Max</u>
<b><u>Foreign Currency Borrowings</u></b>					
International Bank for Reconstruction and Development (IBRD)					
-EFIL II	372,586	15/01/2020		1.23	1.23
-EFIL III	450,959	15/01/2021		0.08	1.23
-EFIL IV	866,081	15/07/2036		0.01	1.03
-IBRD SME	175,195	15/03/2021		0.01	1.30
-IBRD-Renewable Energy Loan	2,072,346	15/03/2017	15/06/2039	0.01	1.91
-IBRD EFIL IV Limit Increase	951,511	15/12/2038		0.39	1.91
-IBRD Innovative Access to Finance	562,983	15/03/2042		0.41	1.86
	<b>5,451,661</b>				
European Investment Bank (EIB)	4,278,764	15/06/2005	31/05/2028	0.01	3.59
Kreditanstalt für Wiederaufbau (KfW)	1,478,958	30/11/2017	30/12/2032	0.01	3.35
Council of European Development Bank (CEB)	657,849	18/04/2017	30/06/2022	0.01	2.21
Association of French Development (AFD)	356,707	31/01/2017	30/11/2026	0.25	1.28
Domestic bank borrowings	239,360	22/12/2017	04/01/2027	3.30	6.82
Syndicated Loan (*)	919,435	13/07/2017	13/07/2017	0.60	1.53
European Bank for Reconstruction and Development EBRD	227,822	18/01/2017	10/03/2022	1.81	4.20
Intesa	73,741	21/02/2017	24/04/2017	1.06	1.09
Islam Development Bank (IDB)	1,182,994	19/02/2023	24/03/2030	2.72	3.95
International Finance Corporation	349,675	15/12/2018	15/12/2022	4.15	4.80
Credit Suisse	349,156	23/03/2023	23/03/2023	2.00	2.09
Banco De Sabadell	119,894	30/11/2028	30/11/2028	1.37	1.37
JP Morgan Securities	82,991	05/06/2020	05/06/2020	2.90	2.90
Oesterreichische Entwicklungsbank AG (OEB)	70,093	15/12/2026	15/12/2026	2.60	2.60
Citibank	141,144	25/09/2018	26/09/2022	2.10	3.55
	<b>10,528,583</b>				
<b>Total foreign currency borrowings</b>	<b>15,980,244</b>				
<b><u>Turkish Lira Borrowings</u></b>					
Credit Suisse	68,992	11/07/2019	16/01/2020	7.30	8.00
Domestic bank borrowings	78,260	02/01/2017	08/07/2020	9.05	9.05
<b>Total Turkish Lira borrowings</b>	<b>147,252</b>				
<b>Total</b>	<b>16,127,496</b>				

(\*) Within the framework of the decisions taken by the Board of Directors of the Bank, on 11 June 2016, the Bank has used a syndicated loan from international markets in two tranches amounting to USD 17.5 million and Euro 213 million with maturity 13 July 2017 under the coordination of Commerzbank Aktiengesellschaft.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**20. DEBT SECURITIES ISSUED**

	<b>31 December 2017</b>	<b>31 December 2016</b>
Debt securities issued	3,746,229	3,486,732
<b>Total</b>	<b>3,746,229</b>	<b>3,486,732</b>

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%.

**21. OTHER LIABILITIES**

	<b>31 December 2017</b>	<b>31 December 2016</b>
Unearned revenue	102,571	86,890
Payables to clearing accounts	38,971	14,600
Guarantees given	28,254	70,317
Other	8,486	10,877
<b>Total</b>	<b>178,282</b>	<b>182,684</b>

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**22. TAXATION**

**Corporate Tax**

The Group is subject to taxation in accordance with the tax procedures and the legislation effective in Turkey. Corporate income tax is 20% (for 2018, 2019 and 2020, corporate tax income announced as 22%) on the statutory corporate income tax base, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes as at 31 December 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 year.

According to the Corporate Tax Law, 75% of the capital gains arising from the sale of tangible assets and investments owned for at least two years are exempted from corporate tax on the condition that such gains are reflected in the equity from the date of the sale. The remaining 25% of such capital gains are subject to corporate tax.

Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

In Turkey, advance tax returns are filed on a quarterly basis. Advance corporate income tax rate applied in 2017 is 20% (31 December 2016: 20%). Losses can be carried forward for offset against future taxable income for up to 5 years. However, losses cannot be carried back for offset against profits from previous periods.

There is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between 1-25 April following the close of the accounting year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

**Income Withholding Tax**

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for companies receiving dividends who are Turkish residents and Turkish branches of foreign companies. Income withholding tax applied in between 24 April 2003 – 22 July 2006 is 10% and commencing from 23 July 2006, this rate has been changed to 15% upon the Council of Ministers' Resolution No: 2006/10731. Undistributed dividends incorporated in share capital are not subject to income withholding tax.

Dividends paid to the resident institutions and the institutions working through local offices or representatives in Turkey are not subject to withholding tax. As per the decisions no.2009/14593 and 2009/14594 of the Council of Ministers published in the Official Gazette no.27130 dated 3 February 2009, certain duty rates included in the articles no.15 and 30 of the new Corporate Tax Law no.5520 are revised. Accordingly, the withholding tax rate on the dividend payments other than the ones paid to the non-resident institutions generating income in Turkey through their operations or permanent representatives and the resident institutions is 15%. In applying the withholding tax rates on dividend payments to the non-resident institutions and the individuals, the withholding tax rates covered in the related Double Tax Treaty Agreements are taken into account. Appropriation of the retained earnings to capital is not considered as profit distribution and therefore is not subject to withholding tax.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**22. TAXATION (continued)**

**Transfer Pricing**

In Turkey, the transfer pricing provisions have been stated under the Article 13 of Corporate Tax Law with the heading of “disguised profit distribution via transfer pricing”. The General Communiqué on disguised profit distribution via Transfer Pricing sets details about implementation.

If a taxpayer enters into transactions regarding sale or purchase of goods and services with related parties, where the prices are not set in accordance with arm's length principle, then related profits are considered to be distributed in a disguised manner through transfer pricing. Such disguised profit distributions through transfer pricing are not accepted as tax deductible for corporate income tax purposes.

**Deferred Tax**

Taxes on income for the year also comprise deferred taxes. Deferred income tax is provided, using the balance sheet method, on all taxable temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liability and asset are recognized when it is probable that the future economic benefits resulting from the reversal of temporary differences will flow to or from the Bank. Deferred tax asset is recognized to the extent that it is probable that future taxable profit will be available against which the deferred tax asset can be utilised. Currently enacted or substantively enacted tax rates are used to determine deferred taxes on income. These differences usually result in the recognition of revenue and expenses in different reporting periods for IFRS and tax purposes.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**22. TAXATION (continued)**

**Deferred Tax (continued)**

For calculation of deferred tax asset and liabilities, the rate of 22% (for 2018, 2019 and 2020, corporate tax income announced as 22%) (31 December 2016: 20%) is used.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

**a) Statement of financial position:**

	<b>31 December 2017</b>	<b>31 December 2016</b>
Corporate tax provision	161,659	175,282
Corporate tax paid in advance	(117,997)	(170,216)
<b>Corporate tax liability</b>	<b>43,662</b>	<b>5,066</b>

**b) Statement of Profit or Loss:**

	<b>31 December 2017</b>	<b>31 December 2016</b>
Corporate tax expense	161,659	98,641
Deferred tax (income)/expense	(15,679)	22,370
	<b>145,980</b>	<b>121,011</b>

The deferred taxes on major temporary differences as at the reporting dates are as follows:

	<b>31 December 2017</b>	<b>31 December 2016</b>
Loan commissions	22,563	17,378
Impairment losses on loans	34,243	8,988
Reserve for employee severance indemnity and unused vacation provision	2,605	2,151
Valuation of marketable securities	-	2,149
Others	1,842	3,851
<b>Total deferred tax asset</b>	<b>61,253</b>	<b>34,517</b>
Valuation of marketable securities	(20,635)	-
Borrowing commissions	(10,869)	(8,791)
Accruals on derivative financial instruments	(8,823)	(2,958)
Useful life differences on property and equipment	(592)	(457)
Others	(6,804)	(19,626)
<b>Total deferred tax liability</b>	<b>(47,723)</b>	<b>(31,832)</b>

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**22. TAXATION (continued)**

**Deferred Tax (continued)**

Reflected as:

	31 December 2017	31 December 2016
Deferred tax assets	61,253	34,517
Deferred tax liabilities (-)	(47,723)	(31,832)
<b>Total deferred tax assets, net</b>	<b>13,530</b>	<b>2,685</b>

Taxation can be reconciled to the profit per the income statement as follows:

	%	31 December 2017	%	31 December 2016
<b><u>Reconciliation of Taxation</u></b>				
Income before taxation		729,415		601,709
Tax at the statutory income tax rate of 20%	20.00	(145,883)	20.00	(120,342)
Tax effect of income that is deductible in determining taxable income	(0.31)	2,248	(0.43)	2,617
Tax effect of undeductable expenses	0.04	(271)	0.15	(902)
Tax effect of dividend income	(0.42)	3,029	(0.60)	3,621
Tax effect of other deductions	0.70	(5,103)	1.00	(6,005)
<b>Income tax expense</b>	<b>19.70</b>	<b>(145,980)</b>	<b>19.12</b>	<b>(121,011)</b>

Movements in temporary differences for the years ended 31 December 2017 and 2016 are as follows:

	Balance at 1 January	Recognized in profit or loss	Recognized in other comprehensive income	Balance at 31 December
<b>2017</b>				
Loan commissions	17,378	5,185	-	22,563
Impairment losses on loans	8,988	25,255	-	34,243
Reserve for employee severance indemnity and unused vacation provision	2,151	354	100	2,605
Valuation of marketable securities	2,149	(19,981)	(2,803)	(20,635)
Useful life differences on property and equipment	(457)	(135)	-	(592)
Borrowing commissions	(8,791)	(2,078)	-	(10,869)
Accruals on derivative financial instruments	(2,958)	(5,865)	-	(8,823)
Other	(15,775)	12,944	(2,131)	(4,962)
<b>Net deferred tax asset / (liability)</b>	<b>2,685</b>	<b>15,679</b>	<b>(4,834)</b>	<b>13,530</b>

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**22. TAXATION (continued)**

**Deferred Tax (continued)**

	Balance at 1 January	Recognized in profit or loss	Recognized in other comprehensive income	Balance at 31 December
<b>2016</b>				
Loan commissions	16,103	1,275	-	17,378
Impairment losses on loans	8,485	503	-	8,988
Reserve for employee severance indemnity and unused vacation provision	2,053	202	(104)	2,151
Valuation of marketable securities	(2,694)	(4,887)	9,730	2,149
Useful life differences on property and equipment	(402)	(55)	-	(457)
Revaluation of tangible assets	(1,601)	-	(176)	(1,777)
Borrowing commissions	(7,265)	(1,526)	-	(8,791)
Accruals on derivative financial instruments	5,943	(8,901)	-	(2,958)
Other	(5,017)	(8,981)	-	(13,998)
<b>Net deferred tax asset / (liability)</b>	<b>15,605</b>	<b>(22,370)</b>	<b>9,450</b>	<b>2,685</b>

**23. EMPLOYEE BENEFITS**

	2017	2016
<b><u>Movement of reserve for employee severance indemnity</u></b>		
Balance at 1 January	9,101	9,067
Interest cost	849	852
Service cost	712	1,506
Loss/(Gain) due to Settlements / Reductions / Terminations	41	14
Payment during the year	(1,335)	(1,495)
Actuarial difference	393	(843)
<b>Balance at 31 December</b>	<b>9,761</b>	<b>9,101</b>
<b><u>Movement of provision for unused vacations</u></b>		
Balance at 1 January	1,803	1,700
Provision for the year	1,424	250
Provisions released	(837)	(147)
<b>Balance at 31 December</b>	<b>2,390</b>	<b>1,803</b>
<b><u>Movement of provision for bonus payments</u></b>		
Balance at 1 January	10,909	8,996
Provision for the year	12,363	10,865
Bonus paid	(10,344)	(8,088)
Income and expenses of the prior period	(193)	(864)
<b>Balance at 31 December</b>	<b>12,735</b>	<b>10,909</b>
<b>Employee benefits</b>	<b>24,886</b>	<b>21,813</b>

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**23. EMPLOYEE BENEFITS (continued)**

**a) Pension scheme**

The Group has established two pension schemes, which are funded defined benefit plans covering substantially all employees. The assets of the plan are held independently of the Group's assets in the Pension Funds. These schemes are valued by independent actuaries every year. As per the latest actuarial valuation carried out as at 31 December 2017, the Bank has no obligation to book any provision for the Pension Funds.

**b) Reserve for employee severance indemnity**

Under the Turkish Labour Law, the Group entities are required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires after completing 25 years of service (20 years for women) and reaches the retirement age (58 for women and 60 for men). Since the legislation was changed on 8 September 1999, there are certain transitional provisions relating to the length of service prior to retirement.

Such payments are calculated on the basis of 30 days pay maximum full TL 4,732 as at 31 December 2017 (31 December 2016: full TL 4,297) per year of employment at the rate of pay applicable at the date of retirement or termination. Reserve for retirement pay is computed and reflected in the consolidated financial statements on a current basis. The reserve has been calculated by estimating the present value of future probable obligation of the Group arising from the retirement of the employees. The calculation was based upon the retirement pay ceiling announced by the Government.

The principal assumptions used for the purpose of the calculations are as follows:

	2017	2016
Interest rate	12.00%	10.50%
Expected rate of increase in salaries and eligible ceiling	7.00%	6.50%
Discount rate	4.67%	3.76%

**24. SUBORDINATED LOAN**

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 payment. As of the end of the period, the value of the borrowing instrument is TL 1,146,236. (31 December 2016: None).

**25. PAYABLES TO MONEY MARKET**

	31 December 2017	31 December 2016
Interbank money market transactions	202,143	610,144
Istanbul Stock Exchange money market transactions	499,004	350,736
<b>Total</b>	<b>701,147</b>	<b>960,880</b>

Payables to stock exchange money markets have a maturity of 4-31 days (31 December 2016: 1-31 days) with between 12.75% and 15.05% (31 December 2016: between 8% and 8.50%) of interest rates.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**26. PROVISIONS**

	<b>31 December 2017</b>	<b>31 December 2016</b>
Free Provision	60,000	-
Legal Cases	2,729	290
Unindemnified Noncash Loans	583	583
Other	31	89
	<b>63,343</b>	<b>962</b>

Free provision amounting to TL 60.000 has been 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).

**27. CAPITAL AND RESERVES**

**Share Capital**

As at 31 December 2017, the authorized and issued capital consists of 240,000,000,000 shares of 0.01 Turkish Lira (full) each as reflected in the statutory consolidated financial statements. Ordinary shares carry voting rights in proportion to their nominal value.

<b>31 December 2017</b>	<b>%</b>	<b>Authorized Capital</b>	<b>Paid-In Capital</b>
<b><u>Shareholders</u></b>			
T. İş Bankası AŞ (*)	50.71	1,217,027	1,217,027
T. Vakıflar Bankası T.A.O.	8.38	201,060	201,060
Under Custody at Merkezi Kayıt Kuruluşu (Other Institutions and Individuals)	40.91	981,913	981,913
	<b>100.00</b>	<b>2,400,000</b>	<b>2,400,000</b>
<b><u>Components of Capital:</u></b>			
Nominal capital		2,400,000	2,400,000
Effect of inflation		13,563	13,563
		<b>2,413,563</b>	<b>2,413,563</b>
<hr/>			
<b>31 December 2016</b>	<b>%</b>	<b>Authorized Capital</b>	<b>Paid-In Capital</b>
<b><u>Shareholders</u></b>			
T. İş Bankası AŞ	50.65	1,038,383	1,038,383
T. Vakıflar Bankası T.A.O.	8.38	171,738	171,738
Under Custody at Merkezi Kayıt Kuruluşu (Other Institutions and Individuals)	40.97	839,879	839,879
	<b>100.00</b>	<b>2,050,000</b>	<b>2,050,000</b>
<b><u>Components of Capital:</u></b>			
Nominal capital		2,050,000	2,050,000
Effect of inflation		13,563	13,563
		<b>2,063,563</b>	<b>2,063,563</b>

(\*) T. İş Bankası A.Ş. Group share is calculated by considering T. İş Bankası A.Ş.'s purchases in free floating of BIST as of 31 December 2017 of Bank shares.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**27. CAPITAL AND RESERVES (continued)**

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.

**Legal reserves**

The legal reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the entity's share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the entity's share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted.

**Fair value reserve**

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets, until the assets are derecognised or impaired.

**Revaluation reserve**

As of the third quarter of 2015, the Bank, has changed its accounting policies from historical cost method to revaluation method for the real estate properties which are held for own use in accordance with "IAS 16 - Property, Plant and Equipment". The positive difference between the net book value of real estate property values and the expertise values which are determined by the certified valuation companies are recorded in "Revaluation surplus on tangible assets" under the shareholders' equity.

**Dividends**

At the Ordinary General Assembly of the Bank held on 23 March 2017, it was decided to distribute a dividend of TL 82,000 to shareholders and TL 10,801 to personnel, members of Board of Directors and to allocate TL 24,931 to legal reserves from retained earnings.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**27. CAPITAL AND RESERVES (continued)**

**Non-controlling interests**

As at the reporting date the non-controlling interests are as follows:

	<b>31 December 2017</b>	<b>31 December 2016</b>
Capital	47,008	47,008
Share premium	165	165
Fair value reserve	579	133
Legal reserve	118	118
Retained earnings	10,558	18,070
Actuarial gain/loss	(7)	-
Current period net income	(5,702)	(7,525)
	<b>52,719</b>	<b>57,969</b>

**28. NET FEE AND COMMISSION INCOME**

	<b>1 January- 31 December 2017</b>	<b>1 January- 31 December 2016</b>
Non-Cash Loans	15,625	10,650
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>Fee and commission income</b>	<b>53,752</b>	<b>36,387</b>
Non-Cash Loans	(2,400)	(1,401)
Other	(8,690)	(9,969)
<b>Fee and commission expense</b>	<b>(11,090)</b>	<b>(11,370)</b>
<b>Net fee and commission income</b>	<b>42,662</b>	<b>25,017</b>

**29. NET IMPAIRMENT LOSS ON FINANCIAL ASSETS**

	<b>1 January- 31 December 2017</b>	<b>1 January- 31 December 2016</b>
Portfolio reserve for loans	68,855	3,931
Free provision	60,000	-
Specific provision for loans	42,636	1,756
Marketable securities impairment expenses	3,988	3,810
Associates and subsidiaries	2,402	-
Other	259	-
	<b>178,140</b>	<b>9,497</b>

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**30. OTHER OPERATING INCOME**

	<b>1 January- 31 December 2017</b>	<b>1 January- 31 December 2016</b>
Rent income	8,956	7,731
Increase in value of investment properties	10,865	3,115
Provisions released	10,651	294
Gain on sale of assets	244	235
Other	2,830	2,278
	<b>33,546</b>	<b>13,653</b>

**31. DIVIDEND INCOME**

	<b>1 January- 31 December 2017</b>	<b>1 January- 31 December 2016</b>
Available-for-sale securities	4,519	3,906
Trading securities	-	-
Other	902	7,580
	<b>5,421</b>	<b>11,486</b>

**32. OTHER OPERATING EXPENSES**

	<b>1 January- 31 December 2017</b>	<b>1 January- 31 December 2016</b>
Personnel expenses	103,242	95,512
Other administrative expenses	34,196	32,699
Impairment in value of investment property	-	14,269
Depreciation, impairment and amortisation	5,997	6,836
Marketing expenses	1,121	1,364
Taxes and dues other than on income	5,360	11,162
Other	20,270	6,945
	<b>170,186</b>	<b>168,787</b>

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**33. SEGMENT REPORTING**

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.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**33. SEGMENTS REPORTING (continued)**

CONSOLIDATED STATEMENT OF PROFIT OR LOSS						
(1 January – 31 December 2017)						
	Banking	Stock brokerage and other	Combined	Eliminations	Total	
Interest income	1,826,236	47,631	1,873,867	(45)	1,873,822	
Interest expense	(786,945)	(69,643)	(856,588)	45	(856,543)	
Net interest income	1,039,291	(22,012)	1,017,279	-	1,017,279	
Net fee and commission income	14,435	28,227	42,662	-	42,662	
Net securities trading income / (loss)	5,863	(12)	5,851	-	5,851	
Net derivative trading income / (loss)	(219,765)	11,799	(207,966)	1,827	(209,793)	
Net foreign currency gains / (losses)	168,387	(29,473)	138,914	-	138,914	
Impairment losses on financial assets	(176,614)	(1,526)	(178,140)	-	(178,140)	
Net operating income after impairment losses	831,597	(12,997)	818,600	1,827	816,773	
Other operating income	12,821	47,428	60,249	(26,703)	33,546	
Other operating expenses	(132,441)	(47,406)	(179,847)	9,661	(170,186)	
Dividend income	18,002	2,151	20,153	(14,732)	5,421	
Share of profit of equity-accounted investees	43,861	-	43,861	-	43,861	
Profit before income tax	773,840	(10,824)	763,016	(33,601)	729,415	

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**33. SEGMENT REPORTING (continued)**

<b>CONSOLIDATED STATEMENT OF PROFIT OR LOSS</b>					
	<b>(1 January – 31 December 2016)</b>	<b>Banking</b>	<b>Stock brokerage and other</b>	<b>Combined</b>	<b>Eliminations</b>
					<b>Total</b>
Interest income	1,376,480	33,292	1,409,772	(93)	1,409,679
Interest expense	(599,292)	(51,677)	(650,969)	93	(650,876)
<b>Net interest income</b>	<b>777,188</b>	<b>(18,385)</b>	<b>758,803</b>	<b>-</b>	<b>758,803</b>
Net fee and commission income	4,935	20,082	25,017	-	25,017
Net securities trading income / (loss)	5,917	(2,085)	3,832	-	3,832
Net derivative trading income / (loss)	174	(1,137)	(963)	1,827	864
Net foreign currency gains / (losses)	(60,873)	(11,594)	(72,467)	-	(72,467)
Impairment losses on financial assets	(7,932)	(1,565)	(9,497)	-	(9,497)
<b>Net operating income after impairment</b>	<b>719,409</b>	<b>(14,684)</b>	<b>704,725</b>	<b>1,827</b>	<b>706,552</b>
Other operating income	2,422	43,848	46,270	(32,617)	13,653
Other operating expenses	(115,556)	(61,895)	(177,451)	8,664	(168,787)
Dividend income	30,103	2,007	32,110	(20,624)	11,486
Share of profit of equity-accounted investees	38,805	-	38,805	-	38,805
<b>Profit before income tax</b>	<b>675,183</b>	<b>(30,724)</b>	<b>644,459</b>	<b>(42,750)</b>	<b>601,709</b>

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**33. SEGMENT REPORTING (continued)**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	Banking	Stock brokerage and other	Combined	Eliminations	Total
<b>At 31 December 2017</b>					
<b>Total assets</b>	28,748,016	1,107,446	29,855,462	(60,812)	29,794,650
<b>Total liabilities</b>	25,005,260	845,635	25,850,895	(736)	25,850,159
Equity before net profit & non-controlling interests	3,156,275	275,117	3,431,392	(128,757)	3,302,635
Net profit attributable to equity holders of the Bank	586,481	(13,306)	573,175	15,962	589,137
Non-controlling interests	-	-	-	52,719	52,719
<b>Total equity</b>	3,742,756	261,811	4,004,567	(60,076)	3,944,491
<b>Total liabilities and equity</b>	28,748,016	1,107,446	29,855,462	(60,812)	29,794,650
<b>At 31 December 2016</b>					
<b>Total assets</b>	24,032,718	981,648	25,014,366	(150,862)	24,863,504
<b>Total liabilities</b>	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
<b>Total equity</b>	3,227,947	264,605	3,492,552	(94,295)	3,398,257
<b>Total liabilities and equity</b>	24,032,718	981,648	25,014,366	(150,862)	24,863,504

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**34. RELATED PARTIES**

For the purposes of the accompanying 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 consolidated financial statements include the following balances due from or due to related parties:

	<b>31 December 2017</b>	<b>31 December 2016</b>
<b><u>Balances with related parties</u></b>		
Loans and advances to customers	334,401	384,327
- <i>Balances with Parent Bank</i>	-	21,131
- <i>Balances with other related parties</i>	334,401	363,196
Non-cash loans	260	7,878
Loans and advances to banks	1,517	22,437
Available for sale investment securities	12,922	12,922
Other assets	9	6
Other liabilities	69	25
Derivative financial instruments	444,536	417,925
	<b>1 January – 31 December 2017</b>	<b>1 January – 31 December 2016</b>
<b><u>Transactions with related parties</u></b>		
Income from associates	43,861	38,805
Dividend income	5,421	11,486
Interest income	26,488	13,467
- <i>Balances with Parent Bank</i>	282	1,086
- <i>Balances with other related parties</i>	26,206	12,381
Foreign exchange gain (loss), net	27,628	31,494
Net fee and commission income / (expense), net	426	295
- <i>Balances with Parent Bank</i>	-	67
- <i>Balances with other related parties</i>	426	228
Other income	397	364
- <i>Balances with Parent Bank</i>	30	28
- <i>Balances with other related parties</i>	367	336
Derivative financial instruments gains/losses	(30,731)	8,000

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

Benefits provided to key management personnel in the current period amount to TL 15,828 (31 December 2016: TL 14,233).

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**35. COMMITMENTS AND CONTINGENCIES**

	<b>31 December 2017</b>	<b>31 December 2016</b>
Swap and forward agreements	25,047,827	19,378,549
Revocable and irrevocable commitments	6,132,575	8,524,308
Derivative financial instruments for hedging purposes	10,582,050	7,747,800
Option agreements	4,651,972	6,931,936
Letters of guarantee	1,475,645	975,391
Letters of credit	1,079,303	676,367
Capital commitments for subsidiaries and associates (*)	78,890	68,367
Bank acceptances	18,763	17,450
Other commitments	72,830	117,544
	<b>49,139,855</b>	<b>44,437,712</b>

(\*) Includes the remaining amount of the Parent Bank's commitment to 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.

**Fiduciary Activities**

The Group provides 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 1,299,527 as at 31 December 2017 (31 December 2016: TL 1,340,913). As at 31 December 2017, securities at custody with market value amounted to TL 4,676,000 (31 December 2016: TL 3,442,799).

**Securites Blocked and Letters of Guarantee Given to BIST as Collateral for Trading on Markets**

As at 31 December 2017, according to the general requirements of the BIST, letters of guarantee amounting to TL 406,700 (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 31 December 2017 there is no letters of guarantee were given to the Capital Markets Board (31 December 2016: None).

The Group's trading securities given as collateral or blocked is amounting to TL 263 as at the reporting date (31 December 2016: TL 1,289).

**Litigation**

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 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).

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**35. COMMITMENTS AND CONTINGENCIES (continued)**

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 the 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 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 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 (AYM) 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 as of December 31, 2016.

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.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**35. COMMITMENTS AND CONTINGENCIES (continued)**

**Other**

The Group's 9 branches, including branches of subsidiaries, 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, 25 cars and and 160 computers are subject to operational leasing).

**36. DERIVATIVE FINANCIAL INSTRUMENTS**

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, US Dollar and Euro.

The 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 with a total outstanding nominal value of USD 200 million. The average maturity of such swaps range between 2020 and 2021 years.

	<b>2017</b>	<b>2017</b>	<b>2016</b>	<b>2016</b>
	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>
Currency swaps	206,665	(135,793)	168,045	(141,417)
Options	42,519	(42,423)	125,627	(125,627)
Foreign currency forward contracts	21,909	(21,669)	22,109	(17,873)
Interest rate swaps	55,695	(32,518)	58,255	(35,880)
	<b>326,788</b>	<b>(232,403)</b>	<b>374,036</b>	<b>(320,797)</b>

*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 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:

	<b>2017</b>	<b>2017</b>	<b>2016</b>	<b>2016</b>
<b>Instrument type</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>
Interest Rate Swap	-	(78,682)	272	(51,433)
	-	<b>(78,682)</b>	<b>272</b>	<b>(51,433)</b>

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**36. DERIVATIVE FINANCIAL INSTRUMENTS (continued)**

At the reporting date, the total amounts of outstanding derivatives to which the Group is committed are as follows:

	<b>31 December 2017</b>	<b>31 December 2016</b>
Forward foreign exchange contracts – buy	2,413,168	567,798
Forward foreign exchange contracts – sell	2,412,937	563,317
Currency swaps – buy	3,573,706	3,822,916
Currency swaps – sell	3,433,776	3,650,808
Interest rate swaps – buy	6,607,120	5,386,855
Interest rate swaps – sell	6,607,120	5,386,855
Currency option – buy	2,325,986	3,465,968
Currency option – sell	2,325,986	3,465,968
Other – sell	72,830	117,544

**37. DIVIDENDS**

In March 2017, dividends amounting to TL 92,801 were paid. In March 2016, the dividends paid were TL 61,839.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**38. EARNINGS PER SHARE**

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

A summary of the weighted average number of shares outstanding for the year ended 31 December 2017 and 31 December 2016 and the basic earnings per share calculation is as follows:

	<b>1 January – 31 December 2017</b>	<b>1 January – 31 December 2016</b>
Number of shares outstanding at 1 January	2,050,000,000	1,750,000,000
New shares issued		
Conversion of existing reserves <sup>(*)</sup>	350,000,000	300,000,000
<b>Number of shares outstanding at the period end</b>	<b>2,400,000,000</b>	<b>2,050,000,000</b>
<b>Weighted average number of shares during the period</b>	<b>2,400,000,000</b>	<b>2,050,000,000</b>
Profit for equity holders of the Bank	589,137	488,223
<b>Basic and diluted earnings per share (in full Kuruş)</b>	<b>0.2455</b>	<b>0.2382</b>

<sup>(\*)</sup> Capital increase is made through internal resources and prior period's earnings per share figure is revised by using the number of shares subsequent to the capital increase.

There is no dilution of shares as of 31 December 2017.

**39. RATINGS**

As at and for the year ended 31 December 2017, the Bank's, ratings assigned by international rating agencies are as follows;

<b>Moody's – 20 March 2017</b>	<b>Rating</b>	<b>Outlook</b>
Long-term Foreign Currency Issuer Rating	Ba1	Negative
Short-term Foreign Currency Issuer Rating	NP	-
Long-term Local Currency Issuer Rating	Ba1	Negative
Short-term Local Currency Issuer Rating	NP	-
Long-term Foreign Currency Senior Debt	Ba1	Negative
<b>Fitch Ratings– 4 October 2017</b>	<b>Rating</b>	<b>Outlook</b>
Long-term Foreign Currency Issuer Default Rating	BB+	Stable
Long-term Local Currency Issuer Default Rating	BBB-	Stable
Short-term Foreign Currency Issuer Default Rating	B	-
Short-term Local Currency Issuer Default Rating	F3	-
National Long Term Rating	AAA	Stable
Support Rating	3	-
Support Rating Floor	BB+	-
Senior Unsecured Long Term Debt	BB+	-

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**40. EVENTS AFTER THE REPORTING PERIOD**

As of 16 January 2018, the Bank issued a debt instrument which has 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 payments.

In the meeting of the General Assembly held on 23 March 2018, it has been resolved that, paid-in capital of the Parent Bank will be increased from TL 2,400,000 to TL 2,800,000 by adding TL 400,000. In respect of the resolution of the General Assembly, all of this increase will be incorporated from the profit of the year 2017. The applications to BRSA and CMB related to increase has been performed, and the process has not been finalised as of the report date.

At the Ordinary General Assembly of the Bank held on 23 March 2018, it was decided to distribute a dividend of TL 96,000 to shareholders and TL 13,862 to personnel, members of Board of Directors from retained earnings.