

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

Consolidated Financial Statements
As at and for the Year Ended
31 December 2018
With Independent Auditors' Report

5 April 2019

This report contains 5 pages of independent auditors' report on audit of consolidated financial information and 121 pages of consolidated financial information.

Türkiye Sınai Kalkınma Bankası Anonim Şirketi and Its Subsidiaries

Table of Contents

	Pages
Independent auditors' report	1-5
Consolidated statement of financial position	6-8
Consolidated statement of profit or loss and other comprehensive income	9-12
Consolidated statement of changes in equity	13-14
Consolidated statement of cash flows	15-16
Notes to the consolidated financial statements	12-121

REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

Report on the Audit of the Consolidated Financial Statements

To the Shareholders 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, 2018, and the consolidated statement of profit or loss, consolidated statement of profit or loss and 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, 2018, 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 25, the accompanying consolidated financial statements as at 31 December 2018 include a free reserve for possible risks amounting to TL 120,000 thousands, of which TL 60,000 thousands and TL 60,000 thousands was provided in current and prior years respectively by the Group management for possible results of the circumstances which may arise from possible changes in the economy and market conditions and include the reversal of deferred tax asset at an amount of TL 13,200 thousands, which was accounted based on the free provision provided in 31 December 2017. Due to this provision which does not meet the accounting principles of IAS 37, the “Retained earnings” as of 31 December 2018 is understated by TL 46,800 thousands after deducting the tax effect, the other provisions are overstated by TL 120,000 thousands and the “net income” is understated by TL 73,200 thousands.

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 judgement, were of most significance in our audit of the financial statements of the current period. Key audit 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.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key Audit Matter	How the matter is addressed in our audit
<p><i>Financial impact of transition to IFRS 9 "Financial Instruments" standard and recognition of impairment on financial assets and related important disclosures</i></p> <p>As presented in Note 3.23, as of 1 January 2018, the Bank adopted the IFRS 9 "Financial Instruments" standard and due to the adoption, the Bank started to calculate and recognize expected credit losses of financial assets in accordance with IFRS 9. We considered the transition to IFRS 9 and impairment of financial assets as a key audit matter due to:</p> <ul style="list-style-type: none"> - Balance sheet and off balance sheet items that are subject to expected credit loss calculation is material for the financial statements - Transition to IFRS 9 effect 3.3% on the Group's equity - Complex accounting requirements of IFRS 9 - The classification of the financial assets is based on the Bank's business model and characteristics of the contractual cash flows in accordance with IFRS 9 and the Group uses significant judgment on the assessment of the business model and identification of the complex contractual cash flow characteristics of financial instruments. - The Group determines the fair value of financial assets measured at fair value by level 3 related business model category non-observable in fair value measurement due to the existence of significant estimates and assumptions determination - The model that is established by the Bank management to calculate the expected credit losses has the compliance risk whether it is established based on the requirements of IFRS 9 and other practices 	<p>Our audit procedures included among others include:</p> <ul style="list-style-type: none"> -Evaluating the appropriateness of management's selection of accounting policies based on the requirements of IFRS 9, our business understanding and industry practice. -Identifying and testing relevant controls and new IT systems by involving Information technology and Process audit specialists -Evaluating the reasonableness of management's key judgements and estimates made in expected credit loss calculations, including selection of methods, models, assumptions and data sources and evaluating the appropriateness of management's selection of accounting policies based on the requirements of IFRS 9, our business understanding and industry practice -Evaluating the understanding and the control of the Group's business model assessment and the test on the contractual cash flows -Examining the financial instruments classification and measurement models (fair value hierarchy Level 3 financial instruments) and comparing them with IFRS 9 standard requirements -Involving Financial risk management specialists to challenge significant assumptions / judgements relating to credit risk grading, significant increase in credit risk, definition of default, probability of default, macro-economic variables, and recovery rates and performing loan review from the selected samples

<ul style="list-style-type: none"> - The new or revised processes that is began to use with the transition of IFRS 9, have complex and intensive control environment - The new, significant and complex judgments and estimations needed for the calculation of expected credit losses and - The complex disclosure requirements of IFRS. 	<ul style="list-style-type: none"> -Assessing the completeness, accuracy and relevance of the data used for the calculation of expected credit loss -Evaluating the appropriateness and tested the mathematical accuracy of Expected credit loss models applied. -Evaluating the judgments and estimates used for the individually assessed financial assets - Evaluating the reasonableness of and tested the post-model adjustments. -Auditing of the IFRS 9 disclosures.
Pension Fund Obligations	
<p>As presented in Note 3.19 "Employee benefits" and Note 22 "Employee Benefits – Pension scheme", the valuation of the Pension Fund liabilities requires judgment in determining appropriate assumptions such as defining the transferrable social benefits, discount rates, salary increases, demographic assumptions, inflation rate estimates and the impact of any changes in individual pension plans. The Bank Management uses Fund actuaries to assist in assessing these assumptions.</p> <p>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.</p>	<p>It has been addressed whether there have been any significant changes in regulations governing pension liabilities, employee benefits plans during the period, that could lead to adjust the valuation of employee benefits.</p> <p>Support from actuarial auditor who is in the same audit network within our firm, has been taken to assess the appropriateness of the actuarial assumptions and calculations performed by the external actuary. We further focused on the accuracy and adequacy of the deficit and also disclosures on key assumptions related to pension fund.</p>
Derivative Financial Instruments	
<p>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 in Note 34 "Derivative financial instruments".</p> <p>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.</p>	<p>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.</p> <p>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").</p>

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, SMMM
Partner

5 April 2019
Istanbul, Turkey

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

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

ASSETS	Notes	31 December 2018
Cash and cash equivalents	7	1,393,542
Reserve deposits at Central Bank	7	730,030
Financial assets measured at fair value through profit or loss	8	9,859
Financial assets measured at fair value through other comprehensive income	10	3,427,495
- <i>Financial assets measured at fair value through other comprehensive income as pledge</i>	17	171,653
Financial assets measured at amortized cost	10	2,153,313
- <i>Financial assets measured at amortized cost as pledge</i>	17	248,394
Derivative financial assets	34	979,221
Loans and advances to customers	9	27,843,080
Investments in equity-accounted investees		428,490
Goodwill	12	383
Property and equipment	13	292,651
Investment property	14	247,793
Intangible assets	15	3,867
Deferred tax assets	21	3,844
Property and equipment held for sale purpose		1
Other assets	16	755,249
Total assets		38,268,818

ASSETS	Notes	31 December 2017
Cash on hand	7	24
Balances with Central Bank	7	15,433
Reserve deposits at Central Bank	7	831,678
Loans and advances to banks	7	493,687
Funds lent under repurchase agreements		3
Financial assets at fair value through profit or loss		336,093
- <i>Trading financial assets</i>	8	9,305
- <i>Derivative financial instruments</i>	34	326,788
Loans and advances to customers	9	22,304,828
Investment securities		4,628,479
- <i>Available for sale investment securities</i>		2,925,182
- <i>Available for sale investment securities as pledges</i>	17	171,250
- <i>Held to maturity investment securities</i>		979,969
- <i>Held to maturity investment securities as pledges</i>	17	552,078
Investments in equity-accounted investees	11	374,425
Goodwill	12	383
Property, plant and equipment	13	245,798
Investment property	14	243,145
Intangible assets	15	2,580
Deferred tax assets	21	13,530
Other assets	16	304,564
Total assets		29,794,650

Note: The prior period financial statements and related disclosures are not restated as permitted by IFRS 9 transition rules. Since, 2017 and 2018 financial statements are prepared on different principles, 2017 financial statements are presented separately.

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 2018

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

LIABILITIES	Notes	31 December 2018
Funds borrowed	18	23,819,670
Money market balances	24	402,278
Debt securities issued	19	6,949,189
Derivative financial liabilities	34	620,082
Derivatives used for hedging purposes	34	172,258
Current account of loan customers		32,529
Taxes and dues payable		11,741
Employee benefits	22	43,605
Corporate tax liability	21	82,363
Provisions	25	132,562
Other liabilities	20	169,310
Subordinated loan	23	1,549,774
Total liabilities		33,985,361
EQUITY		
Share capital		
Nominal paid in capital	26	2,800,000
Inflation adjustment to capital	26	13,563
Total capital	26	2,813,563
Share premium		516
Legal reserves		273,239
Fair value reserve		(127,817)
Revaluation reserve		260,373
Translation reserve		15,704
Actuarial Gain/(Loss)		(566)
Retained earnings		1,009,823
Total equity attributable to equity holders of the Bank		4,244,835
Non-controlling interests	26	38,622
Total equity		4,283,457
Total liabilities and equity		38,268,818
Commitments and contingencies	35	65,537,851

Note: The prior period financial statements and related disclosures are not restated as permitted by IFRS 9 transition rules. Since, 2017 and 2018 financial statements are prepared on different principles, 2017 financial statements are presented separately.

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 2018

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

LIABILITIES	Notes	31 December 2017
Obligations under repurchase agreements	17	610,775
Derivative liabilities	34	232,403
Funds borrowed	18	19,001,627
Debts securities issued	19	3,746,229
Payables to money market	24	701,147
Current account of loan customers		12,901
Derivative liabilities held for hedging purposes	34	78,682
Taxes and dues payable		9,986
Employee benefits	22	24,886
Corporate tax liability	21	43,662
Provisions	25	63,343
Other liabilities	20	178,282
Subordinated loan	23	1,146,236
Total liabilities		25,850,159
EQUITY		
Share capital		
Nominal paid in capital	26	2,400,000
Inflation adjustment to capital	26	13,563
Total capital		2,413,563
Share premium		428
Legal reserves		241,758
Fair value reserve		(32,477)
Revaluation reserve		214,231
Translation reserve		7,847
Actuarial Gain/(Loss)		(30)
Retained earnings		1,046,452
Total equity attributable to equity holders of the Bank		3,891,772
Non-controlling interests	26	52,719
Total equity		3,944,491
Total liabilities and equity		29,794,650
Commitments and contingencies	35	49,139,855

Note: The prior period financial statements and related disclosures are not restated as permitted by IFRS 9 transition rules. Since, 2017 and 2018 financial statements are prepared on different principles, 2017 financial statements are presented separately.

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 2018

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

	Notes	1 January – 31 December 2018
Interest income		
Interest income on loans and advances to customers		2,133,352
Interest on money market placements		107,098
Interest income on securities		762,490
Interest income on loans and advances to banks		78,878
Interest income on reserve deposits at central banks		10,258
Interest income on finance leases		6,060
Other interest income		11,973
Total interest income		3,110,109
Interest expenses		
Interest expense on obligations under repurchase agreements and money market borrowings		(307,521)
Interest expense on funds borrowed and subordinated loan		(581,108)
Interest expense on debt securities issued		(491,351)
Other interest expenses		(1,411)
Total interest expense		(1,381,391)
Net interest income		1,728,718
Fee and commission income		63,929
Fee and commission expense		(12,531)
Net fee and commission income	29	51,398
Securities trading income / (loss), net		2,202
Derivative trading income / (loss), net		(616,348)
Foreign exchange gains / (loss), net		284,946
Net trading income / (loss), net		(329,200)
Net impairment loss	30	(472,649)
Net operating income after impairment loss		978,267
Other operating income	31	19,093
Other operating expenses	33	(209,944)
Dividend income	32	5,525
Share of profit of equity-accounted investees	11	90,705
Profit before income tax	21	883,646
Income tax expense	21	(221,597)
Profit for the period		662,049

Note: The prior period financial statements and related disclosures are not restated as permitted by IFRS 9 transition rules. Since, 2017 and 2018 financial statements are prepared on different principles, 2017 financial statements are presented separately.

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 2018

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

	Notes	1 January – 31 December 2017
Interest income		
Interest income on loans and advances to customers		1,314,800
Interest on money market placements		51,435
Interest income on securities		432,988
Interest income on loans and advances to banks		65,034
Interest income on reserve deposits at central banks		5,617
Interest income on finance leases		1,659
Other interest income		2,289
Total interest income		1,873,822
Interest expenses		
Interest expense on obligations under repurchase agreements and money market borrowings		(253,328)
Interest expense on funds borrowed and subordinated loan		(339,360)
Interest expense on debt securities issued		(262,943)
Other interest expenses		(912)
Total interest expense		(856,543)
Net interest income		1,017,279
Fee and commission income		53,752
Fee and commission expense		(11,090)
Net fee and commission income	29	42,662
Securities trading income / (loss), net		5,851
Derivative trading income / (loss), net		(209,793)
Foreign exchange gains / (loss), net		138,914
Net trading income / (loss), net		(65,028)
Net impairment loss on financial assets	30	(178,140)
Net operating income after impairment loss		816,773
Other operating income	31	33,546
Other operating expenses	33	(170,186)
Dividend income	32	5,421
Share of profit of equity-accounted investees	11	43,861
Profit before income tax	21	729,415
Income tax expense	21	(145,980)
Profit for the period		583,435

Note: The prior period financial statements and related disclosures are not restated as permitted by IFRS 9 transition rules. Since, 2017 and 2018 financial statements are prepared on different principles, 2017 financial statements are presented separately.

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 2018

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

	1 January –
Notes	31 December 2018
Profit for the period	662,049
Items that will never be reclassified to profit or loss:	
Remeasurement of employee termination benefits	(684)
Revaluation of tangible assets	47,172
Related tax	(882)
Items that are or may be reclassified subsequently to profit or loss:	
Net change in fair value of financial assets at fair value through other comprehensive income	(149,408)
Translation reserve	7,857
Equity-accounted investees - share of OCI	(2,431)
Related tax	33,398
Other comprehensive income for the period, net of tax	(64,978)
Total comprehensive income for the period	597,071

	1 January –
Notes	31 December 2018
Profit attributable to:	
Equity holders of the Bank	669,542
Non-controlling interests	(7,493)
Profit for the period	662,049
Total comprehensive income attributable to:	
Equity holders of the Bank	604,564
Non-controlling interests	(7,493)
Total comprehensive income for the period	597,071
Earnings per share	
Basic earnings per share (in full TL)	28 0.2391

Note: The prior period financial statements and related disclosures are not restated as permitted by IFRS 9 transition rules. Since, 2017 and 2018 financial statements are prepared on different principles, 2017 financial statements are presented separately.

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 2018

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

	1 January –
Notes	31 December 2017
Profit for the period	583,435
Items that will never be reclassified to profit or loss:	
Remeasurement of employee termination benefits	(380)
Revaluation of tangible assets	16,315
Related tax	(2,031)
Items that are or may be reclassified subsequently to profit or loss:	
Net change in fair value of available-for-sale financial assets	37,243
Equity-accounted investees - share of OCI	7,264
Related tax	(2,803)
Other comprehensive income for the period, net of tax	55,608
Total comprehensive income for the period	639,043

	1 January –
Notes	31 December 2017
Profit attributable to:	
Equity holders of the Bank	589,137
Non-controlling interests	(5,702)
Profit for the period	583,435
Total comprehensive income attributable to:	
Equity holders of the Bank	644,299
Non-controlling interests	(5,256)
Total comprehensive income for the period	639,043
Earnings per share	
Basic earnings per share (in full TL)	28 0.2455

Note: The prior period financial statements and related disclosures are not restated as permitted by IFRS 9 transition rules. Since, 2017 and 2018 financial statements are prepared on different principles, 2017 financial statements are presented separately.

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

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

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

	Notes	Attributable to equity holders of the Bank										Non-controlling interests	Total Equity
		Share Capital	Inflation adjustment to capital	Share premium	Legal reserves	Fair value reserve	Revaluation reserve	Translation Reserve	Actuarial Gain/(Loss)	Retained earnings	Total		
Balance at 1 January 2017		2,050,000	13,563	428	216,827	(70,131)	200,047	4,243	250	925,061	3,340,288	57,969	3,398,257
Total comprehensive income for the period													
Profit for the period		-	-	-	-	-	-	-	-	589,137	589,137	(5,702)	583,435
Other comprehensive income													
Remeasurement of defined benefit liability		-	-	-	-	-	-	-	(380)	-	(380)	-	(380)
Net change in fair value of available for sale financial assets						33,193	-	3,604	-	-	36,797	446	37,243
Revaluation of tangible assets		-	-	-	-	-	16,315	-	-	-	16,315	-	16,315
Equity-accounted investees - share of OCI		-	-	-	-	7,264	-	-	-	-	7,264	-	7,264
Tax on other comprehensive income		-	-	-	-	(2,803)	(2,131)	-	100	-	(4,834)	-	(4,834)
Total other comprehensive income		-	-	-	-	37,654	14,184	3,604	(280)	-	55,162	446	55,608
Total comprehensive income for the period		-	-	-	-	37,654	14,184	3,604	(280)	589,137	644,299	(5,256)	639,043
Transactions with owners of the Bank													
Contributions and distributions													
Capital increase	26	350,000	-	-	-	-	-	-	-	(350,000)	-	-	-
Dividend distribution		-	-	-	-	-	-	-	-	(92,801)	(92,801)	-	(92,801)
Transfer to legal reserves		-	-	-	24,931	-	-	-	-	(24,931)	-	-	-
Other changes		-	-	-	-	-	-	-	-	(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	26	2,400,000	13,563	428	241,758	(32,477)	214,231	7,847	(30)	1,046,452	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 CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

(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	Translation Reserve	Actuarial Gain/(Loss)	Retained earnings	Total	Non-controlling interests	Total Equity
Balance at 1 January 2018		2,400,000	13,563	428	241,758	(32,477)	214,231	7,847	(30)	1,046,452	3,891,772	52,719	3,944,491
Corrections and accounting policy changes		-	-	-	-	23,101	-	-	-	(169,096)	(145,995)	(87)	(146,082)
Balance at 1 January 2018		2,400,000	13,563	428	241,758	(9,376)	214,231	7,847	(30)	877,356	3,745,777	52,632	3,798,409
Total comprehensive income for the period													
Profit for the period		-	-	-	-	-	-	-	-	669,542	669,542	(7,493)	662,049
Other comprehensive income													
Remeasurement of defined benefit liability		-	-	-	-	-	-	-	(684)	-	(684)	-	(684)
Net change in fair value financial assets at fair value through other comprehensive income		-	-	-	-	(149,408)	-	7,857	-	-	(141,551)	-	(141,551)
Revaluation of tangible assets		-	-	-	-	-	47,172	-	-	-	47,172	-	47,172
Equity-accounted investees - share of OCI		-	-	-	-	(2,431)	-	-	-	-	(2,431)	-	(2,431)
Tax on other comprehensive income		-	-	-	-	33,398	(1,030)	-	148	-	32,516	-	32,516
Total other comprehensive income		-	-	-	-	(118,441)	46,142	7,857	(536)	-	(64,978)	-	(64,978)
Total comprehensive income for the period		-	-	-	-	(118,441)	46,142	7,857	(536)	669,542	604,564	(7,493)	597,071
Transactions with owners of the Bank													
Contributions and distributions													
Capital increase	26	400,000	-	-	-	-	-	-	-	(400,000)	-	-	-
Dividend distribution		-	-	-	-	-	-	-	-	(109,505)	(109,505)	-	(109,505)
Transfer to legal reserves		-	-	-	31,481	-	-	-	-	(31,481)	-	-	-
Other changes		-	-	88	-	-	-	-	-	3,911	3,999	(6,517)	(2,518)
Total transactions with the owners of the Company													
		400,000	-	88	31,481	-	-	-	-	(537,075)	(105,506)	(6,517)	(112,023)
Balance at 31 December 2018	26	2,800,000	13,563	516	273,239	(127,817)	260,373	15,704	(566)	1,009,823	4,244,835	38,622	4,283,457

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 2018

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

	Notes	31 December 2018
Cash flows from operating activities:		
Interests and commissions received		2,601,223
Other operating activities, net		(1,342,871)
Cash payments to employees and suppliers		675,059
Interests and commissions paid		(155,153)
Dividends received		5,525
Operating profit before changes in operating assets / liabilities		1,783,783
(Increase)/decrease in operating assets:		
Loans and advances to customers		1,204,032
Balances with central banks		102,478
Financial assets at fair value through profit or loss		(1,541)
Other assets		(494,768)
(Increase)/decrease in operating liabilities:		
Funds borrowed		(1,621,868)
Obligations under repurchase agreements and money market fundings		(909,263)
Other liabilities		(3,020)
Net cash outflows from operating activities before taxes and duties paid		59,833
Income taxes and other duties paid		(104,310)
Net cash outflows from operating activities		(44,477)
Cash flows from investing activities:		
Cash paid for purchase of investment securities		(680,955)
Cash obtained from sale of investment securities		590,195
Decrease in investments in equity participations		(3,000)
Proceeds from sale of tangible assets		94
Purchase of tangible assets		(4,924)
Sale of financial assets measured at amortized cost		(227,528)
Other		(2,543)
Net cash inflows/ outflows from investing activities		(328,661)
Cash flows from financing activities:		
Increase in loans and advances from banks and other institutions, net		1,318,590
Dividends paid		(109,865)
Other		20
Net cash inflows from financing activities		1,208,745
Effect of exchange rate changes		45,970
Net increase in cash and cash equivalents		881,577
Cash and cash equivalents at 1 January	(7)	504,248
Cash and cash equivalents at 31 December	(7)	1,385,825

Note: The prior period financial statements and related disclosures are not restated as permitted by IFRS 9 transition rules. Since, 2017 and 2018 financial statements are prepared on different principles, 2017 financial statements are presented separately.

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 2018

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

	Notes	31 December 2017
Cash flows from operating activities:		
Interests and commissions received		1,631,942
Interests and commissions paid		(846,414)
Other operating activities, net		296,357
Cash payments to employees and suppliers		(122,637)
Dividends received		5,421
Operating profit before changes in operating assets / liabilities		964,669
(Increase)/decrease in operating assets:		
Loans and advances to customers		(2,839,528)
Balances with central banks		(217,998)
Financial assets at fair value through profit or loss		4,853
Other assets		63,340
(Increase)/decrease in operating liabilities:		
Funds borrowed		639,937
Obligations under repurchase agreements and money market fundings		55,399
Other liabilities		(24,420)
Net cash inflows / outflows from operating activities before taxes and duties paid		(1,353,748)
Income taxes and other duties paid		(122,638)
Net cash inflows / outflows from operating activities		(1,476,386)
Cash flows from investing activities:		
Cash paid for purchase of investment securities		(781,787)
Cash obtained from sale of investment securities		867,314
Purchase of investments in equity participations		-
Proceeds from sale of tangible assets		329
Purchase of tangible assets		(4,736)
Other		(1,282)
Net cash outflows from investing activities		79,838
Cash flows from financing activities:		
Increase in loans and advances from banks and other institutions		1,077,000
Dividends paid		(92,801)
Net cash inflows from financing activities		984,199
Effect of exchange rate changes		3,656
Net increase in cash and cash equivalents		(408,693)
Cash and cash equivalents at 1 January		912,941
Cash and cash equivalents at 31 December	(7)	504,248

Note: The prior period financial statements and related disclosures are not restated as permitted by IFRS 9 transition rules. Since, 2017 and 2018 financial statements are prepared on different principles, 2017 financial statements are presented separately.

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

Notes to the consolidated financial statements	Page
1 Reporting entity	18-19
2 Basis of preparation	20-22
3 Significant accounting policies	23-54
4 Financial risk management	55-78
5 Financial instruments	79-80
6 Operating segments	81-84
7 Cash and cash equivalents, balances with central bank, loans and advances to banks, money market placements	85-87
8 Financial assets at fair value through profit or loss	88
9 Loans and advances to customers	88-91
10 Investment securities	91-92
11 Investments in equity-accounted investees	93-94
12 Goodwill	94
13 Property and equipment	95-96
14 Investment property	97-98
15 Intangible assets	98
16 Other assets	99
17 Obligations under repurchase agreements	99-100
18 Funds Borrowed	100
19 Debt securities issued	103
20 Other Liabilities	103
21 Taxation	104-108
22 Employee Benefits	108-109
23 Subordinated Loan	109
24 Payables to money market	109
25 Provisions	110
26 Capital and reserves	110-111
27 Dividends	111
28 Earnings per share	111
29 Net fee and commission income	113
30 Net impairment loss on financial assets	113
31 Other operating income	114
32 Dividend income	114
33 Other operating expenses	114
34 Derivative financial instruments	115-116
35 Commitments and contingencies	117-119
36 Related Parties	120
37 Ratings	121
38 Events after the reporting period	121

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

1. REPORTING ENTITY

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

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

TSKB started its activities in 1950 financing the private sector investments in Turkey and today it provides loans and project finance with the goal of sustainable development to corporations in different fields. As a leader in meeting the long term finance needs of the private sector, TSKB also continues to offer solutions with respect to the newest needs and client demands. Furthermore, through offering the equity shares of such companies to the public, TSKB has been a significant milestone in this field and thus assumed a prominent and vital role in fostering the development of capital markets.

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

Current Period Name Surname/Commercial Title	Share Capital	Shareholding Rate (%)	Paid in Capital	Unpaid Capital
T. İş Bankası A.Ş. Group	1,425,780	50.92	1,425,780	-
T. Vakıflar Bankası T.A.O.	234,570	8.38	234,570	-
Under Custody at Merkezi Kayıt Kuruluşu (Other Institutions and Individuals)	1,139,650	40.70	1,139,650	-
Total	2,800,000	100.00	2,800,000	-

Prior Period Name Surname/Commercial Title	Share Capital	Shareholding Rate (%)	Paid in Capital	Unpaid Capital
T. İş Bankası A.Ş. Group	1,217,027	50.71	1,217,027	-
T. Vakıflar Bankası T.A.O.	201,060	8.38	201,060	-
Under Custody at Merkezi Kayıt Kuruluşu (Other Institutions and Individuals)	981,913	40.91	981,913	-
Total	2,400,000	100.00	2,400,000	-

The Parent Bank shares are traded in Istanbul Stock Exchange (“BIST”) since 26 December 1986. The Parent Bank’s 50.92% of the shares belongs to İş Bank Group and 38.60% of these shares are in free floating and traded in BIST National Market with “TSKB” ticker.

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

The consolidated financial statements of the Bank as at and for the period ended 31 December 2018 are available upon request from the Bank’s registered office and website.

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

1. REPORTING ENTITY (Continued)

Information about the consolidated subsidiaries and equity accounted associates

Yatırım Finansman Menkul Değerler AŞ

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

TSKB Gayrimenkul Yatırım Ortaklığı AŞ

The core business of TSKB Gayrimenkul Yatırım Ortaklığı AŞ ("TSKB GYO") is real estate trust to construct and develop a portfolio of properties and invest in capital market instruments linked to properties. The company was established on 3 February 2006. The company's shares are traded in BIST since April 2010. The share of Türkiye Sınai Kalkınma Bankası A.Ş. is 85.41%. The company's headquarters is located at Istanbul/Turkey.

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 29.46%.

İş Faktoring AŞ

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

İş Girişim Sermayesi Yatırım Ortaklığı AŞ

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

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

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 05 April 2019.

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 measured at fair value through profit or loss are measured at fair value
- financial assets measured at fair value through other comprehensive income 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, 3.10, 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 2018

(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 judgements made in applying the Bank’s accounting policies include:

Current year

Allowances for credit losses

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.

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

Prior years

Impairment of financial assets described in explanations on prior period accounting policies not valid for the current period in Note 3.24.

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

(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

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 3.19 are reviewed regularly.

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

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.

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	85.41

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	21.75
İş Faktoring AŞ	Factoring	16.67

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	99.83

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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 2018

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 equity instruments measured at fair value through other comprehensive income, 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 2018

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 2018 and 31 December 2017, foreign currency assets and liabilities of the Group are mainly in US Dollar and Euro. As at 31 December 2018 and 31 December 2017, exchange rates of US Dollar and Euro are as follows:

	2018		2017	
	Period End	Average	Period End	Average
1 US Dollar	5.1350	4.7827	3.7525	3.8195
1 Euro	5.8678	5.6243	4.4824	4.5225

3.3 Interest

Interest income and expense are recognised in the profit or loss using the effective interest method. Interest income is recorded according to the effective interest rate method (rate equal to net present value of future cash flows or financial assets and liabilities) defined in the IFRS 9 "Financial Instruments" standard by applying the effective interest rate to the gross carrying amount of a financial asset except for: purchased or originated credit-impaired financial assets or financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets.

If the financial asset is impaired and classified as a non-performing receivable, the Parent Bank applies the effective interest rate on the amortized cost of the asset for subsequent reporting periods. Such interest income calculation is made on an individual contract basis for all financial assets subject to impairment calculation. It is used effective interest rate during calculation of loss given default rate in expected credit loss models and accordingly, the calculation of expected credit losses includes an interest amount. If the credit risk of the financial instrument improves to the extent that the financial asset is no longer considered as impaired and the improvement can be attributed to an incident that eventually takes place (such as an increase in the loan's credit rating), interest income at subsequent reporting periods are calculated by applying the effective interest rate to the gross amount.

Interest income and expense presented in the statement of comprehensive income statement include:

- The interest income on financial assets and liabilities at amortized cost on an effective interest rate basis
- The interest income on held for trading investments and fair value through other comprehensive income investments.
- 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 2018

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Fees and commissions

Except for fees and commissions that are integral part of the effective interest rates of financial instruments measured at amortized costs, the fees and commissions are accounted for in accordance with IFRS 15 Revenue from Contracts with Customers. Except for certain fees related with certain banking transactions and recognized when the related service is given, fees and commissions received or paid, and other fees and commissions paid to financial institutions are accounted under accrual basis of accounting throughout the service period. Income from asset purchases to a third party or by natural or legal persons contracts are recognized in the period they occur.

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 financial assets through other comprehensive income, 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 2018

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

Initial measurement of financial instruments

Initial recognition of financial instruments the Parent Bank shall recognize a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets shall be recognized and derecognized, as applicable, using trade date accounting or settlement date accounting. Purchase and sale transactions of securities are accounted at the settlement date.

The classification of financial instruments at initial recognition depends on the contractual conditions and the relevant business model. Except for the assets in the scope of IFRS 15 Revenue from contracts with customers, at initial recognition, the Parent Bank measures financial asset or financial liabilities at fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit/loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Classification of financial instruments

On which category a financial instruments shall be classified at initial recognition depends on both the business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

Assessment of business model

As per IFRS 9, the Parent Bank's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The business model does not depend on the intent of the management on an individual financial intermediary, so the condition is not a classification approach on the basis of a financial instrument but an evaluation by combining the financial assets. When the business model used for the management of financial assets is being evaluated, all evidence is taken into account. Such evidence includes the following:

- How the performance of financial assets held by the business model and business model is reported by the key executive personnel,
- Risks affecting the performance of the business model (financial assets held within the business model) and, in particular type of management,

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial assets and financial liabilities (continued)

Assessment of business model (continued)

- How the additional payments to the managers are determined (for example, whether additional payments are determined according to the fair value of the assets being managed or on the contractual cash flows collected).

Business model evaluation is not based on scenarios in which the operator is not expected to be at a reasonable level, such as the "worst case" or "pressure case" scenarios. The same business model does not require a change in the classification of other financial assets as long as the cash flows are realized differently from the expected future date when the business model is assessed, the error correction is made in the financial statements or all relevant information available at the time of the valuation of the business model is taken into account. However, when evaluating the business model for newly created or newly acquired financial assets, information about how past cash flows have been taken into account along with other relevant information is also taken into account. The business models that comprise the bet are composed of three categories. These categories are as follows:

- Business model aimed to hold assets in order to collect contractual cash flows: This is a model whose objective is to hold assets in order to collect contractual cash flows are managed to realise cash flows by collecting contractual payments over the life of the instrument. The financial assets that are held within the scope of this business model are measured at amortized cost when the contractual terms of the financial asset meet the condition of giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

- Business model whose objective is to hold assets in order to collect contractual cash flows: The Parent Bank may hold financial assets in this business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

Fair value change of the financial assets that are held within the scope of this business model are accounted under other comprehensive income when the contractual terms of the financial asset meet the condition of giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

- Other Business Model: Financial assets are measured at fair value through profit or loss if they are not held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets

The contractual cash flows including solely principle and interest on principle

As per IFRS 9, the Parent Bank classifies a financial asset on the basis of its contractual cash flow characteristics if the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. In order to assess whether the element provides consideration for only the passage of time, an entity applies judgement and considers relevant factors such as the currency in which the financial asset is denominated and the period for which the interest rate is set. When the contractual conditions are exposed to the risks which are not consistent with the basic lending arrangement or variability of cash flows, the relevant financial asset is measured at fair value through profit or loss.

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial assets and financial liabilities (continued)

3.8.1 Measurement categories of financial assets and liabilities

Financial Assets

As of 1 January 2018, the Bank classified all its financial assets based on the business model for managing the financial assets. Effect of this classification is explained in Note 3.23 in Section Three. In this context, Financial assets are classified in three main categories as listed below:

- Financial assets measured at fair value through profit/loss
- Financial assets measured at fair value through other comprehensive income and
- Financial assets measured at amortized cost

Financial assets measured at the fair value through profit or loss

Financial assets at fair value through profit/loss are financial assets other than the ones that are managed with business model that aimed to hold to collect contractual cash flows or business model that aims to collect both the contractual cash flows and cash flows arising from the sale of the assets; and in case of the contractual terms of the financial asset do not lead to cash flows representing solely payments of principal and interest at certain date; that are either acquired for generating a profit from shortterm fluctuations in prices or are financial assets included in a portfolio aiming to short-term profit making. Financial assets at the fair value through profit or loss are initially recognized at fair value and remeasured at their fair value after recognition. All gains and losses arising from these valuations are reflected in the income statement. According to uniform chart of accounts explanations interest income earned on financial asset and the difference between their acquisition costs and amortized costs are recorded as interest income in the statement of profit or loss. The differences between the amortized costs and the fair values of such assets are recorded under trading account income/losses in the statement of profit or loss. In cases where such assets are sold before their maturities, the gains/losses on such sales are recorded under trading account income/losses.

Financial assets measured at fair value through other comprehensive income

In addition to Financial assets within a business model that aims to hold to collect contractual cash flows and aims to hold to sell, financial asset with contractual terms that lead to cash flows are solely payments of principal and interest at certain dates, they are classified as fair value through other comprehensive income.

Financial assets at fair value through other comprehensive income are recognized by adding transaction cost to acquisition cost reflecting the fair value of the financial asset. After the recognition, financial assets at fair value through other comprehensive income are measured at fair value. Interest income calculated with effective interest rate method arising from financial assets at fair value through other comprehensive income and dividend income from equity securities are recorded to income statement.

“Unrealized gains and losses” arising from the difference between the amortized cost and the fair value of financial assets at fair value through other comprehensive income are not reflected in the income statement of the period until the acquisition of the asset, sale of the asset, the disposal of the asset, and impairment of the asset and they are accounted under the “Accumulated Other Comprehensive Income or Loss Reclassified Through Profit or Loss” under shareholders’ equity. Equity securities, which are classified as financial assets at fair value through other comprehensive income, that have a quoted market price in an active market and whose fair values can be reliably measured are carried at fair value. Equity securities that do not have a quoted market price in an active market and whose fair values cannot be reliably measured are carried at cost, less provision for impairment.

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial assets and financial liabilities (continued)

3.8.1 Measurement categories of financial assets and liabilities (continued)

Financial Assets (continued)

Financial Assets at Fair Value Through Other Comprehensive Income (Continued)

During initial recognition an entity can choose in a irrecovable was to record the changes of the fair value of the investment in an equity instrument that is not held for trading purposes in the other comprehensive income. In the case of this preference, the dividend from the investment is taken into the financial statements as profit or loss.

Financial Assets Measured at Amortized Cost

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are classified as financial assets measured at amortized cost. Financial assets measured at amortized cost are initially recognized at acquisition cost including the transaction costs which reflect the fair value of those instruments and subsequently recognized at amortized cost by using effective interest rate method. Interest income obtained from financial assets measured at amortized cost is accounted in income statement.

In the “Fair value through other comprehensive income” and “measured at amortized cost” securities portfolio of the Bank, there are Consumer Price Indexed (CPI) Bonds.

The Parent Bank considered expected inflation index of future cash flows prevailing at the reporting date while calculating internal rate of return of the Consumer Price Indexed (CPI) marketable securities. The effect of this application is accounted as interest received from marketable securities in the consolidated financial statements. These securities are valued and accounted according to the effective interest method based on the real coupon rates and the reference inflation index at the issue date and the estimated inflation rate. As stated in the Investor’s Guide of CPI Government Bonds by Republic of Turkey Undersecretariat of Treasury the reference indices used to calculate the actual coupon payment amounts of these securities are based on the previous two months CPI’s. The Parent Bank determines the estimated inflation rate accordingly. The inflation rate is estimated by considering the expectancies of the Central Bank and the Bank which are updated as needed within the year.

Loans and Advances to Customers

Loans are financial assets that have fixed or determinable payments terms and are not quoted in an active market.

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 are initially recognized at acquisition cost plus transaction costs presenting their fair value and thereafter measured at amortized cost using the "Effective Interest Rate (internal rate of return) Method".

All loans and advances of the Parent Bank has classified under Measured at Amortized Cost, after loan portfolio passed the test of “All cash flows from contracts are made only by interest and principal” during the transition period.

The Bank classifies its loans and advances, which do not pass solely payments of principal and interest on the principal amount test (SPPI), under Financial Assets at Fair Value Through Profit and Loss.

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial assets and financial liabilities (continued)

3.8.1 Measurement categories of financial assets and liabilities (continued)

Explanations on expected credit losses

As of 1 January 2018, the Group allocates the expected loss provision for impairment on assets and loans measured at amortized cost and fair value through other comprehensive income and loan commitments not measured at fair value through profit/loss based and non cash loans on IFRS 9. IFRS 9 introduces a forward-looking expected credit loss (ECL) approach, which is intended to result in an earlier recognition of credit losses based on an ECL impairment approach compared with the incurred-loss impairment approach for financial instruments under IAS 39, Financial Instruments: Recognition and Measurement and the loss-provisioning approach for financial guarantees and loan commitments.

At each reporting date, the Group shall assess whether the credit risk on a financial instrument has increased significantly since initial recognition. The Group Bank considers the changes in the default risk of financial instrument, when making the assessment.

The expected credit loss estimates are required to be unbiased, probability-weighted and include supportable information about past events, current conditions, and forecasts of future economic conditions. These financial assets are divided into three categories depending on increase in credit risk observed since their initial recognition;

Stage 1:

For the financial assets at initial recognition or that do not have a significant increase in credit risk since initial recognition. Impairment for credit risk is recorded in the amount of 12-month expected credit losses. 12-month expected credit loss is calculated based on a probability of default realized within 12 months after the reporting date. Such expected 12-month probability of default is applied on an expected exposure at default, multiplied with loss given default rate and discounted with the original effective interest rate.

Stage 2:

In the event of a significant increase in credit risk since initial recognition, the financial asset is transferred to Stage 2. Impairment for credit risk is determined on the basis of the instrument's lifetime expected credit losses. Calculation of expected credit losses is similar to descriptions above, but probability of default and loss given default rates are estimated through the life of the instrument.

Stage 3:

Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime expected credit losses are recognized and interest revenue is calculated on the net carrying amount. The probability of default is taken into account as 100%.

The default assessment of the Bank is made according to the following conditions:

1. Objective Default Definition: It means debt having past due more than 90 days. Current definition of default in the Bank and its consolidated financial subsidiaries is based on a more than 90 days past due definition.

2. Subjective Default Definition: It means a debt is considered is unlikely to be paid. Whenever an obligor is considered is unlikely to pay its credit obligations, it should be considered as defaulted regardless of the existence of any past-due amount or of the number of days past due.

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial assets and financial liabilities (continued)

3.8.1 Measurement categories of financial assets and liabilities (continued)

Debt instruments measured at fair value through other comprehensive income

As of 1 January 2018, the impairment requirements in accordance with IFRS 9 are applied for the recognition and measurement of a loss allowance for financial assets that are measured at fair value through other comprehensive income. However, the loss allowance shall be recognised in other comprehensive income and shall not reduce the carrying amount of the financial asset in the statement of financial position. The expected credit loss is reflected in other comprehensive income and the accumulated amount is recycled to statement of profit/loss following the derecognition of related financial asset.

Calculation of expected credit losses

The expected credit loss estimates are required to be unbiased, probability-weighted and include supportable information about past events, current conditions, and forecasts of future economic conditions. Risk parameters used in IFRS 9 calculations are included in the future macroeconomic information. While macroeconomic information is included, macroeconomic forecasting models and multiple scenarios used in the Internal Capital Assessment Process (“ICAAP”) are considered.

Within the scope of IFRS 9, the probability of default (PD), Loss given default (LGD) and Exposure at default (EAD) models have been developed. The models developed under IFRS 9 are based on the following segmentation elements:

- Loan portfolio (corporate /specilization)
- Product type
- Credit risk rating notes (ratings)
- Collateral type
- Duration since origination of a loan
- Remaining time to maturity
- Exposure at default

Probability of Default (PD): PD refers to the likelihood that a loan will default within a specified time horizon given certain characteristics. Based on IFRS 9, two different PDs are used in order to calculate expected credit losses:

- 12-month PD: as the estimated probability of default occurring within the next 12 months following the balance sheet date.
- Lifetime PD: as the estimated probability of default occurring over the remaining life of the financial instrument.

The Bank uses internal rating systems for loan portfolio. The internal rating models used include customer financial information and knowledge of survey responses based on expert judgement. Probability of default calculation has been carried out based on past information, current conditions and forward looking macroeconomic parameters.

Loss Given Default (LGD): If a loan default occurs, it represents the economic loss incurred on the loan. It is expressed as a percentage.

Exposure at Default (EAD): For cash loans, it corresponds to the amount of loan granted as of the reporting date. For non-cash loans and commitments, it is the value calculated through using credit conversion factors. Credit conversion factor corresponds to the factor which adjusts the potential increase of the exposure between the current date and the default date.

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial assets and financial liabilities (continued)

3.8.1 Measurement categories of financial assets and liabilities (continued)

Significant increase in credit risk

As of the reporting date, if the credit risk on a financial instrument has not increased significantly since initial recognition, the loss allowance for that financial instrument is measured at an amount equal to 12-month expected credit losses. However, if there is a significant increase in credit risk of a financial instrument since initial recognition, the Bank measures loss allowance regarding such instrument at an amount equal to lifetime expected credit losses.

The Bank makes qualitative and quantitative assessments regarding assessment of significant increase in credit risk of financial assets to be classified as stage 2 (Significant Increase in Credit Risk). Credit risk is based on a comparison of the probability of default calculated at the origination of the loan and the probability of default assigned for the same loan as of the reporting date.

If there is a significant deterioration in PD, it is considered that there is a significant increase in credit risk and the financial asset is classified as stage 2. In this context, the Bank has calculated thresholds at which point the relative change is a significant deterioration.

When determining the significant increase in the parent bank credit risk, The Parent Bank also assessed the absolute change in the PD date on the transaction date and on the reporting date. If the absolute change in the PD ratio is above the threshold values, the related financial asset is classified as stage 2.

The Bank classifies the financial asset as Stage 2 (Significant Increase in Credit Risk) where any of the following conditions are satisfied as a result of a qualitative assessment:

- Loans overdue more than 30 days as of the reporting date
- Loans classified as watchlist
- When there is a change in the payment plan due to restructuring

Financial Liabilities

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Financial liabilities are classified as either equity instruments or other financial liabilities.

Other financial liabilities

Other financial liabilities, including borrowings, debt securities issued and subordinated liabilities are the Group's sources of debt funding.

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.

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 2018

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Offsetting, derecognition and restructuring of financial instruments

a. Offsetting of financial instruments

Financial assets and liabilities are offset when the Bank has a legally enforceable right to set off, and when the Bank has the intention of collecting or paying the net amount of related assets and liabilities or when the Bank has the right to offset the assets and liabilities simultaneously. Otherwise, there is not any offsetting transaction about financial assets and liabilities.

b. Derecognition of financial instruments

Derecognition of financial assets due to change in contractual terms

Based on IFRS 9, the renegotiation or modification of the contractual cash flows of a financial asset can lead to the derecognition of the existing financial asset. When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of the modified financial asset, the modified asset is considered a ‘new’ financial asset.

When the Bank assesses the characteristics of the new contractual terms of the financial asset, it evaluates the contractual cash flows including foreign currency rate changes, conversion to equity, counterparty changes and solely principal and interest on principle. When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, it is recalculated the gross carrying amount of the financial asset and recognized a modification gain or loss in profit or loss.

Where all risks and rewards of ownership of the asset have not been transferred to another party and the Bank retains control of the asset, the Bank continues to recognize the remaining portion of the asset and liabilities arising from such asset. When the Bank retains substantially all the risks and rewards of ownership of the transferred asset, the transferred asset continues to be recognized in its entirety and the consideration received is recognized as a liability.

Derecognition of financial assets without any change in contractual terms

The asset is derecognized if the contractual rights to cash flows from the financial asset are expired or the related financial asset and all risks and rewards of ownership of the asset are transferred to another party. Except for equity instruments measured at fair value through other comprehensive income, the total amount consisting of the gain or loss arising from the difference between the book value and the amount obtained and any accumulated gain directly accounted in equity shall be recognized in profit/loss.

Derecognition of financial liabilities

It shall be removed a financial liability (or a part of a financial liability) from the statement of financial position when, and only when, it is extinguished when the obligation specified in the contract is discharged or cancelled or expires.

c. Reclassification of financial instruments

Based on IFRS 9, the Parent Bank shall reclassify all affected financial assets at amortised cost to financial assets measured at fair value through other comprehensive income and fair value through profit or loss in the subsequent accounting when, and only when, it changes its business model for managing financial assets.

The Parent Bank has fulfilled the requirements of reclassification during transition to IFRS 9 and such reclassification details are presented in Note 3.23.

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Offsetting, derecognition and restructuring of financial instruments (Continued)

d. Restructuring and refinancing of financial instruments

The Parent Bank may change the original contractual terms of a loan (maturity, repayment structure, guarantees and sureties) which were previously signed, in case the loan cannot be repaid or if a potential payment difficulty is encountered based on the new financing power and structure of the borrower.

Restructuring is to change the financial terms of existing loans in order to facilitate the payment of debt. Refinancing is granting a new loan by the Parent Bank which will cover either the principal or the interest payment in whole or in part of one or a few existing loans due to the anticipated financial difficulty which the customer or group encounter currently or will encounter in the future. Changes in the original terms of a credit risk can be made in the current contract or through a new contract.

Restructured Loans can be classified in standart loans unless the firm has difficulty in payment. Companies which have been restructured and refinanced can be removed from the watchlist when the following conditions are met:

- Subsequent to the through review of company's financial data and its owners' equity position, at circumstances when it is not anticipated that the owner of the company will face financial difficulties; and it is assessed that the restructured debt will be paid on time (starting from the date when the debt is restructured all due principal and interest payments are made on time).
- At least 2 years should pass over the date of restructuring (or if it is later), the date of removal from non-performing loan category, at least 10% (or the ratio specified in the legislation) of the total principal amount at the time restructuring /refinancing shall be paid and no overdue amount (principal and interest) shall remain at the date of restructuring / refinancing.

In order for the restructured non-performing loans to be classified to the watchlist category, the following conditions must be met:

Recovery in debt service.

- At least one year should pass over the date of restructuring
- Payment of all accrued and overdue amounts by debtor (interest and principal) since the date of restructuring /refinancing or the date when the debtor is classified as nonperforming (earlier date to be considered) and fulfillment of the payment condition of all overdue amounts as of the date of restructuring /refinancing
- Collection of all overdue amounts, disappearance of the reasons for classification as nonperforming receivable (based on the conditions mentioned above) and having no overdue more than 30 days as of the date of reclassification

During the follow-up period of at least two years following the date of restructuring / refinancing, if there is a new restructuring / refinancing or a delay of more than 30 days, the transactions which were non-performing at the beginning of the follow-up period are classified as non-performing loans again.

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Derivatives held for risk management purposes and hedge accounting

The Parent Bank is exposed to financial risk which depends on changes in foreign exchange rates and interest rates due to activities and as part of banking activities uses derivative instruments to manage financial risk that especially associated with fluctuations in foreign exchange and interest rate. Mainly derivative instruments used by the Group are foreign currency forwards, swaps, and option agreements.

IFRS 9 permits to defer application of IFRS 9 hedge accounting and continue to apply hedge accounting in accordance with IAS 39 as a policy choice. Accordingly, the Parent Bank continue to apply hedge accounting in accordance with IAS 39 in this context. Derivatives held for risk management purposes are measured at fair value in the statement of financial position.

Fair value hedge: A fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in income immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in income relating to the hedged item. When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or a liability with corresponding gain or loss recognised in profit or loss. Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to income from that date.

3.11 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 financial assets at fair value through profit or loss, financial assets measured at amortised cost or financial assets at fair value through other comprehensive income 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”.

3.12 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.

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12 Property and equipment (continued)

Recognition and measurement

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.

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 2018

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 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.

3.14 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.

3.15 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 2018

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.16 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 2018

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 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.

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.18 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.

3.19 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 2018

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.19 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 2018 has been calculated by an independent actuary in accordance with the actuarial assumptions in the Law and as per actuarial report dated 15 January 2019. There is no need for technical or actual deficit to book provision as of 31 December 2018.

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 2018

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.19 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 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.

3.20 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.

3.21 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.

3.22 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.

3.23 Adoption effect of IFRS 9 Financial Instruments

Effective 1 January 2018, the Group adopted IFRS 9, Financial Instruments, which replaces IAS 39, Financial Instruments: Recognition and Measurement and substantially changes the classification, measurement and impairment of financial assets, income statement and balance sheet presentation and disclosure of financial instruments and other arrangements in scope. IFRS 9 sets out the new principles for the classification and measurement of financial instruments, impairment for credit risk on financial assets and general hedge accounting.

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.23 Adoption effect of IFRS 9 Financial Instruments (Continued)

In accordance with the transition rules option provided by the IFRS 9 "Financial Instruments", the Group is not restated the prior period financial statements and recognized the transition effect of the standard as of January 1, 2018 under equity's "Retained earnings" accounts. Explanation of the effect of the Group's application of IFRS 9 is stated below:

Reconciliation of statement of financial position balances as at the transition of IFRS 9

	Before IFRS 9		IFRS 9	
	Measurement Method	Book Value 31 December 2017	Measurement Method	Book Value 1 January 2018
Financial Assets				
Cash and cash equivalents (including loans and balances to banks)	Amortised cost	509,147	Amortised cost	509,147
Reserve deposits at Central Bank	Amortised cost	831,678	Amortised cost	831,678
	Financial assets at fair value through profit or loss	9,305	Financial assets at fair value through profit or loss	9,305
Marketable securities	Financial assets at fair value through other comprehensive income	3,096,432	Financial assets at fair value through other comprehensive income	3,096,432
	Amortised Cost	1,532,047	Amortised Cost	1,532,047
	Financial assets at fair value through profit or loss	326,788	Financial assets measured at fair value through profit or loss	326,788
Derivative financial assets	Financial assets at fair value through other comprehensive income	-	Financial assets at measured fair value through other comprehensive income	-
Loans and advances to customers (Gross)	Amortised Cost	22,400,467	Amortised Cost	22,400,467

Reconciliation of the opening balances of the provision for expected credit losses to IFRS 9

	Book Value Before IFRS 9 31 December 2017	Remeasurements	Book Value After IFRS 9 1 January 2018
Loans			
Stage 1 & Stage 2	96,483	134,849	231,332
Stage 3	52,731	(653)	52,078
Financial Assets(*)	-	4,185	4,185
Other Assets	-	1,037	1,037
Non-Cash Loans			
Stage 1 and Stage 2	-	4,215	4,215
Stage 3	583	-	583
Total	149,797	143,633	293,430
Investment in Associates (Net)	374,425	(18,630)	355,795
TOTAL		162,263	

(*)Within the scope of IFRS 9, provisions include provisions for Financial Assets Fair Value through Other Comprehensive Income, Receivables from Banks and Receivables from Money Markets.

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.23 Adoption effect of IFRS 9 Financial Instruments

Effects on equity with IFRS 9 transition

As permitted in IFRS 9, the difference between the book value of 1 January 2018 at the date of application reflected in the opening aspect of equity. The explanations about the transition effects to IFRS 9 presented in the equity items are given below:

As of 1 January 2018, due to first time adoption of IFRS 9, total shareholders' equity figure decreased by TL 130,576 thousands (after tax) composing of negative expected credit losses calculation impact amounting to TL 162,263 thousands and positive deferred tax impact amounting to TL 31,687 thousands.

3.24 Explanations on prior period accounting policies not valid for the current period

Interest income and interest expense

Interest income and expense are recognised in the profit or loss using the effective interest method. 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. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of financial instrument, but not future credit losses. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently. The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability. Interest income and expense presented in the statement of comprehensive income statement include:

- the interest income on financial assets and liabilities at amortised cost on an effective interest rate basis
- the interest income on held for trading investments and available for sale investments.

Interest income is suspended when loans are impaired and is excluded from interest income until received.

Financial assets and liabilities

a) Financial Assets

All financial assets are initially measured at fair value, plus transaction costs.

Financial assets are classified into the following specified categories: financial assets as 'at fair value through profit or loss' (FVTPL), 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition. Income is recognized on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.24 Explanations on prior period accounting policies not valid for the current period (continued)

Financial assets and liabilities (continued)

a) Financial Assets (continued)

Financial assets at FVTPL

Financial assets at fair value through profit or loss are financial assets held for trading and financial assets designated under this category upon initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or achieved more relevant accounting measurement. Derivatives are also categorized as held for trading unless they are designated as hedges.

Available for sale financial assets

Quoted equity investments and quoted certain debt securities held by the Group that are traded in an active market are classified as being available-for-sale financial assets and are stated at fair value. The unquoted equity investments that are not traded in an active market but are also classified as available-for-sale financial assets are stated at cost since their value cannot be reliably measured. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. Dividends on available for sale equity instruments are recognized in profit and loss when the Group has the right to receive any payment.

The fair value of available for sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the prevailing exchange rate at the reporting date. The change in fair value attributable to translation differences that result from a change in amortized cost of the asset is recognized in profit or loss, and other changes are recognized in equity.

Due from banks and loans and advances to customers

Due from banks and loans and advances to customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

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

When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date ("reverse repo or stock borrowing"), the arrangement is accounted for as amounts due from banks, and the underlying asset is not recognised in the Group's consolidated financial statements.

Due from banks and loans and advances to customers are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.24 Explanations on prior period accounting policies not valid for the current period (continued)

Financial assets and liabilities (continued)

a) Financial Assets (continued)

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss are subject to impairment testing at each balance sheet date to determine whether there is any indication of impairment of financial asset or financial asset group. An entity shall assess at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or group of financial assets is impaired and impairment losses are incurred, if and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event or events has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. For loans and receivables, the amount of impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced through the use of an allowance account. Changes in allowance accounts are recognized in profit or loss.

With the exception of available for sale equity instruments, if, in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized. Increase in fair value of available for sale financial assets subsequent to impairment is recognized in directly in equity.

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.25 The new standards, amendments and interpretations

The accounting policies adopted in preparation of the consolidated financial statements as at 31 December 2018 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 2018. 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 2018 are as follows:**

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. The Group assessed the effect of IFRS 15 "Revenue from Contracts with Customers" standard and the amendments did not have an impact on the financial position or performance of the Group.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments. The final version of IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is built on a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. Built upon this is a forward-looking expected credit loss model that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting. In addition, IFRS 9 addresses the so-called 'own credit' issue, whereby banks and others book gains through profit or loss as a result of the value of their own debt falling due to a decrease in credit worthiness when they have elected to measure that debt at fair value. The Standard also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment. IFRS 9 is effective for annual periods beginning on or after 1 January 2018.

As of 1 January 2018, due to first time adoption of IFRS 9, total shareholders' equity figure decreased by TL 130,576 thousands (after tax) composing of negative expected credit losses calculation impact amounting to TL 162,263 thousands and positive deferred tax impact amounting to TL 31,687 thousands. Explanations on adoption of IFRS 9 is explained in Note 3.23.

IFRS 7 Financial Instruments: Disclosures

IFRS 7, Financial Instruments: Disclosures was updated in line with IFRS 9, Financial Instruments. The Group adopted the revised standard on 1 January 2018. Given the first quarter of 2018 includes the date of initial application of IFRS 9, and to meet the general disclosure requirements for annual periods to describe the nature and effects of changes to policies and methods made since the last annual reporting, the Group provides the IFRS 9 transition disclosures as set out by IFRS 7 in the first quarter of 2018. A full set of disclosures as required by revised IFRS 7 will be provided in the Group's annual Financial Statements as of and for the year ended 31 December 2018.

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:

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.25 The new standards, amendments and interpretations (continued)

i) The new standards, amendments and interpretations which are effective as at 1 January 2018 are as follows (continued):

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

- 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
- 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 applied for annual periods beginning on or after 1 January 2018. The amendments are not applicable for the Group and did 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 amended Standard will:

- a. give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 Financial instruments is applied before the new insurance contracts Standard is issued; and
- b. give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 Financial instruments until 2021. The entities that defer the application of IFRS 9 Financial instruments will continue to apply the existing financial instruments Standard—IAS 39.

These amendments are applied for annual periods beginning on or after 1 January 2018. The amendments are not applicable for the Group and did 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 applied for annual periods beginning on or after 1 January 2018. The amendments did not have a significant 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 recognizes 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.

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.25 The new standards, amendments and interpretations (continued)

- i) **The new standards, amendments and interpretations which are effective as at 1 January 2018 are as follows (continued):**

IFRIC 22 Foreign Currency Transactions and Advance Consideration (continued)

The interpretation is effective for annual reporting periods beginning on or after 1 January 2018. The interpretation is not applicable for the Group and did not have an impact on the financial position or performance of 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 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 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 applied for annual periods beginning on or after 1 January 2018. The amendments are not applicable for the Group and 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.

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

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

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.

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.25 The new standards, amendments and interpretations (continued)

ii) Standards issued but not yet effective and not early adopted (continued)

IFRS 16 Leases (continued)

Lessees have recognition exemptions to applying this standard in case of short-term leases (i.e., leases with a lease term of 12 months or less) and leases of 'low-value' assets (e.g., personal computers, office equipment, etc.). At the commencement date of a lease, a lessee measures the lease liability at the present value of the lease payments that are not paid at that date (i.e., the lease liability), at the same date recognises an asset representing the right to use the underlying asset (i.e., the right-of-use asset) and depreciates it during the lease term. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate. Lessees are required to recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset separately.

Lessees are required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). Under these circumstances, the lessee recognises the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

The effect of the standard on the financial statement of the Group would be between 0.10% and 0.12%.

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.

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. 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 did 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 2018

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.25 The new standards, amendments and interpretations (continued)

ii) Standards issued but not yet effective and not early adopted (continued)

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.

Definition of a Business (Amendments to IFRS 3)

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations. The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

The amendments:

- clarify the minimum requirements for a business;
- remove the assessment of whether market participants are capable of replacing any missing elements;
- add guidance to help entities assess whether an acquired process is substantive;
- narrow the definitions of a business and of outputs; and
- introduce an optional fair value concentration test.

The amendments to IFRS 3 are effective for annual reporting periods beginning on or after 1 January 2020 and apply prospectively. Earlier application is permitted.

Definition of Material (Amendments to IAS 1 and IAS 8)

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

The amendments to IAS 1 and IAS 8 are required to be applied for annual periods beginning on or after 1 January 2020. The amendments must be applied prospectively and earlier application is permitted.

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.

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.25 The new standards, amendments and interpretations (continued)

ii) Standards issued but not yet effective and not early adopted (continued)

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

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

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. 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 2019, with early application permitted. Overall, the Group expects no significant impact on its balance sheet and equity.

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 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.

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 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 2018

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 2018

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

4. FINANCIAL RISK MANAGEMENT (Continued)

Credit risk

The sectoral breakdown of loans is documented monthly and limitations are made according to evaluations. There is no limitation applied geographically. Monitoring and checking is made for the treasury operations. Risk limits are identified for the operations implemented.

The credit monitoring department screens the creditworthiness of loan customers once every six months regularly. The debtors' creditworthiness is screened regularly in accordance with the related legislation. Their financial statements are obtained as prescribed in the legislation. The credit limits have been set by the Board of Directors, the Banks credit committee and the credit management. The Bank takes enough collateral for the loans and other receivables extended. The collaterals obtained consist of personal surety ship, mortgage, cash blockage and client checks.

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

The definitions of past due and impaired loans and information related to impairment and provisions are provided in Section 3.8.1 Explanations on expected credit losses.

Credit risk by risk groups

Set out below is an analysis of loans as at 31 December 2018 by customer groups and impairment:

31 December 2018	Corporate	Small Business	Other	Total
Stage 1 loans to customers	18,678,696	6,011,016	128,765	24,818,477
Stage 2 loans to customers	2,764,024	179,535	-	2,943,559
Stage 3 loans to customers	556,100	36,274	4,836	597,210
Total gross loans to customers	21,998,820	6,226,825	133,601	28,359,246
Less: Stage 1 expected credit loans	(35,021)	(99,188)	(1,328)	(135,537)
Less: Stage 2 expected credit loans	(14,820)	(196,320)	-	(211,140)
Less: Stage 3 expected credit loans	(34,533)	(130,120)	(4,836)	(169,489)
Total expected credit loss	(84,374)	(425,628)	(6,164)	(516,166)
Total Loans and advances to customer	21,914,446	5,801,197	127,437	27,843,080

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

	Corporate	Small Business	Other	Portfolio Reserve	Total
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
Total gross	18,019,114	4,324,656	110,272	-	22,454,042
Less: reserve for individually impaired loans	(14,676)	(34,415)	(3,640)	-	(52,731)
Less: reserve for collectively impaired loans	-	-	-	(96,483)	(96,483)
Total reserve for impairment	(14,676)	(34,415)	(3,640)	(96,483)	(149,214)
Total, net	18,004,438	4,290,241	106,632	(96,483)	22,304,828

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

4. FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (continued)

Impairment allowance for loans and advances to customers

Impairment allowance for loans and advances to customers	31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
Internal rating grade				
Performing				
Above Average Grade	2,951	-	-	2,951
Average Grade	114,809	77,173	-	191,982
Below Grade	17,777	119,513	-	137,290
Past due but not impaired	-	14,454	-	14,454
Non-performing				
Individually impaired	-	-	169,489	169,489
Total	135,537	211,140	169,489	516,166

Impairment allowance for off-balance sheet financial assets

Impairment allowance for loans and advances to customers	31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
Internal rating grade				
Performing				
Above Average Grade	779	-	-	779
Average Grade	7,697	1,411	-	9,108
Below Grade	361	1,003	-	1,364
Past due but not impaired	-	-	-	-
Non-performing				
Individually impaired	-	-	736	736
Total	8,837	2,414	736	11,987

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

4. FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (continued)

Exposure to credit risk

	Due from banks	Loans and advances to customers
<i>Notes</i>	31 December 2018	31 December 2018
Carrying amount (1)	806,997	27,843,080
Non-performing financial assets	-	597,210
Gross amount	-	597,210
Specific provision for Stage 3	-	(169,489)
Generic provision for Stage 1 and 2	(234)	(346,677)
Neither past due nor impaired	806,997	26,524,471
Past due but not impaired	-	10,833
Carrying amount	806,997	26,616,348
Restructured and rescheduled loans and other receivables	-	936,072
Carrying amount	-	936,072
Carrying amount (amortised cost)	806,997	27,552,420

(1) Includes fair value through profit or loss loans.

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

4. FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (continued)

Information by major sectors and type of counterparties

Sectors	Loans⁽¹⁾ Significant increase in credit risk (Stage 2)	Defaulted (Stage 3)	Expected Credit Losses (IFRS 9)
Agriculture	-	-	-
Farming and Stockbreeding	-	-	-
Forestry	-	-	-
Fishery	-	-	-
Manufacturing	1,541,322	563,077	261,213
Mining and Quarrying	-	195	195
Production	179,778	6,975	23,552
Electricity, Gas and Water	1,361,544	555,907	237,466
Services	940,633	25,302	97,452
Wholesale and Retail Trade	-	1,236	1,236
Accommodation and Dining	2,378	738	791
Transportation and Telecommunication	136,988	57	15,811
Financial Institutions	-	2,504	2,504
Real Estate, Rental and Management	801,267	20,618	76,961
Professional Services	-	149	149
Educational Services	-	-	-
Health and Social Services	-	-	-
Others	170,944	8,831	21,964
Total	2,652,899	597,210	380,629

(1) Breakdown of cash loans.

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

4. FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (continued)

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

	31 December 2018
<u>Gross maximum exposure</u>	
Cash and cash equivalents, balances and reserve deposit at the Central Bank and other banks	2,123,572
Financial assets at fair value through profit or loss	9,859
Financial assets at fair value through other comprehensive income	3,427,495
Financial assets measured at amortized cost	2,153,313
Derivative financial assets	979,221
Loans and advances to customers	27,843,080
Guarantees and collaterals	3,173,807
Other Assets	755,249
Total	40,465,596
	31 December 2017
<u>Gross maximum exposure</u>	
Cash and cash equivalents, balances and reserve deposit at the Central Bank and other banks	1,340,822
Interbank money market placements	-
Funds lent under repurchase agreements	3
Trading financial asset	9,305
Derivatives held for trading	326,788
Derivatives held for hedging purposes	-
Loans and advances to customers	22,304,828
Held to maturity investment securities	1,532,047
Available-for-sale investment securities	3,096,432
Guarantees and collaterals	2,573,711
Other Assets	304,564
Total	31,488,500

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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 2018 is as follows:

	Carrying Amount				ECL Allowance			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
On-Balance Sheet Financial Assets								
Cash and cash equivalents (including reserves at Central Bank)	2,124,072	-	-	2,124,072	500	-	-	500
Securities	5,585,289	-	-	5,585,289	4,481	-	-	4,481
Loans and advances to customers	24,818,477	2,943,559	597,210	28,359,246	135,537	211,140	169,489	516,166
Other assets	756,571	-	-	756,571	1,322	-	-	1,322
Total	33,284,409	2,943,559	597,210	36,825,178	141,840	211,140	169,489	522,469
Off-Balance Sheet Financial Assets								
LCs and Acceptances	3,157,356	13,486	2,965	3,173,807	7,430	419	736	8,585
Other	2,430,739	68,961	-	2,499,700	1,407	1,995	-	3,402
Total	5,588,095	82,447	2,965	5,673,507	8,837	2,414	736	11,987

Movement for impairment allowance for off-balance sheet financial assets:

31 December 2018				
	Letters of quarantee and acceptances	Letters of credit	Other undrawn commitments	Total
Balances at 31 December 2017	583	-	-	583
Impact of adopting IFRS 9 at 1 January 2018	942	1,939	1,334	4,215
Balances at 1 January 2018	1,525	1,939	1,334	4,798
Charge for the year	9,373	6,288	6,145	21,806
Recoveries	(5,794)	(4,746)	(4,077)	(14,617)
Amounts written off	-	-	-	-
Unwind of transformed into cash	-	-	-	-
Unwind of discount (recognized in interest income)	-	-	-	-
At 31 December 2018	5,104	3,481	3,402	11,987

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

4. FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (continued)

	31 December 2018		
	Stage 1	Stage 2	Stage 3
Balances at 31 December 2017	-	-	583
Impact of adopting IFRS 9 at 1 January 2018	4,199	16	-
Balances at 1 January 2018	4,199	16	583
Transfer to Stage 1	(687)	687	-
Transfer to Stage 2	-	(153)	153
Transfer to Stage 3	-	-	-
Debt sales and write offs	-	-	-
Recoveries and reversals	(9,648)	(4,969)	-
Provision for the period	12,171	5,244	-
Effects of movements in exchange rates	2,802	1,589	-
Balances at the end of the period	8,837	2,414	736

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

	31 December 2018	31 December 2017
Loans and advances to customers		
Corporate lending	820,012	70,860
Small business lending	116,060	120,978
Total	936,072	191,838

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. With the transition to IFRS 9, the Bank changed its internal rating model in 2018. Due to the preparation of internal rating models in the current period and prior period on different principles, the previous period has not been included in footnote.

Information of credit amounts rated by internal rating model is given table below for the current period.

Loan Quality Categories	Current Period %
Above Average Grade	26.93
Average Grade	61.19
Below Average Grade	9.97
Impaired (1)	1.91
Total	100.00

(1) Loans belong to the financial subsidiaries subject to line-by-line consolidation method are considered as unrated. Impaired loans are presented in the table above.

As of the reporting date, the total of the Bank's cash and non-cash loans and financial lease receivables (gross amount including the non performing loans, excluding the expected credit losses) is TL 31,533,053 and TL 129,102 of these customers have not been rated.

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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:

	31 December 2018 %	31 December 2017 %
Average during the period	238.95	208.07

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

Period	TL+FC	FC
31 October 2018	249.55%	399.21%
30 November 2018	308.81%	431.50%
31 December 2018	456.50%	395.47%

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

4. FINANCIAL RISK MANAGEMENT (Continued)

Liquidity risk (continued)

As at 31 December 2018 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
ASSETS					
Cash and cash equivalents	-	-	-	27	27
Balances with Central Bank	-	-	-	12,928	12,928
Reserve deposits at Central Bank	423,408	-	-	306,622	730,030
Loans and advances to banks	750,186	-	-	56,811	806,997
Interbank money market placements	573,233	-	-	-	573,233
Funds lent under securities repurchase agreements	357	-	-	-	357
Trading financial assets	1,064	3,908	3,435	1,452	9,859
Derivative financial instruments	125,373	129,926	723,922	-	979,221
Loans and advances to customers	2,937,446	4,856,198	20,049,436	-	27,843,080
Financial assets at fair value through other comprehensive income	34,122	697,216	2,594,707	101,450	3,427,495
Financial assets measured at amortized cost	39,727	154,272	1,959,314	-	2,153,313
Total	4,884,916	5,841,520	25,330,814	479,290	36,536,540
LIABILITIES					
Obligations under repurchase agreements	179,001	-	-	-	179,001
Derivative liabilities	158,127	78,317	383,638	-	620,082
Derivative liabilities held for hedging purposes	-	20,652	151,606	-	172,258
Funds borrowed	598,089	3,193,322	20,028,259	-	23,819,670
Debt securities issued (1)	-	1,797,030	6,701,933	-	8,498,963
Payables to money market	223,277	-	-	-	223,277
Current account of loan customers	32,529	-	-	-	32,529
Taxes and dues payable	11,741	-	-	-	11,741
Corporate tax liability	82,363	-	-	-	82,363
Employee benefits	22,973	-	-	28,714	51,687
Total	1,308,100	5,089,321	27,265,436	28,714	33,691,571

(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 2018

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
ASSETS					
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
Total	3,304,134	5,202,887	19,577,555	525,649	28,610,225
LIABILITIES					
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
Total	2,027,796	3,108,749	20,459,838	12,151	25,608,534

(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 2018

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 2018	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	Over 5 years	Adjustments	Total
Liabilities							
Payables to stock exchange money market	223,277	-	-	-	-	-	223,277
Funds borrowed	250,750	473,529	3,564,137	11,932,773	10,745,190	(3,146,709)	23,819,670
Obligations under repurchase agreements	178,943	97	-	-	-	(39)	179,001
Debt securities issued (1)	49,424	58,732	2,169,217	7,473,832	-	(1,252,242)	8,498,963
Current account of customers	32,529	-	-	-	-	-	32,529
Total	734,923	532,358	5,733,354	19,406,605	10,745,190	(4,398,990)	32,753,440

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

As at 31 December 2017	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	Over 5 years	Adjustments	Total
Liabilities							
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
Current account of customers	12,901	-	-	-	-	-	12,901
Total	1,510,051	427,066	3,537,122	12,930,247	9,858,228	(3,043,799)	25,218,915

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

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

As at 31 December 2018	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	Over 5 years	Total
Gross settled:						
Swap agreements	5,333,532	2,671,841	4,451,310	22,771,113	14,227,994	49,455,790
Forward contracts	1,313,247	727,695	785,000	975,007	-	3,800,949
Options	726,110	1,028,724	3,476,077	37,597	-	5,268,508
Other	-	13,401	-	-	-	13,401
Total	7,372,889	4,441,661	8,712,387	23,783,717	14,227,994	58,538,648

As at 31 December 2017	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	Over 5 years	Total
Gross settled:						
Swap agreements	1,917,047	1,008,794	1,761,054	16,948,589	9,168,288	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
Total	2,815,330	5,672,421	5,550,733	17,147,907	9,168,288	40,354,679

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

4. FINANCIAL RISK MANAGEMENT (Continued)

Market risk

Market risk is the possibility of a risk being incurred by the portfolio or position accepted within the scope of trading portfolio as a result of interest rates, equity prices, commodity prices in financial markets and exchange rate fluctuations. The purpose of market risk management is to manage, within the appropriate parameters, the risks which the Bank might be exposed to with a proactive approach and thus maximize the Bank's risk adjusted return.

Interest rate , exchange rate, stock and commodity price risks are the major elements of market risk. In order to control these risks in a healthy manner the core principal is to manage transactions carried out in money and capital markets such that they do not form concentration in terms of instrument, maturity, currency, interest type and other similar parameters, and in a "well diversified" manner in accordance with their risk levels. Moreover, the creditworthiness of issuers of financial instruments causing market risk is monitored carefully. Market Risk is managed by using consistent risk measurements and criteria fluctuation level of interest rates and/or prices and Value at Risk calculations, establishing appropriate procedures for control and monitoring compliance with identified risk limits and risk appetite. Market risk is measured, monitored and reported by the Department of Risk Management. The Bank uses two main approaches in the calculation of market risk BRSA Standard Method and Value at Risk (VaR) approach.

Market risk measurement, monitoring and reporting is carried out by the Risk Management Department. In the calculation of the market risk, the Bank uses two basic approaches as the BRSA Standard Method and Risk Value of Return (VaR) approach. The standard method is applied in the calculation of capital adequacy on a monthly basis. VaR calculations are performed periodically and are reported to the senior management. Monte Carlo simulation method is used for VaR calculations. The VaR model is based on the assumptions of a 99% confidence interval and a 1-day holding period, and the accuracy of the model is assured by back-testing which is based on the comparison of calculated VaR Value against incurred losses. Besides, stress tests are conducted so as to identify the impacts on VaR which will be highly damaging, although their occurrence is a low possibility.

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 2018

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 2018:

	Up to 3 Months	3 to 12 Months	Over 1 Year	Non Interest Bearing	Total
ASSETS					
Cash and cash equivalents	-	-	-	27	27
Balance with the Central Bank	-	-	-	12,928	12,928
Reserve deposits at Central Bank	423,408	-	-	306,622	730,030
Loans and advances to banks	750,186	-	-	56,811	806,997
Interbank money market placements	573,233	-	-	-	573,233
Funds lent under securities resale agreements	357	-	-	-	357
Trading assets	1,065	3,908	3,434	1,452	9,859
Derivative assets	722,041	208,577	48,603	-	979,221
Derivative assets used for hedging purposes	-	-	-	-	-
Loans and advances to customers	12,395,691	9,081,756	6,365,633	-	27,843,080
Financial assets at fair value through other comprehensive income	224,584	1,341,530	1,759,931	101,450	3,427,495
Financial assets measured at amortized cost	1,216,351	672,132	264,830	-	2,153,313
Total	16,306,916	11,307,903	8,442,431	479,290	36,536,540
LIABILITIES					
Obligations under repurchase agreements	179,001	-	-	-	179,001
Derivative liabilities	396,422	178,496	45,164	-	620,082
Derivative liabilities used for hedging purposes	65,881	106,377	-	-	172,258
Funds borrowed	12,810,841	4,753,669	6,255,160	-	23,819,670
Debt securities issued (1)	-	1,797,030	6,701,933	-	8,498,963
Payables to stock exchange money market	223,277	-	-	-	223,277
Current account of loan customers	32,529	-	-	-	32,529
Taxes and dues payable	-	-	-	82,363	82,363
Corporate tax liability	-	-	-	11,741	11,741
Employee benefits	-	-	-	51,687	51,687
Total	13,707,951	6,835,572	13,002,257	145,791	33,691,571
Total Balance Sheet Position	2,598,965	4,472,331	(4,559,826)	333,499	2,844,969
Total Off Balance Sheet Position	(3,611,642)	(3,335,297)	7,218,803	-	271,864
Total Position	(1,012,677)	1,137,034	2,658,977	333,499	3,116,833

(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 2018

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
ASSETS					
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
Total	12,387,621	9,616,769	6,080,186	525,649	28,610,225
LIABILITIES					
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
Total	11,880,608	4,198,366	9,451,026	78,534	25,608,534
Total Balance Sheet Position	507,013	5,418,403	(3,370,840)	447,115	3,001,691
Total Off Balance Sheet Position	(1,472,942)	(3,750,901)	5,291,174	-	67,331
Total Position	(965,929)	1,667,502	1,920,334	447,115	3,069,022

(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 2018

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 2018, a summary of average interest rates for different assets and liabilities are as follows:

	TL %	Euro %	US Dollar %
<u>Assets</u>			
Cash & Balances with Central Bank	11.35	-	2.10
Banks	22.92	2.90	2.30
Money market placements	24.59	-	-
Loans and advances to customers	19.10	4.49	7.46
Financial assets at FVOPL	27.62	-	10.05
Financial assets at FVOCI	16.94	5.62	4.32
Financial assets measured at amortized cost	16.76	-	6.77
<u>Liabilities</u>			
Funds borrowed	10.30	1.07	3.29
Money market balances	22.59	0.75	1.50
Marketable securities issued	-	-	5.71
Current account of loan customers	15.00	0.75	1.50

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

	TL %	Euro %	US Dollar %
<u>Assets</u>			
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
<u>Liabilities</u>			
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

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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.

Current Period Currency	Applied Shock (+/- x basis point)	Revenue/ Loss	Revenue/Shareholders' Equity – Loss / Shareholders' Equity
TL	+500 / (400) basis point	(127,184) / 114,525	(2.10%) / 1.89%
Euro	+200 / (200) basis point	99,169 / (35,554)	1.64% / (0.59%)
US Dollar	+200 / (200) basis point	90,703 / (123,367)	1.65% / (2.04%)
Total (for Negative Shocks)		(44,396)	(0.73%)
Total (for Positive Shocks)		71,688	1.18%

Prior Period Currency	Applied Shock (+/- x basis point)	Revenue/ Loss	Revenue/Shareholders' Equity – Loss/ Shareholders' Equity
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%
Total (for Negative Shocks)		143,944	3.00%
Total (for Positive Shocks)		(105,687)	(2.20%)

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 financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income. Therefore, the net profit/loss is not affected as long as the Group does not sell its equity investments classified as financial assets at fair value through other comprehensive income.

Unless the equity share investments classified as assets financial assets at fair value through other comprehensive income 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 2018

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 2018:

	Euro	US Dollar	Other Foreign Currencies	Total
Assets				
Cash and cash equivalents including Central Bank	6,511	91	-	6,602
Reserve deposits at Central Bank	299,745	417,127	13,401	730,273
Loans and advances to banks	155,566	612,773	2,423	770,762
Derivative financial instruments	42,247	75,877	1,609	119,733
Money market placements	-	-	-	-
Loans and advances to customers	12,276,612	13,701,012	-	25,977,624
Financial assets at fair value through other comprehensive income	75,973	1,131,841	-	1,207,814
Financial assets measured at amortized cost	-	419,420	-	419,420
Derivative assets held for hedging purposes	-	-	-	-
Other assets	79,490	571,643	-	651,133
Total Assets	12,936,144	16,929,784	17,433	29,883,361
Liabilities				
Obligations under repurchase agreements	89,326	48,132	-	137,458
Derivative financial liabilities held for trading	32,160	48,533	-	80,693
Funds borrowed	11,521,560	12,171,103	-	23,692,663
Marketable securities issued (1)	-	8,498,963	-	8,498,963
Current account of loan customers	20,119	11,696	-	31,815
Derivative liabilities held for hedging purposes	-	172,258	-	172,258
Other liabilities	17,532	26,957	1,330	45,819
Total Liabilities	11,680,697	20,977,642	1,330	32,659,669
Net Statement of Financial Position	1,255,447	(4,047,858)	16,103	(2,776,308)
Off Balance Sheet Position				
Derivatives to sell	1,902,722	6,761,213	153,506	8,817,441
Derivatives to buy	(3,276,277)	(2,805,061)	(168,498)	(6,249,836)
	(1,373,555)	3,956,152	(14,992)	2,567,605
Net Position	(118,108)	(91,706)	1,111	(208,703)

(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 2018

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 2017:

	Euro	US Dollar	Other Foreign Currencies	Total
Assets				
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
Total Assets	9,659,966	12,784,390	75,954	22,520,310
Liabilities				
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
Total Liabilities	9,701,966	14,312,688	2,865	24,017,519
Net Statement of Financial Position	(42,000)	(1,528,298)	73,089	(1,497,209)
Off Balance Sheet Position				
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)
	(194,420)	1,508,745	(72,110)	1,242,215
Net Position	(236,420)	(19,553)	979	(254,994)

(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 2018

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 2018	31 December 2017	31 December 2018	31 December 2017
US Dollar	10%	(9,715)	(2,555)	544	600
Euro	10%	(11,842)	(23,808)	31	166
Other	10%	111	98	-	-

	% Decrease	Effect on profit or loss (1)		Effect on equity (2)	
		31 December 2018	31 December 2017	31 December 2018	31 December 2017
US Dollar	10%	9,715	2,555	(544)	(600)
Euro	10%	11,842	23,808	(31)	(166)
Other	10%	(111)	(98)	-	-

(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 2018

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 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.

Total capital and Capital adequacy ratio have been calculated in accordance with the “Regulation on Equity of Banks” and “Regulation on Measurement and Assessment of Capital Adequacy of Banks”. As of 31 December 2018, the capital adequacy ratio of the Group has been calculated as 15.99% (31 December 2017:17.03%).

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 financial assets at fair value through other comprehensive income 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 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 2018

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 2018 and 31 December 2017 was as follows:

	2018	2017
Tier 1 capital	4,144,042	3,682,968
Tier 2 capital	1,901,952	1,261,881
Deductions from capital	-	(5,223)
Total regulatory capital	6,045,994	4,939,626
 Total Risk Weighted Assets	 37,814,453	 29,002,503
 Capital ratios		
Total regulatory capital expressed as a percentage of total credit risk, counterparty credit risk, market risk and operational risk	15.99%	17.03%
Total Tier 1 capital expressed as a percentage of total credit risk, counterparty credit risk, market risk and operational risk	10.96%	12.70%

As at 31 December 2018, the Bank's capital adequacy ratio on an unconsolidated basis is 16.20% (31 December 2017: 17.05%). The Group's consolidated capital adequacy ratio as at 31 December 2018 is 15.99% (31 December 2017: 17.03%).

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 1,521,866 as at 31 December 2018 (31 December 2017: TL 1,252,570) 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 2018

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 2018	Total	Level 1	Level 2	Level 3
Financial Assets				
Financial assets at FVPL	300,519	4,887	-	295,632
Loans	290,660	-	-	290,660
Government bonds and Treasury bills	8	8	-	-
Equity shares	1	1	-	-
Mutual funds	1,454	1,454	-	-
Debt securities issued by corporations	8,396	3,424	-	4,972
Derivative assets	979,221	-	979,221	-
Derivatives used for hedging purposes	-	-	-	-
Financial assets at FVOCI ⁽¹⁾	3,416,229	3,260,049	72,786	83,394
Government bonds and Treasury bills	2,008,419	2,008,419	-	-
Eurobonds	1,165,035	1,165,035	-	-
Equity shares	90,188	10,149	72,786	7,253
Debt securities issued by corporations	152,587	76,446	-	76,141
Financial Liabilities				
Derivative liabilities	620,082	-	620,082	-
Derivatives used for hedging purposes	172,258	-	172,258	-

() As of 31 December 2018, securities that are not publicly traded and the determination of fair values could not be obtained reliably amounting to TL 11,266 have been measured at cost.*

31 December 2017	Total	Level 1	Level 2	Level 3
Financial Assets				
Trading assets	9,305	21	9,284	-
Government bonds and Treasury bills	-	-	-	-
Equity shares	21	21	-	-
Debt securities issued by corporations	9,284	-	9,284	-
Derivative assets	326,788	-	326,788	-
Derivatives used for hedging purposes	-	-	-	-
Available for sale investment securities	3,086,470	2,880,453	51,301	154,716
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
Financial Liabilities				
Derivative liabilities	232,403	-	232,403	-
Derivatives used for hedging purposes	78,682	-	78,682	-

(1) 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.

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

4. FINANCIAL RISK MANAGEMENT (Continued)

Fair values of financial instruments (continued)

The reconciliation from the beginning balances to ending balances for fair value measurements in Level 3 for the year ended 31 December 2018.

	31 December 2018	31 December 2017
Balance at the beginning of the year	154,716	172,233
Purchases	8,684	143,747
Redemption or sales	(61,622)	(162,796)
Valuation differences	5,227	1,532
Transfer	272,264	-
Balance at the end of the year ⁽¹⁾	379,269	154,716

⁽¹⁾ As of 31 December 2018, provision amounting to TL 243 is allocated in “Financial assets at FVOCI” due to transition of IFRS 9.

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

5. FINANCIAL INSTRUMENTS

Carrying amounts and fair values

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

	Carrying amount			Fair value			
	Loans and receivables	Investments, including derivatives	Total	Level 1	Level 2	Level 3	Total
Financial assets							
31 December 2018							
Financial assets measured at fair value							
Financial assets at FVPL	-	300,519	300,519	4,887	-	295,632	300,519
Derivative financial instruments	-	979,221	979,221	-	979,221	-	979,221
Derivative assets held for hedging purposes	-	-	-	-	-	-	-
Investment securities - FVOCI ⁽¹⁾	-	3,427,495	3,427,495	3,260,049	72,786	83,394	3,416,229
Financial assets not measured at fair value							
Cash and cash equivalents and due from banks (including central banks, excluding cash on hand)	2,123,549	-	2,123,549	-	-	-	-
Loans and advances to customers	27,552,420	-	27,552,420	-	-	-	-
Financial assets measured at amortized cost	-	2,153,313	2,153,313	-	-	-	-
	29,675,969	6,860,548	36,536,517				
31 December 2017							
Financial assets measured at fair value							
Trading assets	-	9,305	9,305	21	9,284	-	9,305
Derivative financial instruments	-	326,788	326,788	-	326,788	-	326,788
Derivative assets held for hedging purposes	-	-	-	-	-	-	-
Investment securities - Available-for-sale	-	3,096,432	3,096,432	2,880,453	51,301	154,716	3,086,470
Financial assets not measured at fair value							
Due from banks (including central banks)	1,340,798	-	1,340,798	-	-	-	-
Loans and advances to customers	22,304,828	-	22,304,828	-	-	-	-
Investment securities - Held-to-maturity	-	1,532,047	1,532,047	-	-	-	-
	23,645,626	4,964,572	28,610,198				

⁽¹⁾ As of 31 December 2018, securities that are not publicly traded and the determination of fair values could not be obtained reliably amounting to TL 11,266 (31 December 2017: TL 9,962) have been measured at cost.

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

(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	Total
Financial liabilities							
31 December 2018							
Financial liabilities measured at fair value							
Derivative financial instruments held for trading	-	620,082	620,082	-	620,082	-	620,082
Derivative liabilities held for hedge accounting	-	172,258	172,258	-	172,258	-	172,258
Financial liabilities not measured at fair value							
Obligations under repurchase agreements	179,001	-	179,001	-	-	-	-
Funds borrowed	23,819,670	-	23,819,670	-	-	-	-
Payables to stock exchange money market	223,277	-	223,277	-	-	-	-
Debt securities issued ⁽¹⁾	8,498,963	-	8,498,963	7,671,428	-	-	7,671,428
	32,720,911	792,340	33,513,251				
31 December 2017							
Financial liabilities measured at fair value							
Derivative financial instruments held for trading	-	232,403	232,403	-	232,403	-	232,403
Derivative liabilities held for hedge accounting	-	78,682	78,682	-	78,682	-	78,682
Financial liabilities not measured at fair value							
Obligations under repurchase agreements	610,775	-	610,775	-	-	-	-
Funds borrowed	19,001,627	-	19,001,627	-	-	-	-
Payables to money market	701,147	-	701,147	-	-	-	-
Debt securities issued	4,892,465	-	4,892,465	4,909,263	-	-	4,909,263
	25,206,014	311,085	25,517,099				

⁽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 2018

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

6. OPERATING SEGMENTS

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

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

Principal activities of the Group are as follows:

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

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

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

6. OPERATING SEGMENTS (Continued)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS (1 January – 31 December 2018)	Banking	Stock brokerage and other	Combined	Eliminations	Total
Interest income	3,034,857	75,280	3,110,137	(28)	3,110,109
Interest expense	(1,281,465)	(99,954)	(1,381,419)	28	(1,381,391)
Net interest income	1,753,392	(24,674)	1,728,718	-	1,728,718
Net fee and commission income	19,001	32,397	51,398	-	51,398
Net securities trading income / (loss)	2,013	189	2,202	-	2,202
Net derivative trading income / (loss)	(477,108)	(139,240)	(616,348)	-	(616,348)
Net foreign currency gain / (loss)	207,864	77,082	284,946	-	284,946
Net impairment loss on financial assets	(471,193)	(1,456)	(472,649)	-	(472,649)
Net operating income after impairment losses	1,033,969	(55,702)	978,267	-	978,267
Other operating income	4,160	66,112	70,272	(51,179)	19,093
Other operating expenses	(162,873)	(59,715)	(222,588)	12,644	(209,944)
Dividend income	4,011	1,514	5,525	-	5,525
Share of profit of equity-accounted investees	90,705		90,705		90,705
Profit before income tax	969,972	(47,791)	922,181	(38,535)	883,646

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

6. OPERATING SEGMENTS (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 gain / (loss)	168,387	(29,473)	138,914	-	138,914
Net impairment loss 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 2018

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

6. OPERATING SEGMENTS (Continued)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	Banking	Stock brokerage and other	Combined	Eliminations	Total
<u>At 31 December 2018</u>					
Total assets	37,554,348	873,620	38,427,968	(159,150)	38,268,818
Total liabilities	33,479,107	506,658	33,985,765	(404)	33,985,361
Equity before net profit & non-controlling interests	3,415,525	416,799	3,832,324	(257,031)	3,575,293
Net profit attributable to equity holders of the Bank	659,716	(49,837)	609,879	59,663	669,542
Non-controlling interests	-	-	-	38,622	38,622
Total equity	4,075,241	366,962	4,442,203	(158,746)	4,283,457
Total liabilities and equity	37,554,348	873,620	38,427,968	(159,150)	38,268,818
<u>At 31 December 2017</u>					
Total assets	28,748,016	1,107,446	29,855,462	(60,812)	29,794,650
Total liabilities	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
Total equity	3,742,756	261,811	4,004,567	(60,076)	3,944,491
Total liabilities and equity	28,748,016	1,107,446	29,855,462	(60,812)	29,794,650

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

7. CASH AND CASH EQUIVALENTS, BALANCES WITH CENTRAL BANK, LOANS AND ADVANCES TO BANKS, MONEY MARKET PLACEMENTS

Cash and cash equivalent comprise balances with less than three months' maturity from the date of acquisition, including cash on hand, deposits from banks and other short-term highly liquid investments with original maturities of three months or less.

	31 December 2018	31 December 2017
Cash on hand	27	24
Loans and advances to banks (with original maturity of less than 3 months) ⁽¹⁾	806,997	493,687
Unrestricted balances with the Central Ban	12,928	15,433
Funds lent under repurchase agreements	357	3
Interbank money market placements ⁽²⁾	573,233	-
Total cash and cash equivalents in the consolidated statement of financial position	1,393,542	509,147
Accruals on cash and cash equivalents	(7,717)	(4,899)
Total cash and cash equivalents in the consolidated statement of cash flows	1,385,825	504,248

⁽¹⁾ As of 31 December 2018, provision amounting to TL 234 is allocated in "Loans and advances to banks" due to transition of IFRS 9.

⁽²⁾ As of 31 December 2018, provision amounting to TL 23 is allocated in "Interbank Money Market Placements" due to transition of IFRS 9.

Cash And Cash Equivalents

	31 December 2018	31 December 2017
Cash on hand – Turkish Lira ("TL")	27	24
Total cash on hand	27	24

There is no blockage on the use of cash and cash equivalents as of 31 December 2018 (31 December 2017: None).

Balances With Central Bank

a) Unrestricted balances with Central Bank

	31 December 2018	31 December 2017
Demand deposits – TL	6,326	10,571
Demand deposits – FC	6,602	4,862
Total	12,928	15,433

b) Reserve Deposits at Central Bank

	31 December 2018	31 December 2017
Foreign currency reserves ⁽¹⁾	730,030	831,678
Total	730,030	831,678

⁽¹⁾ As of 31 December 2018, provision amounting to TL 243 is allocated in "Balance with the Central Bank of Turkey" due to transition of IFRS 9.

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

7. CASH AND CASH EQUIVALENTS, BALANCES WITH CENTRAL BANK, LOANS AND ADVANCES TO BANKS (Continued)

Balances With Central Bank (continued)

b) Reserve Deposits at Central Bank (continued)

As per the Communiqué numbered 2005/1 “Reserve Deposits” of the CBRT, banks keep reserve deposits at the CBRT for their TL and FC liabilities mentioned in the communiqué. Reserves are calculated and set aside every two weeks on Fridays for 14 days periods. Interest rate for the required reserves in Turkish Lira is paid by 13% effective rate since 21 September 2018.

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 2018 are presented in table below:

Reserve Rates for Turkish Lira Liabilities (%)		
Original Maturity	Reserve Ratio	
Until 1 year maturity (1 year include)	8	
1-3 year maturity (3 year include)	4,5	
More than 3 year maturity	1,5	

Reserve Rates for FC Liabilities (%)		
Original Maturity	Reserve Ratio If the fund borrowed Before 28.08.2015	Reserve Ratio If the fund borrowed After 28.08.2015
Until 1 year maturity (1 year included)	15	20
1-2 year maturity (2 year included)	9	15
2-3 year maturity (3 year included)	7	10
3-5 year maturity (5 year included)	6	6
More than 5 year maturity	5	4

Loans And Advances To Banks

	31 December 2018	31 December 2017
<u>Domestic Banks</u>		
Demand deposits – TL	22,084	2,601
Time deposits – TL	14,385	462,377
Demand deposits – FC	584,319	12,753
Time deposits – FC	150,804	11,820
	771,592	489,551
<u>Foreign Banks</u>		
Time deposits – TL	-	-
Demand deposits – FC	35,639	4,136
Time deposits – FC	-	-
	35,639	4,136
Total	807,231	493,687

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

7. CASH AND CASH EQUIVALENTS, BALANCES WITH CENTRAL BANK, LOANS AND ADVANCES TO BANKS (Continued)

Loans And Advances To Banks (continued)

The time deposits above mature within 2 – 45 days and earn interest at rates ranging 24.80-25.75% for TL balances, 2.30 – 3.15 % for foreign currency balances as at the reporting date (31 December 2017: Maturity: 4 - 60 days; interest rate 12.60-15.90% for TL balances and 0.45-1.00% for foreign currency).

Expected credit loss for balances with Central Bank at 31 December 2018 is as follows:

	31 December 2018		
	Stage 1	Stage 2	Stage 3
Balances at 31 December 2017	-	-	-
Impact of adopting IFRS 9 at 1 January 2018	12	-	-
Balances at 1 January 2018	12	-	-
Transfer to Stage 1	-	-	-
Transfer to Stage 2	-	-	-
Transfer to Stage 3	-	-	-
Debt sales and write offs	-	-	-
Recoveries and reversals	(83)	-	-
Provision for the period	314	-	-
Effects of movements in exchange rates	-	-	-
Balances at the end of the period	243	-	-

Expected credit loss for banks as at 31 December 2018 is as follows:

	31 December 2018		
	Stage 1	Stage 2	Stage 3
Balances at 31 December 2017	-	-	-
Impact of adopting IFRS 9 at 1 January 2018	513	-	-
Balances at 1 January 2018	513	-	-
Transfer to Stage 1	-	-	-
Transfer to Stage 2	-	-	-
Transfer to Stage 3	-	-	-
Debt sales and write offs	-	-	-
Recoveries and reversals	(777)	-	-
Provision for the period	498	-	-
Effects of movements in exchange rates	-	-	-
Balances at the end of the period	234	-	-

Expected credit loss for interbank money market placements as at 31 December 2018 is as follows:

	31 December 2018		
	Stage 1	Stage 2	Stage 3
Balances at 31 December 2017	-	-	-
Impact of adopting IFRS 9 at 1 January 2018	4	-	-
Balances at 1 January 2018	4	-	-
Transfer to Stage 1	-	-	-
Transfer to Stage 2	-	-	-
Transfer to Stage 3	-	-	-
Debt sales and write offs	-	-	-
Recoveries and reversals	(10)	-	-
Provision for the period	29	-	-
Effects of movements in exchange rates	-	-	-
Balances at the end of the period	23	-	-

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2018	31 December 2017
Government bonds and treasury bills in TL	8	-
Debt securities issued by corporations	8,396	8,285
Equity shares	1	21
Mutual funds	1,454	999
Total	9,859	9,305

There are no government bonds and treasury bills include securities given as collateral or blocked as at the reporting date (31 December 2017: None).

9. LOANS AND ADVANCES TO CUSTOMERS

	31 December 2018
Short-term and current portion of long term loans	1,754,869
Long-term loans	26,007,167
Total performing loans	27,762,036
Non-performing loans	597,210
Total loans	28,359,246
Less: Specific provision for stage 3	(169,489)
Less: Generic provision for impairment losses on loans	(346,677)
Total loans (1)	27,843,080

(1) Includes fair value through profit or loss loans.

	31 December 2017
Short-term and current portion of long term loans	1,509,224
Long-term loans	20,891,243
Total performing loans	22,400,467
Non-performing loans	53,575
Total loans	22,454,042
Less: Specific provision for impairment losses on loans	(52,731)
Less: Collective provision for impairment losses on loans	(96,483)
Total loans	22,304,828

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

9. LOANS AND ADVANCES TO CUSTOMERS (Continued)

Movements in the reserve for impairment losses on loans for the year ended 2018 and 2017 are as follows:

	1 January – 31 December 2018
Specific provision for cash loans:	
As at 31 December 2017	52,731
Adoption of IFRS	(653)
As at 1 January 2018	52,078
Charge for the year	273,782
Collections	(9,100)
Reserve released and write offs	(147,271)
As at 31 December	169,489
Collective provision for cash loans:	
As at 31 December 2017	96,483
Adoption of IFRS	134,849
As at 1 January 2018	231,332
Charge for the year	115,345
Provision released and write offs	-
As at 31 December	346,677
Total reserve for impairment losses on loans	516,166
	1 January – 31 December 2017
Specific provision for cash loans:	
As at 1 January 2017	10,485
Charge for the year	42,636
Collections	-
Reserve released and write offs	(390)
As at 31 December	52,731
Collective provision for cash loans:	
As at 31 December 2017	
Adoption of IFRS	
As at 1 January 2018	37,628
Charge for the year	68,855
Provision released and write offs	(10,000)
As at 31 December	96,483
Total reserve for impairment losses on loans	149,214

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

9. LOANS AND ADVANCES TO CUSTOMERS (Continued)

Loans can be further analysed by customer groups as follows:

	31 December 2018
Corporate customers	21,998,820
SME business	6,226,825
Other	133,601
Less: Allowance for ECL/impairment losses	(516,166)
Total	27,843,080

	31 December 2017
Corporate customers	18,019,114
Small business	4,324,656
Other	110,272
Total	22,454,042

	31 December 2018	31 December 2017
Currency		
US Dollar	11,235,036	10,256,493
Euro	13,594,940	8,149,422
Turkish Lira	1,837,965	2,301,967
Foreign currency indexed TL loans	1,691,305	1,746,160
Total	28,359,246	22,454,042

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.

As at 31 December 2018 and 31 December 2017, the aging analysis of past due but not impaired loans per customer groups is as follows:

	31 December 2018				
	Less than 30 days	31-60 days	61-90 days	More than 91 days	Total
Current Period					
Corporate and Commercial Loans	10,631	-	-	-	10,631
SME Loans	202	-	-	-	202
Others	-	-	-	-	-
Total	10,833	-	-	-	10,833
	31 December 2017				
	Less than 30 days	31-60 days	61-90 days	More than 91 days	Total
Prior Period					
Corporate and Commercial Loans	568,338	-	296,391	-	864,729
SME Loans	-	-	-	-	-
Others	-	-	-	-	-
Total	568,338	-	296,391	-	864,729

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 Parent Bank has TL 85,498 of loans as of 31 December 2018 (31 December 2017: TL 820,521).

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

9. LOANS AND ADVANCES TO CUSTOMERS (Continued)

Loans and advances to customers not impaired amounting to TL 17,006,183 have floating interest rates (31 December 2017: TL 13,512,101) and the remaining TL 10,755,853 have fixed interest rates (31 December 2017: TL 8,888,366).

Expected credit loss of loans and advances to customers movement as at 31 December 2018 is as follows:

	31 December 2018		
	Stage 1	Stage 2	Stage 3
Balances at 31 December 2017	32,751	63,732	52,731
Impact of adopting IFRS 9 at 1 January 2018	117,017	17,832	(653)
Balances at 1 January 2018	149,768	81,564	52,078
Transfer to Stage 1	-	-	-
Transfer to Stage 2	(74,323)	74,323	-
Transfer to Stage 3	(12,442)	(221,866)	234,308
Debt sales and write offs	-	-	(147,271)
Recoveries and reversals	(10,365)	-	(9,100)
Provision for the period	91,386	225,501	27,207
Effects of movements in exchange rates	(8,487)	51,618	12,267
Balances at the end of the period	135,537	211,140	169,489

10. INVESTMENT SECURITIES

Financial assets at fair value through other comprehensive income

	31 December 2018	31 December 2017
Government bonds and treasury bills in TL	2,008,418	1,821,667
Eurobonds	1,165,035	1,009,955
Debt securities issued by corporations	152,588	186,670
Equity shares	101,454	78,140
Total ⁽¹⁾	3,427,495	3,096,432

⁽¹⁾ As of 31 December 2018, provision amounting to TL 243 is allocated in "Financial assets at FVOCI" due to transition of IFRS 9.

The above government bonds and treasury bills include those pledged under securities repurchase agreements with customers amounting to TL 41,531 as at the reporting date (31 December 2017: TL 171,250).

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 2018 and 31 December 2017 are as follows:

	2018 Nominal Value	2018 Carrying Value	2017 Nominal Value	2017 Carrying Value
<u>Government Bonds and Treasury Bills</u>				
Central Bank- Open Market Operations	321,000	294,387	426,933	423,398
Clearing House – Blocked Securities	209,400	197,334	328,692	329,748
Other (International Bank) Foreign Currency	1,054,156	961,927	665,208	636,146
	1,584,556	1,453,648	1,420,833	1,389,292

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

10. INVESTMENT SECURITIES (Continued)

The Group's equity shares in Financial assets at fair value through other comprehensive income investment securities are as follows:

	Ownership %	31 December 2018	Ownership %	31 December 2017
<u>Investee</u>				
İstanbul Takas ve Saklama AŞ	1.62	27,481	1.62	19,952
İş Yatırım Ortaklığı AŞ	6.95	10,149	6.95	10,680
European Investment Fund-EIF	0.17	21,515	0.17	15,713
Turkish Growth and Innovation Fund-TGIF	10	20,263	10	12,108
İş Portföy Yönetimi AŞ	9.9	6,197	9.9	6,197
Ege Tarım Ürünleri Lisanslı Depoculuk AŞ	10.05	1,056	10.05	1,056
Cam Elyaf Sanayi AŞ	-	-	-	-
TSKB Gayrimenkul Değerleme AŞ ⁽¹⁾	99.99	379	99.99	379
Borsa İstanbul A.Ş.	0.1	3,527	0.1	3,527
TSKB Sürdürülebilirlik Danışmanlığı AŞ ⁽¹⁾	99.76	4,230	99.19	1,230
Others	<1.00	6,657	<1.00	7,298
Total equity shares in financial assets at fair value through other comprehensive income		101,454		78,140

⁽¹⁾ 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.

Financial assets measured at amortized cost

	31 December 2018	31 December 2017
Government bonds and treasury bills in TL	2,153,313	1,532,047
Total	2,153,313	1,532,047

The movement of the financial assets measured at amortized cost as follows:

	31 December 2018	31 December 2017
Balance at 1 January	1,532,047	1,375,729
Additions	227,528	-
Redemptions	-	(836)
Impairment provision	-	(1,903)
Exchange differences	51,793	13,914
Interest income accruals	343,573	145,143
Total ⁽¹⁾	2,154,941	1,532,047

⁽¹⁾ As of 31 December 2018, provision amounting to TL 1,628 is allocated in "Financial assets measured at amortized cost" due to transition of IFRS 9.

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

11. INVESTMENTS IN EQUITY-ACCOUNTED INVESTEEES

As at 31 December 2018 and 31 December 2017, the following entities are accounted for under the equity method in the accompanying consolidated financial statements:

	Ownership (%)	Nominal	31 December 2018
<u>Investee</u>			
İş Finansal Kiralama AŞ	29.46	204,850	319,645
İş Faktoring AŞ	21.75	13,811	65,494
İş Girişim Serm. Yat. Ort. AŞ	16.67	12,442	43,351
		231,103	428,490

	Ownership (%)	Nominal	31 December 2017
<u>Investee</u>			
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
		211,979	374,425

The Group's share of profit in its equity-accounted investees for the year ended 31 December 2018 was TL 90,705 (31 December 2017: TL 43,861). In 2017 the Group has received no dividends from its investments in equity-accounted investees (31 December 2017: TL 14,732).

The Group's equity-accounted investees are listed on BIST, except for İş Faktoring AŞ. Based on their closing prices of TL 4.63 of İş Finansal Kiralama AŞ and TL 2.03 of İş Girişim Serm. Yat. Ort. AŞ, the fair value of the Group's investment in listed entities is TL 970,443 (31 December 2017: 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 is TL 295,558).

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

31 December 2018	Total assets	Equity	Current Period Profit	Fair Value
İş Finansal Kiralama AŞ	8,681,652	1,085,014	197,536	945,385
İş Faktoring AŞ	2,770,655	301,124	147,016	46,010
İş Girişim Serm. Yat. Ort. AŞ	262,226	259,965	3,074	25,058
	11,714,533	1,646,103	347,626	1,016,453

31 December 2017	Total assets	Equity	Current Period Profit	Fair Value
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
	9,595,840	1,285,357	124,676	295,558

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

11. INVESTMENTS IN EQUITY-ACCOUNTED INVESTEEES (Continued)

	Current Period	Prior Period
Balance at the Beginning of the Period	374,425	322,922
Effect of IFRS 9	(18,630)	-
Balance at January 1, 2018	355,795	322,922
Movements During the Period	72,695	51,503
Purchases	-	-
Bonus Shares Received	-	-
Current Year Share of Profit	-	-
Sales	-	-
Revaluation Increase/Decrease ⁽¹⁾	88,213	51,503
Provision for Impairment / Reversals	-	-
Other	(15,518)	-
Balance at the End of the Period	428,490	374,425
Capital Commitments	-	-
Share Percentage at the End of the Period (%)	-	-

⁽¹⁾ Includes the differences of the equity method accounting.

12. GOODWILL

Cost

Balance at 1 January 2017	383
Balance at 31 December 2017	383
Balance at 31 December 2018	383

Impairment

At 1 January 2017	-
At 31 December 2017	-
At 31 December 2018	-

Carrying Amount

Balance at 1 January 2017	383
Balance at 31 December 2017	383
Balance at 31 December 2018	383

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 2018, 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 2018

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

13. PROPERTY AND EQUIPMENT

Current Period	Prior Period End	Current Period Additions	Current Period Disposals	Revaluation Surplus	Current Period End
Cost					
Land and buildings	242,240	2,719	-	46,965	291,924
Assets held under finance leases	5,221	-	(29)	-	5,192
Vehicles	1,057	-	(57)	-	1,000
Assets held for resale	-	-	-	-	-
Other	28,988	2,170	(1,118)	-	30,040
Total Cost	277,506	4,889	(1,204)	46,965	328,156
Accumulated depreciation					
Land and buildings	(278)	(20)	-	(520)	(818)
Assets held under finance leases	(5,093)	(32)	29	-	(5,096)
Vehicles	(703)	(206)	57	-	(852)
Assets held for resale	-	-	-	-	-
Other	(25,634)	(4,201)	1,096	-	(28,739)
Total accumulated depreciation	(31,708)	(4,459)	1,182	(520)	(35,505)
Impairment provision					
Land and buildings	-	-	-	-	-
Assets held under finance leases	-	-	-	-	-
Vehicles	-	-	-	-	-
Assets held for resale	-	-	-	-	-
Other	-	-	-	-	-
Total impairment provision	-	-	-	-	-
Net book value	245,798	430	(22)	46,445	292,651

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

13. PROPERTY AND EQUIPMENT (Continued)

Prior Period	Prior Period End	Current Period Additions	Current Period Disposals	Revaluation Surplus	Other (1)	Current Period End
Cost						
Land and buildings	225.925	-	-	16.315	-	242.240
Assets held under finance leases	5.242	-	(21)	-	-	5.221
Vehicles	1.475	-	(418)	-	-	1.057
Assets held for resale	576	-	-	-	(576)	-
Other	25.479	3.750	(241)	-	-	28.988
Total Cost	258.697	3.750	(680)	16.315	(576)	277.506
Accumulated depreciation						
Land and buildings	515	(793)	-	-	-	(278)
Assets held under finance leases	(4.999)	(115)	21	-	-	(5.093)
Vehicles	(825)	(234)	356	-	-	(703)
Assets held for resale	-	-	-	-	-	-
Other	(21.853)	(4.000)	219	-	-	(25.634)
Total accumulated depreciation	(27.162)	(5.142)	596	-	-	(31.708)
Impairment provision						
Land and buildings	-	-	-	-	-	-
Assets held under finance leases	-	-	-	-	-	-
Vehicles	-	-	-	-	-	-
Assets held for resale	(207)	(18)	-	-	225	-
Other	-	-	-	-	-	-
Total impairment provision	(207)	(18)	-	-	225	-
Net book value	231.328	(1.410)	(84)	16.315	(351)	245.798

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

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

14. INVESTMENT PROPERTY

	31 December 2018	31 December 2017
Fair value of investment properties	247,793	243,145
	247,793	243,145

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 247,793 (31 December 2017: TL 243,145) 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 9,460 in the current period (31 December 2017: TL 8,657).

The movement of investment properties as at 31 December 2018 and 31 December 2017 are as follows:

<u>Current Period</u>	Closing Balance of Prior Period	Additions	Disposals	Change in Fair Value	Closing Balance of Current Period
Tahir Han	25,425	-	-	2,706	28,131
Pendorya Mall	152,990	5	-	1,160	154,155
Adana Hotel Project	64,730	-	-	777	65,507
Total	243,145	5	-	4,643	247,793

<u>Prior Period</u>	Closing Balance of Prior Period	Additions	Disposals	Change in Fair Value	Closing Balance of Current Period
Tahir Han	23,020	-	-	2,405	25,425
Pendorya Mall	143,690	947	-	8,353	152,990
Adana Hotel Project	64,613	10	-	107	64,730
Total	231,323	957	-	10,865	243,145

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

14. 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:

	1 January – 31 December 2018	1 January – 31 December 2017
Balance 1 January	217,720	208,303
Addition	5	957
Disposal	-	-
Recognized in other income from other operations		
Change in fair value	-	-
Recognized in other expense from other operations		
Change in fair value	1,937	8,460
Transfer	-	-
Total	219,662	217,720

Tahir Han has considered as Level 2 as of December 31, 2018.

15. 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.

	31 December 2018	31 December 2017
<u>Acquisition cost</u>		
Balance at 1 January	6,537	5,232
Additions	2,505	1,305
Disposals	-	-
Balance at 31 December	9,042	6,537
<u>Accumulated amortisation</u>		
Balance at 1 January	(3,957)	(3,139)
Charge for the year	(1,218)	(818)
Disposals	-	-
Balance at 31 December	(5,175)	(3,957)
Net Book Value, as at 31 December	3,867	2,580

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

16. OTHER ASSETS

	31 December 2018	31 December 2017
Cash guarantees given	582,340	180,100
Prepaid expenses	63,287	54,997
VAT carried forward	4,692	7,395
Deposits, guarantees and collaterals given	3,535	7,134
Prepaid taxes	2,021	4,485
Trade receivables	10,697	3,100
Receivables from brokerage customers	-	322
Other (*)	88,677	47,031
Total	755,249	304,564

(*) Positive market valuation differences for hedged items amounted TL 65,911 is included (December 31, 2017: TL 29,985).

Expected credit loss for other assets at 31 December 2018 is as follows:

	31 December 2018		
	Stage 1	Stage 2	Stage 3
Balances at 31 December 2017	-	-	-
Impact of adopting IFRS 9 at 1 January 2018	1,037	-	-
Balances at 1 January 2018	1,037	-	-
Transfer to Stage 1	-	-	-
Transfer to Stage 2	-	-	-
Transfer to Stage 3	-	-	-
Debt sales and write offs	-	-	-
Recoveries and reversals	(1,312)	-	-
Provision for the period	1,597	-	-
Effects of movements in exchange rates	-	-	-
Balances at the end of the period	1,322	-	-

17. OBLIGATIONS UNDER REPURCHASE AGREEMENTS

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

	2018 Carrying Value of Underlying Securities	2018 Carrying Value of Corresponding Liability	2018 Repurchase Value
Financial assets at fair value through other comprehensive income	171,653	41,543	41,575
Financial assets measured at amortized cost	248,394	137,458	137,465
	420,047	179,001	179,040

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

17. OBLIGATIONS UNDER REPURCHASE AGREEMENTS (Continued)

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

The repurchase agreements have maturity periods between 1-90 days (31 December 2017: 4-372 days). The Group has applied interest rates of 0.75%-1.5% for foreign currency, 15.00% for Turkish Lira agreements (31 December 2017: 0.25%-0.5% for foreign currency, 7.00%-12.31% for Turkish Lira). Included in the carrying value of the obligations under repurchase agreements, the interest accrued amounts to TL 1 (31 December 2017: TL 381).

18. FUNDS BORROWED

	31 December 2018	31 December 2017
Short-term funds	5,000	164,852
Short-term portion of medium and long-term funds	3,894,228	3,360,542
Medium and long-term funds	19,920,442	15,476,233
Total	23,819,670	19,001,627

	31 December 2018	31 December 2017
Foreign currencies	23,692,663	18,780,615
Turkish Lira	127,007	221,012
Total	23,819,670	19,001,627

The Group did not have any default of principal, interest on redemption amounts or other breaches of loan covenants as of 31 December 2018 (31 December 2017: None).

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

18. FUNDS BORROWED (Continued)

As at 31 December 2018, interest rates and maturities of bank borrowings are as follows:

<u>31 December 2018</u>	Amount	Maturity		Interest Rate (%)	
		Min	Max	Min	Max
<u>Foreign Currency Borrowings</u>					
International Bank for Reconstruction and Development (IBRD)					
-EFIL II	236,561	15/01/2020		2.77	2.77
-EFIL III	379,538	15/01/2021		2.77	2.77
-EFIL IV	1,177,743	15/07/2036		2.57	2.57
-IBRD SME	150,353	15/03/2021		2.62	2.62
-IBRD-Renewable Energy Loan	3,395,664	15/03/2019	15/03/2044	0.45	3.59
-IBRD EFIL IV Limit Increase	1,372,461	15/12/2038		0.45	3.59
-IBRD Innovative Access to Finance	1,246,194	15/03/2042		0.41	3.25
	<u>7,958,514</u>				
European Investment Bank (EIB)	6,058,524	15/06/2005	26/10/2030	0.03	4.54
Kreditanstalt Für Wiederaufbau (KfW)	2,576,419	30/06/2020	30/12/2032	1.29	3.35
Council of European Development Bank (CEB)	1,020,709	15/10/2019	24/12/2025	0.05	3.81
Association of French Development (AFD)	882,669	31/07/2021	30/11/2026	0.25	1.25
Domestic bank borrowings	243,652	28/02/2024	04/01/2027	5.00	5.50
Syndicated Loan	1,123,552	18/07/2019	18/07/2019	0.95	3.47
European Bank for Reconstruction and Development EBRD	345,445	10/03/2022	27/01/2025	2.95	5.49
Islam Development Bank (IDB)	1,516,894	19/02/2023	24/03/2030	2.72	3.95
International Finance Corporation	431,857	15/12/2019	17/03/2025	5.32	5.75
Credit Suisse	513,701	23/03/2023	23/03/2023	2.00	2.09
Banco De Sabadell	168,971	27/11/2028	03/01/2029	1.37	1.37
JP Morgan Securities	122,108	05/06/2020	05/06/2020	2.90	2.90
Oesterreichische Entwicklungsbank AG (OEB)	89,503	15/12/2026	15/12/2026	2.60	2.60
Citibank	104,251	26/09/2022	26/09/2022	3.44	3.44
JBIC-Japan Bank for International Cooperation	535,894	27/03/2027	27/03/2027	4.10	4.40
	<u>15,734,149</u>				
Total foreign currency borrowings	<u>23,692,663</u>				
<u>Turkish Lira Borrowings</u>					
Credit Suisse	90,915	23/09/2021	23/09/2021	9.95	9.95
JP Morgan Securities	31,092	08/07/2020	08/07/2020	9.05	9.05
Domestic bank borrowings	5,000	02/01/2019	02/01/2019	24.00	24.00
Total Turkish Lira borrowings	<u>127,007</u>				
Total	<u>23,819,670</u>				

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

18. FUNDS BORROWED (Continued)

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

<u>31 December 2017</u>	Amount	Maturity		Interest Rate (%)	
		Min	Max	Min	Max
<u>Foreign Currency Borrowings</u>					
International Bank for Reconstruction and Development (IBRD)					
-EFIL II	286,762	15/01/2020		1.71	1.71
-EFIL III	392,592	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
	<u>5,982,240</u>				
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
	<u>12,798,375</u>				
Total foreign currency borrowings	<u>18,780,615</u>				
<u>Turkish Lira Borrowings</u>					
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
Total Turkish Lira borrowings	<u>221.012</u>				
Total	<u>19,001,627</u>				

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

19. DEBT SECURITIES ISSUED

	31 December 2018	31 December 2017
Debt securities issued	6,949,189	3,746,229
Total	6,949,189	3,746,229

As of 27 October 2014, the Parent Bank issued the debt instruments which have nominal value of USD 350 Million, redemption date of 30 October 2019 with fixed interest rate of 5.375%, 5 years maturity and semi-annual coupon payment. As of 22 April 2015, the Bank has performed the similar issuance of Eurobond with the nominal amount of USD 350 Million. Interest rate of these debt instruments determined as 5.125% which have the redemption date of 22 April 2020 with fixed interest rate, 5 years maturity and semi-annual coupon payment. Selling of Greenbond which was issued by the Bank in abroad with nominal value of USD 300 Million, 5 years maturity and for financing the green and sustainable projects has been completed on 18 May 2016. The return of these bonds which have the redemption date of 18 May 2021 and 5 years maturity is determined as 5.048% and the coupon rate as 4.875%. As of 16 January 2018, the Parent Bank issued the debt instruments which have nominal value of USD 350 Million, redemption date of 16 January 2023 with fixed interest rate of 5.608%, 5 years maturity and semiannual coupon payment.

20. OTHER LIABILITIES

	31 December 2018	31 December 2017
Unearned revenue	104,754	102,571
Payables to clearing accounts	34,333	38,971
Guarantees given	12,330	28,254
Other	17,893	8,486
Total	169,310	178,282

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

21. 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 22% (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 2018 (31 December 2017: 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 2018 is 22% (31 December 2017: 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.27 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 2018

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

21. 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 2018

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

21. TAXATION (Continued)

Deferred Tax (continued)

For calculation of deferred tax asset and liabilities, the rate of 22% (31 December 2017: 22%) 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:

	31 December 2018	31 December 2017
Corporate tax provision	147,709	161,659
Corporate tax paid in advance	(65,346)	(117,997)
Corporate tax liability	82,363	43,662

b) Statement of Profit or Loss:

	31 December 2018	31 December 2017
Corporate tax expense	147,709	161,659
Deferred tax (income)/expense	73,888	(15,679)
	221,597	145,980

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

	31 December 2018	31 December 2017
Loan commissions	23,032	22,563
Impairment losses on loans	79,690	34,243
Reserve for employee severance indemnity and unused vacation provision	3,258	2,605
Others	3,337	1,842
Total deferred tax asset	109,317	61,253
Valuation of marketable securities	(38,458)	(20,635)
Borrowing commissions	(12,329)	(10,869)
Accruals on derivative financial instruments	(43,533)	(8,823)
Useful life differences on property and equipment	(787)	(592)
Others	(10,366)	(6,804)
Total deferred tax liability	(105,473)	(47,723)

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

21. TAXATION (Continued)

Deferred Tax (continued)

Reflected as:

	31 December 2018	31 December 2017
Deferred tax assets	109,317	61,253
Deferred tax liabilities (-)	(105,473)	(47,723)
Total deferred tax assets, net	3,844	13,530

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

	%	31 December 2018	%	31 December 2017
<u>Reconciliation of Taxation</u>				
Income before taxation		883,646		729,415
Tax at the statutory income tax rate	22.00	(194,402)	20.00	(145,883)
Tax effect of income that is deductible in determining taxable income	(0.26)	2,285	(0.31)	2,248
Tax effect of undeductable expenses	3.35	(29,570)	0.04	(271)
Tax effect of dividend income	0.09	(808)	(0.42)	3,029
Tax effect of other deductions	(0.10)	898	0.70	(5,103)
Income tax expense	25.08	(221,597)	19.70	(145,980)

Movements in temporary differences for the years ended 31 December 2018 and 2017 are as follows:

	Balance at 1 January	IFRS 9 Effect	Recognized in profit or loss	Recognized in other comprehensive income	Balance at 31 December
2018					
Loan commissions	22,563	-	469	-	23,032
Impairment losses on loans	34,243	31,687	13,760	-	79,690
Reserve for employee severance indemnity and unused vacation provision	2,605	-	653	-	3,258
Valuation of marketable securities	(20,635)	-	(51,221)	33,398	(38,458)
Useful life differences on property and equipment	(592)	-	(195)	-	(787)
Borrowing commissions	(10,869)	-	(1,460)	-	(12,329)
Accruals on derivative financial instruments	(8,823)	-	(34,710)	-	(43,533)
Other	(4,962)	-	(1,184)	(882)	(7,029)
Net deferred tax asset / (liability)	13,530	31,687	(73,888)	32,516	3,844

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

21. TAXATION (Continued)

Deferred Tax (continued)

	Balance at 1 January	Recognized in profit or loss	Recognized in other comprehensive income	Balance at 31 December
2017				
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)
Net deferred tax asset / (liability)	2,685	15,679	(4,834)	13,530

22. EMPLOYEE BENEFITS

	2018	2017
<u>Movement of reserve for employee severance indemnity</u>		
Balance at 1 January	9,761	9,101
Interest cost	1,036	849
Service cost	2,145	712
Loss/(Gain) due to Settlements / Reductions / Terminations	74	41
Payment during the year	(1,458)	(1,335)
Actuarial difference	669	393
Balance at 31 December	12,227	9,761
<u>Movement of provision for unused vacations</u>		
Balance at 1 January	2,390	1,803
Provision for the year	1,577	1,424
Provisions released	(1,140)	(837)
Balance at 31 December	2,827	2,390
<u>Movement of provision for bonus payments</u>		
Balance at 1 January	12,735	10,909
Provision for the year	28,161	12,363
Bonus paid	(12,155)	(10,344)
Income and expenses of the prior period	(190)	(193)
Balance at 31 December	28,551	12,735
Employee benefits	43,605	24,886

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

22. EMPLOYEE BENEFITS (Continued)

a) Pension scheme

The Parent Bank has established two pension schemes, “Türkiye Sınai Kalkınma Bankası Anonim Şirketi Memur ve Müstahdemleri Yardım ve Emekli Vakfı” and “Türkiye Sınai Kalkınma Bankası A.Ş. Mensupları Munzam Sosyal Güvenlik ve Yardımlaşma Vakfı” 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. As per the latest actuarial valuation carried out as at 31 December 2018, the Bank has no obligation to book any provision for the Pension Fund “Türkiye Sınai Kalkınma Bankası Anonim Şirketi Memur ve Müstahdemleri Yardım ve Emekli Vakfı”.

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 5,434 as at 31 December 2018 (31 December 2017: full TL 4,732) 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:

	2018	2017
Interest rate	16.00%	12.00%
Expected rate of increase in salaries and eligible ceiling	11.30%	7.00%
Discount rate	4.22%	4.67%

23. 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 1,549,774 (31 December 2017: TL 1,146,236).

24. PAYABLES TO MONEY MARKET

	31 December 2018	31 December 2017
Interbank money market transactions	-	202,143
Istanbul Stock Exchange money market transactions	223,277	499,004
Obligations under repurchase agreements	179,001	610,775
Total	402,278	1,311,922

Payables to stock exchange money markets have a maturity of 2-30days (31 December 2017: 4-31days days) with between 23.50% and 25.00% (31 December 2017: between 12.75% and 15.05%) 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 2018

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

25. PROVISIONS

	31 December 2018	31 December 2017
Free Provision	120,000	60,000
Legal Cases	575	2,729
Unindemnified non-cash loans	736	583
Expected credit loss for non-cash loans	11,251	-
Other	-	31
	132,562	63,343

Free provision amounting to TL 120,000 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 2017: 60,000).

26. CAPITAL AND RESERVES

Share Capital

As at 31 December 2018, the authorized and issued capital consists of 280,000,000,000 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.

31 December 2018	%	Authorized Capital	Paid-In Capital
<u>Shareholders</u>			
T. İş Bankası AŞ ⁽¹⁾	50.92	1,425,780	1,425,780
T. Vakıflar Bankası T.A.O.	8.38	234,570	234,570
Under Custody at Merkezi Kayıt Kuruluşu (Other Institutions and Individuals)	40.70	1,139,650	1,139,650
	100.00	2,800,000	2,800,000
<u>Components of Capital:</u>			
Nominal capital		2,800,000	2,800,000
Effect of inflation		13,563	13,563
		2,813,563	2,813,563
<hr/>			
31 December 2017	%	Authorized Capital	Paid-In Capital
<u>Shareholders</u>			
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
	100.00	2,400,000	2,400,000
<u>Components of Capital:</u>			
Nominal capital		2,400,000	2,400,000
Effect of inflation		13,563	13,563
		2,413,563	2,413,563

⁽¹⁾ 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 2018 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 2018

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

26. CAPITAL AND RESERVES (Continued)

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 increase in paid-in capital was approved by the BRSA on 26 April 2018 and disclosed in the dated 7 June 2017 and numbered 9605 Turkish Trade Registry Gazette.

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.

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 financial assets at fair value through other comprehensive income, 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 2018, it was decided to distribute a dividend of TL 96,000 to shareholders and TL 13,505 to personnel, members of Board of Directors and to allocate TL 31,481 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 2018

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

26. CAPITAL AND RESERVES (Continued)

Non-controlling interests

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

	31 December 2018	31 December 2017
Capital	44,159	47,008
Share premium	77	165
Fair value reserve	856	579
Legal reserve	125	118
Retained earnings	908	10,558
Actuarial gain/loss	(10)	(7)
Current period net income	(7,493)	(5,702)
	38,622	52,719

27. DIVIDENDS

In March 2018, dividends amounting to TL 109,505 were paid. In March 2017, the dividends paid were TL 92,801.

28. EARNINGS PER SHARE

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

A summary of the weighted average number of shares outstanding for the year ended 31 December 2018 and 2017 and the basic earnings per share calculation is as follows (assuming that the cash increases did not involve a bonus element):

	1 January – 31 December 2018	1 January – 31 December 2017
Number of shares outstanding at 1 January	2,400,000,000	2,050,000,000
<i>New shares issued</i>		
Conversion of existing reserves ⁽¹⁾	400,000,000	350,000,000
Number of shares outstanding at the period end	2,800,000,000	2,400,000,000
Weighted average number of shares during the period	2,800,000,000	2,400,000,000
Profit for equity holders of the Bank	669,542	589,137
Basic earnings per share (in full Kurus)	0.2391	0.2455

⁽¹⁾ 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 2018.

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

29. NET FEE AND COMISSION INCOME

	1 January- 31 December 2018	1 January- 31 December 2017
Non-Cash Loans	20,932	15,625
Gains on Brokerage Commissions	34,678	28,941
Commissions from Initial Public Offering	920	1,360
Investment Fund Management Income	2,113	2,092
Other	5,286	5,734
Fee and commission income	63,929	53,752
Non-Cash Loans	(2,876)	(2,400)
Other	(9,655)	(8,690)
Fee and commission expense	(12,531)	(11,090)
Net fee and commission income	51,398	42,662

30. NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

	1 January- 31 December 2018
Expected credit loss for stage 1 and 2	123,547
Free provision	60,000
Expected credit loss for stage 3	280,722
Marketable securities impairment expenses	7,607
Associates and subsidiaries	-
Other	773
	472,649
	1 January- 31 December 2017
Portfolio reserve for loans	68,855
Free provision	60,000
Specific provision for loans	42,636
Marketable securities impairment expenses	3,988
Associates and subsidiaries	2,402
Other	259
	178,140

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

31. OTHER OPERATING INCOME

	1 January- 31 December 2018	1 January- 31 December 2017
Rent income	4,642	8,956
Increase in value of investment properties	9,590	10,865
Provisions released	1,789	10,651
Gain on sale of assets	73	244
Other	2,999	2,830
	19,093	33,546

32. DIVIDEND INCOME

	1 January- 31 December 2018	1 January- 31 December 2017
Financial assets at FVOCI	4,612	4,519
Other	913	902
	5,525	5,421

33. OTHER OPERATING EXPENSES

	1 January- 31 December 2018	1 January- 31 December 2017
Personnel expenses	133,604	103,242
Other administrative expenses	42,406	34,196
Depreciation, impairment and amortisation	6,404	5,997
Marketing expenses	970	1,121
Taxes and dues other than on income	6,028	5,360
Other	20,532	20,270
	209,944	170,186

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

34. 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 2018, the fair value of such swaps is TL 423,104 with a total outstanding nominal value of USD 200 million. The average maturity of such swaps range between 2020 and 2022 years.

	2018	2018	2017	2017
	Assets	Liabilities	Assets	Liabilities
Currency swaps	659,811	(394,648)	206,665	(135,793)
Options	59,646	(59,646)	42,519	(42,423)
Foreign currency forward contracts	152,353	(93,917)	21,909	(21,669)
Interest rate swaps	107,411	(71,871)	55,695	(32,518)
	979,221	(620,082)	326,788	(232,403)

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:

Instrument type	2018	2018	2017	2017
	Assets	Liabilities	Assets	Liabilities
Interest Rate Swap	-	(172,258)	-	(78,682)
	-	(172,258)	-	(78,682)

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

34. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

At the reporting date, the total amounts of outstanding derivatives to which the Group is committed are as follows:

	31 December 2018	31 December 2017
Forward foreign exchange contracts – buy	1,938,460	2,413,168
Forward foreign exchange contracts – sell	1,862,489	2,412,937
Currency swaps – buy	7,461,461	3,573,706
Currency swaps – sell	7,254,194	3,433,776
Interest rate swaps – buy	8,356,003	6,607,120
Interest rate swaps – sell	8,356,003	6,607,120
Currency option – buy	2,634,254	2,325,986
Currency option – sell	2,634,254	2,325,986
Other – sell	13,401	72,830

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

35. COMMITMENTS AND CONTINGENCIES

	31 December 2018	31 December 2017
Swap and forward agreements	35,228,610	25,047,827
Revocable and irrevocable commitments	3,727,591	6,132,575
Derivative financial instruments for hedging purposes	18,028,129	10,582,050
Option agreements	5,268,508	4,651,972
Letters of guarantee	1,582,993	1,475,645
Letters of credit	1,590,814	1,079,303
Capital commitments for subsidiaries and associates (*)	97,805	78,890
Bank acceptances	-	18,763
Other commitments	13,401	72,830
	65,537,851	49,139,855

(*) The Bank, the European Investment Fund (European Investment Fund - EIF), to be established by Turkey, Growth and Innovation Fund (Turkish Growth and Innovation Fund - TGIF) purchase of shares of the fund established under the name situated remaining amount that commitment.

Fiduciary Activities

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

The nominal values of the assets held by the Group in agency or custodian capacities and financial assets under portfolio management amounted to TL 1,407,835 as at 31 December 2018 (31 December 2017: TL 1,299,527). As at 31 December 2018, securities at custody with market value amounted to TL 3,989,000 (31 December 2017: TL 4,676,000).

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

As at 31 December 2018, according to the general requirements of the BIST, letters of guarantee amounting to TL 425,100 (31 December 2017: TL 406,700) had been obtained from various local banks and were provided to BIST for bond and stock market transactions. Also, as at 31 December 2018 there is no letter of guarantee were given to the CMB (31 December 2017: none).

The Group's trading securities given as collateral or blocked amounted to TL 382 at the reporting date (31 December 2017: TL 263).

Litigations

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

There are 61 legal cases against the Group which are amounting to TL 5,209 as of the reporting date (31 December 2017: TL 4,976 for 56 legal cases). Tax Audit Committee inspectors made an investigation for the years 2008-2011 about the payments made by the Bank and employees to "Türkiye Sınai Kalkınma Bankası A.Ş. Mensupları Munzam Sosyal Güvenlik ve Yardımlaşma Vakfı" ("the Foundation") established in accordance with the decisions of the Turkish Commercial Law and the Civil Law as made to all foundations in the sector. According to this investigation it has been communicated that the amount the Bank is obliged to pay is a benefit in the nature of fee for the members of the Foundation worked at the time of payment, the amount the Foundation members are obliged to pay should not 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.

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

35. COMMITMENTS AND CONTINGENCIES (Continued)

Litigations (continued)

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

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

There is a lawsuit for Pendorya Mall of TSKB GYO registered in Pendik, Doğu District, plot 105, map 865, parcel 64 against IBB and Karacan Yapı at Pendik 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. The Court decided to apply of Supreme Court's decision to dismiss.

Beyoglu Municipality approved the reclaim of TSKB GYO for the Building II which has the location as 1486 map and 76 parcel in Fındıklı in Beyoglu, Istanbul for the forfeiture because of zoning change. However, Municipality of Beyoglu sued because of no approbation by Istanbul Metropolitan Municipality, in order to keep rights on the subject.

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

35. COMMITMENTS AND CONTINGENCIES (Continued)

Litigations_(continued)

The court made a decision as no solution for the relevant claim due to Beyoglu Municipality approved the reclaim. However, There has to be permission by Istanbul Metropolitan Municipality, and Cultural and Natural Heritage Preservation Board for the exact result. That's why, decision was appealed by the company. The Council of State reversed the judgement based on inappropriate zoning plan changes with the decision of 28 March 2014.

In addition, a new implementation development plan covering the Fındıklı Building II, which has been canceled by the judicial authorities and which is owned by TSKB GYO, is being prepared by the Municipality of Beyoğlu on December 21, 2010, the 1/1000 Scaled Beyoğlu District Protected Urban Site Protected Development Plan. For this content, TSKB GYO's application were made in writing to the Beyoğlu Municipality on 28 October 2014 in order to plan by taking into account the 1/1000 Scale Implementation Plan which is being prepared by the Municipality of Beyoğlu and the Istanbul Metropolitan Municipality. The court requested the Municipality to ask the plan including the immovable subject to the decision of the Council of State is still in force as a result of the decision of dismissal and that the plan canceled by the court in the letter sent from the Municipality is still valid answered in the form. In the case which was started to discuss again in court; an expert opinion examination was made. The Court has ruled in favor of the Parent Bank by canceling the administrative proceeding. Against decision, within the legal period, Beyoglu Municipality has applied for the appeal law and it is expected that the file will be sent to Istanbul Regional Administrative Court for examination and, if necessary, for re-trial.

A lawsuit was filed by one of the investors of TSKB GYO on the cancellation of the 5th, 7th and 9th articles decided at the Ordinary General Assembly meeting on 27 April 2018. Although the request for the case was demanded to stop the execution of the 5th and 7th articles, no decision was taken as of 31 December 2018. Responded with a petition and a legal opinion presented to lawsuit. The trial is ongoing.

According to Legal Department of the Bank, it is not expected that the other lawsuits against the Bank will have a significant impact on the financial statements.

Other

The Group's head office and 9 branches, including branches of subsidiaries, are subject to operational leasing. Additionally, 26 cars and 345 computers are within the context of operational leasing. The Group has no liability for operational leases as of the reporting date (31 December 2017: 9 branches and 24 cars and 291 computers are subject to operational leasing).

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

36. 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:

	31 December 2018	31 December 2017
<u>Balances with related parties</u>		
Loans and advances to customers	599,866	334,401
<i>Balances with Parent Bank</i>	-	-
<i>Balances with other related parties</i>	599,866	334,401
Non-cash loans	262	260
Loans and advances to banks	566,850	1,517
Financial assets at fair value through other comprehensive income investment securities	12,694	12,922
Other assets	1,649	9
Other liabilities	1,448	69
Derivative financial instruments	364,732	444,536
	1 January – 31 December 2018	1 January – 31 December 2017
<u>Transactions with related parties</u>		
Income from associates	90,705	43,861
Dividend income	5,525	5,421
Interest income	31,762	26,488
- <i>Balances with Parent Bank</i>	76	282
- <i>Balances with other related parties</i>	31,686	26,206
Foreign exchange gain (loss), net	22,177	27,628
Net fee and commission income / (expense), net	213	426
- <i>Balances with Parent Bank</i>	-	-
- <i>Balances with other related parties</i>	213	426
Other income	442	397
- <i>Balances with Parent Bank</i>	34	30
- <i>Balances with other related parties</i>	408	367
Derivative financial instruments gains/losses	(356,617)	(30,731)

Compensation of Key Management Personnel of the Group

Benefits provided to key management personnel in the current period amount to TL 16,846 (31 December 2017: TL 15,828).

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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

37. RATINGS

As at and for the year ended 31 December 2018, the Bank's, ratings assigned by international rating agencies are as follows;

Moody's – 28 August 2018	Rating	Outlook
Long-term Foreign Currency Issuer Rating	B2	Negative
Short-term Foreign Currency Issuer Rating	NP	-
Long-term Local Currency Issuer Rating	B2	Negative
Short-term Local Currency Issuer Rating	NP	-
Long-term Foreign Currency Senior Debt	B2	Negative
Fitch Ratings– 1 October 2018	Rating	Outlook
Long-term Foreign Currency Issuer Default Rating	B+	Negative
Long-term Local Currency Issuer Default Rating	BB	Negative
Short-term Foreign Currency Issuer Default Rating	B	-
Short-term Local Currency Issuer Default Rating	B	-
National Long Term Rating	AA	Stable
Support Rating	4	-
Support Rating Floor	B+	-
Senior Unsecured Long Term Debt	B+	-

38. EVENTS AFTER THE REPORTING PERIOD

None.