

2018 INTEGRATED  
ANNUAL REPORT

INCLUSIVE AND  
SUSTAINABLE  
CONTRIBUTION

**TSKB**



## ORDINARY GENERAL ASSEMBLY MEETING AGENDA DATED 28.03.2019

1. Commencement, constitution of the Meeting Presidency in accordance with the Articles of Association of the Bank and delegation of authority to the Meeting Presidency for the execution of the minutes of the General Assembly,
2. Review and discussion of the Annual Report of the Board of Directors and Independent Auditor Reports regarding the accounts and transactions of the Bank within the year of 2018,
3. Review, discussion and approval of the balance sheet and profit and loss statements of the Bank for the year of 2018,
4. Release of the Members of the Board of Directors,
5. Approval of the Board of Directors' proposal regarding the determination and apportionment of the profit for the year 2018,
6. Determination of allowance for the Members of the Board of Directors,
7. Election of the Independent Audit Firm,
8. Approval of the amendments in the 11, 23 and 47<sup>th</sup> Articles of Association,
9. Approval of the renewed Profit Distribution Policy,
10. Presentation of the information regarding the renewed Disclosure Policy,
11. Presentation of the information regarding the donations made within the year and determination of the upper limit for donations to be made within the year 2019,
12. Authorization of the Members of the Board of Directors for the transactions depicted in Articles 395 and 396 of the Turkish Commercial Code,
13. Presenting information regarding the transactions within the scope of Article 1.3.6. of the Corporate Governance Principles of the Capital Markets Board.

## CONTENTS



To access the PDF copy of the TSKB 2018 Integrated Activity Report, scan the QR code in your browser.

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



# ABOUT THE REPORT

## QUALIFICATION, PERIOD AND SCOPE OF THE REPORT

TSKB presents its 2018 performance with its Integrated Annual Report including January 1 – December 31, 2018 period. The report is issued on a bank-only basis and excludes the operations of TSKB affiliates. To note, the Bank does not deliver any operations abroad. The report only reflects the operations in Turkey.

## CAPITALS APPROACH

TSKB reviews, analyses and reports the update outputs of its operations, its plans and targets to its stakeholders based on the “capitals classification” proposed by International Integrated Reporting Council (IIRC) with an integrated point of view.

## CONTENT OF THE REPORT

TSKB's contribution to the inclusive and sustainable development is reviewed with its economic, social and environmental dimensions and analyzed in different parts of the report.

## PUBLICATION FORMAT OF THE REPORT

Accessibility of the report by all of the stakeholders is essential and indispensable for TSKB. Therefore, the report is produced with an environment-friendly approach and published on-line. The report can be accessed through Public Disclosure Platform and [www.tskb.com](http://www.tskb.com).

## COMPLIANCE TO THE REGULATORY FRAMEWORK

This report is prepared in compliance with the International Integrated Reporting Framework recommended by IIRC and Core Option of GRI Reporting Guidelines published by Global Reporting Initiative. Content of the report is compiled in accordance with the content determination methods described in GRI standards, mainly with materiality analysis.

Performance disclosures are presented mainly in the context of “GRI Standards” indicators, while progress reporting principles of United Nations Global Compact with which TSKB committed in 2010 are taken into consideration.

2018 Integrated Annual Report of TSKB, a Borsa Istanbul listed company, is in compliance with the minimum annual reporting requirements of Banking Regulation and Supervision Agency (BRSA) and Capital Markets Board (CMB) legal frameworks.

## AUDIT OF THE REPORT

TSKB 2018 Integrated Annual Report including independent audit reports were audited by Güney Bağımsız Denetim ve SMMM A.Ş. (Ernst&Young, EY). It was also subject to limited assurance audit by EY with respect to non-financial information. Furthermore, TSKB takes audit service from BSI under ISO14001 certification for its Sustainable Management System and under ISO 14064 certification regarding the calculation and verification of greenhouse gas emissions from its operations.





# TSKB AT A GLANCE









# CORPORATE PROFILE

TSKB was established in 1950 in Istanbul as Turkey's first private development and investment bank with the support of the World Bank, the Central Bank of Turkey and the shareholding of commercial banks.

The bank operates in three main fields, namely Corporate Banking, Investment Banking and Advisory Services. TSKB has its headquarters in Istanbul with two branches in Ankara and Izmir.

Extending medium and long-term loans for financing investment projects, TSKB's loans have a concentration on production and services sectors. TSKB not only extends direct loans to finance the investments of private sector organizations but also supports SMEs and exporters with indirect loans through leasing companies, commercial banks and participation banks within the scope of wholesale banking (APEX banking).

TSKB offers investment-banking services at international standards, with its services designed in accordance with the needs of its customers. The Bank is distinguished by its experience in development banking and submitting value-added solutions to its customers with its qualified team in advisory services.

Due to its development and investment bank-status, TSKB does not collect deposits and meets its need for medium and long-term funds through the funds it obtains from national, regional and supranational financial institutions and bond issues.

## TSKB'S AFFILIATES

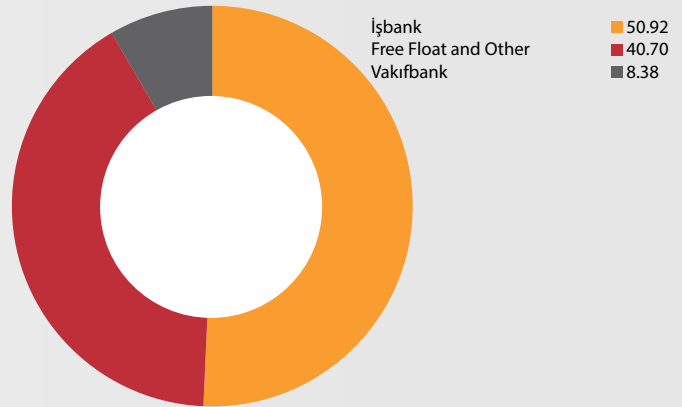
Yatırım Finansman Securities

TSKB Real Estate Appraisal

TSKB Real Estate Investment Trust

TSKB Sustainability Consultancy (Escarus)

## TSKB'S SHAREHOLDING STRUCTURE (%)



TSKB stock is traded on BIST Stars under the ticker "TSKB" with a free float ratio of 38.6%. TSKB's registered capital ceiling is TL 4,500 million whereas its paid-in capital is TL 2,800 million as of 2018 year-end.

The shareholdings of the Bank's Board Members, Auditors, Chief Executive Officer and Executive Vice Presidents are negligible.

## TSKB IN NUMBERS

# TL 38.3 billion

Asset size

# 13<sup>th</sup> bank

Rank in the sector in terms of asset size

# 567

Total number of employees with its affiliates



# MISSION, VISION, AND VALUES

## OUR MISSION

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

## OUR VISION

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

## OUR VALUES

### PIONEERING

- We create long-term value for customers, society and the future of our country, using a visionary perspective and innovative services as leverage.
- We keep a close eye on international banking practices and lead our sector as a pioneer.

### HUMAN-FOCUSED

- With a human-oriented approach for a qualified economic growth, we contribute to employment, equal opportunities and social development through inclusive banking solutions.
- We make business decisions together based on collective intelligence.
- We value team success over individual success.
- We work in harmony both within the Bank and with the organizations we cooperate.
- We never discriminate among our employees.
- We protect the rights of employees and ensure they always have equal opportunities.
- We contribute to employees' professional and personal development and encourage them to take the initiative.

### SOLUTION-ORIENTED

- We produce flexible, fast and efficient solutions in order to optimally meet our customers' expectations and needs.
- We are utterly prudent about the quality of the work we do and resolute in fulfilling commitments.
- Knowing that we are the leaders in our job, we take responsibility and act timely and swiftly at each stage without need for any prior guidance.

### RELIABLE & RESPECTFUL

- We build trustful and respectful relations with all our stakeholders.
- We never compromise on a fair, accountable, transparent and ethical banking approach, and the contemporary rules of corporate governance.
- We create value for sustainable development through an environment-friendly banking approach, and take responsibility to leave future generations a world to live in.



# TSKB'S PORTFOLIO OF PRODUCTS AND SERVICES

## CORPORATE BANKING



### LOAN PRODUCTS THAT CONTRIBUTE TO THE TURKISH ECONOMY AND LABOR FORCE

#### Corporate Loans

- Industrial Investments
- Energy and resource efficiency
- Environmental investments, renewable energy
- Women's employment
- Occupational health and safety
- Sustainable tourism
- Health and education investments
- R&D and innovation

#### Project Finance

- Electricity generation and distribution
- Hotels, shopping malls and commercial real estate
- Logistics
- Transportation/Infrastructure
- Public-Private Partnership Projects
- Mergers & Acquisitions

#### Other Loan Products

- Wholesale banking
- SME Finance
- Export Finance
- Foreign trade finance
- Country (ECA) loans
- Working capital finance
- Financial leasing

## INVESTMENT BANKING



### PRODUCTS AND SERVICES THAT SUPPORT CLIENTS' ASSETS IMPROVEMENT

#### Corporate Finance

- Advisory and intermediary services for equity IPOs
- Intermediary services for bond issues
- Mergers & Acquisitions
- Asset sale and purchasing
- Privatization Advisory

#### Capital Markets \*

- Brokerage services for stock trading
- Fixed income securities brokerage
- Forex transactions
- Warrant transactions
- Repo transactions
- Foreign derivative transactions
- Forex and leveraged transactions
- Lending for share trading
- Portfolio management
- Investment Advisory

#### Derivatives

- Forwards
- Options
- Caps&Floors
- Swaptions
- SWAP transactions
  - Forex
  - Interest rate
  - Cross currency

## CONSULTANCY



### TAILOR-MADE PRODUCTS AND SERVICES THAT ADD VALUE TO THE CLIENTS' OPERATIONS

#### Strategic Finance Consultancy

- Company, brand and license appraisal
- Valuation and feasibility analysis
- Financial restructuring
- Strategic roadmaps
- Sector analysis
- Project finance consultancy

#### Real Estate Appraisal \*

- Real estate appraisal
- Machinery and equipment appraisal
- Bidding consultancy
- The highest and best-use analyses
- Collateral appraisal
- Feasibility and project monitoring
- Sector analysis and market research reports
- Green building analysis
- Urban transformation consultancy
- Concept development consultancy

#### Sustainability and Environment \*

- Sustainability management, environmental and social impact assessment
- Technical consultancy
- Climate change management
- Carbon consultancy
- Environmental and social risk Management
- Investment monitoring for financial Institutions
- Renewable energy consultancy

\*TSKB provides part of its services in investment banking and consultancy services in cooperation with its affiliates, Yatırım Finansman Securities, TSKB Real Estate Appraisal and TSKB Sustainability Consultancy-Escarus.



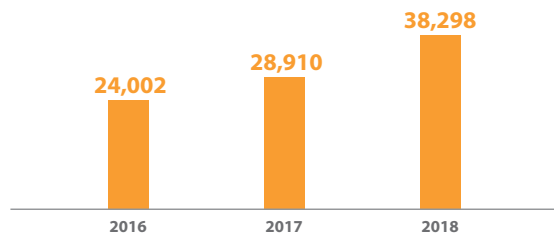
# KEY PERFORMANCE INDICATORS AND RATIOS

| KEY INDICATORS (TL million) | 2014   | 2015   | 2016   | 2017   | 2018   |
|-----------------------------|--------|--------|--------|--------|--------|
| Total Assets                | 15,701 | 20,735 | 24,002 | 28,910 | 38,298 |
| Loan Portfolio (Gross)      | 11,040 | 13,735 | 17,371 | 22,344 | 28,226 |
| Shareholders' Equity        | 2,288  | 2,489  | 2,928  | 3,535  | 4,719  |
| Net Profit                  | 369    | 407    | 476    | 596    | 661    |

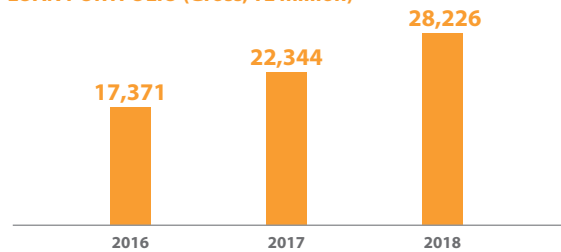
  

| FINANCIAL RATIOS (%)     | 2014 | 2015 | 2016 | 2017 | 2018 |
|--------------------------|------|------|------|------|------|
| Average Return on Equity | 17.7 | 17.0 | 17.6 | 18.4 | 16.0 |
| Average Return on Assets | 2.6  | 2.2  | 2.1  | 2.3  | 2.0  |
| Capital Adequacy Ratio   | 18.1 | 14.9 | 14.3 | 17.1 | 16.2 |

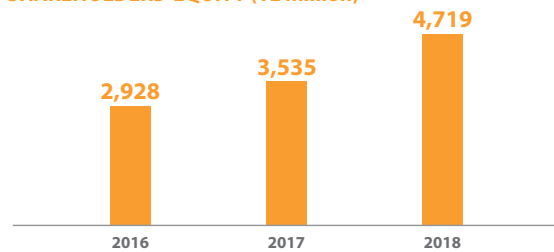
TOTAL ASSETS (TL million)



LOAN PORTFOLIO (Gross, TL million)



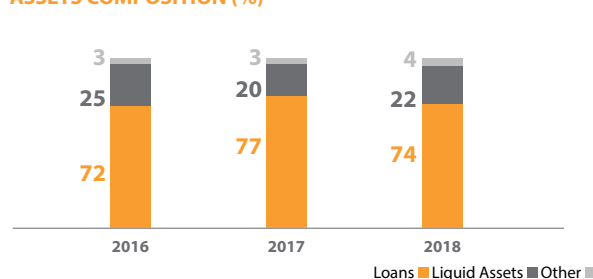
SHAREHOLDERS' EQUITY (TL million)



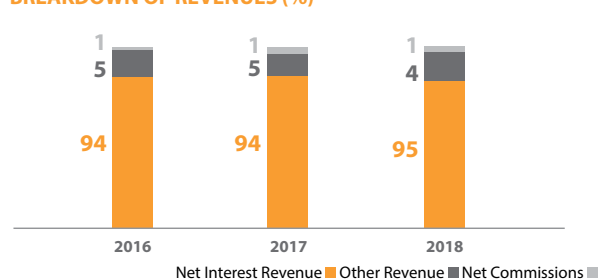
NON-PERFORMING LOANS RATIO (%)



ASSETS COMPOSITION (%)



BREAKDOWN OF REVENUES (%)





# MILESTONES FROM 1950 TO 2018

## 1950s

Founded with the mission of supporting the development of Turkey's private sector, TSKB has achieved several significant breakthroughs in development and investment banking. These include securing medium- and long-term loans, providing technical support to project sponsors, and conducting preliminary actions for the formation of the capital market in Turkey. During the same period, TSKB was the only bank capable of supplying foreign currency loans needed to finance imports. It was also the only organization handling cash sales of foreign currencies released under the Marshall Plan.

## 1960s

TSKB introduced many innovative practices throughout the 1960s. The Bank issued, underwrote and guaranteed company bonds and carried out its first initial public offerings of shares from its own portfolio of holdings.

Moreover, TSKB became the first Turkish company to be audited by an internationally recognized independent auditing firm, thus spearheading an approach to transparency and accountability in capital markets. TSKB provided investment financing for Turkey's leading manufacturing facilities as well as financial support for the domestic production of numerous products. These included the first Turkish-made buses and automobiles, automotive tires, LPG canisters, high-voltage cables, batteries, cardboard, plastics and acrylic fibers.

## 1970s

In this decade, TSKB began to focus on private sector investments in Turkey's developing regions. The Bank took an important step in diversifying its funding resources and obtained the first medium-term syndicated loan from the European market. The Bank also carried out the first issuance of its own long-term bonds during this period. Additionally, TSKB began to provide comprehensive research services for the manufacturing and services sectors.

## 1980s

TSKB continued to provide funding to the private sector, though in a more rapid and effective manner. During this period, TSKB embarked on highly important ventures in international relations. For example, it successfully issued a series of "Samurai bonds" in the Japanese capital markets, further bolstering its brand reputation in international markets. Establishing close cooperation with European and Japanese financial institutions, TSKB significantly increased its funding resources. TSKB also played an active role in the preparation of Turkey's Privatization Master Plan and served as an advisor for the privatization of the state-owned cement plants.

## 1990s

TSKB further expanded its investment banking business while continuing to develop and diversify its cooperation with international banks. TSKB signed long-term foreign currency and interest rate swap agreements with international financial institutions. It also provided consultancy services to the European Bank for Reconstruction and Development (EBRD) in Uzbekistan. In addition, the 1990s was a period of successful initial public offerings for TSKB. Leading the establishment of over-the-counter bond and securities markets, the Bank became even more active after the Istanbul Stock Exchange was established, further solidified its leadership position in capital markets.

## 2000s

TSKB continued working to develop and diversify its international funding resources. During this period, the Bank successfully tapped into international syndication and murabaha markets for the first time. TSKB also began to provide an increasing volume of resources to SMEs through indirect funding in collaboration with commercial banks and leasing companies as part of "APEX Banking" operations. As the concept of sustainability gained prominence globally, TSKB started to design its business processes with a sustainable approach. TSKB became the first Turkish bank to receive ISO 14001 Environmental Management System certification; it also started to offer "environment themed" loans. During this decade, the Bank laid the groundwork for its social responsibility projects that aimed to raise public awareness about environmental sustainability.

For three years in a row, TSKB won first prize for the Eastern Europe Region at the "Sustainable Banking Awards" program, organized jointly by the Financial Times (FT) and the International Finance Corporation (IFC). In addition, TSKB became Turkey's first carbon-neutral bank. TSKB closely followed and monitored sustainability efforts across the globe. Consequently, it became a member of the United Nations Environment Program Finance Initiative (UNEP FI) and publicly announced its commitment to the UN Global Compact.

## 2010s

TSKB began to focus on renewable energy and energy efficiency projects in the 2010s. TSKB has played a leading role in combatting climate change and meeting Turkey's ever-increasing demand for energy.

After the 2008 global financial crisis, interest rates fell sharply across the world, creating a need for new banking products and services. Thanks to its vast experience in this area, TSKB began to provide clients an array of new, competitive investment instruments, such as capital-protected and guaranteed products. Meanwhile, the Bank continued to add value for its stakeholders



## Supporting by the Turkish private sector since its establishment in 1950, TSKB continues to create value for the national economy.

by taking on key roles in Turkey's electricity distribution privatizations, asset purchase & sale financing, acquisition financing, bond issues, and public offerings. During this time, TSKB introduced new types of loans under the themes of sustainable tourism and resource efficiency. The Bank continued its achievements for resource diversification via Eurobond issues.

Undertaking ongoing initiatives and improvements to ensure full compliance with all applicable international laws and regulations, TSKB is one of three companies to have received awards from the Corporate Governance Association of Turkey (TKYD) every year since 2011 under the Corporate Governance Awards. To date, TSKB has won three first place, two second place, and one third place prizes.

After Long-Term Investors Club (LTIC), TSKB took its place in European Long-Term Investors Association (ELTI) and International Development Finance Club (IDFC) as the only member from Turkey. In 2015, the Bank signed the Climate Change Summit (COP21) declaration of ELTI and IDFC for transition to low-carbon economy.

TSKB became a constituent of the BIST Sustainability Index, which is composed of companies listed on Borsa Istanbul and perform well in terms of sustainability. TSKB shares were included in the FTSE4Good Emerging Markets Index by December 2016.

In 2016, TSKB takes a major step in social inclusion obtaining a special resource to finance investments on occupational health and safety in Turkey in addition to the investments by firms that observe gender equality in working environment and support women's employment.

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

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

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

Adding women empowerment, TSKB opened a new chapter in its social responsibility projects which have been implemented since 2000s. TSKB takes key steps to empower the women employees of tomorrow in terms of education and equal opportunities.

### ● TSKB IN 2018

In 2018, TSKB secures the largest loan ever in its history. The loan agreement worth USD 400 million signed with the International Bank for Reconstruction and Development (IBRD), a World Bank Group institution, under the Inclusive Access to Finance Project accelerates TSKB's efforts on inclusive finance, a new item added to the Bank's mission.

In 2018, TSKB breaks another new ground. The Bank becomes the first financial institution to secure funds from the Asian Infrastructure Investment Bank (AIIB) for lending to private sector companies. This fund will be used to extend more loans to renewable energy, energy efficiency, transportation, energy transmission, waste water management and telecommunications investments by the private sector throughout Turkey.

The Bank defines its advisory solutions as "products of collective wisdom" and uses them to offer a wide-range of value-added services to the business world and investors. TSKB successfully completes 63 consultancy projects in more than 20 sectors in 2018.



# FIRSTS & INNOVATIONS

## 1950s

- Provide project sponsors with technical advisory services
- Provide private sector projects with medium and long-term finance

## 1960s

- Underwrite and guarantee corporate bond issues
- Offer its mature bonds from its investment portfolio to public
- Issue its own long-term bonds
- Have its records audited by an independent audit company

## 1970s

- Promote private investment incentive in under-developed regions
- Mobilize funds through medium-term syndicated loans from European markets
- Undertake major sector research services for manufacturing and service sectors

## 1980s

- Issue its own bonds in international capital markets
- Conduct manufacturer surveys among various sectors
- Extend export insurance loans secured from European and Japanese financial institutions
- Offer advisory services in textile and other sectors in cooperation with international advisors
- Offer advisory services for the privatization of public cement factories
- Issue its short-term bonds as well as guarantee and market those of its clients
- Prepare Turkey's first privatization master plan
- Realize the first public offering as an underwriter
- Intermediary in the investment of Islamic Development Bank funds in companies as shareholders

## 1990s

- Sign long-term foreign currency and interest swap agreements with international banks
- Provide floating-rate medium-term Turkish Lira loans to the banking sector
- Provide consulting services for EBRD in Uzbekistan
- Management of a Risk Capital Fund provided by the European Investment Bank
- Undertake a voluntary "Risk Management Review" supported by World Bank



## TSKB, established for the development of Turkish private sector, paved the way for innovative and sustainable banking.

### 2000s

- Extend a credit line specifically for a “sustainable environment”
- First bank to establish a real estate appraisal company approved by Capital Markets Board of Turkey
- Provide secretariat services to the Istanbul Approach
- Develop a risk-based loan pricing model
- First Turkish bank to receive a loan from the French Development Agency
- First and only Turkish bank to become a shareholder of European Investment Fund (EIF)
- First Turkish bank having ISO14001 Certificate
- First Turkish bank to calculate and remove its carbon footprint
- First and only Turkish bank which was awarded “Sustainable Bank of the Year of Eastern Europe Region” in 3 consecutive years between 2008-2010 in the event organized by Financial Times and International Finance Corporation
- First web portal designed under environment and sustainability themes

### 2010s

- UNEP FI and Global Compact membership
- First and only Turkish development and investment bank to be granted a membership in Long-Term Investors' Club (LTIC)
- First and only Turkish bank as a supervisor member in European Long-Term Investors Association (ELTI)
- Issue 16 thematic mutual funds between 2009 and 2012
- Secure the first EBRD loan which aims to finance SME projects for the agricultural industry in Turkey
- First Turkish Bank to be qualified for ISO14064-1 Greenhouse Gas Verification Certificate
- Restricted mudaraba loan facility with Islamic Development Bank to finance renewable energy and energy efficiency projects
- Become the founder member of International Development Finance Club (IDFC)
- First loan agreement with KfW without any government guarantee
- The first A+ level Sustainability Report approved by GRI (Global Reporting Initiative) in the sector
- The “first carbon-neutral concert” within the scope of the İKSV Istanbul Music Festival
- Support for IDFC (International Development Finance Club)'s climate pledge
- Assistance for ELTI (European Long-Term Investors Association)'s transition to low carbon economy pledge
- Establishment of TSKB Sustainability Committee
- Eliminating individual carbon footprints of corporate stakeholders
- First green/sustainable bond of Turkey
- The world's first “Subordinated Sustainable Bond”
- First financial institution securing loan facility from Asian Infrastructure Investment Bank (AIIB) targeting private sector investments
- The first Integrated Report in Turkish private sector
- Scholarship fund “Empower Through Education” for women employees of future
- Music education support project “Woman Stars of Tomorrow”



# AWARDS & ACHIEVEMENTS



## BANKING AWARDS

Project Finance Deal of the Year (2018)  
**Bonds&Loans Turkey**

M&A/Acquisition Finance Deal of the Year (2018)  
**Bonds&Loans Turkey**

Structured Loan Deal of the Year (2018)  
**Bonds&Loans Turkey**

Natural Resources Finance Deal of the Year (2018)  
**Bonds&Loans Turkey**

Syndicated Loan Deal of the Year (2018)  
**Bonds&Loans Turkey**

Bond Deal of the Year (2018)  
**Bonds&Loans Turkey**

Best Syndicated Loan in Central and Eastern Europe Tredaş (2017)  
**EMEA Finance**

Best Syndicated Loan in Central and Eastern Europe Aksa Natural Gas Distribution And Kazancı Holding (2017)  
**EMEA Finance**

Best Infrastructure Deal Galataport (2017)  
**EMEA Finance**

Best Privatization Deal in the Middle East and Africa Galataport (2017)  
**EMEA Finance**

Financial Institutions Financing Deal of the Year (2017)  
**Bonds&Loans Turkey**

Infrastructure Finance Deal of the Year (2017)  
**Bonds&Loans Turkey**

Syndicated Loan Deal of the Year (2017)  
**Bonds&Loans Turkey**

Transport Finance Deal of the Year (Runner-Up) (2017)  
**Bonds&Loans Turkey**

Best Infrastructure Project Kızıldere 3 Geothermal (2016)  
**EMEA Finance**

Best National Resource Project Finance Yeniköy Kemerköy (2015)  
**Bonds, Loans & Sukuk Turkey**

Best-Structured Finance Project/Etlik PPP (2015)  
**Bonds, Loans & Sukuk Turkey**

Best Energy Infrastructure Deal in Europe (2011)  
**Euromoney**

Best Hydroelectric Project in Europe (2011)  
**Euromoney**

Best Equity House (2011)  
**EMEA Finance**

Best Clean Technology and New Energy Investor (2011)  
**The New Economy Magazine**

Best Solution Partner in Wind Power in Turkey (2011)  
**TIREC**

European Geothermal Deal of the Year (2008)  
**Euromoney**

Infrastructure Deal of the Year (2008)  
**PFI**

Project Finance Deal of the Year (2008)  
**Euromoney**

Best Corporate Merger and Acquisition (2005)  
**Euromoney**

Best Local Business Partner (2004)  
**Euromoney**

Best Investment Bank in Turkey (1997, 1998, 1999)  
**Euromoney**

Highest Rating Given To a Bank - Developing Countries Category (1998)  
**Thomson Bankwatch**

Best Research Institution in Turkey (1997)  
**Emerging Markets Investor Magazine**



TSKB's role and strategy in several areas attract attention as a model and get awarded.



## SUSTAINABILITY AWARDS

Best Green Bond in Central and Eastern Europe (2017)

**EMEA Finance**

Structured Finance Deal of the Year (Winner) (2017)

**Bonds&Loans Turkey**

International Bond Deal of the Year (2017)

**Bonds&Loans Turkey**

Sustainable Bond Issuance of the Year (2016)

**IFR**

Green/Sustainable Bond Issuance of the Year (2016)

**Global Capital**

Low Carbon Hero (2016)

**Sustainable Production and Consumption Association (Süt-D)**

Low Carbon Hero (2015)

**Sustainable Production and Consumption Association (Süt-D)**

Climate Disclosure Leadership (2015)

**CDP**

Climate Change Leadership (2013)

**CDP Turkey**

One of the Top Three Banks in Sustainable Banking in Europe (2011, 2013)

**FT&IFC**

Bronze Award -Sustainability Report Category (2012)

**Astrid Awards**

Supporter of Sustainable Eco-Friendly Products and Practices (2010)

**Istanbul Chamber of Industry (ISO)**

Sustainable Bank of the Year in Eastern Europe (2008, 2009, 2010)

**FT&IFC**



## CORPORATE GOVERNANCE AWARDS

Women Empowered Boards Special Award (2018)

**Sabancı University Corporate Governance Forum**

Company with the Second Highest Corporate Governance Rating Score (2015)

**Turkey Corporate Governance Association (TKYD)**

Highest Score in Multi-Stakeholder Approach For Transparency in Corporate Reporting (2015)

**Transparency International Turkey**

Company with the Highest Corporate Governance Rating Score (2011, 2013, 2014)

**Turkey Corporate Governance Association (TKYD)**

Honor Award for Best Annual Report - Print Category (2011)

**Stevie Business Awards**



# STRATEGY, PERFORMANCE AND 2019 EXPECTATIONS









# EXTERNAL FACTORS

## ECONOMIC DEVELOPMENTS

### GLOBAL ECONOMIC DEVELOPMENTS

In 2018, the global economy grew by 3.7% to repeat the growth in 2017, the year for which the IMF estimated the biggest growth in the last 6 years. Despite the intentional slowdown in the growth of the Chinese economy by state policies and a weak growth in developing countries, global growth remained the same, thanks to the growth in developed countries maintaining its strength. This proves the fact that there is a shift of balance in global economic growth.

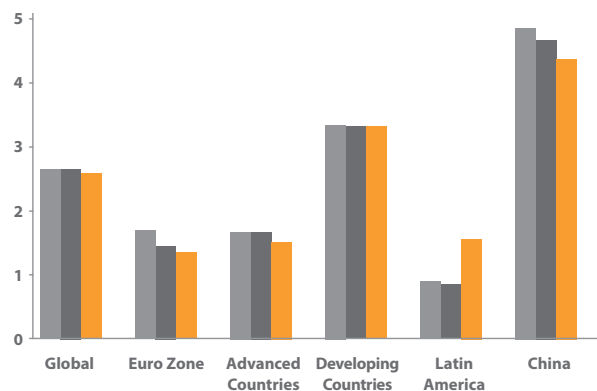
It is estimated that the global economy will grow by 3.5% in 2019. Such estimation by the IMF points out to a 0.4-point downward revision compared to that announced at beginning of 2018. For 2019, it is projected that trade wars will slow down the growth in the U.S. economy, the recession in the Chinese economy will continue, and the liquidity support by the European Central Bank will continue in consideration of the concerns for a lower growth in Eurozone.

Although global growth was strong in 2018, recent developments point to the challenges in sustainability of this strength. Such developments can be specified as, tightening measures in monetary policies, trade wars, increased geopolitical risks and weaker capital flows into developing countries.

Most of the steps regarding global policy rates in 2018 were rate hikes. In 2018, the Federal Reserve (Fed) hiked interest rates at every other meetings, raising the policy rate from 1.25-1.50% to 2.25-2.50% gradually. The European Central Bank did not change interest rates but reduced monthly bond purchases from EUR 30 billion to EUR 15 billion as of September and subsequently terminated the program at year-end. The Bank of England hiked the policy rate by 0.25 points despite the uncertainties regarding Brexit. Similar to the Fed, the Bank of Canada hiked policy rate 3 times by 0.25 points each. In 2018, the Swedish Central Bank hiked the interest rates for the first time since 2011.

The U.S. emerged as the main player in major economic developments in 2018. The U.S. announcement in March that it would start imposing countervailing duties on import steel products triggered a series of duty steps which would remain the top item on the agenda for the remainder of the year and have impact on the global growth expectations for 2019. During the G20 leaders summit in Argentina on November 30, 2018, the USA and China declared a 90-day truce and suspended recent additional tariffs, albeit temporarily. Possible new steps in trade wars will occupy a key position on the global economic agenda in the first quarter of 2019. Another step by the U.S. was its withdrawal from the nuclear treaty of 2016 signed between the five permanent members of the UN and Iran.

### GROWTH ESTIMATIONS (%)



Source: International Monetary Fund (IMF)

2017 ■ 2018 ■ 2019 ■



## It is estimated that the growth in global economy will decelerate to 3.5% for 2019.

Capital flows into emerging markets that have balance of payments issues fluctuated due to country-specific political problems as well as the shrinking global liquidity and the negative implications of the trade wars. June and October were marked with capital outflows, with the annual inflow worth USD 200 billion remaining lower than the USD 246 billion in 2017.

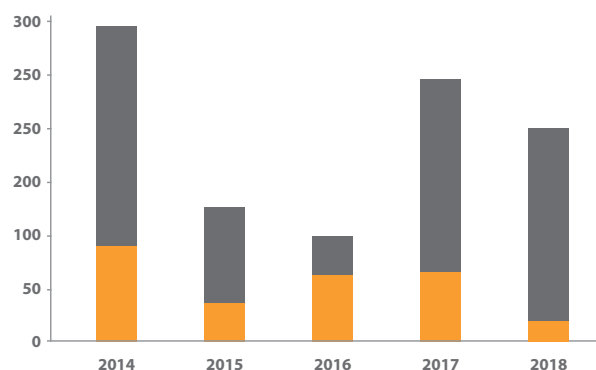
Tightening steps in developed countries and declining capital inflows led the developing countries hike their policy rates. Brazil halted the 10-month rate cut period while Mexico, South Korea, Indonesia and India hiked their rates by 0.50, 0.25, 1.75 and 0.25 points respectively throughout the year.

These developments which are expected to have long-term impacts on economic indicators, led to market fluctuations in 2018.

The U.S. stock markets closed the year with a 7% fall, deleting the 9% rise recorded in the first 9 months of the year. Seen as monetary policy normalization steps, interest rate hikes led to increases on bond yields. The 10-year U.S. government bond yield started the year at 2.41% and rose to 3.20% during 2018 before declining to 2.69% in the last quarter of the year.

Concerns surrounding global growth started to have impact on interest rate expectations into 2019. Expectations mainly focus on the Fed not hiking the rate by more than two times and the European Central Bank updating the timing of the first hike, which was planned for 2019 summer, as the second half of 2019. Fading expectations for tightening steps in developed countries' monetary policies can be seen as positive news for the emerging markets. However, such positive impact may not be felt in the short run due to a potential weakening in the global risk appetite arising from growth concerns. Markets in developed countries are expected to recover in the second half of the year.

### PORTFOLIO FLOWS TO EMERGING MARKETS (USD billion)



Source: International Monetary Fund (IMF)

Stocks ■ Bonds ■

In 2018, Brent crude fluctuated between USD 55 and USD 86. Starting the year at USD 66, Brent rose to USD 86, the highest for the last 4 years, due to the production cuts by OPEC countries, strong growth expectations, rising geopolitical risks in the Middle East, production cuts in Venezuela and Canada, and the expectation that the U.S. would withdraw from Iran nuclear deal. In the aftermath of these developments, the price per barrel of Brent crude fell to USD 57 after the OPEC decision to increase production, coupled with the concerns on the sustainability of global growth. OPEC countries met in Vienna in the last month of the year to discuss such developments and decided to reduce daily production by 1.2 million barrels as of the beginning of 2019. The price stood at USD 55 at year-end, and the changes in the price will be a key indicator for economic growth in 2019.

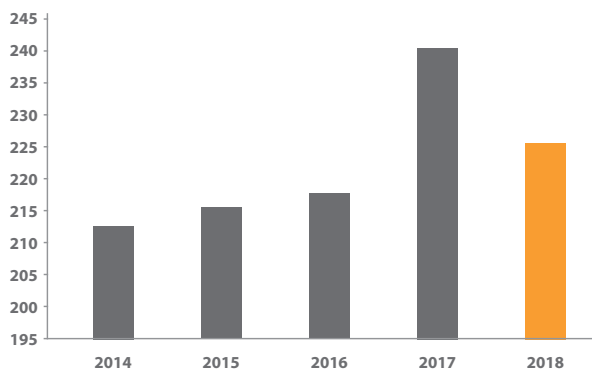


# EXTERNAL FACTORS

## DOMESTIC ECONOMIC DEVELOPMENTS

The Turkish economy was under the influence of rising in borrowing costs due to shrinking global liquidity linked to the normalization steps in the monetary policies of developed countries and negative geopolitical developments. 2018 emerged as the year of private sector's deleveraging for the foreign loans. Foreign debt stock for the private sector stood at USD 240 billion at the start of the year but fell to USD 226 billion at 2018 year-end.

### PRIVATE SECTOR FOREIGN DEBT (USD billion)



Source: CBRT

Declining foreign debt and the weakening foreign capital inflow put pressure on currency exchange rates. Starting the year at 3.77, USD/TL reached 5.28 at year-end, posting an annual 40% rise. Rising exchange rates increased the inflationary pressure, due to high dependence on imported inputs in production. Also the foreign exchange costs of the companies as they had a considerable level of FX-denominated debts increased. In 2018 annual inflation surged from 11.9% to 20.3%.

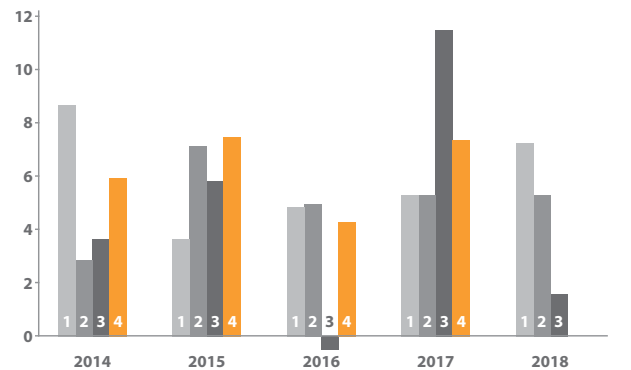
There were positive developments in the foreign trade and current account, due to strong growth outlook in Eurozone in the first half of 2018, largest export market of Turkey and deployment of new export markets. Annual foreign trade deficit declined from USD 77 billion to USD 55 billion, while current account deficit fell down to USD 28 billion from USD 47 billion.

Growth outlook of the Turkish economy contained downside risks due to a volatile foreign exchange rate and rising inflation

environment. On an annual basis, growth rate stood at 7.2% in the first quarter before retreating to 5.3% in the second quarter and to 1.6%, the lowest of the last 8 quarters, in the third quarter. Household consumption expenditures weakened as compared to the beginning of the year, and positive developments regarding the foreign trade deficit emerged as the only positive factor for growth.

The field of investments (fixed capital formation), TSKB's focus area, followed a downward trend in 2018. Fixed capital formation grew by an annual 7.9% and 4.2% in the first and second quarters respectively, and then receded by 3.8% in the third quarter. The slowdown in fixed capital formation was evident in both construction and machinery&equipment sectors. Turkish Statistical Institute (Turkstat) data shows that construction industry grew by 10.6% in the first quarter and by 7% in the second quarter but fell by 1.8% in the third quarter. Machinery and equipment investments shrank by 8.5% in the third quarter after growing by 6.3% and 0.6% in the first two quarters of the year.

### QUARTERLY GDP GROWTH (%)



Source: Turkstat

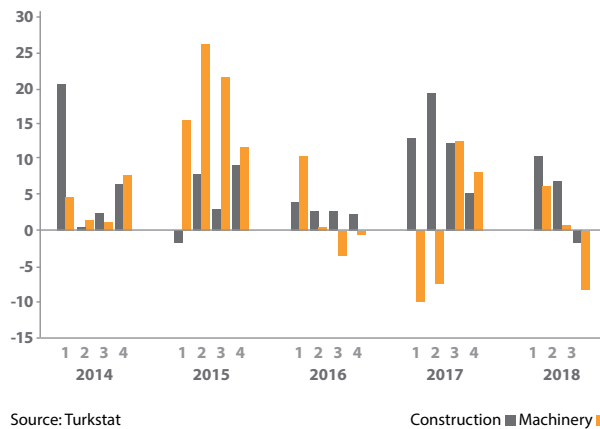
1. Quarter 2. Quarter 3. Quarter 4. Quarter

It is estimated that the economic re-balancing, which became more evident after industrial production and imports fell in the last quarter of 2018, will continue in the first half of 2019. For the second half of the year, a moderate recovery is expected. Although upside risks in inflation remain due to expected delayed impact of rises in foreign exchange rates, it is estimated that the downward trend will be clearer once high base effect from last year is seen and of the impact of rising foreign exchange rates fade.



**It is expected that the re-balancing of the Turkish economy will continue in the first half of 2019, followed by a moderate recovery in the second half.**

#### FIXED CAPITAL FORMATION (annual change, %)



Due to rebalancing in the economy, rises in foreign exchange and inflation rates and the shrinkage in portfolio flows into developing countries, Borsa Istanbul - 100 index, that started the year at 114,480, closed at 91,270 with a 20% fall. Banking index declined by 31% on an annual basis.

TSKB share welcomed the year at TL 1.20 and completed it at TL 0.81 with a decline of 32% in parallel with the sectoral performance. (See 2018 Financial Performance and 2019 Expectations)

## SECTORAL DEVELOPMENTS

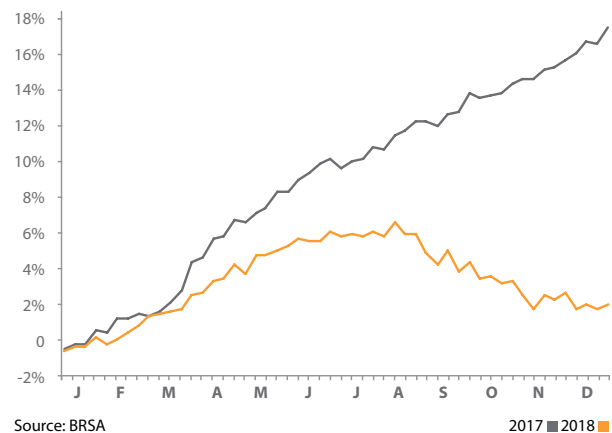
Rapid economic developments, coupled with the changes in regulations, carried the banking sector to the top of the agenda.

Changes in banking indicators such as loans, non-performing loans and capital adequacy were closely monitored by all stakeholders in the sector. At the beginning of 2018, it was expected that the growth in loans would slow down as compared to 2017, when the loan volume was strongly supported by the Credit Guarantee Fund. However, loan growth decelerated beyond expectations under the impact of international developments and fluctuating foreign exchange rates throughout the year.

Total loan growth stood at 15% in 2017 but declined to 1.8% in 2018 on a currency-adjusted basis. TL loans increased by 4.5% while FX loans fell by 2.8%. In 2018, consumer loans increased by

0.6% and corporate loans rose by a mere 1.5% as a consequence of falling investments. Corporate loans of private banks receded by 7.8%.

#### LOANS (YtD change, currency-adjusted)



It is estimated that sector's loan growth would stay flat in 2019 in parallel with the expectation that economic re-balancing started in the third quarter of 2018 might continue due to the delayed impact of the past increase in foreign exchange rates.

In 2018, TSKB's total loans stayed flat on a currency-adjusted basis as a result of the deceleration in economy and sector's total loans. The Bank pursued a controlled lending strategy in that period through efficient risk management policies. Utmost care is expended for the protection of the Bank's resilient financial structure in line with its mission.

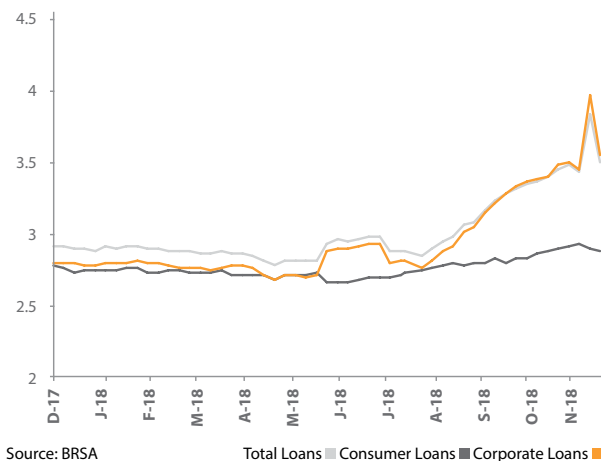
TSKB estimates a currency-adjusted growth of 5% in total loans in 2019. This growth will be delivered in accordance with the Bank's mission and funding themes. (See 2018 Financial Performance and 2019 Expectations)



## EXTERNAL FACTORS

Non-performing loans in the sector increased due to the transition to Turkish Financial Reporting Standard (TFRS 9) as well as the cautious approach adopted by banks in loan classification due to increased volatility in the financial markets. Furthermore, there were declines in loan collections owing to the slowdown in economic activity and the increase in financial expenses of the debtors. The share of non-performing loans in total loans in the sector rose from 2.9% to 3.7% while the share of non-performing corporate loans increased to 3.8% from 2.7%.

### NON-PERFORMING LOANS (%)



It is estimated that the acceleration observed in non-performing loans in the second half of 2018 will continue, due to limited loan growth estimation and the adverse impact of the slow-down in the economic activity on the companies. It is expected that the NPL ratio of 3.7% at end-2018 may rise up to 6% in 2019.

The banking sector maintained capital adequacy under the impact of measures by regulatory authorities despite the recession in economic activity and the relatively more challenging financial conditions. Data by BRSA indicates that capital adequacy standard ratio and core capital adequacy ratio which were 16.9% and 14.1%, respectively at the beginning of the year, stood at 17.3% and 13.8% respectively at 2018 year-end. Bank capitals will be reinforced by profitability in 2019 and are estimated to maintain a robust position.

## REGULATIONS AND LEGAL AMENDMENTS BY AUTHORITIES

### POLICIES OF THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

Central Bank of the Republic of Turkey (CBRT) made significant amendments in its policies in 2018 due to increasing volatility in financial markets arising from both domestic and external factors.

Following the increase in upside risks regarding inflation, CBRT hiked the market lending rate by 425 basis points in the first half of the year and simplified its policy framework at the end of May. From that date on, CBRT shifted market lending from late liquidity window to weekly repo auctions and declared the one-week repo rate as the policy rate. The funding rate was hiked from 12.25% at the beginning of the year to 24% after tightening measures had been taken. At year-end, overnight lending rate stood at 25.50% while overnight borrowing rate and late liquidity window rate were 22.50% and 27% respectively.

Reserve requirements were adjusted aiming to take fluctuations foreign exchange rates under control. Under the Reserve Option Mechanism (ROM), the upper limit for the FX maintenance facility was lowered initially from 55% to 45% and then to 40%. The method of determining the remuneration rate for required Turkish Lira (TL) reserves was changed. Accordingly, it was decided to set a rate 400 basis points lower than the CBRT's one-week repo auction rate as a fixed rate. The said rate was set at 7% as of June 1, 2018 and hiked to 13% in September. The rate for required USD reserves, reserve options and free accounts was raised from 1.5% to 2% under the impact of rate hikes by the Fed. Finally, the repayment of rediscount loans lent before May 25, 2018 with a maturity of no later than July 31 was allowed to be done in TL terms and with a fixed exchange rate on the condition that the repayment is made on time.

### MACROPRUDENTIAL MEASURES AND FORBEARANCES

- Decree No. 32 on the Protection of the Value of Turkish Currency was amended.
  - The FX borrowing of the firms with an FX loan risk of less than USD 15 million, was related to their FX revenues in the last three years. The FX-Indexed Loans Placement was terminated.
  - A new regulation was passed related to bringing proceeds of exports into Turkey.
  - It was further decided to re-issue any FX-denominated or FX-indexed agreements concluded between residents, this time in TL within 30 days of the decision.



## Bank equities will be reinforced by profitability in 2019 and are estimated to maintain a robust position.

- The total amount for money swap transactions, with FX on one end and TL on the other, which are completed between the Banks and non-residents, are restricted to 50% of the most recent regulatory capital of the related banks. This rate was reduced to 25% on 15 August. On 17 August, non-swap derivative operations were also limited.
- Limitations on derivative transactions were differentiated on a maturity basis.
- It is resolved that, until a second regulatory letter, changes in asset prices will not be considered to the extent of equity which is taken as basis to the extent of the capital adequacy ratio (terminated at year-end).
- It is decided that the higher of the 252-day simple average of the valuation rate for loan risk calculation and the FX rate of June 30, 2018 will be taken into account (terminated at year-end).
- Practice of new accounting standard (TFRS 9) introduced flexibility in terms of loan classification.

### CHANGES IN FINANCIAL REPORTING

After the launch of TFRS 9 accounting system in early 2018, the banking sector started to classify and evaluate its financial assets through the subjective intrinsic evaluation model. Under this model, the setting of the loan risk is taken as basis in classifying the banks' financial assets and calculate the reserves to be allocated. The Communique on Amending the General Communique on Corporate Tax issued by the Ministry of Finance increased the corporate tax rate applicable to the income of all institutions including those in the banking sector for the 2018, 2019 and 2020 tax periods from 20% to 22%.

### RESTRUCTURING AGREEMENT

On August 15, 2018, the BRSA published a regulation on the restructuring of debts to the finance sector.

A Financial Restructuring Framework Agreement was made on restructuring loans of companies that have total cash and non-cash debts of TL 100 million and above to financial institutions, are subject to legal proceedings at a maximum of 25% of the total loan debt as of the date of application and are not subject to a decree of bankruptcy.

The agreement issued by the Turkish Banks Association (TBA) and signed by the parties was approved and enforced by the BRSA on September 19, 2018 but some amendments were introduced on November 21, 2018.

"Regulation on Amending the Regulation on Restructuring Debts to the Finance Sector" was published in the Official Gazette No. 30602 of November 21, 2018.

TSKB signed the first and second amendment protocols for the framework agreement issued by the TBA under the additional regulation amendment. Restructuring talks have been initiated in coordination with other banks as required by the regulation, with no current restructuring included in the Financial Restructuring Program concluded before. Restructuring not included in the scope of this regulation is delivered either individually or via a syndicate of creditor banks within the framework of TSKB's own internal regulations.

| STAGE 1                                  | STAGE 2   | STAGE 3  |
|--|---|--|
| 12-month expected credit loss impairment | Lifetime expected credit losses (Significant increase in credit risk)   | Lifetime expected credit loss impairment (Default)             |
| <b>General Provisions</b>                | <b>General Provisions</b>   | <b>Specific Provisions</b>                                     |
| Initial recognition                      | <b>Quantitative:</b><br>Initial recognition date<br>Reporting date<br><b>Qualitative:</b><br>Loans that are overdue more than 30 days, classified as watchlist, have plan for restructuring | Stage 3 > 90 days<br>Stage 4 > 180 days<br>Stage 5 > 12 months |





## EXTERNAL FACTORS

**Women constitute 49.8% of Turkey's total population. Despite that fact, the share of women's labor force participation stood at 34.8% as of September 2018.**

### SOCIAL DEVELOPMENTS

In the last 15 years, Turkish economy grew by an annual average of 5.8% thanks to a strong domestic demand and high government expenditures. This has made Turkey the 36<sup>th</sup> in the world and the 3<sup>rd</sup> among G20 states in terms of growth rates. In the same period, GDP per capita increased from USD 3,500 to USD 10,500.

The economy maintained a strong growth in the first half of 2018 but slowed down in the second half due to the negative repercussions of volatility in financial markets on domestic demand. Growth stood at 7.2% and 5.3% in the first and second quarters respectively but declined to 1.6% in the third quarter. In October, industrial production adjusted for calendar and seasonal effects fell by 5.7%, pointing out to a continued recession in the last quarter. It is estimated that growth may remain below the 15-year average in 2019.

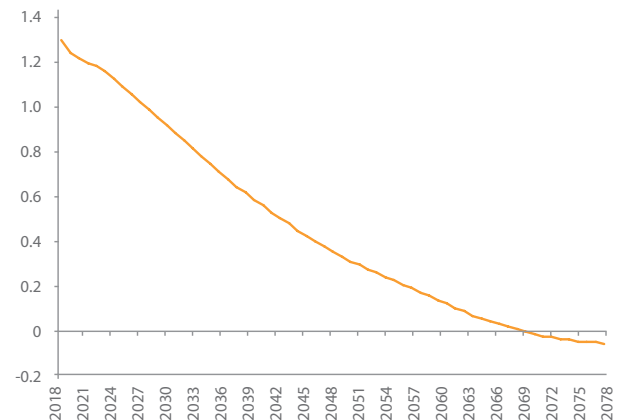
Despite a high growth rate, a single-digit unemployment rate has been achieved in only 7 years out of 15. Labor force participation rate rose from 49.6% to 54% in the last 15 years. In addition to increasing labor participation rate, population growth, technological advancements and immigration were effective in the rising unemployment.

Turkstat data suggests that Turkey's population surged to 82 million in 2018 following an annual increase of 1.47%. Turkstat estimates that population growth rate will fall below 1% 10 years later and start to decelerate rapidly afterwards. A population decrease is expected in the post-2074 period. The share of youth between 15 and 24 years of age within the total population declined from 16.3% in 2016 to 16.1% in 2017. It is estimated that this share will further decline to 14.8% by 2023.

Women constitute 49.8% of Turkey's total population. Despite that fact, the share of women's labor force participation stood at 34.8% as of October 2018. The world average is 48.6%.

With its critically important geopolitical location, our country attracts immense immigration. The number of immigrants rose from 380,921 in 2016 to 466,333 in 2017. Iraq, Afghanistan and Syria are the top three countries of origin for migrants coming to Turkey.

**POPULATION GROWTH (annual, %)**



Source: Turkstat

TSKB supports women's participation in labor force through its mission on inclusiveness as well as funding and loan operations focusing on women's employment. In 2018, the Bank secured an Inclusive Access to Finance Loan worth USD 400 million from the World Bank, with the Ministry of Treasury and Finance standing as the guarantor. The loan aims to support investments by women-inclusive firms in addition to private sector investments in priority development areas affected by the influx of Syrians under temporary protection. (See 2018 Financial Performance and 2019 Expectations)



## ENVIRONMENTAL DEVELOPMENTS

The New Economic Program for 2019-2021 includes the goal to switch to “Zero Waste” practices. The Zero Waste concept is called “Near Zero Waste” in the European Union countries. Although it is not possible to produce exactly zero household and industrial wastes under today’s circumstances, the term Zero Waste can be defined as the goal not to produce any wastes that cannot be reused, recycled or recovered. In other words, it is an approach to end producing any wastes at all, if possible, reduce the amount of wastes produced, and put them back to economic use through methods such as recycling, recovery or reuse.

The Turkish Ministry of Environment and Urbanization aims to launch the Zero Waste Project throughout the country by 2023 and attain an annual saving of TL 12 billion. To that end, the zero waste project is expected to mitigate environmental impact and make a considerable economic contribution. The relevant legislation was promulgated by the Turkish Ministry of Environment and Urbanization. Accordingly, plastic bags will be charged at supermarkets/retail stores starting from January 1, 2019 to raise an increased awareness on the zero waste project.

“Regulation on Energy Efficiency Audits” was promulgated in the Official Gazette of July 6, 2018. The regulation stipulates that industrial facilities be audited on whether they fulfill their energy efficiency liabilities and will employ administrative sanctions. The initial scope of the regulation covers commercial buildings larger than 20,000 m<sup>2</sup>, industrial businesses with an annual energy consumption of more than 1,000 tons of oil equivalent, and public buildings larger than 10,000 m<sup>2</sup>. Furthermore, all buildings with an area of more than 50 m<sup>2</sup> are required to obtain an Energy Performance Certificate.

TSKB REIT completed the field work for TSKB headquarters buildings for an Energy Performance Certificate. The Bank is not subject to any audit requirements as the area of its buildings is less than 20,000 m<sup>2</sup> and its energy consumption is not above 1,000 tons of oil equivalent.

TSKB offers its customers environmental solutions through the loans it lends and the consultancy services it provides. The Bank also performs environmental impact assessments for the projects it finances and integrates them into decision-making processes for loans.

*The New Economic Program for 2019-2021 includes the goal to switch to zero waste practices.*

*“Regulation on Energy Efficiency Audits” was promulgated in the Official Gazette of July 6, 2018.*

## TECHNOLOGICAL DEVELOPMENTS

Technological developments accelerated as customers’ evolving needs for performing banking transactions non-spatial and timeless led to an increase in demand for more technological products and solutions. It is a commonly known fact that individual and corporate customers perform most of their financial transactions online without visiting bank branches. It is apparent that developments in financial technologies (mobile payment systems, online savings tools, daily budget applications, etc.) will influence the way organizations and individuals do business.

It is expected that Blockchain, smart contracts and cryptocurrencies will influence business processes and costs in a wide range of sectors. The Blockchain infrastructure could be practically used in a myriad of areas including but not limited to finance, fund transfer, payments, capital markets, asset management, e-commerce, politics and art, and is expected to lead to a significant transformation in banking.

The importance of being close to customers and customer data in the banking sector has increased. Big data, real-time analytics and customer-focused innovation are the main concepts providing a competitive edge. Remarkable developments are observed on artificial intelligence which learns, develops itself and works like a human brain.

In order to adapt to technological/digital transformation trends in the banking sector, TSKB plans to launch research and development work on digital solutions and robotic process automation to boost the efficiency of business processes.



# CHAIRMAN'S MESSAGE



*Main mission of TSKB  
is to support economic  
development, transfer funds  
to development or, in other  
words, to value-generating  
enterprises and offer versatile  
services.*

## ESTEEMED STAKEHOLDERS,

### AMID THE GLOBAL ISSUES WHICH WE ARE WAITING TO BE SOLVED

It is estimated that the global economy posted robust growth in 2018. However, developments within the year point to an increasing downside risks. Issues such as rise of protectionist policies in different regions of the world including in particular the trade war between the USA and China, rising political tension between different blocks, global migration issue, conflictory atmosphere in the Middle East and have Brexit posed serious risks against the development of the global economy and international trade.

Global economy to move in a sustainable growth path requires the harmonized cooperation of all economic actors and accordingly, economic policies composed of monetary and fiscal mechanisms with a different perspective are needed. In this respect, we hope that ultimate intelligence will manage globalization in a proper way and, in other words, politics, economy and technology will function in an accord. If this is provided, the achievements of globalization will be even stronger and global development will fulfill its true potential, which will make it possible to disperse welfare much evenly and extend peace at global level. Besides, a global system and economic policy functioning in harmony will bring down a more effective



**In 2018, having operated in line with its strategic objectives with a risk-oriented perspective, TSKB continued to generate value for its stakeholders.**

and efficiently operating financial system. A global and regional growth potential for both commercial banking and development and investment banking will be increasingly reflected on the performance of institutions.

#### **...TURKISH ECONOMY ENTERED INTO REBALANCING PERIOD IN 2018.**

Turkish economy entered into rebalancing period in 2018 due to elevated geopolitical risks fueled by its geography. Mounting volatility in exchange rates led to an escalation in inflation and interest rates followed with uncertainty in financial markets. The short-term turbulence was overcome through the incentives announced by the economy management for the real sector and the relevant financial regulations. The volatility in TL value decreased due to the export volume breaking historic records on monthly basis and current account surplus. After our country fully overcomes this volatile period, we believe that respective economy actors will fulfill their duties and the finance industry will achieve a growth performance that is a few times higher than its potential.

#### **BEING ONE OF THE LEADING INSTITUTIONS FOR DEVELOPMENT BANKING GLOBALLY...**

TSKB is the first private development and investment bank of Turkey.

Main mission of TSKB is to support economic development, transfer funds to development or, in other words, to value-generating enterprises and offer versatile services. I take the pride in stating that TSKB, which was established in 1950s with the initiation of the World Bank and the valuable brands of the Turkish finance world, had a considerable contribution to the development of our national economy without discrimination of sectors since its establishment.

Within this period, the bank has concretized its support by making funds accessible to hundreds of infrastructure and superstructure projects that are of vital importance for the national economy.

Considered as one of the most bolstered brands in the finance world of our country, TSKB has also pioneered and accomplished unique and exemplary projects in the areas of combating climate change, renewable energy, energy efficiency, women employment and empowerment.

#### **... TSKB GENERATED GREAT VALUE FOR ITS STAKEHOLDERS WHILE TAKING FIRM STEPS.**

In 2018, having operated in line with its strategic objectives through a risk-oriented perspective, TSKB continued to generate value for its stakeholders. The Bank strengthened its position in the advisory services in addition to corporate banking and investment banking activities. Accomplishing successful projects in synergy with its affiliates, TSKB also continued to engage in long-term activities regarding corporate social responsibility and created value in the fields of culture and arts.

We believe that TSKB will assume more responsibility for leading sustainable growth in the ever-developing world, especially within the Turkey's geography.

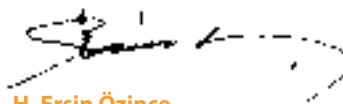
Through the integrated thinking capacity, the Bank will continue to inject more funds to the economy, contribute to the welfare of the society via its thematic loan programs and support the private sector of Turkey.

#### **WITH ITS WELL-DEFINED PRIORITIES AND STRATEGY, TSKB IS POSITIONED AS A SOUND GROWTH-ORIENTED DEVELOPMENT BANK IN 2019 AS IN THE PAST.**

Our professional management team and competent human resources execute their duties with passion and belonging. As long as this approach is prevalent in TSKB, it will be possible for us to fulfill our strategic objectives and contribute to the strong future of Turkey.

I would like to extend my deepest regards to you, our valuable shareholders, for your continuous support, to our board of directors for their valuable guidance and to our entire team for their devoted efforts.

Sincerely,



**H. Ersin Özince**  
Chairman



# CEO'S ASSESSMENT



*In its 68<sup>th</sup> year, TSKB continued to provide a versatile contribution to Turkey's development and sustainable growth.*

## EMERGING FROM THE VOLATILE ENVIRONMENT OF 2018...

The decoupling in the growth outlook between developed and emerging economies signified that the global economy had entered a new era in 2018. The determinants of this new era were the tightening in financial conditions and the increasing cost of capital. A narrowing in global liquidity as a result of the normalization steps in monetary policies taken by developed countries and an increase in borrowing costs stand out as the reasons triggering this shift.

Accompanied by global developments and geopolitical risks in our surrounding region, Turkey's economic performance demonstrated a significant difference between the two halves of the year in 2018. Having maintained its strong growth performance in the first half of the year, Turkish economy entered a period of balancing, undergoing a volatile period in the second half, particularly in August and September. Increasing volatility in exchange rates led to a rise in interest rates and inflation, and contraction in domestic demand. Delays and cancellations in investments and spending took their toll on trading activities, causing financial difficulty for many firms. In this environment, the



## The strategies, which we have recently put into practice and the philosophy of sustainable banking, which we are pioneers of, bring us closer to our goal each and every year.

need for restructuring of loans stood out as a major agenda item in the banking sector. Thanks to its strong asset quality and equity structure, the banking sector maintained its solid stance, strongly and comfortably supporting the economic balancing policies implemented by the regulatory authorities.

### ... TSKB IS FOCUSED ON LOAN MONITORING ACTIVITIES, CONCENTRATING ON MAINTAINING SOLID BALANCE SHEET STRUCTURE AND STRENGTHENING ITS LIQUIDITY.

In its 68<sup>th</sup> year, TSKB continued to provide a versatile contribution to Turkey's development and sustainable growth. At the same time, the Bank took a proactive approach focused on loan monitoring activities in the face of financial volatility, concentrating on maintaining a solid balance sheet structure and strengthening its liquidity.

By the end of 2018, TSKB's total assets stood at TL 38.3 billion. Our net operating profit before provisions increased by 50% YoY to TL 1.3 billion with a net profit of TL 661 million, marking 11% YoY growth.

In 2018, the Bank provided approximately USD 2 billion of support to the real sector through cash and non-cash loans.

The Bank's total loans rose by 26% YoY to TL 28.2 billion by the end of 2018. In parallel with its growing loan portfolio, the Bank was more focused on maintaining its healthy financial structure than ever.

Our total equity reached at TL 4.7 billion, resulting in a 16.2% capital adequacy ratio - higher than the level set by the regulatory authority.

### A FOCUS ON SUSTAINABLE BANKING, BASED ON OUR MISSION AND OUR POSITION IN THE SECTOR.

At TSKB, our goal is to move forward by improving our positioning in the fields of corporate banking, investment banking and consultancy. In 2018, a year of extraordinary developments, I think we have now left the worst behind us and are now in a recovery process, thanks to the implementation of decisive and policies following the fluctuations in the markets. Our economy offers significant investment opportunities on the basis of strong foundations. We look forward to our country's future with hope and continue to work hard in our financing and consulting

operations to provide the support needed by our private sector. The strategies which we have recently put into practice, and the sustainable banking philosophy which we are pioneers of, brings us closer to our goal every year, which I have outlined above.

The developments in 2018 strongly confirmed that we remain a preferred business partner for our domestic and international stakeholders in addition to proving the accuracy of our business strategies.

### WELL POSITIONED FUNDING ENGAGEMENTS IN 2018

In January 2018, TSKB issued a USD 350 million 5-year Eurobond in the international markets. This was among the first issuances of the banking sector in Turkey in 2018, collecting USD 1.1 billion in demand from different regions on a global basis, with the issue being three times oversubscribed. This represented a satisfactory result in terms of the interest that TSKB's issuances inspired in different investor populations.

### THE LARGEST LOAN AGREEMENT IN THE BANK'S HISTORY

On June 7, 2018, through an Inclusive Access to Finance Project loan agreement signed with the World Bank Group (the IBRD, International Bank for Reconstruction and Development), TSKB secured USD 400 million in long term funding.

This represents the biggest loan agreement in the Bank's history, and the significance and value of it is in its mission. Targeting two main themes, the agreement will play a key role for us in strengthening our operations in the field of inclusive financing, which we have recently added to our mission.

The first of the themes to be supported within the scope of the loan agreement is to encourage women labor force participation and to finance clients which provide women friendly working environment. The second theme is to support private sector entities which operate development priority sub-regions affected by the influx of Syrians under temporary protection.

With the World Bank Group loan, private sector companies, with a greater focus on SMEs, which are expected to provide employment support for the Turkish economy, will be funded for their working capital requirements and their investments within the scope of aforementioned themes.



# CEO'S ASSESSMENT

## TSKB COOPERATION WITH ASIAN INFRASTRUCTURE INVESTMENT BANK (AIIB)

In 2018, TSKB included the Asian Infrastructure Investment Bank (AIIB) in the development financial institutions from which it secures long term funding. This cooperation represented the first time in the world that AIIB provided funding for a bank to be allocated to private sector investments.

Signed on September 28, 2018, the USD 200 million Sustainable Energy and Infrastructure Investments loan will be extended for the financing of renewable energy, energy efficiency, transportation, energy transmission, waste water management and telecommunication investments by private sector firms throughout Turkey.

## INCLUSIVE FINANCING CARRYING TSKB'S SUSTAINABLE FINANCING OPERATIONS TO A NEW LEVEL.

In the first stage of its sustainability journey, TSKB was involved in high value-added projects in renewable energy, energy efficiency and resources efficiency fields, generating permanent value. The sustainable banking mission has been improved with breakthrough implementations over the last 2 years. Funds secured with the themes including SMEs, increasing employment - particularly women employment - and occupational health and safety have supported our focus on the inclusive financing field.

Our goal is to improve cooperation with development financial institutions in the field of inclusive financing, and to strengthen our contribution to the Turkish economy by providing new long term funding.

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## A SUCCESSFUL YEAR FOR OUR CONSULTANCY OPERATIONS

With its most valuable capital - qualified and well-equipped human resources - TSKB continued to offer value-added services throughout the year through its consultancy solutions, which are considered to be "products of common sense" for the business world and investors, gaining strength from its expertise in project evaluation, economic research and sustainable banking as well as in investment banking. Aiming to become "A bank that customers ask for advice, in addition to obtaining loans", TSKB successfully completed 63 consultancy projects in 2018 from more than 20 sectors, including iron and steel, construction, health, education and finance.

The rebalancing period that we have been going through, in particular, will be a period in which economic actors will need high value-added consultancy services more than ever. As longstanding business partners for our customers and offering intellectual added value to them, TSKB considers technical consultancy, valuation and financial modeling, educational, sectoral and regional research services as special operational fields where TSKB offers brand value. We are highly dedicated to pursue this goal in these fields.

## GUIDING THE SECTOR WITH ITS CORPORATE GOVERNANCE AND PROVIDING EQUALITY OF OPPORTUNITY

Accepting strong corporate governance as a major responsibility, with its high rating, TSKB maintains its position as one the highest ranked companies in the corporate governance index, and continues to be a pioneer in this aspect.



**Our wish to lead our achievements into to the future is enhanced by the strong support of our shareholders, investors and stakeholders.**

With its “Policy for Female Participation in Board of Directors”, aimed at increasing the ratio of women in the Board of Directors to 25% and the progress achieved towards this target, TSKB was granted the special award of the Women Empowered Boards granted within the scope of the Sabancı University Corporate Governance Forum’s Independent Women Directors Project in 2018.

Another development that we felt proud of was receiving the Equal Opportunities Model (FEM) Certificate from KAGIDER, awarded to companies dedicated gender equality in recruitment, training, career planning and communication.

#### **ESTABLISHING COOPERATION IS KEY TO PROVIDING A BETTER FUTURE FOR THE NEW GENERATION**

Work to support employment, quality of life and innovation goes hand in hand with TSKB’s approach to sustainable banking. Within this context, female university students are supported with the “From Education To Production” Scholarship Fund in collaboration with TEV (the Turkish Education Foundation), helping them receive a better education before joining the workforce.

The reflection of TSKB’s activities on promoting equal opportunities to the field of art is materialized through the Women Stars of Tomorrow Support Fund which was established in collaboration with IKSİ (Istanbul Foundation for Culture and Arts) to support women artists which will represent Turkey on the global stage.

Another area of collaboration in 2018 which gave us great excitement was the TSKB Technology and Entrepreneurship Platform, established together with GİRİVAK (Entrepreneurship Foundation). Entrepreneurs participating in the platform work on innovative business ideas and technologies which will prepare TSKB and our country for the future.

#### **LOOKING TO THE FUTURE**

Although the international and domestic economic environments pose difficulty in the short term, our future expectations remain positive.

Our wish to lead our achievements into the future that we are proud of and that keep us motivated as a team, is enhanced by the strong support of our shareholders, investors and stakeholders. Our competence to move flexibly, our unique positioning in the sector and the products and services offered by our affiliates complementing the value we offer our customers all encourage us to gain successful and impactful outcomes.

In 2019, TSKB will continue to support the economy by allocating all the resources it secures to investments that would create employment, increase exports and provide value-added within the framework of sustainable banking and inclusivity principles.

On behalf of myself and TSKB Management, I would like to hereby thank all my colleagues - the architecture of our performance - for their dedicated work, our stakeholders and, in particular, our customers for the confidence and loyalty they have shown in the TSKB brand.



**Suat İnce**  
Board Member and CEO



# TSKB'S STRATEGY

## HOW DOES TSKB DIFFER FROM COMPETITORS?

TSKB has three main elements that differentiate it from competition and considers these as drivers on its way to fulfilling its strategic goals.

### CREATING VALUE FOR INCLUSIVE AND SUSTAINABLE DEVELOPMENT

TSKB is the only private development and investment bank in Turkey. TSKB offers corporate banking, investment banking and advisory services with high added value to become a preferred business partner its stakeholders first consult for the economic, environmental and social development of Turkey.

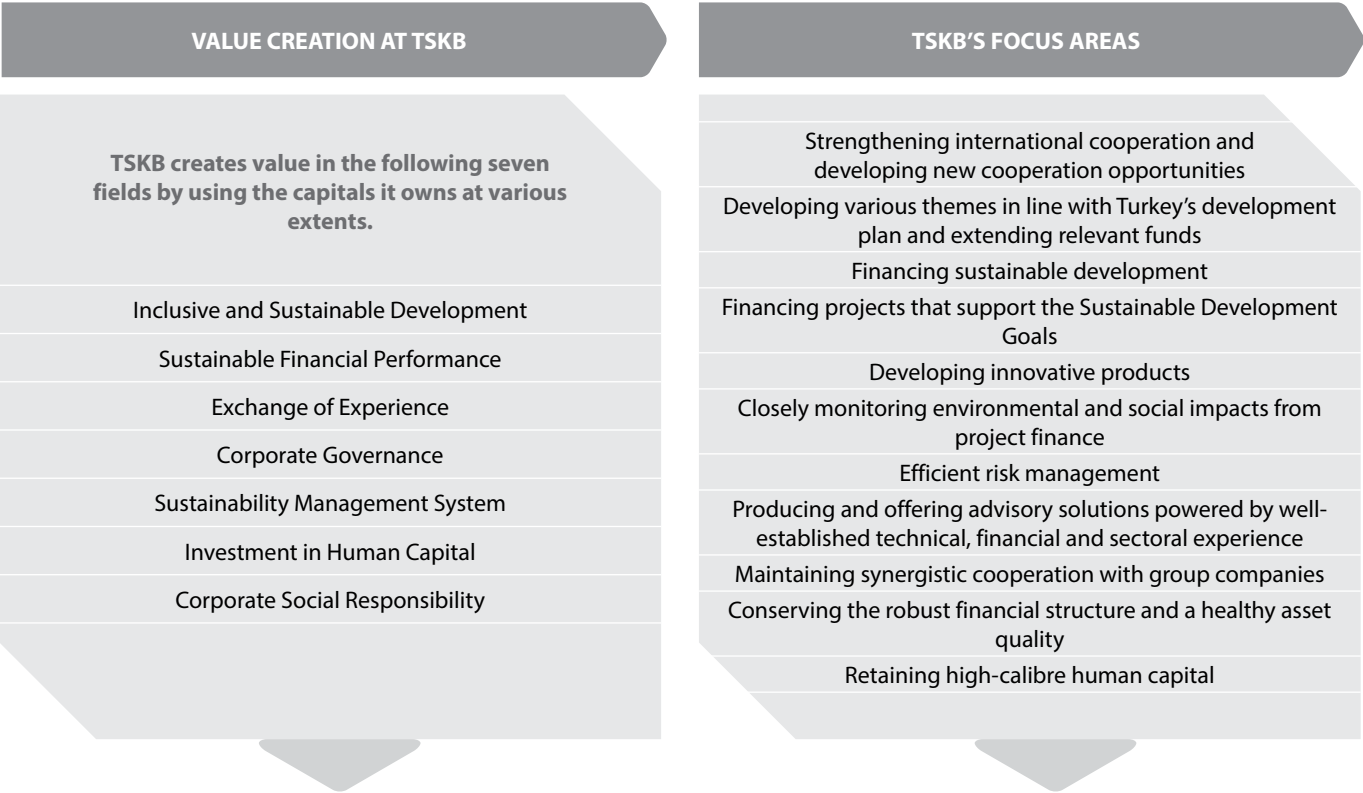
TSKB is the only private development and investment bank delivering services in not only investment banking and consultancy but also on sustainable development finance.

TSKB has access to long-term funds from development finance institutions with whom it has also built long-lasting and effective cooperation in the field of co-financing.

TSKB provides tailored banking services to its customers.



TSKB takes its objectives, competences, strategic goals and market conditions into consideration while planning the future. At the same time, the Bank evaluates its current and future funding needs within the scope of the capitals model and pays utmost care to ensure its strategies and funds which are blended at the right scale in its executive plans.



**ABOUT THE FUTURE**

TSKB continues its journey in line with its strategic focuses on:

- A healthy balance sheet growth
- A robust capital structure
- High efficiency
- Sustainable profitability

As TSKB moves into the future, it continues to invest in competences that will enable it to remain strong and competitive. To that end, the Bank will continue to develop new strategic cooperation ventures and invest in human capital.

See 2019 and 2020 Sustainability Goals



# STAKEHOLDERS AND MATERIALITY ANALYSIS

## STAKEHOLDER COMMUNICATION

*TSKB is in continuous communication and interaction with its stakeholder groups. The Bank undertakes its communication with the stakeholders through various platforms.*

Attaching great importance to engaging in sustainable dialogue with its stakeholders, TSKB benefits from each of the feedback from stakeholders as a valuable and guiding input in a wide range of topics and fields such as;

- Identifying strategic priorities
- Setting policies
- Designing business model
- Developing social responsibility projects

## TSKB'S PLATFORMS FOR STAKEHOLDER COMMUNICATION



### Shareholders

Annual Ordinary General Assembly Meeting  
Board Meetings  
Public Disclosure Platform (PDP)  
Periodic Reporting  
TSKB Web Site and Social Media Accounts  
Teleconference Meetings for Analysts and Investors  
Investor Relations Meetings both Domestic and Abroad

### Customers

Customer Visits and Meetings  
Marketing Communication Meetings  
Sector-Specific Meetings  
Seminars and Conferences  
TSKB Web Site and Social Media Accounts  
Online Transactions Platform - Customer Communication Form  
Economic and Sector Research Reports

### Employees

Department Meetings  
Executives' Meetings  
Focus Group Meetings  
MT Program  
Development Workshop  
Intranet Web Site  
Regulatory Documents Platform



#### Financial Institutions

Corporate Meetings  
Capacity Building Meetings  
Field Visits  
Thematic Seminars and Conferences  
Attendance at Annual Meetings  
Staff Exchange Programs  
Periodic Reporting and Assessments

#### Media

Press Meetings  
PDP and Bulletin Communication  
Column Writing

#### Subsidiaries

Board Meetings  
Joint Project Work  
Executives' Meetings

#### Banking Sector

Meetings under Sectoral Association  
Memberships  
Corporate Cooperation

#### NGO's

Boards of Directors  
Working Groups  
General Assembly Meetings  
Joint Events  
cevreciyiz.com

#### Suppliers

Corporate Meetings  
Feedback for Satisfaction Surveys  
Periodic Reporting and Assessments

#### Regulatory Bodies

Regular monitoring of reporting  
liabilities and other information flows  
prescribed in applicable laws and  
regulations  
Attendance at relevant meetings

#### Universities

Career Workshop  
Sustainability Workshop  
Thematic Course Contents



# STAKEHOLDERS AND MATERIALITY ANALYSIS

## STAKEHOLDER ANALYSIS

### Methodological approach

In addition to periodical contacts with all stakeholder groups during the operating cycle, TSKB also conducts regular stakeholder analysis, which is planned to be repeated every other year.

This report takes as basis the stakeholder analysis conducted in November-December 2018.

Conducted by TSKB Sürdürülebilirlik Danışmanlığı A.Ş. - Escarus, the stakeholder analysis includes a qualitative perspective for the first time in addition to the quantitative data. The project is conducted in two phases: qualitative and quantitative research. Both methods are employed to get to the most real-like stakeholder experience possible.

To ensure that the study presents integrity, the same conceptual framework was used in both in-depth interview and online survey stages. This enabled qualitative and quantitative research phases to be handled within a framework that allows them to feed each other.

The quantitative research phase for the stakeholder analysis covers the stakeholder perception on TSKB and their views on sustainability priorities. The research drew numerical results, via an online survey, from a sample to represent TSKB's stakeholder universe.

Qualitative research, on the other hand, focused on the answers to the questions "Why and how?" and aimed to collect holistic and in-depth data. In-depth interviews aimed to obtain data on stakeholder perception and attitudes regarding TSKB as well as their personal motivations.

### Stakeholder groups participating the stakeholder analysis are as follows:

- TSKB Management
- Customers
- Employees
- Financial Institutions
- Development Finance Institutions
- Representatives from Non-Governmental Organizations / Media / Academia / Industry
- Affiliates' Employees
- Suppliers

As a result of the stakeholder analysis survey, primarily important matters for stakeholder groups are located on the materiality matrix.





The online survey form and in-depth interviews with stakeholders prompted them to rank the following in an order of importance considering TSKB's sustainability priorities.

## MATERIALITY ANALYSIS SURVEY

- Supporting the financing of the combat climate change
- Supporting the financing of adaptation to climate change
- Supporting the financing of women's empowerment
- Supporting financing for inclusive development
- Measuring environmental and social risks in all investment projects
- Diversifying sustainable finance products
- Managing the Bank's environmental and social impacts
- Full compliance with Corporate Governance principles
- Efficient risk management
- Developing digital transformation, fintech and technology projects
- Creating responsible and sustainable growth and income
- Human capital investments, employee development and increased employee satisfaction
- Diversifying social responsibility projects to raise awareness on sustainability
- Taking action for improving transparency
- Developing projects on refugees' problems
- Delivering awareness-raising projects to prevent child labor
- Developing human rights projects
- Delivering anti-bribery and anti-corruption projects
- Focusing on charity, solidarity and sponsorship activities
- Making efforts to reduce suppliers' environmental footprint
- Launching projects on encouraging entrepreneurship
- Delivering projects to improve career management and employment
- Delivering trainings on financial literacy and savings as well as financial trainings
- Conducting awareness-raising work on human rights
- Producing guiding and leading projects on the fair distribution of income
- Creating development projects
- Delivering improvement projects on harmonization with legislation
- Conducting work on developing sustainable finance products
- Assuming a leading role in ensuring that the Sustainable Development Goals are understood better and integrated into processes
- Improving customer satisfaction
- Delivering work on improving a transparent sharing of information
- Delivering projects on improving risk management
- Providing employees with development opportunities
- Developing projects on maintaining and improving the Bank's financial performance
- Strengthening relations with international fund providers
- Focusing on efforts to develop new products



# STAKEHOLDERS AND MATERIALITY ANALYSIS

## RESULTS AND ASSESSMENT OF MATERIALITY ANALYSIS

Below are the priorities of TSKB management and of all stakeholders from the stakeholder analysis.

### MATERIAL ISSUES FOR TSKB MANAGEMENT

2018 Stakeholder Analysis showed that the material issues of TSKB Management are fully compliant with TSKB's mission, main goals and strategies. The Bank's priorities explicitly include the sustainable banking understanding and related sub-themes it recently internalized, in addition to a mission to make a permanent contribution to Turkey's economic development. TSKB Management's key priorities also include Human Capital Investment and Employee Development, Improving Employee Satisfaction and Providing Employees with Development Opportunities. Other key priorities are provided below:

- Supporting the financing of the combat climate change
- Developing projects on maintaining and improving the Bank's financial performance
- Supporting the financing of adaptation to climate change
- Supporting the financing of women's empowerment
- Full compliance with corporate governance principles
- Efficient risk management
- Managing the Bank's environmental and social impacts

In parallel with TSKB's contribution to Turkish economy, it is among the Bank's top priorities to Develop Projects on Maintaining and Improving the Bank's Financial Performance. The survey also emphasizes the importance of full compliance with the corporate governance principles, a major topic for sustainable banking, and underlines once again the TSKB policy based on fair, transparent, accountable and responsible banking principles.

### MATERIAL ISSUES OF ALL STAKEHOLDERS OF TSKB

- Producing development projects
- Providing employees with development opportunities
- Supporting the financing of adaptation to climate change
- Strengthening relations with international fund providers
- Managing the Bank's environmental and social impacts
- Developing projects on maintaining and improving the Bank's financial performance

For TSKB's clients, business partners, the financial institutions it cooperates with and the initiatives it is a member of as well as its employees, it is a key priority to Develop Projects on Maintaining and Improving the Bank's Financial Performance. As one of the most experienced business partners launching projects to Improve Relations with International Fund Providers specifically, TSKB differentiates itself from other financial institutions on the market.

TSKB develops projects for development and manages their environmental and social impacts as a priority. Representing the business world, stakeholders are strongly convicted that the Bank efficiently implements its sustainability strategy, and support TSKB's strategy to grow by creating value for the country's economy.

The prioritization matrix established in line with the results from stakeholder analysis underlines that TSKB approaches the country's high quality development from the perspective of Sustainability and Responsible Banking while developing and growing in harmony with all stakeholders.

*The materiality matrix built according to the results of stakeholder analysis underlines that TSKB is growing in harmony with all stakeholders, while approaching the country's high quality development from the perspective of Sustainability and Responsible Banking.*



## INCLUSION OF MATERIAL ISSUES INTO THE INTEGRATED REPORT

*In identifying TSKB's material issues, key elements in TSKB's sustainable business model were considered in addition to the materiality analysis, such as external factors, Sustainable Development Goals and the focus on economic and social inclusiveness.*

*Therefore, the integrated report also provides details on certain matters such as Social Responsibility that were not listed as a top priority in the stakeholder analysis survey and specifically handles them within the perspective of Sustainable Development Goals and inclusiveness.*





# CAPITALS

## INPUTS

### FINANCIAL CAPITAL



- Diversity of funds
- Provision and lending of medium- and long-term funds
- Access to state-guaranteed funds
- Robust capital

### HUMAN CAPITAL



- Investing in employees
- Equal opportunities
- Social benefits
- Employee clubs

### NATURAL CAPITAL



- Evaluating environmental and social impact in lending processes
- Zero Carbon Banking
- Focusing on sustainability loans

### MANUFACTURED CAPITAL



- A compact campus compatible with the corporate operation structure
- IT infrastructure
- Improvement in efficiency of processes

### INTELLECTUAL CAPITAL



- 3-disciplined evaluation and analysis power based on technical, financial and economic perspectives
- Sector expertise
- Ability to develop themes and products suited for needs
- Developing know-how based consultancy
- Power of affiliates holding various expertise

### SOCIAL CAPITAL



- Long-term and efficient communication with stakeholders
- Social responsibility projects in education, culture and art
- Sharing experience
- Membership to and cooperation with initiatives



## TSKB'S VALUE CREATION FIELDS

SUSTAINABLE FINANCIAL  
PERFORMANCE

DELIVERING EXPERTISE  
AND EXPERIENCE

INCLUSIVE AND  
SUSTAINABLE  
DEVELOPMENT

SUSTAINABILITY  
MANAGEMENT SYSTEM

INVESTING IN HUMAN  
RESOURCES

CORPORATE SOCIAL  
RESPONSIBILITY

CORPORATE  
GOVERNANCE - RISK  
MANAGEMENT

## OUTCOMES

- A portfolio 84% of which consists of investment and APEX loans
- Capital Adequacy Ratio of 16.2%
- Return of Equity ratio of 16%

**73%**  
Share of  
sustainability-  
theme loans in loan  
portfolio

- Management staff: Female: 52%, Male: 48%
- Average training hours per person: 55
- Participation rate for satisfaction survey: 85%
- Ratio of employees participating in Gender Equality Education: 33%

**52%**  
Female employee  
ratio

- Reinforcement of 13 million tons of annual CO<sub>2</sub> emission reduction
- Neutralizing carbon footprint of stakeholders up to 15,000 tons in the last three years
- 100% green energy usage and zero-carbon banking

**14%**  
TSKB's share in  
renewable energy  
investments in  
Turkey

- Efficiency in processes
- Integrated service building with affiliates
- Healthy, efficient and ergonomic work environment

**10.8%**  
Cost- to- Income  
Ratio

- 420 TSKB Economic Research Reports
- New information source for economy: TSKB BLOG
- Constituent in Sustainability Indices
- Developing innovative and essential themes

**420**  
TSKB Economic  
Research Reports

- Creating awareness of sustainability through cevreciyiz.com
- Enhancing women's participation in workforce with scholarship fund "Empower through Education"
- Supporting women artists heading to global scenes with "Women Stars of Tomorrow" Project
- 6,500 additional employment created with APEX loans
- Increasing awareness in equal opportunities through esitadimlar.com

**6,500**  
Additional  
employment  
created with APEX  
loans



# VALUE CREATION

Distinguishing from annual and sustainability reports, Integrated Report is focused on the companies' ability to create value in short, medium and long terms. Thus, the importance of the internalization of integrated way of thinking and acting through handling strategic priorities, future-orientation, and connectivity among information, capitals and the relationship between them for the company is emphasized.

According to International Integrated Reporting Council's (IIRC) Integrated Reporting Framework methodology, value creation process is one of the basic concepts of an integrated report. The Bank

built its value creation model, which takes place in its 2018 Integrated Annual Report in compliance with this framework. TSKB's Value Creation Model summarizes its business model that is composed by its capitals. In this business model, the inputs utilized by TSKB during its so-called operations are shaped within the framework of external factors and the Bank's strategy and are turned into products and services. Value Creation Model reveals outcome in other words value added on i) economic, ii) environmental, and iii) social axis. At the same time, TSKB's Value Creation Model describes the interaction of added value created by the Bank with United Nations (UN) Sustainable Development Goals.

## CAPITALS

FINANCIAL  
CAPITAL



HUMAN  
CAPITAL



NATURAL  
CAPITAL



INTELLECTUAL  
CAPITAL



MANUFACTURED  
CAPITAL



SOCIAL  
CAPITAL



## BUSINESS MODEL

TSKB'S STAKEHOLDERS  
EXTERNAL FACTORS

Technical, financial  
and sectoral  
experience

Environmental and  
social evaluation power

Strong portfolio  
structure

Effective risk  
management

Joint value creation  
power with  
affiliates

Qualified human  
resources and  
expertise

Strategic approach  
Ability to use  
qualified resources  
effectively

**TSKB**

**CORPORATE BANKING**

**INVESTMENT BANKING**

**CONSULTANCY**



**TSKB, who became a signatory to the United Nations Global Compact in 2010, contributes directly to 14 of the 17 Sustainable Development Goals.**



## IMPACT OF TSKB

### ECONOMIC

- USD 8.1 billion contribution to the economy in the last five years
- Support to development with mid and long term loans
- Active role in the formation of capital markets
- Diversified loan portfolio breakdown in various sectors

### SOCIAL

- 1,250 additional women employment through equal opportunity theme loans in the last two years
- Woman ratio of 52% in the bank's employees and management
- 6,500 new employment through APEX loans
- Contribution to education and culture with social responsibility projects

### ENVIRONMENTAL

- 73% sustainability-theme loan portfolio
- 13 million tons of annual CO<sub>2</sub> emission reduction with sustainable investments
- Total of USD 4.4 billion commitment for renewable energy finance
- Total of USD 1 billion energy and resource efficiency investment



# 2018 FINANCIAL PERFORMANCE AND 2019 EXPECTATIONS

**The Bank contributed to the economy with a total of USD 2 billion in cash and non-cash loans in 2018.**

## HIGHLIGHTS FROM 2018

### First bond issue from TSKB

TSKB further reinforced its strong liquidity position through a Eurobond issue of USD 350 million in January and the long-term funds it secured from the World Bank (IBRD) and the Asian Infrastructure Investment Bank (AIIB) during the year. Moreover, the Bank obtained a syndicated loan of USD 220 million from international markets in July.

### USD 2 billion contribution to economy

TSKB contributed to the economy with a total of USD 2 billion in cash and non-cash loans in 2018. The total cash loan disbursements amounted to USD 1.4 billion including APEX loans worth of USD 170 million.

### A key player in development and investment banking

TSKB's total asset size expanded to TL 38.3 billion with a surge of 32.5% compared to the previous year, thanks to a growing loan portfolio. The Bank ranks 13<sup>th</sup> in the sector in terms of its asset size and 2<sup>nd</sup> among development and investment banks. 78% of TSKB's assets were denominated in foreign currency (FX), and the Bank's capital adequacy ratio stood at 16.2% as of 2018 year-end.

### Risk-based and selective approach in lending

TSKB enjoys a market share of 34% among development and investment banks in terms of long-term loans. The Bank continued to grow its loan portfolio with a risk-based and selective approach in 2018. The Bank's total gross loans stood at TL 28.2 billion displaying an increase of 26.3% on TL-basis in 2018. The loan-to-total assets ratio was 73.7%.

### Intensifying loan monitoring activities

The Bank intensified its loan monitoring activities to watch possible risks caused by FX volatilities. A proactive approach is adopted to monitor collection performance as well as the potential impacts of the 35% rise in FX basket in 2018 on the projects it financed and the financial position of the Bank's clients, following more than 20% increase in the FX basket for the last 3 years.

### Lines of new credit extended to clients totaled USD 4.2 billion

During the year, TSKB extended a cash and non-cash credit line of USD 4.2 billion (excluding APEX) to its customers and signed new loan contracts amounting to a total of USD 1.8 billion. The Bank's active customers increased by 48% in the last three years.

### Share of investment loans stands at 75%

In line with its mission, TSKB mainly focuses on investment loans. The share of the Bank's investment loans within total loans stood at 75%, close to the share in the previous year. As of end-2018, working capital loans and APEX loans constitute 16% and 9% of total loans respectively.

92% of Bank's loan portfolio is comprised of FX loans, with 49% in USD and 43% in EUR. The share of TL loans in the Bank's total loan portfolio is 8%.

### Medium and long-term loans have a share of 88% in TSKB's loan portfolio

TSKB extends medium-term and long-term loans to its customers in line with its vision to be the leading bank in Turkey's sustainable development. As of 2018 year-end, 12% of TSKB's loan portfolio is comprised of loans with a maturity of less than 1 year and 52% is comprised of loans with a maturity of 5 years and longer. On average, each loan has a maturity of 5.5 years with a size of USD 13 million.

### A strong pick up in banking revenues

TSKB boosted its banking revenues by an annual 50%. The Bank's net income rose by 10.9% year on year and stood at TL 661 million given the annual 195% hike in provisions as a consequence of transition to IFRS 9 and the prudent provision policy. TSKB's return on equity and return on assets stood at 16% and 2% respectively as of 2018 year-end.



**With respect to renewable energy projects, geothermal and solar power plants followed by wind and biomass power plants were given weight in 2018.**

#### ROOTED EXPERTISE IN INVESTMENT LOANS

Within the scope of corporate banking business, TSKB disbursed USD 1.4 billion as cash loans in 2018. Out of this mentioned amount, USD 900 million was disbursed as long-term investment and short/medium-term working capital loans to its corporate customers. In its project finance business, the Bank extended USD 340 million to the projects syndicating with the other banks. In the same period, APEX loans stood at USD 170 million.

Regarding the new loan disbursements in 2018, electricity generation and distribution stood out, followed by energy and resource efficiency, environment-friendly real-estate and tourism and infrastructure investments, women employment enhancing investments and working capital needs of SMEs and Mid-Caps in automotive, textiles, chemistry-plastics, food, iron-steel etc. industries.

With respect to renewable energy projects, geothermal and solar power plants followed by wind and biomass power plants were given weight in 2018.

According to June 2018 data released by Turkish Banking Association, TSKB's share in project finance is 4% within the sector.

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

##### Energy

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

##### Real Estate Projects

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

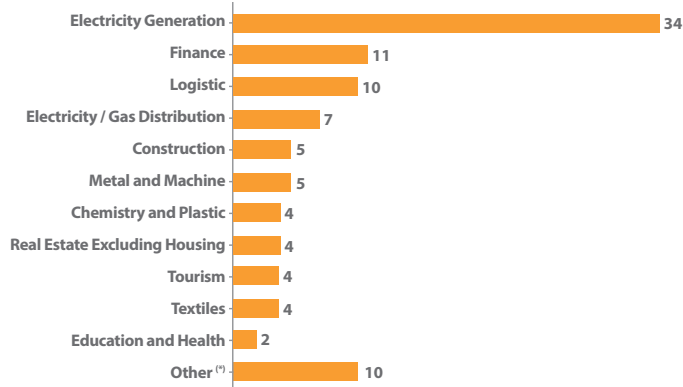
##### Infrastructure / Transportation

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

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

- Integrated Health Campus

#### SECTORAL BREAKDOWN OF THE LOAN PORTFOLIO (31 DECEMBER 2018, %)



(\*) Food: 4%, Automotive: 2%, Packaging: 1% Other: 3%





# 2018 FINANCIAL PERFORMANCE AND 2019 EXPECTATIONS

## RENEWABLE ENERGY

**290 PROJECTS - 6,066 MW**

INSTALLED CAPACITY



**97 HPP**

Number of Projects  
under Construction: 6

**Total Installed  
Capacity**

**4,002 MW**



**12 GPP**

Number of Projects  
under Construction: 3

**Total Installed  
Capacity**

**473 MW**



**30 WPP**

Number of Projects  
under Construction: 1

**Total Installed  
Capacity**

**1,308 MW**



**15 BIOMASS/  
WASTE**

Number of Projects  
under Construction: 7  
**Total Installed Capacity**

**150 MW**



**136 SPP**

Number of Projects  
under Construction: 20

**Total Installed  
Capacity**

**133 MW**

## RENEWABLE ENERGY SECTOR AND TSKB

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

### TOTAL INSTALLED CAPACITY FINANCED BY TSKB REACHED 6,066 MW.

Since 2002, TSKB has been supporting the renewable energy projects in our country through long-term funding. The energy projects financed by TSKB range from hydropower plants to solar, wind and geothermal power plants. The total estimated installed capacity for the 290 projects financed stood at 6,066 MW, which represents 13% of Turkey's total installed capacity in renewable energy.

In 2018, renewable energy projects, mainly solar, wind, geothermal and biomass power plants were heavily financed.

It is noticeable that, at 2018-end, energy sector kept its hefty share in TSKB's loan portfolio. In the upcoming periods, TSKB is expected to continue supporting such renewable energy projects that enhances domestic energy resources in the economy.

### 87% of financed energy projects has been operational.

As of 2018-end, 87% of the power plant projects financed by the Bank has been operational. The total installed capacity of the operational projects was 5,263 MW.

While the total investment amount in power plant projects financed by TSKB between 2003 and 2018 reached USD 9.9 billion, the amount of commitments TSKB allocated to these projects was around USD 4.4 billion.

### Resource efficiency projects

Since 2013, TSKB has been supporting efforts to improve resource efficiency in our country's private sector by offering medium-term and long-term funding. The Bank extended a funding of approximately USD 1 billion for 141 projects on energy and resource efficiency as well as production processes and waste management.

Energy and resource efficiency projects represented 6% of TSKB's loan portfolio as of 2018 year-end.

In a cycle when combating climate change gradually becomes more important, TSKB anticipates that the importance of resource efficiency including energy efficiency will increase further.



## ENERGY & RESOURCE EFFICIENCY

# 141 PROJECTS



### RESOURCE EFFICIENCY

## 57 PROJECTS

#### Sectors:

Tourism, Chemistry,  
Automotive, Steel,  
Cement, Textiles



### ENERGY EFFICIENCY

## 84 PROJECTS

#### Sectors:

Chemistry, Automotive,  
Cement, Mining, Energy,  
Steel, Textiles

### TSKB OFFERS VERSATILE SERVICES TO SMEs.

Since the day it was established, TSKB has offered different financing models in support of SMEs which are the heart of Turkish economy. The Bank finances the investments of the relevant firms in a variety of fields ranging from modernization and capacity expansion investments, and from energy efficiency to environmental projects. Furthermore, working capital needs of SMEs are covered according to the funding criteria of the funds received from international financial institutions. As of 2018 year-end, the share of SME loans lent through APEX lending within the total portfolio stood at 9%.

### INCREASING SUPPORT FOR WOMEN EMPLOYMENT

Following a loan agreement, signed with the French Development Agency (AFD) in December 2016, TSKB added "women's empowerment" in addition to "occupational health and safety" to its funding themes.

This funding was used to support the occupational health and safety investments of firms operating in Turkey in 2018, finance the investments by firms that observe gender equality in working environment, and provide opportunities for women to join the workforce.

As of 2018 -end, employment opportunities were created for nearly 1,250 women via the financed projects with the women-empowerment theme.

### THE BANK EXTENDED A TOTAL DIRECT FUNDING OF USD 8.1 BILLION TO THE REAL SECTOR IN THE LAST FIVE YEARS

Shaping its operations within a mission to produce effective solutions for long-term funding needs of private sector customers, TSKB makes high quality contribution to the sustainable growth of Turkish economy. The Bank extended a total direct funding of USD 8.1 billion to the real sector in the last five years in sectors such as renewable energy, energy efficiency, infrastructure and logistics.

Taking USD 690 million worth of APEX loans directed to SMEs into account, the total funding extended to the real sector reaches USD 8.7 billion.

### A BALANCED NON-CASH LOAN PORTFOLIO

Brokering for letters of guarantee, import and other foreign trade transactions as required by investment and utilities projects, TSKB offered its customers a total non-cash loan of USD 600 million in 2018. Throughout the year, the Bank focused on responding to the non-cash loan needs of its customers in power distribution, electricity generation, metal and machinery sectors.

#### Sound support for Turkey's development to continue in 2019

In 2019, TSKB will continue to finance investments of companies that support women's employment, environmental and occupational health and safety, R&D, energy and resource efficiency as well as exporters. At the same time, the Bank also plans to finance renewable energy projects that integrates national resources to the economy, in line with Sustainable Development Goals.

Another target of TSKB is to provide financing for investments and working capital needs of private sector in sub-regions, affected by the influx of Syrians Under Temporary Protection within the scope of the loan received from International Bank for Reconstruction and Development (IBRD) in 2018. "Besides, in 2019, the companies that have limited access to finance due to lack of collateralization are expected to be supported within the scope of Credit Guarantee Fund.



# 2018 FINANCIAL PERFORMANCE AND 2019 EXPECTATIONS

## CLOSE CO-OPERATION WITH THE DEVELOPMENT FINANCE INSTITUTIONS

"Being one of the most well-known Turkish banks by the international development finance institutions,, TSKB operates in close cooperation with World Bank (IBRD), European Investment Bank (EIB), Council of Europe Development Bank (CEB), German Development Bank (KfW), Islamic Development Bank (IsDB), French Development Agency (AFD), International Finance Corporation (IFC), European Bank for Reconstruction and Development (EBRD), Japan Bank for International Cooperation (JBIC), Development Bank of Austria (OeEB), Asian Infrastructure Investment Bank (AIIB).

TSKB continued its efforts to provide new sources from development finance institutions in 2018. During the year, total amount of thematic loan agreements secured reached to USD 600 million.

### World Bank (IBRD) Inclusive Access to Finance Project Loan

On June 7, 2018, TSKB signed the Inclusive Access to Finance Project Loan worth USD 400 million with the World Bank (IBRD). The loan was provided under the repayment guarantee of Turkish Ministry of Treasury and Finance. This loan marks the largest singular amount of loan secured from the World Bank since TSKB was established.

This loan was structured on the basis of two main themes:

- Providing funds to private sector companies promoting women's participation in labor force and offering a suitable working environment to enable this and
- Supporting private sector companies operating in priority development sub-regions where Syrians under temporary protection (SuTP) living in Turkey are largely hosted.
- "This loan is expected to support our country's economy in terms of employment by backing the investment and working capital needs of private sector, mainly SMEs, falling under the said criteria. Commercial banks and leasing companies will also mediate the delivery of a certain portion of the loan to eligible SMEs.

### Sustainable Energy and Infrastructure On-lending facility from the Asian Infrastructure Investment Bank (AIIB)

AIIB is an international financial institution aiming to improve social and economic outputs in Asia. The Beijing-based institution started operations in January 2016 and has 93 members including Turkey.

On September 28, 2018, TSKB and AIIB signed the Sustainable Energy and Infrastructure On-lending facility. The loan worth USD 200 million will be used to fund renewable energy, energy efficiency, transportation, energy transmission, waste water management and telecommunication investments by the private sector throughout Turkey. This is the first loan provided by the AIIB globally for further lending to private sector investments. The loan is secured with the Turkish Ministry of Treasury and Finance standing as the guarantor.

### Target improving the variety of funding sources

In accordance with its growth plans and future strategies, TSKB will continue its efforts to secure funds from international and supranational development finance institutions. In this aspect, besides currently cooperated creditor institutions, TSKB will continue to research and studies to establish new relationships like AIIB, which was added to TSKB's creditors in 2018.

### Efficiency to improve with theme diversity

In the recent years, TSKB, has carried out studies to increase the diversity of the themes of the funds secured. Women employment, occupational health and security, supporting companies in the priority development regions affected by the influx of Syrians under temporary protection are among the new themes, TSKB introduced and added to its operation fields.

In the period ahead, the Bank will focus on diversifying the future funds under themes suiting the needs of the private sector companies and targets given in Turkey's New Economic Program and development plans mainly in manufacturing industry.

In the coming period, TSKB targets to develop cooperation in co-finance with the development finance institutions in addition to direct lending. Extending its communication with initiatives such as LTIC, ELTI, IDFC and ADFIMI where it has memberships, the Bank will continue to follow the agenda besides sharing know-how on these platforms.



**Throughout 2018, TSKB continued its efforts for obtaining new funds from development finance institutions.**

#### **STRONG RELATIONS WITH INTERNATIONAL FINANCIAL INSTITUTIONS**

In 2018, TSKB maintained close contact with local and international banks and continued to focus on enriching its relations with banks in line with the goals of diversifying funds and product development. Furthermore, it pursued an intensive and effective communication with rating agencies. A summary of TSKB's cooperation with international financial institutions in 2018 is provided below.

##### **Bond Issuance by TSKB**

In January 2018, TSKB issued the first Eurobond of the year in the sector. The issuance was worth USD 350 million and had a maturity of 5 years. The issuance was more than 3 times oversubscribed and reached a successful conclusion. In terms of costs, the bond issuance yielded the lowest interest rate TSKB has realized so far. As of end-2018, the share of Eurobond issuances including subordinated bond within TSKB's funds (except equity) is 25%, with a total size of USD 1.65 billion.

##### **Syndication Loan**

On July 3, 2018, TSKB signed a syndicated loan agreement under the coordination of Commerzbank that was participated by a total of 15 banks including Bayerische Landesbank, which also acted as the facility agent. The USD 220 million-worth syndicated loan was extended on a 367-day maturity and comprised of two different tranches, one in EUR and the other in USD. The cost of the loan was Libor + 1.45%, indicating an improvement compared to last year's transaction.

The Bank attaches importance to improving its bilateral relations with local and international financial institutions and establish new relations. On funding side, market developments will be closely monitored in 2019, and efforts will be expended to make use of bond market, syndication, bilateral funding and debt restructuring facilities in line with the Bank's cash flow and needs.





# 2018 FINANCIAL PERFORMANCE AND 2019 EXPECTATIONS

## LONG TERM FUNDS SECURED BY TSKB 2014-2018

|      | Loan   | Amount                               | Maturity  |
|------|--|--------------------------------------|-----------|
| 2014 | Islamic Development Bank - Restricted Mudaraba Agreement                             | USD 220 million                      | 15 years  |
|      | IBRD - Innovative Access to Finance Project Loan                                     | USD 190 million and EUR 44.1 million | 28 years  |
|      | Citibank - OPIC - SME, Energy Efficiency and Renewable Energy Loan                   | USD 40 million                       | 4-8 years |
|      | AFD - Sustainable Tourism and Innovative Energy Projects Loan                        | EUR 60 million                       | 10 years  |
|      | EBRD - Resource Efficiency Loan  | EUR 50 million                       | 7 years   |
|      | Eurobond   | USD 350 million                      | 5 years   |
|      | KfW - Credit Line for Resource Efficiency and Environmental Measures in the Industry | EUR 150 million                      | 12 years  |
|      | OeEB - Renewable Energy and Energy Efficiency Loan                                   | EUR 20 million                       | 12 years  |
|      | EIB - TSKB Energy and Environment Loan/A   | EUR 100 million                      | 12 years  |
| 2015 | JBIC - Renewable Energy and Energy Efficiency Loan                                   | USD 150 million                      | 12 years  |
|      | EIB - TSKB Loan III for SMEs and Midcaps and Innovation / A                          | EUR 100 million                      | 8 years   |
|      | Eurobond   | USD 350 million                      | 5 years   |
|      | IFC - Climate Smart Loan   | USD 75 million                       | 7 years   |
| 2016 | IBRD - Geothermal Development Project Loan   | USD 150 million                      | 28 years  |
|      | KfW - Credit Line for Combat Against Climate Change                                  | EUR 150 million                      | 15 years  |
|      | EIB - TSKB Loan III for SMEs and Midcaps and Innovation / B                          | EUR 100 million                      | 8 years   |
|      | EIB - TSKB Energy and Environment Loan/B   | EUR 100 million                      | 12 years  |
|      | AFD - Women Employment and Occupational Health & Safety Loan                         | EUR 100 million                      | 10 years  |
|      | CEB - SME Loan   | EUR 100 million                      | 7 years   |
|      | TSKB Green/Sustainable Bond  | USD 300 million                      | 5 years   |
| 2017 | TSKB Sustainable Tier 2  | USD 300 million                      | 10NC5     |
|      | IFC - Sustainable Climate Loan   | USD 75 million                       | 7 years   |
|      | EBRD - MidSEFF III (Mid-Size Sustainable Energy Financing Facility III) Loan         | USD 85 million                       | 7 years   |
| 2018 | Eurobond   | USD 350 million                      | 5 years   |
|      | AIIB - Sustainable Energy and Infrastructure On-Lending Facility                     | USD 200 million                      | 15 years  |
|      | IBRD - Inclusive Access to Finance Project Loan                                      | USD 400 million                      | 29 years  |



**TSKB distributes SME loans that contributes to employment generation through the agency of commercial banks and financial leasing companies.**

#### TSKB - APEX LOANS MAIN INDICATORS

| Name of Program                                       | Year | Amount Agreed    | Number of Beneficiary Companies (As of 2018-end) | Current Status of the Program |
|---|------|------------------|--|-------------------------------|
| <b>SME (Women Employment and Prioritized Regions)</b> |      |                  |  |                               |
| Inclusive Access to Finance Project Loan (IncA2F)     | 2018 | USD 200 million  | -  | Ongoing                       |
| <b>Supporting SME and Exports</b>                     |      |                  |  |                               |
| Innovative Access to Finance Project Loan (IA2F)      | 2014 | USD 250 million  | 231  | Completed                     |
| <b>Supporting Exports</b>                             |      |                  |  |                               |
| EFIL IV Supplementary Loan                            | 2011 | USD 300 million  | 137  | Completed                     |
| EFIL IV   | 2008 | USD 300 million  | 133  | Completed                     |
| EFIL III  | 2005 | USD 305 million  | 168  | Completed                     |
| EFIL II   | 2004 | USD 303 million  | 211  | Completed                     |
| <b>SME</b>  |      |                  |  |                               |
| TSKB FUNDING **                                       | 2017 | EUR 150 million  | 319  | Ongoing                       |
| AKKB V APEX   | 2016 | EUR 100 million  | 575  | Ongoing                       |
| AKKB IV APEX  | 2013 | EUR 100 million  | 416  | Completed                     |
| AKKB III APEX   | 2010 | EUR 100 million* | 223  | Completed                     |
| KfW APEX  | 2004 | EUR 7.7 million  | 54   | Completed                     |
| EIB APEX  | 2005 | EUR 150 million  | 343  | Completed                     |

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

\*\* Re-disbursement of paid-back loans

#### TSKB, IS THE LEADER OF APEX BANKING IN TURKEY.

Leading for APEX banking in Turkey, TSKB continued to extend to its customers the international thematic apex funding it obtained.

In addition to its existing cooperation with leasing companies and commercial banks under APEX banking, TSKB has also started to work with participation banks and factoring companies within the scope of "Innovative Access to Finance Project Loan" (IA2F) secured from the World Bank in 2014.

In 2018, TSKB continued its program with Türkiye Kalkınma ve Yatırım Bankası (TKYB) with a view to financing the investments of micro, small and medium-sized firms around Turkey to be made in order to create new employment opportunities or maintain the current levels of employment with the loan provided by Council of Europe Development Bank. To this end, final beneficiaries are financed through leasing companies under the financing model developed and the cooperation of TSKB and TKYB.

*TSKB continued to extend APEX loans to its customers.*

*The total number of new employment created through "Export Support" and "SME" funds amounted to 6,500.*



# 2018 FINANCIAL PERFORMANCE AND 2019 EXPECTATIONS

TSKB re-disburses the successfully collected repayments of the past SME themed APEX loans, for creating funding to the leasing companies, commercial banks, participation banks and factoring companies.

TSKB will transfer the USD 200 million of Inclusive Access to Finance Project Loan (IncA2F) provided by World Bank to commercial banks and financial leasing companies as APEX loans.

So far, TSKB has carried out effective loan transactions in cooperation with 30 intermediary financial institutions under APEX banking. In 2018, the total of loans extended via APEX banking reached USD 170 million and the share of such loans within the total portfolio stood at 9%.

## Support to Exports

TSKB extended a total loan of USD 1.5 million to 900 firms under 4 different EFIL (Export Finance Intermediation Loan) programs and IA2F program.

EFIL loans aim to not only support operations to boost exports by firms but also create new business areas and increase employment. Under the “Innovative Access to Finance Project Loan (IA2F)” agreement, the working capital and investment expenditures of private sector SMEs and mid-size exporting companies operating around Turkey were financed.

## Support to Employment Generation

Through other APEX loans secured from Development Finance Institutions, TSKB has provided a total loan of USD 600 million to 1,950 SMEs since 2004. By this means, the total number of new employment created through amounted to 6,500.

## INCREASING CONTRIBUTION TO BANKING REVENUES THROUGH INVESTMENT BANKING AND CONSULTANCY SERVICES

TSKB is the first and largest private investment bank in Turkey. The Bank started its investment banking operations long before the establishment of the CMB and BIST, and had been significantly contributing to sectoral development with a leading role in all product groups requiring both consultancy and brokerage services.

The Bank serves all corporate investors, of any size, operating in various sectors in line with its vision and mission, and has access to individual investors through its affiliates. It provides investment banking services on par with international standards in corporate finance, money and capital markets, and derivatives in accordance with different strategic initiatives by firms. Furthermore, it uses its intense know-how and experience from various sectors and projects to offer its customers consultancy services.

TSKB’s revenues from diversified services for investment banking and consultancy make a gradually increasing contribution to banking revenues each year.

## CORPORATE FINANCE: A STRONG START FOR 2019 WITH MORE THAN 10 MANDATES

The Bank backs the growth and development of firms with its corporate finance services in which TSKB has essential experience. The Bank offers its customers services advisory and intermediary services for equity IPOs, intermediary services for bond issuances, mergers and acquisitions, asset sale and purchasing and privatization advisory.

Market fluctuations in 2018 led to an abrupt halt for IPOs, which had a fast start for the year, and a reduction in mergers and acquisitions as well as bond issuances by the private sector. TSKB with the issuing parties strategically preferred to postpone the IPO mandates it obtained for the second half of 2018 until 2019. On mergers and acquisitions front, 2018 was marked with ongoing negotiations and an expectation for a balancing of market conditions.

TSKB’s marketing efforts enabled the Bank to secure more than ten new mandates in automotive, chemistry, electronics, retail, design, energy, transportation and packaging sectors, thus paving the way for a strong start for 2019 in corporate finance.



Requiring stable market conditions, Corporate Finance operations are expected to gain momentum as of the second half of 2019. To that end, 2019 is expected to be a productive year for both obtaining the revenues deferred from the previous year and closing the recently-acquired mandates.

### A KEY PLAYER IN MONEY AND CAPITAL MARKETS

TSKB is a key player in money and capital markets. 2018 was a year when normalization trends grew stronger in the monetary policies of developed countries, geopolitical risks surged, and protectionism in international trade was deeply felt. Therefore, the risk premiums in emerging markets rose and their currencies depreciated remarkably. Capital outflows from Turkey were more noticeable, causing a high fluctuation in markets. In 2018, TSKB's risk management activities through both its own balance sheet management and the derivative transactions of its customers gained importance.

#### A 'risk-based' approach for position and balance sheet management

Thanks to its flexible balance sheet, TSKB accurately availed itself of the opportunities arising in such a period of increased market fluctuations and raised its income. In the meantime, the Bank also paid utmost attention to managing risks.

The Bank successfully managed its FX position in consideration of risk elements and market conditions and in line with the treasury policies. This enabled the Bank to avoid negative implications of market challenges on its balance sheet.

In order to contribute positively to profitability during the year, the volume of short-term TL loans and money market placements surged by an average 25% year-on-year.

In 2018, TSKB funded its TL securities portfolio almost entirely by the Bank's equity. In the same period, repo transactions continued in the management of TL-denominated liabilities. Furthermore, an effective cash flow management approach was adopted, and a cost advantage was gained through transactions on the swap market.

TSKB uses its cash capital to invest in risk-free and high-return securities within the framework of its liquidity management plan. At 2018 year-end, 67% of the Bank's TL-denominated securities portfolio was comprised of CPI-Linkers and other floating-rate securities while 33% was comprised of fixed-rate securities.

In order to reduce the average maturity of the portfolio in an environment of rising interest rates, new purchases mainly concentrated on short-term bonds. The average maturity for portfolio was reduced to 2.6 years, and the Bank not only maintained the return of its securities portfolio but also secured a yield of 20% in TL in such an increasing interest rate environment. In parallel with the increase in interest rates, Eurobonds mainly consisting of those issued by the sovereign were purchased to improve the yield of the FX securities portfolio.

#### Increasing number of customers in treasury transactions

Under treasury product sales operations, the Bank focused on customer visits in 2018 and shared daily bulletins, market interpretations and relevant products and services with customers. Owing to such efforts, the number of TSKB customers offered derivative transactions lifted by 17% year-on-year in 2018. A successful performance was displayed in terms of derivative transactions and the sales volume for treasury products thanks to the Bank's proactive approach to customers and the increased need for hedging as caused by market fluctuations.

*In 2018, TSKB's risk management activities through both its own balance sheet management and the derivative transactions of its customers gained importance.*

*Successful liquidity management prevented any negative impacts of market fluctuations on the Bank's balance sheet.*



# 2018 FINANCIAL PERFORMANCE AND 2019 EXPECTATIONS

## VALUE-ADDED SERVICES AND SOLUTIONS SHAPED BY A ADVISOR BANK APPROACH

TSKB offers the business world and investors the required value-added services through advisory solutions powered by its expertise in not only investment banking but also project appraisal, economic research (see Delivering Expertise and Experience) and sustainable banking.

Through advisory services, TSKB aims to emerge as a long-term partner for its customers in line with its strategic goals. Regarding strategic financial advisory, the Bank provides valuation services for firms, brands and licenses in addition to feasibility analysis and surveys, fiscal restructuring, strategic road map, sectoral analyses and project finance advisory.

The Bank delivers part of its services shaped by a consultant bank approach through the synergic cooperation it has established with its affiliates TSKB Real Estate Appraisal and Escarus. To that end, the Bank not only guides domestic and international investors through its visionary advisory services on real estate but also offers boutique solutions to ensure globally-acknowledged sustainability approaches are integrated into the Turkish business world.

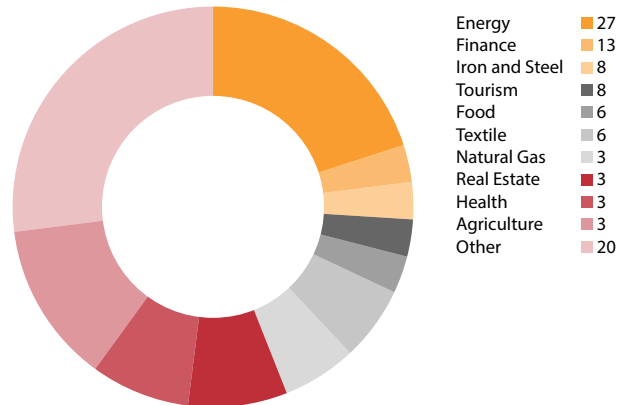
### In 2018, TSKB successfully completed 63 advisory projects.

TSKB completed 63 advisory projects in more than 20 sectors in 2018.

The number of projects increased by 65% compared to 2017 (2017: 38 projects). Using its competence to offer multidisciplinary services, TSKB is determined to improve its advisory services and present its know-how and experience to an increasing number of customers in the upcoming period.

As a Bank that solidifies its rooted experience and know-how with its economic research activities and transfers to the business world and the financial sector, will maintain and further diversify its support to sustainable and strong development.

## SECTORAL BREAKDOWN OF TSKB ADVISORY PROJECTS IN 2018 (%)





### **TSKB SIMULTANEOUSLY WORKS ON A MYRIAD OF STRATEGIC, IT AND PROCESS IMPROVEMENT PROJECTS.**

In 2018, TSKB delivered projects to improve customer satisfaction, service quality, process efficiency, corporate performance management and compliance within the framework of the goals stated in the 2018-2020 strategic plan as well as the enterprise architecture principles. Below are some highlights from such work.

- Process and infrastructure work to improve corporate performance management systems, process arrangements on rendering business continuity and emergency practices more efficient, and process and infrastructure work to monitor the contribution of lending projects to economic and social development were delivered.
- The Bank performed the required infrastructure work for dynamic reporting, data quality and a centralized representation of customer and group information.
- A project was conducted to restructure the consultancy operations by TSKB and its affiliates.
- TSKB contributed to the execution and coordination of the project on establishing a national rating agency which has been launched by TBB with TSKB being involved as consultant.
- The Bank also carried out studies to improve and diversify its competitiveness in line with its strategic direction.
- Regarding Information Technologies (IT), infrastructure and integration projects to support TSKB's business continuity, efficiency, security and growth objectives were implemented. Leading projects included, among others, the integration of test automation robot into Software Development processes, the establishment of network redundancy on secondary systems for business continuity, and the launch and development of DLP (Data Loss Prevention) solutions to manage sensitive and confidential information.

In line with its strategic plan, the Bank plans to deliver infrastructure work on the transformation of human resources, infrastructure improvements in parallel with the updating of collateral process, revision of TSKB's process management model, R&D work on digital solutions to boost the efficiency of business processes, and projects on extending data quality and dynamic reporting system as well as compliance.

TSKB also plans to conclude the coordination and supervision of consultancy work on the establishment of a national rating agency, assess and monitor the Bank's competitiveness as a whole together with its affiliates in line with the Bank's medium and long-term priorities and continue with the development and improvement work.

Planned work for IT infrastructure includes the improvement of banking applications in terms of speed, simplicity and user experience, the extension of the use of test robot, the launch of a data classification solution in order to improve the efficiency of DLP systems for information security, and the upgrades in Microsoft Windows server infrastructure.

*TSKB delivered projects to improve customer satisfaction, service quality, process efficiency, corporate performance management and compliance within the framework of the goals stated in the 2018-2020 strategic plan as well as the enterprise architecture principles.*



# 2018 FINANCIAL PERFORMANCE AND 2019 EXPECTATIONS

## ASSESSMENT ON FINANCIAL STANDING, PROFITABILITY AND SOLVENCY

The Bank focused on risk management, liquidity and strong capital and completed the year with a sound balance sheet growth in 2018, which was marked by uncertainties and financial fluctuations. Total assets grew by 32.5% year-on-year and reached TL 38,298 million (USD 7,458 million).

The Bank pursued a more selective approach in loan growth in 2018. Due to conjectural reasons, loan growth was below the target that was revised down to 0 - 2% on an FX-adjusted basis at the third quarter. Loan agreements worth USD 1.8 billion in total were signed, and new cash and non-cash loans totaling USD 2 billion were placed during the same period. As a result, total loan portfolio grew by 26.3% in 2018 on a TL basis under the impact of the fluctuations in FX rates while it declined by 3% on an FX-adjusted basis and stood at TL 28,226 million.

The loan-to-total assets ratio fell slightly year-on-year and stood at 73.7% at end-2018 (2017: 77.1%).

The breakdown of the loan portfolio in accordance with various FX types (including the FX-indexed loans) was in parallel with the secured loans which were recorded as liabilities. The FX loan breakdown indicated that 43% of loans are in EUR and 49% in USD. TL loans make up 8% of the Bank's portfolio. Furthermore, 75% of the loan portfolio is comprised of investment loans in line with the Bank's mission banking.

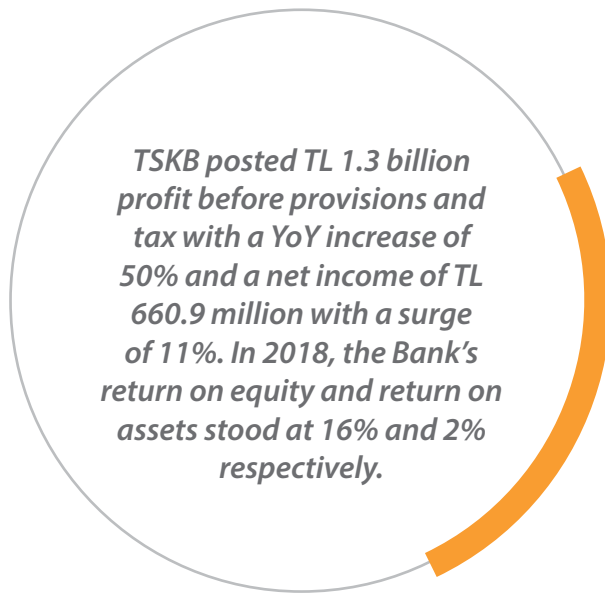
New lending in 2018 mainly focused on electricity generation and distribution investments, energy and resource efficiency, real estate, tourism and infrastructure investments, investments supporting women's employment, and funding work for investment and working capital needs of SMEs and medium-sized enterprises. A sectoral breakdown of loans indicates that 34% of loans are allocated to the electricity generation sector, followed by finance and logistics sectors with 11% and 10% respectively. The rest of the portfolio represents a balanced distribution among various sectors. Energy and resource efficiency projects have a share of 6% within the Bank's total loan portfolio.

The NPL ratio with fully covered for loan losses as per the provisions of TFRS9 to total gross loans stood at 2.1% in 2018 (2017: 0.2%). The nominal amount of NPLs was TL 592.4 million. It was essentially one single firm that caused an above-expectations NPL ratio in 2018. It is planned that routine monitoring of the firms in the loan portfolio which was intensified in 2018 as well as efforts to closely monitor and review all loan customers will be sustained in 2019. For 2019, it is not expected that there will be any firms the loans of which will evolve into NPLs with a serious impact on the Bank's loan portfolio, except for firms the loans of which will be restructured or are required to be rendered compliant with the repayment plans via a repayment plan amendment. The share of Tier II loans in the loan portfolio is 10.4% and it is not expected to go beyond that level. Non-cash loan portfolio increased by 23% year-on-year and reached TL 3,174 million. (2017: TL 2,574 million).

The securities portfolio had the second largest share in assets with 14.3%, after loans. The total size of securities rose by 20.5% year-on-year and reached TL 5,481 million. At year-end, 71% of the securities portfolio was comprised of TL securities. 69% of the securities portfolio was made up of securities available for sale and 31% was comprised of securities held to maturity. A comparison of year-beginning and year-end showed that the percentage of "Inflation-Indexed Securities" in the TL portfolio increased from 40% to 47%, while the weight of total "Floating Rate Securities" including CPI-linkers rose from 65% to 67%. In 2018, funding costs increased year-on-year, and the yield of the total TL portfolio stood at 20.6% including CPI-linkers. The duration of the portfolio, which is almost entirely funded by free equity, is 2.6 years.

Funds secured increased by an annual 26.2% to TL 23,576 million. Almost all of this amount consisted of FX funds secured from abroad. Medium and long-term loans constitute 93% of our funding structure. The long-term funds, secured from development finance institutions are used as funds in the loan portfolio on assets side and 83% of such funds are allocated under the guarantee of the Undersecretariat of Treasury of the Republic of Turkey. In 2018, the Bank successfully maintained relations with international financial institutions. In January, TSKB issued the first Eurobond of the year in the sector on international markets. The issuance was worth USD 350 million and had a maturity of 5 years. On June 7, 2018, TSKB signed the Inclusive Access to Finance Project Loan worth USD 400 million with the IBRD. In September, the Sustainable Energy and Infrastructure Loan Agreement worth USD 200 million was signed with the AIIB. The Bank's syndicated loan agreement worth USD 220 million in total was signed on July





3, 2018 and was participated by 15 foreign banks. Regarding the balance of assets and liabilities, our Bank is exposed to no interest mismatch and liquidity imbalances as the interest rate structure for borrowing and lending vary in terms of the balance of assets and liabilities, there exists an efficient assets and liabilities management and the maturity of funds is longer than that of lending. Loans extended and the funds used to extend those loans are denominated in the same currency, thus restricting the currency risk.

At 2018 year-end, the ratio of interest-earning assets to total assets was as high as 95%. Such a high ratio is a factor improving solvency. Furthermore, FX loans are entirely funded through long-term FX funds. The Bank has a long-term and sustainable funding structure as a result of its well-established and close relations with supranational financial institutions and it assumes an active role on international capital markets. This makes a positive impact on both profitability and solvency. Such impact is expected to continue in the upcoming period.

The Bank's equity grew by 33.5% year-on-year to reach TL 4,719 million, and its capital adequacy ratio (CAR) stood above the legally set level, at 16.2% on a solo basis and 16.0% on a consolidated basis (2017 solo CAR: 17.1%). Having a free capital of TL 3.3 billion, the Bank has a free capital-to-total assets ratio of 8.5% (2017: 10.1%). The free capital entirely consists of liquid assets.

Thanks to the contribution of CPI-Linkers and the maintained loan spread, the Bank's total net interest income rose by 68.7% year-on-year to reach TL 1,753.4 million. The Bank's adjusted net interest margin exceeded expectations and stood at 4.9% (NIM for 2017: 3.9%). For next year, a contraction in the net interest margin is forecasted due to an expected relative fall in the contribution of CPI-Linkers.

The total of the Bank's dividend income and other income grew by 186% year-on-year.

The total of the Bank's personnel costs and other operating expenses increased by 23% year-on-year. TSKB's cost-to-income ratio declined to 10.8% as of the end of 2018 owing to the lift in operating income (2017: 12.5%).

The Bank's donations and charity during the year amounted to TL 160,000 in total. The total expenses incurred for the social responsibility projects stood at TL 489,247.

TSKB posted TL 1.3 billion in profit before provisions and tax with an annual surge of 50% and a net income of TL 660.9 million which grew by 11%. In 2018, the Bank's return on equity and return on assets stood at 16% and 2% respectively.

The Bank's return on equity rises to 17.8% when the late increase in the market values of its publicly-listed affiliates included within equity is excluded (2017: 18.8%).



# 2018 FINANCIAL PERFORMANCE AND 2019 EXPECTATIONS

## FINANCIAL TARGETS

TSKB targets an FX-adjusted loan growth of 5% for 2019. In line with the present development finance loan agreements, the Bank plans to support renewable energy, women's employment, environment, occupational health and safety, energy and resource efficiency, and R&D investments as well as investments by firms delivering production for export purposes in a way to decrease the current account deficit and investments in priority development regions receiving an influx of refugees in 2019. As a result of such efforts, TSKB aims to keep its NPL ratio below 4% and expects to deliver a return on equity of about 14-15% and a net interest margin in the range of 3.5-3.8% in 2019. Furthermore, the Bank plans to complete 2019 with a capital adequacy ratio above 15%.

*TSKB targets an FX-adjusted loan growth of 5% for 2019.*

*The Bank plans to complete 2019 with a capital adequacy ratio above 15%.*

| Financial Expectations (Solo) (%) | 2018 Expectations | 2018 Performance |   |
|-----------------------------------|-------------------|------------------|---|
| FX-Adjusted Loan Growth           | ~2                | -3 *             | ■ |
| Loans/Assets Ratio                | ~77               | 74               | ■ |
| Net Interest Income Growth        | ~40               | 56               | ■ |
| Fees & Commissions Growth         | ~25               | 32               | ■ |
| OPEX Growth                       | ~25               | 23               | ■ |
| Net Interest Margin (adj.) **     | 4.1               | 4.9              | ■ |
| Return On Equity                  | ~17               | 16               | ■ |
| Return On Assets                  | ~2.0              | 2.0              | ■ |
| Cost-to-Income Ratio              | 11-12             | 10.8             | ■ |
| Capital Adequacy Ratio            | ~16               | 16.2             | ■ |
| NPL Ratio                         | <2.5              | 2.1              | ■ |
| Leverage Ratio (x)                | ~11.0x            | 8.1x             | ■ |

\* In parallel with the development in the sector

\*\* Adjusted for SWAP costs

In line ■ Below ■ Above ■

| Financial Expectations (Solo) (%) | 2019 Expectations |
|-----------------------------------|-------------------|
| FX-Adjusted Loan Growth           | ~5                |
| Loans/Assets Ratio                | ~75               |
| Loans/Long Term Funds Ratio *     | ~115              |
| Loans/Long Term Funds             | >35               |
| OPEX Growth                       | <25               |
| Net Interest Margin (adj.) **     | 3.5-3.8           |
| Return On Equity                  | 14-15             |
| Return On Assets                  | 1.5-1.7           |
| Cost-to-Income Ratio              | 13-14             |
| Capital Adequacy Ratio            | >15               |
| NPL Ratio                         | <4                |
| Cost of Risk                      | ~100 bps          |

\* Long-term funds do not include issued securities (Eurobond).

\*\* Adjusted for SWAP costs



**Bank's total market capitalization was TL 2.3 billion (USD 431 million), with a foreign ownership ratio of 52.8% in its free float.**

#### TSKB SHARE 2018 PERFORMANCE AND INVESTOR RELATIONS ACTIVITIES

Making a key contribution to the formation of capital markets in Turkey, TSKB shares were offered to public in 1986. TSKB shares are listed on BIST Stars under the ticker "TSKB". Furthermore, TSKB retains its position on BIST Corporate Governance Index, BIST Sustainability Index and FTSE4Good Emerging Markets Index. The free float ratio of TSKB is 38.6%.

Although the Borsa Istanbul stock market started the year with appreciation, because of the deteriorating global liquidity due to tightening steps of Federal Reserve (Fed) of the United States and slowing portfolio flows to emerging markets, it could not maintain this outlook. In addition to these developments, in the domestic markets elevated volatility in the exchange rates and the economic re-balancing becoming evident especially in the second half of the year had adverse impact on the stock market. In 2018, BIST-100 index declined 21% down to 91,270, while banking index ended the year with 31% decline at 117,737. Starting the year at TL 1.20 TSKB share price fell down 33% closing the year at TL 0.81 in line with the drops in BIST-100 and banking index.

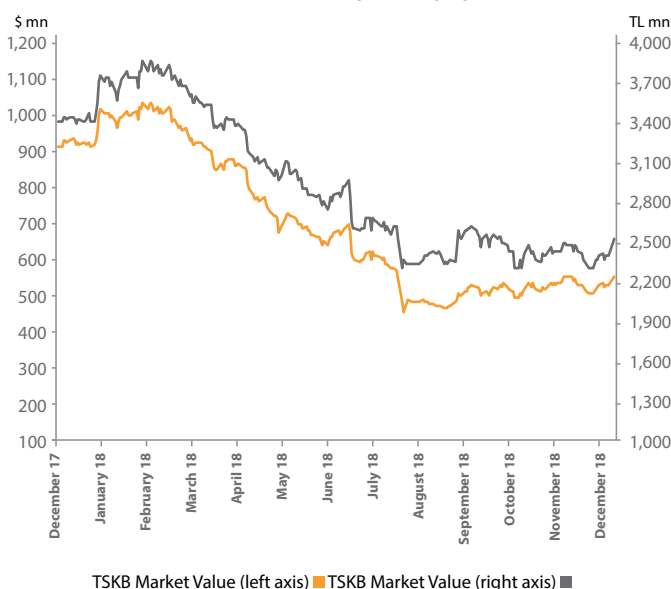
Average trading volume of TSKB shares was 26 million lots. Bank's total market capitalization was TL 2.3 billion (USD 431 million), with a foreign ownership ratio of 52.8% in its free float. As of year-end, its Price-to-Book Ratio was recorded at 0.58 and Price-to-Earnings ratio stood at 3.6.

At 2018 year-end, the number of brokerage houses covering and writing reports about the Bank was 16. In 2018, 64 investor relations meetings 18 of which was abroad were held. More than 25% of the investors contacted during the year were new. In 2018, in accordance with the market conditions, increasing the number of investor meetings is the targeted.

During the year, the established practice of holding teleconferences for analysts and investors every quarter following the announcement of financial results continued and their questions were replied in detail. The relevant records are available on the Bank's web site.

In 2019, the Bank will concentrate on the Investor Relations activities to expand the Bank's investor base in order to increase TSKB's market recognition and visibility.

#### TSKB MARKET CAPITALIZATION (annual,%)



|                                    | 2016    | 2017    | 2018    |
|------------------------------------|---------|---------|---------|
| TSKB Closing Share Price (TL)      | 0.98    | 1.20    | 0.81    |
| Change (%) **                      | 10.7    | 23.0    | -32.7   |
| BIST Banking Index                 | 129,549 | 171,378 | 117,737 |
| Change (%) **                      | 8.0     | 32.3    | -31.3   |
| BIST 100 Index                     | 78,139  | 115,333 | 91,270  |
| Change (%) **                      | 8.9     | 47.6    | -20.9   |
| Relative to BIST Banking Index (%) | 2.4     | -7.1    | -2.0    |
| Relative to BIST 100 Index (%)     | 1.6     | -16.7   | -14.9   |

Source: Finnet

\* Retrospective closing prices are adjusted in line with the cash dividends and capital increase through bonus issues after the relevant dates

\*\* Year-to-date change



# DELIVERING EXPERTISE AND EXPERIENCE

## A TSKB CLASSIC: ECONOMIC RESEARCH

The experienced and specialized Economic Research team at TSKB showcases its expertise in industry, the economy and capital markets in the reports it publishes well as presentations for internal and external needs.

TSKB Economic Research means umbrella brand in the Bank's main working fields.



## TSKB Economic Research Publications in 2018

|  | Number of Issues |
|--|------------------|
| <b>TSKB Daily Bulletin</b><br>Daily brief analysis on political/economic developments in the agenda and sector newsflow  | 250              |
| <b>Macro View</b><br>Research on macro economic data and economic calendar   | 102              |
| <b>Sector Overview</b><br>Studies on the outlook of main sectors   | 14               |
| <b>Weekly Energy Bulletin</b><br>Weekly developments in the energy sector  | 18               |
| <b>Monthly Energy Bulletin</b><br>Monthly developments in the energy sector (Turkish and English)  | 7                |
| <b>Initial public offering valuation reports review</b><br>Initial public offering reports review  | 5                |
| <b>TSKB Look</b><br>Analysis focused on macro, industry and development<br>Theme Look (Turkish and English)  | 2<br>4           |
| <b>TSKB Commentary</b><br>Brief analysis on a wide range of topics from financial markets to development economics on a technical basis  | 2                |
| <b>Month Ahead</b><br>Leading data on the economic calendar of the new month, analysis on the heading economic events in Turkey and in the World, studies on development economics | 12               |
| <b>Total</b>   | <b>416</b>       |



**TSKB Economic Research is like an umbrella brand incorporating Bank's main working fields.**

**TSKB Economic Research publications, in addition to supporting the Bank's resource, loan, consultancy, treasury, marketing and promotion activities, play a role as a precious tool on a knowledge sharing platform with sector and company representatives.**

**TSKB Economic Research issued over 420 reports in 2018.**

TSKB Gündem including daily brief analysis on political/economic developments in the agenda and sector newsflow, Macro View including research on macro economic data and economic calendar, New Month including leading data on the economic calendar of the new month, analysis on the heading economic events in Turkey and in the World and studies on development economics are among the periodicals of TSKB Economic Research.

Weekly and monthly Energy Bulletin shares analysis and developments in the energy sector. Monthly Energy Bulletin is published in both Turkish and English. Economic Research also publishes TSKB Look including analysis focused on macro, industry and development, Theme Look composed of themes pointing to potential topics in parallel with the Bank's mid and long-term strategy and TSKB A Reading including a brief analysis on a wide range of topics from financial markets to development economics on a technical basis.

**TSKB Economic Research 2018 Themes**

- Participation of Women in Labor Force
- Supply Chain in Agricultural Goods and Food
- Participation of the Youth in Labor Force
- Employment Prioritized Regions
- Renewable Energy
- Energy Efficiency
- Recycling
- Sustainable Tourism
- Water Safety





## DELIVERING EXPERTISE AND EXPERIENCE

The sectoral overview publications prepared by TSKB Economic Research as well as Financial Analysis and Assessment departments contain evaluations shedding light on a rich array of sectors.

### TSKB Economic Research Sectoral View Series

- Automotive Industry and Sub-Industry
- White Goods Industry
- Textile and Clothing
- Construction, Cement and Ceramics
- Iron & Steel
- Machinery
- Freight Shipment and Ports
- Chemistry and Plastics
- Information and Communication Technologies
- Education
- Healthcare Services, Medical Devices and Pharmaceuticals
- Energy
- Tourism
- Agricultural Production and Food&Beverages





## TSKB Blog fostered by the Bank's 68-year know-how and experience delivers editorials, articles on economic and sectoral developments.

TSKB Economic Research develops cooperation with universities, think-tanks, foreign missions and policy makers and regularly visits and exchanges opinions with public institutions. To that end, TSKB is involved in the working groups for Specialization Commissions, which are planned to present input into the 11<sup>th</sup> Development Plan in 2018.

### Representation In Special Expertise Commissions

- Prioritizing Public Sector Investments
- Growth Dynamics
- Combat with Inflation
- Logistic Services
- Role of Women in Development
- Energy Supply Safety and Efficiency
- Competitive Production in Agriculture and Food
- Industrial Production Policies
- Automotive Industry

### TSKB BLOG

#### In 2018, the world of economy and business has met with a new source of information.

At TSKB Blog, TSKB has provided a wide range of stakeholders including chiefly the business world and future managers with access to its know-how and experience in various fields such as economy, development, sectors, sustainability and inclusiveness.

TSKB Blog offers articles on international trends such as digital transformation, Industry 4.0 and low-carbon economy as well as the economic and financial agenda. The Blog aims to keep the pulse of the development agenda and highlights the rapid transformation in various industries.

TSKB Blog is fostered by TSKB's 68-year know-how and experience. The Blog delivers editorials on economic and sectoral developments and offers new articles and current themes to its followers on a weekly basis. Contents at TSKB Blog are also realized simultaneously on TSKB's social media accounts. Articles on TSKB Blog are written by a team of about 20 specialists from fields such as development, sustainability, engineering, technology, energy and tourism.

In 2018, more than 70 articles on various agenda items are published at TSKB Blog



In order to access TSKB Blog:  
TSKB Blog: [www.tskb.com.tr](http://www.tskb.com.tr)  
TSKB Twitter: [https://twitter.com/tskb\\_turkey](https://twitter.com/tskb_turkey)  
TSKB LinkedIn: <https://tr.linkedin.com/company/tskb>

## EKONOMİ DÜNYASININ YENİ BİLGİ KAYNAĞI

# #TSKBBLOG



Kalkınma gündemi, sektörlerin dönüşümü, endüstri 4.0, düşük karbonlu ekonomi, sürdürülebilir büyüme, kapsayıcılık, global trendler...

İş dünyasını ve yatırım kararlarını etkileyen gelişmeleri nasıl daha doğru yorumlayabiliriz?

Cevabı TSKB'nin uzman bankacılık perspektifiyle #TSKBBlog'da.

[www.tskb.com.tr](http://www.tskb.com.tr) Kurumsal Bankacılık | Yatırım Bankacılığı | Danışmanlık



**TSKB**  
Türkiye Sınai Kalkınma Bankası



# DELIVERING EXPERTISE AND EXPERIENCE

## **TSKB actively employs sectoral events as a means to reinforce stakeholder communication.**

Sectoral events play a key role for TSKB to access a broad stakeholder basis and share its own experience. During such events, TSKB enhances its dialogue with stakeholders and significantly raises the awareness level of participants with respect to sustainability.

In 2018, TSKB was involved in many events either as an attendee or a sponsor besides hosting various events throughout the year. During such events, TSKB officials delivered presentations or speeches on sustainability, R&D and innovation, energy efficiency and women's employment.

TSKB's relevant activities on the matter are not only limited to Turkey. TSKB employees share the Bank's expertise on the international arena as speakers at capacity building trainings and global summits.

## **Organizations arranged by TSKB**

- "Women Employment and Beyond in Private Sector Conference" with AFD
- Future Outlook with TSKB: R&D and Innovation
- International Development Finance Club (IDFC) Sherpa Meeting
- Mother Child Education Foundation (AÇEV) Awareness Raising Seminars on Gender

## **Organizations sponsored by TSKB**

- 10<sup>th</sup> Energy Efficiency Forum and Fair
- 5<sup>th</sup> Istanbul Carbon Summit
- 7<sup>th</sup> Istanbul Finance Summit
- Forum İstanbul
- Turkish Capital Markets Summit
- CampusWIN Orientation Weekend
- Istanbul Music Festival "Women Stars of Tomorrow Concert"

## **Organizations hosted by TSKB**

- Global Compact Turkey Gender Equality Workshop
- ÇEVKO Foundation Workshop
- Corporate Governance Association of Turkey (TKYD) Annual Meeting
- Launch of WBCSD Turkey Circular Economy Working Group "Waste to Wealth" Book

## **INTERNATIONAL INITIATIVES**

- CDP - Carbon Disclosure Project
- WDP - Water Disclosure Project
- Universal Declaration of Human Rights by the UN
- GRI - Global Reporting Initiative
- UNEP FI - UN Environment Programme Finance Initiative
- UN Global Compact
- ADFIMI - Association of National Development Finance Institutions in Member Countries of the Islamic Development Bank
- IIF - Institute Of International Finance
- ICC - International Chamber Of Commerce
- LTIC - Long-Term Investors Club
- IDFC - International Development Finance Club
- ELTI - European Long-Term Investors Association

## **NATIONAL INITIATIVES**

- TBB - Banks Association of Turkey
- TKYD - Corporate Governance Association of Turkey
- TSPAKB - Association of Capital Market Intermediary Institutions of Turkey
- DEİK - Foreign Economic Relations Board and Business Association
- GRF - Global Relations Forum
- WBCSD Turkey - Business Council for Sustainable Development
- IKSİ - Istanbul Foundation for Culture and Arts
- Association of Money Managers
- Association of Risk Managers
- ERTA - Integrated Reporting Network Turkey



## LIBRARY

TSKB Library has been serving society since 1971 with an archive of almost 13,000 books and electronic database subscriptions. As a specialty library, it provides its users - specifically university students and academics - with sector-specific reports and research results of the Bank as well as national and international literature.

## MEMBERSHIPS AND WORKING GROUPS

TSKB is a member to national and international associations and initiatives operating in areas relevant to the Bank's strategy, operations and goals. The Bank assumes active roles under such memberships and shares its experience as well as maintaining a close contact and cooperating with many organizations.

### Contribution to Turkey and the TSKB brand

TSKB's involvement in national and international initiatives contributes to not only the Bank's brand value but also to Turkey. Work performed under memberships contributes positively to TSKB's corporate image and promotion and supports the building of internal capacity and raising awareness. Such memberships present the opportunity to establish communication and relations with stakeholders from a diverse range of geographical locations and cultures and contributes to the promotion of Turkey on various platforms when it is the first time such events are attended by a Turkish party, thus raising Turkey's reputation in such fields.


TSKB chairs some working groups or assumes similar key roles in organizations it is a member to. The Bank chaired the following working groups in 2018:

- Gender Equality Working Group of the International Development Finance Club (IDFC) in Istanbul
- Women's Employment and Equal Opportunities Working Group of BCSD Turkey

In addition, the Bank is also a part of NGO working groups to reify its support and contribution. The Bank helps draft reports and declarations and organize events at such working groups and may act as a sponsor in certain projects. During the reporting period, TSKB assumed active roles in the following working groups.

BCSD Turkey's Working Groups on Sustainable Finance, Energy, Circular Economy

- Training Working Group of the Integrated Reporting Turkey Network (ERTA)
- United Nations Global Impact Working Groups on Sustainable Banking and Finance, Women's Employment and Equal Opportunities



*The motto for the meetings is "A Prospective Glance with TSKB". They serve to identify customer needs at first place and share information on TSKB's new products and services.*

- Turkish Industry and Business Association's (TÜSİAD) working groups on Banking, Economic Analysis, Capital Markets, Tax, Industrial Transformation, Health, Tourism, Environment and Climate Change, Energy, Food, Beverages and Agriculture, Gender Equality, Foreign Trade
- Membership to Energy Business Council of the Foreign Economic Relations Board (DEİK)

## COOPERATION WITH PUBLIC INSTITUTIONS

Through its good relations with policy makers and public institutions and its power to hazard independent opinions, TSKB;

- contributes to the country's economy and development
- creates diversity of funds for economic development
- hazards independent opinions from private to public sector
- serves as a bridge between private sector and public sector
- contributes to the development of the market / legislation work
- makes room for reputation, truth and promotion.

## MARKETING COMMUNICATION MEETINGS

Marketing Communication Meetings have been held since 2017 and add a new dimension and enrich the platforms on which TSKB meets its customers. The motto for the meetings is "A Prospective Glance with TSKB". They serve to identify customer needs at first place and share information on TSKB's new products and services. TSKB's analysis and presentations on various sectors are shared during these meetings. In addition, opinion leaders are invited as guests and get involved in vision and trend talks.



# GROUP COMPANIES

## AFFILIATES ADDING INTEGRITY, SIZE AND DEPTH TO CUSTOMER EXPERIENCE

TSKB has subsidiaries operating in various sectors and it also holds shares in various companies under İşbank Group. Through their actual business volumes, cross-cooperation opportunities and competences, the Bank's subsidiaries make concrete contributions to the process of creating permanent value for TSKB's stakeholders.

TSKB operates within a holistic structure with its subsidiaries that complements and supports its operations. The Bank acts in synergistic cooperation with Yatırım Finansman Menkul Değerler A.Ş., TSKB Gayrimenkul Değerleme A.Ş. and TSKB Sürdürülebilirlik Danışmanlığı A.Ş. (Escarus) in terms of creating cross-selling opportunities and delivering successful investment banking and consultancy projects.





**TSKB's products and services are a synthesis of its competences and experience, that have been all developed in 68 years in line with its mission.**

## **YATIRIM FINANSMAN**

### **Turkey's first capital markets institution**

Acting in coordination with TSKB in a variety of investment banking projects Yatırım Finansman Menkul Değerler A.Ş. (Yatırım Finansman) is Turkey's first capital markets institution. The company was founded on October 15, 1976 by 13 major banks led by İşbank and the Industrial Development Bank of Turkey (TSKB).

Earning a reputable place in capital markets thanks to the rapid and stable progress it attained since the day it was founded; Yatırım Finansman is one of the leading players in the market and emerges as a symbol of trust.

### **Valuable product range offered with the support of strong and widespread service network**

Being one of the essential institutions of Turkey, Yatırım Finansman offers (domestic and international individual and corporate investors) high quality, reliable and rapid services to access capital markets through its robust and widespread network of branches around the country, and its online and mobile applications. Yatırım Finansman uses its know-how, experience and specialization distilled from its over 42-year history as well as its strong capital structure to create added value for its customers.

Trading safely without brokerage in domestic and/or international markets timeless and locationless via desktops, laptops and smart electronic vehicles, investors add value to their savings with YFTRADE, YFTRADEMOBILE, YFTRADEINT, which were commissioned by Yatırım Finansman.

Yatırım Finansman operates in a strong synergy with group companies mainly with TSKB. Having initiative projects in investment banking, the company continues to provide its customers with the most convenient financial instruments and add value to their investments thanks to its employees who utilize their knowledge, experience and competences to the best of their abilities.

### **Discriminating service provider in the sector**

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

TSKB holds 95.8% of the shares in Yatırım Finansman, which has 10 service points in major cities of Turkey. In 2018, Yatırım Finansman has an equity worth TL 100.3 million and total customer assets over TL 3.9 billion, making it a leading investment institution and raising the service bar high above.

### **A goal to earn a place among the top 7 brokerage houses**

The main goal for Yatırım Finansman in 2019 is to increase its profitability and market share in the sector through its experience from its long history as well as its advanced technological base and strong team and to earn a place among the top 7 brokerage houses in terms of transaction volume rankings in Equity Market and Derivatives Market.

### **A be to the recognition of the sector in Turkey**

Yatırım Finansman, the founder of the sector, organizes activities for university students and meets other students who are interested in the sector in order to contribute to the recognition of capital markets. In the upcoming period, the company will continue to organize these activities and utilize online channels to deliver sector-based technical trainings to contribute to the improvement of the financial literacy among university students.

For 2019, Yatırım Finansman plans to continue holding seminars in various regions of Turkey to contribute to improving the recognition of capital markets and to financial literacy under a mission delegated by the fact that it is the first brokerage house in Turkey.

Leading its sector thanks to its technological infrastructure and innovation in mobile applications, Yatırım Finansman will continue to invest in its technological infrastructure and online platforms to provide the most optimal response to its customers' needs through new products and services in 2019.





## GROUP COMPANIES

### TSKB GAYRİMENKUL DEĞERLEME

#### Targeting to be the leader and reference point in appraisal and consultancy services

TSKB Gayrimenkul Değerleme A.Ş. (TSKB Real Estate Appraisal) was established in 2002 to deliver real estate appraisal services.

TSKB Real Estate Appraisal provides independent and impartial services at international standards on valuation, consultancy, valuation of machinery and equipment, most efficient and best use analysis, feasibility analysis, market research and sectoral analysis, tender consultancy and process management, urban transformation consultancy, construction progress and investment monitoring consultancy, concept development consultancy, review of valuation reports and green valuation. The company observes the principle of confidentiality in its operations.

#### Appraisal and consultancy perfection from end to end

TSKB Real Estate Appraisal represents deep rooted know-how and expertise in the valuation and appraisal industry and offers consultancy services in all phases of projects starting from planning via its appraisal experts in its 8 branches across Turkey.

Chartered appraisal experts, mostly CMB-accredited, working at TSKB Real Estate Appraisal determine the market value of a wide range of property including but not limited to land, business centers, factories, shopping malls, hotels, logistics plants and seaports. As of 2018 year-end, the number of reports issued by the company in the last five years, reached almost 150,000.

#### Rewarded for strong performance

In 2015, TSKB Gayrimenkul Değerleme A.Ş. was given the "Best Real Estate Appraisal Company in Turkey" award under "Consultancy" category by the UK's Euromoney.

The company was further awarded by Euromoney as the "Best Real Estate Consultant in Turkey" and the "Best Real Estate Appraisal Company in Turkey" under the "Real Estate Consultancy" category in 2008 and 2014 while it was awarded as the "Best Real Estate Consultant in Turkey" in 2005.

#### An efficient organizational structure

TSKB Real Estate Appraisal has two main departments for valuation services, namely "Security Valuation" and "Special Projects". Considering the importance of appraising the "accurate value" in real estate-based loan collateralization, Security Valuation Department was established in 2010 and mainly works with the financial institutions. Special Projects Department, on the other hand, provides services on special-purpose valuation requests such as domestic and international project valuation, feasibility, most efficient and best use survey, project goodwill, machinery and equipment park valuation, tender consultancy and sectoral research.

The company's international appraisal services are carried out by Special Projects Department. TSKB Real Estate Appraisal realized appraisal studies in 16 different countries.

#### Operates with three different licenses

In addition to CMB and BRSA licenses, the company obtained the RICS license granted by the Royal Institution of Chartered Surveyors offering international service guarantee and emerged as a leading company in Turkey that delivers services with three licenses.

With its staff holding MRICS, Appraisal Institute, LEED Green Associate certificates, TSKB Real Estate Appraisal have the highest number of international licenses in Turkey in relation to appraisal and consultancy services.

TSKB Real Estate Appraisal is the first real estate appraisal company in Turkey to obtain the ISO 9001:2008 Quality Certificate granted by BSI Eurasia Yönetim Sistemleri Belgelendirme Ltd. Şti., a UK certification company. The company completed its transition to ISO 9001:2015 Quality Certificate System.



Through their operations and business volumes, cross-sell opportunities and competences, the Bank's subsidiaries make concrete contributions to the process of creating permanent value for TSKB's stakeholders.

#### Well-established targets within the triangle of past, present and future

TSKB Real Estate Appraisal composes its future strategies and determines actions according to its corporate mission in the framework of its 3-year strategic plan.

In 2018, industrial indicators pointed to limited growth in the construction sector due to a slowdown in mortgaged home sales led by the adverse impact of rising housing loan interest rates. TSKB Real Estate Appraisal diversified its service range to the new services on regulations on the citizenship of the foreigners and construction peace and adopting an active marketing strategy the company maintained the sustainable growth targets of the Special Projects Department and posted 71% growth in the last three years. In addition, all permanent appraisers and representatives serving at the Collateral Valuation Department obtained a CMB license under the BRSA legislation.

In 2019, keeping the corporate image of the brand and strength, TSKB Real Estate Appraisal targets to touch more customers and extend customer base with higher quality and comprehensive reports issuance.



#### TSKB GYO

##### A company aiming to create an efficient real estate portfolio

Established in 2006, TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. (TSKB GYO, TSKB REIT) is a real estate company that aims to establish and develop an efficient real estate portfolio.

TSKB has a participation share of 85.86% at TSKB REIT, which is powered by the Bank's 68-year corporate know-how and experience. As a capital market institution, TSKB REIT can invest in

- real estate, real estate projects, real estate rights and capital market instruments,
- establish ordinary partnerships to realize certain projects,
- and deliver other operations allowed by the relevant communiqué of the Capital Markets Board (CMB) of Turkey.

##### A balanced investment strategy

The core values of TSKB REIT are consistency, transparency, quality, social responsibility, customer orientation and teamwork. Its investment strategy is based on growth through project development, sustainability and risk management. The Company is established with an initial capital of TL 10 million. The capital is increased to TL 300 million after the capital increase in the fourth quarter of 2018. As of 31 December, TSKB REIT's asset size reached TL 509 million and the leasable area it manages stood at 66,000 m<sup>2</sup>.

#### REAL ESTATE INVESTMENTS OF TSKB REIT (%)



Breakdown of TSKB REIT's real estate investments based on appraisal values

|                  |    |
|------------------|----|
| Office Buildings | 55 |
| Shopping Centers | 32 |
| Hotels           | 13 |



## GROUP COMPANIES

At 2018 year-end, TSKB REIT's real estate portfolio included the following:

- Pendorya Shopping Mall, which is located at Pendik, Istanbul on E-5 Road, was inaugurated on December 17, 2009 and has an indoor area and leasable area of 80,648 m<sup>2</sup> and 30,573 m<sup>2</sup> respectively,
- Two office buildings located in Fındıklı, Istanbul with a total indoor area of 17,827 m<sup>2</sup>,
- Tahir Han in Karaköy, Istanbul,
- Half of the shares of Divan Adana Hotel, which is located in Adana city center and was commissioned in September 2015, as well as of its independent units.

### TSKB REIT and capital markets

TSKB REIT is subject to the capital market legislation, and its goals include, among others, contributing to real estate investments so as to ensure they secure a place in capital markets as a liquid and sound investment alternative. TSKB REIT shares have been traded on Borsa Istanbul's Collective and Structured Products Market under the symbol 'TSGYO' since April 2010.

### A goal to improve profitability

In line with its investment strategy to increase current lease revenues and diversify portfolio, TSKB REIT will sustain efforts to increase lease revenues from Pendorya Shopping Mall in 2019. In a similar vein, the Company aims to use its competitive edge in the region where Divan Adana Hotel is located and increase its profitability.



## ESCARUS

### Leading consultancy company in Turkey's sustainable development

As a leading consultancy company in sustainable development, TSKB Sustainability Consultancy – Escarus, which was established in 2011, provides project-oriented consultancy services built on multi-discipline expertise, experience and know-how of TSKB.

Aiming to be the leader and major contributor in Turkey's sustainable development, Escarus carries out its operations under four main lines:

- Operational Sustainability
- Strategic Sustainability
- Sustainable Finance
- Research, Reporting and Education

Accomplishing innovative projects with its expert staff, Escarus designs and realizes value-added consultancy services in the area of energy, operational efficiency, environmental & social evaluation, technical due diligence, management systems, climate change and sustainable finance.

### Escarus' brand value grew stronger in 2018.

Escarus' brand value grew stronger in 2018. Escarus has started 19 new projects in addition to expand the number of operational areas by adding new international markets as well as Turkey. Escarus so far has delivered various projects in Qatar, Senegal and Cameroon, making significant contribution to service export targets of Turkey.

In 2018, Escarus established contact with 27 public agencies, 9 universities, 36 foreign organizations, 9 international organizations, 30 local organizations and institutions as consultant or a solution partner that have risen its inclusiveness, high reputation and brand value in consultancy services.

### One of the few consulting bodies in green SRI Bond/Sukuk framework consultancy

Escarus offered framework consultancy services for green SRI Bond/Sukuk issuance transactions as an 'outstanding consultant'.

As the first member to the International Capital Markets Association (ICMA)-Green Bond Principles (GBP) from Turkey, Escarus is a global consultancy firm offering second party opinion services for green bonds in alignment with the GBP principles.



**TSKB operates with a holistic perspective through its subsidiaries which complement and support the Bank's operations.**

#### Multiple projects from various disciplines

Successfully accomplished many projects in various sectors and disciplines, Escarus has made up a strong consultancy team that has successfully completed many reference projects including feasibility studies & project planning for investment projects, evaluating & monitoring feasibility studies (technical and financial) for export loans and technical due diligence & monitoring studies.

Furthermore, in 2018, the company focused on capacity building work for sustainable agriculture, rural development, migration, SME development, financing climate change & adaptation to climate change, value chain analysis and social impact.

#### Collaborative Focus and Approach

In 2018, Escarus was represented in many events either as a speaker or as an organizer, never losing focus on sharing information and thus receiving frequent mentions throughout the year. Escarus managers and specialists attended many events as speakers including part-time lectures at universities and opening a new service area in thematic training for the finance sector.

Sectoral sustainability round-table meetings organized together with Dünya Newspaper continued in 2018. Sustainability Round-table Meetings were held in finance, food & agriculture as well as waste economy themes under senior management attendance. Additionally, Sustainability Workshop which is organized yearly in cooperation with TSKB was held at İTÜ in 2018 and attracted high attendance.

#### Sustainable Finance Outlook

In the last quarter of 2018, Escarus shared the first edition of Sustainable Finance Outlook annual report with its stakeholders. The report is available for public access on Escarus web site. The content of the report offers the business world an update and interpretation on both global and national developments in the area of sustainable finance.

#### Escarus in 2019

In line with its 2019 goals, Escarus aims to reinforce its position as a consultancy firm with a national and global presence by responding to the needs of public and private sector parties domestically and internationally, sharing technical and financial know-how with organizations which use foreign funds in order for them to get the maximum value and increasing service export of Turkey to nearby geographical regions.

Escarus plans to develop new service models to allow the Turkish business world to be more efficient by having management and technical consultancy services under the theme 'Sustainability Consultancy'. Considering the current conjuncture and projections, it is estimated that Escarus will deliver multiple new projects on strategic issues towards the senior management of organizations and offers consultancy services in technical areas benchmarking, resource efficiency and process improvement.



#### TSKB'S SUBSIDIARIES WITHIN İŞBANK GROUP

| Company                                     | Sector  | Capital (TL million) | TSKB's Share (%) | Web Site            |
|---|---------|----------------------|------------------|---------------------|
| İş Finansal Kiralama A.Ş.                   | Finance | 695.3                | 29.46            | www.isleasing.com   |
| İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. | Finance | 74.7                 | 16.67            | www.isgirisim.com   |
| İş Faktoring A.Ş.                           | Finance | 63.5                 | 21.75            | www.isfactoring.com |



# INCLUSIVE AND SUSTAINABLE DEVELOPMENT

## TSKB IS THE LEADER FOR SUSTAINABLE BANKING IN TURKEY.

In early 2000s, the concept of sustainable banking has gained more importance and become an essential agenda item in the finance world. TSKB has a corporate history decorated with firsts and leadership. The Bank has also assumed lead in sustainable banking and focused on banking practices that aim to protect and improve the natural capital.

At 2018 year-end, 73% of TSKB's total loan portfolio is comprised of sustainability loans. Using these loans as leverage, the Bank makes an inclusive and sustainable contribution to development. The weight of TSKB's sustainability funds are mostly comprised of loans exclusively extended for renewable energy, energy and resource efficiency and environment investments.

## TSKB LEADS THE FINANCING OF RENEWABLE ENERGY PROJECTS.

Since mid-2000s, TSKB has been supporting the structuring of Turkish renewable energy sector via the funding and consultancy services it provides.

Since 2002, the Bank has focused on the financing of renewable energy projects. Today, the Bank serves the transition of Turkey from the current fossil fuel-based electricity generation systems to clean and renewable energy resources.

TSKB is among the banks funding the highest number of renewable energy projects in the Turkish banking sector. As of 2018 year end, the Bank has 290 renewable energy projects it funded. TSKB has contributed to the mitigation of Turkey's total annual carbon emissions by about 10 million tons through these projects.

In 2019, clean and renewable energy projects will continue to be on TSKB's agenda. In the upcoming period, the Bank will continue funding renewable energy projects as well as projects to combat climate change and shift to low carbon economy.

## POWER TO CREATE MULTIDIMENSIONAL BENEFITS

Through the energy projects, the Bank contributes to developing energy/resource saving practices, ensuring energy diversity and reducing emissions.

A contribution is made to eliminating the bottleneck in energy, supporting the reduction of current account deficit and ensuring a safe energy supply, all simultaneously. TSKB is a leading bank specialized in energy and resource efficiency, and aims to maintain its role in this field. In addition to renewable energy, energy and resource efficiency funding, TSKB's sustainability funds within its loan portfolio are gradually enhanced in years through funding models for sustainable tourism investments, women's employment and occupational health and safety.

For the sake of the development of Turkish economy, TSKB considers exports a major point that deserves handling under sustainability and thus transfers funds to exporting companies in two distinct channels. The Bank not only provides direct funds to but also supports SMEs and exporting companies via the "APEX" loans, a financing model in which such companies are funded through commercial banks, participation banks, leasing companies and factoring companies.

TSKB gives weight to environment and sustainability themes in funding. In line with its mission to create value for the inclusive and sustainable development of Turkey, the Bank meets medium and long-term funding needs in the projects it finances

- via funds it secures from national, regional and supranational financial institutions and
- debt instruments it issues on international capital markets.



**TSKB's 73% of total loan portfolio is sustainability-themed. With these loans the Bank contributes to inclusive and sustainable development of Turkey.**

### TSKB'S SUSTAINABLE FINANCE THEMES

|   |
|---|
| Renewable energy                        |
| Energy efficiency                       |
| Resource efficiency                     |
| Environment                             |
| Infrastructure                          |
| Women's employment                      |
| Occupational health and safety          |
| Supporting priority development regions |
| Adaptation to climate change            |
| SME financing                           |
| Supporting exporter companies           |
| Green building                          |
| R&D and innovation                      |
| Sustainable tourism                     |
| Health and education                    |

### IN 2018, TSKB SECURED NEW SUSTAINABILITY FUNDS TOTALING USD 600 MILLION FROM DEVELOPMENT FINANCE INSTITUTIONS.

TSKB has long-term, well-established relations with development finance institutions which are among its international fund providers. To that end, the Bank signed two major loan agreements, one with the World Bank and the other with the Asian Infrastructure Development Bank. Serving to TSKB's priority for inclusive and sustainable development, the two loans are secured under the repayment guarantee by the Turkish Ministry of Treasury and Finance.

### ENVIRONMENTAL BENEFITS FROM LENDING OPERATIONS

For TSKB, the environmental benefits from lending operations are equally as important as the economic benefit obtained. Evaluating the projects it assumes within ERET Environmental and Social Risk Evaluation Tool through an approach based on independent and objective criteria irrespective of the investment amount, TSKB closely monitors and reports the environmental impacts from the financing of projects.

To that end, it requests from the project sponsor in medium and high-risk cases to take measures to eliminate potential negative arising from the investment.



*TSKB closely  
monitors and  
reports the  
environmental  
impacts from  
the financing of  
projects.*



# INCLUSIVE AND SUSTAINABLE DEVELOPMENT

## SUSTAINABLE FINANCE - MAIN INDICATORS

### TSKB's Renewable Energy Portfolio in Figures

|   |            |
|---|------------|
| Renewable energy projects (number)  | 290        |
| Total installed capacity funded (MW)  | 6,066      |
| Share in Turkey's renewable energy capacity                                   | 14%        |
| Financing commitment (USD billion)  | 4.4        |
| Contribution to CO <sub>2</sub> emission reduction (t CO <sub>2</sub> e/year) | 10 million |
| Share of electricity generation in loan portfolio                             | 34%        |

### Renewable Energy Projects Funded in 2018

|   |             |
|---|-------------|
| No. of Projects   | 66          |
| Installed capacity  | 408         |
| Electricity generation quantity (MWh/year)                                    | 1.1 million |
| Contribution to CO <sub>2</sub> emission reduction (t CO <sub>2</sub> e/year) | 769,000     |

### Resource Efficiency Projects

|   |              |
|---|--------------|
| Raw material savings (ton/year)   | 14.5 million |
| Water savings (m <sup>3</sup> /year)  | 1.2 million  |
| Waste savings (ton/year)  | 15,530.00    |
| Energy savings (kcal/year)  | 4.7 billion  |
| Contribution to CO <sub>2</sub> emission reduction (t CO <sub>2</sub> e/year) | 2.37 million |

### Energy Efficiency Projects

|  |              |
|--|--------------|
| Energy savings (kcal/year)   | 1.51 billion |
| Contribution to CO <sub>2</sub> emission reduction (t CO <sub>2</sub> e/year)                                    | 842,000      |
| Contribution to CO <sub>2</sub> emission reduction through sustainability investments (t CO <sub>2</sub> e/year) | 13 million   |

## TSKB INFORMS ITS INVESTORS SYSTEMATICALLY THROUGH ALLOCATION AND IMPACT REPORTS.

TSKB employs exclusive financing products for sustainable banking. Two products the Bank uses to that end are the Green/SRI Bond it issued in 2016 and the Subordinated Sustainable Bond it issued in 2017.

Through the two bonds TSKB issued, it aimed to finance investments to mitigate climate change impacts as well as climate change adaptation investments and sustainable infrastructure investments in addition to ensuring social development.

TSKB drafts an independently-audited Allocation and Impact Report for exclusive financing products and annually shares with investors the impacts of the investments funded. TSKB published its first Allocation and Impact Report in 2017. The 2017 Report is the first Allocation and Impact Report published in Turkey.



TSKB closely monitors and reports the environmental impacts from the financing of projects.  
<http://www.tskb.com.tr/en/financial-institutions/publications>

The 2018 Allocation and Impact Report was evaluated by Sustainalytics, an organization evaluating TSKB's sustainability practices and bond structure in bond issuance processes and provides investors with second-party opinions. The report contains their opinions as well. In addition, the 2018 Allocation and Impact Report received a third-party assurance letter from Ernst&Young consultancy firm as a result of due diligence.

## TSKB REVISES THE PROCESS AND METHODOLOGY OF MEASURING THE SOCIAL IMPACTS IT MAKES THROUGH LOANS, CONSIDERING THE EXISTING CONDITIONS

Teams formed at TSKB run the efforts to report the economic and social benefit from sustainable banking loans.

The work phases completed as of 2018 year-end are summarized below.

- Titles and numerical indicators for economic contribution are set.
- Titles and digital indicators for contribution to sustainability and inclusiveness are set.
- In addition to digital indicators, it is decided for contribution to sustainability and inclusiveness that the United Nations (UN) Sustainable Development Goals shall also be used as criteria.
- A list of the UN Sustainable Development Goals on inclusiveness was devised, differentiating the contribution for inclusiveness.

The Bank established a dedicated working group for matching loan themes with the UN Sustainable Development Goals.



**TSKB is in the process of integrating into its objectives and strategies the current sustainable development approach in its 2030 perspective, which hit the agenda following the UN Sustainable Development Goals.**

**TSKB'S LOAN PORTFOLIO AND ITS RELATIONSHIP WITH SUSTAINABLE DEVELOPMENT GOALS**

Since 1950, TSKB has increasingly and clearly contributed to Turkey's development and led environment-related matters starting from 1980s.

TSKB is in the process of integrating its objectives and strategies into the current sustainable development approach in its 2030 perspective, which hit the agenda following the UN Sustainable Development Goals.

**INCLUSIVE GROWTH WILL ADD A NEW MOMENTUM TO TSKB'S SUSTAINABLE FINANCE OPERATIONS.**

Actively involved in the environmental dimension of sustainable finance through renewable energy, energy efficiency and resource efficiency projects, TSKB has also focused on inclusive growth via the funds it extended for SMEs, improvement of employment, women's employment and occupational health and safety in this new period.

The Sustainable Development Goals adopt a more comprehensive and holistic approach which covers inclusive development. To this end, international cooperation as well as coordination among the public sector, private sector and non-governmental organizations at national and local level gain significance. Therefore, it is important to document such contribution to goals in line with TSKB's development banking mission.

In 2017, TSKB, in cooperation with its affiliate Escarus, drafted "Baseline Analysis of Turkey against Sustainable Development Goals Project" in line with the efforts run by the Ministry of Development to adapt the Sustainable Development Goals into Turkey. The study on the Economic and Social Benefits of TSKB Loans also makes use of the methods and information included in this report.

The working group comprised of TSKB experts classified TSKB loans and related them to the Sustainable Development Goals, with the results and matches being turned into a report and shared with the Senior Management. It is planned that all lending operations are included in the measurement in terms of the sustainable development goals, and the contribution they make to economic/social development is closely monitored under this effort.

*Efforts to classify TSKB loans and relate them to the Sustainable Development Goals are ongoing with great care and prudence.*





# SUSTAINABILITY MANAGEMENT SYSTEM

## AN EFFECTIVE MANAGEMENT SYSTEM COVERING ALL BUSINESS PROCESSES OF TSKB

In line with the global development of the sustainability concept and its perception, TSKB broke a new ground in Turkey and completed an end-to-end internalization of sustainability in every aspect ranging from its mission to business model and processes.

TSKB supports Turkey's sustainable development through its products and services. To that end, TSKB has structured its Sustainability Management System (SYS) in a way to cover all business processes of the Bank so as to mitigate environmental and social impacts from banking operations and support Turkey's transition to a low carbon economy.

### TSKB SYS is managed through the Sustainability Policy.

Immediately after including environment and sustainability on its agenda, TSKB published its Environmental Policy in 2006. In 2012, the Bank revised its Environmental Policy as the Sustainability Policy.

Currently, the SYS is managed under the Sustainability Policy of February 2015.

In addition, the Bank supports the Sustainability Policy through complementary policies. "The List of activities that are not to be financed" is published as an appendix to the TSKB Environmental and Social Impact Policy, a complementary policy, and lists the sectors that are not funded by TSKB for the sake of responsible banking.

In 2016, TSKB published the Climate Change Declaration. The declaration briefly explains how TSKB's main operations are consistently managed through its climate change strategy.

The declaration is available on TSKB's web site.

## TSKB'S SUSTAINABLE BANKING POLICIES

### TSKB SUSTAINABILITY POLICY

#### Complementary Policies:

- TSKB Environmental And Social Impact Policy
  - List Of Activities That Are Not To Be Financed
- TSKB Occupational Health & Safety Policy
- TSKB Human Rights Policy
- TSKB Sustainable Procurements Management Policy
- TSKB Anti-Bribery And Anticorruption Policy
  - TSKB Anti-Bribery And Anti-Corruption Program

### SUSTAINABILITY COMMITTEE

All sustainability work across the organizational structure managed by the Sustainability Committee, which is comprised of three Board Members and three Executive Vice Presidents. The members of the Sustainability Committee are appointed by Board decisions.

Sustainability Committee was established in 2014. The Committee's mission is the coordination of the works and business plans to be composed in regard to sustainability strategy, vision and targets of TSKB. This Committee convenes every three months with at least 50% participation and at least four times a year.

In 2018, four meetings were organized in total. In these meetings, Sustainability Committee targets were set and realizations were followed throughout the year. The Sustainability Committee is supported by the Sustainability Subcommittee and working groups, of which representatives from various departments are active members.

### Sustainability Subcommittee

The Sustainability Subcommittee was established to spread sustainability operations to the entire Bank and integrate them with all business processes in parallel with the vision, strategy, goals and business plans of the Bank on sustainability and climate change. Composed of the managers of various departments Sustainability Subcommittee reports to TSKB's Sustainability Committee.

Every year, clear and measurable annual goals of the Sustainability Subcommittee are determined and these goals are reflected on the performance assessment of all members. Sustainability Coordination Responsible carries out the inhouse coordination of the sustainability settlement in TSKB.



### Working Groups and Their Responsibilities

At TSKB, sustainability work was conducted by five different working groups affiliated with the Sustainability Subcommittee in 2018.

The responsibility of these working groups covers:

- Maintaining the certifications for ISO 14001 Environmental Management System Standard and ISO 14064, which is the international calculation and verification standard to restrict direct greenhouse gas emissions from banking operations
- Managing relations with sustainability indices which the Bank is a part of
- Considering the expectations of internal and external stakeholders and engaging in communication management
- Delivering sustainability reports by and
- Coordination of projects and studies directed to gender equality

Gender Equality Working Group was established in 2018, and assigned to coordinate the works in this field. The Group realized a variety of projects during the year and produced concrete examples about TSKB's approach to gender equality.

Members of the working groups are appointed by the Executive Committee of the Bank. As of 2018-end, 10% of TSKB employees take part in sustainability working groups. The Sustainability Committee's goals are disseminated to every employee in this structure and taken into consideration within the employee performance appraisal. One of the common goals of the working groups is to organize internal training events/informative meetings in order to ensure capacity development for all employees of the Bank on sustainability.

### TSKB AS A SIGNATORY IN THE FIELD OF SUSTAINABILITY

TSKB is a signatory to various declarations and principles particularly under the commitments related to sustainability.

- Climate Action in financial institutions as prepared by IDFC
- Declaration on Transition to a Lowcarbon Economy issued by ELTI members under COP21
- Women's Empowerment Principles (WEPS)
- Joint Statement on Energy Efficiency issued by the EBRD and UNEP FI
- Global Compact Turkey - Declaration of Sustainable Finance





# SUSTAINABILITY MANAGEMENT SYSTEM

## ERET MODEL

### Management of the environmental and social impact of disbursements

Within the principle of responsible banking, TSKB gives special importance to objective determination of the potential environmental and social risks and impacts that could arise in the implementation of projects. This process requires an extensive evaluation and the dimensions of the environmental and social impact revealed is handled with investor before placements. According to the result, matters to be managed and actions to be taken are share with the investors. And the loan facility is activated after all of these processes and project risk management plan are completed. TSKB, which enjoys a specialized banking culture business model, has undertaken another leading practice on measuring environmental and social risk.

### ERET Environmental Risk Evaluation Tool was first designed in 2005 and starting from 2007, the Model has been applied to all investment projects

Developed to neutralize the difference in competence and experience among experts in the environmental and social risk appraisal of a project, ensure the implementation of a consistent and standardized methodology, and conduct performance assessment through cause and effect relations, the ERET Environmental Risk Evaluation Tool was first designed in 2005 and the model has been applied to all investment projects to be potentially funded by TSKB irrespective of the investment amount and/ or credit limit.

TSKB adopts it as a principle to observe sustainability practices and principles which meet the environmental, social and occupational health and safety standards of the development finance institutions in all investment projects it finances.

Furthermore, it seamlessly overlaps with the criteria in Equator Principles, which have been drafted by the IFC and widely adopted by banks currently operating in developed economies.

### ERET conducts a multi-dimensional assessment.

The model conducts an assessment composed of 45 questions under 5 headlines and is based on the analysis, within a current and future perspective, of environmental and social impacts as well as possible legal and financial liabilities arising from the investment project evaluated by TSKB for lending and from the other operations of the project owner. In line with the scores for environmental and social risk, how the environmental and

social impacts will be mitigated and monitored is structured within the framework of a plan drafted in cooperation with the customer. The environmental rating methodology for ERET Model is continuously reviewed by TSKB teams, and the weights of high risk issues in the calculation process are increased in line with changing conditions, thus highlighting the risky issues. Annual evaluation results are publicly reported on the Bank's website.

This model has been a very strong tool that TSKB has used for the effective management of environmental and social risks. Employed since 2007 and updated in regards to needs, it contributes project assessment processes and enables TSKB to establish deep intellectual capital and know-how on the matter. Environmental and social risk evaluation also helps raise awareness of the funded companies, enabling TSKB to create value for itself and its stakeholders in line with the principle of creating responsible income.

## 2018 ERET RESULTS

|                                 | Firm | Project |
|---------------------------------|------|---------|
| High risk <b>A</b>              | 5    | 3       |
| Medium-sensitive risk <b>B+</b> | 16   | 18      |
| Medium risk <b>B-</b>           | 22   | 25      |
| Low risk <b>C</b>               | 17   | 14      |

### TSKB also handles under SYS the impacts arising from its operations.

TSKB also meticulously handles under SYS the environmental impacts arising from its operations. SYS efforts periodically follow and monitor resource consumption such as electricity, water and natural gas and the Bank conducts work to reduce such consumption.

In addition, TSKB implements a waste management plan to increase the rate of wastes recovered into the economy after being sent to recovery plants.

The Bank performs all relevant work under ISO 14001 Environmental Management System Standard and holds an ISO 14001 Certificate since 2007. It is among TSKB's sustainability goals to ensure continuity of the ISO 14001 certificate.



## TSKB executes its sustainability vision and strategy within an accurately-set, efficient sustainability structure.

### In 2008, TSKB switched to zero carbon banking

The increasing importance of climate change stipulates transition to a low carbon economy in order to ensure a sustainable world. Aware of this, TSKB also closely monitors rising trends on a global basis. It started to measure its carbon footprint in 2006. The carbon footprint measurement was reviewed in 2008 by an independent consultancy company and the Bank consequently launched its zero carbon banking project after the consultancy company issued its report. To that end, the Bank has calculated and offset its operational greenhouse gas emissions to launch a carbon neutral-zero carbon banking practice and has been operating in line with the ISO 14064 Greenhouse Gas Accounting and Verification Standard since 2012.

### For TSKB being carbon neutral means

- Measuring carbon emissions and getting the measurements audited,
- Designing strategies and projects to mitigate carbon emissions,
- Offsetting emissions, and
- Contributing to capacity development on the matter within and outside the organization.

Strategic mitigation goals covering 2009-2010 are established in order to reduce consumptions in terms of lighting, energy and business trips, which are all sources of emission. As of 2009, the Bank has started to use electric power from renewable energy resources. This project was launched at a time when the limit for being a free consumer was similar to the level of consumption by producers in the industry and emphasized the vision and priorities of TSKB.

### Carbon neutral approach carried over to social projects

TSKB not only applies the carbon neutral approach internally but also transposes it to the social projects it runs. The Bank aims to raise a common awareness on climate change and the mitigation of carbon footprint as well as improving the recognition and awareness on the matter.

- TSKB purchased Gold Standard Carbon Certificates for more than 4,000 tons of carbon in the last 5 years in an effort to offset emissions from banking operations. Such efforts mitigate the carbon emissions of the Bank and support the combat against climate change. Resources such as wind power and landfill gas are used in offsetting carbon footprint.

- In 2018, the carbon footprints of TSKB Career Workshop, TSKB's management trainee recruitment program, as well as the Sustainability Workshop, which aims to raise sustainability awareness in university students, were offset. All carbon emissions from transportation, accommodation and organization for these events - about 18 tons - were offset.
- 4 tons of carbon footprint from the "Conference on Women's Employment and Beyond in the Private Sector", which was organized at the French Palace in cooperation with the AFD to mark March 8 - International Women's Day, was also offset.

### TSKB AND CLIMATE CHANGE - RISKS, OPPORTUNITIES AND MANAGEMENT APPROACH

The negative impacts of climate change become more evident each day. Such negative impacts manifest themselves domestically and globally in the depletion of water resources, increase in floods, forest fires, drought and desertification, access to food and the deterioration in related ecological and social structures. These pose a serious threat in the short, medium and long run but are capable of bringing along some valuable opportunities if they are planned well.

### Climate change and TSKB Sustainable Banking Strategy

TSKB handles its anti-climate change action under the sustainability strategy. The Bank believes a high quality development is directly associated with sustainable banking and thus bases its sustainable banking strategy on three main foundations.

To support Turkey's sustainable development model  
To assume a role in combating climate change  
To contribute to Turkey's transition to an industrial structure that is based on a low carbon economy.

This strategy by TSKB accommodates not only the management of climate change-related matters but also the evaluation of the relevant risks and opportunities. The Bank executes its sustainability vision and strategy within an accurately-set, efficient sustainability structure and delivers it in its daily service processes.



# SUSTAINABILITY MANAGEMENT SYSTEM

## INTERNAL IMPACTS-MAIN INDICATORS

**TSKB vigilantly manages environmental impact stemming from its operations.**

### ASSET SIZE (billion TL)

**2018**  
**38.3**

### NUMBER OF EMPLOYEES \*

**2018**  
**367**

**Under the Sustainability Management System operations, electricity, water, natural gas, etc. resource consumption levels are monitored periodically and measures for reducing consumption are taken.**

**2017**  
**28.9**  
**2016**  
**24.0**

**2017**  
**375**  
**2016**  
**357**

### ELECTRICITY CONSUMPTION (kWh/m<sup>2</sup>)

**2018**  
**68**

**2017**  
**65**

**2016**  
**54**

### WATER CONSUMPTION (m<sup>3</sup>/Employee)

**2018**  
**17.6**

**2017**  
**18.0**

**2016**  
**18.9**

### RECYCLED WASTE (kg)

**2018**  
**12,703**

**2017**  
**10,530**

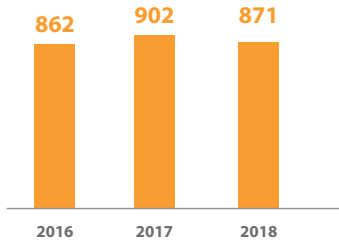
**2016**  
**12,950**

**TSKB targets to increase the amount of waste recycled every year in an effort to raise the contribution to the economy pursuant to its waste management plan.**

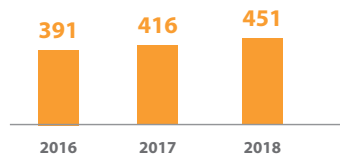
\* Annual average number of employees taken into consideration in ISO calculations



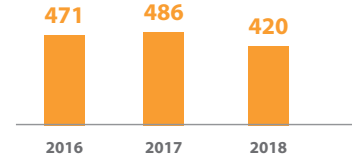
#### tCO<sub>2</sub>e EMISSIONS



#### tCO<sub>2</sub>e EMISSIONS (Scope 1)



#### tCO<sub>2</sub>e EMISSIONS (Scope 3) \*\*\*



#### tCO<sub>2</sub>e EMISSIONS (Scope 2) \*\* 2016, 2017, 2018 = 0

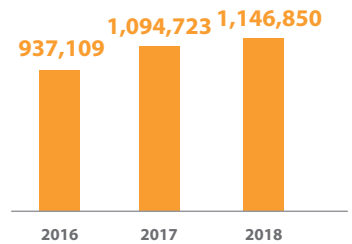
\* **Scope-1** Direct Emissions: Emissions from greenhouse gas emitting sources owned and directly controlled by an institution. Greenhouse gas emissions from natural gas consumption, company vehicles, power generators, cooling groups, ventilation and firefighting systems constitute examples for Scope-1 emissions.

\*\* **Scope-2** Energy Indirect Emissions: Emissions from the generation of electricity, heat or steam purchased externally by an institution. These emissions are emissions from the raw materials purchased externally in the form of energy such as the electricity purchased.

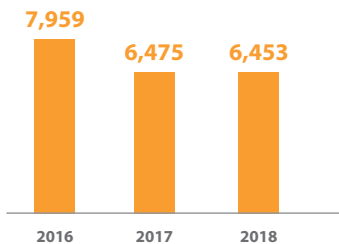
Since TSKB uses renewable energy in all of its service buildings, its carbon emission is zero.

\*\*\* **Scope-3** Other Emissions: Greenhouse gas emissions which are externally purchased by an institution besides energy and are not directly controlled thereby. Such emissions emanate from outsourced activities and are emitted at source. Examples for Scope-3 emissions include, among others, emissions from personnel transportation services, taxi and bus travels, flights for business trips and paper consumption.

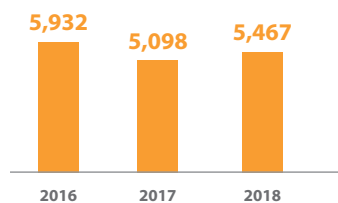
#### ELECTRICITY CONSUMPTION (kWh)



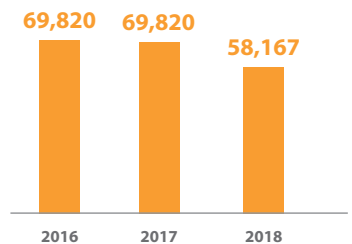
#### WATER CONSUMPTION (m<sup>3</sup>)



#### PAPER CONSUMPTION (kg)



#### NATURAL GAS CONSUMPTION (m<sup>3</sup>)





# SUSTAINABILITY MANAGEMENT SYSTEM

## CLIMATE CHANGE-RELATED RISKS DEFINED BY TSKB

### Operational risks

*The main operational risk TSKB faces in relation to climate change is the increased greenhouse gas emissions due to natural source consumption at the Bank's service buildings.*



TSKB manages these risks under its management models.



### Funding risks

*Another issue TSKB needs to manage in relation to climate change is the risks from the projects funded. The negative impact of such projects on the environment and the society constitutes the indirect impact of TSKB on climate change.*



#### Risk management and actions taken

A working group on ISO 14001 & 14064 was established under the SYS. The Group

- Tracks the carbon footprint from domestic consumption.
- It implements action plans aiming to reduce impacts and suggests goals to improve performance.
- It periodically monitors and reports performance outcomes.

#### Risk management and actions taken

Through the sustainability loans it offers, TSKB plans to fund investments intending to mitigate climate change.





**TSKB works hard on medium and long-term scenarios using the TCFD Model to address the future risks and opportunities regarding climate change.**

### Medium- and Long-Term Climate Change Risks and Opportunities

#### Incentive mechanism in Turkey for renewable energy investments

##### Risk management and actions taken

Efforts focus on the assumption that renewable energy investment incentives will be terminated in 2020 as well as the action electricity generation companies will be taking.

TSKB reviews the projections for the firms in its loan portfolio in accordance with the scenario that the incentives mechanism will be terminated.

#### Negative impact on investments in the portfolio due to extreme weather events and changes

##### Risk management and actions taken

Extreme weather events and changes including but not limited to hurricanes, cyclones and changes in the precipitation regime may have negative implications on the investments in TSKB portfolio.

TSKB manages this process by making field visits, monitoring climate conditions in the basin and making production projections that are updated continuously. Water scarcity is another issue related directly to climate change and shows both the world and our country will soon face severe problems on the matter.

TSKB focuses on managing this risk through the funding products for energy efficiency and resource efficiency. In addition, it closely monitors relevant technological advancements and works with customers on new financial solutions. Climate change leads to negative projections specifically on hydropower plants. TSKB monitors not only the financial risk of its energy portfolio but also the climate risks encompassing drought and basin management.

#### CLIMATE CHANGE POLICIES TURKEY PURSUES

Before the COP21, Turkey shared its Intended Nationally Determined Contribution (INDC) on September 30, 2015 under its emission mitigation strategy. Accordingly, it is committed that Turkey's greenhouse gas emissions of 440 million tons as of 2012 will rise to 1,175 million tons by 2030 under the current conditions but will be reduced to 929 million tons of greenhouse gas with a decrease of 21% if systematic measures are taken.

TSKB monitors and pursues Turkey's relevant policies to shape its climate change strategy.

#### TSKB'S PROJECTION

Climate change investments in Turkey will increase in the upcoming period, giving way to new working field opportunities (carbon trading and climate finance).



# SUSTAINABILITY MANAGEMENT SYSTEM

## WHAT IS THE TCFD MODEL?

Task Force on Climate-Related Financial Disclosures (TCFD) recommends companies to test, under various climate scenarios, their resilience and recovery capacities against the potential short-term and long-term shocks - brought along by climate-related risks and the transition to a low carbon economy - on their corporate strategies, business processes, future plans and financial standings, and to publicly disclose the results of such tests. This effort provides the recipe on how adaptation to the Paris Agreement could be possible, specifically for the finance world. It is recommended that public disclosures are initially made on the basis of the existing reporting processes (CDP, GRI, sustainability and integrated reporting). The ultimate aim is to fully integrate these disclosures with financial reporting processes. On that note, TSKB has been publishing sustainability reports since 2009, CDP reports since 2013 and integrated reports since 2017.

## Turkey's position on global anti-climate change platforms and TSKB'S action

Having declared its Intended Nationally Determined Contribution, Turkey underlined its commitment to the Paris Climate Agreement. The Agreement has yet to be ratified by the GNAT. TSKB has closely monitored and supported Turkey's entire negotiation processes.

Considering the matter from the perspective of financial institutions, clarification on carbon trading, carbon tax and access to climate finance in Turkey will only come after these processes are complete. This sets an opportunity for Turkey to find international anti-climate funds and is thus meticulously monitored.

Climate action is an important item on the agenda of TSKB Sustainability Committee. The Bank acts upon a mission to secure funds for Turkey and closely monitors Conference of the Parties (COP) attended by country delegations, public and private sector players and a broad range of civil society organizations.

## Climate action is an important item on the agenda of TSKB Sustainability Committee. The Bank closely monitors Conference of the Parties (COP)

In 2015, TSKB actively attended the COP21, where the Paris Agreement was established, thus witnessing the contribution by various parties as well as the structuring of the Paris Agreement. Since then, the Bank has been regularly attending all COP conferences. This allows TSKB to follow the relevant global agenda. The Bank's employees share TSKB's and Turkey's experience on climate change and finance on various platforms as panelists and speakers. The Bank enjoys the opportunity to update its operations by following up on different interpretations and approaches.

## TSKB is an active participant in the Talanoa Dialogue.

An important formation from the COP23 in 2017 was the Talanoa Dialogue. In Pacific languages, Talanoa means a transparent dialogue. Countries, private sector organizations, NGOs and other organizations submit to the database for the Talanoa Dialogue (<https://talanoadialogue.com>) their contribution documents including the current situation on negotiation process for voluntary anti-climate change action, the goals set and the main instruments to be employed for fulfilling those goals.

In 2018, TSKB contributed to the Talanoa Dialogue by submitting through TUSIAD its best practices and activities on Climate Change Prevention/Adaptation. This contribution document included the emission reduction quantities supported through green bond, energy efficiency, resource efficiency and renewable energy investments.

The contribution submitted by TUSIAD to the United Nations - Talanoa Dialogue database was published on the United Nations Framework Convention on Climate Change (UNFCCC) web site on November 6, 2018.



The communication of (<https://unfccc.int/documents/183837>) was made at the COP24 held in Katowice Poland.





## SUSTAINABILITY INDICES AND TSKB

### Borsa Istanbul Sustainability Index

TSKB is a constituent of the BIST Sustainability Index of Borsa Istanbul, an index of company shares that are publicly traded and which have superior corporate sustainability performances.

Borsa Istanbul designates the companies to be listed in the index according to the results of an assessment conducted around their "environmental policy," "environmental management systems," "biodiversity policy," "climate change management," "board of directors structure," "anti-bribery policy," "anti-bribery systems," "human rights policy," "human rights systems" and "health and safety systems."

The BIST Sustainability Index was launched in 2014 with the companies from BIST-30 index. In the following year, the universe of constituents were enlarged to cover BIST-50 companies. In 2015, TSKB also went through the assessment process and was consequently granted a place in the index following this evaluation.

The Bank's stock has been a constituent of this index since November 2015. TSKB continuously spend effort on improving its practices taking index methodology, international regulations and best practices into account.

### FTSE4Good Emerging Markets Index

Furthermore, in 2016, TSKB attained yet another sustainability landmark and was included in the FTSE4Good Emerging Markets Index established by FTSE, an independent organization created under joint ownership by the London Stock Exchange and the Financial Times, in December 2016. Aiming to facilitate investments in companies that meet environmental, social and corporate governance criteria by measuring their performance, FTSE4Good Emerging Markets Index is deemed as a key global index.

TSKB will be one of the constituents in the index in 2019.

**Sustainability Indices are indicative tools for investors that seek to invest in companies which adopt sustainability and corporate social responsibility principles.**

Joining such indices not only displays TSKB's approach towards sustainability related matters, but also means the Bank's decisions and operations on sustainability are acknowledged.

*TSKB has been a constituent of BIST Sustainability Index and FTSE4Good Emerging Markets Index.*



# INVESTMENT IN HUMAN CAPITAL

## THE BUILDING BLOCK FOR A SUCCESSFUL AND SUSTAINABLE PERFORMANCE

TSKB considers its highly qualified and competent workforce to be a critically important factor that renders its strong performance sustainable. The Bank carries out regular activities in a myriad of human resources fields ranging from recruitment to professional and management training programs in order to make business processes more effective. In 2018, recruitment operations secured 31 new employees for the TSKB family comprised of:

- 14 Management Trainees (MTs) from the 9<sup>th</sup> Career Workshop by TSKB, and
- 17 experienced recruits to meet the needs at various departments.

### In 2018, TSKB launched many human resources projects.

In 2018, TSKB received human resources consultancy services from an international company to set up strategy and organization, performance management system, business analyses and career maps as well as a career development model and qualifications model. To that end, it is planned to review the Performance Management System, Potential Measurement, Qualification Measurement and Technical Knowledge sets and implement them through different measurement and evaluation methodologies.

11 employees were presented with the opportunity to change departments under the Internal Transfer Project and 13 employees were given the opportunity to obtain experience of working in various departments to support horizontal career movement in a bid to improve employees' work diversity, technical knowledge, skills and competences. In 2019, 14 MTs will be subject to interdepartmental rotation.

HR Representatives were selected from among volunteers at each department in 2017. 5 distinct meetings were held with these representatives in 2018. The meetings helped submit to the HR Department any opinions and suggestions from departments and transparently share HR practices with the teams.

Team Coaching efforts were delivered to ensure departments worked in better harmony and cooperation to attain high quality business outcomes.

Due work on the Flexible Working Model was expended to serve the goal of more productive work by TSKB employees and a pilot practice was launched. The Flexible Working Model was put into effect throughout the Bank as of January 2019.

Aiming to keep pace with the precipitous global changes and elaborate new business processes, TSKB Technology and Entrepreneurship Platform was established. To that end, TSKB established diverse project groups with the Turkish Entrepreneurship Foundation as a project partner. Project groups are expected to complete their work in 2019.

In 2018, first Career Workshop Alumni meeting was organized gathering the participants of the Management Trainee Program since 2005, with the purpose of sharing ideas, create business opportunities and enrich themselves with collective wisdom. In 2019, the activity is planned to be continued with a second meeting.

Reverse Mentoring and Young Consultants to the CEO projects were launched in 2018 to render mutual learning continuous and enhance intergenerational communication. Main topics covered included Fintech, Digitization, New Business Life and Generations, New Technologies and Startups.

Technical and managerial development trainings for TSKB employees are diversified and continue on various platforms. In 2018, trend topics such as Emotional Quotient, Storytelling and Design Thinking are added to the training catalogue.

A bonus payment is made once a year on the condition that ethical values and internal balances are observed, the strategies and long-term objectives of TSKB are adhered to, and risk management structures are taken into consideration. To this end, a gross incentive bonus of TL 10,524,652 was paid to 228 employees in 2018 for their 2017 performance.

### Highlights from human capital goals for 2019

TSKB will resolutely sustain investments in its human capital and its multidimensional development in the upcoming period within an approach considering the requirements of the Bank's corporate strategy.

In 2019, the Bank plans outdoor events to reinforce teamwork among employees, technical trainings abroad for the expert employees and e-learning programs for all employees. Under Individual Development Plans to be drafted for employees, training programs for employees at different levels are designed to ensure their technical and professional development as well as competency development.



**In the coming periods, TSKB, will continue to invest in human resource and their multi-dimensional development decisively and with an approach taking into account the necessities of its corporate strategy.**

#### **An approach that contributes to motivation**

TSKB extends multidimensional support to the intellectual development of its employees. TSKB actively supports various clubs to contribute to employees' social life, increase motivation in the working environment and reinforce the synergy within the organization.

Furthermore, the Bank provides opportunities to its employees in order for them to meet at various platforms such as Future Outlook meetings, foundation cocktail, new year's dinner, and IKSVM Music Festival concert which the Bank sponsors every year.

#### **EMPLOYEE CLUBS**

##### **Photography Workshop**

The 9-month program, open to TSKB and group company employees, consists of technical courses, photography excursions, assessment meetings and seminars. Since 2016, the Workshop had its first graduates, the works of participants were displayed

at TSKB Art Corridor. Moreover, TSKB's calendars bear photos taken by workshop participants. In the scope of the Photography Workshop, monthly Film Analysis seminars also are arranged. In these seminars participants analyze a film.

##### **Steps to Charity with FIT-TSKB**

In 2017, TSKB initiated its FIT-TSKB project in order for its employees to adopt a healthier lifestyle and spend quality time with each other. Starting with body measurements, FIT-TSKB continued with healthy life seminars and group runs with trainers.

FIT-TSKB participants race in Istanbul Marathon. In 2018, FIT-TSKB runners in Marathon supported Turkish Foundation for Children in Need of Protection (Koruncuk).





# INVESTMENT IN HUMAN CAPITAL

## TRAINING PROGRAMS

TSKB aims to develop human capital through tailored training programs required for specialized banking. To this end, various training and development activities are carried out to improve both technical and professional knowledge as well as personal skills of employees.

Except legally compulsory technical and professional education, TSKB offers its employees training programs on the subjects listed below:

- Orientation and coaching courses are applied to ensure a rapid adaptation of TSKB's new employees to the Bank.
- Management trainee (MT) programs composed of essential professional skills are run for recent graduates who join the Bank.
- During the 2-year Development Workshop program, managers are offered training programs in relation to both personal development and management skills as well as competences.
- Managerial skills of the senior managers are reinforced with Leaders as Coaches.
- One-on-one coaching as well as a training program abroad are provided to Department Heads under the Management Development Program.
- Personal education programs are listed in the Training Program Catalogue open to all of the employees.
- Multi-dimensional career improvement of the employees are reinforced through inhouse rotation programs.



## CAREER WORKSHOP AND MT PROGRAM

TSKB employs MTs through TSKB Career Workshop.

Since 2010, 118 MTs started working in the Banks through 9 Career Workshops carried out annually with the participation of 349 students.

TSKB runs meticulous work under its goal to “train its own managers” and holds a MT Program each summer to train future experts and managers. The Bank runs tailored training programs to prepare them for the positions they will assume at TSKB.



**Development Workshop is a program that aims to prepare TSKB employees for the next stage in their careers.**



#### **DEVELOPMENT WORKSHOP**

This is a program that aims to prepare TSKB employees for the next stage in their careers. The Development Workshop runs over 2 years and identifies the developmental areas of each participant. From this point on, a training program is designed based on TSKB competences. The program is made up of five main modules, and focuses on the development of various competences in each module. The second phase of the program started in May 2016 and was completed in May 2018. Some 45 participants in total, comprising 27 women and 18 men, attended the program. 75 hours of training was planned for each participant. Department Heads attended the program to learn with which information the employees are equipped and to speak the same language with them.

#### **Employee Satisfaction and Loyalty is the Priority**

TSKB believes the best business development is possible through the observations and related findings of the people within an organization. To this end, employee satisfaction surveys are conducted periodically. Through such surveys, TSKB regularly measures the satisfaction and engagement levels of its employees, creates a routine platform where they can submit their ideas and suggestions, and takes action in line with improvement goals.

Some 329 employees responded to the 2018 employee satisfaction survey for all TSKB employees. The participation rate was 85%. In 2017, 304 employees responded to the employee satisfaction survey. The participation rate was 78%.

TSKB's efforts to improve employee engagement was reflected in the survey results. A comparison of 2017 and 2018 surveys indicates the following points:

- Employee engagement improved by 1.3% during last year.
- Job satisfaction aspect received the highest fulfillment rating in both years.
- Previously delivering rather poorly among findings, performance management appeared to be on the rise. At the same time, performance management was the fastest improving aspect.
- Second fastest improving subject was education and personal development compared to the previous survey.
- Underlying improvement areas including career planning, cooperation and teamwork, interdepartmental communication, and performance management have been on the rise.

In 2017, TSKB started to get HR consultancy services which supported simpler and more transparent results and momentum in relevant fields. Competencies were entirely rewritten after workshops and separated from the performance system, making them an item of development per se. Therefore, TSKB Performance System was carved into a structure made up of more measurable goals.

Consultancy work and the road maps to be followed from now on were shared with all TSKB employees. Preparations for the career development plans of employees started, pending for the design of a structure which closely monitors development. Furthermore, interdepartmental field work and team coaching efforts were also delivered in 2018.



# INVESTMENT IN HUMAN CAPITAL

## WOMEN



### Number of Employees

| TSKB | TSKB Real Estate Appraisal | TSKB Real Estate Investment Trust | Escarus | Yatırım Finansman Securities | Grand TSKB Family |
|------|----------------------------|-----------------------------------|---------|------------------------------|-------------------|
| 179  | 57                         | 8                                 | 6       | 53                           | 303               |

## MEN



| TSKB | TSKB Real Estate Appraisal | TSKB Real Estate Investment Trust | Escarus | Yatırım Finansman Securities | Grand TSKB Family |
|------|----------------------------|-----------------------------------|---------|------------------------------|-------------------|
| 150  | 48                         | 4                                 | 4       | 69                           | 275               |

## TOTAL

|     |     |    |    |     |     |
|-----|-----|----|----|-----|-----|
| 329 | 105 | 12 | 10 | 122 | 578 |
|-----|-----|----|----|-----|-----|

## BREAKDOWN BY GENDER

**52%**

Share of Women in  
Managerial Staff

**54%**

Share of Women in  
Total Staff



Board of Directors: 2 Women, 9 Men



Committees Established by the Board of Directors:  
4 Women, 5 Men



Senior Management: 3 Women, 5 Men



In 2018, TSKB achieved Equal Opportunities Model (FEM) Certificate submitted by KAGIDER to the corporates embracing gender equality.

| Number of Employees<br>As of December 31, 2018 | TSKB | TSKB Real Estate<br>Appraisal | TSKB Real Estate<br>Investment Trust | Escarus | Yatırım<br>Finansman<br>Securities |
|--|------|-------------------------------|--------------------------------------|---------|------------------------------------|
| Female   | 179  | 57                            | 8                                    | 6       | 53                                 |
| Male   | 150  | 48                            | 4                                    | 4       | 69                                 |
| 21-30 (age)                                    | 96   | 57                            | 4                                    | -       | 27                                 |
| 31-40  | 159  | 45                            | 6                                    | 6       | 38                                 |
| 41-50  | 61   | 3                             | 1                                    | 3       | 52                                 |
| 51+  | 13   | -                             | 1                                    | 1       | 5                                  |
| Head Office                                    | 322  | 57                            | 12                                   | 10      | 76                                 |
| Branch   | 7    | 48                            | -                                    | -       | 46                                 |
| Primary School                                 | -    | -                             | -                                    | -       | 2                                  |
| High School                                    | 1    | 8                             | 1                                    | -       | 2                                  |
| Graduate School                                | 7    | 8                             | -                                    | -       | 3                                  |
| University                                     | 208  | 83                            | 9                                    | 2       | 91                                 |
| Master's Degree                                | 111  | 6                             | 2                                    | 7       | 23                                 |
| Ph.D. Degree                                   | 2    | -                             | -                                    | 1       | 1                                  |





# CORPORATE SOCIAL RESPONSIBILITY

TSKB's social responsibility projects concentrate on climate change, transition to a low carbon economy, equal opportunities, social and cultural development.

The Bank engages in comprehensive and long-term collaborative work with the business world, universities and NGOs in order to boost the impact of initiatives targeting increasing social awareness in sustainability social.

## EMPOWER THROUGH EDUCATION

TSKB launched a new corporate social responsibility project in 2017 to focus on the social dimension of sustainable development. In 2017, the Bank launched a new loan theme and started to support investments by firms that offer a women-friendly working environment. TSKB transposed this new focus into corporate social responsibility and introduced the scholarship fund called "Empower Through Education."

The initiative was in cooperation with the Turkish Education Foundation (TEV) and supports female university students. This project is beyond a traditional scholarship fund and involves steps such as mentoring, training and internship in order to ensure that more women join the workforce each day. In 2018, "Empower Through Education" project continued successfully.

## WOMEN STARS OF TOMORROW

Women Stars of Tomorrow: Young Women Musicians Support Fund was launched in 2018 under Istanbul Music Festival as a cooperation effort by TSKB and IKSİ. The project accepted applications by young female musicians who would like to set sail to new horizons on the international arena and successfully completed its first year.

TSKB has always supported Istanbul Music Festival since 1990 and delivered a new project on the 46<sup>th</sup> year of the Festival to support the female musicians of the future. TSKB acted as the education support sponsor in the Women Stars of Tomorrow project within the scope of its social responsibility focus on women's empowerment.

Women Stars of Tomorrow: Young Women Musicians Support Fund admitted applications by female musicians who have received acceptance from a music school abroad at undergraduate or graduate level, continue music education abroad or need support for purchasing instruments or attending master classes, music auditions and international contests.

Applications were evaluated by a jury chaired by Yeşim Güner Oymak, Director of Istanbul Music Festival and Deputy General Director at IKSİ, and composed of Hakan Şensoy, violinist and





**TSKB's social responsibility projects come to life in climate change, transition to a low carbon economy, equal opportunities, social and cultural development.**

conductor; Muhiddin Dürrüoğlu, pianist; Ayşegül Kirmanoğlu, clarinetist; and Özkan Manav, composer. The total funds were divided among musicians selected by the jury in proportion with the amount of funds they needed.

**İdil Biret was the first guest of honor for the project**

Candidates selected by the jury for Women Stars of Tomorrow: Young Women Musicians Support Fund met the audience at Boğaziçi University's Albert Long Hall on the evening of May 28, 2018 during the Women Stars of Tomorrow concert. The opinion leader and guest of honor for 2018 concert was İdil Biret, the first "child prodigy" of Turkey.

During the Pre-Concert Events moderated by author Yekta Kopan, İnci Kadribeği, a student at Trakya University Medical School and a stem cell researcher, and Zeynep Karacan, a student at Yale University and an Honorable Mention Award winner at First Step to Nobel Prize in Physics contest, shared their personal success stories.

Young Women Musicians Support Fund has supported 14 young female musicians who want to continue music education abroad or attend master classes, participate in contests or orchestral auditions, or own a fine instrument.

**Musicians selected to be supported by Education Support Fund**

Alara Acar, Harp  
Aslı Su Kurtuluş, Flute  
Deniz Ayşe Birdal, Cello  
Deniz Su Polat, Viola  
Ezgi Göktürk, Piano  
Ezgi Sarıkçıoğlu, Violin  
Ezgi Su Apaydın, Violin  
Gizem Sözeri, Double bass  
Gülin Ataklı, Obua  
Güneş Hızlılar, Harp  
İdil Yunkuş, Violin  
Ramona Kemmer, Piano  
Sesim Bezdüz, Violin  
Ülker Tümer, Cello





# CORPORATE SOCIAL RESPONSIBILITY

## GİRVAK-TSKB TECHNOLOGY AND ENTREPRENEURSHIP PLATFORM

TSKB established TSKB Technology and Entrepreneurship Platform in cooperation with the Turkish Entrepreneurship Foundation (GİRVAK) to meet entrepreneurs with development-focused business ideas.

TSKB initiated the Future Outlook program in 2016 in order to adapt to the changing world and develop new ways of doing business as well as innovative perspectives and took that initiative one step further with the TSKB Technology and Entrepreneurship Platform in 2018.

Combining the expert banking experience and knowledge of TSKB employees and the enthusiasm and entrepreneurial spirit of GİRVAK fellows, the platform was launched with a publicity meeting held at Kolektif House on November 3.

## TSKB'S DIGITAL PLATFORMS

### CEVRECIYIZ.COM

Digital platforms play a critical role in TSKB's communication with stakeholders and widening the impact of its corporate social responsibility. The bank focuses on establishing rich internet portals and increasing its substance on social media in order to enhance sustainability awareness.

Cevreciyiz.com is the pioneer among these channels, becoming live in 2007 and having reached 50,000 followers on social media.

The website provides reference for many aspects such as sustainability, energy efficiency, environmental-friendly design, alternative energy sources; and shares innovative news from the world such as eco-friendly production and consumption trends and green architecture. Cevreciyiz.com continues its impact with the target of being a channel that will inspire its followers, for a better future.



## EŞİT ADIMLAR - EQUAL STEPS

TSKB cares to transpose its experience in digital content production to various themes it focuses on. Equal Opportunities (esitadimlar.com) platform was launched to serve the very same purpose and offers an enriched set of content on equal opportunities.

Equal Steps was launched as a joint action by TSKB and the French Development Agency (AFD) under the umbrella of the WBCSD Turkey Working Group on Women's Employment and Equal Opportunities.

Equal Steps yields the premise that 'equal opportunities are indispensable for economic development' and focuses on sharing contents on the matter which would attract the attention of both women and men. Equal Steps offers a digital library which accommodates recent updates on equal opportunities as well as corporate best practices in addition to reports, legislation and regulations. Equal Steps aims to serve as an extensive reference point for interested individuals and professionals.



Social media accounts for Cevreciyiz.com:  
[www.instagram.com/cevreciyiz/](https://www.instagram.com/cevreciyiz/)  
[twitter.com/cevreciyiz](https://twitter.com/cevreciyiz)  
[www.facebook.com/TSKB.cevreciyiz](https://www.facebook.com/TSKB.cevreciyiz)



Social media accounts for esitadimlar.com:  
[twitter.com/esitadimlar](https://twitter.com/esitadimlar)  
[www.instagram.com/esitadimlar/](https://www.instagram.com/esitadimlar/)  
[www.facebook.com/esitadimlar/](https://www.facebook.com/esitadimlar/)



## TSKB supports culture and art with a sustainable approach.



### SUPPORTING ISTANBUL MUSIC FESTIVAL FOR 29 YEARS

TSKB has contributed to the development of culture and arts of the country by a way of sponsoring the concerts in the Music Festival organized by Istanbul Foundation for Culture and Arts (IKSV) since 1990.

This deep-rooted cooperation effort by TSKB and IKSV set the foundations of the Women Stars of Tomorrow project launched in 2018.

### PATARA ANCIENT CITY EXCAVATIONS

Believing in importance of protecting the legacy of the past as much as building a sustainable future, TSKB supports excavations at the ancient city of Patara, one of the major historical and cultural sites of our country, along with İşbank and Şişe ve Cam Fabrikaları A.Ş.

Patara was the capital of the Lycian League and Province located near the Kalkan town of Kaş, Antalya and is among the most important historical and cultural sites in Turkey. For about 30 years, excavations at the ancient city of Patara by the Ministry of Culture and Tourism have been led by Prof. Fahri Işık and Prof. Havva Işkan Işık from the Department of Classical Archaeology at Akdeniz University.

### TSKB VOLUNTEERS

“TSKB Volunteers” program promotes employees of the Bank to develop their own projects and focus specifically on the projects that will create sustainable value within the society.

TSKB Volunteers develops various projects in order to disperse the NGO's campaigns in the Bank.

In 2018, FIT-TSKB runners in Istanbul Marathon raised donation for Turkish Foundation for Children in Need of Protection (Koruncuk).

### EARTH HOUR

Enjoying opportunities to raise awareness on combating climate change, TSKB joins the Earth Hour, an initiative led by the World Wildlife Fund (WWF) aiming to increase acknowledgement on global climate change.



# SUSTAINABILITY GOALS





03





# 2019 AND 2020 SUSTAINABILITY GOALS

## FINANCING SUSTAINABILITY

| 2017-2018 Goals  | 2018 Realization  | 2019-2020 Goals  |
|--|---|--|
| TSKB aims to set the share of its sustainable finance portfolio in the total loan portfolio, excluding the finance sector, at 55% minimum by the end of 2018 by considering renewable energy, energy and resource efficiency investments in Turkey, while also taking the repayment of previous loans into account.  | Efforts to increase the share of TSKB's sustainable finance in the total loan portfolio continued in 2018 while also considering economic contribution indicators, and the share of sustainable finance stood at 73%. | TSKB aims to set the share of its sustainable and inclusive finance portfolio in the total loan portfolio, except for the finance sector, at 60% minimum by the end of 2020 by considering renewable energy, energy and resource efficiency investments in Turkey, while also taking the repayment of previous loans into account. |
| In terms of financing renewable energy, TSKB plans to sign a new loan agreement on a solar power plant of at least 50 MW, a wind power plant of 150 MW, a geothermal power plant of 130 MW and a project on biogas/biomass power of 15 MW by the end of 2018.  | TSKB extended new funding to a solar power plant of 47 MW, a wind power plant of 250 MW, a geothermal power plant of 159 MW and a project on biogas/biomass power plant of 44 MW between 2017 and 2018.               | It is expected that funds totaling USD 300 million will be extended until the end of 2020 within the framework of Sustainable Development Goals and inclusive finance in order to support women's employment as well as the economy in regions affected by refugee influx.   |
| The Bank aims to continue supporting projects for improving energy and resource (water, raw material and other production inputs) efficiency in Turkey from all aspects, in order to increase efficiency in the industry and ensure effective and the most suitable use of exhaustible resources. To this end, TSKB plans to sign 15 new loan agreements on energy and/or resource efficiency projects by the end of 2018. | 9 new energy efficiency investments and 10 new resource efficiency investments were funded between 2017 and 2018.   | TSKB aims to conclude new loan agreements for a minimum of 150 MW renewable energy and a total of 10 energy efficiency and/or resource efficiency projects by 2020 under innovative financing for renewable energy.  |

## MANAGEMENT OF THE BANK'S INTERNAL AND EXTERNAL ENVIRONMENTAL-SOCIAL IMPACTS

| 2017-2018 Goals   | 2018 Realization   | 2019-2020 Goals   |
|---|--|---|
| The Bank is committed to having its carbon footprint periodically measured and delivering banking operations through zero-carbon principles by offsetting its carbon footprint in the upcoming years. | Carbon emissions from the Bank's internal operations were calculated in line with the ISO 14064 management system and declared via a Greenhouse Gas Inventory Report. The audit process by an independent audit company for verification was completed as part of the efforts to offset carbon footprint and deliver banking operations in accordance with the zero carbon principles. The goal is accomplished. | The Bank is committed to having its carbon footprint periodically measured and delivering banking operations through zero-carbon principles by offsetting its carbon footprint in the upcoming years. |



## MANAGEMENT OF THE BANK'S INTERNAL AND EXTERNAL ENVIRONMENTAL-SOCIAL IMPACTS

| 2017-2018 Goals   | 2018 Realization  | 2019-2020 Goals   |
|---|---|---|
| By the end of 2021, the Bank aims to reduce its greenhouse emissions by 10% compared to the average of the last five years (2012-2016).   | In 2018, greenhouse gas emissions fell by 3.5% year-on-year in compliance with the 2021 goal.   | By the end of 2021, the Bank aims to reduce its greenhouse emissions by 10% compared to the average of the last 5 years (2012-2016).  |
| In 2017 and 2018, TSKB aims to maintain the reduction rate in paper consumption achieved in the last two years, which is about 10%.   | Paper consumption increased by 5% annually in compared to 2017.   | Holding intra-Bank training events to raise awareness on waste reduction / waste recycling  |
| TSKB will continue to send all paper consumed in its premises to recycling facilities and the implementation of 100% recycling of waste paper goal in the upcoming years.   | In 2018, paper consumed at TSKB was entirely sent to recycling facilities, fulfilling the goal for 100% recycling of waste paper.   | TSKB will continue to send all paper consumed in its premises to recycling facilities and maintain the practice of 100% recycling of waste paper in the upcoming years.   |
| In 2017 and 2018, the Bank aims to manage its entire environmental and social impacts as well as its greenhouse emissions within the framework of ISO 14001 and ISO 14064 Standards.  | The requirements of ISO 14001 and ISO 14064 management systems were delivered in a holistic manner in the Bank's operations. To that end, audits for the certification process were completed.  | In 2019 and 2020, TSKB plans to manage all its environmental and social impacts as well as greenhouse gas emissions within the framework of ISO 14001 and ISO 14064 Standards.  |
| The Bank is committed to measuring the environmental and social risks of all investment loans irrespective of the project amount, ensuring the necessary measures are taken proactively based on the determined risk and monitoring the implementation of these measures. | In 2018, environmental and social risk measurements under the ERET model were applied on a total of 60 investment loan projects irrespective of the project amount. As a result, 3 projects were classified as A (high) and 18 projects were classified as B+ (medium-high) risk projects while 25 projects and 14 projects were classified as B- (medium) and C (low) risk projects respectively. Risks were identified, required measures were taken on a project basis, and a monitoring and tracking system was set up. The goal is accomplished. | The Bank is committed to measuring the environmental and social risks of all investment loans irrespective of the project amount, ensuring the necessary measures are taken proactively based on the determined risk and monitoring the implementation of these measures. |

## HUMAN RESOURCES

| 2017-2018 Goals   | 2018 Realization   | 2019-2020 Goals   |
|---|--|---|
| A 'Development Workshop' program (comprehensive training series for theory, practice, implementation and experience consisting of classroom training program and project work for 10 full days) was initiated in 2014 for all employees at senior manager and manager level (approximately 80 people) and was completed in 2016. In 2016, the second phase of the program was launched for 45 Managers and Senior Managers who had not attended the previous training program. Continuing with the same content, the program is expected to be concluded in 2018. | The 2 <sup>nd</sup> Development Workshop was completed in May 2018, and graduated 42 participants. | In 2019, the Bank plans to diversify the scope of and re-design the program with a focus on leadership development. |



# 2019 AND 2020 SUSTAINABILITY GOALS

## HUMAN RESOURCES

| 2017-2018 Goals   | 2018 Realization   | 2019-2020 Goals   |
|---|--|---|
| Every year, TSKB offers all its employees a "Training Scheme" based on their core competences. Prepared so as to support competences that opens the door for improvement, these trainings are open to all employees and particularly focus on junior associates, associates and assistant managers. During performance evaluation meetings, the employees assess their competences together with their managers and may select training topics they need for their own improvement. Through this activity initiated in 2013, plans for the training process are now in place in a way to enable employees requesting training to attend at least one training per year.   | 174 people participated 14 catalogue trainings organized under 8 different topics in 2018.   | In 2019, the scope of the work will be expanded in a way to establish tailored development plans and the process will proceed within a comprehensive monitoring of development. Our work on the training catalogue will maintain a focus on supporting our employees on global trends and topics.   |
| TSKB has been organizing TSKB Career Workshop for "fresh graduates that are management trainees aiming to become a member of TSKB" since 2010 with the aim of "Creating a TSKB family" and "raising our own managers". At the end of this three-day workshop on enabling university students just starting their careers to explore their personal capabilities and increasing awareness on their potential, TSKB selects its new colleagues. TSKB Career Workshop will also be held in 2018.   | 42 university students attended the 9 <sup>th</sup> TSKB Career Workshop, organized between April 12-13, 2018. At the end of this 2-day Workshop, 14 new management trainees joined the TSKB family.                             | In 2019, strong employer branding efforts will continue on various platforms in regard to the recruitment of fresh graduates.   |
| New management trainees selected via the TSKB Career Workshop are inducted into the MT Development program. This is a long-term program structured in a way to allow the development of well-equipped banking staff in the field of Development and Investment Banking and aims to prepare them for the future. To this end, management trainees participate vocational trainings on Banking that are delivered by internal and external trainers. In addition, it is planned that they receive training on "Basic Occupational Health and Safety", "Sustainability", "Corporate Governance, Ethical Principles, Anti-Corruption and Anti-Bribery", "Business Continuity", "Prevention of Laundering of Proceeds of Crime and of the Financing of Terrorism", "Protection of Personal Data", "Competition Law" and "Information Security and Awareness" during the program. | 14 new management trainees who joined us following the 9 <sup>th</sup> Career Workshop program participated in the 36-day MT program delivered by internal and external trainers and their vocational development was supported. | Management trainees attend vocational training on Banking practices and are planned to attend training events on "Basic Occupational Health and Safety", "Sustainability", "Corporate Governance, Ethical Principles, Anti-Corruption and Anti-Bribery", "Business Continuity", "Prevention of Laundering of Proceeds of Crime and of the Financing of Terrorism", "Protection of Personal Data", "Competition Law", "Risk Management" and "Information Security and Awareness", all delivered by internal and external trainers. |
| The development program (coaching and international training programs) structured for managers at a department head level is planned to be continued.   | International training programs and one-on-one coaching sessions were conducted with regard to "Strategy", "Leadership" and "Negotiation" under the program structured for those on the department head level in 2018.           | The development program (coaching and international training programs) structured for managers at a department head level will continue in 2019 and 2020.   |



## CORPORATE SOCIAL RESPONSIBILITY

| 2017-2018 Goals   | 2018 Realization  | 2019-2020 Goals  |
|---|---|--|
| Being the main communication channel of TSKB's social responsibility project, Çevreciyiz is the most comprehensive environment and sustainability web portal in Turkey to this day thanks to its robust content, mobile-compatible design and social media pages. The aim is to reach out to an even larger audience by increasing the number of followers for this platform in 2017-2018. To this end, the goal is to maintain the current visitors of Çevreciyiz web site and ensure an increase in the number of social media followers for the platform.  | The number of online visitors at Çevreciyiz web site and social media followers increased.  | The aim is to reach out to an even larger audience by increasing the number of followers for this platform in 2019-2020. To this end, the goal is to maintain the current visitors of Çevreciyiz web site and ensure an increase in the number of social media followers for the platform. |
| Since 2011, TSKB has been bringing together university students, i.e. future management trainees, with members of the academia in addition to private sector representatives and organizing the 'Sustainability Workshops', which is the first literacy program on sustainability, in cooperation with Escarus, the Bank's affiliate. TSKB aims to continue the Sustainability Workshop in collaboration with Escarus in 2017-2018 as well and organize at least one workshop every year.   | TSKB Sustainability Workshop was held at ITU in December 2018. To this date, 240 university students have been involved in the case studies under the workshop.   | TSKB aims to continue the Sustainability Workshop in collaboration with Escarus in 2019-2020 as well and organize at least 1 workshop every year.  |
| As Turkey's first carbon neutral bank, TSKB acts responsibly in terms of the carbon footprint of the events it organizes. The Bank continues its efforts on becoming a "Zero Carbon" organization in 2017 and 2018, and plans to measure and offset, by purchasing Gold Standard Carbon Credits, the carbon footprint created by the concerts organized under IKSİV-Istanbul Music Festival sponsored by TSKB as well as the Career Workshops, Sustainability Workshops and conferences hosted by TSKB. TSKB will continue to support the projects "Empower Through Education" scholarship fund and "Female Stars of Tomorrow" it launched at the end of 2017. In addition, TSKB will sustain its support to excavations at the Ancient City of Patara. | In 2018, TSKB offset the carbon footprint of the events it organized during the year and continued to support the Empower Through Education scholarship fund, Tomorrow's Female Stars support fund and excavations at the Ancient City of Patara. | The Bank continues its efforts on becoming a "Zero Carbon" organization in 2019 and 2020, and plans to measure and offset, by purchasing Gold Standard Carbon Credits, the carbon footprint created by the Career Workshops, Sustainability Workshops and conferences hosted by TSKB.      |





# CORPORATE GOVERNANCE AND RISK MANAGEMENT

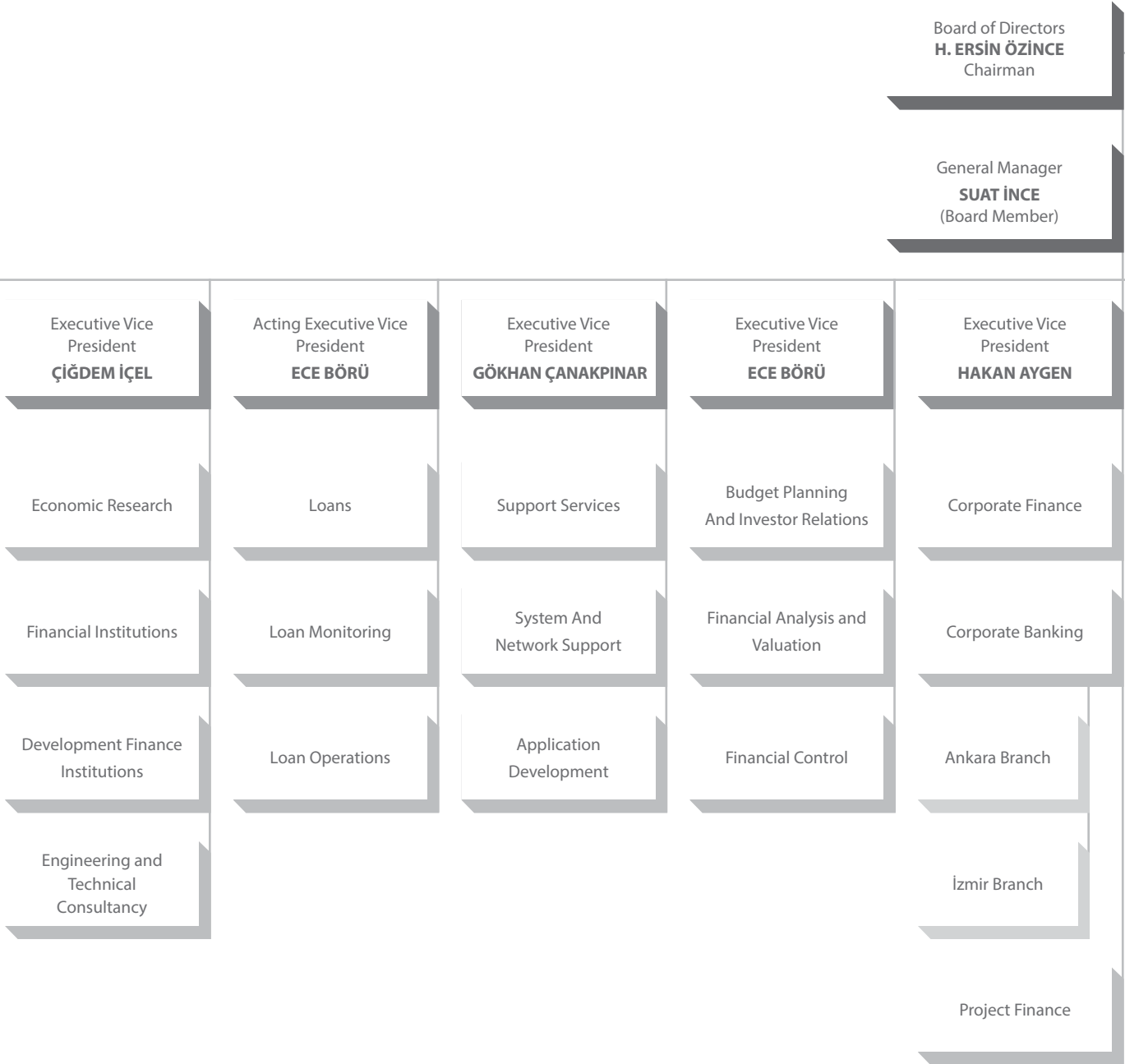








# ORGANIZATION CHART



\* As of December 31, 2018



Audit Committee  
**MEHMET ŞENCAN**  
**EBRU ÖZŞUCA**  
(Board Members)

Executive Vice  
President  
**ASLI ZERRİN HANCI**

Executive Vice  
President  
**HİDAYET YETKİN KESLER**

Executive Vice  
President  
**AZİZ FERİT ERASLAN**

Treasury

Pension and  
Assistance Funds

Legal Affairs

Business Development

Board Of Internal  
Auditors

Treasury and Capital  
Markets Operations

Human Resources

Internal Control

Corporate  
Communication

Risk Management

Enterprise  
Architecture and  
Process Management

Corporate Compliance



# BOARD OF DIRECTORS



**H. ERSİN ÖZİNCE**  
Chairman of the Board

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

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

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

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



**MEHMET ŞENCAN**  
Vice Chairman

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



**SUAT İNCE**  
Board Member and CEO

Suat İnce was born in 1964 in Ankara and graduated from the Economics Department at the Faculty of Economics and Administrative Sciences, Middle East Technical University. Having started his professional career at İşbank as Assistant Inspector on the Board of Inspectors, he was appointed as Assistant Manager of Corporate Loans Underwriting Division in 1995. Between 1997 and 2008, he was positioned as Manager in various units and branches of the bank. He served as Deputy Chief Executive of İşbank between 2008 and 2016. On 1 April 2016, Mr. İnce was elected as a member of the TSKB's Board of Directors and appointed as the Bank's Chief Executive Officer.





#### **YAVUZ CANEVI**

##### **Board Member**

Yavuz Canevi was born in Konya in 1939 and graduated from the Finance and Economics Department of the Faculty of Political Sciences, Ankara University in 1960. He completed a master's degree at the University of Southern California in 1969. After serving as a Ministry of Finance Inspector from 1960 to 1963, he worked in a variety of positions in public and private organizations from 1963 to 1989, until getting retired from his position as Treasury Undersecretary in the latter year. Mr. Canevi has been the Chairman of the Board of Directors at Türk Ekonomi Bankası since 1996. Mr. Canevi, who had served as a member of TSKB's Board of Directors between 1993 and 2012, was appointed as a member of TSKB's Board of Directors on 9 April 2015.



#### **MEHMET EMİN ÖZCAN**

##### **Board Member**

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



#### **EBRU ÖZŞUCA**

##### **Board Member**

Ebru Özşuca was born in Ankara in 1971 and graduated from Economics Department at the Faculty of Economics and Administrative Sciences of Middle East Technical University in 1992. Ms. Özşuca holds "International Banking" and "Finance" master's degrees from Middle East Technical University and Southampton University. Having started her professional career at İşbank as an assistant specialist in Treasury, she was promoted to assistant manager and unit manager of the same department. Between 2007 and 2011, Ms. Özşuca worked as the head of the Corporate Banking Products Department. In 2011, she was appointed as the Head of Treasury at İşbank. Ms. Özşuca has been a TSKB board member since 17 April 2014. Ms. Özşuca is an independent board member due to her membership in Audit Committee.



## BOARD OF DIRECTORS



### MİTHAT RENDE

#### Board Member

Born in 1953 in Antakya, Mithat Rende graduated from the Faculty of Political Science of University of Ankara. After graduation he worked in the Ministry of Commerce and then was admitted to the Ministry of Foreign Affairs, where he held posts in Damascus, Rome, Brussels (NATO), Sofia, Vienna (OSCE) and London. Mr. Rende also served as the Director of the Human Rights Department at the Ministry after completing the post-graduate program in Security and International Relations at the London-Royal College of Defence Studies. In 2005, he was appointed as Deputy Director General of Energy Environment and Water Affairs, served as Chairman of the Trade and Transit Working Group of the Energy Charter Conference in Brussels between 2005 and 2008, and was appointed as Ambassador to Doha (Qatar) in 2007. Mr. Rende served as Director General of Multilateral Economic Affairs and Turkey's Chief Negotiator for Climate Change between 2010-2013. He was also a member on the Turkish Nuclear Energy Commission during the same period. Mr. Rende was appointed as the OECD Permanent Representative of Turkey in 2013, and was elected as Chairman of the Executive Committee of the OECD in 2014. Having retired in 2016, he has been a member of the TSKB Board of Directors since 4 April 2017.



### ZEYNEP HANSU UÇAR

#### Board Member

Zeynep Hansu Uçar was born in Ankara in 1971 and graduated from Business Administration Department at the Faculty of Economics and Administrative Sciences of Middle East Technical University in 1993. Ms. Uçar has started her professional career at İşbank as an assistant specialist in Subsidiaries Department. Having served as the Unit Manager between 2007 and 2015, she was promoted as Department Manager of the Subsidiaries Department. Ms. Uçar has been a TSKB board member since 2 December 2015.



### AHMET HAKAN ÜNAL

#### Board Member

Hakan Ünal was born in 1974 in Ankara and graduated from Economics Department of the Faculty of Economics and Administrative Sciences, Hacettepe University in 1997. He then earned his MBA degree from Institute of Social Sciences, Istanbul Bilgi University in 2007. Having started his professional career at İşbank as Assistant Inspector on the Board of Inspectors in 1998, he was appointed as Assistant Manager of Credit Information and Financial Analysis Division in 2008. Having served as Unit Manager between 2011 and 2016, he was promoted as the Head of Financial Analysis Department. Mr. Ünal has been a TSKB Board Member since 6 April 2018.





#### **HÜSEYİN YALÇIN**

##### **Board Member**

Hüseyin Yalçın holds a degree in Economics from the Faculty of Administrative Sciences at the Middle East Technical University. He served as an Inspector, Assistant Manager and Branch Manager at Ziraat Bank between 1977 and 1990. From 1990 to 2000, Mr. Yalçın served as a Deputy General Manager and General Manager Consultant at Development Bank of Turkey. After the transfer of banks to Savings Deposit Insurance Fund, he served as a Senior Deputy General Manager at Yurtbank, as a Deputy General Manager at Sümerbank, as a Deputy General Manager at Kent Portföy and as the General Manager Consultant at Toprakbank from 2000 until 2002. He was elected as a member of the Board of Directors at İşbank in 2011 and worked for 6 years in same position. Hüseyin Yalçın was elected as a member of the Board of Directors at Milli Reasürans between 2017 and 2018. Since 6 April 2018, Mr. Yalçın has been a TSKB Board Member.



#### **CAN YÜCEL**

##### **Board Member**

Can Yücel was born in 1978 in Ankara and graduated from the Economics Department at the Faculty of Economics and Administrative Sciences, Middle East Technical University in 1999. Having started his professional career at İşbank as Assistant Inspector on the Board of Inspectors, he came to several management positions at SME Loan Allocation and Corporate Loan Allocation Departments, respectively, since 2008. In 2011, Mr. Yücel was appointed as Project Finance Unit Manager under Corporate Loan Allocation Department in which he finally has been positioned as the Department Manager in 2016. On 10 June 2016, Mr. Yücel has been appointed as a member of the TSKB's Board of Directors.



# SENIOR MANAGEMENT



## SUAT İNCE

Board Member and CEO

Suat İnce was born in 1964 in Ankara and graduated from the Economics Department at the Faculty of Economics and Administrative Sciences, Middle East Technical University. Having started his professional career at İşbank as Assistant Inspector on the Board of Inspectors, he was appointed as Assistant Manager of Corporate Loans Underwriting Division in 1995. Between 1997 and 2008, he was positioned as Manager in various units and branches of the bank. He served as Deputy Chief Executive of İşbank between 2008 and 2016. On 1 April 2016, Mr. İnce was elected as a member of the TSKB's Board of Directors and appointed as the Bank's Chief Executive Officer.



## ÇİĞDEM İÇEL

Executive Vice President

Çiğdem İçel was born in Eskişehir in 1966 and graduated from the Department of Business Administration, Boğaziçi University. Ms. İçel began her professional career at TSKB as an Assistant Investment Advisor in the Treasury Department. After serving in a variety of positions, she was appointed as the Head of Treasury and Correspondent Banking Department in 1998. Çiğdem İçel was promoted to the Executive Vice President on 29 January 2006. Ms. İçel is currently responsible for the Development Finance Institutions, Financial Institutions, Economic Research, Engineering and Technical Consultancy Departments since 1 January 2017.



## GÖKHAN ÇANAKPINAR

Executive Vice President

Gökhan Çanakpınar was born in Ardahan in 1964 and graduated from the Department of Business Administration, Middle East Technical University. Mr. Çanakpınar began his professional career at İpekş Mensucat as System Analyst in 1988. After 1990, Mr. Çanakpınar served as Project Manager at İşbank for six years. In 1995, he started serving as System Analyst at TSKB and appointed as the Head of Application Development Department in 2000. Mr. Çanakpınar promoted to Group Head of Information Technology Unit in 2011. Since 27 December 2011 he has been working as an Executive Vice President. He has been in charge of System and Network Support, Application Development, Support Services Departments since 1 January 2017.



## ECE BÖRÜ

Executive Vice President

Ece Börü was born in İstanbul in 1966 and graduated from Management Engineering Department of İstanbul Technical University in 1988. Ms. Börü joined TSKB as an assistant specialist in Financial Control Department in 1989. She was promoted to Head of Financial Control in 2000 and to Head of Board of Internal Auditors in 2006. Since 28 November 2013, Ms. Börü has been serving as the Executive Vice President of TSKB. She has been responsible for Budget Planning&Investor Relations, Financial Analysis&Valuation and Financial Control, Loans, Loan Monitoring and Loan Operations Departments.



**HAKAN AYGEN****Executive Vice President**

Hakan Aygen was born in Konya in 1965 and graduated from Management Engineering Department of Istanbul Technical University. Mr. Aygen started his professional career in non-financial sector in 1989. He joined TSKB in 1995 as an assistant specialist in the Financial Analysis Department and completed his master's degree on Management and Organization at Marmara University in 1996. Mr. Aygen was appointed as the Head of Corporate Finance Department in 2006 and promoted to Group Head in 2011. Having received his Accounting Finance doctorate degree from Marmara University in 2013, he was promoted as Executive Vice President on November 28, 2013. Mr. Aygen has been in charge of Corporate Finance, Corporate Banking and Project Finance Departments since 1 January 2017.

**AZİZ FERİT ERASLAN****Executive Vice President**

Aziz Ferit Eraslan was born in Istanbul in 1969. Following his graduation from the Public Administration Department of Middle East Technical University in 1991, he completed the MT Banking School of Ziraat Bank. In 1992, Mr. Eraslan started his professional career at İşbank's Board of Inspectors. He completed his master's degree at the Stirling University of Scotland between 1996-1997. At the Accounting Department of İşbank, Mr. Eraslan was appointed as Deputy Manager in 2000 and as Group Manager in 2003. Between 2007 and 2012, he was positioned as the Department Head at the Accounting Department, name of which was transformed to Financial Management Department in time. Between 2013 and 2015, Mr. Eraslan was in charge of Chief Executive Officer position at Closed Joint Stock Company İşbank. In October 2015, he was appointed as Executive Vice President who is responsible for Board of Inspectors, Risk Management and Internal Control Departments at TSKB.

**ASLI ZERRİN HANCI****Executive Vice President**

Aslı Zerrin Hancı was born in Ankara in 1969 and graduated from the Faculty of Business Administration at Istanbul University in 1990. Ms. Hancı began her professional career at Citibank in 1991. She worked at the Treasury department of Chase Manhattan and BNP Ak Dresdner Bank respectively. Ms. Hancı joined the TSKB Treasury Team in 2005. She was appointed as the Head of Securities Department in 2007 and as Head of Treasury Department in 2008. Since 1 January 2017, she has been Executive Vice President in charge of Treasury, Treasury and Capital Markets Operations Departments.

**HİDAYET YETKİN KESLER****Executive Vice President**

H. Yetkin Kesler was born in Istanbul in 1966 and graduated from the Department of Industrial Engineering at Boğaziçi University in 1989. He started his career as an Assistant Internal Auditor at Koçbank in 1992. Then he completed his master's degree of Management Engineering at Istanbul Technical University in 1993. Mr. Kesler joined TSKB as a Financial Controller Specialist in 1994 and was appointed as Head of System Development in 2005, as Head of Internal Control in 2011, and as head of Enterprise Architecture and Process Management Department in 2013. Since 1 January 2017, Kesler has been Executive Vice President responsible for Human Resources and Corporate Communications, Enterprise Architecture and Process Management, Corporate Compliance and Pension and Assistance Funds.



# CORPORATE GOVERNANCE

## SECTION I - CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE STATEMENT

Türkiye Sınai Kalkınma Bankası A.Ş. (hereinafter “TSKB” or the “Bank”) is subject to “Corporate Governance Principles” compliance of which is obligatory for banks within the framework of Capital Markets Board (CMB) and banking regulations. According to the Bank’s Articles of Association Article 55, transactions made and the resolutions of the Board of Directors passed by not observing the said obligatory principles shall be deemed as conflicting with the Articles of Association. The Bank applies the compulsory principles in “Banks’ Corporate Governance Principles Regulation” and “Corporate Governance Communiqué”.

The Bank is in full compliance with the Corporate Governance Principles, with the exception of the following few non-compulsory principles. Below-mentioned principles that are not yet complied with did not so far result in any conflict of interest among the stakeholders.

In relation to the principle no. 1.5.2, there is no regulation in the Bank’s articles of association except for the provisions stipulated by the relevant legislation on minority rights.

With respect to the principle no. 4.6.1, the performance of the Board of Directors is not assessed.

Regarding the Principle 4.6.5, due to corporate policies, the Bank does not announce the remuneration of the senior management and board member on a personal basis. The total figure is announced in the annual report.

Filed in accordance with Capital Market Board Resolution numbered 2/49 and dated January 10, 2019, Bank’s Corporate Governance Principles Compliance Report (CRF) and Corporate Governance Information Filings (CGIF) is accessible via Public Disclosure Platform (PDP).

## SECTION II - SHAREHOLDERS

### 2.1. Investor Relations Department

Investor relations responsibilities are executed pursuant to the fundamentals of corporate governance which are transparency, accountability, responsibility and equality by the departments of Budget Planning&Investor Relations and Legal Affairs. “Investor Relations Department Manager”, who holds Capital Market Activities Advanced Level Certificate and Corporate Governance Rating Specialist Certificate, serves as a member of Corporate Governance Committee as per the provisions of the governing legislation.

Contact details of the employees who take part in Investor Relations are given in the following table:

| Full Name and Title   | Phone No        | Electronic Mail Address |
|---|-----------------|-------------------------|
| Ece Börü<br>Executive Vice President for Budget Planning and Investor Relations, Financial Control and Financial Analysis&Valuation | 0 212 334 51 91 | borue@tskb.com.tr       |
| Ayşe Nazlıca<br>Head of Budget Planning and Investor Relations  | 0 212 334 51 94 | nazlicaa@tskb.com.tr    |
| Özen Çaylı<br>Budget Planning and Investor Relations Department Manager*  | 0 212 334 52 49 | halilogluo@tskb.com.tr  |
| Emre Kalelioğlu<br>Budget Planning and Investor Relations Manager   | 0 212 334 52 03 | kalelioglue@tskb.com.tr |
| Özlem Bağdatlı<br>Legal Affairs Department Manager  | 0 212 334 50 93 | bagdatlio@tskb.com.tr   |
| Korhan Aklar<br>Legal Affairs Group Manager   | 0 212 334 50 92 | aklark@tskb.com.tr      |

\*Ms. Özen Çaylı, Investor Relations Department Manager, holds Capital Market Activities Advanced Level Certificate (Certificate No: 204985) and Capital Market Board Corporate Governance Rating Specialist Certificate (Certificate No: 701337).



Responding to all shareholder and analyst information claims received via telephone and e-mail in 2018, Investor Relations Department conducted total of 64 informatory meetings with investors and analysts, 18 of which was abroad.

In the same year, quarterly teleconference meetings were organized. Thus, 4 teleconference meetings were held during 2017.

Activities of the Investor Relations Department were reported to the Corporate Governance Committee to be reviewed in the Committee's first meeting. The Committee submitted the relevant report to the Board of Directors, at the meeting dated February 26, 2019.

A total of 68 public disclosures were made in the time frame between 1 January - 31 December 2018 pursuant to the regulations of Capital Market Board. There were no special cases that Capital Market Board or Borsa Istanbul demanded additional explanation and that were not notified timely. On September 25, 2018, Borsa Istanbul order in relevant to the "Unusual Price and Volume Movements" was met at the same day and disclosed that there was special event pertaining to the Bank, which has not been disclosed to public.

A leading institution in corporate governance, the Bank attained a corporate governance rating in 2018 that enabled it to maintain its position among the highest-rated institutions. TSKB's corporate governance rating of 9.54 over 10 was confirmed by Saha Rating on October 20, 2018.

#### TSKB's Corporate Governance Rating

| Main Sections                      | Weight | Grade       |
|------------------------------------|--------|-------------|
| Shareholders                       | 0.25   | 9.49        |
| Public Disclosure and Transparency | 0.25   | 9.69        |
| Stakeholders                       | 0.15   | 9.85        |
| Board of Directors                 | 0.35   | 9.34        |
| <b>Total</b>                       |        | <b>9.54</b> |

#### 2.2. General Assembly Meeting

During the Ordinary General Assembly held on March 23, 2018, the shareholders were given the right to ask questions and there has not been any proposal from shareholders regarding any additions to the agenda.

The following resolution was adopted by the shareholders unanimously:

- Constitution of the Meeting Presidency in accordance with the Articles of Association of the Bank and delegation of authority to the Meeting Presidency for the execution of the minutes of the General Assembly,

The following resolutions were adopted by the shareholders by majority votes:

- Review and discussion of the Annual Reports of the Board of Directors, Declaration of Compliance with the Corporate Governance Principles and Reports of the Auditors and Independent Auditors regarding the accounts and transactions of the Bank within the year of 2017,
- Review and approval of the balance sheet and profit and loss statement of the Bank for the year 2017,
- Approval of the election of the Members of the Board of Directors in replacement of resigned members,
- Release of the Members of the Board of Directors from their responsibilities,
- Adoption of a resolution regarding the determination and allotment of the profit to be distributed, determination of the dividend distribution date,
- Determination of allowance for the Members of the Board of Directors,
- Choosing the independent audit firm,
- Determination of the upper limit for the donations to be made in 2018.
- Empowering the Members of the Board of Directors with regards to responsibilities and transactions set forth in Turkish Commerce Code, Articles 395 and 396.



# CORPORATE GOVERNANCE

Since the amount of special disbursement to be paid to employees according to their performances in 2017 was not decided yet, the General Assembly was notified that the payment was not realized yet and is going to be paid following the Board of Directors decision. Moreover, with a separate agenda item, the shareholders are notified that a total of TL 175,000 that was donated throughout the year.

Pursuant to the principle 1.3.6. of the Corporate Governance Principles, shareholders were informed that İş Bankası A.Ş. and TSKB are companies operating in the same sector and that some members of the Board of Directors are currently working for İş Bankası A.Ş. and Vakıflar Bankası T.A.O. in management positions.

Throughout the period, there has been no transaction where the decision had to be left to the discretion of the General Assembly due to independent board of directors' member rejections.

## 2.3. Profit Distribution Policy

Dividend Payment Proposal of the Board of Directors is prepared in the framework of Profit Distribution Policy approved by the General Assembly regarding;

- The sensitive balance between shareholders' expectations and the bank's growth requirement
- Profitability of the Bank

Principles governing the Bank's dividend distribution are arranged in the Articles of Association, Article 47, and there are 100 founders' shares that receive a portion of the profits distributed subject to these principles.

The Bank's dividend payment policy was disclosed to shareholders on the Bank's Turkish and English websites.

The Dividend Policy dictates that as long as there are no unfavorable developments in global and local economic circumstances, and the Bank's financial position and capital adequacy ratio are at the foreseen levels, 30% of the distributable profit that is calculated as the first profit share will be paid out as cash and/or stock dividends.

Dividends are paid within the legally prescribed periods of time. The payment of dividends is completed in no case later than the end of the 5<sup>th</sup> month of the year as prescribed by the law.

The dividend proposal of The Board of Directors was accepted during the General Assembly. The cash dividend of the year 2017 equivalent to TL 96,000,000 was distributed on 26 March 2018, whereas the TL 400,000,000 was distributed as bonus shares subsequent to the registration of the said shares by the Capital Markets Board on June 4, 2018.

## SECTION III – STAKEHOLDERS

The stakeholders, who have an interest in the bank, including shareholders, employees, creditors, clients, suppliers, non-governmental organizations, the government and potential investors submit their complaints and recommendations to the Bank by means of a communication form that can be found on the Bank's website. Furthermore, stakeholder analysis done every two years contributes in this aspect.

Employees are kept informed about all bank decisions and developments that may be of concern to them and feedback is solicited from them on such issues. The Bank, which continues to develop mechanisms to include employees into decision-making processes, receives employee feedback via committee activities as well as periodic surveys. Besides, having gathered employees from every department, the Bank also has put the "HR Representatives" project into practice in 2017. There are no trade union activities

The participation of employees to the management is incorporated to the internal regulations. The employees are authorized according their signing rating in pursuant to the Directive of Türkiye Sınai Kalkınma Bankası transfer of Representation Authority published on Trade Registry Newspaper at page 483, dated November 11, 2005 with the number 8944.

Employees are able to convey their opinions and claims to the relevant persons and have contribution to the company resolutions by means of "I Have a Recommendation" and "Complaint Form" that they can access on the Bank's intranet. Moreover, there are many committees that are formed by the Bank employees, concentrating on various issues. Participation of the employees in management is also made possible by means of these committees.



## SECTION IV – BOARD OF DIRECTORS

### 4.1. Board Members

Board of Directors consists of 10 members, which allows the activities of the Board of Directors to be organized effectively. Information about the Board of Directors' members and the CEO are given in the following table and their detailed resumes are accessible at the Bank's website and annual reports.

| Full Name          | Title                    | Educational Background  | Working Experience | Date of Appointment | Committees and Title  | Duties out of the Bank  |
|--------------------|--------------------------|---|--------------------|---------------------|---|---|
| Hakkı Ersin Özince | Board Chairman           | Middle East Technical University, Economics and Administrative Sciences / Business Administration | 42 years           | 4 May 2017          | -   | T. İş Bankası A.Ş. Board Chairman   |
| Mehmet Şencan *    | Board Vice Chairman      | Istanbul Technical University/ Management Engineering   | 30 years           | 7 Jun 2017          | Audit Committee Chairman, Credit Revision Committee Member  | T. İş Bankası A.Ş. Executive Vice President, İş Faktoring A.Ş. Board Chairman, JSC Isbank Georgia Board Chairman, JSC İşbank Board Chairman   |
| Suat İnce          | Board Member and CEO     | Middle East Technical University, Economics and Administrative Sciences/ Economics                | 31 years           | 1 Apr 2016          | Credit Revision Committee Member  | TSKB A.Ş. CEO, Yatırım Finansman Menkul Değerler A.Ş. Board Chairman  |
| Yavuz Canevi       | Board Member             | University of Southern California/M.A. In Economics   | 38 years           | 9 Apr 2015          | -   | Türkiye Ekonomi Bankası Board Chairman, FNSS Savunma Sistemleri A.Ş. Board Chairman, Global Relations Forum Founding Member, İktisadi Kalkınma Vakfı Board Member, TÜSİAD High Advisory Council Member  |
| Mehmet Emin Özcan  | Board Member             | Ankara University / Economics   | 35 years           | 20 Jun 2017         | -   | T. Vakıflar Bankası T.A.O. CEO  |
| Ebru Özşuca *      | Board Member             | Southampton University / International Banking and Finance  | 25 years           | 17 Apr 2014         | Audit Committee Member, Corporate Governance Committee Chairman, Remuneration Committee Chairman      | T. İş Bankası A.Ş. Executive Vice President, JSC İşbank Board Member  |
| Mithat Rende       | Independent Board Member | London-RCDS/Security and International Relations  | 30 years           | 4 Apr 2017          | Sustainability Committee Member   | Engie Yönetim Enerji Hizmetleri ve Ticaret A.Ş. Independent Board Member, Turabder-Türkiye AB Derneği Member, Global Relations Forum Member   |
| Zeynep Hansu Uçar  | Board Member             | Middle East Technical University, Economics and Administrative Sciences / Business Administration | 25 years           | 2 Dec 2015          | Corporate Governance Committee Member, Remuneration Committee Member, Sustainability Committee Member | T. İş Bankası A.Ş. Subsidiaries Department Head, Anadolu Cam Sanayi A.Ş. Board Member, Paşabahçe Cam Sanayi A.Ş. Board Member, Trakya Cam Sanayi A.Ş. Board Member, Türkiye Şişe ve Cam Fabrikaları A.Ş. Board Member, Trakya Yatırım Holding A.Ş. Board Chairwoman |
| Ahmet Hakan Ünal   | Board Member             | İstanbul Bilgi University/ B.A. in Business Administration  | 20 years           | 6 Apr 2018          | Credit Revision Committee Member  | T. İş Bankası A.Ş. Financial Analysis and Intelligence Department Head, İş Faktoring A.Ş. Board Member  |
| Hüseyin Yalçın     | Board Member             | Middle East Technical University, Economics and Administrative Sciences/ Economics                | 41 years           | 6 Apr 2018          | -   | Retired Banker  |
| Can Yücel          | Board Member             | Middle East Technical University, Economics and Administrative Sciences/ Economics                | 19 years           | 10 Jun 2016         | Credit Revision Committee Member, Sustainability Committee Member                                     | T. İş Bankası A.Ş. Corporate Loans Placement Department Head, İşbank AG Board Member, JSC Isbank Georgia Board Member   |

\* Members of the Audit Committee were accepted as Independent Members of the Board of Directors as per the provisions of Capital Market Board's Corporate Governance Communiqué No: II.17.1., Article 6/(3)-a.



# CORPORATE GOVERNANCE

All of the Directors' Board Members were re-elected in the General Assembly on March, 23, 2018. As the period of duty is 3 years, end of duty date for the all of the members is 2021.

In regard to the "Policy for Female Participation in the Board of Directors" composed in 2014, assessments have been done by the Board of Directors every year. As of December 31, 2018, there was two women members in the Board of Directors. In 2019, the relevant policy is planned to be updated through time extension.

With the Nomination Committee's report dated January 18, 2018, Mr. Mithat Rende was presented as the independent board member nominee at the Board of Directors meeting on January 26, 2018. Following the approval of the Board of Directors, Mr. Rende was selected as the independent board member by the General Assembly held on 23 March 2018. Declaration of independence of Mr. Mithat Rende takes place below.

*"To the Board of Directors of Türkiye Sınai Kalkınma Bankası A.Ş.;*  
*Whereas I am nominated to Independent Board of Directors Member on your Bank's General Assembly Meeting dated March 23, 2018, I hereby represent and warrant:*

*a) that there isn't any relations between myself, my spouse, my relatives up to second degree or my in-laws, and the Company or those persons who control the management of the Company or possess significant controlling power over the Company or legal persons who have controlling power on such shareholders and there isn't anyone among my relatives and in-laws that have had significant duties or responsibilities in management positions at the aforementioned legal persons; that I do not possess, jointly or individually, greater than 5% of the capital or rights to vote or privileged shares and that I do not have a significant commercial relations with the aforementioned;*

*b) that I have not taken part, in the last five years, in companies from which the Company purchases significant amounts of goods or services, especially controlling (including but not limited to tax inspection, legal audit, internal audit), rating or consultancy services, as shareholder (5% and above), Board of Directors member or in any other management position with important duties and responsibilities;*

*c) that I have ample vocational education, knowledge and experience to properly perform duties I'll undertake as can be reasonably expected from an independent Board of Directors Member;*

*d) that I am not employed by public sector organizations as a fulltime employee as of the date I was nominated to Independent Board of Directors Member and that –in the event I am elected, I will not work as a fulltime employee in public sector organizations throughout the term of my office as Independent Board of Directors Member;*

*e) that I am considered as a resident of Turkey in the sense of Income Tax Code (ITC) Code No: 193 dated December 31, 1960;*

*f) that I possess strong ethical standards, vocational reputation and experience to contribute to the Bank's success and to remain impartial and take decisions with careful consideration of the stakeholders' rights in the event of any conflicts of interest that might arise among the stakeholders of the Company;*

*g) that I will have enough time to monitor the Company's activities and fully perform my duties that I will undertake;*

*h) that I did not serve as a Board Member for a term longer than 6 years for the last 10 years;*

*i) that I did not serve as an Independent Board Member in more than three of the companies that have controlling power on the Company or shareholders of the Company and/or in more than five of the companies that are publicly traded in the stock market;*

*l) that I wasn't registered and announced for and on behalf of a legal person that is appointed to the Board of Directors Member and therefore, I will serve as an Independent Member.*

Sincerely,

*Mithat Rende* ..



#### 4.2. Operating Principles of the Board of Directors

Board of Directors gathers periodically, at least once a month, or more where the Company's business so dictates. The meeting date is set so as to allow participation of all Board Members, and Board of Directors meetings are held by participation of all members, excluding the exceptional cases under unforeseen circumstances.

In principle, Board Members participate in every meeting. Moreover, Board Members may choose to participate Board Meeting on electronic environment.

The Board's first meeting is preferably held on the same day that the board is elected. At this first meeting, the chairman and deputy chairman are elected, duty assignments are made, and committees are formed.

A draft of the agenda for a board meeting is prepared by the CEO and finalized in line with the suggestions of the chairman and other directors. The information and documents pertaining to items on the board's agenda are sent out to members to be reviewed at least seven days before the meeting. In situations where this is not possible, every effort is made to ensure that all members are equally informed about the matters involved.

There is a secretariat in place for the purpose of notifying and organizing the communications with the Board of Directors. Summoning the Board of Directors meetings are made by means of phone at first, which is followed by written invitation.

Each board member is entitled to a single vote. As stipulated in the Articles of Association, the board convenes with a simple majority of its membership and decisions are passed by a simple majority of those present.

The Board of Directors convened 39 times between 1 January 2018 and 31 December 2018. In this period, there was not any significant transaction with any affiliated parties that would require approval of General Assembly.

The possible losses resulting from mismanagement of Board of Directors and all Bank managers are under the coverage of USD 75 million insurance, which is signed by Türkiye İş Bankası A.Ş. for its group companies.

#### 4.3 Number, Structure and Independence of Committees Established by the Board of Directors

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

##### Audit Committee

Audit Committee has two members, which have been elected from among non-executive members of the board of directors. Current Audit Committee members are Mr. Mehmet Şencan (Chairman) and Ms. Ebru Özşuca (Member).

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

Audit Committee has gathered 30 times in the period of 1 January - 31 December 2018.

##### Corporate Governance Committee

Corporate Governance Committee is formed by 2 non-executive members of the Board of Directors and the Investor Relations Department Manager. The committee members were composed of Ms. Ebru Özşuca (Chairwoman), Ms. Zeynep Hansu Uçar (Member), and Ms. Özen Çaylı (Member) in 2018.

In accordance with the Communique, the duties of the Nomination Committee are incorporated into the duties and responsibilities of the Corporate Governance Committee. During the year, Nomination Committee held one meeting.

Corporate Governance Committee meets minimum 4 times a year or at any time when requested by a member, with a predetermined agenda. The Committee has conducted 4 meetings in 2017 at the Bank's head office with full attendance.



# CORPORATE GOVERNANCE

## Remuneration Committee

The committee is comprised of two Members of the Board, namely Ms. Ebru Özşuca (Chairwoman) and Ms. Zeynep Hansu Uçar (Member).

Duties, authorities and responsibilities of the Remuneration Committee as well as the procedures and principles that are applicable to their office can be found at the Bank's website.

Activities of the Bank regarding remuneration are under regular inspection and evaluation with respect to adherence to relevant legislation and policy provisions.

## 4.4. Financial Benefits

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

Members of the Board of Directors receive no financial benefits other than the monthly honorarium that is paid to them. The amount to be paid as an honorarium is determined in line with the proposals put forward by shareholders at a General Assembly.

No member of the Board of Directors is or has ever been the direct or indirect recipient of any cash or non-cash loan extended by the bank.

The total amount of financial benefits paid such as bonus, dividend, wage, etc. to members of Board of Directors and senior management is TL 11,640 thousand.

Other payments with respect to traveling, accommodation and etc. paid to members of Board of Directors and senior management is TL 357,441.



# PROFIT DISTRIBUTION PROPOSAL

Pursuant to 47<sup>th</sup> article of our Articles of Association General Assembly shall be offered to reserve 2018 Net Profit of TL 660,925,623.04 as;

1. in accordance with paragraph (a) of the relevant article, allocation of TL 33,046,281.15 which is 5% of the net profit as legal reserves,
2. Allocation of the remainder TL 627,879,341.89 as extraordinary reserves.

We hereby submit to the General assembly to entitle the Board of Directors for all procedures related to all issues projected above.

## NOTE ON THE PROFIT DISTRIBUTION PROPOSAL

In accordance with the Bank's Dividend Policy; considering the national and global economic conditions, the long term growth targets of the Bank, the sustainability of its strong equity structure, as well as the Banking Regulatory and Supervisory Agency's guidance regarding the banking sector, it will be submitted to the approval of the General Assembly, as shown in the attached 2018 Profit Distribution Proposal that of the net profit of TL 660,925,623.04, TL 33,046,281.15 will be reserved as general legal reserve, and the remaining TL 627,879,341.89 will be set aside as extraordinary reserves under shareholders' equity.



# SUMMARIZED BOARD OF DIRECTORS' REPORT

Esteemed shareholders,

You are all welcome to the 69<sup>th</sup> Ordinary General Assembly Meeting of our Bank.

We would like to convey our kindest regards to our shareholders, their representatives and guests for honoring the hall and hereby submit to your examination and approval the Board's Annual Report and Independent Audit Report for 2018 accounting period as well as profit and loss statements.

Global economy presented a strong growth in 2018. However, global developments indicate that it is getting more difficult to maintain such a trend in global economic growth. Such developments include, among others, tightening measures in monetary policies, trade wars, increased geopolitical risks and weaker capital flows into developing countries.

The Turkish economy was influenced by negative geopolitical developments domestically as well as the rise in borrowing costs due to shrinking global liquidity. USD/TL rate which was 3.77 at the beginning of 2018, picked up by 40% to reach 5.28 at year-end. Increasing FX rates triggered a rise in the inflationist pressure since there is a high dependence on import inputs in production. In 2018, annual inflation surged from 11.9% to 20.3%.

International developments in the banking sector throughout the year and fluctuating FX rates led to a recession in loan growth in 2018. Our sector maintained its robust structure thanks to experienced and expert management staff, resilient capital structures and the impact of measures by regulatory authorities

despite the recession in economic activity and the relatively more challenging financial conditions.

At 2018 year-end, the asset size of the banking sector rose to TL 3.9 trillion with an increase of 18.7% and its total equity expanded by 17.4% to reach TL 421 billion. Total loans in the sector lifted up by 14.1% to reach TL 2.5 trillion.

TSKB maintained a robust and resilient balance sheet and capital structure. As of December 31, 2018, on a year-on-year basis, the Bank increased:

- its equity by 33.5% to reach TL 4,719,004 thousand,
- its loan stock by 26.3% to reach TL 28,226,307 thousand,
- its total assets by 32.5% to reach TL 38,298,111 thousand.

The Bank posted a net income of TL 660,926 thousand with a surge of 11% year-on-year in 2018. As of 2018 year-end, our capital adequacy ratio, return on equity, return on assets and NPL ratio stood at 16.2%, 16%, 2% and 2.1% respectively.

Availing ourselves of this opportunity, we would like to thank our business partners, employees and all stakeholders for their contribution to such successful results and extend our warmest regards to our shareholders that honored our General Assembly meeting.

TÜRKİYE İSİNİ KALKINMA BANKASI A.Ş.  
BOARD OF DIRECTORS



# OTHER MAJOR UPDATES ON CORPORATE OPERATIONS

## Disclosures on Private Audit and Public Audit During the Accounting Period

During the current accounting period, a private audit has not been conducted at the Bank as per Articles 207, 438 and 439 of the Turkish Commercial Code. The Bank is subject to public audit by public institutions such as the BRSA, CBRT, CMB and the Competition Authority. If any matters requiring a public disclosure arise in relation to the audits conducted at the Bank by public institutions, they are publicly shared through material disclosures.

## Disclosures on Administrative or Judicial Sanctions Imposed on the Company and Board Members for Acts Violating Legislative Provisions

Information on court proceedings are provided in the annual report and in section III/4 of part five of the non-consolidated audit report.

## Related Party Transactions

Information on the Bank's related party transactions are provided in the footnotes for the Audit Report. The conclusion of the Subsidiaries Report for 2018 drafted pursuant to Article 199 of the Turkish Commercial Code No. 6102 is provided below:

"Between our Bank and Türkiye İş Bankası A.Ş., our controlling shareholder, and the companies affiliated thereto, there are no legal procedures completed under the instructions of our controlling shareholder to the benefit of the latter or of a company affiliated thereto and no measures taken or avoided to the benefit of our controlling shareholder or a company affiliated thereto.

Furthermore, the commercial transactions, which are concluded between our Bank and Türkiye İş Bankası A.Ş., our controlling shareholder, and the companies affiliated thereto and are provided in the report in detail, are transactions required by our Bank's operations and are completed over the equal values applicable in the market. They are compliant with the principle prescribed in Article 202 of the Turkish Commercial Code No. 6102 that the controlling shareholder cannot exercise its control in a way to inflict loss on its subsidiaries.

There are no decisions against or transactions inflicting loss on our Bank under the instructions of Türkiye İş Bankası A.Ş., our controlling shareholder, and the companies affiliated thereto."

## Information on Operational Fields for which Support Services are Outsourced Pursuant to the Regulation on Outsourcing of Support Services by Banks and Information on the Persons and Organizations Supplying Such Services

The following services the Bank used in 2018 fall into the scope of the Regulation on Outsourcing of Support Services by Banks promulgated on November 5, 2011.

1. Server Hosting for Emergency Services provided by Superonline İletişim Hizmetleri A.Ş.
2. Riskfree Treasury Valuation System Service provided by Risk Aktif Danışmanlık Eğitim Yazılım Sanayi ve Ticaret Ltd. Şti.
3. Swift Service Office Main Connection Service provided by Fineksus Bilişim Çözümleri Ticaret A.Ş.
4. Internal Rating Model and Assets-Liabilities Management Infrastructure and Maintenance Service provided by Prometeia SPA
5. EFT Software Maintenance Service provided by Mor Teknoloji Yaz. İlet. Bil. Dan. ve En. San. Tic. Ltd. Şti.
6. Building and Employee Security Service provided by Tepe Savunma ve Güvenlik Sistemleri San. A.Ş.

## Amendments in the Articles of Association During the Year

Amendment in Article 5 pertaining to increasing the issued capital of the Bank from TL 2,400,000,000 to TL 2,800,000,000 was registered in Istanbul Trade Registry on June 7, 2018 and promulgated in the Official Gazette No. 9605 of June 22, 2018.



# RISK MANAGEMENT POLICIES

## Information On Risk Policies Based On Risk Types

TSKB's Risk Management Policies and application principles of these policies consist of written standards established by the Board of Directors and implemented by the Bank's executive management.

According to TSKB's Risk Management Policies, the main risks exposed by the Bank are identified as the credit risk, asset-liability management risk (market risk, structural interest rate risk, liquidity risk) and operational risk. Risk Management Department is formed within the Bank in order to manage the risks the Bank is exposed to in parallel to the risk policies ensuring compliance with those policies and related application principles.

TSKB's Risk Management Department actively participates in all processes regarding the management of risks and submits regular reports to the Board of Directors, Audit Committee, senior management and related units of the Bank. Its duties, responsibilities and structure have been established by the Regulation of Risk Management Department.

## Credit Risk Management Policy

Credit risk is the possibility that the credit customer or a counterparty of an agreement being unable to fulfill the obligations pursuant to the conditions of the agreement. Whilst the most common and apparent source of credit risk is the loans granted by the Bank, other banking services carrying counterparty risk also carry credit risk. In this regard, all related banking activities are evaluated within the scope of credit risk.

Credit risk is measured and managed by taking into account the structure and characteristics of the credit, the terms and conditions of the credit agreement and financial conditions, the structure of the risk profile until the end of the maturity in parallel with possible market movements, guarantees and collaterals, internal risk ratings, possible changes in ratings during the risk exposure period, concentrations (one single company, group

of affiliated companies, sector, country, etc.) and compliance with limits established by the Board of Directors to prevent such concentrations.

In measuring credit risk, the Internal Rating Based Model is used for the purposes of monitoring and controlling the credit risk and providing early warning.

Maximum effort is taken to ensure that limits and policies in agreements with foreign and domestic sources do not diverge to a significant degree from the policies and limits set by the Bank. Despite the clauses in the agreements deviate from the existing policies, they are still accepted to be in force.

## Asset-Liability Management Risk Policies

All financial risks arising from the Bank's assets and liabilities other than credit risk are defined as asset-liability management risks. The market risk of the trading portfolio, structural interest rate risk and liquidity risk fall into this category.

## I - Market Risk Management Policy

Market risk is the possibility of portfolio or position loss in the scope of trading portfolio resulting from fluctuations in interest rates, stock prices, commodity prices or exchange rates on the financial markets. The purpose of market risk management is to manage, within the appropriate parameters, the risks which the Bank might be exposed to with a proactive approach and thus maximize the Bank's risk adjusted return.

Market risk is managed by using consistent risk measurement and criteria such as fluctuation level of interest and/or prices and Value at Risk calculations, establishing appropriate procedures regarding the performance of control and observing compliance with the identified risk limits.



Interest rate risk, exchange rate risk, stock and commodity price risk and exchange risks constitute the major elements of market risk. In order to control these risks in a healthy manner the core principal is to manage transactions carried out in money and capital markets such that they do not form concentration in terms of instrument, maturity, currency, interest type and other similar parameters, and in a “well diversified” manner in accordance with their risk levels. Moreover, the creditworthiness of issuers of financial instruments causing market risk is evaluated and monitored carefully.

In calculating market risk, the Bank uses two major approaches, namely BRSA Standard Method and Value at Risk (VaR). Accuracy of the VaR model is ensured by back testing which is the comparison between the calculated Value at Risk and realized losses. In addition; stress tests are applied in order to determine the impacts of events, with low possibility of realization but substantial losses, on Value at Risk.

## **II - Structural Interest Rate Risk Management Policy**

Structural interest rate risk is the risk of change in the Bank's capital due to possible changes in interest rates through differences in the repricing period and the interest structures of interest-sensitive assets and liabilities monitored in banking book.

Structural interest rate risk is managed through the provision of consistent information on structural interest rate risk to all organizational levels by using risk measurement and criteria such as the level of fluctuation of interests, interest shock and stress test calculations.

The inconsistencies of the asset-liability structure are monitored and measured on currency basis and at determined maturity intervals taking into account their re-pricing.

TSKB manages interest risk by acknowledging that it threatens the Bank's income, capital, liquidity and reputation and consists of factors such as re-pricing risk, yield curve risk, base risk, spread risk and option risk.

## **III - Liquidity Risk Management Policy**

Liquidity risk is defined as the risk of failure to meet the on and off balance sheet liabilities when due. This includes the case when the Bank does not have enough cash or cash inflows in order to fulfill the cash outflows completely and on time and thus incurs a loss.

There are two kinds of liquidity risk, one is related to funding for capital markets and trading activities, the other one is related to market. Liquidity risk related to funding is the risk which occurs when investment and funding needs are not fulfilled timely or with a reasonable cost because of inconsistency in the cash flows. Liquidity risk related to market occurs when the Bank cannot close its positions on time or with reasonable costs because the markets are not deep, have problems, or the Bank cannot enter the markets.

It is essential to have maximum diversification regarding to funding sources, markets, instruments and maturities in order to have an effective and sustainable liquidity management.

In liquidity management, the portfolio structure is formed in line with the functions of revenue generating from the portfolio and management of the market risk. Risk return balance is constantly monitored whereas the liquidity needs are followed up at all times.



# RISK MANAGEMENT POLICIES

## Operational Risk Policy

Operational risk is defined as the loss occurring from processes, humans and systems because of deficiencies or faults or mistakes or outside events. Compliance to the laws and ethical standards are also included in this definition.

Operational risks are managed by applying special controls and precautionary measures to the fundamental operational areas of the Bank, by forming an appropriate internal control system and distributing the authorities throughout the Bank, by testing and controlling in detail all the Bank's operational systems, by obtaining a consistency between the internal and external systems and having an independent data backup system.

The Bank respects the principle of segregation of duties in order to reduce the risk of fraud, manipulation or mistakes. The functions which should be separated are determined as (i) starting a transaction, (ii) giving authority and approval, (iii) recording the transaction, (iv) confirming the transaction, (v) reliable custody services, (vi) monitoring and auditing, (vii) upgrading of IT systems and activities of Daily operations. It is essential that the transaction data will be recorded in the system by using the IT applications right after the transaction has been made.

Operational risks are measured by applying the "Basic Indicator Approach" method.

## Risk Management Policy For Subsidiaries

The Bank pays attention that the fundamental principles and standards related to the risk management systems and processes are also applied in the subsidiaries. Consolidated Risk Policies are determined and approved by the Board of Directors. It is essential for the subsidiaries that these policies are adopted, specified risk management systems and processes are applied in order to have consolidated risk management and to act in consistency with the risk limits set in the group level.

## Policies Regarding Other Risks

Other risks are Model Risk, defined as the risk of loss due to erroneous design or implementation failures of the models used for pricing, credit facilities and risk measurement, Strategy Risk, occurring because of false or ill-timed decisions; and Reputation Risk, defined as the reputation loss of the Bank in the eyes of the customers and markets. These risks are mentioned in the Bank's Risk Policies in order to increase the awareness throughout the Bank.



# STRUCTURE OF THE AUDIT COMMITTEE

## Activities Of The Committees Established Within The Scope Of Risk Management, And Names And Surnames Of The Chairmen And Members Of These Committees

### Audit Committee

Audit Committee is composed of 2 members, which were elected among the non-executive Members of the Board of Directors. Currently, Audit Committee members are Mr. Mehmet Şencan and Mr. Ebru Özşuca.

Audit Committee is responsible for;  
Ensuring the effectiveness and adequacy of the internal audit, internal control and risk management systems within the framework of the relevant legislation, on behalf of the Board of Directors,  
Supervising the functioning of the Internal systems, accounting and reporting systems within the framework of the Law and relevant regulations, and maintaining the integrity of the information produced,

Making pre-assessment for the Board of Directors to choose independent audit corporations, and corporations that provide rating, valuation and support services, and regularly monitoring the activities of these corporations that sign contract with the Bank after they are chosen by the Board of Directors,  
Continuing and enabling the coordination of the Internal audit activities of the subsidiaries subject to consolidation in a consolidated manner,  
Regularly receiving reports from the units established within the scope of Internal systems, and from the independent audit corporations with respect to their execution of the tasks and reporting the detected malfunctions to the Board of Directors.

All members of the Audit Committee attended the 30 meetings held by the Audit Committee in 2018.

## DIRECTORS WITHIN THE SCOPE OF INTERNAL SYSTEMS

Executive Vice President In Charge Of Internal Systems: Aziz Ferit Eraslan

| Term of Office | Professional Experience | Worked Previously In  | Education              |
|----------------|-------------------------|---|------------------------|
| 3 Years        | 26 Years                | İşbank Financial Management Department, CJSC Isbank (Russia) Headquarters | Master's Degree Abroad |

Head of Internal Auditors: Mehmet Sungun

| Term of Office | Professional Experience | Worked Previously In  | Education                 |
|----------------|-------------------------|---|---------------------------|
| 5 Years        | 25 Years                | Financial Analysis, Loans, Corporate Banking, Risk Management Departments | Master's Degree in Turkey |

Head of Risk Management: Fuat Sönmez

| Term of Office | Professional Experience | Worked Previously In  | Education                   |
|----------------|-------------------------|---|-----------------------------|
| 2.5 Years      | 20 Years                | System Development and Quality Management, Board of Internal Auditors, Process Management Departments | Bachelor's Degree in Turkey |

Head of Internal Control: Simay Kimyacı

| Term of Office | Professional Experience | Worked Previously In | Education                   |
|----------------|-------------------------|----------------------|-----------------------------|
| 2 Years        | 20 Years                | Treasury Department  | Bachelor's Degree in Turkey |



# AUDIT COMMITTEE REPORT

## AUDIT COMMITTEE'S ASSESSMENT ON FUNCTIONING OF INTERNAL AUDIT, INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS AND THEIR ACTIVITIES IN 2018

Audit Committee held 30 meetings in 2018. In these meetings, the Audit Committee carried out activities to fulfill the duties and responsibilities specified within the scope of "Activities of the Committees established within the scope of Risk Management, and Names and Surnames of the Chairmen and Members of these Committees" Section of the Annual Report, and the "Regulation On The Evaluation Process of Banks' Internal Systems and Internal Capital Adequacy".

Internal audit, internal control and risk management activities in the Bank are carried out by the Board of Internal Auditors, Internal Control Department, and the Risk Management Department. Relevant departments' duties and responsibilities were specified by the regulations approved by the Board of Directors. All three departments carry out their activities under the Executive Vice President in charge of Internal Systems, who is independent from executive activities and executive units and directly reports to the Audit Committee. Evaluating the internal systems established to cover all branches and units, and subsidiaries subject to consolidated audit, their functioning, and maintaining their adequacy and effectiveness are among the Board of Directors' priorities. Within the scope of internal systems, Board of Directors' duties and responsibilities are fulfilled by the Board of Directors, Audit Committee, Executive Vice President who is in charge of internal systems, and Departments of Internal Audit, Internal Control and Risk Management.

### Board of Internal Auditors

Board of Internal Auditors provides assurance in; i) carrying out bank activities in line with the Law and other relevant legislation as well as the internal strategies, policies, principles and targets of the bank, and ii) effectiveness and adequacy of the internal control and risk management systems. Planning and carrying out its audit activities with risk oriented approach, the Audit Board evaluates the potential risks in Headquarters units, two branches, subsidiaries and Bank's information systems and processes, and evaluates whether or not internal control, risk management and corporate governance systems are compliant, effective and efficient as well as examining the accuracy and reliability of accounting records and financial reports.

Board of Internal Auditors does not only deliver findings as a result of the audits it conducts. It also develops opinions and suggestions that will prevent deficiencies, faults and misconducts

(if any) from repeating, develop processes, increase efficiency and effectiveness and strengthen internal systems. Furthermore, it follows up the findings and related measures taken closely as well as providing information about the developments with respect to the issues tracked in the Audit Committee meetings held during the year.

In 2018, Board of Auditors conducted 40 audits in terms of banking processes and information systems in total composed of Head Office departments, Bank's 2 subsidiaries as well as 6 firms from which the Bank procured banking processes and support services.

As a result of the audits and assessments made in 2018, there have not been any material finding identified, that may have negative impact on the Bank's activities, and hinder the Bank from fulfilling its liabilities. It was concluded that; the Bank's Internal control and risk management systems functioned well, Bank's activities had low risk in general, financial and legal reports were accurate, Bank complied with the legislation.

In conclusion; the internal audit system was effective and successful in measuring, detecting and eliminating risks with its risk oriented approach, qualified human resources, experienced and prudent management.

### Internal Control

The Internal Control Department is responsible for the presence of the internal control system that covers control activities to identify in advance and manage the risks to which the Bank may be exposed in its efforts to achieve its aims; to ensure that the Bank's operations are effective and productive; to protect the Bank's assets; to comply with current laws and regulations; and to safeguard the reliability and integrity of the accounting and financial reporting systems. Within this scope, internal control activities are carried out by the competent and experienced internal control personnel.

According to Banking Regulation and Supervisory Association (BRSA) regulation published in the Official Newspaper on July 11, 2014 dated with the number 29057 internal control activities are a part of all of the executive functions of the Bank. It is expected that a structure in compliance with the COSO components is established, units carry out self-assessment, function processes and potential threads induced by the operations and the assessment of weaknesses for these threads and the adverse impact of the related threads and weaknesses are analyzed.



Accordingly, "Operational Risk Map" workshop was launched by the Internal Control Department, within the 2018 masterplan. As a result of this workshop, establishment of a strong corporate culture and measurement of discrete and inter-related operational risks will be realized as stated in Guide to Operational Risks of BRSA.

It is targeted with the project that Triple Defense Line that is an effective method to manage risks and control the operational activities in the future will be developed. Therefore, it is targeted to provide a concrete basis for forcefulness and the perfection of the assurance to the stakeholders, legal entities, employees, and the Board of Directors and to compose a meaningful operational loss data pool that will be a base or advanced measurement approach.

As the process of preparing an "Operational Risk Map" started in 2018 with the Treasury operations, it will continue with the other banking activities in 2018 and it will be repeated every year to follow the developments of the operational risk levels.

#### **Risk Management**

The risk management process, which is organized under risk management regulations and serves for the establishment of a company-wide common risk culture, is of such a structure in which risks are defined in compliance with international regulations governing the performance of measurement, analysis, monitoring and reporting activities. Risk Management Department; i) carries out these activities developing the systems needed within this scope, ii) monitors risks' compliance with policies and standards, and Bank limits, iii) continues the activities for compliance with the relevant legal legislation and the Basel criteria. Risk measurements specified in reporting, are made with an approach developed in internal models besides the standard approach used in legal reporting, while they are also supported with the stress tests.

Risk Management Department submits its detailed unconsolidated risk management reports prepared on monthly basis and consolidated risk management reports on quarterly basis to the Board of Directors via the Audit Committee.

In 2018, in addition to the reports presented to the Board of Directors; risk and capital adequacy measuring and reporting activities for legal and MIS purposes continued.

Activities were carried out to comply with the various legal regulations and Risk Guidelines.

Besides, activities of the Internal Capital Adequacy Assessment Process (ICAAP) and its reporting process, were coordinated. Within this scope, detailed stress tests and scenario analysis were conducted, and projections were made for future period's capital requirement.

Other than routine operations in 2018; the loan clients internal ratings model, which is active in 2018, was revised pursuant to the relevant regulation and present needs, as part of the IFRS 9 and IRB (Internal Ratings Based) Approach Standards Compliance Project.

The software and system infrastructure used related to "Asset Liability Risk Management" and "Market Risk Management" are revised.

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

The Audit Committee monitored the compliance of the Bank to regulations pertaining to internal control, internal audit and risk management and to Bank policies and practices which are approved by the Board. As a result of the Audit Committee's evaluations and reviews, it was seen that the Bank's internal systems were effectively functioning as they were planned, and that the internal controls made for financial reporting were effective. The Audit Committee evaluated the support services that the Bank procured, and monitored the efforts of taking certain measures for managing the risks efficiently in the procurement process. Moreover; independent audit results, yearly and quarterly financial results as well as independent audit reports were assessed with the independent auditors. During their operations related to the Bank; the independency of the rating agencies', independent auditors' and appraisal companies' and the sufficiency of the resources allocated to them were reviewed.

With respect to the activities and functioning of internal systems - internal audit, internal control and risk management - in 2018; we believe that the activities performed were highly qualified and satisfactory.



Mehmet Şencan

Audit Committee Chairman

Ebru Özşuca

Audit Committee Member



# ASSURANCES











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Etiler Sak. No: 479926

(Convenience translation of a report originally issued in Turkish)

## INDEPENDENT AUDITOR'S REPORT ON THE ANNUAL REPORT OF THE BOARD OF DIRECTORS

To the Shareholders of Türkiye Sınai Kalkınma Bankası Anonim Şirketi

### 1) Qualified Opinion

We have audited the annual report of Türkiye Sınai Kalkınma Bankası A.Ş. (the Bank) for the period of 1 January 2018 - 31 December 2018.

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

### 2) Basis for Qualified Opinion

As described in the Our Auditors' Opinion of Independent Auditor's Report on financial statements of the Bank for the period between 1 January 2018 and 31 December 2018 dated 1 February 2019, the unconsolidated financial statements of the Bank as at 31 December 2018 include a free provision at an amount of TL 220,000 thousands, of which TL 30,000 thousands and TL 190,000 thousands was provided in current and prior years respectively by the Bank 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 41,600 thousands, which was accounted based on the free provision provided in 31 December 2017. Due to the fact that the above mentioned items do not meet the requirements of TAS 37, the "Prior years' income/losses" as of 31 December 2018 is understated by TL 148,200 thousands after deducting the tax effect and the "pretax income" is understated by TL 30,000 thousands.

We conducted our audit in accordance with "Regulation on independent audit of the Banks" published in the Official Gazette no 29314 dated 2 April 2016 by BRSA (BRSA Independent Audit Regulation) and Independent Auditing Standards ("ISA") which are the part of Turkish Auditing Standards issued by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Annual Report section of our report. We are independent of the Bank in accordance with the Code of Ethics for Independent Auditors (Code of Ethics) as issued by the POA, and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

We have expressed a qualified opinion in our auditor's report dated 1 February 2019 on the full set financial statements of the Bank for the period of 1 January 2018 - 31 December 2018.

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

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

- Preparation of the annual report within the first three months following the balance sheet date and submission of the annual report to the general assembly.
- Preparation and fair presentation of the annual report, reflecting the operations of the Bank for the year, along with its financial position in a correct, complete, straightforward, true and honest manner. In this report, the financial position is assessed according to the financial statements. The development of the Bank and the potential risks to be encountered are also noted in the report. The evaluation of the board of directors is also included in this report.





c) The annual report also includes the matters below:

- Subsequent events occurred after the end of the fiscal year which have significance,
- The research and development activities of the Bank,
- Financial benefits such as salaries and bonuses paid to the board members and to those charged governance, allowances, travel, accommodation and representation expenses, financial aids and aids in kind, insurances and similar deposits.

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

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

Our aim is to express an opinion, based on the independent audit we have performed on the annual report in accordance with provisions of the Turkish Commercial Code and the Communiqué on 'Principles and procedures set out by the regulations on preparation and issuance of annual reports of Banks' published in official gazette no.26333 dated November 1, 2006 ; "Regulation on Accounting Applications for Banks and Safeguarding of Documents" published in the Official Gazette no.26333 dated 1 November 2006 and other regulations on accounting records of Banks published by Banking Regulation and Supervision Agency (BRSA), circulars, interpretations published by BRSA and "BRSA Accounting and Financial Reporting Legislation" which includes the provisions of Turkish Financial Reporting Standards (TFRS) for the matters which are not regulated by these regulations, on whether the consolidated and unconsolidated financial information provided in this annual report and the discussions of the Board of Directors are presented fairly and consistent with the Group's audited consolidated and unconsolidated financial statements and to prepare a report including our opinion.

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

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

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



Yaşar Bivas, SMMM  
Partner

5 March 2019

İstanbul, Türkiye



## INDEPENDENT ASSURANCE STATEMENT

To the Board of Directors and Management of Türkiye Sınai Kalkınma Bankası A.Ş.,  
Istanbul, Turkey

This Assurance Statement ('hereinafter 'Statement') is intended solely for the management of Türkiye Sınai Kalkınma Bankası A.Ş. (hereinafter 'TSKB' or 'the Company') for the purpose of evaluation of key indicators in its 2018 Integrated Report (hereinafter 'the Report') that has been prepared by the Company for the year ended 31 December 2018.

### Subject Matter Information and Applicable Criteria

We were engaged by the Company to provide limited assurance on the items listed below which can also be found as the 'Report Indicator Scope Table' at the appendix section of the Report.

#### The scope of our assurance

The scope of our assurance service is limited to 2018 Subject Matter Information in financial, human and natural capital indicators, which are listed below, in TSKB's Headquarters.

1. Rate of sustainability themed loans in loan portfolio.
2. Gender ratio of management.
3. Average hours of training per employee.
4. % participation in employee satisfaction survey.
5. Environmental impacts occurred by Bank activities:
  - Total electricity consumption (kWh)
  - Total natural gas consumption (m<sup>3</sup>)
  - Total water consumption (m<sup>3</sup>)
  - Total paper consumption (kg)
  - Electricity intensity per m<sup>2</sup> (kWh/m<sup>2</sup>)
  - Water intensity per employee (m<sup>3</sup>/employee)
  - Recycled waste of glass, plastic and paper (kg)
6. Reduction estimation of GHG emissions from renewable energy projects financed in 2018.
7. % of Turkey's renewable energy capacity as at end of 2018.
8. Total installed capacity from renewable energy portfolio as at end of 2018

### The Company's Responsibilities

The Company's management is responsible for ensuring that the documentation provided to the practitioner is complete and accurate. The Company's management is also responsible for maintaining the internal control system that reasonably ensures that the documentation and information described above is free from material misstatements, whether due to fraud or error.

### Our Responsibilities

We conducted our assurance engagement in accordance with International Assurance Standards, particularly International Standard for Assurance Engagements Other than Audits or Reviews of Historical Financial Information ISAE 3000 (revised). These regulations require that we comply with ethical standards and plan and perform our assurance engagement to obtain limited assurance about the Selected Information.

We comply with the independence and other ethical requirements of the IESBA Code of Ethics for Professional Accountants, which establishes the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

We apply International Standard on Quality Control 1 (ISQC 1), and accordingly, we maintain a robust system of quality control, including policies and procedures documenting compliance with relevant ethical and professional standards and requirements in law or regulation.

The assurance engagement performed represents a limited assurance engagement. The nature, timing and extent of procedures performed in a limited assurance engagement is limited compared with what is necessary in a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is lower.

The procedures selected depend on the practitioner's judgment. The procedures include, in particular, inquiry of the personnel responsible for collecting and reporting on the Selected Information and additional procedures aimed at obtaining evidence about the Selected Information.

In respect of the Selected Information mentioned above the procedures performed include the following procedures:

- I. Interviewed select key senior personnel of the Company to understand the current processes in place for capturing the Selected Information pertaining to the reporting period;
- II. Reviewed Selected Information on site covering TSKB Headquarters;
- III. Undertook substantive testing, on a sample basis, of the Selected Information;
- IV. Used the Company's internal documentation to evaluate and measure the Selected Information;
- V. Evaluated the design and implementation of key processes and controls over the Selected Information;
- VI. Re-performed, on a sample basis, calculations used to prepare the Selected Information for the reporting period.
- VII. Evaluated the disclosure and presentation of Selected Information in the Report.

### Our conclusion

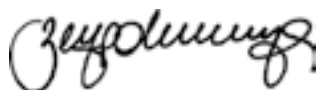
As a result of our procedures, nothing has come to our attention that indicates the Selected Information reviewed for the year ended 31 December 2018 is not prepared in all material respects in accordance with the 'Report Indicator Scope Table' that is presented in the appendix section of the Report.

### Our assurance team

Our assurance team, comprising of multidisciplinary professionals, has been drawn from our climate change and sustainability network and undertakes similar engagements with a number of significant companies in Turkey and internationally.

We permit this report to be disclosed in Türkiye Sınai Kalkınma Bankası A.Ş.'s Integrated Report for the year ended 31 December 2018, to enable the Directors of Türkiye Sınai Kalkınma Bankası A.Ş. to show they have addressed their governance responsibilities by obtaining an independent assurance report in connection with the Subject Matter Information. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Directors as a body and Türkiye Sınai Kalkınma Bankası A.Ş. for our work or this report except where terms are expressly agreed between us in writing.

for Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A. Ş.  
A member firm of Ernst & Young Global Limited



Zeynep Okuyan Özdemir, SMMM  
Partner  
Istanbul, 25.03.2019



| Capital   | Indicator  | Content of the Indicator  |
|-----------|--|---|
| Financial | Rate of sustainability themed loans in loan portfolio as at end of 2018 (pg. 39)               | <p>The Bank defines this indicator as the percentage (%) by financial value (in USD) of the Bank's sustainability-themed loans (excluding loans to financial sector) compared to the Bank's total loan portfolio as at the end of 2018.</p> <p><b>1) APEX</b><br/>The Bank defines APEX loans as the loans provided only to SMEs and exporters through other financial institutions including leasing companies, commercial banks and participation banks</p> <p><b>2) Themed loans</b><br/>Titles under sustainable loans are:<br/> - Energy Generation (excluding thermic power plants)<br/> - Energy and Resource Efficiency<br/> - Environment<br/> - Sustainable Tourism<br/> - Electricity and Gas Distribution (not the whole loan but the infrastructure loans within the sub-sector)<br/> - Education &amp; Health<br/> - Small &amp; Medium Enterprises<br/> - Women Employment<br/> - Occupational Health and Safety<br/> - Innovation<br/> - Export loans</p> <p><b>3) Loans granted to companies with export ratio greater than 16%</b><br/>The Turkish private sector export ratio average was 16% in 2018. As a development bank, TSKB considers exports as an important indicator for sustainable development of the economy and considers loans provided to companies with export ratios of 16% or above (calculated as ratio of foreign sales to total net sales) amongst sustainable-themed loans.</p> |
| Human     | Gender ratio of management as at end of 2018 (pg. 39, 88)                                      | <p>The Bank defines this indicator as the number of total Management level employees of TSKB (excluding subsidiaries) and the breakdown by gender at the reporting period end.</p> <p>Management level employees include the following levels:<br/> - Chief Executive Officer<br/> - Executive Vice President<br/> - Department Head<br/> - Senior Manager<br/> - Junior Manager</p>  |
| Human     | Average hours of training per employee in 2018 (pg. 39)  | The Bank defines this indicator as the total number of training hours provided to its Banking Operations employees (Employees in Head-Office Buildings and the Branches excluding the administrative staff) divided by the average number of FTE employees during the reporting period. The average number of employees is calculated based on the number of employees at the end of June and December.   |
| Human     | % participation in employee satisfaction survey in 2017 (pg 39, 87)                            | The Bank defines this indicator as the ratio of the total number of employees who responded to the survey divided by the total number of survey participants.   |
| Natural   | Internal impacts (pg 78, 79)   | Environmental impacts of the Bank's activities from its head-office buildings (excluding subsidiaries):   |
|           | 1) Electricity consumption (kWh) from Head Office in 2018                                      | The total electricity consumption includes electricity used for heating and other business operations that require electricity.   |
|           | 2) Natural Gas consumption (m <sup>3</sup> ) from Head Office in 2018                          | The total natural gas (NG) consumption includes NG used for heating and cooking.  |
|           | 3) Water consumption (m <sup>3</sup> ) from Head Office in 2018                                | Total water consumption (m <sup>3</sup> ) for the report period as measured by on-site flow meter readings.   |
|           | 4) Paper consumption (kg) from Head Office in 2018   | This indicator is defined as the total paper consumption by the Bank for the report period.   |
|           | 5) Electricity intensity (Consumption in kWh/m <sup>2</sup> ) in 2018                          | This indicator is defined as the total electricity usage (in kWh) divided by the floor area (in m <sup>2</sup> ) occupied by the Bank for the report period.  |
|           | 6) Water intensity (Consumption in m <sup>3</sup> /Staff) in 2018                              | This indicator is defined as the total water consumption (in m <sup>3</sup> ) divided by the average number of Bank employees in the report period. The average number of employees is calculated based on the number of employees at the end of June and December.   |
| Natural   | 7) Recycled Waste of Glass, Plastic and Paper (tons) in 2018                                   | This indicator is defined as the weight of recycled waste of glass, plastic and paper at the end of reporting period. Waste data is derived from invoices provided by the local municipality.   |
| Natural   | Reduction estimation of GHG emissions from renewable energy projects financed in 2018 (pg. 72) | This indicator is defined as the estimated total GHG emissions reduction from the renewable energy projects partially or totally financed by the Bank. The assumptions for calculating the reduction for each renewable energy efficiency ratio were based on using the Turkey sector average between the years 2012-2018 for different renewable energy sources. For partially financed projects, the Bank's financing ratio for the project was not taken into consideration and the installed capacity of the project was used for calculation.  |
| Natural   | Total installed capacity from renewable energy portfolio as at end of 2018 (pg. 72)            | This indicator is defined as the total installed renewable energy capacity, in MW, partially or totally financed by the Bank as at the report period end. For partially financed projects, the Bank's financing ratio for the project was not taken into consideration and the installed capacity of the project was used for calculation.  |
| Natural   | % of Turkey's renewable energy capacity as at end of 2018 (pg. 72)                             | This indicator is defined as the total renewable energy capacity, in MW, financed by the Bank compared against Turkey's total installed renewable energy capacity as at the report period end. For partially financed projects, the Bank's financing ratio for the project was not taken into consideration and the installed capacity of the project was used for calculation.   |



# ISO 14001 CERTIFICATE





# ISO 14064 CERTIFICATE




**Carbon Footprint Verification**  
Verification Opinion Statement  
This is to verify that:

**TSKB Türkiye Sınai Kalkınma Bankası A.Ş.**  
Nispetiye Mahallesi, Çekirge Sok. No: 10 Kat: 10  
34398 Beşiktaş/İstanbul

Holds Statement No: **GHDEV 588323**

| EMISSIONS DETAILS                              |                         |
|--|-------------------------|
| Reporting Year(s):                             | 2020/2021 GHG EMISSIONS |
| Scope of Emissions Reported:                   | 100% (2020)             |
| Scope 1 Emissions in tCO <sub>2</sub> e        | 404                     |
| Scope 2 Emissions in tCO <sub>2</sub> e        | 0                       |
| Scope 3 Emissions in tCO <sub>2</sub> e        | N/A                     |
| Total Reported Emissions in tCO <sub>2</sub> e | 404                     |

| FACTORY VERIFICATION DETAILS                                |   |
|---|---|
| Proportion of Facilities Inspected During the verification: | 100%  |
| <b>OPINION - verified</b>                                   | BSI Group Europe Certification Services has conducted a verification of the greenhouse gas data reported by TSKB Türkiye Sınai Kalkınma Bankası A.Ş. in its Emissions Report dated 01 February 2021 and presented above. On the basis of this verification each underlying data source (i) meets BS EN ISO 14064-1:2018.  |
| <b>OPINION - verified with comments</b>                     | As a result of verification procedures, it is the opinion of BSI with reasonable assurance that:<br>The Emissions Report for the period from 01/01/2020 to 31/12/2020 is 100% correct.<br>No material misstatements or omissions have been identified in the Emissions Report.<br>All data reported in the Emissions Report is accurate and reliable.<br>Data quality was considered acceptable in meeting the principles as set out in BS EN ISO 14064-1:2018. |

|                                       |                    |
|---------------------------------------|--------------------|
| Lead Verifier:                        | Michael Smith      |
| Technical Reviewer:                   | Oliver Jones       |
| Signed on behalf of BSI Group Europe: | <i>Alison ALAN</i> |
| Verification Services (s):            | 22-01-2021         |
| Date of Opinion:                      | 22-01-2021         |






**Carbon Footprint Verification**  
Verification Opinion Statement  
This is to verify that:

**TSKB Türkiye Sınai Kalkınma Bankası A.Ş.**  
Nispetiye Mahallesi, Çekirge Sok. No: 10 Kat: 10  
34398 Beşiktaş/İstanbul

Holds Statement No: **GHDEV 588323**

| EMISSIONS DETAILS                              |                         |
|--|-------------------------|
| Reporting Year(s):                             | 2020/2021 GHG EMISSIONS |
| Scope of Emissions Reported:                   | 100% (2020)             |
| Scope 1 Emissions in tCO <sub>2</sub> e        | 404                     |
| Scope 2 Emissions in tCO <sub>2</sub> e        | 0                       |
| Scope 3 Emissions in tCO <sub>2</sub> e        | N/A                     |
| Total Reported Emissions in tCO <sub>2</sub> e | 404                     |

| FACTORY VERIFICATION DETAILS                                |   |
|---|---|
| Proportion of Facilities Inspected During the verification: | 100%  |
| <b>OPINION - verified</b>                                   | BSI Group Europe Certification Services has conducted a verification of the greenhouse gas data reported by TSKB Türkiye Sınai Kalkınma Bankası A.Ş. in its Emissions Report dated 01 February 2021 and presented above. On the basis of this verification each underlying data source (i) meets BS EN ISO 14064-1:2018.  |
| <b>OPINION - verified with comments</b>                     | As a result of verification procedures, it is the opinion of BSI with reasonable assurance that:<br>The Emissions Report for the period from 01/01/2020 to 31/12/2020 is 100% correct.<br>No material misstatements or omissions have been identified in the Emissions Report.<br>All data reported in the Emissions Report is accurate and reliable.<br>Data quality was considered acceptable in meeting the principles as set out in BS EN ISO 14064-1:2018. |

|                                       |                    |
|---------------------------------------|--------------------|
| Lead Verifier:                        | Michael Smith      |
| Technical Reviewer:                   | Oliver Jones       |
| Signed on behalf of BSI Group Europe: | <i>Alison ALAN</i> |
| Verification Services (s):            | 22-01-2021         |
| Date of Opinion:                      | 22-01-2021         |





# FINANCIAL STATEMENTS AND NOTES





06





# TÜRKİYE SİNAİ KALKINMA BANKASI ANONİM ŞİRKETİ

Independent Auditor's Audit Report, Unconsolidated Financial Statements And  
Notes For The Year Ended December 31, 2018



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

## **INDEPENDENT AUDITOR'S REPORT**

**To the General Assembly of Türkiye Sınai Kalkınma Bankası A.Ş.:**

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

#### **Qualified Opinion**

We have audited the accompanying unconsolidated financial statements of Türkiye Sınai Kalkınma Bankası A.Ş. (the Bank), which comprise the statement of financial position as at 31 December 2018 and the statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter on the unconsolidated financial statements described in the Basis for Qualified Opinion paragraph, the accompanying unconsolidated financial statements present fairly, in all material respects, the unconsolidated financial position of Türkiye Sınai Kalkınma Bankası A.Ş. as at 31 December 2018 and unconsolidated financial performance and unconsolidated its cash flows for the year then ended in accordance with the Banking Regulation and Supervision Agency ("BRSA") Accounting and Financial Reporting Legislation which includes "Regulation on Accounting Applications for Banks and Safeguarding of Documents" published in the Official Gazette no.26333 dated 1 November 2006, and other regulations on accounting records of Banks published by Banking Regulation and Supervision Agency and circulars and interpretations published by BRSA and Turkish Financial Reporting Standards ("TFRS") for those matters not regulated by the aforementioned regulations.

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

As explained in Note 7 in the Explanations and Disclosures related to the Liabilities, the accompanying unconsolidated financial statements as at 31 December 2018 include a free provision at an amount of TL 220.000 thousands, of which TL 30.000 thousands and TL 190.000 thousands was provided in current and prior years respectively by the Bank 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 41.800 thousands, which was accounted based on the free provision provided in 31 December 2017. Due to the fact that the above mentioned items do not meet the requirements of TAS 37, the "Prior years' income/losses" as of 31 December 2018 is understated by TL 148.200 thousands after deducting the tax effect and the "pretax income" is understated by TL 30.000 thousands.

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

#### **Key Audit Matters**

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



| Key Audit Matter  | How the matter is addressed in our audit   |
|---|--|
| <p><b>Financial impact of transition to TFRS 9 "Financial Instruments" standard and recognition of impairment on financial assets and related important disclosures</b></p> <p>As presented in Section 3 disclosure XXIII.2, as of 1 January 2018, the Bank adopted the TFRS 9 "Financial Instruments" standard began to recognize expected credit losses of financial assets in accordance with TFRS 9. We considered the transition to TFRS 9 and impairment of financial assets as a key audit matter since:</p> <ul style="list-style-type: none"> <li>- Amount of on and off balance sheet items that are subject to expected credit loss calculation is material to the financial statements.</li> <li>- Transition to TFRS 9 effect 1% on the Bank's equity</li> <li>- There are complex and comprehensive requirements of TFRS 9.</li> <li>- The classification of the financial assets is based on the Bank's business model and characteristics of the contractual cash flows in accordance with TFRS 9 and the Bank uses significant judgment on the assessment of the business model and identification of the complex contractual cash flow characteristics of financial instruments.</li> <li>- The Bank 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.</li> <li>- Policies implemented by the Bank management include compliance risk to the regulations and other practices.</li> <li>- New or re-structured processes of TFRS 9 are advanced and complex.</li> <li>- Judgements and estimates used in expected credit loss calculation are new, complex and comprehensive.</li> <li>- Disclosure requirements of TFRS 9 are comprehensive and complex.</li> </ul> | <p>Our audit procedures included among others include:</p> <ul style="list-style-type: none"> <li>- Evaluating the appropriateness of accounting policies as to the requirements of TFRS 9, Bank's past experience, local and global practices.</li> <li>- Reviewing and testing of new or re-structured processes which are used to calculate expected credit losses by involving our Information technology and Process audit specialists.</li> <li>- Evaluating the reasonableness of management's key judgements, estimates and data sources used in expected credit loss calculations considering the standard requirements, sectorial, local and global practices.</li> <li>- Reviewing the appropriateness of criteria in order to identify the financial assets having solely payments of principal and interest and checking the compliance to the Bank's Business model.</li> <li>- Examining the financial instruments classification and measurement models (fair value hierarchy Level 3 financial instruments) and comparing them with TFRS 9 standard requirements</li> <li>- Assessing the appropriateness of definition of significant increase in credit risk, default criteria, modification, probability of default, loss given default, exposure at default and forward looking assumptions together with the significant judgements and estimates used in these calculations to regulations and bank's past performance. Evaluating the alignment of those forward looking parameters to Bank's internal processes where applicable.</li> <li>- Assessing the completeness and the accuracy of the data used for expected credit loss calculation.</li> <li>- Testing the mathematical accuracy of expected credit loss calculation on sample basis.</li> <li>- Evaluating the judgements and estimates used for the individually assessed financial assets.</li> <li>- Evaluating the accuracy and the necessity of post-model adjustments.</li> <li>- Auditing of TFRS 9 disclosures.</li> </ul> |



| <i>Pension Fund Obligations</i>   |  |
|---|--|
| <p>Employees of the Bank are members of "TSKB A.Ş. Memur ve Müstahdemleri Yardım ve Emekli Vakfı", ("the Fund"), which is established in accordance with the temporary Article 20 of the Social Security Act No. 506 and related regulations. The Fund is a separate legal entity and foundation recognized by an official decree, providing all qualified employees with pension and post-retirement benefits. As disclosed in Section Three Note XVI the "Explanations on Liabilities regarding employee benefits" to the financial statements, Banks will transfer their pension fund to the Social Security Institution and the Council of Ministers has been authorized to determine the transfer date.</p> <p>The Bank's present value of the liabilities of TSKB A.Ş. Memur ve Müstahdemleri Yardım ve Emekli Vakfı fund, subject to the transfer to the Social Security Institution of the Pension Fund as of 31 December 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.</p> <p>The valuation of the Pension Fund liabilities requires judgment in determining appropriate assumptions such as defining the transferrable social benefits, discount rates, salary increases, demographic assumptions, inflation rate estimates and the impact of any changes in individual pension plans. The Bank Management uses Fund actuaries to assist in assessing these assumptions.</p> <p>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 expert 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> |



| <b>Derivative Financial Instruments</b>  |   |
|--|---|
| <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 Section Five Note 12.c Positive differences related to derivative financial assets held-for-trading and Section Five Note 11.2 Negative differences related to derivative financial liabilities held-for-trading disclosures.</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 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 Turkish Accounting Standards ("TAS") and Turkish Financial Reporting Standards ("TFRS").</p> |

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

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

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

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

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

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

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





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

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

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

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

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



**Report on Other Legal and Regulatory Requirements**

- 1) In accordance with Article 402 paragraph 4 of the Turkish Commercial Code ("TCC") ; no significant matter has come to our attention that causes us to believe that the Bank's bookkeeping activities and financial statements for the period 1 January – 31 December 2018 are not in compliance with the TCC and the Bank's articles of association in relation to financial reporting.
- 2) In accordance with Article 402 paragraph 4 of the TCC; the Board of Directors submitted to us the necessary explanations and provided required documents within the context of audit.

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

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



1 February 2019  
İstanbul, Türkiye



**THE UNCONSOLIDATED FINANCIAL REPORT OF  
TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.  
FOR THE YEAR ENDED 31 DECEMBER 2018**







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The unconsolidated financial report for the year end includes the following sections in accordance with "Communiqué on the Financial Statements and Related Explanation and Notes that will be made Publicly Announced" as sanctioned by the Banking Regulation and Supervision Agency:

- GENERAL INFORMATION ABOUT THE BANK
- UNCONSOLIDATED FINANCIAL STATEMENTS OF THE BANK
- EXPLANATIONS ON THE CORRESPONDING ACCOUNTING POLICIES APPLIED IN THE RELATED PERIOD
- INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT OF THE BANK
- EXPLANATORY DISCLOSURES AND FOOTNOTES ON UNCONSOLIDATED FINANCIAL STATEMENTS
- OTHER EXPLANATIONS
- INDEPENDENT AUDITOR'S REPORT

The accompanying unconsolidated financial statements and the explanatory footnotes and disclosures in this report, unless otherwise indicated, are prepared in thousands of Turkish Lira ("TL"), in accordance with the Communiqué on Bank's Accounting Practice and Maintaining Documents, Turkish Accounting Standards, Turkish Financial Reporting Standards, related communiques and the Bank's records, and have been independently audited and presented as attached.

1 February 2019

|  |  |  |  |
|--|--|--|--|
| <br><b>İl Ersin ÖZİNCE</b><br>Chairman of<br>Board of Directors | <br><b>Suni İNCE</b><br>Member of<br>Board of Directors<br>and General Manager | <br><b>Ece BÖRÜ</b><br>Executive Vice President<br>In Charge of Financial<br>Reporting | <br><b>Tolga SERT</b><br>Head of Financial<br>Control Department |
| <br><b>Ebru ÖZŞUCA</b><br>Member of Audit Committee             |  | <br><b>Mehmet ŞENCAN</b><br>Member of Audit Committee                                  |  |

Contact information of the personnel in charge for addressing questions about this financial report:

Name-Surname / Title : Ayşe Nazlıca / Head of Budget Planning and Investor Relations  
Telephone Number : (212) 334 51 94

Türkiye Sınai Kalkınma Bankası A.Ş.  
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**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

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

**SECTION ONE**

**GENERAL INFORMATION**

**I. The Bank's incorporation date, beginning status, changes in the existing status**

Türkiye Sınai Kalkınma Bankası A.Ş. ("The Bank") was established in accordance with the decision of President of the Republic of Turkey numbered 3/11203 on 12 May 1950. This decision was declared by T.R. Office of Prime Ministry Procedures Directorate Decision Management on 12 May 1950.

According to the classification set out in the Banking Law No: 5411, the status of the Bank is "Development and Investment Bank". The Bank does not have the license of "Accepting Deposit". Since the establishment date of the Bank, there is no change in its "Development and Investment Bank" status.

**II. Explanations regarding the Bank's shareholding structure, shareholders holding directly or indirectly, collectively or individually, the managing and controlling power and changes in current year, if any and explanations on the controlling group of the Bank**

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

| <b>Current Period</b><br><b>Name Surname/Commercial Title</b>                   | <b>Share Capital</b> | <b>Shareholding Rate (%)</b> | <b>Paid in Capital</b> | <b>Unpaid Capital</b> |
|---|----------------------|------------------------------|------------------------|-----------------------|
| T. İş Bankası A.Ş. Group  | 1.425.780            | 50,92                        | 1.425.780              | -                     |
| T. Vakıflar Bankası T.A.O.  | 234.570              | 8,38                         | 234.570                | -                     |
| Under Custody at Merkezi Kayıt Kuruluşu<br>(Other Institutions and Individuals) | 1.139.650            | 40,70                        | 1.139.650              | -                     |
| <b>Total</b>  | <b>2.800.000</b>     | <b>100,00</b>                | <b>2.800.000</b>       | <b>-</b>              |

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

The Bank shares are traded in Istanbul Stock Exchange ("BIST") since 26 December 1986. The 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 Star Market with "TSKB" ticker.



**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

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

**SECTION ONE (Continued) .....**

**GENERAL INFORMATION (Continued)**

**III. Explanations regarding the chairman and the members of board of directors, audit committee, general manager and assistant general managers and their shares and responsibilities in the Bank**

**The Chairman and The Members of Board of Directors:**

| <b>Name Surname</b>  | <b>Title (1)</b>  |
|----------------------|---|
| H. Ersin Özince      | Chairman of the Board of Directors                                    |
| Mehmet Şencan        | Vice Chairman of the Board of Directors and Member of Audit Committee |
| Suat İnce            | Member of the Board of Directors and General Manager                  |
| Yavuz Canevi         | Member of the Board of Directors                                      |
| Mehmet Emin Özcan    | Member of the Board of Directors                                      |
| Ebru Özsuca          | Member of the Board of Directors and Member of Audit Committee        |
| Mithat Rende (2)     | Member of the Board of Directors                                      |
| Zeynep Hansu Uçar    | Member of the Board of Directors                                      |
| Ahmet Hakan Ünal (3) | Member of the Board of Directors                                      |
| Hüseyin Yalçın (3)   | Member of the Board of Directors                                      |
| Can Yücel            | Member of the Board of Directors                                      |

**General Manager and Vice Presidents**

| <b>Name Surname</b>     | <b>Title / Area of Responsibility</b>   |
|-------------------------|---|
| Suat İnce               | General Manager   |
| Çiğdem İçel             | Vice President – Economic Research, Financial Institutions, Development Finance Institutions and Engineering and Technical Consultancy                              |
| Ece Börü (by proxy) (4) | Vice President – Loans, Loan Monitoring and Loan Operations   |
| B. Gökhan Çanakpınar    | Vice President – Support Services, System and Network Support and Application Development   |
| Ece Börü                | Vice President – Budget Planning and Investor Relations, Financial Analysis and Valuation and Financial Control   |
| Hakan Aygen             | Vice President – Corporate Finance, Corporate Banking and Project Finance   |
| A. Ferit Eraslan        | Vice President – Board of Internal Auditors, Internal Control and Risk Management   |
| Aslı Zerrin Hancı       | Vice President – Treasury, Treasury and Capital Markets Operations  |
| H. Yetkin Kesler        | Vice President – Pension and Assistance Funds, Human Resources and Corporate Communication, Enterprise Architecture and Process Management and Corporate Compliance |

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

(2) In the Ordinary General Assembly meeting held on 23 March 2018, Mithat Rende was appointed as member of independent board within the scope of Corporate Governance Communiqué No. II-17.1 of the Capital Markets Board for three years.

(3) In the Ordinary General Assembly meeting held on 23 March 2018, Kamil Yılmaz resigned from his duty. Ahmet Hakan Ünal and Hüseyin Yalçın was appointed as a member of the Board of Directors and started their duties by taking an oath as of 6 April 2018.

(4) As of 31 March 2018, Ufuk Bala Yücel has resigned from her duty as Vice President of Loans, Loan Monitoring and Loan Operations due to retirement and Ece Börü has been appointed by proxy Vice President of Loans, Loan Monitoring and Loan Operations.

According to the regulations on auditing in Articles 397-406 of the Turkish Commercial Code numbered 6102, Güney Bağımsız Denetim ve Serbest Muhasebeci ve Mali Müşavirlik A.Ş. has been elected as the independent auditor for the year 2018 in the General Assembly Meeting held on 23 March 2018.



**SECTION ONE (Continued)**

**GENERAL INFORMATION (Continued)**

**IV. Information about the persons and institutions that have qualified shares in the Bank**

Explanation about the people and institutions that have qualified shares control the Bank's capital directly or indirectly are described in General Information Section II.

**V. Summary on the Bank's functions and areas of activity**

The Bank is the first private development and investment bank which was established by the Council of Ministers resolution number of 3/11203 established in 1950 with the support of World Bank, Government of Republic of Turkey, Central Bank of Republic of Turkey and commercial banks. As per the articles of association published in the Official Gazette on 2 June 1950, the aim of the Bank is to support all private sector investments but mostly industrial sectors, to help domestic and foreign capital owners to finance the new firms and to help the improvement of Turkish capital markets. The Bank is succeeding its aims by financing, consulting, giving technical support and financial intermediary services. The Bank, which operates as a non-deposit accepting bank, played a major role on manufacturing and finance sectors in every phase of the economic development of Turkey. The Bank started its journey in 1950 financing the private sector investments in Turkey and today it provides loans and project finance with the goal of sustainable development to corporations in different fields. As a leader in meeting the long term financing needs of the private sector, the Bank also continues to offer solutions with respect to the newest needs and client demands.

The Bank has executed marketing and valuation operations efficiently with two branches opened in Izmir and Ankara on April 2006.

**VI. Differences between the Communiqué on Preparation of Consolidated Financial Statements of Banks and Turkish Accounting Standards and short explanation about the institution subject to line-by-line method or proportional consolidation and institutions which are deducted from equity or not included in these three methods**

Due to differences between the Communiqué on Preparation of Consolidated Financial Statements of Banks and Turkish Account Standards (TAS), the non-financial subsidiaries and associates, TSKB Gayrimenkul Değerleme A.Ş., TSKB Sürdürülebilirlik Danışmanlığı A.Ş., Terme Metal Sanayi ve Ticaret A.Ş. and Ege Tarım Ürünleri Lisanslı Depoculuk A.Ş. are not consolidated since they are not in scope of financial institutions according to related Communiqué.

The Bank and its financial institutions, Yatırım Finansman Menkul Değerler A.Ş., TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. are included in the accompanying consolidated financial statements line by line consolidation method; İş Finansal Kiralama A.Ş., İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. and İş Faktoring A.Ş. are included in the accompanying consolidated financial statements by equity method.

Financial institutions included in the consolidation are determined in accordance with "Communiqué on Preparation of Consolidated Financial Statements of Banks" published in the Official Gazette dated 8 November 2006 numbered 26340. The Bank has no partnership share on banks and financial institutions, with shareholding of more than 10% and deducted from capital.

**Yatırım Finansman Menkul Değerler A.Ş. :**

Yatırım Finansman Menkul Değerler A.Ş. ("YF") was established in 15 October 1976. The Company's purpose is to perform capital market operations specified in the Company's articles of association in accordance with the CMB and the related legislation. The Company was merged with TSKB Menkul Değerler A.Ş. on 29 December 2006. The share of Türkiye Sınai Kalkınma Bankası A.Ş. is 95,78%. The company's headquarters is located at Istanbul/Turkey.



**SECTION ONE (Continued)**

**GENERAL INFORMATION (Continued)**

**VI. Differences between the Communiqué on Preparation of Consolidated Financial Statements of Banks and Turkish Accounting Standards and short explanation about the institution subject to line-by-line method or proportional consolidation and institutions which are deducted from equity or not included in these three methods (continued)**

**TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. :**

TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. ("TSKB GYO") was established on 3 February 2006. Core business of the Company is real estate trust to construct and develop a portfolio of properties and make investment to capital market instruments linked to properties. The share of Türkiye Sınai Kalkınma Bankası A.Ş. is 85,41%. The company's headquarters is located at Istanbul/Turkey.

**İş Finansal Kiralama A.Ş. :**

İş Finansal Kiralama A.Ş. ("İş Finansal Kiralama") was established on 8 February 1988. The Company has been performing its operations in accordance with the Financial Leasing, Factoring and Financing Companies Law No 6361. The purpose of the Company is performing domestic and foreign financial leasing activities and all kind of rental (leasing) transactions within the framework of legislation. The share of Türkiye Sınai Kalkınma Bankası A.Ş. is 29,46%. The company's headquarters is located at Istanbul/Turkey.

**İş Faktoring A.Ş. :**

İş Faktoring A.Ş. ("İş Faktoring"), was incorporated in Turkey on 4 July 1993 and it has been performing its operations in accordance with the Financial Leasing, Factoring and Financing Companies Law No: 6361. The Company's main operation is domestic and export factoring transactions. The share of Türkiye Sınai Kalkınma Bankası A.Ş. is 21,75%. The company's headquarters is located at Istanbul/Turkey.

**İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. :**

İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. ("İş Girişim") started its venture capital operations by the decision of Capital Market Board dated 5 October 2000. The principal activity of the Company is to perform long-term investments to venture capital companies mainly established or to be established in Turkey, have development potential and require resource. The share of Türkiye Sınai Kalkınma Bankası A.Ş. is 16,67%. The company's headquarters is located at Istanbul/Turkey.

**VII. The existing or potential, actual or legal obstacle on the transfer of shareholder's equity between the Bank and its subsidiaries or the reimbursement of liabilities**

There is no existing or potential, actual or legal obstacle to the reimbursement of liabilities between the Bank and its subsidiaries. The Bank charge or pay cost of the services according to the service agreements done between the Bank and its subsidiaries. Dividend distribution from shareholders' equity is made according to related legal regulations.

**Written policies of the Bank related to compliance to publicly disclosed obligations of the Bank and assessment of accuracy, frequency and compliance of mentioned disclosures**

The Bank's Disclosure Policy approved by the meeting of the Board of Directors has entered into force on 28 February 2014. Compliance to public disclosure obligations, frequency of public disclosures and tools and methods used for public disclosures are explained in the disclosure policy of the Bank accessible from the Bank's corporate website.



**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**  
**UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)**  
**AS OF 31 DECEMBER 2018**

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

|              |   | Audited<br>Current Period<br>31 December 2018 |            |            |            |
|--------------|---|---|------------|------------|------------|
|              |   | Section 5                                     |            |            |            |
|              | ASSETS  | Note I  | TL         | FC         |            |
|              |   |   |            | Total      |            |
| I.           | FINANCIAL ASSETS (NET)  |   | 5,271.537  | 3,188.671  | 8,460.208  |
| 1.1          | Cash and Cash Equivalents   |   | 600.251    | 1,339.979  | 1,940.230  |
| 1.1.1        | Cash and Balances with Central Bank   | (1)   | 6.349      | 736.875    | 743.224    |
| 1.1.2        | Banks   | (3)   | 20.650     | 603.104    | 623.754    |
| 1.1.3        | Money Market Placements   |   | 573.252    | -          | 573.252    |
| 1.2          | Financial Assets at Fair Value Through Profit or Loss                                     |   | -          | -          | -          |
| 1.2.1        | Government Debt Securities  |   | -          | -          | -          |
| 1.2.2        | Equity Instruments  |   | -          | -          | -          |
| 1.2.3        | Other Financial Assets  |   | -          | -          | -          |
| 1.3          | Financial Assets at Fair Value Through Other Comprehensive Income                         | (4)   | 2,181.206  | 1,207.814  | 3,389.020  |
| 1.3.1        | Government Debt Securities  |   | 2,008.419  | 1,165.034  | 3,173.453  |
| 1.3.2        | Equity Instruments  |   | 20.958     | 41.778     | 62.736     |
| 1.3.3        | Other Financial Assets  |   | 151.829    | 1.002      | 152.831    |
| 1.4          | Financial Assets Measured at Amortized Cost   | (6)   | 1,735.521  | 419.420    | 2,154.941  |
| 1.4.1        | Government Debt Securities  |   | 1,735.521  | 419.420    | 2,154.941  |
| 1.4.2        | Other Financial Assets  |   | -          | -          | -          |
| 1.5          | Derivative Financial Assets   | (2)   | 756.149    | 222.007    | 978.156    |
| 1.5.1        | Derivative Financial Assets at Fair Value Through Profit or Loss                          |   | 756.149    | 222.007    | 978.156    |
| 1.5.2        | Derivative Financial Assets at Fair Value Through Other Comprehensive Income              |   | -          | -          | -          |
| 1.6          | Non-Performing Financial Assets   |   | -          | -          | -          |
| 1.7          | Expected Loss Provision (-)   |   | 1,590      | 549        | 2,139      |
| II.          | LOANS (Net)   | (5)   | 3,855.288  | 23,861.017 | 27,716.305 |
| 2.1          | Loans   |   | 3,913.748  | 23,586.256 | 27,500.004 |
| 2.1.1        | Measured at Amortized Cost  |   | 3,913.748  | 23,295.596 | 27,209.344 |
| 2.1.2        | Fair Value Through Profit or Loss   |   | -          | 290.660    | 290.660    |
| 2.1.3        | Fair Value Through Other Comprehensive Income   |   | -          | -          | -          |
| 2.2          | Lease Receivables   | (10)  | -          | 133.929    | 133.929    |
| 2.2.1        | Financial Lease Receivables   |   | -          | 151.102    | 151.102    |
| 2.2.2        | Operating Lease Receivables   |   | -          | -          | -          |
| 2.2.3        | Unearned Income (-)   |   | -          | 17.173     | 17.173     |
| 2.3          | Factoring Receivables   |   | -          | -          | -          |
| 2.3.1        | Measured at Amortized Cost  |   | -          | -          | -          |
| 2.3.2        | Fair Value Through Profit or Loss   |   | -          | -          | -          |
| 2.3.3        | Fair Value Through Other Comprehensive Income   |   | -          | -          | -          |
| 2.4          | Non-Performing Loans  |   | 35.985     | 556.389    | 592.374    |
| 2.5          | Expected Credit Loss (-)  |   | 94.445     | 415.557    | 510.002    |
| 2.5.1        | 12 Months Expected Credit Losses (Stage I)  |   | 18.005     | 116.204    | 134.209    |
| 2.5.2        | Significant Increase in Credit Risk (Stage II)  |   | 48.702     | 162.438    | 211.140    |
| 2.5.3        | Credit-Impaired Losses (Stage III / Specific Provision )                                  |   | 27.738     | 136.915    | 164.653    |
| III.         | PROPERTY AND EQUIPMENT HELD FOR SALE PURPOSE AND RELATED TO DISCONTINUED OPERATIONS (NET) | (16)  | 1          | -          | 1          |
| 3.1          | Held for Sale Purpose   |   | 1          | -          | 1          |
| 3.2          | Related to Discontinued Operations  |   | -          | -          | -          |
| IV.          | EQUITY INVESTMENTS  |   | 1,322.466  | -          | 1,322.466  |
| 4.1          | Investments in Associates (Net)   | (7)   | 1,017.509  | -          | 1,017.509  |
| 4.1.1        | Accounted Under Equity Method   |   | -          | -          | -          |
| 4.1.2        | Unconsolidated Associates   |   | 1,017.509  | -          | 1,017.509  |
| 4.2          | Subsidiaries (Net)  | (8)   | 304.957    | -          | 304.957    |
| 4.2.1        | Unconsolidated Financial Subsidiaries   |   | 301.178    | -          | 301.178    |
| 4.2.2        | Unconsolidated Non-Financial Subsidiaries   |   | 3.779      | -          | 3.779      |
| 4.3          | Entities under Common Control (Joint Venture) (Net)                                       | (9)   | -          | -          | -          |
| 4.3.1        | Joint Ventures Valued Based on Equity Method  |   | -          | -          | -          |
| 4.3.2        | Unconsolidated Joint Ventures   |   | -          | -          | -          |
| V.           | TANGIBLE ASSETS (Net)   | (12)  | 60.646     | -          | 60.646     |
| VI.          | INTANGIBLE ASSETS (Net)   | (13)  | 3.125      | -          | 3.125      |
| 6.1          | Goodwill  |   | -          | -          | -          |
| 6.2          | Other   |   | 3.125      | -          | 3.125      |
| VII.         | INVESTMENT PROPERTY (Net)   | (14)  | -          | -          | -          |
| VIII.        | CURRENT TAX ASSET   |   | -          | -          | -          |
| IX.          | DEFERRED TAX ASSET  | (15)  | 3,535      | -          | 3,535      |
| X.           | OTHER ASSETS  | (17)  | 80.779     | 651.046    | 731.825    |
| TOTAL ASSETS |   |   | 10,597.377 | 27,700.734 | 38,298.111 |

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

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



**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**  
**UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)**  
**AS OF 31 DECEMBER 2018**

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

|   |                     | Audited<br>Prior Period<br>31 December 2017 |                   |                   |
|---|---------------------|---|-------------------|-------------------|
| ASSETS  | Section 5<br>Note 1 | TL  | FC                | Total             |
| <b>I. CASH AND BALANCES WITH CENTRAL BANK</b>                           | <b>(1)</b>          | <b>10.591</b>                               | <b>836.540</b>    | <b>847.131</b>    |
| <b>II. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS (Net)</b> | <b>(2)</b>          | <b>194.100</b>                              | <b>132.688</b>    | <b>326.788</b>    |
| 2.1 Trading Financial Assets  |                     | 194.100                                     | 132.688           | 326.788           |
| 2.1.1 Government Debt Securities  |                     | -   | -                 | -                 |
| 2.1.2 Share Certificates  |                     | -   | -                 | -                 |
| 2.1.3 Derivative Financial Assets Held for Trading                      |                     | 194.100                                     | 132.688           | 326.788           |
| 2.1.4 Other Marketable Securities                                       |                     | -   | -                 | -                 |
| 2.2 Financial Assets At Fair Value Through Profit And Loss              |                     | -   | -                 | -                 |
| 2.2.1 Government Debt Securities  |                     | -   | -                 | -                 |
| 2.2.2 Share Certificates  |                     | -   | -                 | -                 |
| 2.2.3 Other Marketable Securities                                       |                     | -   | -                 | -                 |
| 2.2.4 Loans   |                     | -   | -                 | -                 |
| <b>III. BANKS</b>   | <b>(3)</b>          | <b>419</b>                                  | <b>6.033</b>      | <b>6.452</b>      |
| <b>IV. MONEY MARKET PLACEMENTS</b>                                      |                     | -   | -                 | -                 |
| 4.1 Interbank Money Market Placements                                   |                     | -   | -                 | -                 |
| 4.2 Istanbul Stock Exchange Money Market Placements                     |                     | -   | -                 | -                 |
| 4.3 Receivables From Reverse Repurchase Agreements                      |                     | -   | -                 | -                 |
| <b>V. FINANCIAL ASSETS AVAILABLE FOR SALE (Net)</b>                     | <b>(4)</b>          | <b>2.048.302</b>                            | <b>1.038.542</b>  | <b>3.086.844</b>  |
| 5.1 Share Certificates  |                     | 40.731                                      | 27.821            | 68.552            |
| 5.2 Government Debt Securities  |                     | 1.821.667                                   | 1.009.955         | 2.831.622         |
| 5.3 Other Marketable Securities   |                     | 185.904                                     | 766               | 186.670           |
| <b>VI. LOANS AND RECEIVABLES</b>  | <b>(5)</b>          | <b>3.889.490</b>                            | <b>18.341.523</b> | <b>22.231.013</b> |
| 6.1 Loans And Receivables   |                     | 3.889.490                                   | 18.341.523        | 22.231.013        |
| 6.1.1 Loans to the Risk Group of the Bank                               |                     | 104.450                                     | 229.951           | 334.401           |
| 6.1.2 Government Debt Securities  |                     | -   | -                 | -                 |
| 6.1.3 Other   |                     | 3.785.040                                   | 18.111.572        | 21.896.612        |
| 6.2 Non-Performing Loans  |                     | 48.540                                      | 982               | 49.522            |
| 6.3 Specific Provisions (-)   |                     | 48.540                                      | 982               | 49.522            |
| <b>VII. FACTORING RECEIVABLES</b>                                       |                     | -   | -                 | -                 |
| <b>VIII. HELD TO MATURITY INVESTMENTS (Net)</b>                         | <b>(6)</b>          | <b>1.334.721</b>                            | <b>197.326</b>    | <b>1.532.047</b>  |
| 8.1 Government Debt Securities  |                     | 1.334.721                                   | 197.326           | 1.532.047         |
| 8.2 Other Marketable Securities   |                     | -   | -                 | -                 |
| <b>IX. INVESTMENTS IN ASSOCIATES (Net)</b>                              | <b>(7)</b>          | <b>308.497</b>                              | -                 | <b>308.497</b>    |
| 9.1 Accounted for under Equity Method                                   |                     | -   | -                 | -                 |
| 9.2 Unconsolidated Associates   |                     | 308.497                                     | -                 | 308.497           |
| 9.2.1 Financial Investments   |                     | 307.441                                     | -                 | 307.441           |
| 9.2.2 Non-Financial Investments   |                     | 1.056                                       | -                 | 1.056             |
| <b>X. INVESTMENTS IN SUBSIDIARIES (Net)</b>                             | <b>(8)</b>          | <b>136.355</b>                              | -                 | <b>136.355</b>    |
| 10.1 Unconsolidated Financial Subsidiaries                              |                     | 134.976                                     | -                 | 134.976           |
| 10.2 Unconsolidated Non-Financial Subsidiaries                          |                     | 1.379                                       | -                 | 1.379             |
| <b>XI. ENTITIES UNDER COMMON CONTROL (JOINT VENT.) (Net)</b>            | <b>(9)</b>          | -   | -                 | -                 |
| 11.1 Consolidated under Equity Method                                   |                     | -   | -                 | -                 |
| 11.2 Unconsolidated   |                     | -   | -                 | -                 |
| 11.2.1 Financial Subsidiaries   |                     | -   | -                 | -                 |
| 11.2.2 Non-Financial Subsidiaries                                       |                     | -   | -                 | -                 |
| <b>XII. LEASE RECEIVABLES</b>   | <b>(10)</b>         | -   | <b>63.410</b>     | <b>63.410</b>     |
| 12.1 Finance Lease Receivables  |                     | -   | 73.957            | 73.957            |
| 12.2 Operating Lease Receivables  |                     | -   | -                 | -                 |
| 12.3 Other  |                     | -   | -                 | -                 |
| 12.4 Unearned Income (-)  |                     | -   | 10.547            | 10.547            |
| <b>XIII. DERIVATIVE FINANCIAL ASSETS FOR HEDGING PURPOSES</b>           | <b>(11)</b>         | -   | -                 | -                 |
| 13.1 Fair Value Hedge   |                     | -   | -                 | -                 |
| 13.2 Cash Flow Hedge  |                     | -   | -                 | -                 |
| 13.3 Hedge of Net Investment in Foreign Operations                      |                     | -   | -                 | -                 |
| <b>XIV. TANGIBLE ASSETS (Net)</b>                                       | <b>(12)</b>         | <b>50.853</b>                               | -                 | <b>50.853</b>     |
| <b>XV. INTANGIBLE ASSETS (Net)</b>                                      | <b>(13)</b>         | <b>1.640</b>                                | -                 | <b>1.640</b>      |
| 15.1 Goodwill   |                     | -   | -                 | -                 |
| 15.2 Other  |                     | 1.640                                       | -                 | 1.640             |
| <b>XVI. INVESTMENT PROPERTY (Net)</b>                                   | <b>(14)</b>         | -   | -                 | -                 |
| <b>XVII. TAX ASSET</b>  | <b>(15)</b>         | <b>39.366</b>                               | -                 | <b>39.366</b>     |
| 17.1 Current Tax Asset  |                     | -   | -                 | -                 |
| 17.2 Deferred Tax Asset   |                     | 39.366                                      | -                 | 39.366            |
| <b>XVIII. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (Net)</b>    | <b>(16)</b>         | -   | -                 | -                 |
| 18.1 Held for Sale Purpose  |                     | -   | -                 | -                 |
| 18.2 Related to Discontinued Operations                                 |                     | -   | -                 | -                 |
| <b>XIX. OTHER ASSETS</b>  | <b>(17)</b>         | <b>69.206</b>                               | <b>210.650</b>    | <b>279.856</b>    |
| <b>TOTAL ASSETS</b>   |                     | <b>8.083.540</b>                            | <b>20.826.712</b> | <b>28.910.252</b> |

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**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**  
**UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)**  
**AS OF 31 DECEMBER 2018**

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

|  |                      | Audited<br>Current Period<br>31 December 2018 |                   |                   |
|--|----------------------|---|-------------------|-------------------|
|  | Section 5<br>Note II | TL  | FC                | Total             |
| <b>I. DEPOSITS</b>   | (1)                  | -   | -                 | -                 |
| <b>II. FUNDS BORROWED</b>  | (3)                  | 127.007                                       | 23.449.011        | 23.576.018        |
| <b>III. MONEY MARKET BALANCES</b>  |                      | 41.543  | 137.458           | 179.001           |
| <b>IV. MARKETABLE SECURITIES ISSUED (Net)</b>  | (3)                  | -   | 6.949.189         | 6.949.189         |
| 4.1 Bills  |                      | -   | -                 | -                 |
| 4.2 Assets Backed Securities   |                      | -   | -                 | -                 |
| 4.3 Bonds  |                      | -   | 6.949.189         | 6.949.189         |
| <b>V. BORROWER FUNDS</b>   |                      | 2.408   | 30.121            | 32.529            |
| 5.1 Borrower Funds   |                      | 2.408   | 30.121            | 32.529            |
| 5.2 Other  |                      | -   | -                 | -                 |
| <b>VI. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS</b>  |                      | -   | -                 | -                 |
| <b>VII. DERIVATIVE FINANCIAL LIABILITIES</b>   |                      | 442.269                                       | 350.050           | 792.319           |
| 7.1 Derivative Financial Liabilities at Fair Value Through Profit or Loss                                      |                      | 442.269                                       | 350.050           | 792.319           |
| 7.2 Derivative Financial Liabilities at Fair Value Through Other Comprehensive Income                          |                      | -   | -                 | -                 |
| <b>VIII. FACTORING LIABILITIES</b>   |                      | -   | -                 | -                 |
| <b>IX. LEASE LIABILITIES</b>   | (5)                  | -   | -                 | -                 |
| 9.1 Financial Lease  |                      | -   | -                 | -                 |
| 9.2 Operating Lease  |                      | -   | -                 | -                 |
| 9.3 Other  |                      | -   | -                 | -                 |
| 9.4 Deferred Financial Lease Expenses ( - )  |                      | -   | -                 | -                 |
| <b>X. PROVISIONS</b>   | (7)                  | 247.284                                       | 10.292            | 257.576           |
| 10.1 Restructuring Provisions  |                      | -   | -                 | -                 |
| 10.2 Reverse for Employee Benefits   |                      | 12.089  | -                 | 12.089            |
| 10.3 Insurance Technical Provisions (Net)  |                      | -   | -                 | -                 |
| 10.4 Other Provisions  |                      | 235.195                                       | 10.292            | 245.487           |
| <b>XI. CURRENT TAX LIABILITY</b>   | (8)                  | 91.846  | -                 | 91.846            |
| <b>XII. DEFERRED TAX LIABILITY</b>   | (8)                  | -   | -                 | -                 |
| <b>XIII. LIABILITIES FOR PROPERTY AND EQUIPMENT HELD FOR SALE AND RELATED TO DISCONTINUED OPERATIONS (Net)</b> | (9)                  | -   | -                 | -                 |
| 13.1 Held for Sale Purpose   |                      | -   | -                 | -                 |
| 13.2 Related to Discontinued Operations  |                      | -   | -                 | -                 |
| <b>XIV. SUBORDINATED DEBT INSTRUMENTS</b>  | (10)                 | -   | 1.549.774         | 1.549.774         |
| 14.1 Loans   |                      | -   | -                 | -                 |
| 14.2 Other Debt Instruments  |                      | -   | 1.549.774         | 1.549.774         |
| <b>XV. OTHER LIABILITIES</b>   |                      | 121.059                                       | 29.796            | 150.855           |
| <b>XVI. SHAREHOLDERS' EQUITY</b>   |                      | 4.788.438                                     | (69.434)          | 4.719.004         |
| 16.1 Paid-in capital   | (11)                 | 2.800.000                                     | -                 | 2.800.000         |
| 16.2 Capital Reserves  |                      | 374   | -                 | 374               |
| 16.2.1 Share Premium   |                      | -   | -                 | -                 |
| 16.2.2 Share Cancellation Profits  |                      | -   | -                 | -                 |
| 16.2.3 Other Capital Reserves  |                      | 374   | -                 | 374               |
| 16.3 Accumulated Other Comprehensive Income or Loss Not Reclassified Through Profit or Loss                    |                      | 843.954                                       | 5.756             | 849.710           |
| 16.4 Accumulated Other Comprehensive Income or Loss Reclassified Through Profit or Loss                        | (11)                 | (71.166)                                      | (75.190)          | (146.356)         |
| 16.5 Profit Reserves   |                      | 518.691                                       | -                 | 518.691           |
| 16.5.1 Legal Reserves  |                      | 270.024                                       | -                 | 270.024           |
| 16.5.2 Status Reserves   |                      | 75.641  | -                 | 75.641            |
| 16.5.3 Extraordinary Reserves  |                      | 170.106                                       | -                 | 170.106           |
| 16.5.4 Other Profit Reserves   |                      | 2.920   | -                 | 2.920             |
| 16.6 Profit Or Loss  |                      | 696.585                                       | -                 | 696.585           |
| 16.6.1 Prior Years' Profit/Loss  |                      | 35.659  | -                 | 35.659            |
| 16.6.2 Current Year Profit/Loss  |                      | 660.926                                       | -                 | 660.926           |
| <b>TOTAL LIABILITIES AND EQUITY</b>  |                      | <b>5.861.854</b>                              | <b>32.436.257</b> | <b>38.298.111</b> |

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**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**  
**UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)**  
**AS OF 31 DECEMBER 2018**

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

|                                     |   |                |                  | Audited<br>Prior Period<br>31 December 2017 |                   |
|-------------------------------------|---|----------------|------------------|---|-------------------|
|                                     |   | Section 5 Note | TL               | FC  | Total             |
| LIABILITIES                         |   | II             |                  |   |                   |
| <b>I.</b>                           | <b>DEPOSITS</b>   | <b>(1)</b>     | -                | -   | -                 |
| 1.1                                 | Deposits from Risk Group of the Bank  |                | -                | -   | -                 |
| 1.2                                 | Other   |                | -                | -   | -                 |
| <b>II.</b>                          | <b>DERIVATIVE FINANCIAL LIABILITIES HELD FOR TRADING</b>  | <b>(2)</b>     | 123.710          | 108.693                                     | 232.403           |
| <b>III.</b>                         | <b>FUNDS BORROWED</b>   | <b>(3)</b>     | 190.972          | 18.490.756                                  | 18.681.728        |
| <b>IV.</b>                          | <b>MONEY MARKET BALANCES</b>  |                | 652.183          | 161.138                                     | 813.321           |
| 4.1                                 | Interbank Money Market Takings  |                | 202.143          | -   | 202.143           |
| 4.2                                 | Istanbul Stock Exchange Money Market Takings  |                | -                | -   | -                 |
| 4.3                                 | Funds Provided Under Repurchase Agreements  |                | 450.040          | 161.138                                     | 611.178           |
| <b>V.</b>                           | <b>MARKETABLE SECURITIES ISSUED (Net)</b>   | <b>(3)</b>     | -                | 3.746.229                                   | 3.746.229         |
| 5.1                                 | Bills   |                | -                | -   | -                 |
| 5.2                                 | Asset Backed Securities   |                | -                | -   | -                 |
| 5.3                                 | Bonds   |                | -                | 3.746.229                                   | 3.746.229         |
| <b>VI.</b>                          | <b>BORROWER FUNDS</b>   |                | 1.178            | 11.723                                      | 12.901            |
| 6.1                                 | Borrower Funds  |                | 1.178            | 11.723                                      | 12.901            |
| 6.2                                 | Others  |                | -                | -   | -                 |
| <b>VII.</b>                         | <b>MISCELLANEOUS PAYABLES</b>   |                | 5.985            | 48.959                                      | 54.944            |
| <b>VIII.</b>                        | <b>OTHER LIABILITIES</b>  | <b>(4)</b>     | 113.609          | 2.318                                       | 115.927           |
| <b>IX.</b>                          | <b>FACTORING PAYABLES</b>   |                | -                | -   | -                 |
| <b>X.</b>                           | <b>LEASE PAYABLES</b>   | <b>(5)</b>     | -                | -   | -                 |
| 10.1                                | Financial Lease Payables  |                | -                | -   | -                 |
| 10.2                                | Operating Lease Payables  |                | -                | -   | -                 |
| 10.3                                | Other   |                | -                | -   | -                 |
| 10.4                                | Deferred Finance Lease Expenses (-)   |                | -                | -   | -                 |
| <b>XI.</b>                          | <b>DERIVATIVE FINANCIAL LIABILITIES FOR HEDGING PURPOSES</b>                                      | <b>(6)</b>     | -                | 78.682                                      | 78.682            |
| 11.1                                | Fair Value Hedge  |                | -                | 78.682                                      | 78.682            |
| 11.2                                | Cash Flow Hedge   |                | -                | -   | -                 |
| 11.3                                | Hedge Of Net Investment In Foreign Operations   |                | -                | -   | -                 |
| <b>XII.</b>                         | <b>PROVISIONS</b>   | <b>(7)</b>     | 441.174          | -   | 441.174           |
| 12.1                                | General Loan Loss Provisions  |                | 150.275          | -   | 150.275           |
| 12.2                                | Restructuring Provisions  |                | -                | -   | -                 |
| 12.3                                | Reserve For Employee Benefits   |                | 10.316           | -   | 10.316            |
| 12.4                                | Insurance Technical Reserves (Net)  |                | -                | -   | -                 |
| 12.5                                | Other Provisions  |                | 280.583          | -   | 280.583           |
| <b>XIII.</b>                        | <b>TAX LIABILITY</b>  | <b>(8)</b>     | 51.990           | -   | 51.990            |
| 13.1                                | Current Tax Liability   |                | 51.990           | -   | 51.990            |
| 13.2                                | Deferred Tax Liability  |                | -                | -   | -                 |
| <b>XIV.</b>                         | <b>PAYABLES RELATED TO ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (NET)</b>                 | <b>(9)</b>     | -                | -   | -                 |
| 14.1                                | Held For Sale   |                | -                | -   | -                 |
| 14.2                                | Discontinued Operations   |                | -                | -   | -                 |
| <b>XV.</b>                          | <b>SUBORDINATED LOANS</b>   | <b>(10)</b>    | -                | 1.146.236                                   | 1.146.236         |
| <b>XVI.</b>                         | <b>SHAREHOLDERS' EQUITY</b>   |                | 3.522.277        | 12.440                                      | 3.534.717         |
| 16.1                                | Paid-In Capital   | (11)           | 2.400.000        | -   | 2.400.000         |
| 16.2                                | Capital Reserves  |                | 94.081           | 12.440                                      | 106.521           |
| 16.2.1                              | Share Premium   |                | -                | -   | -                 |
| 16.2.2                              | Share Cancellation Profits  |                | -                | -   | -                 |
| 16.2.3                              | Marketable Securities Value Increase Fund   | (11)           | 60.963           | 12.440                                      | 73.403            |
| 16.2.4                              | Tangible Assets Revaluation Differences   | (11)           | 32.571           | -   | 32.571            |
| 16.2.5                              | Intangible Assets Revaluation Differences   |                | -                | -   | -                 |
| 16.2.6                              | Investment Property Revaluation Differences   |                | -                | -   | -                 |
| 16.2.7                              | Bonus Shares Obtained From Associates, Subsidiaries And Jointly Controlled Entities (Joint Vent.) |                | -                | -   | -                 |
| 16.2.8                              | Hedging Funds (Effective Portion)   |                | -                | -   | -                 |
| 16.2.9                              | Accumulated Valuation Differences From Assets Held For Sale And From Discontinued Operations      |                | -                | -   | -                 |
| 16.2.10                             | Other Capital Reserves  |                | 547              | -   | 547               |
| 16.3                                | Profit Reserves   |                | 432.528          | -   | 432.528           |
| 16.3.1                              | Legal Reserves  | (11)           | 238.854          | -   | 238.854           |
| 16.3.2                              | Statutory Reserves  |                | 75.641           | -   | 75.641            |
| 16.3.3                              | Extraordinary Reserves  | (11)           | 115.113          | -   | 115.113           |
| 16.3.4                              | Other Profit Reserves   |                | 2.920            | -   | 2.920             |
| 16.4                                | Profit Or Loss  |                | 595.668          | -   | 595.668           |
| 16.4.1                              | Prior Years' Profit/Loss  |                | -                | -   | -                 |
| 16.4.2                              | Current Year Profit/Loss  |                | 595.668          | -   | 595.668           |
| <b>TOTAL LIABILITIES AND EQUITY</b> |   |                | <b>5.103.078</b> | <b>23.807.174</b>                           | <b>28.910.252</b> |

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

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



**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**  
**UNCONSOLIDATED STATEMENT OF OFF-BALANCE SHEET**  
**AS OF 31 DECEMBER 2018**

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

|                                     |   | Audited<br>Current Period<br>31 December 2018 |            |             | Audited<br>Prior Period<br>31 December 2017 |            |             |             |
|-------------------------------------|---|---|------------|-------------|---|------------|-------------|-------------|
| OFF BALANCE SHEET                   |   | Section 5<br>Note III                         | TL         | FC          | Total                                       | TL         | FC          | Total       |
| A.                                  | OFF-BALANCE SHEET COMMITMENTS AND CONTINGENCIES (I+II+III)                  |   | 9,601.673  | 54,896.234  | 64,497.907                                  | 7,082.272  | 40,593.244  | 47,675.516  |
| I.                                  | GUARANTEES AND COLLATERALS  | (1)   | 487.947    | 2,685.862   | 3,173.809                                   | 563.000    | 2,010.713   | 2,573.713   |
| 1.1                                 | Letters of Guarantee  |   | 487.947    | 1,095.048   | 1,582.995                                   | 563.000    | 912.647     | 1,475.647   |
| 1.1.1                               | Guarantees Subject to State Tender Law                                      |   | -          | -           | -   | -          | -           | -           |
| 1.1.2                               | Guarantees Given for Foreign Trade Operations                               |   | -          | -           | -   | -          | -           | -           |
| 1.1.3                               | Other Letters of Guarantee  |   | 487.947    | 1,095.048   | 1,582.995                                   | 563.000    | 912.647     | 1,475.647   |
| 1.2                                 | Bank Acceptances  |   | -          | -           | -   | -          | 18.763      | 18.763      |
| 1.2.1                               | Import Letter of Acceptance   |   | -          | -           | -   | -          | 18.763      | 18.763      |
| 1.2.2                               | Other Bank Acceptance   |   | -          | -           | -   | -          | -           | -           |
| 1.3                                 | Letters of Credit   |   | -          | 1,590.814   | 1,590.814                                   | -          | 1,079.303   | 1,079.303   |
| 1.3.1                               | Documantery Letters of Credit   |   | -          | 1,590.814   | 1,590.814                                   | -          | 1,079.303   | 1,079.303   |
| 1.3.2                               | Other Letters of Credit   |   | -          | -           | -   | -          | -           | -           |
| 1.4                                 | Prefinancing Given as Guarantee   |   | -          | -           | -   | -          | -           | -           |
| 1.5                                 | Endorsements  |   | -          | -           | -   | -          | -           | -           |
| 1.5.1                               | Endorsements to the Central Bank of Turkey                                  |   | -          | -           | -   | -          | -           | -           |
| 1.5.2                               | Other Endorsements  |   | -          | -           | -   | -          | -           | -           |
| 1.6                                 | Securities Issue Purchase Guarantees  |   | -          | -           | -   | -          | -           | -           |
| 1.7                                 | Factoring Guarantees  |   | -          | -           | -   | -          | -           | -           |
| 1.8                                 | Other Guarantess  |   | -          | -           | -   | -          | -           | -           |
| 1.9                                 | Other Collaterals   |   | -          | -           | -   | -          | -           | -           |
| II.                                 | COMMITMENTS   | (1)   | 469.766    | 2,621.343   | 3,091.109                                   | 840.009    | 3,907.115   | 4,747.124   |
| 2.1                                 | Irrevocable Commitments   |   | 232.991    | 358.418     | 591.409                                     | 434.140    | 325.439     | 759.579     |
| 2.1.1                               | Forward Asset Purchase and Sale Commitments                                 |   | 29.356     | 67.684      | 97.040                                      | 40.933     | 58.218      | 99.151      |
| 2.1.2                               | Forward Deposit Purchase and Sales Commitments                              |   | -          | -           | -   | -          | -           | -           |
| 2.1.3                               | Share Capital Commitments to Associates and Subsidiaries                    |   | 400        | 97.405      | 97.805                                      | -          | 78.890      | 78.890      |
| 2.1.4                               | Loan Granting Commitments   |   | -          | -           | -   | -          | -           | -           |
| 2.1.5                               | Securities Underwriting Commitments   |   | -          | -           | -   | -          | -           | -           |
| 2.1.6                               | Commitments for Reserve Deposit Requirements                                |   | -          | -           | -   | -          | -           | -           |
| 2.1.7                               | Payment Commitment for Checks   |   | -          | -           | -   | -          | -           | -           |
| 2.1.8                               | Tax and Fund Liabilities from Export Commitments                            |   | -          | -           | -   | -          | -           | -           |
| 2.1.9                               | Commitments for Credit Card Expenditure Limits                              |   | -          | -           | -   | -          | -           | -           |
| 2.1.10                              | Commitments for Promotions Related with Credit Cards and Banking Activities |   | -          | -           | -   | -          | -           | -           |
| 2.1.11                              | Receivables from Short Sale Commitments                                     |   | -          | -           | -   | -          | -           | -           |
| 2.1.12                              | Payables for Short Sale Commitments   |   | -          | -           | -   | -          | -           | -           |
| 2.1.13                              | Other Irrevocable Commitments   |   | 203.235    | 193.329     | 396.564                                     | 393.207    | 188.331     | 581.538     |
| 2.2                                 | Revocable Commitments   |   | 236.775    | 2,262.925   | 2,499.700                                   | 405.869    | 3,581.676   | 3,987.545   |
| 2.2.1                               | Revocable Loan Granting Commitments   |   | 236.775    | 2,262.925   | 2,499.700                                   | 405.869    | 3,581.676   | 3,987.545   |
| 2.2.2                               | Other Revocable Commitments   |   | -          | -           | -   | -          | -           | -           |
| III.                                | DERIVATIVE FINANCIAL INSTRUMENTS  | (2)   | 8,643.960  | 49,589.029  | 58,232.989                                  | 5,679.263  | 34,675.416  | 40,354.679  |
| 3.1                                 | Derivative Financial Instruments for Hedging Purposes                       |   | -          | 18,028.129  | 18,028.129                                  | -          | 10,582.050  | 10,582.050  |
| 3.1.1                               | Fair Value Hedge  |   | -          | 18,028.129  | 18,028.129                                  | -          | 10,582.050  | 10,582.050  |
| 3.1.2                               | Cash Flow Hedge   |   | -          | -           | -   | -          | -           | -           |
| 3.1.3                               | Hedge of Net Investment in Foreign Operations                               |   | -          | -           | -   | -          | -           | -           |
| 3.2                                 | Held for Trading Transactions   |   | 8,643.960  | 31,560.900  | 40,204.860                                  | 5,679.263  | 24,093.366  | 29,772.629  |
| 3.2.1                               | Forward Foreign Currency Buy/Sell Transactions                              |   | 1,819.934  | 1,981.015   | 3,800.949                                   | 981.505    | 3,844.600   | 4,826.105   |
| 3.2.1.1                             | Forward Foreign Currency Transactions-Buy                                   |   | 974.149    | 964.311     | 1,938.460                                   | 485.006    | 1,928.162   | 2,413.168   |
| 3.2.1.2                             | Forward Foreign Currency Transactions-Sell                                  |   | 845.785    | 1,016.704   | 1,862.489                                   | 496.499    | 1,916.438   | 2,412.937   |
| 3.2.2                               | Swap Transactions Related to Foreign Currency and Interest Rate             |   | 4,260.046  | 26,861.956  | 31,122.002                                  | 2,378.082  | 17,843.640  | 20,221.722  |
| 3.2.2.1                             | Foreign Currency Swap-Buy   |   | 827.263    | 6,479.239   | 7,306.502                                   | 576.866    | 2,996.840   | 3,573.706   |
| 3.2.2.2                             | Foreign Currency Swap-Sell  |   | 3,432.783  | 3,670.711   | 7,103.494                                   | 1,766.440  | 1,667.336   | 3,433.776   |
| 3.2.2.3                             | Interest Rate Swap-Buy  |   | -          | 8,356.003   | 8,356.003                                   | 17.388     | 6,589.732   | 6,607.120   |
| 3.2.2.4                             | Interest Rate Swap-Sell   |   | -          | 8,356.003   | 8,356.003                                   | 17.388     | 6,589.732   | 6,607.120   |
| 3.2.3                               | Foreign Currency, Interest Rate, and Securities Options                     |   | 2,563.980  | 2,704.528   | 5,268.508                                   | 2,319.676  | 2,332.296   | 4,651.972   |
| 3.2.3.1                             | Foreign Currency Options-Buy  |   | 1,281.990  | 1,352.264   | 2,634.254                                   | 1,159.838  | 1,166.148   | 2,325.986   |
| 3.2.3.2                             | Foreign Currency Options-Sell   |   | 1,281.990  | 1,352.264   | 2,634.254                                   | 1,159.838  | 1,166.148   | 2,325.986   |
| 3.2.3.3                             | Interest Rate Options-Buy   |   | -          | -           | -   | -          | -           | -           |
| 3.2.3.4                             | Interest Rate Options-Sell  |   | -          | -           | -   | -          | -           | -           |
| 3.2.3.5                             | Securities Options-Buy  |   | -          | -           | -   | -          | -           | -           |
| 3.2.3.6                             | Securities Options-Sell   |   | -          | -           | -   | -          | -           | -           |
| 3.2.4                               | Foreign Currency Futures  |   | -          | -           | -   | -          | -           | -           |
| 3.2.4.1                             | Foreign Currency Futures-Buy  |   | -          | -           | -   | -          | -           | -           |
| 3.2.4.2                             | Foreign Currency Futures-Sell   |   | -          | -           | -   | -          | -           | -           |
| 3.2.5                               | Interest Rate Futures   |   | -          | -           | -   | -          | -           | -           |
| 3.2.5.1                             | Interest Rate Futures-Buy   |   | -          | -           | -   | -          | -           | -           |
| 3.2.5.2                             | Interest Rate Futures-Sell  |   | -          | -           | -   | -          | -           | -           |
| 3.2.6                               | Other   |   | -          | 13.401      | 13.401                                      | -          | 72.830      | 72.830      |
| B.                                  | CUSTODY AND PLEDGES SECURITIES (IV+V+VI)                                    |   | 69,544.760 | 361,651.050 | 431,195.810                                 | 58,811.358 | 240,601.901 | 299,413.259 |
| IV.                                 | ITEMS HELD IN CUSTODY   |   | 114.936    | 222.460     | 337.396                                     | 345.091    | 243.801     | 588.892     |
| 4.1                                 | Customers' Securities Held  |   | -          | -           | -   | -          | -           | -           |
| 4.2                                 | Investment Securities Held in Custody                                       |   | 63.577     | 221.641     | 285.218                                     | 40.935     | 243.801     | 284.736     |
| 4.3                                 | Checks Received for Collection  |   | 130        | -           | 130   | -          | -           | -           |
| 4.4                                 | Commercial Notes Received for Collection                                    |   | -          | 819         | 819   | -          | -           | -           |
| 4.5                                 | Other Assets Received for Collection  |   | -          | -           | -   | -          | -           | -           |
| 4.6                                 | Assets Received for Public Offering   |   | -          | -           | -   | -          | -           | -           |
| 4.7                                 | Other Items Under Custody   |   | -          | -           | -   | -          | -           | -           |
| 4.8                                 | Custodians  |   | 51.229     | -           | 51.229                                      | 304.156    | -           | 304.156     |
| V.                                  | PLEDGES ITEMS   |   | 50,393.171 | 208,821.948 | 259,215.119                                 | 44,620.472 | 137,020.472 | 181,640.944 |
| 5.1                                 | Marketable Securities   |   | 484.248    | 12,637.631  | 13,121.879                                  | 448.045    | 8,985.543   | 9,433.588   |
| 5.2                                 | Guarantee Notes   |   | 72.616     | 3,179.739   | 3,252.355                                   | 108.232    | 2,361.726   | 2,469.958   |
| 5.3                                 | Commodity   |   | -          | -           | -   | -          | -           | -           |
| 5.4                                 | Warranty  |   | -          | -           | -   | -          | -           | -           |
| 5.5                                 | Real Estate   |   | 3,232.486  | 56,825.467  | 60,057.953                                  | 1,662.623  | 36,518.097  | 38,180.720  |
| 5.6                                 | Other Pledged Items   |   | 46,603.821 | 136,179.111 | 182,782.932                                 | 42,401.572 | 89,155.106  | 131,556.678 |
| 5.7                                 | Pledged Items-Depository  |   | -          | -           | -   | -          | -           | -           |
| VI.                                 | ACCEPTED BILL OF EXCHANGE AND COLLATERALS                                   |   | 19,036.653 | 152,606.642 | 171,643.295                                 | 13,845.795 | 103,337.628 | 117,183.423 |
| TOTAL OFF BALANCE SHEET ITEMS (A+B) |   |   | 79,146.433 | 416,547.284 | 495,693.717                                 | 65,893.630 | 281,195.145 | 347,088.775 |

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



**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**  
**UNCONSOLIDATED STATEMENT OF PROFIT OR LOSS**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

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

| INCOME AND EXPENSE ITEMS   |  | Section 5<br>Note IV | Audited<br>Current Period<br>1 January 2018-<br>31 December 2018 |
|----------------------------|--|----------------------|--|
| <b>I.</b>                  | <b>INTEREST INCOME</b>   | <b>(1)</b>           | <b>3.034.857</b>   |
| 1.1                        | Interest on Loans  |                      | 2.104.578  |
| 1.2                        | Interest Received from Reserve Deposits  |                      | 10.258   |
| 1.3                        | Interest Received from Banks   |                      | 35.785   |
| 1.4                        | Interest Received from Money Market Placements   |                      | 107.120  |
| 1.5                        | Interest Received from Marketable Securities Portfolio                                     |                      | 760.996  |
| 1.5.1                      | Fair Value through Profit or Loss  |                      | 20   |
| 1.5.2                      | Fair Value Through other Comprehensive Income  |                      | 358.776  |
| 1.5.3                      | Measured at Amortized Cost   |                      | 402.200  |
| 1.6                        | Finance Lease Income   |                      | 6.060  |
| 1.7                        | Other Interest Income  |                      | 10.060   |
| <b>II.</b>                 | <b>INTEREST EXPENSES (-)</b>   | <b>(2)</b>           | <b>1.281.465</b>   |
| 2.1                        | Interest on Deposits   |                      | -  |
| 2.2                        | Interest on Funds Borrowed   |                      | 561.487  |
| 2.3                        | Interest on Money Market Borrowings  |                      | 227.216  |
| 2.4                        | Interest on Securities Issued  |                      | 491.351  |
| 2.5                        | Other Interest Expense   |                      | 1.411  |
| <b>III.</b>                | <b>NET INTEREST INCOME (I - II)</b>  |                      | <b>1.753.392</b>   |
| <b>IV.</b>                 | <b>NET FEES AND COMMISSIONS INCOME / EXPENSES</b>  |                      | <b>19.001</b>  |
| 4.1                        | Fees and Commissions Received  |                      | 25.749   |
| 4.1.1                      | Non-cash Loans   |                      | 21.798   |
| 4.1.2                      | Other  |                      | 3.951  |
| 4.2                        | Fees and Commissions Paid (-)  |                      | 6.748  |
| 4.2.1                      | Non-cash Loans   |                      | 967  |
| 4.2.2                      | Other  |                      | 5.781  |
| <b>V.</b>                  | <b>PERSONNEL EXPENSES (-)</b>  | <b>(7)</b>           | <b>107.223</b>   |
| <b>VI.</b>                 | <b>DIVIDEND INCOME</b>   | <b>(3)</b>           | <b>4.011</b>   |
| <b>VII.</b>                | <b>NET TRADING INCOME</b>  | <b>(4)</b>           | <b>(267.231)</b>   |
| 7.1                        | Securities Trading Gains / (Losses)  |                      | 2.013  |
| 7.2                        | Derivative Financial Instruments Gains / Losses  |                      | (477.108)  |
| 7.3                        | Foreign Exchange Gains / Losses (Net)  |                      | 207.864  |
| <b>VIII.</b>               | <b>OTHER OPERATING INCOME</b>  | <b>(5)</b>           | <b>94.158</b>  |
| <b>IX.</b>                 | <b>GROSS OPERATING INCOME (III+IV+V+VI+VII+VIII)</b>                                       |                      | <b>1.496.108</b>   |
| <b>X.</b>                  | <b>EXPECTED CREDIT LOSS (-)</b>  | <b>(6)</b>           | <b>531.193</b>   |
| <b>XI.</b>                 | <b>OTHER OPERATING EXPENSES (-)</b>  | <b>(7)</b>           | <b>55.652</b>  |
| <b>XII.</b>                | <b>NET OPERATING INCOME/(LOSS) (IX-X-XI)</b>   |                      | <b>909.263</b>   |
| <b>XIII.</b>               | <b>AMOUNT IN EXCESS RECORDED AS GAIN AFTER MERGER</b>                                      |                      | <b>-</b>   |
| <b>XIV.</b>                | <b>PROFIT / (LOSS) ON EQUITY METHOD</b>  |                      | <b>-</b>   |
| <b>XV.</b>                 | <b>GAIN / (LOSS) ON NET MONETARY POSITION</b>  |                      | <b>-</b>   |
| <b>XVI.</b>                | <b>PROFIT/(LOSS) FROM CONTINUED OPERATIONS BEFORE TAXES (XII+...+XV)</b>                   |                      | <b>909.263</b>   |
| <b>XVII.</b>               | <b>TAX PROVISION FOR CONTINUED OPERATIONS (±)</b>  | <b>(8)</b>           | <b>248.337</b>   |
| 17.1                       | Provision for Current Income Taxes   |                      | 146.335  |
| 17.2                       | Deferred Tax Income Effect (+)   |                      | 249.477  |
| 17.3                       | Deferred Tax Expense Effect (-)  |                      | 147.475  |
| <b>XVIII.</b>              | <b>NET PROFIT/(LOSS) FROM CONTINUED OPERATIONS (XVI±XVII)</b>                              | <b>(9)</b>           | <b>660.926</b>   |
| <b>XIX.</b>                | <b>INCOME ON DISCONTINUED OPERATIONS</b>   |                      | <b>-</b>   |
| 19.1                       | Income on Assets Held for Sale   |                      | -  |
| 19.2                       | Income on Sale of Associates, Subsidiaries and Jointly Controlled Entities (Joint Venture) |                      | -  |
| 19.3                       | Income on Other Discontinued Operations  |                      | -  |
| <b>XX.</b>                 | <b>LOSS FROM DISCONTINUED OPERATIONS (-)</b>   |                      | <b>-</b>   |
| 20.1                       | Loss from Assets Held for Sale   |                      | -  |
| 20.2                       | Loss on Sale of Associates, Subsidiaries and Jointly Controlled Entities (Joint Venture)   |                      | -  |
| 20.3                       | Loss from Other Discontinued Operations  |                      | -  |
| <b>XXI.</b>                | <b>PROFIT / (LOSS) ON DISCONTINUED OPERATIONS BEFORE TAXES (XIX-XX)</b>                    |                      | <b>-</b>   |
| <b>XXII.</b>               | <b>TAX PROVISION FOR DISCONTINUED OPERATIONS (±)</b>                                       |                      | <b>-</b>   |
| 22.1                       | Provision for Current Income Taxes   |                      | -  |
| 22.2                       | Deferred Tax Expense Effect (+)  |                      | -  |
| 22.3                       | Deferred Tax Income Effect (-)   |                      | -  |
| <b>XXIII.</b>              | <b>NET PROFIT/LOSS FROM DISCONTINUED OPERATIONS (XXI±XXII)</b>                             |                      | <b>-</b>   |
| <b>XXIV.</b>               | <b>NET PROFIT/LOSS (XVIII+XXIII)</b>   | <b>(10)</b>          | <b>660.926</b>   |
| Earning / (loss) per share |  |                      | 0,236  |

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

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



**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**  
**UNCONSOLIDATED STATEMENT OF PROFIT OR LOSS**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

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

|   |   |                      | Audited<br>Prior Period<br>1 January 2017 –<br>31 December 2017 |
|---|---|----------------------|---|
| INCOME AND EXPENSE ITEMS                |   | Section 5<br>Note IV |   |
| <b>I.</b>                               | <b>INTEREST INCOME</b>  | (1)                  | <b>1.826.236</b>  |
| 1.1                                     | Interest on Loans   |                      | 1.298.914   |
| 1.2                                     | Interest on Reserve Requirements  |                      | 5.617   |
| 1.3                                     | Interest on Banks   |                      | 35.019  |
| 1.4                                     | Interest on Money Market Transactions   |                      | 51.422  |
| 1.5                                     | Interest on Marketable Securities Portfolio   |                      | 431.900   |
| 1.5.1                                   | Trading Financial Assets  |                      | 1.032   |
| 1.5.2                                   | Financial Assets at Fair Value Through Profit or Loss                                       |                      | -   |
| 1.5.3                                   | Available-for-Sale Financial Assets   |                      | 240.899   |
| 1.5.4                                   | Held-to-Maturity Investments  |                      | 189.969   |
| 1.6                                     | Financial Lease Income  |                      | 1.659   |
| 1.7                                     | Other Interest Income   |                      | 1.705   |
| <b>II.</b>                              | <b>INTEREST EXPENSE (-)</b>   | (2)                  | <b>786.945</b>  |
| 2.1                                     | Interest on Deposits  |                      | -   |
| 2.2                                     | Interest on Funds Borrowed  |                      | 322.678   |
| 2.3                                     | Interest Expense on Money Market Transactions   |                      | 200.412   |
| 2.4                                     | Interest on Securities Issued   |                      | 262.943   |
| 2.5                                     | Other Interest Expenses   |                      | 912   |
| <b>III.</b>                             | <b>NET INTEREST INCOME (I - II)</b>   |                      | <b>1.039.291</b>  |
| <b>IV.</b>                              | <b>NET FEES AND COMMISSIONS INCOME</b>  |                      | <b>14.435</b>   |
| 4.1                                     | Fees and Commissions Received   |                      | 20.992  |
| 4.1.1                                   | Non-Cash Loans  |                      | 16.335  |
| 4.1.2                                   | Other   |                      | 4.657   |
| 4.2                                     | Fees and Commissions Paid (-)   |                      | 6.557   |
| 4.2.1                                   | Non-Cash Loans (-)  |                      | 796   |
| 4.2.2                                   | Other (-)   |                      | 5.761   |
| <b>V.</b>                               | <b>DIVIDEND INCOME</b>  | (3)                  | <b>18.001</b>   |
| <b>VI.</b>                              | <b>TRADING INCOME / (LOSS) (Net)</b>  | (4)                  | <b>(45.515)</b>   |
| 6.1                                     | Trading Gains / (Losses) on Securities  |                      | 5.863   |
| 6.2                                     | Gains / (Losses) on Derivative Financial Transactions                                       |                      | (219.765)   |
| 6.3                                     | Foreign Exchange Gains / (Losses)   |                      | 168.387   |
| <b>VII.</b>                             | <b>OTHER OPERATING INCOME</b>   | (5)                  | <b>34.834</b>   |
| <b>VIII.</b>                            | <b>TOTAL OPERATING INCOME (III+IV+V+VI+VII)</b>   |                      | <b>1.061.046</b>  |
| <b>IX.</b>                              | <b>PROVISION FOR LOAN LOSSES AND OTHER RECEIVABLES (-)</b>                                  | (6)                  | <b>201.300</b>  |
| <b>X.</b>                               | <b>OTHER OPERATING EXPENSES (-)</b>   | (7)                  | <b>132.443</b>  |
| <b>XI.</b>                              | <b>NET OPERATING INCOME / (LOSS) (VIII-IX-X)</b>  |                      | <b>727.303</b>  |
| <b>XII.</b>                             | <b>EXCESS AMOUNT RECORDED AS INCOME AFTER MERGER</b>  |                      | <b>-</b>  |
| <b>XIII.</b>                            | <b>INCOME / (LOSS) FROM INVESTMENTS IN SUBSIDIARIES CONSOLIDATED BASED ON EQUITY METHOD</b> |                      | <b>-</b>  |
| <b>XIV.</b>                             | <b>INCOME / (LOSS) ON NET MONETARY POSITION</b>   |                      | <b>-</b>  |
| <b>XV.</b>                              | <b>PROFIT / (LOSS) BEFORE TAX FROM CONTINUED OPERATIONS (XI+...+XIV)</b>                    |                      | <b>727.303</b>  |
| <b>XVI.</b>                             | <b>TAX PROVISION FOR CONTINUED OPERATIONS (±)</b>   | (8)                  | <b>(131.635)</b>  |
| 16.1                                    | Current Tax Provision   |                      | (161.659)   |
| 16.2                                    | Deferred Tax Provision  |                      | 30.024  |
| <b>XVII.</b>                            | <b>CURRENT PERIOD PROFIT / LOSS FROM CONTINUED OPERATIONS (XV±XVI)</b>                      | (9)                  | <b>595.668</b>  |
| <b>XVIII.</b>                           | <b>INCOME FROM DISCONTINUED OPERATIONS</b>  |                      | <b>-</b>  |
| 18.1                                    | Income from Non-Current Assets Held for Sale  |                      | -   |
| 18.2                                    | Profit from Sales of Associates, Subsidiaries and Joint Ventures                            |                      | -   |
| 18.3                                    | Income from Other Discontinued Operations   |                      | -   |
| <b>XIX.</b>                             | <b>EXPENSES FROM DISCONTINUED OPERATIONS (-)</b>  |                      | <b>-</b>  |
| 19.1                                    | Expenses for Non-Current Assets Held for Sale   |                      | -   |
| 19.2                                    | Loss from Sales of Associates, Subsidiaries and Joint Ventures                              |                      | -   |
| 19.3                                    | Expenses for Other Discontinued Operations  |                      | -   |
| <b>XX.</b>                              | <b>PROFIT / LOSS BEFORE TAX FROM DISCONTINUED OPERATIONS (XVIII-XIX)</b>                    |                      | <b>-</b>  |
| <b>XXI.</b>                             | <b>TAX PROVISION FOR DISCONTINUED OPERATIONS (±)</b>  |                      | <b>-</b>  |
| 21.1                                    | Current Tax Provision   |                      | -   |
| 21.2                                    | Deferred Tax Provision  |                      | -   |
| <b>XXII.</b>                            | <b>CURRENT PERIOD PROFIT / LOSS FROM DISCONTINUED OPERATIONS (XX±XXI)</b>                   |                      | <b>-</b>  |
| <b>XXIII.</b>                           | <b>NET INCOME / LOSS (XVII+XXII)</b>  | (10)                 | <b>595.668</b>  |
| Earning / (loss) per share (Full Kurus) |   |                      | 0,248   |

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



**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**  
**UNCONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE**  
**INCOME FOR THE YEAR ENDED 31 DECEMBER 2018**

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

|   | Audited<br>Current Period<br>1 January 2018 –<br>31 December 2018 |
|---|---|
| <b>PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME</b>  |   |
| <b>I. CURRENT PERIOD INCOME / LOSS</b>  | <b>660.926</b>  |
| <b>II. OTHER COMPREHENSIVE INCOME</b>   | <b>597.207</b>  |
| <b>2.1 Not Reclassified Through Profit or Loss</b>  | <b>712.005</b>  |
| 2.1.1 Property and Equipment Revaluation Increase / Decrease  | 9.367   |
| 2.1.2 Intangible Assets Revaluation Increase / Decrease   | -   |
| 2.1.3 Defined Benefit Pension Plan Remeasurement Gain / Loss  | (670)   |
| 2.1.4 Other Comprehensive Income Items Not Reclassified Through Profit or Loss  | 704.280   |
| 2.1.5 Tax Related Other Comprehensive Income Items Not Reclassified Through Profit or Loss  | (972)   |
| <b>2.2 Reclassified Through Profit or Loss</b>  | <b>(114.798)</b>  |
| 2.2.1 Foreign Currency Translation Differences  | 7.857   |
| 2.2.2 Valuation and / or Reclassification Income / Expense of the Financial Assets at Fair Value Through Other Comprehensive Income | (157.048)   |
| 2.2.3 Cash Flow Hedge Income / Loss   | -   |
| 2.2.4 Income (Loss) Related with Hedges of Net Investments in Foreign Operations  | -   |
| 2.2.5 Other Comprehensive Income Items Reclassified Through Profit or Losses  | -   |
| 2.2.6 Tax Related Other Comprehensive Income Items Reclassified Through Profit or Loss  | 34.393  |
| <b>III. TOTAL COMPREHENSIVE INCOME (I+II)</b>   | <b>1.258.133</b>  |

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

|   | Audited<br>Prior Period<br>1 January 2017 –<br>31 December 2017 |
|---|---|
| <b>PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME UNDER SHAREHOLDERS' EQUITY</b>   |   |
| <b>I. ADDITIONS TO MARKETABLE SECURITIES REVALUATION DIFFERENCES FOR AVAILABLE-FOR-SALE FINANCIAL ASSETS</b>                      | <b>26.270</b>   |
| <b>II. TANGIBLE ASSETS REVALUATION DIFFERENCES</b>  | <b>-</b>  |
| <b>III. INTANGIBLE ASSETS REVALUATION DIFFERENCES</b>   | <b>-</b>  |
| <b>IV. TRANSLATION DIFFERENCES FOR TRANSACTIONS IN FOREIGN CURRENCY</b>   | <b>3.604</b>  |
| <b>V. GAIN / LOSS ON DERIVATIVE FINANCIAL ASSETS HELD FOR CASH FLOW HEDGES (Effective Portion of Fair Value Differences)</b>      | <b>-</b>  |
| <b>VI. GAIN / LOSS ON DERIVATIVE FINANCIAL ASSETS HELD FOR HEDGES OF NET INVESTMENT IN FOREIGN OPERATIONS (Effective Portion)</b> | <b>-</b>  |
| <b>VII. EFFECTS OF CHANGES IN ACCOUNTING POLICY AND CORRECTIONS OF ERRORS</b>   | <b>-</b>  |
| <b>VIII. OTHER PROFIT / LOSS ITEMS ACCOUNTED FOR UNDER SHAREHOLDERS' EQUITY AS PER TAS</b>  | <b>78.490</b>   |
| <b>IX. DEFERRED TAX OF VALUATION DIFFERENCES</b>  | <b>(4.853)</b>  |
| <b>X. NET PROFIT / LOSS ACCOUNTED FOR DIRECTLY UNDER SHAREHOLDERS' EQUITY (I+II+...+IX)</b>                                       | <b>103.511</b>  |
| <b>XI. CURRENT YEAR PROFIT / LOSS</b>   | <b>595.668</b>  |
| 11.1 Net Change in Fair Value of Marketable Securities (Recycled to Profit/Loss)  | (305)   |
| 11.2 Reclassification and Recycling Derivatives Accounted for Cash Flow Hedge Purposes to Income Statement                        | -   |
| 11.3 Recycling Hedge of Net Investments in Foreign Operations to Income Statement   | -   |
| 11.4 Other  | 595.973   |
| <b>XII. TOTAL PROFIT / LOSS ACCOUNTED FOR THE CURRENT PERIOD (X+XI)</b>   | <b>699.179</b>  |

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



**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**  
**UNCONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

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

|                                 | Section 5<br>Note V   | Paid<br>in<br>Capital | Other<br>Reserves | Capital<br>Premiums | Share<br>Cancellation<br>Profits | Legal<br>Reserves | Status<br>Reserves | Extraordinary<br>Reserves | Other<br>Reserves | Current<br>Period<br>Net Profit /<br>Loss | Prior<br>Period<br>Net Profit /<br>Loss | Marketable<br>Securities<br>Value<br>Increase<br>Fund | Tangible and<br>Intangible<br>Assets<br>Revaluation<br>Differences | Bonus<br>Shares<br>Obtained<br>from<br>Associates,<br>Subs<br>and Jointly<br>Controlled<br>Entities | Hedging<br>Reserves | Revaluation<br>on<br>Surplus<br>on Assets<br>Held for<br>sale and on<br>Disc.<br>Operations | Shareholders'<br>Equity<br>Before Non-<br>controlling<br>Interest | Non-<br>Controlling<br>Interest | Total<br>Shareholders'<br>Equity |
|---------------------------------|---|-----------------------|-------------------|---------------------|----------------------------------|-------------------|--------------------|---------------------------|-------------------|---|---|---|--|---|---------------------|---|---|---------------------------------|----------------------------------|
| CHANGES IN SHAREHOLDERS' EQUITY |   |                       |                   |                     |                                  |                   |                    |                           |                   |   |   |   |  |   |                     |   |   |                                 |                                  |
| Prior Period – 31 December 2017 |   |                       |                   |                     |                                  |                   |                    |                           |                   |   |   |   |  |   |                     |   |   |                                 |                                  |
| I.                              | Opening Balance   | 2,050,000             | 777               | -                   | -                                | 213,923           | 75,641             | 106,400                   | 2,920             | -   | 476,445                                 | (32,469)  | 34,702   | -   | -                   | -   | 2,928,339   | -                               | 2,928,339                        |
| II.                             | Changes in accounting policies according to TAS 8   | -                     | -                 | -                   | -                                | -                 | -                  | -                         | -                 | -   | -                                       | -   | -  | -   | -                   | -   | -   | -                               | -                                |
| 2.1                             | Effects of errors   | -                     | -                 | -                   | -                                | -                 | -                  | -                         | -                 | -   | -                                       | -   | -  | -   | -                   | -   | -   | -                               | -                                |
| 2.2                             | Effects of the changes in accounting policies   | -                     | -                 | -                   | -                                | -                 | -                  | -                         | -                 | -   | -                                       | -   | -  | -   | -                   | -   | -   | -                               | -                                |
| III.                            | New balance (I+II)  | 2,050,000             | 777               | -                   | -                                | 213,923           | 75,641             | 106,400                   | 2,920             | -   | 476,445                                 | (32,469)  | 34,702   | -   | -                   | -   | 2,928,339   | -                               | 2,928,339                        |
| Changes in the period           |   |                       |                   |                     |                                  |                   |                    |                           |                   |   |   |   |  |   |                     |   |   |                                 |                                  |
| IV.                             | Increase/decrease due to merger   | -                     | -                 | -                   | -                                | -                 | -                  | -                         | -                 | -   | -                                       | -   | -  | -   | -                   | -   | -   | -                               | -                                |
| V.                              | Marketable securities value increase fund   | -                     | -                 | -                   | -                                | -                 | -                  | -                         | -                 | -   | -                                       | 102,268   | -  | -   | -                   | -   | 102,268   | -                               | 102,268                          |
| VI.                             | Hedging (Effective portion)   | -                     | -                 | -                   | -                                | -                 | -                  | -                         | -                 | -   | -                                       | -   | -  | -   | -                   | -   | -   | -                               | -                                |
| 6.1                             | Cash flow hedge   | -                     | -                 | -                   | -                                | -                 | -                  | -                         | -                 | -   | -                                       | -   | -  | -   | -                   | -   | -   | -                               | -                                |
| 6.2                             | Hedge of net investment in foreign operations   | -                     | -                 | -                   | -                                | -                 | -                  | -                         | -                 | -   | -                                       | -   | -  | -   | -                   | -   | -   | -                               | -                                |
| VII.                            | Tangible assets revaluation differences   | -                     | -                 | -                   | -                                | -                 | -                  | -                         | -                 | -   | -                                       | -   | (2,131)  | -   | -                   | -   | (2,131)   | -                               | (2,131)                          |
| VIII.                           | Intangible assets revaluation differences   | -                     | -                 | -                   | -                                | -                 | -                  | -                         | -                 | -   | -                                       | -   | -  | -   | -                   | -   | -   | -                               | -                                |
| IX.                             | Bonus shares obtained from associates, subsidiaries and jointly controlled entities (Joint Vent.) | -                     | -                 | -                   | -                                | -                 | -                  | -                         | -                 | -   | -                                       | -   | -  | -   | -                   | -   | -   | -                               | -                                |
| X.                              | Foreign exchange differences  | -                     | -                 | -                   | -                                | -                 | -                  | -                         | -                 | -   | -                                       | 3,604   | -  | -   | -                   | -   | 3,604   | -                               | 3,604                            |
| XI.                             | Disposal of assets  | -                     | -                 | -                   | -                                | -                 | -                  | -                         | -                 | -   | -                                       | -   | -  | -   | -                   | -   | -   | -                               | -                                |
| XII.                            | Reclassification of assets  | -                     | -                 | -                   | -                                | -                 | -                  | -                         | -                 | -   | -                                       | -   | -  | -   | -                   | -   | -   | -                               | -                                |
| XIII.                           | Effect of change in equities of associates on bank's equity                                       | -                     | -                 | -                   | -                                | -                 | -                  | -                         | -                 | -   | -                                       | -   | -  | -   | -                   | -   | -   | -                               | -                                |
|                                 | Capital increase  | 350,000               | -                 | -                   | -                                | -                 | -                  | -                         | -                 | -   | -                                       | -   | -  | -   | -                   | -   | -   | -                               | -                                |
| XIV.                            | Cash  | 0                     | -                 | -                   | -                                | -                 | -                  | -                         | -                 | -   | (350,000)                               | -   | -  | -   | -                   | -   | -   | -                               | -                                |
| 14.1                            | Internal sources  | 350,000               | -                 | -                   | -                                | -                 | -                  | -                         | -                 | -   | -                                       | -   | -  | -   | -                   | -   | -   | -                               | -                                |
| 14.2                            | Share issuance  | -                     | -                 | -                   | -                                | -                 | -                  | -                         | -                 | -   | (350,000)                               | -   | -  | -   | -                   | -   | -   | -                               | -                                |
| XV.                             | Share cancellation profits  | -                     | -                 | -                   | -                                | -                 | -                  | -                         | -                 | -   | -                                       | -   | -  | -   | -                   | -   | -   | -                               | -                                |
| XVI.                            | Effect of inflation on paid-in capital  | -                     | -                 | -                   | -                                | -                 | -                  | -                         | -                 | -   | -                                       | -   | -  | -   | -                   | -   | -   | -                               | -                                |
| XVII.                           | Other   | -                     | (230)             | -                   | -                                | -                 | -                  | -                         | -                 | -   | -                                       | -   | -  | -   | -                   | -   | (230)   | -                               | (230)                            |
| XVIII.                          | Period net income   | -                     | -                 | -                   | -                                | -                 | -                  | -                         | -                 | 595,668                                   | -                                       | -   | -  | -   | -                   | -   | 595,668   | -                               | 595,668                          |
| XIX.                            | Profit distribution   | -                     | -                 | -                   | -                                | 24,931            | -                  | 8,713                     | -                 | -   | (126,445)                               | -   | -  | -   | -                   | -   | (92,801)  | -                               | (92,801)                         |
| XX.                             | Dividends distributed   | -                     | -                 | -                   | -                                | -                 | -                  | -                         | -                 | -   | (92,801)                                | -   | -  | -   | -                   | -   | (92,801)  | -                               | (92,801)                         |
| 20.1                            | Transfers to reserves   | -                     | -                 | -                   | -                                | 24,931            | -                  | 8,713                     | -                 | -   | (33,644)                                | -   | -  | -   | -                   | -   | -   | -                               | -                                |
| 20.2                            | Other   | -                     | -                 | -                   | -                                | 1                 | -                  | -                         | -                 | -   | -                                       | -   | -  | -   | -                   | -   | -   | -                               | -                                |
| 20.3                            |   | -                     | -                 | -                   | -                                | -                 | -                  | -                         | -                 | -   | -                                       | -   | -  | -   | -                   | -   | -   | -                               | -                                |
| Closing Balance                 |   | 2,400,000             | 547               | -                   | -                                | 238,854           | 75,641             | 115,113                   | 2,920             | 595,668                                   | -                                       | 73,403  | 32,571   | -   | -                   | -   | 3,534,717   | -                               | 3,534,717                        |

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**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**  
**UNCONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

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

|   |                  | Accumulated Other Comprehensive Income or Expenses Not Reclassified Through Profit or Loss |                |                            |                        |        | Accumulated Other Comprehensive Income or Expenses Reclassified Through Profit or Loss |         |        |           |   |                 |                               |                                 |  |                   |                            |
|---|------------------|--|----------------|----------------------------|------------------------|--------|--|---------|--------|-----------|---|-----------------|-------------------------------|---------------------------------|--|-------------------|----------------------------|
| CHANGES IN SHAREHOLDERS' EQUITY                                       | Section 5 Note V | Paid-in Capital  | Share Premiums | Share Cancellation Profits | Other Capital Reserves | 1      | 2  | 3       | 4      | 5         | 6 | Profit Reserves | Prior Period Profit or (Loss) | Current Period Profit or (Loss) | Total Equity Except from Minority Interest | Minority Interest | Total Shareholders' Equity |
| Current Period – 31 December 2018                                     |                  |  |                |                            |                        |        |  |         |        |           |   |                 |                               |                                 |  |                   |                            |
| I. Prior Period End Balance   |                  | 2.400.000  | -              | -                          | 374                    | 32.571 | 173  | 104.961 | 7.847  | (39.405)  | - | 432.528         | 595.668                       | -                               | 3.534.717                                  | -                 | 3.534.717                  |
| II. Corrections and Accounting Policy Changes Made According to TAS 8 |                  | -  | -              | -                          | -                      | -      | -  | -       | -      | -         | - | -               | 35.659                        | -                               | 35.659                                     | -                 | 35.659                     |
| 2.1 Effects of Errors   |                  | -  | -              | -                          | -                      | -      | -  | -       | -      | -         | - | -               | -                             | -                               | -  | -                 | -                          |
| 2.2 Effects of the Changes in Accounting Policies                     |                  | -  | -              | -                          | -                      | -      | -  | -       | -      | -         | - | -               | 35.659                        | -                               | 35.659                                     | -                 | 35.659                     |
| III. Adjusted Beginning Balance (I+II)                                |                  | 2.400.000  | -              | -                          | 374                    | 32.571 | 173  | 104.961 | 7.847  | (39.405)  | - | 432.528         | 631.327                       | -                               | 3.570.376                                  | -                 | 3.570.376                  |
| IV. Total Comprehensive Income  |                  | -  | -              | -                          | -                      | 8.337  | (522)  | 704.190 | 7.857  | (122.655) | - | -               | -                             | 660.926                         | 1.258.133                                  | -                 | 1.258.133                  |
| V. Capital Increase by Cash   |                  | -  | -              | -                          | -                      | -      | -  | -       | -      | -         | - | -               | -                             | -                               | -  | -                 | -                          |
| VI. Capital Increase by Internal Sources                              |                  | 400.000  | -              | -                          | -                      | -      | -  | -       | -      | -         | - | -               | (400.000)                     | -                               | -  | -                 | -                          |
| VII. Effect of Inflation on Paid-in Capital                           |                  | -  | -              | -                          | -                      | -      | -  | -       | -      | -         | - | -               | -                             | -                               | -  | -                 | -                          |
| VIII. Convertible Bonds to Share                                      |                  | -  | -              | -                          | -                      | -      | -  | -       | -      | -         | - | -               | -                             | -                               | -  | -                 | -                          |
| IX. Subordinated Debt Instruments                                     |                  | -  | -              | -                          | -                      | -      | -  | -       | -      | -         | - | -               | -                             | -                               | -  | -                 | -                          |
| X. Increase/Decrease by Other Changes                                 |                  | -  | -              | -                          | -                      | -      | -  | -       | -      | -         | - | -               | -                             | -                               | -  | -                 | -                          |
| XI. Profit Distribution   |                  | -  | -              | -                          | -                      | -      | -  | -       | -      | -         | - | 86.163          | (195.668)                     | -                               | (109.505)                                  | -                 | (109.505)                  |
| 11.1 Dividends Distributed  |                  | -  | -              | -                          | -                      | -      | -  | -       | -      | -         | - | -               | (109.865)                     | -                               | (109.865)                                  | -                 | (109.865)                  |
| 11.2 Transfers to Reserves  |                  | -  | -              | -                          | -                      | -      | -  | -       | -      | -         | - | 86.163          | (85.803)                      | -                               | 360  | -                 | 360                        |
| 11.3 Other  |                  | -  | -              | -                          | -                      | -      | -  | -       | -      | -         | - | -               | -                             | -                               | -  | -                 | -                          |
| Period-End Balance  |                  | 2.800.000  | -              | -                          | 374                    | 40.908 | (349)  | 809.151 | 15.704 | (162.060) | - | 518.691         | 35.659                        | 660.926                         | 4.719.004                                  | -                 | 4.719.004                  |

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

1. Accumulated Revaluation Increase / Decrease of Fixed Assets
2. Accumulated Remeasurement Gain / Loss of Defined Benefit Pension Plan
3. Other (Shares of Investments Valued by Equity Method in Other Comprehensive Income Not Classified Through Profit or Loss and Other Accumulated Amounts of Other Comprehensive Income Items Not Reclassified Through Other Profit or Loss)
4. Foreign Currency Transition Differences
5. Accumulated Revaluation and/or Remeasurement Gain/Loss of the Financial Asset at Fair Value Through Other Comprehensive Income
6. Other (Cash Flow Hedge Gain/Loss, Shares of Investments Valued by Equity Method in Other Comprehensive Income Classified Through Profit or Loss and Other Accumulated Amounts of Other Comprehensive Income Items Reclassified Through Other Profit or Loss)

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



**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**  
**UNCONSOLIDATED STATEMENT OF PROFIT DISTRIBUTION**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

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

|   | Note       | Audited<br>Current Period<br>31 December 2018 |
|---|------------|---|
| <b>A. CASH FLOWS FROM BANKING OPERATIONS</b>  |            |   |
| <b>1.1 Operating Profit Before Changes in Operating Assets and Liabilities</b>                |            | <b>1.763.319</b>                              |
| 1.1.1 Interest Received   |            | 2.463.185                                     |
| 1.1.2 Interest Paid   |            | (1.243.147)                                   |
| 1.1.3 Dividends Received  |            | 4.011   |
| 1.1.4 Fees and Commissions Received   |            | 25.749  |
| 1.1.5 Other Income  | (1)        | 6.135   |
| 1.1.6 Collections from Previously Written off loans   |            | 9.014   |
| 1.1.7 Payments to Personnel and Service Suppliers   |            | (107.255)                                     |
| 1.1.8 Taxes Paid  |            | (107.872)                                     |
| 1.1.9 Others  | (1)        | 713.499                                       |
| <b>1.2 Changes in Operating Assets and Liabilities</b>  |            | <b>(1.357.969)</b>                            |
| 1.2.1 Net (Increase) (Decrease) in Financial Assets at Fair Value through Profit or Loss      |            | -   |
| 1.2.2 Net (Increase) (Decrease) in Due from Banks   |            | -   |
| 1.2.3 Net (Increase) (Decrease) in Loans  |            | 1.227.382                                     |
| 1.2.4 Net (Increase) (Decrease) in Other Assets   | (1)        | (387.971)                                     |
| 1.2.5 Net (Increase) (Decrease) in Bank Deposits  |            | -   |
| 1.2.6 Net (Increase) (Decrease) in Other Deposits   |            | -   |
| 1.2.7 Net (Increase) (Decrease) in Financial Liabilities at Fair Value through Profit or Loss |            | -   |
| 1.2.8 Net (Increase) (Decrease) in Funds Borrowed   |            | (1.545.419)                                   |
| 1.2.9 Net (Increase) (Decrease) in Matured Payable  |            | -   |
| 1.2.10 Net (Increase) (Decrease) in Other Liabilities   | (1)        | (651.961)                                     |
| <b>I. Net Cash Provided by / (used in) Banking Operations</b>                                 |            | <b>405.350</b>                                |
| <b>B. CASH FLOWS FROM INVESTING ACTIVITIES</b>  |            |   |
| <b>II. Net Cash Provided by / (used in) Investing Activities</b>                              |            | <b>(477.255)</b>                              |
| 2.1 Cash Paid for Purchase of Entities under Common Control, Associates and Subsidiaries      | (2)        | (152.380)                                     |
| 2.2 Cash Obtained from Sale of Entities under Common Control, Associates and Subsidiaries     | (3)        | -   |
| 2.3 Purchases of Property and Equipment   | (2)        | (4.181)                                       |
| 2.4 Disposals of Property and Equipment   | (3)        | 94  |
| 2.5 Purchase of Financial Assets at Fair Value through Other Comprehensive Income             |            | (680.955)                                     |
| 2.6 Sale of Financial Assets at Fair Value through Other Comprehensive Income                 |            | 590.195                                       |
| 2.7 Purchase of Financial Assets Measured at Amortized Cost                                   |            | (227.528)                                     |
| 2.8 Sale of Financial Assets Measured at Amortized Cost                                       |            | -   |
| 2.9 Others  | (2)        | (2.500)                                       |
| <b>C. CASH FLOWS FROM FINANCING ACTIVITIES</b>  |            |   |
| <b>III. Net Cash Provided by / (used in) Financing Activities</b>                             |            | <b>1.208.725</b>                              |
| 3.1 Cash Obtained From Funds Borrowed and Securities Issued                                   |            | 1.318.590                                     |
| 3.2 Cash Used for Repayment of Funds Borrowed and Securities Issued                           |            | -   |
| 3.3 Capital Increase  |            | -   |
| 3.4 Dividends Paid  |            | (109.865)                                     |
| 3.5 Payments for Finance Leases   |            | -   |
| 3.6 Other   |            | -   |
| <b>IV. Effect of Change in Foreign Exchange Rate on Cash and Cash Equivalents</b>             | <b>(1)</b> | <b>45.114</b>                                 |
| <b>V. Net Increase / (Decrease) in Cash and Cash Equivalents</b>                              |            | <b>1.181.934</b>                              |
| <b>VI. Cash and Cash Equivalents at Beginning of the Period</b>                               | <b>(4)</b> | <b>20.176</b>                                 |
| <b>VII. Cash and Cash Equivalents at End of the Period</b>                                    | <b>(4)</b> | <b>1.202.110</b>                              |

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

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



**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**  
**UNCONSOLIDATED STATEMENT OF PROFIT DISTRIBUTION**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

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

|   | Note       | Audited<br>Prior Period<br>31 December 2017 |
|---|------------|---|
| <b>A. CASH FLOWS FROM BANKING OPERATIONS</b>  |            |   |
| <b>I.1 Operating Profit Before Changes in Operating Assets and Liabilities</b>                |            | <b>865.402</b>                              |
| 1.1.1 Interest Received   |            | 1.529.787                                   |
| 1.1.2 Interest Paid   |            | (780.028)                                   |
| 1.1.3 Dividends Received  |            | 3.270                                       |
| 1.1.4 Fees and Commissions Received   |            | 20.992                                      |
| 1.1.5 Other Income  | (1)        | 41.077                                      |
| 1.1.6 Collections from Previously Written off loans   |            | 3.827                                       |
| 1.1.7 Payments to Personnel and Service Suppliers   |            | (84.635)                                    |
| 1.1.8 Taxes Paid  |            | (122.638)                                   |
| 1.1.9 Others  | (1)        | 253.750                                     |
| <b>I.2 Changes in Operating Assets and Liabilities</b>  |            | <b>(2.403.690)</b>                          |
| 1.2.1 Net (Increase) (Decrease) in Financial Assets at Fair Value through Profit or Loss      |            | 4.658                                       |
| 1.2.2 Net (Increase) (Decrease) in Due from Banks   |            | -   |
| 1.2.3 Net (Increase) (Decrease) in Loans  |            | -   |
| 1.2.4 Net (Increase) (Decrease) in Other Assets   |            | (2.801.974)                                 |
| 1.2.5 Net (Increase) (Decrease) in Bank Deposits  | (1)        | (154.905)                                   |
| 1.2.6 Net (Increase) (Decrease) in Other Deposits   |            | -   |
| 1.2.7 Net (Increase) (Decrease) in Financial Liabilities at Fair Value through Profit or Loss |            | -   |
| 1.2.8 Net (Increase) (Decrease) in Funds Borrowed   |            | 661.810                                     |
| 1.2.9 Net (Increase) (Decrease) in Matured Payable  |            | -   |
| 1.2.10 Net (Increase) (Decrease) in Other Liabilities   | (1)        | (113.279)                                   |
| <b>I. Net Cash Provided by / (used in) Banking Operations</b>                                 |            | <b>(1.538.288)</b>                          |
| <b>B. CASH FLOWS FROM INVESTING ACTIVITIES</b>  |            |   |
| <b>II. Net Cash Provided by / (used in) Investing Activities</b>                              |            | <b>91.693</b>                               |
| 2.1 Cash Paid for Purchase of Entities under Common Control, Associates and Subsidiaries      | (2)        | -   |
| 2.2 Cash Obtained from Sale of Entities under Common Control, Associates and Subsidiaries     | (3)        | -   |
| 2.3 Purchases of Property and Equipment   | (2)        | (3.580)                                     |
| 2.4 Disposals of Property and Equipment   | (3)        | 300   |
| 2.5 Purchase of Financial Assets at Fair Value through Other Comprehensive Income             |            | (781.787)                                   |
| 2.6 Sale of Financial Assets at Fair Value through Other Comprehensive Income                 |            | 878.041                                     |
| 2.7 Purchase of Financial Assets Measured at Amortized Cost                                   |            | -   |
| 2.8 Sale of Financial Assets Measured at Amortized Cost                                       |            | -   |
| 2.9 Others  | (2)        | (1.281)                                     |
| <b>C. CASH FLOWS FROM FINANCING ACTIVITIES</b>  |            |   |
| <b>III. Net Cash Provided by / (used in) Financing Activities</b>                             |            | <b>984.199</b>                              |
| 3.1 Cash Obtained From Funds Borrowed and Securities Issued                                   |            | 1.077.000                                   |
| 3.2 Cash Used for Repayment of Funds Borrowed and Securities Issued                           |            | -   |
| 3.3 Capital Increase  |            | -   |
| 3.4 Dividends Paid  |            | (92.801)                                    |
| 3.5 Payments for Finance Leases   |            | -   |
| 3.6 Other   |            | -   |
| <b>IV. Effect of Change in Foreign Exchange Rate on Cash and Cash Equivalents</b>             | <b>(1)</b> | <b>659</b>                                  |
| <b>V. Net Increase / (Decrease) in Cash and Cash Equivalents</b>                              |            | <b>(461.737)</b>                            |
| <b>VI. Cash and Cash Equivalents at Beginning of the Period</b>                               | <b>(4)</b> | <b>481.913</b>                              |
| <b>VII. Cash and Cash Equivalents at End of the Period</b>                                    | <b>(4)</b> | <b>20.176</b>                               |

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

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



**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**  
**UNCONSOLIDATED STATEMENT OF PROFIT DISTRIBUTION**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

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

|   | Audited<br>Current Period<br>31 December 2018 (1) | Audited<br>Prior Period<br>31 December 2017 |
|---|---|---|
| <b>I. DISTRIBUTION OF CURRENT YEAR INCOME</b>                       |   |   |
| 1.1 CURRENT YEAR INCOME   | 909.263   | 727.303                                     |
| 1.2 TAXES AND DUTIES PAYABLE  | 248.337   | 131.635                                     |
| 1.2.1 Corporate Tax (Income tax)                                    | 146.335   | 161.659                                     |
| 1.2.2 Income withholding tax  | -   | -   |
| 1.2.3 Other taxes and duties (3)                                    | 102.002   | (30.024)                                    |
| <b>A. NET INCOME FOR THE YEAR (1.1-1.2)</b>                         | <b>660.926</b>                                    | <b>595.668</b>                              |
| 1.3 PRIOR YEARS LOSSES (-)  | -   | -   |
| 1.4 FIRST LEGAL RESERVES (-)  | -   | 29.783                                      |
| 1.5 OTHER STATUTORY RESERVES (-)                                    | -   | -   |
| <b>B. NET PROFIT AVAILABLE FOR DISTRIBUTION [(A)-(1.3+1.4+1.5)]</b> | <b>660.926</b>                                    | <b>565.885</b>                              |
| 1.6 FIRST DIVIDEND TO SHAREHOLDERS (-)                              | -   | 169.820                                     |
| 1.6.1 To owners of ordinary shares                                  | -   | 169.818                                     |
| 1.6.2 To owners of preferred shares                                 | -   | -   |
| 1.6.3 To owners of preferred shares (pre-emptive rights)            | -   | 2   |
| 1.6.4 To profit sharing bonds                                       | -   | -   |
| 1.6.5 To holders of profit and loss sharing certificates            | -   | -   |
| 1.7 DIVIDENDS TO PERSONNEL (-)                                      | -   | 11.882                                      |
| 1.8 DIVIDENDS TO BOARD OF DIRECTORS (-)                             | -   | 1.981                                       |
| 1.9 SECOND DIVIDEND TO SHAREHOLDERS (-)                             | -   | 326.182                                     |
| 1.9.1 To owners of ordinary shares                                  | -   | 326.182                                     |
| 1.9.2 To owners of preferred shares                                 | -   | -   |
| 1.9.3 To owners of preferred shares (pre-emptive rights)            | -   | -   |
| 1.9.4 To profit sharing bonds                                       | -   | -   |
| 1.9.5 To holders of profit and loss sharing certificates            | -   | -   |
| 1.10 SECOND LEGAL RESERVES (-)                                      | -   | 1.387                                       |
| 1.11 STATUTORY RESERVES (-)   | -   | -   |
| 1.12 GENERAL RESERVES   | -   | 54.633                                      |
| 1.13 OTHER RESERVES   | -   | -   |
| 1.14 SPECIAL FUNDS  | -   | -   |
| <b>II. DISTRIBUTION OF RESERVES</b>                                 | -   | -   |
| 2.1 APPROPRIATED RESERVES   | -   | -   |
| 2.2 SECOND LEGAL RESERVES (-)                                       | -   | -   |
| 2.3 DIVIDENDS TO SHAREHOLDERS (-)                                   | -   | -   |
| 2.3.1 To owners of ordinary shares                                  | -   | -   |
| 2.3.2 To owners of preferred shares                                 | -   | -   |
| 2.3.3 To owners of preferred shares (pre-emptive rights)            | -   | -   |
| 2.3.4 To profit sharing bonds                                       | -   | -   |
| 2.3.5 To holders of profit and loss sharing certificates            | -   | -   |
| 2.4 DIVIDENDS TO PERSONNEL (-)                                      | -   | -   |
| 2.5 DIVIDENDS TO BOARD OF DIRECTORS (-)                             | -   | -   |
| <b>III. EARNINGS PER SHARE (2)</b>                                  |   |   |
| 3.1 TO OWNERS OF ORDINARY SHARES                                    | 0,24  | 0,25  |
| 3.2 TO OWNERS OF ORDINARY SHARES (%)                                | 23,60   | 24,82                                       |
| 3.3 TO OWNERS OF PRIVILEGED SHARES                                  | -   | -   |
| 3.4 TO OWNERS OF PRIVILEGED SHARES (%)                              | -   | -   |
| <b>IV. DIVIDEND PER SHARE</b>                                       |   |   |
| 4.1 TO OWNERS OF ORDINARY SHARES                                    | -   | 0,21  |
| 4.2 TO OWNERS OF ORDINARY SHARES (%)                                | -   | 20,67                                       |
| 4.3 TO OWNERS OF PRIVILEGED SHARES                                  | -   | -   |
| 4.4 TO OWNERS OF PRIVILEGED SHARES (%)                              | -   | -   |

(1) Since the Board of Directors has not prepared any proposal for profit distribution relating to the year 2018 yet, only profit available for distribution for the year 2018 is presented.

(2) A nominal value of 1 Kurus figures a share in unconsolidated income statement and unconsolidated statement of profit distribution and an earnings per share is calculated for a nominal value of 1 Kurus.

(3) The current amount is deferred tax expense and the prior period amount is deferred tax income.



## **SECTION THREE**

### **ACCOUNTING POLICIES**

#### **I. Basis of presentation**

##### **I.a Preparation of the financial statements and the accompanying footnotes in accordance with Turkish Accounting Standards and Regulation on Principles Related to Banks' Accounting Applications and Maintaining the Documents**

The Bank prepared its financial statements in accordance with the BRSA Accounting and Reporting Regulation" which includes the regulation on "The Procedures and Principles Regarding Banks' Accounting Practices and Maintaining Documents" published in the Official Gazette dated 1 November 2006 with No. 26333, and other regulations on accounting records of banks published by the Banking Regulation and Supervision Board and circulars and pronouncements published by the BRSA and Turkish Accounting Standards published by the Public Oversight Accounting and Auditing Standards Authority for the matters not regulated by the aforementioned legislations and the amendments dated 14 March 2018 to the Communiqué on the Financial Statements and Related Disclosures and Footnotes to announced to public dated 28 June 2012 and with No. 28337 "Communique" on Publicly Announced Financial Statements Explanations and notes to the Financial Statements".

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

Accounting policies and valuation principles used in the preparation of the interim financial statements are determined and applied, in accordance with the regulations, communiqués, interpretations and legislations related to accounting and financial reporting principles published by the Banking Regulation and Supervision Agency ("BRSA"), and are consistent with the accounting policies applied in the annual financial statements prepared for the year ended 31 December 2017 except for the application of TFRS 9. TFRS 9 Financial Instruments ("TFRS 9") published by Public Oversight Accounting and Auditing Standards Authority ("POA") in the Official Gazette numbered 29953 dated 19 January 2017 in lieu of TAS 39 Financial Instruments: "Accounting and Measurement" starting from 1 January 2018. TFRS 9 mainly sets out the new principles for the classification and measurement of financial instruments and expected credit loss which will be calculated for financial assets. TFRS 9 permits to defer application of TFRS 9 hedge accounting principles and permits the companies continue to apply hedge accounting principles of TAS 39 as a policy choice. Accordingly, the Bank will continue to apply hedge accounting in accordance with TAS 39 in this context. The Bank explained the reflection effect of TFRS 9 in footnotes under Section Three, Note XXIII.2. Accounting policies and valuation principles used for the period of 2018 are presented in the footnotes, these accounting policies and valuation principles are explained in footnotes II to XXIII below. Explanations on prior period accounting policies that are not valid in the current period are included in footnotes under Section Three, Note XXIII.3

The format and content of the accompanying unconsolidated financial statements and footnotes have been prepared in accordance with the "Communique" on Publicly Announced Financial Statements Explanations and notes to the Financial Statements" and "Communique on Disclosures About Risk Management to be Announced to Public by Banks."

#### **Additional paragraph for convenience translation to English**

The effects of differences between accounting principles and standards set out by regulations in conformity with BRSA Accounting and Reporting Legislation except for the matters regulated by BRSA Legislation accounting principles generally accepted in countries in which the accompanying unconsolidated financial statements are to be distributed and Turkish Financial Reporting Standards ("TFRS") have not been quantified in the accompanying unconsolidated financial statements. Accordingly, the accompanying unconsolidated financial statements are not intended to present the financial position, results of operations and changes in financial position and cash flows in accordance with the accounting principles generally accepted in such countries and TFRS.



## **SECTION THREE (Continued)**

### **ACCOUNTING POLICIES (Continued)**

#### **I. Basis of presentation (continued)**

##### **I.a Changes in accounting policies and disclosures**

##### **I.a.1 Major new and amended standards and interpretations**

The Bank has started to apply TFRS 9 Financial Instruments (“TFRS 9”) published by Public Oversight Accounting and Auditing Standards Authority (“POA”) in the accompanying financial statements starting from 1 January 2018 for the first time based on the regulation published in the Official Gazette no. 29750 dated 22 June 2016 in connection with procedures and principals regarding classification of loans and allowances allocated for such loans which came into force starting from 1 January 2018. TFRS 15 and other new TFRS/TAS amendments in effect do not have significant impact on the Bank’s accounting policies, financial position and performance. Besides, the Bank’s adoption process completed regarding TFRS 16 Leases (“TFRS 16”) which is in effect starting from 1 January 2019 and if the Bank has applied the relevant standard the effect of the standard on the statement of financial position would be between 0,10–0,12%.

##### **I.a.2 Standards effective as of 1 January 2018**

###### **TFRS 9 Financial instruments**

As of 1 January 2018, the Bank has started to apply TFRS 9 standard which replaces TAS 39 Financial Instruments: Recognition and Measurement for the first time in the accompanying financial statements. TFRS 9 also includes new hedge accounting rules aiming alignment with risk management activities.

TFRS 9 permits to defer application of TFRS 9 hedge accounting and continue to apply hedge accounting in accordance with TAS 39 as a policy choice. Accordingly, the Bank continued to apply hedge accounting in accordance with TAS 39 in this context. The Bank has not restated comparative information for 2017 for financial instruments in the scope of TFRS 9 and the total difference arising from the adoption of TFRS 9 has been recognised directly in prior periods’ profit/loss as of 1 January 2018 in the current period statement of changes in shareholders’ equity. In this context, the accompanying financial statements and the disclosures on these financial statements are not presented on a comparative basis due to the fact that the current and prior period financial statements are prepared based on different principles.

The transition impact on the financial statements regarding the first time adoption of TFRS 9 as of 1 January 2018 is presented in Note XXIII.2.

Changes regarding classification and measurement of financials assets determine their classification and measurement category, TFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on both the entity’s business model for managing the assets and the instruments’ contractual cash flow characteristics. The TAS 39 measurement categories of financial assets at fair value through profit/loss, available for sale and held-to-maturity have been replaced by: financial assets measured at fair value through profit/loss, financial assets measured at fair value through other comprehensive income and financial assets measured at amortised cost, respectively as a consequence of TFRS 9. The details regarding the Bank’s classification and measurement of its financial assets and liabilities is explained in Note VII. Impairment TFRS 9 has changed the accounting for loan loss impairments by replacing TAS 39’s incurred loss approach with a forward-looking expected credit loss (ECL) approach. The Bank formed an impairment model having 3 stages based on the change in credit quality since initial recognition. The approach of the Bank regarding measurement of credit impairment is presented in Note VIII.

###### **TFRS 15 Revenue from contracts with customers**

TFRS 15 Revenue from Contracts with Customers standard provides single and comprehensive model and guidance regarding recognition of revenue and replaces TAS 18 Revenue standard. The standard is in effect starting from 1 January 2018 and does not have significant impact on the financial statements.



## **SECTION THREE (Continued)**

### **ACCOUNTING POLICIES (Continued)**

#### **I. Basis of presentation (continued)**

##### **I.a Changes in accounting policies and disclosures**

##### **I.a.3 New standards not effective as of 1 January 2018**

##### **TFRS 16 Leases**

TFRS 16 Leases standard abolishes the dual accounting model currently applied for lessees through recognizing finance leases in the balance sheet whereas not recognizing operational lease. Instead, it is set forth a single model similar to the accounting of finance leases (on balance sheet). For lessors, the accounting stays almost the same. The standard is effective from annual periods beginning on or after 1 January 2019. IFRS 16 Leases which will be effective from 1 January 2019 has completed harmonization activities by the Bank as of 31 December 2018 if the standard was applied, the effect of the standard on the financial statement would be between 0.10% and 0.12%.

##### **I.b The valuation principles used in the preparation of the financial statements**

The accounting rules and the valuation principles used in the preparation of the financial statements were implemented as stated in the Turkish Accounting Standards and related regulations, explanations and circulars on accounting and financial reporting principles announced by the BRSA. These accounting policies and valuation principles are explained in the below notes through II to XXIII.

##### **I.c The accounting policies for the correct understanding of the financial statements**

The following accounting policies that applied according to BRSA regulations and TAS for the correct understanding of the financial statements and valuation principles used in preparation of the financial statements are presented in more detail below.

#### **II. Explanations on usage strategy of financial assets and foreign currency transactions**

The main sources of the funds of the Bank have variable interest rates. The financial balances are monitored frequently and fixed and floating interest rate placements are undertaken according to the return on the alternative financial instruments. The macro goals related to balance sheet amounts are set during budgeting process and positions are taken accordingly.

Due to the fact that the great majority of the loans extended by the Bank have a flexibility of reflecting changes in the market interest rates to the customers, the interest rate risk is kept at minimum level. Moreover, the highly profitable Eurobond and the foreign currency government indebtedness securities portfolio have the attribute of eliminating the risks of interest rate volatility.

The fixed rate Subordinated bond, Eurobond and Greenbond issued by the Bank and a portion of fixed rate funds borrowed are subject to fair value hedge accounting. The Bank enters into interest rate swap agreements in order to hedge the change in fair values of its fixed rate financial liabilities. The changes in the fair value of the hedged fixed rate financial liabilities and hedging interest rate swaps are recognized under the statement of profit/loss.

In the beginning and later period of the hedging transaction, the aforementioned hedging transactions are expected to offset changes occurred in the relevant period of the hedging transaction and hedged risk (attributable to hedging risk) and effectiveness tests are performed in this regard.

The Bank performs effectiveness test at the beginning of the hedge accounting and at each reporting period. The effectiveness tests are carried out using the “Dollar off-set model” and the hedge accounting is applied as long as the test results are between the range of 80%-125% of effectiveness.



## **SECTION THREE (Continued)**

### **ACCOUNTING POLICIES (Continued)**

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

The hedge accounting is discontinued when the hedging instrument expires, is exercised, sold or no longer effective. When discontinuing fair value hedge accounting, the cumulative fair value changes in carrying value of the hedged item arising from the hedged risk are amortized and recognized in income statement over the life of the hedged item from that date of the hedge accounting is discontinued.

The Bank liquidity is regularly monitored. Moreover, the need of liquidity in foreign currencies is safeguarded by currency swaps.

Commercial placements are managed with high return and low risk assets considering the international and domestic economic expectations, market conditions, creditors' expectations and their tendencies, interest-liquidity and other similar factors. Prudence principle is adopted in the placement decisions. The long term placements are made under project finance. A credit policy is implemented such a way that harmonizing the profitability of the projects, the collateral and the value add introduced by the Bank.

The movements of foreign exchange rates in the market, interest rates and prices are monitored instantaneously. While taking positions, the Bank's unique operating and control limits are watched effectively besides statutory limits. Limit overs are not allowed.

The Bank's strategy of hedging interest rate and foreign currency risks arising from fixed and variable interest rate funds and foreign currency fair value through other comprehensive income securities:

A great majority of foreign currency fair value through other comprehensive income securities are financed with foreign currency resources. Accordingly, the anticipated possible depreciation of local currency against other currencies is eliminated. A foreign currency basket is formulated in terms of the indicated foreign currency to eliminate the risk exposure of changes in cross currency parity. Interest rate risk is mitigated by constituting a balanced asset composition in compliance with the structure of fixed and floating rate of funding resources. The hedging strategies for other foreign exchange risk exposures: A stable foreign exchange position strategy is implemented and to be secured from cross currency risk, the current foreign exchange position is monitored by considering a currency basket in specific foreign currencies.

The foreign exchange gains and losses on foreign currency transactions are accounted for in the period of the transaction. Foreign exchange assets and liabilities are translated to Turkish Lira using foreign exchange bid rate as of the reporting date, and the resulting gains and losses are recorded in foreign exchange gains or losses.



### **SECTION THREE (Continued)**

#### **ACCOUNTING POLICIES (Continued)**

##### **III. Explanations on forward and option contracts and derivative instruments**

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

The derivative financial instruments are accounted for at their fair values as of the date of the agreements entered into and subsequently valued at fair value. Derivative financial instruments of the Bank are classified under "TFRS 9 Financial Instruments" ("TFRS 9"), "Derivative Financial Assets Designated at Fair Value Through Profit or Loss" or "Derivative Financial Assets Designated at Fair Value Through Other Comprehensive Income". Payables and receivables arising from the derivative instruments are recorded in the off-balance sheet accounts at their contractual values. Derivative transactions are valued at their fair values subsequent to their acquisition. In accordance with the classification of derivative financial instruments, if the fair value is positive, the amount is classified as "Derivative Financial Assets Designated at Fair Value Through Profit or Loss" or "Derivative Financial Assets Designated at Fair Value Through Other Comprehensive Income", if the fair value is negative, the amount is classified as "Derivative Financial Liabilities Designated at Fair Value Through Profit or Loss" or "Derivative Financial Liabilities Designated at Fair Value Through Other Comprehensive Income". The fair value differences of derivative financial instruments are recognized in the income statement under trading profit/loss line in profit/loss from derivative financial transactions.

When a derivative financial instrument, is originally designed as a hedge by the Bank, the relationship between the Bank's financial risk from hedged item and the hedging instrument, the risk management objectives and strategy of hedging transaction and the methods that will be used in the measurement of effectiveness, describe in written. The Bank, at the beginning of the aforementioned engagement and during the ongoing process, evaluates whether the hedging instruments are effective on changes in the fair values or actual results of hedging are within the range of 80% - 125%.

##### **IV. Explanations on associates and subsidiaries**

Financial subsidiaries and Investments in associates are taken into the financial statements in accordance with the "TAS 27-Separate Financial Statements" standard within the framework TFRS 9 "Financial Instruments: Turkish Financial Reporting Standards". Non financial subsidiaries and associates are presented in the financial statements in accordance with the "TAS 27-Separate Financial Statements" standard with their cost values after the deduction of, if any, impairment losses.



### **SECTION THREE (Continued)**

#### **ACCOUNTING POLICIES (Continued)**

##### **V. Explanations on interest income and expenses**

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 TFRS 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 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 creditloss models and accordingly, the calculation of expected credit losses includes an interest amount.

Therefore, a reclassification is made between the accounts of “Expected Credit Losses” and “Interest Income From Loans” for calculated 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 expenses are recognized in the income statement for all interest bearing instruments on an accrual basis using the effective interest method (the rate that equalizes the future cash flows of financial assets and liabilities to the current net book value).

##### **VI. Explanations on fees and commission income and expenses**

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 TFRS 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.



## **SECTION THREE (Continued)**

### **ACCOUNTING POLICIES (Continued)**

#### **VII. Explanations on financial assets**

##### **Initial recognition of financial instruments**

Initial recognition of financial instruments the 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.

##### **Initial measurement of financial instruments**

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 TFRS 15 Revenue from contracts with customers, at initial recognition, the 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.

As per TFRS 9, the 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.

The bank tested all financial assets within the scope of TFRS 9 "whether the contractual cash flows arise solely from interest and capitals" and assessed the asset classification within the business model.

##### **Assessment of business model**

As per TFRS 9, the 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 Bank's business models are divided into three categories.

##### **Business model whose aimed to hold assets in order to collect contractual cash flows:**

This is a business 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 Receivables from Central Bank, Banks, Money Market Placements, investments under financial assets measured at amortized cost, loans, leasing receivables, factoring receivables and other receivables are assessed within this business model.



## **SECTION THREE (Continued)**

### **ACCOUNTING POLICIES (Continued)**

#### **VII. Explanations on financial assets (continued)**

##### **Business model aimed to collect contractual cash flows and sell financial assets:**

This is a model whose objective is achieved by both collecting contractual cash flows and selling financial assets: the Bank may hold financial assets in a 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. Financial assets measured at fair value through other comprehensive income are assessed in this business model.

##### **Other business models:**

Financial assets are measured at fair value through profit or loss in case 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. Financial assets measured at fair value through profit/loss and derivative financial assets are assessed in this business model.

##### **Measurement categories of financial assets and liabilities**

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

##### **a. Financial assets 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.

The Bank classifies certain loans and securities issued at their origination dates, as financial assets/liabilities at fair value through profit/ loss, irrevocably in order to eliminate any accounting mismatch in compliance with TFRS 9.

Financial assets at the fair value through profit or loss are initially recognized at fair value and measured 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”.



## **SECTION THREE (Continued)**

### **ACCOUNTING POLICIES (Continued)**

#### **VII. Explanations on financial assets (continued)**

##### **b. Financial Assets 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.

During initial recognition an entity can choose in a irrevocable way 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.

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



## **SECTION THREE (Continued)**

### **ACCOUNTING POLICIES (Continued)**

#### **VII. Explanations on financial assets (continued)**

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

##### **d. Loans**

Loans are financial assets that have fixed or determinable payments terms and are not quoted in an active market. Loans 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". Duties paid, transaction costs and other similar expenses on assets received against such risks are considered as a part of transaction cost and charged to customers. Turkish Lira ("TL") cash loans are composed of foreign currency indexed loans and working capital loans; foreign currency ("FC") cash loans are composed of investment loans, export financing loans and working capital loans.

All loans of the 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.

Foreign currency indexed loans are converted into TL from the foreign currency rate as of the opening date and followed in TL accounts. Repayments are measured with the foreign currency rate at the payment date, the foreign currency gains and losses are reflected to the income statement.

#### **VIII. Explanations on impairment of financial assets**

As of 1 January 2018, the Bank recognizes a loss allowance for expected credit losses on financial assets and loans measured at amortized cost, financial assets measured at fair value through other comprehensive income , loan commitments and financial guarantee contracts not measured at fair value through profit/loss based on TFRS 9 and the regulation published in the Official Gazette no. 29750 dated 22 June 2016 in connection with "Procedures and Principals regarding Classification of Loans and Allowances Allocated for Such Loans" effective from 1 January 2018. TFRS 9 impairment requirements are not eligible for equity instruments.

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

##### **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 TFRS 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.



## **SECTION THREE (Continued)**

### **ACCOUNTING POLICIES (Continued)**

#### **VIII. Explanations on impairment of financial assets (continued)**

##### **Calculation of expected credit losses (continued)**

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

- Loan portfolio (corporate /specilization)
- Product type
- Credit risk rating notes (ratings)
- Colleteral 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 TFRS 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.

Financial assets are divided into three categories depending on the 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.



## **SECTION THREE (Continued)**

### **ACCOUNTING POLICIES (Continued)**

#### **VIII. Explanations on impairment of financial assets (continued)**

##### **Calculation of expected credit losses (continued)**

##### **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.

##### **Debt instruments measured at fair value through other comprehensive income**

As of 1 January 2018, the impairment requirements are applies for the recognition and measurement of a loss allowance for financial assets that are measured at fair value through other comprehensive income in accordance with IFRS 9. 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.

##### **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).

Within the scope of quantitative assessment, the quantitative reason explaining the significant increase in the 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 bank credit risk, The 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



## **SECTION THREE (Continued)**

### **ACCOUNTING POLICIES (Continued)**

#### **IX. Explanations on 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 TFRS 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.



## **SECTION THREE (Continued)**

### **ACCOUNTING POLICIES (Continued)**

#### **IX. Explanations on offsetting, derecognition and restructuring of financial instruments (continued)**

##### **c. Reclassification of financial instruments**

Based on TFRS 9, the 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 Bank has fulfilled the requirements of reclassification during transition to TFRS 9 and such reclassification details are presented in Section 3, Note VII.

##### **d. Restructuring and refinancing of financial instruments**

The 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 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.



### **SECTION THREE (Continued)**

#### **ACCOUNTING POLICIES (Continued)**

##### **X. Explanations on sales and repurchase agreements and lending of securities**

Funds provided under repurchase agreements are accounted under “Funds Provided under Repurchase Agreements-TL” and “Funds Provided under Repurchase Agreements-FC” accounts.

The repurchase agreements of the Bank are based on the Eurobonds and government bonds issued by Republic of Turkey Undersecretariat of Treasury. Marketable securities subject to repurchase agreements are classified under assets at fair value through profit or loss, assets at fair value through other comprehensive income or assets at measured at amortized costs with parallel to classifications of financial instruments. The income and expenses from these transactions are reflected to the interest income and interest expense accounts in the income statement. Receivables from reverse repurchase agreements are recorded in “Receivables from Reverse Repurchase Agreements” account in the balance sheet.

##### **XI. Explanations on assets held for sale and discontinued operations**

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

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

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



## **SECTION THREE (Continued)**

### **ACCOUNTING POLICIES (Continued)**

#### **XII. Explanations on goodwill and other intangible assets**

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the subsidiary or jointly controlled interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognized at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to each of the cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period. On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal. As of reporting date, The Bank has no goodwill on the unconsolidated financial statements.

Intangible assets that are acquired prior to 1 January 2005 are carried at restated historical cost as of 31 December 2004; and those acquired subsequently are carried at cost less accumulated amortization, and any impairment. Intangible assets are depreciated on a straight line basis over their expected useful lives. Depreciation method and period are reviewed periodically at the end of each year. Intangible assets are mainly composed of rights and they are depreciated principally on a straight-line basis between 1-15 years.

#### **XIII. Explanations on tangible assets**

Tangible assets rather than real estate, purchased before 1 January 2005, are accounted for at their restated costs as of 31 December 2004 and the assets purchased in the following periods are accounted for at acquisition cost less accumulated depreciation and reserve for impairment. Gain or loss resulting from disposals of the tangible assets is reflected to the income statement as the difference between the net proceeds and net book value. Normal maintenance and repair expenditures are recognized as expense.

As of the third quarter of 2015, the Bank changed its accounting policy and adopted revaluation method on annual basis under scope of Standard on Tangible Fixed Assets (TAS 16) with respect to valuation of immovable included in its building and lands. The amortization periods of real estates are specified in the appraisal's report. In case of the cost of tangible assets over the net realizable value estimated under the "Turkish accounting standards for impairment of assets" (TAS 36), the value of the asset is reduced to its "net realizable value" and are reserved impairment provision associated with expense accounts. The positive difference between appraisal value and net book value of the property is accounted under shareholder' equity. Related valuation models such as cost model, market value and discounted cash flow projections approaches are used in valuation of real estates. There is no pledge, mortgage or any other lien on tangible assets. Tangible assets are depreciated with straight-line method and their useful lives are determined in accordance with the Turkish Accounting Standards.



### **SECTION THREE (Continued)**

#### **ACCOUNTING POLICIES (Continued)**

##### **XIII. Explanations on tangible assets (continued)**

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

| <b>Tangible Assets</b> | <b>Expected Useful Lives (Years)</b> | <b>Depreciation Rate (%)</b> |
|------------------------|--------------------------------------|------------------------------|
| Cashvault              | 4-50                                 | 2-25                         |
| Vehicles               | 5                                    | 20                           |
| Other Tangible Assets  | 1-50                                 | 2-100                        |

##### **XIV. Explanations on leasing transactions**

###### ***The Bank as Lessor***

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Bank's net investment in the leases. The lease payments are allocated as principle and interest. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Bank's net investment outstanding in respect of the leases.

###### ***The Bank as Lessee***

Assets held under finance leases are recognized as assets of the Bank at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are included in profit or loss in accordance with the Bank's general policy on borrowing costs. Tangible assets acquired by financial leases are amortized based on the useful lives of the assets.

##### **XV. Explanations on provisions and contingent liabilities**

Provisions are recognized when there is a present obligation due to a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If aforesaid criteria did not form, the Bank discloses the issues mentioned in notes to financial statements. Provisions are determined by using the Bank's best expectation of expenses in fulfilling the obligation, and discounted to present value if material.

###### ***Explanations on contingent assets***

Contingent assets consist of unplanned or other unexpected events that usually cause a possible inflow of economic benefits to the Bank. Since recognition of the contingent assets in the financial statements would result in the accounting of an income, which may never be generated, the related assets are not included in the financial statements; on the other hand, if the inflow of the economic benefits of these assets to the Bank is probable, an explanation is made thereon in the footnotes of the financial statements. Nevertheless, the developments related to the contingent assets are constantly evaluated and in case the inflow of the economic benefit to the Bank is almost certain, the related asset and the respective income are recognized in the financial statements of the period in which the change occurred. Severance pay according to the current laws and collective bargaining agreements in Turkey, is paid in case of retirement or dismissal.



### **SECTION THREE (Continued)**

#### **ACCOUNTING POLICIES (Continued)**

##### **XVI. Explanations on liabilities regarding employee benefits**

Bank calculates a provision for severance pay to allocate that employees need to be paid upon retirement or involuntarily leaving by estimating the present value of probable amount. There is no indemnity obligations related to the employees who are employed with contract of limited duration exceeding 12 month period. Actuarial gains and losses are accounted under Shareholder's Equity since 1 January 2013 in accordance with the Revised TAS 19. Employees of the Bank are members of “Türkiye Sınai Kalkınma Bankası Anonim Şirketi Memur ve Müstahdemleri Yardım ve Emekli Vakfı” and “Türkiye Sınai Kalkınma Bankası A.Ş. Mensupları Munzam Sosyal Güvenlik ve Yardımlaşma Vakfı” (“the Pension Fund”). Technical financial statements of those funds are subject to audit in accordance with the Insurance Law and provisions of “Regulations on Actuaries” issued based on the related law by an actuary registered in the Actuarial Registry.

Paragraph 1 of the provisional Article 23 of the Banking Act (“Banking Act”) No: 5411 published in the Official Gazette No: 25983 on 1 November 2005 requires the transfer of banking funds to the Social Security Institution within 3 years as of the enactment date of the Banking Act. Under the Banking Act, in order to account for obligations, actuarial calculations will be made considering the income and expenses of those funds by a commission consisting of representatives from various institutions. Such calculated obligation shall be settled in equal instalments in maximum 15 years. Nonetheless, the related Article of the Banking Law was annulled by the Constitutional Court’s decision No: E. 2005/39 and K. 2007/33 dated 22 March 2007 that were published in the Official Gazette No: 26479 on 31 March 2007 as of the release of the related decision, and the execution of this article was cancelled as of its publication of the decision and the underlying reasoning for the cancellation of the related article was published in the Official Gazette No: 26731 on 15 December 2007.

After the publication of the reasoning of the cancellation decision of the Constitutional Court, articles related with the transfer of banks pension fund participants to Social Security Institution based on Social Security Law numbered 5754 were accepted by the Grand National Assembly of Turkey on 17 April 2008 and published in the Official Gazette No: 26870 on 8 May 2008.

Present value for the liabilities of the transferees as of the transfer date would be calculated by a commission that involves representatives of Social Security Institution, Ministry of Finance, Turkish Treasury, State Planning Organization, BRSA, SDIF, banks and banks’ pension fund institutions and technical interest rate, used in actuarial account, would be 9,80%. If salaries and benefits paid by the pension fund of banks and income and expenses of the pension funds in respect of the insurance branches, stated in the Law, exceeds the salaries and benefits paid under the regulations of Social Security Institution, such differences would be considered while calculating the present value for the liabilities of the transferees and the transfers are completed within 3 years beginning from 1 January 2008.

According to the provisional Article 20 of 73th article of Law No. 5754 dated 17 April 2008, has become effective on 8 May 2008 and was published in the Official Gazette No: 26870, transfer of Pension Funds to Social Security Institution in three years has been anticipated. Related resolution of the Council of Ministers related to four-year extension was published in the Official Gazette No: 28227 dated 8 March 2012. It has been resolved that the transfer process has been extended two year with Council of Ministers’ Decree, has become effective on 9 April 2011 and was published in the Official Gazette No: 27900. The transfer had to be completed until 8 May 2013. Accordingly, it has been resolved that, one more year extension with Council of Minister Decree No: 2013/467, has become effective on 3 May 2013 and was published in the Official Gazette No: 28636 and transfer need to be completed until 8 May 2014. However, it has been decided to extend the time related to transfer by the decision of Council of Minister published in the Official Gazette No. 28987 dated 30 April 2014 for one more year due to not to realize the transfer process.



### **SECTION THREE (Continued)**

#### **ACCOUNTING POLICIES (Continued)**

##### **XVI. Explanations on liabilities regarding employee benefits (continued)**

In accordance with the Health and Safety Law which became effective on 4 April 2015 and published in the Official Gazette No: 29335 and dated 23 April 2015 and together with some amendments and statutory decree, Council of Ministers authorized for the determination of transfer date to the Social Security institution and the transfer of Pension Fund was postponed to an unknown date. There is no decision taken by the Cabinet with regards to issue at the date of financial statements. Unmet social benefits and payments of the pension fund participants and other employees that receive monthly income although they are within the scope of the related settlement deeds would be met by pension funds and the institutions employ these participants after the transfer of pension funds to the Social Security Institution. The present value of the liabilities, subject to the transfer to the Social Security Institution, of the Pension Fund as of 31 December 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.

##### **XVII. Explanations on taxation**

The income tax charge is composed of the sum of current tax charge and deferred tax benefit or charge. The current tax liability is calculated over taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible and it further excludes items that are never taxable or deductible. 22% is used in the calculation of the corporate tax (31 December 2017: 20%). In accordance with the Temporary Article 10 added to the Corporate Tax Law, Corporate Tax applied as 22% for corporate earnings for the taxation periods of 2018, 2019 and 2020.

Deferred tax asset or liability is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and currently enacted tax rates are used to determine deferred tax on income. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

As of 1 January 2018, the Bank started calculating deferred tax for the expected credit losses for Stage 1 and Stage 2 with the transition to TFRS 9.

Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting date. Deferred tax is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized and reflected in the income statement as expense or income. Moreover, if the deferred tax is related with items directly recorded under the equity in the same or different period, deferred tax is also associated directly with equity. Deferred tax assets and liabilities are also offset.

According to the second paragraph of the Article 53 of the Banking Act No 5411 dated 19 October 2005, all specific reserves for loans and other receivables are considered as deductible expense for determining corporate tax base.



### **SECTION THREE (Continued)**

#### **ACCOUNTING POLICIES (Continued)**

##### **XVII. Explanations on taxation (continued)**

###### *Transfer pricing*

Transfer pricing is regulated through article 13 of Corporate Tax Law titled “Transfer Pricing Through Camouflage of Earnings”. Detailed information for the practice regarding the subject is found in the “General Communiqué Regarding Camouflage of Earnings Through Transfer Pricing”. According to the aforementioned regulations, in the case of making purchase or sales of goods or services with relevant persons/corporations at a price that is determined against “arm’s length principle”, the gain is considered to be distributed implicitly through transfer pricing and such distribution of gains is not subject to deductions in means of corporate tax.

##### **XVIII. Additional explanations on borrowings**

The Bank borrows funds from domestic and foreign institutions borrowing from money market and issues marketable securities in domestic and foreign markets when needed.

The funds borrowed are recorded at their purchase costs and valued at amortized costs using the effective interest method. Some of the securities issued by the Bank and resources used with fixed interest rates are subject to fair value hedge accounting. While the credit risk and rediscounted accumulated interest on hedging liabilities are recorded in the income statement under the interest expense, the credit risk and net amount excluding accumulated interest results from hedge accounting are accounted in the income statement under the derivative financial instruments gains/losses by fair value.

##### **XIX. Explanations on share certificates issued**

In the meeting of the General Assembly held on 23 March 2018, it has been resolved that, paid in capital of the 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 2018 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 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.

##### **XX. Explanations on acceptances**

Acceptances are realized simultaneously with the payment dates of the customers and they are presented as commitments in the off-balance sheet accounts.

##### **XXI. Explanations on government incentives**

The Bank does not use government incentives.



**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

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

**SECTION THREE (Continued)**

**ACCOUNTING POLICIES (Continued)**

**XXII. Explanations on segment reporting**

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

Income from the activities of investment banking includes income from the operations of Treasury and Corporate Finance. Under the investment banking activities, portfolio management for corporate, marketable securities intermediary activities, cash flow management and all types of corporate finance services is provided. The segmental allocation of the Bank's net profit, total assets and total liabilities are shown below.

| <b>Current Period</b>                     | <b>Corporate Banking</b> | <b>Investment Banking</b> | <b>Other</b>     | <b>Total</b>      |
|---|--------------------------|---------------------------|------------------|-------------------|
| Net Interest Income                       | 795.430                  | 957.962                   | -                | 1.753.392         |
| Net Fees and Commission Income            | 20.698                   | (1.697)                   | -                | 19.001            |
| Other Income                              | -                        | -                         | 98.169           | 98.169            |
| Other Expense                             | (512.293)                | (289.978)                 | (159.028)        | (961.299)         |
| Profit Before Tax                         | 303.835                  | 666.287                   | (60.859)         | 909.263           |
| Tax Provision                             |                          |                           |                  | (248.337)         |
| <b>Net Profit</b>                         |                          |                           |                  | <b>660.926</b>    |
| <b>Current Period</b>                     |                          |                           |                  |                   |
| Segment Assets                            | 27.716.305               | 8.397.472                 | 861.868          | 36.975.645        |
| Investment in Associates and Subsidiaries | -                        | -                         | 1.322.466        | 1.322.466         |
| <b>Total Assets</b>                       | <b>27.716.305</b>        | <b>8.397.472</b>          | <b>2.184.334</b> | <b>38.298.111</b> |
| Segment Liabilities                       | 31.320.591               | 933.391                   | 1.325.125        | 33.579.107        |
| Shareholders' Equity                      | -                        | -                         | 4.719.004        | 4.719.004         |
| <b>Total Liabilities</b>                  | <b>31.320.591</b>        | <b>933.391</b>            | <b>6.044.129</b> | <b>38.298.111</b> |

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



## **SECTION THREE (Continued)**

### **ACCOUNTING POLICIES (Continued)**

#### **XXIII. Explanations on other matters**

##### **1. Changes Related to Previous Period Financial Statements**

###### **Effects of the change of TAS 27**

According to Communiqué published on the Official Gazette dated 9 April 2015 no.29321 related to the amendments to the Turkish Accounting Standard 27 (TAS 27) “Separate Financial Statements” an option was recognized to account to cost of assets investments of subsidiaries, joint ventures and associates while applying TFRS 9 “Financial Instruments” standart or Turkish Accounting Standard 28 (TAS 28) for “Investments in Associates and Joint Ventures” through the equity method.

As of 1 January 2018, the Bank has started to account its financial subsidiaries and associates using the equity method defined in TAS 28, Investments in Associates and Joint Ventures, and prepared the financial statements as of 31 March 2018 and 30 June 2018 in accordance with this standard.

Considering the temporary negative effects of the fluctuations in foreign exchange markets on the net operating profit of the subsidiaries and associates, as of 31 August 2018 the equity method application has been withdrawn and it has been decided to be valued at fair value in accordance with TFRS 9 standards. The carrying amount of the financial subsidiaries and associates is measured at fair value in accordance with TFRS 9, and the valuation difference is recognized in “Accumulated Other Comprehensive Income or Loss Not Reclassified Through Profit or Loss” in the financial statements of the Bank. Therefore, restatement in the financial statements as of 31 March 2018 and 30 June 2018 has been withdrawn.

##### **2. Disclosures of TFRS 9 Financial Instruments**

TFRS 9 Financial Instruments (“TFRS 9”) published by Public Oversight Accounting and Auditing Standards Authority (“POA”) in the Official Gazette numbered 29953 dated 19 January 2017 has been started to apply in lieu of TAS 39 Financial Instruments: “Accounting and Measurement” starting from 1 January 2018. TFRS 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.

According to paragraph 15 of Article 7 of TFRS 9 Financial Instruments Standards published in the Official Gazette numbered 29953 dated 19 January 2017, it is stated that it is not compulsory to restate previous period information in accordance with TFRS 9 and if the previous period information is not revised, it is stated that the difference between the book value of 1 January 2018 at the date of application should be reflected in the opening aspect of equity. The explanations about the transition effects to TFRS 9 presented in the equity items under the scope of this article are given below.



## **SECTION THREE (Continued)**

### **ACCOUNTING POLICIES (Continued)**

#### **XXIII. Explanations on other matters (continued)**

#### **2. Disclosures of TFRS 9 Financial Instruments (continued)**

##### **a) Reconciliation of the opening balances of the provision for expected credit losses to TFRS 9**

The table below shows the reconciliation of the provision for impairment of the Bank as of 31 December 2017 and the provision for the expected loss model as measured in accordance with TFRS 9 as of 1 January 2018.

|                                      | <b>Book Value Before TFRS 9</b> | <b>Remeasurements</b> | <b>Book Value Before TFRS 9</b> |
|--------------------------------------|---------------------------------|-----------------------|---------------------------------|
|                                      | <b>31 December 2017</b>         | <b>(6)</b>            | <b>1 January 2018</b>           |
| <b>Loans</b>                         | <b>166.592</b>                  | <b>111.703</b>        | <b>278.295</b>                  |
| Stage 1                              | 107.597                         | 41.109                | 148.706                         |
| Stage 2                              | 9.473                           | 72.091                | 81.564                          |
| Stage 3                              | 49.522                          | (1.497)               | 48.025                          |
| <b>Financial Assets (1)</b>          | <b>3.125</b>                    | <b>527</b>            | <b>3.652</b>                    |
| <b>Other Assets (2)</b>              | <b>1.809</b>                    | <b>(1.084)</b>        | <b>725</b>                      |
| <b>Other Receivables as Loan (3)</b> | <b>25.824</b>                   | <b>(25.824)</b>       | <b>-</b>                        |
| <b>Non-Cash Loans (4)</b>            | <b>2.446</b>                    | <b>1.769</b>          | <b>4.215</b>                    |
| Stage 1                              | 2.439                           | 1.760                 | 4.199                           |
| Stage 2                              | 7                               | 9                     | 16                              |
| <b>Other Provision (5)</b>           | <b>90.000</b>                   | <b>(90.000)</b>       | <b>-</b>                        |
| <b>Total</b>                         | <b>289.796</b>                  | <b>(2.909)</b>        | <b>286.887</b>                  |

(1) Within the scope of TFRS 9, provisions include provisions for Financial Assets Measured at Amortized Cost, Fair Value Through Other Comprehensive Income, Receivables from Banks and Receivables from Money Markets

(2) Within the scope of TFRS 9, provisions include provisions for Other Assets.

(3) Before TFRS 9, provisions include provisions for transaction as loan as described in the article 48 of Banking Law No 5411 .

(4) According to TFRS 9 articles, expected credit loss for non-cash loans is presented "Other Provision" in liabilities.

(5) As of 31 December 2017, the provision amounting to TL 90.000 for the risks related to the loan portfolio is recorded as income as of 1 January 2018. This provision was included in the first group as of 1 January 2018 and is allocated as an additional general provision for customers who may be subject to the second group.

(6) As of 1 January 2018 deferred tax amounting to TL 32.750 is calculated for general loan loss provision.

##### **b) Effects on equity with TFRS 9 transition**

The amounting to TL 2.909 difference which is an income between the provision for impairment of the previous period of the Bank and the provision for loss that is measured in accordance with TFRS 9 impairment model as of 1 January 2018 is classified as "Prior years' income/losses" in shareholders' equity.

As stated in the Communiqué on "Uniform Chart of Accounts and Prospectus" issued on 20 September 2017, for general provisions (TFRS 9 expected loss provisions for the loans at first and second stages), deferred tax assets calculation has started as of 1 January 2018. Within this scope, deferred tax assets amounting to TL 32.750 have been reflected to the opening financials of 1 January 2018 and the related amount has been classified under "Prior years' income/losses" in shareholders' equity.



## **SECTION THREE (Continued)**

### **ACCOUNTING POLICIES (Continued)**

#### **XXIII. Explanations on other matters (continued)**

##### **3. Explanations on prior period accounting policies not valid for the current period**

“TFRS 9 Financial Instruments” has been started applying instead of “TAS 39 Financial Instruments: Recognition and Measurement” as of 1 January 2018. Accounting policies lost their validity with the transition of TFRS 9 are given below.

###### **a) Explanations on financial assets**

The Bank categorizes its financial assets as “Fair value through profit/loss”, “Available-for-sale”, “Loans and receivables” or “Held-to-maturity”. Sale and purchase transactions of the financial assets mentioned above are recognized and derecognized at the “Settlement dates”. The appropriate classification of financial assets of the Bank is determined at the time of purchase by the Bank management, taking into consideration the purpose of the investment.

“TFRS 9 Financial Instruments” standard came into effect instead of “TAS 39 Financial Instruments: Recognition and Measurement” as of 1 January 2018. Accounting policies lost their validity with the transition of TFRS 9 are given below:

Financial assets at fair value through profit and loss: These transactions are classified in two categories.

(i) Trading securities for the purposes of short term profit taking through sale or buying back in a near future. (ii) The financial assets classified at the inception as financial assets at fair value through profit or loss by the Bank. The Bank uses such classification above when permitted or for the purposes of providing a more proper disclosure. In this category, trading securities are initially recognized at cost and measured at fair value on the financial statements. Fair values of securities that are traded in an active market are determined based on quoted prices or current market prices.

Gains or losses resulting from such valuation are recorded in the profit and loss accounts. As per the explanations of the Uniform Code of Accounts (UCA), any positive difference between the historical cost and amortized cost of financial assets are booked under the “Interest Income” account, and in case the fair value of the asset is over the amortized cost, the positive difference is booked under the “Gains on Securities Trading” account. If the fair value is under the amortized cost, the negative difference is booked under the “Losses on Securities Trading” account. Any profit or loss resulting from the disposal of those assets before their maturity date is recognized within the framework of the same principles.

Available for sale financial assets are initially recognized at cost including the transaction costs. The interest income related to securities with fixed and variable interest under available for sale financial assets are recorded in interest income. After the initial recognition, available for sale securities are measured at fair value and the unrealized gain/loss originating from the difference between the amortized cost and the fair value is recorded in “Marketable Securities Value Increase Fund” under the equity. All unquoted available for sale stocks are recorded by considering impairment, since respective fair values cannot be reliably measured. At the disposal of available for sale financial assets, value increases/decreases that are recorded in the securities value increase fund under equity are transferred to income statement.



## **SECTION THREE (Continued)**

### **ACCOUNTING POLICIES (Continued)**

#### **XXIII. Explanations on other matters (continued)**

##### **3. Explanations on prior period accounting policies not valid for the current period (continued)**

###### **a) Explanations on financial assets (continued)**

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

Investments held to maturity include securities with fixed or determinable payments and fixed maturity where there is an intention of holding till maturity and the relevant conditions for fulfilment of such intention, including the funding ability. This portfolio excludes loans and receivables. After initial recognition held to maturity investments are measured at amortized cost by using internal rate of return less impairment losses, if any. Interest income earned from held-to-maturity investments is recognized as interest income on income statement.

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

###### Loans:

Loans are financial assets which have fixed payment terms and are not traded. Loans are initially recognized at cost and measured at amortized cost by using effective interest rate. The duties, charges and other expenses paid for the collaterals obtained against loans are accepted as part of transaction costs and reflected to customers. Turkish Lira ("TL") cash loans are composed of foreign currency indexed loans and working capital loans; foreign currency ("FC") cash loans are composed of investment loans, export financing loans and working capital loans.

Provision is set for the loans that may be doubtful and the amount is charged in the current period income statement as well as their classification to non-performing loans as per the related regulations. The collections made related to loans including those on non-performing loans for which provision is made in the current period are recorded in "Provision for Loans and Other Receivables (including received from Loans and receivables with doubtful collectability)" and "Interest Received from Non-performing Loans" account.

Releases of loan loss provisions are recorded by reversing the provisions booked during the year and the collections made related to loan losses previously accounted for are recorded to collections related to the prior period expenses.

Loans are classified and followed in line with the provisions of the "Regulation on Identification of Loans and Other Receivables and Provisioning against Them", published on the Official Gazette No: 26333 dated 1 November 2006. Specific provision is allocated for the total amount of loans and other receivables, which is deemed non-performing, without being restricted by the minimum legal requirements stated in the related regulation, and such specific provisions are recognized in the income statement.



## **SECTION THREE (Continued)**

### **ACCOUNTING POLICIES (Continued)**

#### **XXIII. Explanations on other matters (continued)**

#### **3. Explanations on prior period accounting policies not valid for the current period (continued)**

##### **a) Explanations on financial assets (continued)**

The provisions, which are released within the same year, are credited to the “Provision Expenses” account and the released parts of the provisions from the previous years are transferred to and recognized in the “Other Operating Income” account. Other than specific provisions, the Bank provides general loan loss provision for loans and other receivables classified in accordance with the Regulation on Identification of and Provision against Non-Performing Loans and Other Receivables.

##### **b) Explanations on forward and option contracts and derivative instruments**

The Bank is exposed to financial risk which depends on changes in foreign exchange rates and interest rates due to activities and as part of banking activities uses derivative instruments to manage financial risk that especially associated with fluctuations in foreign exchange and interest rate. Mainly derivative instruments used by the Bank are foreign currency forwards, swaps and option agreements. The derivative financial instruments are accounted for at their fair values as of the date of the agreements entered into and subsequently valued at fair value. The derivative instruments including both economic hedges and derivatives specified as hedging items are classified as either “trading purposes” or “hedging purposes” as per the Turkish Accounting Standards (“TAS 39”) “Financial Instruments: Recognition and Measurement”.

##### **c) Explanations on interest income and expenses**

Interest income and expenses are recognized in the income statement for all interest bearing instruments on an accrual basis using the effective interest method (the rate that equalizes the future cash flows of financial assets and liabilities to the current net book value). In accordance with the related regulation, realized and unrealized interest accruals of the non-performing loans are reversed and interest income related to these loans are recorded as interest income only when collected.

##### **d) Explanations on impairment on financial assets**

At each reporting date, the Bank evaluates the carrying amounts of its financial asset or a group of financial assets to determine whether there is an objective indication that those assets have suffered an impairment loss. If any such indication exists, the Bank determines the related impairment. A financial asset or a financial asset group incurs impairment loss only if there is an objective evidence related to the occurrence of one or more than one event (“loss event”) after the first recognition of that asset; and such loss event (or events) causes, an impairment as a result of the effect on the reliable estimate of the expected future cash flows of the related financial asset and asset group. Irrespective of high probability the expected losses for future events are not recognized.



### **SECTION THREE (Continued)**

#### **ACCOUNTING POLICIES (Continued)**

#### **XXIII. Explanations on other matters (continued)**

##### **3. Explanations on prior period accounting policies not valid for the current period (continued)**

###### **e) Explanations on fees and commission income and expenses**

Fees and commissions received from cash loans, that are not an integral part of the effective interest rate, and fees for various banking services are recorded as income when collected. Fees and commissions paid for the funds borrowed, which are not integral parts of the effective interest rate of the funds borrowed, are recorded as expense on the date of the payment. The fees and commission income and expenses obtained from cash and non-cash loans are recorded under income and expense accounts in the related period by discounting with effective interest method according to matching principle. Commission income received from non-cash loans are recorded on accrual basis.

###### **f) Explanations on taxation**

Deferred tax asset had not been provided over provisions for general loan loss provisions according to the circular of BRSA numbered BRSA.DZM.2/13/1-a-3 and dated 8 December 2004. Deferred tax rate calculation has started to be measured over temporary expected provision losses differences according to TFRS 9 articles from 1 January 2018. Deferred tax calculation is not made for free provisions. Deferred tax, related to items recognized directly in equity is also credited or charged directly to equity.



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**SECTION FOUR**

**INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT**

**I. Explanations related to shareholders' equity**

Total capital and Capital adequacy ratio have been calculated in accordance with the "Regulation on Equity of Banks" and "Regulation on Measurement and Assessment of Capital Adequacy of Banks". As of 31 December 2018, the capital adequacy ratio of Bank has been calculated as 16,20% (31 December 2017:17,05%).

|   | Current Period   | Prior Period     |
|---|------------------|------------------|
| <b>CORE EQUITY TIER 1 CAPITAL</b>   |                  |                  |
| Paid-in capital to be entitled for compensation after all creditors   | 2.800.374        | 2.400.374        |
| Share premiums  | -                | -                |
| Reserves  | 518.691          | 432.528          |
| Other comprehensive income according to TAS   | 942.117          | 198.640          |
| Profit  | 696.585          | 595.668          |
| Current Period Profit   | 660.926          | 595.668          |
| Prior Period Profit   | 35.659           | -                |
| Bonus shares from associates, subsidiaries and joint-ventures not accounted in current period's profit  | 13.258           | -                |
| <b>Core Equity Tier 1 Capital Before Deductions</b>   | <b>4.971.025</b> | <b>3.627.210</b> |
| <b>Deductions from Core Equity Tier 1 Capital</b>   |                  |                  |
| Valuation adjustments calculated as per the 1 <sup>st</sup> clause of article 9.(i) of the Regulation on Bank Capital   | -                | -                |
| Current and prior periods' losses not covered by reserves, and losses accounted under equity according to TAS   | 252.021          | 92.666           |
| Leasehold improvements on operational leases  | 3.625            | 5.032            |
| Goodwill (net of related tax liability)   | -                | -                |
| Other intangible assets other than mortgage-servicing rights (net of related tax liability)   | 3.125            | 1.312            |
| Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)   | -                | -                |
| Differences are not recognized at the fair value of assets and liabilities subject to hedge of cash flow risk   | -                | -                |
| Communiqué Related to Principles of the amount credit risk calculated with the Internal Ratings Based Approach, total expected loss amount exceeds the total provision  | -                | -                |
| Gains arising from securitization transactions  | -                | -                |
| Unrealized gains and losses due to changes in own credit risk on fair valued liabilities  | -                | -                |
| Net amount of defined benefit plans   | -                | 173              |
| Investments in own common equity  | -                | -                |
| Shares obtained against article 56, paragraph 4 of Banking Law  | -                | -                |
| Total of net long positions of the investments in equity items of unconsolidated banks and financial institutions where the bank does not own 10% or less of the issued share capital exceeding the 10% threshold of above Tier I capital | -                | -                |
| Total of net long positions of the investments in equity items of unconsolidated banks and financial institutions where the bank owns 10% or more of the issued share capital exceeding the 10% threshold of above Tier I capital         | 556.914          | -                |
| Mortgage servicing rights not deducted  | -                | -                |
| Excess amount arising from deferred tax assets from temporary differences   | -                | -                |
| Amount exceeding 15% of the common equity as per the 2nd clause of the Provisional Article 2 of the Regulation on the Equity of Banks   | -                | -                |



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**SECTION FOUR (Continued)**

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

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

|  |                  |                  |
|--|------------------|------------------|
| Excess amount arising from deferred tax assets from temporary differences  | -                | -                |
| Excess amount arising from mortgage servicing rights   | -                | -                |
| Excess amount arising from deferred tax assets based on temporary differences  | -                | -                |
| Other items to be defined by the BRSA  | -                | -                |
| Deductions from Tier I capital in cases where there are no adequate additional Tier I or Tier II capitals  | -                | -                |
| <b>Total Regulatory Adjustments to Tier I Capital</b>  | <b>815.685</b>   | <b>99.183</b>    |
| <b>Core Equity Tier I Capital</b>  | <b>4.155.340</b> | <b>3.528.027</b> |
| <b>ADDITIONAL TIER I CAPITAL</b>   |                  |                  |
| Preferred Stock not Included in Core Equity and the Related Share Premiums   | -                | -                |
| Debt instruments and the related issuance premiums defined by the BRSA   | -                | -                |
| Debt instruments and the related issuance premiums defined by the BRSA (Temporary Article 4)   | -                | -                |
| <b>Additional Tier I Capital before Deductions</b>   | <b>-</b>         | <b>-</b>         |
| <b>Deductions from Additional Tier I Capital</b>   |                  |                  |
| Direct and indirect investments of the Bank in its own Additional Tier I Capital   | -                | -                |
| Investments of Bank to Banks that invest in Bank's additional equity and components of equity issued by financial institutions with compatible with Article 7.   | -                | -                |
| Total of net long positions of the investments in equity items of unconsolidated banks and financial institutions where the bank owns 10% or less of the issued share capital exceeding the 10% threshold of above Tier 1 capital                    | -                | -                |
| The total of net long position of the direct or indirect investments in additional Tier 1 capital of unconsolidated banks and financial institutions where the bank owns more than 10% of the issued share capital                                   | -                | -                |
| Other items to be defined by the BRSA  | -                | -                |
| <b>Items to be Deducted from Tier I Capital during the Transition Period</b>   |                  |                  |
| Goodwill and other intangible assets and related deferred tax liabilities which will not deducted from Core Equity Tier 1 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-) | -                | 328              |
| Net deferred tax asset/liability which is not deducted from Core Equity Tier 1 capital for the purposes of the sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)  | -                | -                |
| Deductions to be made from common equity in the case that adequate Additional Tier I Capital or Tier II Capital is not available (-)   | -                | -                |
| <b>Total Deductions From Additional Tier I Capital</b>   | <b>-</b>         | <b>328</b>       |
| <b>Total Additional Tier I Capital</b>   | <b>-</b>         | <b>-</b>         |
| <b>Total Tier I Capital (Tier I Capital=Core Equity Tier I Capital+Additional Tier I Capital)</b>  | <b>4.155.340</b> | <b>3.527.699</b> |
| <b>TIER II CAPITAL</b>   |                  |                  |
| Debt instruments and the related issuance premiums defined by the BRSA   | 1.540.500        | 1.125.750        |
| Debt instruments and the related issuance premiums defined by the BRSA (Temporary Article 4)   | -                | -                |
| Provisions (Article 8 of the Regulation on the Equity of Banks)  | 359.752          | 150.275          |
| <b>Tier II Capital Before Deductions</b>   | <b>1.900.252</b> | <b>1.276.025</b> |
| <b>Deductions From Tier II Capital</b>   |                  |                  |
| Direct and indirect investments of the Bank on its own Tier II Capital (-)   | -                | -                |
| Investments of Bank to Banks that invest on Bank's Tier 2 and components of equity issued by financial institutions with the conditions declared in Article 8.   | -                | -                |
| Total of net long positions of the investments in equity items of unconsolidated banks and financial institutions where the Bank owns 10% or less of the issued share capital exceeding the 10% threshold of above Common Equity Tier I capital (-)  | -                | -                |



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**SECTION FOUR (Continued)**

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

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

|  |                  |                  |
|--|------------------|------------------|
| Total of net long positions of the investments in Tier II Capital items of unconsolidated banks and financial institutions where the bank owns 10% or more of the issued share capital   | -                | -                |
| Other items to be defined by the BRSA (-)  | -                | -                |
| <b>Total Deductions from Tier II Capital</b>   | -                | -                |
| <b>Total Tier II Capital</b>   | <b>1.900.252</b> | <b>1.276.025</b> |
| <b>Total Capital (The sum of Tier I Capital and Tier II Capital)</b>   | <b>6.055.592</b> | <b>4.803.724</b> |
| <b>Deductions from Total Capital</b>   |                  |                  |
| Loans granted against the articles 50 and 51 of the banking law  | -                | -                |
| Net book values of movables and immovables exceeding the limit defined in the article 57, clause 1 of the Banking law and the assets acquired against overdue receivables and held for sale but retained more than five years  | -                | -                |
| Other items to be defined by the BRSA  | -                | -                |
| <b>Items to be Deducted from sum of Tier I and Tier II (Capital) during the Transition Period</b>  |                  |                  |
| The Sum of net long positions of investments (the portion which exceeds the 10% of Banks Common Equity) in the capital of banking and financial entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity which will not deducted from Common Equity Tier I capital, Additional Tier I capital, Tier II capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds | -                | -                |
| The Sum of net long positions of investments in the Additional Tier I capital and Tier II capital of banking, and financial entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity which will not deducted from Common Equity Tier I capital, Additional Tier I capital, Tier II capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds                     | -                | -                |
| The Sum of net long positions of investments in the common stock of banking and financial entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity, mortgage servicing rights, deferred tax assets arising from temporary differences which will not deducted from Core Equity Tier I capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds                  | -                | -                |
| <b>CAPITAL</b>   |                  |                  |
| Total Capital (Total of Tier I Capital and Tier II Capital)  | 6.055.592        | 4.803.724        |
| Total Risk Weighted Assets   | 37.368.844       | 28.175.215       |
| <b>CAPITAL ADEQUACY RATIOS</b>   |                  |                  |
| Core Capital Adequacy Ratio (%)  | 11,12            | 12,52            |
| Tier I Capital Adequacy Ratio (%)  | 11,12            | 12,52            |
| Capital Adequacy Ratio (%)   | 16,20            | 17,05            |
| <b>BUFFERS</b>   |                  |                  |
| Total buffer requirement (%)   | 1,883            | 1,255            |
| Capital conservation buffer requirement (%)  | 1,875            | 1,250            |
| Bank specific counter-cyclical buffer requirement (%)  | 0,008            | 0,005            |
| Systematic significant buffer (%)  | -                | -                |
| The ratio of Additional Core Equity Tier I capital which will be calculated by the first paragraph of the Article 4 of Regulation on Capital Conservation and Countercyclical Capital Buffers to risk weighted assets  | 5,12             | 8,02             |
| <b>Amounts below the Excess Limits as per the Deduction Principles</b>   |                  |                  |
| Total of net long positions of the investments in equity items of unconsolidated banks and financial institutions where the bank owns 10% or less of the issued share capital  | -                | -                |
| Total of net long positions of the investments in Tier I capital of unconsolidated banks and financial institutions where the bank owns more than 10% or less of the issued share capital  | 471.226          | 328.237          |
| Remaining mortgage servicing rights  | -                | -                |
| Excess amount arising from deferred tax assets from temporary differences  | -                | -                |



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**SECTION FOUR (Continued)**

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

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

| <b>Limits Related to Provisions Considered in Tier II Calculation</b>  |         |         |
|--|---------|---------|
| General reserves for receivables where the standard approach used (before tenthousandtwentyfive limitation)  | 359.752 | 150.275 |
| Up to 1,25% of total risk-weighted amount of general reserves for receivables where the standard approach used   | 359.752 | 150.275 |
| Excess amount of total provision amount to credit risk amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation                                      | -       | -       |
| Excess amount of total provision amount to 0,6% of risk weighted receivables of credit risk amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation | -       | -       |
| <b>Debt instruments subjected to Article 4</b>   |         |         |
| <b>(to be implemented between 1 January 2018 and 1 January 2022)</b>   | -       | -       |
| Upper limit for Additional Tier I Capital subjected to Temporary Article 4   | -       | -       |
| Amounts Excess the Limits of Additional Tier I Capital subjected to Temporary Article 4  | -       | -       |
| Upper limit for Additional Tier II Capital subjected to Temporary Article 4  | -       | -       |
| Amounts Excess the Limits of Additional Tier II Capital subjected to Temporary Article 4   | -       | -       |

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

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



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**SECTION FOUR (Continued)**

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

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

**Details on Subordinated Liabilities**

|   |  |
|---|--|
| Issuer  | Türkiye Sınai Kalkınma Bankası A.Ş.  |
| Unique identifier (eg CUSIP, ISIN etc.)   | XS1584113184   |
| Governing law(s) of the instrument  | BRSA, Cominque on Subordinated Liabilities of CMB numbered CMB-II-31.1   |
| <b>Regulatory treatment</b>   |  |
| Subject to 10% deduction as of 1/1/2015   | No   |
| Eligible on unconsolidated and/or consolidated basis  | Eligible on unconsolidated and consolidated  |
| Instrument type   | Secondary subordinated loan which is categorized in subordinated loans equalling bill of exchanges   |
| Amount recognized in regulatory capital (Currency in mil, as of most recent reporting date – Million USD )    | 300  |
| Par value of instrument (Million USD)   | 300  |
| Accounting classification   | 347011 (Liability) - Subordinated Debt Instruments   |
| Original date of issuance   | 28 March 2017  |
| Perpetual or dated  | Dated  |
| Original starting and maturity date   | 28 March 2017 - 29 March 2027 (10 years)   |
| Issuer call subject to prior supervisory approval   | Yes  |
| Optional call date, contingent call dates and redemption amount   | There is an early repayment option on 29 March 2022 (After 5th year)   |
| Subsequent call dates, if applicable  | After 5th year only for once   |
| Fixed or floating dividend/coupon   | Fixed / semiannually coupon payment, principal payment at the maturity   |
| Coupon rate and any related index   | 7,625%   |
| Existence of a dividend stopper   | None   |
| Fully discretionary, partially discretionary or mandatory   | None   |
| Existence of step up or other incentive to redeem   | None   |
| Noncumulative or cumulative   | Noncumulative  |
| <b>Convertible or non-convertible</b>   |  |
| If convertible, conversion trigger (s)  | None   |
| If convertible, fully or partially  | None   |
| If convertible, conversion rate   | None   |
| If convertible, mandatory or optional conversion  | None   |
| If convertible, specify instrument type convertible into  | None   |
| If convertible, specify issuer of instrument it converts into   | None   |
| <b>Write-down feature</b>   |  |
| If write-down, write-down trigger(s)  | According to number 5411 article, 71th article of Law of Banking and number 6102 article of Turkish Code of Commerce, if BRSA has seem in case of default. |
| If write-down, full or partial  | Full or Partial  |
| If write-down, permanent or temporary   | Permanent  |
| If temporary write-down, description of write-up mechanism  | None   |
| Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | After the senior creditors, before the TIER 1 subdebt, same with TIER 2.   |
| In compliance with article number 7 and 8 of "Own fund regulation"  | Based on the conditions written on 8th article.  |



## **SECTION FOUR (Continued)**

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

#### **II. Explanations related to credit risk**

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

The credit monitoring department screens the creditworthiness of loan customers once every six months regularly. The debtors' creditworthiness is screened regularly in 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 Four, Note X.



## **SECTION FOUR (Continued)**

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

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

*Total amount of exposures after offsetting transactions but before applying risk mitigations and the average exposure amounts that are classified in different risk groups and types*

|  | Current Period  |                        | Prior Period    |                        |
|--|-----------------|------------------------|-----------------|------------------------|
|  | Risk Amount (1) | Average Risk Amount(2) | Risk Amount (1) | Average Risk Amount(2) |
| Exposures to sovereigns and their central banks                      | 6.236.634       | 6.025.766              | 5.467.281       | 5.231.481              |
| Exposures to regional and local governments                          | -               | -                      | -               | -                      |
| Exposures to administrative bodies and noncommercial entities        | 11.621          | 3.522                  | -               | 7.216                  |
| Exposures to multilateral development banks                          | -               | -                      | -               | -                      |
| Exposures to international organizations                             | -               | -                      | -               | -                      |
| Exposures to banks and securities firms                              | 3.143.715       | 2.663.194              | 1.408.496       | 2.656.436              |
| Exposures to corporates  | 47.303.719      | 42.068.121             | 34.294.108      | 29.934.919             |
| Retail exposures   | -               | -                      | -               | -                      |
| Exposures secured by property  | 1.395.232       | 1.240.266              | 991.399         | 1.049.534              |
| Past due receivables   | 427.721         | 237.052                | -               | -                      |
| Exposures in higher-risk categories                                  | 106.668         | 52.661                 | 583             | 97                     |
| Exposures in the form of bonds secured by                            | -               | -                      | -               | -                      |
| Securitization positions   | -               | -                      | -               | -                      |
| Short term exposures to banks, brokerage houses and corporates       | -               | -                      | -               | -                      |
| Equity investments in the form of collective investment undertakings | -               | -                      | -               | -                      |
| Equity investments   | 828.289         | 625.234                | 513.404         | 451.670                |
| Other exposures  | 331.766         | 803.161                | 660.749         | 647.563                |

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

(2) Average risk amounts are the arithmetical average of the amounts in monthly reports prepared as per the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks.

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

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



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**SECTION FOUR (Continued)**

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

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

The first 100 and 200 largest cash loans constitute 71,24% and 89,45% of the total cash loans portfolio of the Bank respectively (31 December 2017: 74,33% and 93,26%).

The first 100 and 200 largest non cash loans constitute 100% and 100% of the total non cash loans portfolio of the Bank respectively (31 December 2017: 100% and 100%).

The first 100 and 200 largest cash and non cash loans constitute 70,60% and 89,19% of the total on and off balance sheet accounts of the Bank respectively (31 December 2017: 72,84% and 92,33%).

The Bank calculated the expected credit loss provision amounting to TL 362.362 in accordance with TFRS 9 impairment model. (31 December 2017: The Bank calculated the general loan loss provision amounting to TL 150.275.)

Credit risk is evaluated according to the Bank's internal rating. Non financial services customers included in credit portfolio are rated with respect to the Bank's internal rating and ratings of the financial services customers, which are rated by external rating firms, are matched to the Bank's internal ratings. With the transition to TFRS 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 the footnote.

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

| <b>Loan Quality Categories</b> | <b>Current Period</b> |
|--------------------------------|-----------------------|
| Above Average Grade            | 8.454.861             |
| Average Grade                  | 19.215.700            |
| Below Average Grade            | 3.133.218             |
| Impaired                       | 595.338               |
| <b>Total</b>                   | <b>31.399.117</b>     |

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 31.400.116 and TL 999 of these customers have not been rated.

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

|                 | <b>Current Period</b> |                    |              |                  | <b>Prior Period</b> |                    |               |               |
|-----------------|-----------------------|--------------------|--------------|------------------|---------------------|--------------------|---------------|---------------|
|                 | <b>31- 60 Days</b>    | <b>61- 90 Days</b> | <b>Other</b> | <b>Total (1)</b> | <b>31- 60 Days</b>  | <b>61- 90 Days</b> | <b>Other</b>  | <b>Total</b>  |
| Corporate Loans | 10.631                | -                  | -            | 10.631           | -                   | 1.212              | 36.513        | 37.725        |
| SME Loans       | -                     | 202                | -            | 202              | -                   | -                  | -             | -             |
| Consumer Loans  | -                     | -                  | -            | -                | -                   | -                  | -             | -             |
| <b>Total</b>    | <b>10.631</b>         | <b>202</b>         | <b>-</b>     | <b>10.833</b>    | <b>-</b>            | <b>1.212</b>       | <b>36.513</b> | <b>37.725</b> |

(1) Only the overdue amounts of the loans included in the related items are included and the total credit amount of the related loans is TL 85.867.



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**SECTION FOUR (Continued)**

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

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

*Profile of significant exposures in major region*

|   |   |   |   |   |  | Risk Types (1)                          |                         |                  |                               |                      |                                     |   |  |  |                    |                 |            |
|---|---|---|---|---|--|---|-------------------------|------------------|-------------------------------|----------------------|-------------------------------------|---|--|--|--------------------|-----------------|------------|
|   | Exposures to sovereigns and their central banks | Exposures to regional and local governments | Exposures to administrative bodies and noncommercial entities | Exposures to multilateral development banks | Exposures to international organizations | Exposures to banks and securities firms | Exposures to corporates | Retail exposures | Exposures secured by property | Past due receivables | Exposures in higher-risk categories | Exposures in the form of bonds secured by mortgages | Short term exposures to banks, brokerage houses and corporates | Equity investments in the form of collective investment undertakings | Equity investments | Other exposures | Total      |
| Current Period                              |   |   |   |   |  |   |                         |                  |                               |                      |                                     |   |  |  |                    |                 |            |
| Domestic                                    | 6.274.497                                       | -   | 2.324   | -   | -  | 1.966.797                               | 27.927.285              | -                | 1.388.579                     | 427.721              | 1.114                               | -   | -  | -  | 18.593             | 80.389          | 38.087.299 |
| European Union (EU) Countries               | -   | -   | -   | -   | -  | 516.755                                 | -                       | -                | -                             | -                    | -                                   | -   | -  | -  | 41.778             | 97.405          | 655.938    |
| OECD Countries (2)                          | -   | -   | -   | -   | -  | 3.229                                   | -                       | -                | -                             | -                    | -                                   | -   | -  | -  | -                  | -               | 3.229      |
| Off-Shore Banking Regions                   | -   | -   | -   | -   | -  | -                                       | -                       | -                | -                             | -                    | -                                   | -   | -  | -  | -                  | -               | -          |
| USA, Canada                                 | -   | -   | -   | -   | -  | 100.763                                 | -                       | -                | -                             | -                    | -                                   | -   | -  | -  | -                  | -               | 100.763    |
| Other Countries                             | -   | -   | -   | -   | -  | -                                       | 109.969                 | -                | -                             | -                    | -                                   | -   | -  | -  | -                  | -               | 109.969    |
| Associates, Subsidiaries and Joint-Ventures | -   | -   | -   | -   | -  | -                                       | -                       | -                | -                             | -                    | -                                   | -   | -  | -  | 767.918            | -               | 767.918    |
| Unallocated Assets/Liabilities (3)          | -   | -   | -   | -   | -  | -                                       | 1.283                   | -                | -                             | -                    | -                                   | -   | -  | -  | -                  | 56.976          | 58.259     |
| Total                                       | 6.274.497                                       | -   | 2.324   | -   | -  | 2.587.544                               | 28.038.537              | -                | 1.388.579                     | 427.721              | 1.114                               | -   | -  | -  | 828.289            | 234.770         | 39.783.375 |

(1) Risk types in the Communiqué on "Measurement and Assessment of Capital Adequacy of Banks" have been used. Since there is no securitization position, risk class of "Securitization Positions" has not been included in the table. Includes risk amounts after the effect of credit risk mitigation and the credit conversion.

(2) Includes OECD countries other than EU countries, USA and Canada.

(3) Includes asset and liability items that cannot be allocated on a consistent basis.



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**SECTION FOUR (Continued)**

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

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

*Profile of significant exposures in major region*

| Prior Period                                | Risk Types (1)                                  |   |   |   |  |   |                         |                  |                               |                      |                                     |   |  |  |                    |                 |                   |
|---|---|---|---|---|--|---|-------------------------|------------------|-------------------------------|----------------------|-------------------------------------|---|--|--|--------------------|-----------------|-------------------|
|   | Exposures to sovereigns and their central banks | Exposures to regional and local governments | Exposures to administrative bodies and noncommercial entities | Exposures to multilateral development banks | Exposures to international organizations | Exposures to banks and securities firms | Exposures to corporates | Retail exposures | Exposures secured by property | Past due receivables | Exposures in higher-risk categories | Exposures in the form of bonds secured by mortgages | Short term exposures to banks, brokerage houses and corporates | Equity investments in the form of collective investment undertakings | Equity investments | Other exposures | Total             |
| Domestic                                    | 5.475.205                                       | -   | -   | -   | -  | 794.320                                 | 22.823.188              | -                | 987.801                       | -                    | 292                                 | -   | -  | -  | 19.059             | 106.991         | 30.206.856        |
| European Union (EU) Countries               | -   | -   | -   | -   | -  | 150.422                                 | -                       | -                | -                             | -                    | -                                   | -   | -  | -  | 27.821             | 78.902          | 257.145           |
| OECD Countries (2)                          | -   | -   | -   | -   | -  | 14.370                                  | -                       | -                | -                             | -                    | -                                   | -   | -  | -  | -                  | -               | 14.370            |
| Off-Shore Banking Regions                   | -   | -   | -   | -   | -  | -                                       | -                       | -                | -                             | -                    | -                                   | -   | -  | -  | -                  | -               | -                 |
| USA, Canada                                 | -   | -   | -   | -   | -  | 19.412                                  | -                       | -                | -                             | -                    | -                                   | -   | -  | -  | -                  | -               | 19.412            |
| Other Countries                             | -   | -   | -   | -   | -  | 54.983                                  | 108.752                 | -                | -                             | -                    | -                                   | -   | -  | -  | -                  | -               | 163.735           |
| Associates, Subsidiaries and Joint-Ventures | -   | -   | -   | -   | -  | -                                       | -                       | -                | -                             | -                    | -                                   | -   | -  | -  | 466.524            | -               | 466.524           |
| Unallocated Assets/Liabilities (3)          | -   | -   | -   | -   | -  | -                                       | 998                     | -                | -                             | -                    | -                                   | -   | -  | -  | -                  | 35.222          | 36.220            |
| <b>Total</b>                                | <b>5.475.205</b>                                | <b>-</b>                                    | <b>-</b>  | <b>-</b>                                    | <b>-</b>                                 | <b>1.033.507</b>                        | <b>22.932.938</b>       | <b>-</b>         | <b>987.801</b>                | <b>-</b>             | <b>292</b>                          | <b>-</b>  | <b>-</b>   | <b>-</b>   | <b>513.404</b>     | <b>221.115</b>  | <b>31.164.262</b> |

(1) Risk types in the Communiqué on "Measurement and Assessment of Capital Adequacy of Banks" have been used. Since there is no securitization position, risk class of "Securitization Positions" has not been included in the table. Includes risk amounts after the effect of credit risk mitigation and the credit conversion.

(2) Includes OECD countries other than EU countries, USA and Canada

(3) Includes asset and liability items that cannot be allocated on a consistent basis



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

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

***Risk profile by sectors or counterparties***

|                                      | Risk Types (1)                                  |   |   |   |  |   |                         |                  |                               |                      |                                     |   |  |  |                    |                 |           |            |            |
|--------------------------------------|---|---|---|---|--|---|-------------------------|------------------|-------------------------------|----------------------|-------------------------------------|---|--|--|--------------------|-----------------|-----------|------------|------------|
|                                      | Exposures to sovereigns and their central banks | Exposures to regional and local governments | Exposures to administrative bodies and noncommercial entities | Exposures to multilateral development banks | Exposures to international organizations | Exposures to banks and securities firms | Exposures to corporates | Retail exposures | Exposures secured by property | Past due receivables | Exposures in higher-risk categories | Exposures in the form of bonds secured by mortgages | Short term exposures to banks, brokerage houses and corporates | Equity investments in the form of collective investment undertakings | Equity investments | Other exposures | TL        | FC         | Total      |
| Current Period                       | -   | -   | -   | -   | -  | -                                       | 77.627                  | -                | -                             | -                    | -                                   | -   | -  | -  | -                  | 340             | 33.050    | 44.917     | 77.967     |
| Agriculture                          | -   | -   | -   | -   | -  | -                                       | 77.627                  | -                | -                             | -                    | -                                   | -   | -  | -  | -                  | -               | 32.710    | 44.917     | 77.627     |
| Farming and Stockbreeding            | -   | -   | -   | -   | -  | -                                       | -                       | -                | -                             | -                    | -                                   | -   | -  | -  | -                  | 340             | 340       | -          | 340        |
| Forestry                             | -   | -   | -   | -   | -  | -                                       | -                       | -                | -                             | -                    | -                                   | -   | -  | -  | -                  | -               | -         | -          | -          |
| Fishery                              | -   | -   | -   | -   | -  | -                                       | -                       | -                | -                             | -                    | -                                   | -   | -  | -  | -                  | -               | -         | -          | -          |
| Manufacturing                        | -   | -   | -   | -   | -  | -                                       | 18.424.244              | -                | 390.215                       | 417.732              | 1.114                               | -   | -  | -  | -                  | -               | 1.024.780 | 18.208.525 | 19.233.305 |
| Mining and Quarrying                 | -   | -   | -   | -   | -  | -                                       | 574.527                 | -                | 16.880                        | -                    | -                                   | -   | -  | -  | -                  | -               | 12.155    | 579.252    | 591.407    |
| Production                           | -   | -   | -   | -   | -  | -                                       | 5.447.388               | -                | 223.227                       | -                    | -                                   | -   | -  | -  | -                  | -               | 783.423   | 4.887.192  | 5.670.615  |
| Electricity, Gas and Water           | -   | -   | -   | -   | -  | -                                       | 12.402.329              | -                | 150.108                       | 417.732              | 1.114                               | -   | -  | -  | -                  | -               | 229.202   | 12.742.081 | 12.971.283 |
| Construction                         | -   | -   | -   | -   | -  | -                                       | 1.113.505               | -                | 215.620                       | 1.742                | -                                   | -   | -  | -  | -                  | -               | 207.493   | 1.123.374  | 1.330.867  |
| Services                             | 743.202   | -   | 2.324   | -   | -  | 2.587.544                               | 7.963.538               | -                | 767.165                       | 8.247                | -                                   | -   | -  | -  | 828.289            | 177.443         | 2.540.765 | 10.536.987 | 13.077.752 |
| Wholesale and Retail Trade           | -   | -   | -   | -   | -  | -                                       | 561.081                 | -                | 6.598                         | -                    | -                                   | -   | -  | -  | -                  | -               | 6.792     | 560.887    | 567.679    |
| Accommodation and Dining             | -   | -   | -   | -   | -  | -                                       | 561.724                 | -                | 653.028                       | -                    | -                                   | -   | -  | -  | -                  | -               | 107.383   | 1.107.369  | 1.214.752  |
| Transportation and Telecommunication | -   | -   | -   | -   | -  | -                                       | 1.959.931               | -                | -                             | -                    | -                                   | -   | -  | -  | 1.056              | -               | 1.625     | 1.959.362  | 1.960.987  |
| Financial Institutions               | 743.202   | -   | 2.324   | -   | -  | 2.587.544                               | 2.327.813               | -                | -                             | -                    | -                                   | -   | -  | -  | 823.454            | 177.443         | 1.970.948 | 4.690.832  | 6.661.780  |
| Real Estate and Rental Services      | -   | -   | -   | -   | -  | -                                       | 377.052                 | -                | 57.961                        | 8.247                | -                                   | -   | -  | -  | -                  | -               | 8.247     | 435.013    | 443.260    |
| Professional Services                | -   | -   | -   | -   | -  | -                                       | 1.089.457               | -                | -                             | -                    | -                                   | -   | -  | -  | 3.779              | -               | 426.464   | 666.772    | 1.093.236  |
| Educational Services                 | -   | -   | -   | -   | -  | -                                       | 133.827                 | -                | 23.010                        | -                    | -                                   | -   | -  | -  | -                  | -               | 877       | 155.960    | 156.837    |
| Health and Social Services           | -   | -   | -   | -   | -  | -                                       | 952.653                 | -                | 26.568                        | -                    | -                                   | -   | -  | -  | -                  | -               | 18.429    | 960.792    | 979.221    |
| Others                               | 5.531.295                                       | -   | -   | -   | -  | -                                       | 459.623                 | -                | 15.579                        | -                    | -                                   | -   | -  | -  | -                  | 56.987          | 3.985.349 | 2.078.135  | 6.063.484  |
| Total                                | 6.274.497                                       | -   | 2.324   | -   | -  | 2.587.544                               | 28.038.537              | -                | 1.388.579                     | 427.721              | 1.114                               | -   | -  | -  | 828.289            | 234.770         | 7.791.437 | 31.991.938 | 39.783.375 |

(1) Risk types in the Communiqué on "Measurement and Assessment of Capital Adequacy of Banks" have been used. Since there is no securitization position, risk class of "Securitization Positions" has not been included in the table. Includes risk amounts after the effect of credit risk mitigation and the credit conversion.



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**SECTION FOUR (Continued)**

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

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

*Risk profile by sectors or counterparties (continued)*

|                                      | Risk Types (1)                                  |   |   |   |  |   |                         |                  |                               |                      |                                     |   |  |  |                    |                 | TL               | FC                | Total             |
|--------------------------------------|---|---|---|---|--|---|-------------------------|------------------|-------------------------------|----------------------|-------------------------------------|---|--|--|--------------------|-----------------|------------------|-------------------|-------------------|
|                                      | Exposures to sovereigns and their central banks | Exposures to regional and local governments | Exposures to administrative bodies and noncommercial entities | Exposures to multilateral development banks | Exposures to international organizations | Exposures to banks and securities firms | Exposures to corporates | Retail exposures | Exposures secured by property | Past due receivables | Exposures in higher-risk categories | Exposures in the form of bonds secured by mortgages | Short term exposures to banks, brokerage houses and corporates | Equity investments in the form of collective investment undertakings | Equity investments | Other exposures |                  |                   |                   |
| <b>Current Period</b>                |   |   |   |   |  |   |                         |                  |                               |                      |                                     |   |  |  |                    |                 |                  |                   |                   |
| Agriculture                          | -   | -   | -   | -   | -  | -                                       | 41.146                  | -                | -                             | -                    | -                                   | -   | -  | -  | -                  | 340             | 36.934           | 4.552             | 41.486            |
| Farming and Stockbreeding            | -   | -   | -   | -   | -  | -                                       | 41.146                  | -                | -                             | -                    | -                                   | -   | -  | -  | -                  | -               | 36.594           | 4.552             | 41.146            |
| Forestry                             | -   | -   | -   | -   | -  | -                                       | -                       | -                | -                             | -                    | -                                   | -   | -  | -  | -                  | 340             | 340              | -                 | 340               |
| Fishery                              | -   | -   | -   | -   | -  | -                                       | -                       | -                | -                             | -                    | -                                   | -   | -  | -  | -                  | -               | -                | -                 | -                 |
| Manufacturing                        | -   | -   | -   | -   | -  | -                                       | 15.321.470              | -                | 259.336                       | -                    | 292                                 | -   | -  | -  | 7                  | 2.553           | 1.312.378        | 14.271.280        | 15.583.658        |
| Mining and Quarrying                 | -   | -   | -   | -   | -  | -                                       | 167.944                 | -                | -                             | -                    | -                                   | -   | -  | -  | -                  | -               | -                | 167.944           | 167.944           |
| Production                           | -   | -   | -   | -   | -  | -                                       | 4.936.560               | -                | 259.336                       | -                    | -                                   | -   | -  | -  | 7                  | -               | 1.015.197        | 4.180.706         | 5.195.903         |
| Electricity, Gas and Water           | -   | -   | -   | -   | -  | -                                       | 10.216.966              | -                | -                             | -                    | 292                                 | -   | -  | -  | -                  | 2.553           | 297.181          | 9.922.630         | 10.219.811        |
| Construction                         | -   | -   | -   | -   | -  | -                                       | 1.066.096               | -                | 111.298                       | -                    | -                                   | -   | -  | -  | -                  | 72              | 172.732          | 1.004.734         | 1.177.466         |
| Services                             | 847.110   | -   | -   | -   | -  | 1.033.507                               | 6.357.239               | -                | 607.130                       | -                    | -                                   | -   | -  | -  | 513.397            | 90.055          | 1.541.303        | 7.907.135         | 9.448.438         |
| Wholesale and Retail Trade           | -   | -   | -   | -   | -  | -                                       | 486.664                 | -                | -                             | -                    | -                                   | -   | -  | -  | -                  | 8.045           | 102.329          | 392.380           | 494.709           |
| Accommodation and Dining             | -   | -   | -   | -   | -  | -                                       | 283.442                 | -                | 532.342                       | -                    | -                                   | -   | -  | -  | -                  | -               | 65.872           | 749.912           | 815.784           |
| Transportation and Telecommunication | -   | -   | -   | -   | -  | -                                       | 1.242.091               | -                | -                             | -                    | -                                   | -   | -  | -  | 1.056              | -               | 21.278           | 1.221.869         | 1.243.147         |
| Financial Institutions               | 847.110   | -   | -   | -   | -  | 1.033.507                               | 2.244.466               | -                | -                             | -                    | -                                   | -   | -  | -  | 510.962            | 82.010          | 1.081.922        | 3.636.133         | 4.718.055         |
| Real Estate and Rental Services      | -   | -   | -   | -   | -  | -                                       | 742.817                 | -                | 51.533                        | -                    | -                                   | -   | -  | -  | -                  | -               | 556              | 793.794           | 794.350           |
| Professional Services                | -   | -   | -   | -   | -  | -                                       | 502.905                 | -                | -                             | -                    | -                                   | -   | -  | -  | 1.379              | -               | 239.070          | 265.214           | 504.284           |
| Educational Services                 | -   | -   | -   | -   | -  | -                                       | 107.892                 | -                | 23.255                        | -                    | -                                   | -   | -  | -  | -                  | -               | 2.632            | 128.515           | 131.147           |
| Health and Social Services           | -   | -   | -   | -   | -  | -                                       | 746.962                 | -                | -                             | -                    | -                                   | -   | -  | -  | -                  | -               | 27.644           | 719.318           | 746.962           |
| Others                               | 4.628.095                                       | -   | -   | -   | -  | -                                       | 146.987                 | -                | 10.037                        | -                    | -                                   | -   | -  | -  | -                  | 128.095         | 3.463.911        | 1.449.303         | 4.913.214         |
| <b>Total</b>                         | <b>5.475.205</b>                                | <b>-</b>                                    | <b>-</b>  | <b>-</b>                                    | <b>-</b>                                 | <b>1.033.507</b>                        | <b>22.932.938</b>       | <b>-</b>         | <b>987.801</b>                | <b>-</b>             | <b>292</b>                          | <b>-</b>  | <b>-</b>   | <b>-</b>   | <b>513.404</b>     | <b>221.115</b>  | <b>6.527.258</b> | <b>24.637.004</b> | <b>31.164.262</b> |

(1) Risk types in the Communiqué on "Measurement and Assessment of Capital Adequacy of Banks" have been used. Since there is no securitization position, risk class of "Securitization Positions" has not been included in the table. Includes risk amounts after the effect of credit risk mitigation and the credit conversion.



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**SECTION FOUR (Continued)**

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

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

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

| Risk Types (1)   | Term to Maturity |                |                  |                  |                   |
|--|------------------|----------------|------------------|------------------|-------------------|
|  | 1 month          | 1-3 months     | 3-6 months       | 6-12 months      | Over 1 year       |
| <b>Current Period</b>  |                  |                |                  |                  |                   |
| Exposures to sovereigns and their central banks                      | 743.202          | 45.012         | 312.004          | 513.776          | 4.619.586         |
| Exposures to regional and local governments                          | -                | -              | -                | -                | -                 |
| Exposures to administrative bodies and noncommercial entities        | 2.324            | -              | -                | -                | -                 |
| Exposures to multilateral development banks                          | -                | -              | -                | -                | -                 |
| Exposures to international organizations                             | -                | -              | -                | -                | -                 |
| Exposures to banks and securities firms                              | 1.566.581        | 170.582        | 44.950           | -                | 803.585           |
| Exposures to corporates  | 1.049.490        | 764.440        | 837.867          | 1.646.756        | 23.532.190        |
| Retail exposures   | -                | -              | -                | -                | -                 |
| Exposures secured by property  | 395              | -              | 63.006           | 18.081           | 1.307.096         |
| Past due receivables   | -                | -              | -                | -                | -                 |
| Exposures in higher-risk categories                                  | -                | -              | -                | -                | 1.114             |
| Exposures in the form of bonds secured by mortgages                  | -                | -              | -                | -                | -                 |
| Securitization positions   | -                | -              | -                | -                | -                 |
| Short term exposures to banks, brokerage houses and corporates       | -                | -              | -                | -                | -                 |
| Equity investments in the form of collective investment undertakings | -                | -              | -                | -                | -                 |
| Equity investments   | -                | -              | -                | -                | -                 |
| Other exposures  | 833              | -              | -                | 518              | 21.631            |
| <b>Total</b>   | <b>3.362.825</b> | <b>980.034</b> | <b>1.257.827</b> | <b>2.179.131</b> | <b>30.285.202</b> |

(1) Includes risk amounts after the effect of credit risk mitigation and the credit conversion.



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

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

*Analysis of maturity-bearing exposures according to remaining maturities (continued)*

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

(1) Includes risk amounts after the effect of credit risk mitigation and the credit conversion.



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

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

*Credit risk under standard approach*

The ratings given by international credit rating agency Fitch Ratings are used to determine the risk weights in capital adequacy calculation regarding exposures to banks and securities firm and corporates reside abroad, sovereigns and central bank. Receivables from residents in Turkey are classified as unrated. These credit ratings are not used for the instruments issued by the debtor.

Ratings given by Fitch Ratings are matched with credit quality levels and risk weights based on risk classes as shown in the following table:

| Credit Quality Grades | Fitch Ratings | Risk Types           |  |  |                                 |
|-----------------------|---------------|----------------------|--|--|---------------------------------|
|                       |               | Claims on Sovereigns | Claims on Banks and Capital Market Intermediary    |  | Claims on Corporate Receivables |
|                       |               |                      | Claims with Original Maturities Less Than 3 Months | Claims with Original Maturities More Than 3 Months |                                 |
| 1                     | AAA           | %0                   | %20  | %20  | %20                             |
|                       | AA+           |                      |  |  |                                 |
|                       | AA            |                      |  |  |                                 |
|                       | AA-           |                      |  |  |                                 |
| 2                     | A+            | %20                  | %20  | %50  | %50                             |
|                       | A             |                      |  |  |                                 |
|                       | A-            |                      |  |  |                                 |
| 3                     | BBB+          | %50                  | %20  | %50  | %100                            |
|                       | BBB           |                      |  |  |                                 |
|                       | BBB-          |                      |  |  |                                 |
| 4                     | BB+           | %100                 | %50  | %100   | %100                            |
|                       | BB            |                      |  |  |                                 |
|                       | BB-           |                      |  |  |                                 |
| 5                     | B+            | %100                 | %50  | %100   | %150                            |
|                       | B             |                      |  |  |                                 |
|                       | B-            |                      |  |  |                                 |
| 6                     | CCC+          | %150                 | %150   | %150   | %150                            |
|                       | CCC           |                      |  |  |                                 |
|                       | CCC-          |                      |  |  |                                 |
|                       | CC            |                      |  |  |                                 |
|                       | C             |                      |  |  |                                 |
|                       | D             |                      |  |  |                                 |
| Unrated               | Unrated       | %100                 | %20 (1)  | %50 (1)  | %100                            |

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



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

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

**Exposures by risk weights**

| <b>Current Period</b>                   |           |            |            |            |            |             |             |             |             |                             |
|---|-----------|------------|------------|------------|------------|-------------|-------------|-------------|-------------|-----------------------------|
| <b>Risk Weights</b>                     | <b>0%</b> | <b>10%</b> | <b>20%</b> | <b>50%</b> | <b>75%</b> | <b>100%</b> | <b>150%</b> | <b>200%</b> | <b>250%</b> | <b>Deducted from Equity</b> |
| Exposures Before Credit Risk Mitigation | 4.458.690 | -          | 1.050.126  | 635.810    | -          | 33.177.283  | 2.565       | -           | 471.226     | 563.664                     |
| Exposures After Credit Risk Mitigation  | 4.646.082 | -          | 1.050.126  | 2.025.943  | -          | 31.587.433  | 2.565       | -           | 471.226     | 563.664                     |

| <b>Prior Period</b>                     |           |            |            |            |            |             |             |             |             |                             |
|---|-----------|------------|------------|------------|------------|-------------|-------------|-------------|-------------|-----------------------------|
| <b>Risk Weights</b>                     | <b>0%</b> | <b>10%</b> | <b>20%</b> | <b>50%</b> | <b>75%</b> | <b>100%</b> | <b>150%</b> | <b>200%</b> | <b>250%</b> | <b>Deducted from Equity</b> |
| Exposures Before Credit Risk Mitigation | 4.047.606 | -          | 352.227    | 392.959    | -          | 26.371.470  | -           | -           | -           | 6.845                       |
| Exposures After Credit Risk Mitigation  | 4.231.281 | -          | 352.227    | 1.380.760  | -          | 25.199.994  | -           | -           | -           | 6.845                       |

**Miscellaneous information by key sectors or counterparty**

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

| <b>Current Period</b>                       | <b>Loans (1) (2)</b>                                 |                            | <b>Provisions</b>                      |
|---|--|----------------------------|--|
| <b>Major Sectors / Counterparties</b>       | <b>Impaired</b>                                      |                            | <b>Expected Credit Losses (TFRS 9)</b> |
|   | <b>Significant Increase in Credit Risk (Stage 2)</b> | <b>Defaulted (Stage 3)</b> |  |
| 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  | 20.618                     | 92.768                                 |
| Wholesale and Retail Trade                  | -  | -                          | -                                      |
| Accommodation and Dining                    | 2.378  | -                          | 53                                     |
| Transportation and Telecommunication        | 136.988  | -                          | 15.754                                 |
| Financial Institutions                      | -  | -                          | -                                      |
| Real Estate, Rental and Management Services | 801.267  | 20.618                     | 76.961                                 |
| Professional Services                       | -  | -                          | -                                      |
| Educational Services                        | -  | -                          | -                                      |
| Health and Social Services                  | -  | -                          | -                                      |
| Others                                      | 461.604  | 8.679                      | 21.812                                 |
| <b>Total</b>                                | <b>2.943.559</b>                                     | <b>592.374</b>             | <b>375.793</b>                         |

(1) Breakdown of cash loans.

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



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**SECTION FOUR (Continued)**

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

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

*Miscellaneous information by key sectors or counterparty (continued)*

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

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

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

(3) Represents specific provisions reserved for impaired loans.

*Information related with value adjustments and loan loss provisions*

| <b>Current Period</b>       | <b>Opening balance (1)</b> | <b>Provision for the period</b> | <b>Provision reversals</b> | <b>Other adjustments</b> | <b>Closing balance</b> |
|-----------------------------|----------------------------|---------------------------------|----------------------------|--------------------------|------------------------|
| Specific Provisions         | 48.025                     | 125.642                         | (9.014)                    | -                        | 164.653                |
| General Loan Loss Provision | 148.863                    | 213.499                         | -                          | -                        | 362.362                |

(1) Includes expected credit losses differences for the expected loss model as measured in accordance with TFRS 9 of the Bank as of 1 January 2018. (Specific Provisions: TL (1.497), General Provisions: TL (1.412)).

| <b>Prior Period</b>             | <b>Opening balance</b> | <b>Provision for the period</b> | <b>Provision reversals</b> | <b>Other adjustments</b> | <b>Closing balance</b> |
|---------------------------------|------------------------|---------------------------------|----------------------------|--------------------------|------------------------|
| Specific Provisions             | 48.439                 | 4.910                           | (3.827)                    | -                        | 49.522                 |
| General Loan Loss Provision (1) | 178.463                | 13.283                          | (41.471)                   | -                        | 150.275                |

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



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**SECTION FOUR (Continued)**

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

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

**Exposures Subject to Countercyclical Capital Buffer**

The geographical distribution of receivables from the private sector taken into account for Calculation of Bank specific Counter Cyclical Capital Buffer with the scope of Capital Conservation and Counter-Cyclical Capital Buffers Regulation which is published on the Official Gazette no.28812 dated 5 November 2013 and sub arrangements is given table below.

| <b>Current Period</b>                | <b>Private Sector Loans in Banking Book</b> | <b>Risk Weighted Amount calculations for Trading Book</b> | <b>Total</b>      |
|--------------------------------------|---|---|-------------------|
| <b>Country risk taken ultimately</b> |   |   |                   |
| United States                        | 5.823                                       | -   | 5.823             |
| Georgia                              | 109.969                                     | -   | 109.969           |
| England                              | 62.733                                      | -   | 62.733            |
| Turkey                               | 32.532.046                                  | -   | 32.532.046        |
| <b>Total</b>                         | <b>32.710.571</b>                           | <b>-</b>  | <b>32.710.571</b> |

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

**III. Explanations related to currency risk**

No long or short position is taken due to the uncertainties and changes in the markets therefore; no exposure to foreign currency risk is expected. However, possible foreign currency risks are calculated on monthly basis under the standard method in the foreign currency risk table and their results are reported to the official authorities and the Bank's top management. Thus, foreign currency risk is closely monitored. Foreign currency risk, as a part of general market risk, is also taken into consideration in the calculation of Capital Adequacy Standard Ratio.

No short position is taken regarding foreign currency risk, whereas, counter position is taken for any foreign currency risks arising from customer transactions as to avoid foreign currency risk.

Announced current foreign exchange buying rates of the Bank as at reporting date and the previous five working days in US Dollar and Euro are as follows:

|   | <b>1 US Dollar</b> | <b>1 Euro</b> |
|---|--------------------|---------------|
| <b>The Bank's "Foreign Exchange Valuation Rate"</b> |                    |               |
| 31 December 2018                                    | 5,1350             | 5,8678        |
| <b>Prior Five Workdays:</b>                         |                    |               |
| 28 December 2018                                    | 5,2625             | 6,0282        |
| 27 December 2018                                    | 5,2475             | 5,9711        |
| 26 December 2018                                    | 5,2550             | 5,9912        |
| 25 December 2018                                    | 5,2850             | 6,0328        |
| 24 December 2018                                    | 5,2700             | 6,0015        |

Simple arithmetic thirty-day averages of the US Dollar and Euro buying rates of the Bank before the reporting date are full TL 5,2671 and 5,9969 respectively.



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

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

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

| <b>Current Period</b>   | <b>Euro</b>        | <b>US Dollar</b>   | <b>Other FC</b> | <b>Total</b>       |
|---|--------------------|--------------------|-----------------|--------------------|
| <b>Assets</b>   |                    |                    |                 |                    |
| Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Checks Purchased, Precious Metals) and Balances with the Central Bank of Turkey | 306.256            | 417.218            | 13.401          | 736.875            |
| Banks   | 2.136              | 598.921            | 2.047           | 603.104            |
| Financial Assets at Fair Value Through Profit or Loss (1)   | 42.247             | 75.877             | 1.609           | 119.733            |
| Money Market Placements   | -                  | -                  | -               | -                  |
| Financial Assets at Fair Value Through Other Comprehensive Income   | 75.973             | 1.131.841          | -               | 1.207.814          |
| Loans (2)   | 12.276.612         | 13.701.012         | -               | 25.977.624         |
| Subsidiaries, Associates and Entities Under Common Control (Joint Vent.)  | -                  | -                  | -               | -                  |
| Financial Assets Measured at Amortized Cost   | -                  | 419.420            | -               | 419.420            |
| Derivative Financial Assets for Hedging Purposes  | -                  | -                  | -               | -                  |
| Tangible Assets   | -                  | -                  | -               | -                  |
| Intangible Assets   | -                  | -                  | -               | -                  |
| Other Assets (3)  | 79.492             | 571.643            | -               | 651.135            |
| <b>Total Assets</b>   | <b>12.782.716</b>  | <b>16.915.932</b>  | <b>17.057</b>   | <b>29.715.705</b>  |
| <b>Liabilities</b>  |                    |                    |                 |                    |
| Bank Deposits   | -                  | -                  | -               | -                  |
| Foreign Currency Deposits   | -                  | -                  | -               | -                  |
| Money Market Borrowings   | 89.326             | 48.132             | -               | 137.458            |
| Funds Provided From Other Financial Institutions  | 11.314.819         | 12.134.192         | -               | 23.449.011         |
| Marketable Securities Issued (4)  | -                  | 8.498.963          | -               | 8.498.963          |
| Miscellaneous Payables  | 14.891             | 13.171             | 35              | 28.097             |
| Derivative Financial Liabilities for Hedging Purposes (5)   | -                  | 172.258            | -               | 172.258            |
| Other Liabilities (6)   | 52.279             | 60.229             | 917             | 113.425            |
| <b>Total Liabilities</b>  | <b>11.471.315</b>  | <b>20.926.945</b>  | <b>952</b>      | <b>32.399.212</b>  |
| <b>Net Balance Sheet Position</b>   | <b>1.311.401</b>   | <b>(4.011.013)</b> | <b>16.105</b>   | <b>(2.683.507)</b> |
| <b>Net Off-Balance Sheet Position</b>   | <b>(1.222.855)</b> | <b>3.956.152</b>   | <b>(14.992)</b> | <b>2.718.305</b>   |
| Financial Derivative Assets   | 1.902.722          | 6.761.213          | 153.506         | 8.817.441          |
| Financial Derivative Liabilities  | (3.125.577)        | (2.805.061)        | (168.498)       | (6.099.136)        |
| Non-Cash Loans (7)  | 1.351.786          | 1.334.076          | -               | 2.685.862          |
| <b>Prior Period</b>   |                    |                    |                 |                    |
| Total Assets  | 9.646.190          | 12.775.650         | 75.794          | 22.497.634         |
| Total Liabilities   | 9.440.023          | 14.273.931         | 2.704           | 23.716.658         |
| <b>Net Balance Sheet Position</b>   | <b>206.167</b>     | <b>(1.498.281)</b> | <b>73.090</b>   | <b>(1.219.024)</b> |
| <b>Net Off –Balance Sheet Position</b>  | <b>(194.420)</b>   | <b>1.508.745</b>   | <b>(72.110)</b> | <b>1.242.215</b>   |
| Financial Derivative Assets   | 1.090.414          | 4.529.407          | 487.346         | 6.107.167          |
| Financial Derivative Liabilities  | (1.284.834)        | (3.020.662)        | (559.456)       | (4.864.952)        |
| Non-Cash Loans (7)  | 883.016            | 1.125.806          | 1.891           | 2.010.713          |

(1) Includes derivative financial assets amounting to TL 222.007. Exchange rate differences arising from derivative transactions amounting to TL 102.274 is deducted from "Financial Assets at Fair Value Through Profit and Loss".

(2) Loans include TL 1.837.965 foreign currency indexed loans, TL 133.929 financial lease receivables, TL 556.389 non-performing loans, and TL (136.915) credit-impaired losses (stage III / specific provision).

(3) Forward foreign exchange purchase transaction rediscounts amounting to TL 39, prepaid expenses amounting to TL 763, 12 months expected credit loss for other assets amounting to TL (891) are not included other assets.

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

(5) Derivative financial liabilities for hedging purposes has classified in line of derivative financial liabilities in financial statement.

(6) Marketable securities value increase fund amounting to TL (69.434), exchange rate differences arising from derivative transactions amounting to TL 96.182, forward foreign exchange purchase transaction rediscounts amounting to TL 5, and other provisions amounting to TL 10.292 have not been included in "Other Liabilities".

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



## **SECTION FOUR (Continued)**

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

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

The Bank is mostly exposed to Euro, US Dollars and other foreign currencies.

The following tables detail the Bank's sensitivity to 10% increase/decrease in the TL against US Dollar, Euro and other currencies.

|           | Increase in Currency Rate | Effect on Profit / Loss (1) |              | Effect on Equity (2) |              |
|-----------|---------------------------|-----------------------------|--------------|----------------------|--------------|
|           |                           | Current Period              | Prior Period | Current Period       | Prior Period |
| US Dollar | 10                        | (6.030)                     | 447          | 544                  | 600          |
| Euro      | 10                        | 8.823                       | 1.009        | 31                   | 166          |
| Other     | 10                        | 111                         | 98           | -                    | -            |

|           | Decrease in Currency Rate | Effect on Profit / Loss (1) |              | Effect on Equity (2) |              |
|-----------|---------------------------|-----------------------------|--------------|----------------------|--------------|
|           |                           | Current Period              | Prior Period | Current Period       | Prior Period |
| US Dollar | 10                        | 6.030                       | (447)        | (544)                | (600)        |
| Euro      | 10                        | (8.823)                     | (1.009)      | (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.

#### **IV. Explanations related to interest rate risk**

Interest rate sensitivity of the assets, liabilities and off-balance sheet items are measured by the Bank. General and specific interest rate risk tables in the standard method, by including assets and liabilities, are taken into account in determination of Capital Adequacy Standard Ratio and to calculate the overall interest rate risk of the Bank.

Forecast results, which have been formed using estimation-simulation reports are prepared and then the effects of fluctuations in interest rates are evaluated with sensitivity and scenario analysis. Cash requirement for every maturity period are determined based on maturity distribution analysis (Gap). In addition, a positive spread between the yield on assets and the cost of liabilities is kept while determining interest rates.

The amount of local borrowings is very low considering the total liabilities of the Bank. As the Bank is a development and investment bank, it obtains most of the funding from abroad.

The fluctuations in interest rates are controlled with interest rate risk tables, gap analysis, scenario analysis and stress tests, its effect in assets and liabilities and the probable changes in cash flows are being screened. The Bank screens many risk control ratios including the markets risk ratio to the sum of risk weighted assets and the ratio of the value at risk calculated as per the internal model to the equity.

Under the scope of risk policies, continuous controls are made to prevent assets or shareholders' equity from adverse effects because of fluctuations in interest rates or liquidity difficulties and top management, the Board of Directors and the Audit Committee are informed of these risks.



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

**IV. Explanations related to interest rate risk (continued)**

*Information related to the interest rate sensitivity of assets, liabilities and off-balance sheet items (based on repricing dates)*

| Current Period   | Up to 1 Month    | 1-3 Months         | 3-12 Months       | 1-5 Years          | 5 Years and Over | Non-interest bearing (1) | Total (2)          |
|--|------------------|--------------------|-------------------|--------------------|------------------|--------------------------|--------------------|
| <b>Assets</b>  |                  |                    |                   |                    |                  |                          |                    |
| Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Checks Purchased) and Balances with the Central Bank of Turkey | 423.408          | -                  | -                 | -                  | -                | 319.573                  | 742.981            |
| Banks (2)  | 585.203          | -                  | -                 | -                  | -                | 38.545                   | 623.748            |
| Financial Assets at Fair Value Through Profit and Loss (3)   | 283.500          | 438.541            | 207.512           | 48.603             | -                | -                        | 978.156            |
| Money Market Placements (2)  | 357.708          | 170.576            | 44.949            | -                  | -                | -                        | 573.233            |
| Financial Assets at Fair Value Through Other Comprehensive Income (2)  | 131.914          | 92.670             | 1.341.530         | 1.538.414          | 221.517          | 62.732                   | 3.388.777          |
| Loans (2)  | 5.426.218        | 6.842.331          | 9.081.972         | 5.423.543          | 942.241          | -                        | 27.716.305         |
| Financial Assets Measured at Amortized Cost (2)  | 311.618          | 904.733            | 672.132           | -                  | 264.830          | -                        | 2.153.313          |
| Other Assets (2)   | -                | -                  | -                 | -                  | -                | 2.121.598                | 2.121.598          |
| <b>Total Assets</b>  | <b>7.519.569</b> | <b>8.448.851</b>   | <b>11.348.095</b> | <b>7.010.560</b>   | <b>1.428.588</b> | <b>2.542.448</b>         | <b>38.298.111</b>  |
| <b>Liabilities</b>   |                  |                    |                   |                    |                  |                          |                    |
| Bank Deposits  | -                | -                  | -                 | -                  | -                | -                        | -                  |
| Other Deposits   | -                | -                  | -                 | -                  | -                | -                        | -                  |
| Money Market Borrowings  | 178.907          | 94                 | -                 | -                  | -                | -                        | 179.001            |
| Miscellaneous Payables   | -                | -                  | -                 | -                  | -                | 31.819                   | 31.819             |
| Marketable Securities Issued (4)   | -                | -                  | 1.797.030         | 6.701.933          | -                | -                        | 8.498.963          |
| Funds Provided from Other Financial Institutions   | 4.159.029        | 8.408.160          | 4.753.669         | 3.985.813          | 2.269.347        | -                        | 23.576.018         |
| Other Liabilities (5)  | 232.003          | 262.804            | 284.877           | 45.164             | -                | 5.187.462                | 6.012.310          |
| <b>Total Liabilities</b>   | <b>4.569.939</b> | <b>8.671.058</b>   | <b>6.835.576</b>  | <b>10.732.910</b>  | <b>2.269.347</b> | <b>5.219.281</b>         | <b>38.298.111</b>  |
| <b>Balance Sheet Long Position</b>   | <b>2.949.630</b> | <b>-</b>           | <b>4.512.519</b>  | <b>-</b>           | <b>-</b>         | <b>-</b>                 | <b>7.462.149</b>   |
| <b>Balance Sheet Short Position</b>  | <b>-</b>         | <b>(222.207)</b>   | <b>-</b>          | <b>(3.722.350)</b> | <b>(840.759)</b> | <b>(2.676.833)</b>       | <b>(7.462.149)</b> |
| Off-Balance Sheet Long Position  | -                | -                  | -                 | 6.677.488          | 541.315          | -                        | 7.218.803          |
| Off-Balance Sheet Short Position   | (1.720.265)      | (1.897.660)        | (3.335.297)       | -                  | -                | -                        | (6.953.222)        |
| <b>Total Position</b>  | <b>1.229.365</b> | <b>(2.119.867)</b> | <b>1.177.222</b>  | <b>2.955.138</b>   | <b>(299.444)</b> | <b>(2.676.833)</b>       | <b>265.581</b>     |

(1) Amounts in investments in associates and subsidiaries, deferred tax asset, tangible and intangible assets, other assets, other miscellaneous liabilities, shareholders' equity, provisions and tax liability are presented in non-interest bearing column, in order to reconcile the total assets and liabilities on the balance sheet.

(2) Cash and balances with the Central Bank of Turkey amounting TL 243, banks amounting to TL 6, money market placements amounting to TL 19, financial assets at fair value through other comprehensive income amounting to TL 243, loans and financial leasing receivables amounting to TL 345.349, financial asset measured at amortized cost amounting to TL 1.628, and other assets amounting to TL 1.013 are shown with expected credit loss by offsetting.

(3) Includes derivative financial assets amounting to TL 978.156 in financial statement.

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

(5) Borrower funds amounting to TL 32.529 are presented in "Other Liabilities" within 1-month maturity column.



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**IV. Explanations related to interest rate risk (continued)**

*Information related to the interest rate sensitivity of assets, liabilities and off-balance sheet items (based on repricing dates)*

| Prior Period   | Up to 1 Month    | 1-3 Months       | 3-12 Months      | 1-5 Years          | 5 Years and Over   | Non-interest bearing (1) | Total              |
|--|------------------|------------------|------------------|--------------------|--------------------|--------------------------|--------------------|
| <b>Assets</b>  |                  |                  |                  |                    |                    |                          |                    |
| Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Checks Purchased) and Balances with the Central Bank of Turkey | 420.135          | -                | -                | -                  | -                  | 426.996                  | 847.131            |
| Banks  | -                | -                | -                | -                  | -                  | 6.452                    | 6.452              |
| Financial Assets at Fair Value Through Profit and Loss   | 74.832           | 147.030          | 79.523           | 25.403             | -                  | -                        | 326.788            |
| Money Market Placements  | -                | -                | -                | -                  | -                  | -                        | -                  |
| Available-for-Sale Financial Assets  | 88.570           | 155.606          | 1.047.061        | 971.432            | 755.623            | 68.552                   | 3.086.844          |
| Loans  | 3.387.581        | 6.649.087        | 8.107.041        | 3.372.960          | 714.344            | -                        | 22.231.013         |
| Held-to-Maturity Investments   | 201.806          | 723.091          | 409.824          | -                  | 197.326            | -                        | 1.532.047          |
| Other Assets   | 1.851            | -                | 3.861            | 46.593             | 11.105             | 816.567                  | 879.977            |
| <b>Total Assets</b>  | <b>4.174.775</b> | <b>7.674.814</b> | <b>9.647.310</b> | <b>4.416.388</b>   | <b>1.678.398</b>   | <b>1.318.567</b>         | <b>28.910.252</b>  |
| <b>Liabilities</b>   |                  |                  |                  |                    |                    |                          |                    |
| Bank Deposits  | -                | -                | -                | -                  | -                  | -                        | -                  |
| Other Deposits   | -                | -                | -                | -                  | -                  | -                        | -                  |
| Money Market Borrowings  | 779.112          | 87               | 34.122           | -                  | -                  | -                        | 813.321            |
| Miscellaneous Payables   | -                | -                | -                | -                  | -                  | 54.944                   | 54.944             |
| Marketable Securities Issued (2)   | -                | -                | -                | 3.746.229          | 1.146.236          | -                        | 4.892.465          |
| Funds Provided from Other Financial Institutions   | 3.728.663        | 6.477.021        | 3.969.277        | 2.343.537          | 2.163.230          | -                        | 18.681.728         |
| Other Liabilities (3)  | 44.825           | 128.938          | 98.428           | 46.791             | 5.004              | 4.143.808                | 4.467.794          |
| <b>Total Liabilities</b>   | <b>4.552.600</b> | <b>6.606.046</b> | <b>4.101.827</b> | <b>6.136.557</b>   | <b>3.314.470</b>   | <b>4.198.752</b>         | <b>28.910.252</b>  |
| <b>Balance Sheet Long Position</b>   | <b>-</b>         | <b>1.068.768</b> | <b>5.545.483</b> | <b>-</b>           | <b>-</b>           | <b>-</b>                 | <b>6.614.251</b>   |
| <b>Balance Sheet Short Position</b>  | <b>(377.825)</b> | <b>-</b>         | <b>-</b>         | <b>(1.720.169)</b> | <b>(1.636.072)</b> | <b>(2.880.185)</b>       | <b>(6.614.251)</b> |
| Off-Balance Sheet Long Position  | 35.614           | -                | -                | 4.878.400          | 412.774            | -                        | 5.326.788          |
| Off-Balance Sheet Short Position   | -                | (1.508.556)      | (3.750.901)      | -                  | -                  | -                        | (5.259.457)        |
| <b>Total Position</b>  | <b>(342.211)</b> | <b>(439.788)</b> | <b>1.794.582</b> | <b>3.158.231</b>   | <b>(1.223.298)</b> | <b>(2.880.185)</b>       | <b>67.331</b>      |

(1) Amounts in investments in associates and subsidiaries, deferred tax asset, tangible and intangible assets, other assets, other miscellaneous liabilities and shareholders' equity, provisions, and tax liability are presented in non-interest bearing column, in order to reconcile the total assets and liabilities on the balance sheet.

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

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



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

**IV. Explanations related to interest rate risk (continued)**

*Average interest rates applied to monetary financial instruments: %*

|  | <b>Euro</b> | <b>US Dollar</b> | <b>Yen</b> | <b>TL</b> |
|--|-------------|------------------|------------|-----------|
| <b>Current Period</b>  |             |                  |            |           |
| <b>Assets</b>  |             |                  |            |           |
| Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Checks Purchased) and Balances with the Central Bank of Turkey | -           | 2,10             | -          | 11,35     |
| Banks  | -           | 2,30             | -          | 25,75     |
| Financial Assets at Fair Value Through Profit and Loss   | -           | -                | -          | -         |
| Money Market Placements  | -           | -                | -          | 24,59     |
| Financial Assets at Fair Value Through Other Comprehensive Income  | 5,62        | 4,32             | -          | 16,94     |
| Loans  | 4,49        | 7,46             | -          | 18,89     |
| Financial Assets Measured at Amortized Cost  | -           | 6,77             | -          | 16,76     |
| <b>Liabilities</b>   |             |                  |            |           |
| Bank Deposits  | -           | -                | -          | -         |
| Other Deposits   | -           | -                | -          | -         |
| Money Market Borrowings  | 0,75        | 1,50             | -          | 15,00     |
| Miscellaneous Payables   | -           | -                | -          | -         |
| Marketable Securities Issued (1)   | -           | 5,71             | -          | -         |
| Borrower Funds   | 0,75        | 1,50             | -          | 15,00     |
| Funds Provided From Other Financial Institutions   | 1,00        | 3,28             | -          | 10,30     |

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



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**SECTION FOUR (Continued)**

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

**IV. Explanations related to interest rate risk (continued)**

*Average interest rates applied to monetary financial instruments in prior period: %*

|  | <b>Euro</b> | <b>US Dollar</b> | <b>Yen</b> | <b>TL</b> |
|--|-------------|------------------|------------|-----------|
| <b>Prior Period</b>  |             |                  |            |           |
| <b>Assets</b>  |             |                  |            |           |
| Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Checks Purchased) and Balances with the Central Bank of Turkey | -           | 1,43             | -          | 3,48      |
| Banks  | -           | -                | -          | -         |
| Financial Assets at Fair Value Through Profit and Loss   | -           | -                | -          | -         |
| Money Market Placements  | -           | -                | -          | -         |
| Available-for-Sale Financial Assets  | 5,61        | 4,55             | -          | 11,71     |
| Loans  | 4,00        | 6,16             | -          | 14,73     |
| Held-to-Maturity Investments   | -           | 5,59             | -          | 11,69     |
| <b>Liabilities</b>   |             |                  |            |           |
| Bank Deposits  | -           | -                | -          | -         |
| Other Deposits   | -           | -                | -          | -         |
| Money Market Borrowings  | 0,28        | 0,50             | -          | 12,27     |
| Miscellaneous Payables   | -           | -                | -          | -         |
| Marketable Securities Issued (1)   | -           | 5,67             | -          | -         |
| Borrower Funds   | 0,25        | 0,50             | -          | 8,00      |
| Funds Provided From Other Financial Institutions   | 0,99        | 2,37             | -          | 9,00      |

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



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**SECTION FOUR (Continued)**

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

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

The Bank is exposed to equity shares risk arising from investments on firms traded in Borsa Istanbul (BIST). The Bank classifies its share certificate investments both as financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income and net profit/loss of the Bank is not affected unless the Bank sells share certificates in financial assets at fair value through profit or loss portfolio.

**Equity shares risk due from banking book**

The table below is the comparison table of the Bank's share certificate instruments' book value, fair value and market value.

| Current Period                      | Comparison     |            |                |
|-------------------------------------|----------------|------------|----------------|
| Share Certificate Investments       | Book Value     | Fair Value | Market Value   |
| <b>Investment in Shares-Grade A</b> | <b>978.939</b> | <b>-</b>   | <b>978.939</b> |
| Quoted                              | 978.939        | -          | 978.939        |
| <b>Investment in Shares-Grade B</b> | <b>211.144</b> | <b>-</b>   | <b>211.144</b> |
| Quoted                              | 211.144        | -          | 211.144        |

| Prior Period                        | Comparison     |            |                |
|-------------------------------------|----------------|------------|----------------|
| Share Certificate Investments       | Book Value     | Fair Value | Market Value   |
| <b>Investment in Shares-Grade A</b> | <b>313.164</b> | <b>-</b>   | <b>313.164</b> |
| Quoted                              | 313.164        | -          | 313.164        |
| <b>Investment in Shares-Grade B</b> | <b>77.891</b>  | <b>-</b>   | <b>77.891</b>  |
| Quoted                              | 77.891         | -          | 77.891         |

On the basis of the following table, private equity investments in sufficiently diversified portfolios, type and amount of other risks, cumulative realized gains and losses arising from selling and liquidation in the current period, total unrealized gains and losses, total revaluation increases of trading positions on stock market and their amount that included to core capital and supplementary capital are shown.



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

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

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

| <b>Current Period</b>                         | <b>Realized</b>                          | <b>Revaluation Value Increases</b> |                                 | <b>Unrealized Gains and Losses</b> |                                 |  |
|---|--|------------------------------------|---------------------------------|------------------------------------|---------------------------------|--|
| <b>Portfolio</b>                              | <b>Revenues and Losses in the Period</b> | <b>Total</b>                       | <b>Included in Core Capital</b> | <b>Total</b>                       | <b>Included in Core Capital</b> | <b>Included in Supplementary Capital</b> |
| Private Equity Investments                    | -  | -                                  | -                               | -                                  | -                               | -  |
| Share Certificates Quoted on a Stock Exchange | -  | 724.294                            | 724.294                         | -                                  | -                               | -  |
| Other Share Certificates                      | -  | 67.478                             | 67.478                          | -                                  | -                               | -  |
| <b>Total</b>                                  | <b>-</b>                                 | <b>791.772</b>                     | <b>791.772</b>                  | <b>-</b>                           | <b>-</b>                        | <b>-</b>                                 |

| <b>Prior Period</b>                           | <b>Realized</b>                          | <b>Revaluation Value Increases</b> |                                 | <b>Unrealized Gains and Losses</b> |                                 |  |
|---|--|------------------------------------|---------------------------------|------------------------------------|---------------------------------|--|
| <b>Portfolio</b>                              | <b>Revenues and Losses in the Period</b> | <b>Total</b>                       | <b>Included in Core Capital</b> | <b>Total</b>                       | <b>Included in Core Capital</b> | <b>Included in Supplementary Capital</b> |
| Private Equity Investments                    | -  | -                                  | -                               | -                                  | -                               | -  |
| Share Certificates Quoted on a Stock Exchange | -  | 75.054                             | 75.054                          | -                                  | -                               | -  |
| Other Share Certificates                      | -  | 12.634                             | 12.634                          | -                                  | -                               | -  |
| <b>Total</b>                                  | <b>-</b>                                 | <b>87.688</b>                      | <b>87.688</b>                   | <b>-</b>                           | <b>-</b>                        | <b>-</b>                                 |



## **SECTION FOUR (Continued)**

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

#### **VI. Explanations related to the liquidity risk management and liquidity coverage ratio (continued)**

##### **1. Explanations related to the liquidity risk**

##### **1.a Information about the governance of unconsolidated liquidity risk management, including: risk tolerance, structure and responsibilities for unconsolidated liquidity risk management, internal unconsolidated liquidity reporting and communication of unconsolidated liquidity risk strategy, policies and practices across business lines and with the board of directors**

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

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

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

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

##### **1.b Information on the centralization degree of unconsolidated liquidity management and funding strategy and the functioning between the Bank and the Bank's subsidiaries**

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

##### **1.c Information on the Bank's funding strategy including the policies on funding types and variety of maturities**

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



## **SECTION FOUR (Continued)**

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

#### **VI. Explanations related to the liquidity risk management and liquidity coverage ratio (continued)**

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

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

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

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

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

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

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

##### **1.f General information on urgent and unexpected unconsolidated liquidity situation plans**

There is a Contingency Funding Plan for the contingent periods that arises beyond the Bank's control. In a potential liquidity shortfall, Treasury Department is responsible from assessment, taking relevant actions and informing Asset and Liability Committee. In contingent cases, to identify the liquidity risk arising, cash flow projections and funding requirement estimations are exercised based on various scenarios. To assess the stress scenarios, cash flow in terms of local currency is monitored regularly by Treasury Department. Scenario analysis on the Bank's unencumbered sources are conducted daily. Transaction limits for organized markets are monitored timely and essential collateral amount to trade in those markets is withheld at hand. Repo transactions and/or available for sale portfolio securities in local and foreign currency that are major funding sources in shortfall periods for the Bank are monitored consistently. In contingent periods outflows due to the irrevocable commitments, contingencies and derivative transactions can be deferred temporarily in a way that won't hurt the Bank's reputation. TSKB has the optionality of choosing one or more of the following for meeting its liquidity requirement that are selling liquid assets off, increasing short term borrowing, decreasing illiquid assets, increasing capital.



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

**VI. Explanations related to the liquidity risk management and liquidity coverage ratio (continued)**

**2. Liquidity Coverage Ratio**

According to regulations which is published on 28948 numbered gazette on 21 March 2014 related to calculation of liquidity coverage ratio of banks, calculated liquidity coverage ratios are shown below. Including the reporting period for the last three months unconsolidated foreign currency and total liquidity coverage ratios are shown below:

|  |  | Rate of "Percentage to be taken into account" not Implemented Total value |                  | Rate of "Percentage to be taken into account" Implemented Total value |                  |
|--|--|---|------------------|---|------------------|
|  |  | TL+FC   | FC               | TL+FC   | FC               |
| <b>Current Period</b>                    |  |   |                  |   |                  |
| <b>HIGH QUALITY LIQUID ASSETS (HQLA)</b> |  |   |                  |   |                  |
| 1  | High quality liquid assets   | -   | -                | 3.720.239   | 1.235.400        |
| <b>CASH OUTFLOWS</b>                     |  |   |                  |   |                  |
| 2  | Retail and Customers Deposits  | 37  | 8                | 4   | 1                |
| 3  | Stable deposits  | -   | -                | -   | -                |
| 4  | Less stable deposits   | 37  | 8                | 4   | 1                |
| 5  | Unsecured Funding other than Retail and Small Business, Customers Deposits                               | 1.020.707   | 702.818          | 818.910   | 508.541          |
| 6  | Operational deposits   | 49.428  | 39.600           | 12.357  | 9.900            |
| 7  | Non-Operational Deposits   | -   | -                | -   | -                |
| 8  | Other Unsecured Funding  | 971.279   | 663.218          | 806.553   | 498.641          |
| 9  | Secured funding  | -   | -                | -   | -                |
| 10                                       | Other Cash Outflows  | 948.443   | 1.183.870        | 948.443   | 1.183.870        |
| 11                                       | Liquidity needs related to derivatives and market valuation changes on derivatives transactions          | 784.624   | 1.020.051        | 784.624   | 1.020.051        |
| 12                                       | Debts related to the structured financial products   | -   | -                | -   | -                |
| 13                                       | Commitment related to debts to financial markets and other off balance sheet liabilities                 | 163.819   | 163.819          | 163.819   | 163.819          |
| 14                                       | Commitments that are unconditionally revocable at any time by the Bank and other contractual commitments | 16.578.496  | 13.188.834       | 828.925   | 659.442          |
| 15                                       | Other irrevocable or conditionally revocable commitments   | 6.891.846   | 5.875.588        | 866.195   | 668.196          |
| 16                                       | <b>TOTAL CASH OUTFLOWS</b>   |   |                  | <b>3.462.477</b>  | <b>3.020.050</b> |
| <b>CASH INFLOWS</b>                      |  |   |                  |   |                  |
| 17                                       | Secured Lending Transactions   | -   | -                | -   | -                |
| 18                                       | Unsecured Lending Transactions   | 2.716.065   | 1.556.988        | 2.048.576   | 1.089.676        |
| 19                                       | Other contractual cash inflows   | 75.055  | 1.564.511        | 75.055  | 1.564.511        |
| 20                                       | <b>TOTAL CASH INFLOWS</b>  | <b>2.791.120</b>  | <b>3.121.499</b> | <b>2.123.631</b>  | <b>2.654.187</b> |
|  |  |   |                  | Upper Limit Applied Amounts   |                  |
| 21                                       | <b>TOTAL HQLA STOCK</b>  |   |                  | <b>3.720.239</b>  | <b>1.235.400</b> |
| 22                                       | <b>TOTAL NET CASH OUTFLOWS</b>   |   |                  | <b>1.338.846</b>  | <b>755.013</b>   |
| 23                                       | <b>LIQUIDITY COVERAGE RATIO (%)</b>  |   |                  | <b>278</b>  | <b>164</b>       |



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

**VI. Explanations related to the liquidity risk management and liquidity coverage ratio (continued)**

**2. Liquidity Coverage Ratio (continued)**

|   | Rate of “Percentage to be taken into account” not Implemented Total value |                  | Rate of “Percentage to be taken into account” Implemented Total value |                  |
|---|---|------------------|---|------------------|
|   | TL+FC   | FC               | TL+FC   | FC               |
| <b>Prior Period</b>   |   |                  |   |                  |
| <b>HIGH QUALITY LIQUID ASSETS (HQLA)</b>  |   |                  |   |                  |
| 1 High quality liquid assets  |   |                  | 1.884.551   | 963.562          |
| <b>CASH OUTFLOWS</b>  |   |                  |   |                  |
| 2 Retail and Customers Deposits   | 87  | 17               | 4   | 1                |
| 3 Stable deposits   | -   | -                | -   | -                |
| 4 Less stable deposits  | 87  | 17               | 4   | 1                |
| 5 Unsecured Funding other than Retail and Small Business Customers Deposits                                 | 1.257.720   | 854.342          | 927.292   | 613.194          |
| 6 Operational deposits  | 48.977  | 45.735           | 12.244  | 11.434           |
| 7 Non-Operational Deposits  | -   | -                | -   | -                |
| 8 Other Unsecured Funding   | 1.208.743   | 808.607          | 915.048   | 601.760          |
| 9 Secured funding   |   |                  | -   | -                |
| 10 Other Cash Outflows  | 1.740.244   | 888.105          | 1.740.244   | 888.105          |
| 11 Liquidity needs related to derivatives and market valuation changes on derivatives transactions          | 1.740.244   | 888.105          | 1.740.244   | 888.105          |
| 12 Debts related to the structured financial products   | -   | -                | -   | -                |
| 13 Commitment related to debts to financial markets and other off balance sheet liabilities                 | -   | -                | -   | -                |
| 14 Commitments that are unconditionally revocable at any time by the Bank and other contractual commitments | 6.853.758   | 5.284.298        | 342.688   | 264.215          |
| 15 Other irrevocable or conditionally revocable commitments   | 7.188.125   | 5.848.569        | 1.041.472   | 800.410          |
| 16 <b>TOTAL CASH OUTFLOWS</b>   |   |                  | <b>4.051.700</b>  | <b>2.565.925</b> |
| <b>CASH INFLOWS</b>   |   |                  |   |                  |
| 17 Secured Lending Transactions   | -   | -                | -   | -                |
| 18 Unsecured Lending Transactions   | 2.208.700   | 627.888          | 1.727.758   | 451.703          |
| 19 Other contractual cash inflows   | 1.731.416   | 1.465.954        | 1.731.415   | 1.465.955        |
| 20 <b>TOTAL CASH INFLOWS</b>  | <b>3.940.116</b>  | <b>2.093.842</b> | <b>3.459.173</b>  | <b>1.917.658</b> |
|   |   |                  | Upper Limit Applied Amounts   |                  |
| 21 <b>TOTAL HQLA STOCK</b>  |   |                  | <b>1.884.551</b>  | <b>963.562</b>   |
| 22 <b>TOTAL NET CASH OUTFLOWS</b>   |   |                  | <b>1.012.925</b>  | <b>648.267</b>   |
| 23 <b>LIQUIDITY COVERAGE RATIO (%)</b>  |   |                  | <b>186</b>  | <b>149</b>       |



## **SECTION FOUR (Continued)**

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

#### **VI. Explanations related to the liquidity risk management and liquidity coverage ratio (continued)**

##### **3. Minimum explanations related to the liquidity coverage ratio by Banks:**

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

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

Main funding source of the Bank is long term loans attained from international financial institutions. The ratio of those loans in total funding is around 67%. The total ratio of the securities issued in purpose of funding diversification and loans attained through syndication loans in overall borrowing is 30%. 3% of the Bank's total funding is provided from repurchase agreements.

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



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

**VI. Explanations related to the liquidity risk management and liquidity coverage ratio (continued)**

*Presentation of assets and liabilities according to their remaining maturities:*

|  | Demand         | Up to 1 Month    | 1-3 Months       | 3-12 Months      | 1-5 Years         | 5 Years and Over   | Undistributed (1)  | Total (2)         |
|--|----------------|------------------|------------------|------------------|-------------------|--------------------|--------------------|-------------------|
| <b>Current Period</b>  |                |                  |                  |                  |                   |                    |                    |                   |
| <b>Assets</b>  |                |                  |                  |                  |                   |                    |                    |                   |
| Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Checks Purchased) and Balances with the Central Bank of Turkey | 319.573        | 423.408          | -                | -                | -                 | -                  | -                  | 742.981           |
| Banks  | 38.545         | 585.203          | -                | -                | -                 | -                  | -                  | 623.748           |
| Financial Assets at Fair Value Through Profit and Loss (3)   | -              | 74.722           | 50.650           | 128.861          | 586.826           | 137.097            | -                  | 978.156           |
| Money Market Placements  | -              | 357.708          | 170.576          | 44.949           | -                 | -                  | -                  | 573.233           |
| Financial Assets at Fair Value Through Other Comprehensive Income  | -              | -                | 34.122           | 697.216          | 2.316.282         | 278.425            | 62.732             | 3.388.777         |
| Loans  | -              | 1.473.781        | 1.336.298        | 4.856.313        | 14.107.635        | 5.942.278          | -                  | 27.716.305        |
| Financial Assets Measured at Amortized Cost  | -              | -                | 39.727           | 154.272          | 1.456.942         | 502.372            | -                  | 2.153.313         |
| Other Assets   | -              | -                | -                | -                | -                 | -                  | 2.121.598          | 2.121.598         |
| <b>Total Assets</b>  | <b>358.118</b> | <b>2.914.822</b> | <b>1.631.373</b> | <b>5.881.611</b> | <b>18.467.685</b> | <b>6.860.172</b>   | <b>2.184.330</b>   | <b>38.298.111</b> |
| <b>Liabilities</b>   |                |                  |                  |                  |                   |                    |                    |                   |
| Bank Deposits  | -              | -                | -                | -                | -                 | -                  | -                  | -                 |
| Other Deposits   | -              | -                | -                | -                | -                 | -                  | -                  | -                 |
| Funds Provided from Other Financial Institutions   | -              | 219.110          | 375.294          | 3.189.637        | 10.438.078        | 9.353.899          | -                  | 23.576.018        |
| Money Market Borrowings  | -              | 178.907          | 94               | -                | -                 | -                  | -                  | 179.001           |
| Marketable Securities Issued (4)   | -              | -                | -                | 1.797.030        | 6.701.933         | -                  | -                  | 8.498.963         |
| Miscellaneous Payables   | -              | -                | -                | -                | -                 | -                  | 31.819             | 31.819            |
| Other Liabilities (5)  | -              | 137.618          | 53.013           | 98.969           | 432.975           | 102.273            | 5.187.462          | 6.012.310         |
| <b>Total Liabilities</b>   | <b>-</b>       | <b>535.635</b>   | <b>428.401</b>   | <b>5.085.636</b> | <b>17.572.986</b> | <b>9.456.172</b>   | <b>5.219.281</b>   | <b>38.298.111</b> |
| <b>Liquidity Gap</b>   | <b>358.118</b> | <b>2.379.187</b> | <b>1.202.972</b> | <b>795.975</b>   | <b>894.699</b>    | <b>(2.596.000)</b> | <b>(3.034.951)</b> | <b>-</b>          |
| <b>Net Off-balance sheet Position</b>  | <b>-</b>       | <b>(49.908)</b>  | <b>(9.991)</b>   | <b>23.591</b>    | <b>286.659</b>    | <b>15.232</b>      | <b>-</b>           | <b>265.583</b>    |
| Financial Derivative Assets  | -              | 3.600.199        | 2.113.463        | 4.378.824        | 12.035.187        | 7.121.613          | -                  | 29.249.286        |
| Financial Derivative Liabilities   | -              | 3.650.107        | 2.123.454        | 4.355.233        | 11.748.528        | 7.106.381          | -                  | 28.983.703        |
| Non-cash Loans (6)   | -              | 117.206          | 149.450          | 1.331.211        | 249.706           | 840.965            | 485.271            | 3.173.809         |
| <b>Prior Period</b>  |                |                  |                  |                  |                   |                    |                    |                   |
| Total Assets   | 433.448        | 1.293.700        | 1.438.667        | 5.219.085        | 13.195.061        | 6.445.172          | 885.119            | 28.910.252        |
| Total Liabilities  | -              | 1.043.497        | 383.221          | 3.006.161        | 11.518.429        | 8.760.192          | 4.198.752          | 28.910.252        |
| <b>Liquidity Gap</b>   | <b>433.448</b> | <b>250.203</b>   | <b>1.055.446</b> | <b>2.212.924</b> | <b>1.676.632</b>  | <b>(2.315.020)</b> | <b>(3.313.633)</b> | <b>-</b>          |
| <b>Net Off-balance sheet Position</b>  | <b>-</b>       | <b>(19.773)</b>  | <b>527</b>       | <b>316</b>       | <b>81.569</b>     | <b>4.692</b>       | <b>-</b>           | <b>67.331</b>     |
| Financial Derivative Assets  | -              | 1.397.780        | 2.836.475        | 2.775.523        | 8.614.737         | 4.586.490          | -                  | 20.211.005        |
| Financial Derivative Liabilities   | -              | 1.417.553        | 2.835.948        | 2.775.207        | 8.533.168         | 4.581.798          | -                  | 20.143.674        |
| Non-cash Loans (6)   | -              | 46.294           | 268.206          | 843.606          | 621.648           | 771.147            | 22.812             | 2.573.713         |

(1) Other assets and shareholders' equity, provisions and tax liability, which are necessary and cannot be converted into cash in the near future for the Bank's ongoing activities, such as tangible and intangible assets, deferred tax asset, other miscellaneous receivables, investments in subsidiaries and associates, entities under common control, office supply inventory, prepaid expenses and non-performing loans are classified under "Undistributed" column.

(2) Cash and balances with the Central Bank of Turkey amounting to TL 243, banks amounting to TL 6, money market placements amounting TL 19, financial assets at fair value through other comprehensive income amounting to TL 243, loans and financial leasing receivables amounting to TL 345.349, financial asset measured at amortized cost amounting to TL 1.628, other assets amounting to TL 1.013 are shown in expected credit loss by offsetting.

(3) Includes derivative financial assets amounting to TL 978.156 in financial statement.

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

(5) Borrower funds amounting to TL 32.529 are presented in "Other Liabilities" within 1-month maturity column.

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



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

**VI. Explanations related to the liquidity risk management and liquidity coverage ratio (continued)**

*Analysis of financial liabilities by remaining contractual maturities*

In compliance with the Turkish Financial Reporting Standard No.7, the following table indicates the maturities of the Group's major financial liabilities which are not qualified as derivatives. The following tables have been prepared by referencing the earliest dates of undiscounted cashflow of financial liabilities.

| Current Period                                   | Up to 1 Month  | 1-3 Months     | 3-12 Months      | 1-5 Years         | Over 5 Years      | Adjustments        | Total             |
|--|----------------|----------------|------------------|-------------------|-------------------|--------------------|-------------------|
| <b>Liabilities</b>                               |                |                |                  |                   |                   |                    |                   |
| Funds Provided from Other Financial Institutions | 249.101        | 469.569        | 3.554.152        | 11.763.632        | 10.633.981        | (3.094.417)        | 23.576.018        |
| Money Market Borrowings                          | 178.943        | 97             | -                | -                 | -                 | (39)               | 179.001           |
| Marketable Securities Issued                     | 49.424         | 58.732         | 2.169.217        | 7.473.832         | -                 | (1.252.242)        | 8.498.963         |
| Funds  | 32.529         | -              | -                | -                 | -                 | -                  | 32.529            |
| <b>Total</b>                                     | <b>509.997</b> | <b>528.398</b> | <b>5.723.369</b> | <b>19.237.464</b> | <b>10.633.981</b> | <b>(4.346.698)</b> | <b>32.286.511</b> |

| Prior Period                                     | Up to 1 Month  | 1-3 Months     | 3-12 Months      | 1-5 Years         | Over 5 Years     | Adjustments        | Total             |
|--|----------------|----------------|------------------|-------------------|------------------|--------------------|-------------------|
| <b>Liabilities</b>                               |                |                |                  |                   |                  |                    |                   |
| Funds Provided from Other Financial Institutions | 179.943        | 381.319        | 3.156.859        | 8.420.210         | 8.229.087        | (1.685.690)        | 18.681.728        |
| Money Market Borrowings                          | 779.549        | 88             | 34.143           | -                 | -                | (459)              | 813.321           |
| Marketable Securities Issued                     | -              | 42.919         | 235.703          | 4.404.866         | 1.514.306        | (1.305.329)        | 4.892.465         |
| Funds  | 12.901         | -              | -                | -                 | -                | -                  | 12.901            |
| <b>Total</b>                                     | <b>972.393</b> | <b>424.326</b> | <b>3.426.705</b> | <b>12.825.076</b> | <b>9.743.393</b> | <b>(2.991.478)</b> | <b>24.400.415</b> |

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

| Current Period       | Up to 1 Month    | 1-3 Months       | 3-12 Months      | 1-5 Years         | Over 5 Years      | Total             |
|----------------------|------------------|------------------|------------------|-------------------|-------------------|-------------------|
| Swap Contracts       | 5.210.948        | 2.488.766        | 4.451.310        | 22.771.113        | 14.227.994        | 49.150.131        |
| Forward Contracts    | 1.313.247        | 727.695          | 785.000          | 975.007           | -                 | 3.800.949         |
| Futures Transactions | -                | -                | -                | -                 | -                 | -                 |
| Options              | 726.110          | 1.028.724        | 3.476.077        | 37.597            | -                 | 5.268.508         |
| Other                | -                | 13.401           | -                | -                 | -                 | 13.401            |
| <b>Total</b>         | <b>7.250.305</b> | <b>4.258.586</b> | <b>8.712.387</b> | <b>23.783.717</b> | <b>14.227.994</b> | <b>58.232.989</b> |

| Prior Period         | Up to 1 Month    | 1-3 Months       | 3-12 Months      | 1-5 Years         | Over 5 Years     | Total             |
|----------------------|------------------|------------------|------------------|-------------------|------------------|-------------------|
| Swap Contracts       | 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         |
| Futures Transactions | -                | -                | -                | -                 | -                | -                 |
| Options              | 391.076          | 2.209.193        | 2.051.703        | -                 | -                | 4.651.972         |
| Other                | 72.830           | -                | -                | -                 | -                | 72.830            |
| <b>Total</b>         | <b>2.815.330</b> | <b>5.672.421</b> | <b>5.550.733</b> | <b>17.147.907</b> | <b>9.168.288</b> | <b>40.354.679</b> |



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

Explanations related to presentation of financial assets and liabilities at fair value.

**VII. Explanations related to leverage ratio**

**a) Information on subjects that causes difference in leverage ratio between current and prior period**

The table related to calculation of leverage ratio in accordance with the principles of the “Regulation on Measurement and Evaluation of Banks’ Leverage Level” which is published on the Official Gazette no.28812 dated 5 November 2013 is given below.

As of 31 December 2018, leverage ratio of the Bank calculated from the arithmetic average of the three months is 9,11% (31 December 2017: 10,36%). Total balance sheet assets are increased by 30,54% compared to prior period.

**b) Leverage Ratio**

|           |   | Current Period (1) | Prior Period (1)  |
|-----------|---|--------------------|-------------------|
|           | <b>Balance sheet Assets</b>   |                    |                   |
| <b>1</b>  | Balance sheet assets (excluding derivative financial assets and credit derivatives, including collaterals)            | 38.380.347         | 28.964.409        |
| <b>2</b>  | (Assets deducted from Core Capital)   | (713.806)          | (110.313)         |
| <b>3</b>  | <b>Total risk amount of balance sheet assets (sum of lines 1 and 2)</b>   | <b>37.666.541</b>  | <b>28.854.096</b> |
|           | <b>Derivative financial assets and credit derivatives</b>   |                    |                   |
| <b>4</b>  | Cost of replenishment for derivative financial assets and credit derivatives  | 1.232.186          | 360.058           |
| <b>5</b>  | Potential credit risk amount of derivative financial assets and credit derivatives                                    | 467.538            | 253.692           |
| <b>6</b>  | <b>Total risk amount of derivative financial assets and credit derivatives (sum of lines 4 and 5)</b>                 | <b>1.699.724</b>   | <b>613.750</b>    |
|           | <b>Financing transactions secured by marketable security or commodity</b>   |                    |                   |
| <b>7</b>  | Risk amount of financing transactions secured by marketable security or commodity                                     | 474.363            | 507.688           |
| <b>8</b>  | Risk amount arising from intermediary transactions  | -                  | -                 |
| <b>9</b>  | <b>Total risk amount of financing transactions secured by marketable security or commodity (sum of lines 7 and 8)</b> | <b>474.363</b>     | <b>507.688</b>    |
|           | <b>Off-balance sheet transactions</b>   |                    |                   |
| <b>10</b> | Gross notional amount of off-balance sheet transactions   | 6.453.655          | 7.205.248         |
| <b>11</b> | (Correction amount due to multiplication with credit conversion rates)  | (2.294.016)        | (3.581.505)       |
| <b>12</b> | <b>Total risk of off-balance sheet transactions (sum of lines 10 and 11)</b>  | <b>4.159.639</b>   | <b>3.623.743</b>  |
|           | <b>Capital and total risk</b>   |                    |                   |
| <b>13</b> | Core Capital  | 4.008.660          | 3.480.315         |
| <b>14</b> | <b>Total risk amount (sum of lines 3, 6, 9 and 12)</b>  | <b>44.000.267</b>  | <b>33.599.277</b> |
|           | <b>Leverage ratio</b>   |                    |                   |
| <b>15</b> | <b>Leverage ratio</b>   | <b>9,11%</b>       | <b>10,36%</b>     |

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



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

**VIII. Explanations related to presentation of financial assets and liabilities at fair value**

The table below shows the carrying and fair values of the financial assets and liabilities in the financial statements of the Bank.

|   | <b>Carrying Value</b> | <b>Fair Value</b>     |
|---|-----------------------|-----------------------|
|   | <b>Current Period</b> | <b>Current Period</b> |
| <b>Financial Assets</b>   | <b>34.374.900</b>     | <b>34.287.700</b>     |
| Money Market Placements   | 573.252               | 573.252               |
| Banks   | 623.754               | 623.754               |
| Financial Assets at Fair Value Through Other Comprehensive Income | 3.389.020             | 3.389.020             |
| Financial asset measured at amortized cost                        | 2.154.941             | 2.033.904             |
| Loans (1)   | 27.633.933            | 27.667.770            |
| <b>Financial Liabilities</b>                                      | <b>32.318.330</b>     | <b>31.490.795</b>     |
| Bank Deposits   | -                     | -                     |
| Other Deposits  | -                     | -                     |
| Funds Provided From Other Financial Institutions (3)              | 23.787.548            | 23.787.548            |
| Marketable Securities Issued (2)                                  | 8.498.963             | 7.671.428             |
| Miscellaneous Payables  | 31.819                | 31.819                |

(1) Loans include financial lease receivables.

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

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

|  | <b>Carrying Value</b> | <b>Fair Value</b>     |
|--|-----------------------|-----------------------|
|  | <b>Current Period</b> | <b>Current Period</b> |
| <b>Financial Assets</b>                              | <b>26.919.766</b>     | <b>27.071.260</b>     |
| Money Market Placements                              | -                     | -                     |
| Banks  | 6.452                 | 6.452                 |
| Available-For-Sale Financial Assets                  | 3.086.844             | 3.086.844             |
| Held-To-Maturity Investments                         | 1.532.047             | 1.528.305             |
| Loans (1)  | 22.294.423            | 22.449.659            |
| <b>Financial Liabilities</b>                         | <b>24.455.359</b>     | <b>24.472.157</b>     |
| Bank Deposits  | -                     | -                     |
| Other Deposits                                       | -                     | -                     |
| Funds Provided From Other Financial Institutions (3) | 19.507.950            | 19.507.950            |
| Marketable Securities Issued (2)                     | 4.892.465             | 4.909.263             |
| Miscellaneous Payables                               | 54.944                | 54.944                |

(1) Loans include financial lease receivables.

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

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

The methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements:

- i-** For the fair value calculation of loans, the prevailing interest rates as of the reporting date were used.
- ii-** For the fair value calculation of the balances with banks, the prevailing interest rates as of the reporting date were used.
- iii-** For the fair value calculation of held-to-maturity investments, quoted prices as of the reporting date were used.



## SECTION FOUR (Continued)

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

#### VIII. Explanations related to presentation of financial assets and liabilities at fair value (Continued)

**iv-** For the fair value calculation of marketable securities issued, market prices as of the reporting date were used.

The following table shows an analysis of financial instruments recorded at fair value, between those whose fair value is recorded on quoted market prices, those involving valuation techniques where all model inputs are observable in the market and, those where the valuation techniques involves the use of non observable inputs.

The table below analyses financial instruments carried at fair value, by valuation method.

- a) Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- b) Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2);
- c) Inputs for the asset or liability that are not based on observable market data (Level 3).

| Current Period  | Level I   | Level II | Level III |
|---|-----------|----------|-----------|
| <b>Financial Assets</b>   |           |          |           |
| Financial Assets at Fair Value Through Profit or Loss             | -         | -        | -         |
| Financial Assets at Fair Value Through Other Comprehensive Income | 3.260.761 | 43.788   | 79.575    |
| Loans at Fair Value Through Profit or Loss                        | -         | -        | 290.660   |
| Associates and Subsidiaries                                       | 1.181.587 | -        | 136.045   |
| Derivative Financial Assets Held-for-trading (1)                  | -         | 978.156  | -         |
| Derivative Financial Assets for Hedging Purposes (1)              | -         | -        | -         |
| <b>Financial Liabilities</b>                                      |           |          |           |
| Derivative Financial Liabilities Held-for-trading (2)             | -         | 620.061  | -         |
| Derivative Financial Liabilities for Hedging Purposes (2)         | -         | 172.258  | -         |

(1) Positive differences from Derivative Financial Assets Held-for-trading and Derivative Financial Assets for Hedging Purposes are classified in "1.5.1 Derivative Financial Assets at Fair Value Through Profit or Loss" line in the balance sheet.

(2) Positive differences from Derivative Financial Liabilities Held-for-trading and Derivative Financial Liabilities for Hedging Purposes are classified in "7.1 Derivative Financial Liabilities at Fair Value Through Profit or Loss" line in the balance sheet.

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

Real estates which are presented in the financial statements at fair value are classified at level 2.

#### IX. Explanations related to transactions made on behalf of others and fiduciary transactions

The Bank performs trading transactions on behalf of its customers, and gives custody, administration and consultancy services. The Bank does not deal with fiduciary transactions.



## **SECTION FOUR (Continued)**

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

#### **X. Explanations related to risk management**

##### **Linkages between financial statements and risk amounts**

The footnotes prepared in accordance with the "Regulation on Calculation Risk Management Disclosures", which was published in the Official Gazette No. 29511 of 23 October 2015 and entered into force as of 31 March 2016, and the disclosures pertaining thereto are provided in this section.

As the standard approach is utilized for the calculation of the capital adequacy of the Bank, no statement has been included as regards the methods based on internal models as per the relevant communiqué.

##### **Disclosures on the Risk management approach and risk-weighted amount**

Risk management approach of the Bank allows for ensuring the establishment of a common risk culture covering the entire institution within the scope of the policies and codes of practice designated by the Board of Directors, for identifying risks in harmony with international arrangements and for performing the activities of measurement, analysis, monitoring and reporting accordingly.

Risk Management Department has been organized within the Bank so as to ensure compliance with the relevant policies, codes of practice and processes and to manage, in parallel with these policies, the risks the Bank is exposed to. Risk Management Department, the duties and responsibilities of which are designated through the regulations approved by the Board of Directors, carries out its activities through the Executive Vice President for Internal Systems under the Audit Committee who serves independently from executive activities and executive units.

Risk Management Department develops the systems required within the process of risk management and carries out the relevant activities, monitors the compliance of risks with policies, standards, limits of the Bank and its risk appetite indicators and performs activities aimed at harmonization with the relevant legislation and the Basel criteria. Risk measurements are performed through the standard approaches for legal reporting and the advanced approaches are utilized internally.

Risk Management Department submits its detailed risk management reports prepared on monthly and quarterly basis to the Board of Directors via the Audit Committee. These reports cover measurements regarding main risks, stress tests and scenario analyses and the status of compliance with the identified limit levels and risk appetite indicators.



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**SECTION FOUR (Continued)**

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

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

**Linkages between financial statements and risk amounts**

Prospective risk assessments are carried out by conducting periodical stress tests on loan, market and interest risks and the impact of results on the overall financial power of the Bank is evaluated. The relevant results are notified to the Audit Committee and contribute to the assessment of the financial structure of the Bank at the moment of stress. Stress test scenarios are determined by evaluating the impacts posed by previous economic crises on macroeconomic indicators and expectations from the upcoming period. By estimating the risks and capital position of the Bank within the upcoming period, various analyses are performed in terms of legal and internal capital adequacy ratios, and the ICAAP (Internal Capital Adequacy Assessment Process) report is submitted to the BRSA.

**Overview of risk weighted assets**

|    |   | Risk Weighted Amount |                   | Minimum Capital Requirement |
|----|---|----------------------|-------------------|-----------------------------|
|    |   | Current Period       | Prior Period      | Current Period              |
| 1  | Credit risk (excluding counterparty credit risk)                                      | 32.814.278           | 25.960.821        | 2.625.142                   |
| 2  | Standardised approach   | 32.814.278           | 25.960.821        | 2.625.142                   |
| 3  | Internal rating-based approach  | -                    | -                 | -                           |
| 4  | Counterparty credit risk  | 1.497.326            | 805.591           | 119.786                     |
| 5  | Standardised approach for counterparty credit risk                                    | 1.497.326            | 805.591           | 119.786                     |
| 6  | Internal model method   | -                    | -                 | -                           |
| 7  | Basic risk weight approach to internal models equity position in the banking account  | -                    | -                 | -                           |
| 8  | Investments made in collective investment companies – look-through approach           | -                    | -                 | -                           |
| 9  | Investments made in collective investment companies – mandate-based approach          | -                    | -                 | -                           |
| 10 | Investments made in collective investment companies – 1250% weighted risk approach    | -                    | -                 | -                           |
| 11 | Settlement risk   | -                    | -                 | -                           |
| 12 | Securitization positions in banking accounts  | -                    | -                 | -                           |
| 13 | IRB ratings-based approach  | -                    | -                 | -                           |
| 14 | IRB supervisory formula approach  | -                    | -                 | -                           |
| 15 | Simplified supervisory formula approach   | -                    | -                 | -                           |
| 16 | Market risk   | 339.888              | 187.713           | 27.191                      |
| 17 | Standardised approach   | 339.888              | 187.713           | 27.191                      |
| 18 | Internal model approaches   | -                    | -                 | -                           |
| 19 | Operational risk  | 1.539.288            | 1.221.150         | 123.143                     |
| 20 | Basic indicator approach  | 1.539.288            | 1.221.150         | 123.143                     |
| 21 | Standard approach   | -                    | -                 | -                           |
| 22 | Advanced measurement approach   | -                    | -                 | -                           |
| 23 | The amount of the discount threshold under the equity (subject to a 250% risk weight) | 1.178.064            | -                 | 94.245                      |
| 24 | Floor adjustment  | -                    | -                 | -                           |
| 25 | <b>Total (1+4+7+8+9+10+11+12+16+19+23+24)</b>   | <b>37.368.844</b>    | <b>28.175.275</b> | <b>2.989.507</b>            |



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**SECTION FOUR (Continued)**

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

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

**Linkages between financial statements and risk amounts (continued)**

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

| Current Period   | Carrying values in financial statements prepared as per TAS | Carrying values of items in accordance with Turkish Accounting Standards |                                     |                          |                            |  |
|--|---|--|-------------------------------------|--------------------------|----------------------------|--|
| Assets   |   | Subject to credit risk   | Subject to counterparty credit risk | Securitization Positions | Subject to market risk (1) | Not subject to capital requirements or subject to deduction from capital |
| Cash and balances at Central Bank                          | 742.981   | 743.224  | -                                   | -                        | -                          | -  |
| Banks  | 623.748   | 623.754  | -                                   | -                        | -                          | -  |
| Money Market Placements                                    | 573.233   | 573.252  | -                                   | -                        | -                          | -  |
| Financial Assets at Fair Value                             | -   | -  | -                                   | -                        | -                          | -  |
| Financial Assets at Fair Value Through Other Comprehensive | 3.388.777   | 3.389.020  | 1.003.454                           | -                        | -                          | -  |
| Financial Assets Measured at                               | 2.153.313   | 2.154.941  | 248.394                             | -                        | -                          | -  |
| Derivative Financial Assets                                | 978.156   |  | 978.156                             |                          | 446.158                    |  |
| Loans  | 27.583.787  | 28.092.378   | -                                   | -                        | -                          | -  |
| Leasing Receivables  | 132.518   | 133.929  | -                                   | -                        | -                          | -  |
| Factoring Receivables                                      | -   | -  | -                                   | -                        | -                          | -  |
| Assets Held for Sale and Discontinued                      | 1   | 1  | -                                   | -                        | -                          | -  |
| Associates (net)   | 1.017.509   | 1.017.509  | -                                   | -                        | -                          | 556.914  |
| Subsidiaries (net)   | 304.957   | 304.957  | -                                   | -                        | -                          | -  |
| Joint-Ventures (net)                                       | -   | -  | -                                   | -                        | -                          | -  |
| Tangible Assets (net)                                      | 60.646  | 57.021   | -                                   | -                        | -                          | 3.625  |
| Intangible Assets (net)                                    | 3.125   |  | -                                   | -                        | -                          | 3.125  |
| Investment Properties (net)                                | -   | -  | -                                   | -                        | -                          |  |
| Tax Assets   | -   | -  | -                                   | -                        | -                          |  |
| Deffered Tax Assets  | 3.535   | 3.535  | -                                   | -                        | -                          |  |
| Other Assets   | 731.825   | 666.925  | -                                   | -                        | -                          | 65.913   |
| <b>Total Assets</b>  | <b>38.298.111</b>   | <b>37.760.446</b>  | <b>2.230.004</b>                    | -                        | <b>446.158</b>             | <b>629.577</b>   |

(1) The amount of the financial instruments included in the trading accounts in accordance with TAS within the scope of the "Regulation on Measurement and Assessment of Capital Adequacy of Banks", has been included.



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

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

**Linkages between financial statements and risk amounts (continued)**

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

| Current Period   | Carrying values in financial statements prepared as per TAS | Carrying values of items in accordance with Turkish Accounting Standards |                                     |                          |                            |  |
|--|---|--|-------------------------------------|--------------------------|----------------------------|--|
| Liabilities  |   | Subject to credit risk   | Subject to counterparty credit risk | Securitization Positions | Subject to market risk (1) | Not subject to capital requirements or subject to deduction from capital |
| Deposits   | -   | -  | -                                   | -                        | -                          | -  |
| Funds Borrowed   | 23.576.018  | -  | 757.816                             | -                        | -                          | 22.818.202   |
| Money Market Funds   | 179.001   | -  | 179.001                             | -                        | -                          | -  |
| Securities Issued  | 6.949.189   | -  | -                                   | -                        | -                          | 6.949.189  |
| Funds  | 32.529  | -  | -                                   | -                        | -                          | 32.529   |
| Financial Liabilities at Fair Value Through Profit or Loss             | -   | -  | -                                   | -                        | -                          | -  |
| Derivative Financial Liabilities                                       | 792.319   | -  | -                                   | -                        | 359.618                    | 432.701  |
| Factoring Payables   | -   | -  | -                                   | -                        | -                          | -  |
| Lease Payables   | -   | -  | -                                   | -                        | -                          | -  |
| Provisions   | 257.576   | -  | -                                   | -                        | -                          | 257.576  |
| Current Tax Liability  | 91.846  | -  | -                                   | -                        | -                          | 91.846   |
| Deffered tax Liability   | -   | -  | -                                   | -                        | -                          | -  |
| Liabilities for Assets Held for Sale and Discontinued Operations (net) | -   | -  | -                                   | -                        | -                          | -  |
| Subordinated Debts   | 1.549.774   | -  | -                                   | -                        | -                          | 1.549.774  |
| Other Liabilities  | 150.855   | -  | -                                   | -                        | -                          | 150.855  |
| Shareholders' Equity   | 4.719.004   | -  | -                                   | -                        | -                          | 4.719.004  |
| <b>Total Liabilities</b>   | <b>38.298.111</b>   | <b>-</b>   | <b>936.817</b>                      | <b>-</b>                 | <b>359.618</b>             | <b>37.001.676</b>  |

(1) The amount of the financial instruments included in the trading accounts in accordance with TAS within the scope of the "Regulation on Measurement and Assessment of Capital Adequacy of Banks" has been included.



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

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

**Linkages between financial statements and risk amounts (continued)**

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

| Prior Period                           | Carrying values in financial statements prepared as per TAS | Carrying values of items in accordance with Turkish Accounting Standards |                                     |                          |                            |  |
|--|---|--|-------------------------------------|--------------------------|----------------------------|--|
| Assets                                 |   | Subject to credit risk   | Subject to counterparty credit risk | Securitization Positions | Subject to market risk (1) | Not subject to capital requirements or subject to deduction from capital |
| Cash and balances at central bank      | 847.131   | 847.131  | -                                   | -                        | -                          | -  |
| Financial Assets Held for Trading      | -   | -  | -                                   | -                        | -                          | -  |
| Financial Assets at Fair Value through | 326.788   | -  | 326.788                             | -                        | 132.986                    | -  |
| Banks                                  | 6.452   | 6.452  | -                                   | -                        | -                          | -  |
| Money Market Placements                | -   | -  | -                                   | -                        | -                          | -  |
| Financial Assets Available-for-Sale    | 3.086.844   | 3.086.844  | 1.091.425                           | -                        | -                          | -  |
| Loans and Receivables                  | 22.231.013  | 22.231.013   | -                                   | -                        | -                          | -  |
| Factoring Receivables                  | -   | -  | -                                   | -                        | -                          | -  |
| Investment Held-to-Maturity (net)      | 1.532.047   | 1.532.047  | 552.078                             | -                        | -                          | -  |
| Investment in Associates (net)         | 308.497   | 308.497  | -                                   | -                        | -                          | -  |
| Investment in Subsidiaries (net)       | 136.355   | 136.355  | -                                   | -                        | -                          | -  |
| Joint-Ventures (net)                   | -   | -  | -                                   | -                        | -                          | -  |
| Finance Lease Receivables              | 63.410  | 63.410   | -                                   | -                        | -                          | -  |
| Derivative Financial Assets Held for   | -   | -  | -                                   | -                        | -                          | -  |
| Tangible Assets (net)                  | 50.853  | 45.820   | -                                   | -                        | -                          | 5.033  |
| Intangible Assets (net)                | 1.640   | -  | -                                   | -                        | -                          | 1.640  |
| Investment Properties (net)            | -   | -  | -                                   | -                        | -                          | -  |
| Tax Assets                             | 39.366  | 39.366   | -                                   | -                        | -                          | -  |
| Assets Held for Sale and Discontinued  | -   | -  | -                                   | -                        | -                          | -  |
| Other Assets                           | 279.856   | 249.870  | -                                   | -                        | -                          | 29.986   |
| <b>Total Assets</b>                    | <b>28.910.252</b>   | <b>28.546.805</b>  | <b>1.970.291</b>                    | <b>-</b>                 | <b>132.986</b>             | <b>36.659</b>  |

(1)The amount of the financial instruments included in the trading accounts in accordance with TAS within the scope of the "Regulation on Measurement and Assessment of Capital Adequacy of Banks" has been included.



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

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

**Linkages between financial statements and risk amounts (continued)**

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

| Prior Period   | Carrying values in financial statements prepared as per TAS | Carrying values of items in accordance with Turkish Accounting Standards |                                     |                          |                            |  |
|--|---|--|-------------------------------------|--------------------------|----------------------------|--|
| Liabilities  |   | Subject to credit risk   | Subject to counterparty credit risk | Securitization Positions | Subject to market risk (1) | Not subject to capital requirements or subject to deduction from capital |
| Deposits   | -   | -  | -                                   | -                        | -                          | -  |
| Derivative Financial Liabilities Held for Trading                      | 232.403   | -  | -                                   | -                        | 118.724                    | 113.679  |
| Funds Borrowed   | 18.681.728  | -  | 693.378                             | -                        | -                          | 17.988.350   |
| Money Market Funds   | 813.321   | -  | 611.178                             | -                        | -                          | 202.143  |
| Securities Issued  | 3.746.229   | -  | -                                   | -                        | -                          | 3.746.229  |
| Funds  | 12.901  | -  | -                                   | -                        | -                          | 12.901   |
| Miscellaneous Payables   | 54.944  | -  | -                                   | -                        | -                          | 54.944   |
| Other Liabilities  | 115.927   | -  | -                                   | -                        | -                          | 115.927  |
| Factoring Payables   | -   | -  | -                                   | -                        | -                          | -  |
| Lease Payables   | -   | -  | -                                   | -                        | -                          | -  |
| Derivative Financial Liabilities Held for Risk Management              | 78.682  | -  | -                                   | -                        | -                          | 78.682   |
| Provisions   | 441.174   | -  | -                                   | -                        | -                          | 441.174  |
| Tax Liability  | 51.990  | -  | -                                   | -                        | -                          | 51.990   |
| Liabilities for Assets Held for Sale and Discontinued Operations (net) | -   | -  | -                                   | -                        | -                          | -  |
| Subordinated Debts   | 1.146.236   | -  | -                                   | -                        | -                          | 1.146.236  |
| Shareholders' Equity   | 3.534.717   | -  | -                                   | -                        | -                          | 3.534.717  |
| <b>Total Liabilities</b>   | <b>28.910.252</b>   | <b>-</b>   | <b>1.304.556</b>                    | <b>-</b>                 | <b>118.724</b>             | <b>27.486.972</b>  |

(1) The amount of the financial instruments included in the trading accounts in accordance with TAS within the scope of the "Regulation on Measurement and Assessment of Capital Adequacy of Banks" has been included.



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

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

**Linkages between financial statements and risk amounts (continued)**

**The main sources of the differences between the risk amounts and the amounts assessed in accordance with TAS in the financial statements**

|   | <b>Current Period</b>   | <b>Total</b> | <b>Credit Risk</b> | <b>Securitization Positions</b> | <b>Counterparty credit risk</b> | <b>Market risk</b> |
|---|---|--------------|--------------------|---------------------------------|---------------------------------|--------------------|
| 1 | Asset carrying value amount under scope of regulatory consolidation (1)       | 38.298.111   | 37.760.446         | -                               | 2.230.004                       | 446.158            |
| 2 | Liabilities carrying value amount under regulatory scope of consolidation (1) | 38.298.111   |                    | -                               | 936.817                         | 359.618            |
| 3 | <b>Total net amount</b>   |              | <b>37.760.446</b>  | <b>-</b>                        | <b>1.293.187</b>                | <b>86.540</b>      |
| 4 | Off-balance sheet amounts   | 64.497.907   | 2.757.584          | -                               | 422.410                         | -                  |
| 5 | Differences due to prudential filters   | -            | (734.655)          | -                               | 120.950                         | 253.348            |
| 6 | <b>Risk Amounts</b>   | <b>-</b>     | <b>39.783.375</b>  | <b>-</b>                        | <b>1.836.547</b>                | <b>339.888</b>     |

(1)The differences between the values of the assets and liabilities included in the financial statement values and the capital adequacy calculation and the amounts in the matching table.

|   | <b>Prior Period</b>   | <b>Total</b> | <b>Credit Risk (1)</b> | <b>Securitization Positions</b> | <b>Counterparty credit risk (1)</b> | <b>Market risk (2)</b> |
|---|---|--------------|------------------------|---------------------------------|-------------------------------------|------------------------|
| 1 | Asset carrying value amount under scope of regulatory consolidation       | 28.910.252   | 28.546.805             | -                               | 1.970.291                           | 132.986                |
| 2 | Liabilities carrying value amount under regulatory scope of consolidation | 28.910.252   | -                      | -                               | 1.304.556                           | 118.724                |
| 3 | <b>Total net amount</b>   | <b>-</b>     | <b>28.546.805</b>      | <b>-</b>                        | <b>665.735</b>                      | <b>14.262</b>          |
| 4 | Off-balance sheet amounts   | 47.675.516   | 2.617.457              | -                               | 263.746                             | -                      |
| 5 | Differences due to prudential filters                                     | -            | -                      | -                               | 114.829                             | -                      |
| 6 | <b>Risk Amounts</b>   | <b>-</b>     | <b>31.164.262</b>      | <b>-</b>                        | <b>1.044.310</b>                    | <b>14.262</b>          |

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

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

Difference between the amounts of assets within the scope of legal consolidation as valued in accordance with TAS and credit risk exposures results from the transactions which are not subject to credit risk. Difference between off-balance sheet exposures and credit risk exposures results from the application of credit conversion factors to off-balance sheet exposures in line with the Regulation on the Measurement and Assessment of the Capital Adequacy of Banks.

The Bank takes into consideration the principles stipulated in Annex 3 of the Regulation on the Measurement and Assessment of the Capital Adequacy of Banks for all positions concerning its trading and banking book to be considered in the measurement of its fair value and capital adequacy. The Bank generally uses fair value as valuation methodology. Valuation methods are covered in detail under the title "VI. Explanations on financial assets" in section "Accounting Policies" of chapter three of the report.



## **SECTION FOUR (Continued)**

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

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

##### **Explanations related to credit risk**

##### **General qualitative information on credit risk**

Credit risk is the possibility of incurring losses due to fulfill the credit customer or the counterparty, with whom the Bank has made an agreement with, does not fulfill its obligations appropriately or is not able to meet these obligations. While the largest and most visible source of credit risk consists of the loans extended by the bank, other assets included in balance sheets, non-cash loans and commitments are also taken into consideration within the scope of credit risk.

Credit risk is measured and managed in accordance with the Credit Risk Policies developed within the scope of the Risk Management Policies of the Bank. In this sense, the structure and characteristics of a loan, the provisions of loan agreements and financial conditions, structure of the risk profile until the end of maturity in parallel with potential market trends, guarantees and collaterals, internal risk ratings and potential changes with regard to the ratings in the process of risk exposure and concentrations (a single company, a group of affiliated companies, sector, country etc.) are taken into consideration. Compliance with the limits and risk appetite levels determined by the Board of Directors is monitored. Credit risk is managed by loan allocation and loan monitoring units in the Bank. Creditworthiness of loan customers is monitored and reviewed on a regular basis. Credit limits are set by the Board of Directors, the credit committee of the bank and the loan management. The Bank receives a sufficient amount of collateral in return for the loans extended thereby and its other receivables.

Credit risk is measured, monitored and reported by the Risk Management Department. Concentrations in the loan portfolio, loan quality of the portfolio, collateral structure, measurements concerning capital adequacy, stress tests and scenario analyses and the level of compliance with limits are regularly reported to the Board of Directors and the senior management.

##### **Credit quality of assets**

|                       |                             | <b>Gross Carrying Value in Financial Statements<br/>Prepared in Accordance with Turkish<br/>Accounting Standards (TAS)</b> |                          | <b>Allowances/<br/>amortization<br/>and impairments</b> | <b>Net Values<br/>(a+b+c)</b> |
|-----------------------|-----------------------------|--|--------------------------|---|-------------------------------|
| <b>Current Period</b> |                             | <b>Defaulted (a)</b>   | <b>Non-defaulted (b)</b> | <b>(c)</b>  | <b>(d)</b>                    |
| 1                     | Loans                       | 592.374  | 31.641.218               | 511.284   | 31.722.308                    |
| 2                     | Debt Securities             | -  | 5.660.271                | 179.046   | 5.481.225                     |
| 3                     | Off-balance sheet exposures | 2.964  | 6.273.940                | 11.986  | 6.264.918                     |
| 4                     | <b>Total</b>                | <b>595.338</b>   | <b>43.575.429</b>        | <b>702.316</b>  | <b>43.468.451</b>             |

|                     |                             | <b>Gross Carrying Value in Financial Statements<br/>Prepared in Accordance with Turkish<br/>Accounting Standards (TAS)</b> |                          | <b>Allowances/<br/>amortization<br/>and impairments</b> | <b>Net Values<br/>(a+b+c)</b> |
|---------------------|-----------------------------|--|--------------------------|---|-------------------------------|
| <b>Prior Period</b> |                             | <b>Defaulted (a)</b>   | <b>Non-defaulted (b)</b> | <b>(c)</b>  | <b>(d)</b>                    |
| 1                   | Loans                       | 49.522   | 24.045.988               | 49.522  | 24.045.988                    |
| 2                   | Debt Securities             | -  | 4.598.435                | 48.096  | 4.550.339                     |
| 3                   | Off-balance sheet exposures | 1.166  | 7.320.254                | 583   | 7.320.837                     |
| 4                   | <b>Total</b>                | <b>50.688</b>  | <b>35.964.677</b>        | <b>98.201</b>   | <b>35.917.164</b>             |



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**SECTION FOUR (Continued)**

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

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

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

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

|   | <b>Current Period</b>   | <b>Balance</b> |
|---|---|----------------|
| 1 | <b>Defaulted loans and debt securities at end of the previous reporting period</b>    | <b>50.688</b>  |
| 2 | Loans and debt securities that have defaulted since the last reporting period         | 638.879        |
| 3 | Receivables back to non-defaulted status  | -              |
| 4 | Amounts written off   | 146.730        |
| 5 | Other changes   | 52.501         |
| 6 | <b>Defaulted loans and debt securities at end of the reporting period (1+2+3+4±5)</b> | <b>595.338</b> |

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

**Additional disclosure related to the credit quality of assets**

The Bank considers stage 2 loans that collections of principal and interest payments have not been realized on due dates as past due in accordance with the “Regulation on Identification of and Provision against Non-Performing Loans and Other Receivables”.

Loans that collections of principal and interest payments are over due more than 90 days and losing creditworthiness is considered by the Bank as impaired or provisioned loans.

General loan loss provision is calculated for past due loans; Specific provision is calculated for impaired loans. The methods used in determining the provision amounts are explained in Section Three Note VIII.

Refinancing and restructuring; is the replacement of one or several loans extended by the Bank to a new loan that will cover the principal or interest payment in whole or in part due to the financial distress expected by the customer or the group in the present or future, or change the terms in the current loans to ensure that the debt can be paid.



## **SECTION FOUR (Continued)**

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

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

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

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

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

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

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

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

The Bank allocates 100% provision for these receivables. The Bank has written off receivables amounting to TL 146.730 as of 31 December 2018 (31 December 2017: None).

##### ***Aging analysis for overdue receivables***

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

##### **Credit risk mitigation**

##### **Qualitative disclosure on credit risk mitigation techniques**

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

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



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**SECTION FOUR (Continued)**

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

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

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

**Credit risk mitigation (continued)**

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

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

The main collaterals that the Bank may use within the scope of credit risk mitigation techniques; financial collaterals, guarantees and mortgages. At 31 December 2018, financial collaterals, guarantees and mortgages were used as the credit risk mitigation technique in the calculation of the amount subject to credit risk.

**Credit risk mitigation techniques - Standard approach**

|   | Current Period     | Exposures unsecured: value in accordance with TAS. | Exposures secured by collateral | Exposures secured by collateral, of which: secured amount | Exposures secured by financial guarantees | Exposures secured by financial guarantees of which: secured amount | Exposures secured by credit derivatives | Exposures secured by credit derivatives, of which: secured amount |
|---|--------------------|--|---------------------------------|---|---|--|---|---|
| 1 | Loans              | 30.078.742   | 1.406.836                       | 1.167.285   | 236.730                                   | 188.947  | -                                       | -   |
| 2 | Debt securities    | 5.481.225  | -                               | -   | -   | -  | -                                       | -   |
| 3 | <b>Total</b>       | <b>35.559.967</b>                                  | <b>1.406.836</b>                | <b>1.167.285</b>  | <b>236.730</b>                            | <b>188.947</b>   | <b>-</b>                                | <b>-</b>  |
| 4 | Of which defaulted | 592.374  | -                               | -   | -   | -  | -                                       | -   |

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

**Credit risk under standard approach**

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

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



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**SECTION FOUR (Continued)**

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

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

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

**Credit risk under standard approach**

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

|    | Curent Period  | Exposures before credit conversion factor and credit risk mitigation |                          | Exposures post credit conversion factor and credit risk mitigation |                          | Risk weighted amount and risk weighted amount density |                              |
|----|--|--|--------------------------|--|--------------------------|---|------------------------------|
|    |  | On-Balance sheet amount  | Off-balance sheet amount | On-Balance sheet amount  | Off-balance sheet amount | Risk weighted amount                                  | Risk weighted amount density |
|    | Risk Groups  |  |                          |  |                          |   |                              |
| 1  | Exposures to sovereigns and their central banks                      | 6.049.722  | 186.912                  | 6.237.115  | 37.382                   | 1.628.438   | 26,0%                        |
| 2  | Exposures to regional and local governments                          | -  | -                        | -  | -                        | -   | -                            |
| 3  | Exposures to administrative bodies and noncommercial entities        | -  | 11.621                   | -  | 2.324                    | 2.324   | 100,0%                       |
| 4  | Exposures to multilateral development banks                          | -  | -                        | -  | -                        | -   | -                            |
| 5  | Exposures to international organizations                             | -  | -                        | -  | -                        | -   | -                            |
| 6  | Exposures to banks and securities firms                              | 2.555.018  | 588.697                  | 2.556.573  | 30.971                   | 1.666.491   | 64,4%                        |
| 7  | Exposures to corporates  | 25.886.247   | 21.417.472               | 25.684.976   | 2.353.560                | 27.805.076  | 99,2%                        |
| 8  | Retail exposures   | -  | -                        | -  | -                        | -   | -                            |
| 9  | Exposures secured by residential real estate property                | -  | -                        | -  | -                        | -   | -                            |
| 10 | Exposures secured by commercial real estate property                 | 1.154.961  | 240.271                  | 1.154.961  | 233.618                  | 694.289   | 50,0%                        |
| 11 | Past due receivables   | 592.374  | -                        | 427.721  | -                        | 424.469   | 99,2%                        |
| 12 | Exposures in higher-risk categories                                  | -  | 107.404                  | -  | 1.114                    | 1.380   | 123,9%                       |
| 13 | Exposures in the form of bonds secured by mortgages                  | -  | -                        | -  | -                        | -   | -                            |
| 14 | Short term exposures to banks, brokerage houses and corporates       | -  | -                        | -  | -                        | -   | -                            |
| 15 | Equity investments in the form of collective investment undertakings | -  | -                        | -  | -                        | -   | -                            |
| 16 | Other exposures  | 136.922  | 194.845                  | 136.156  | 98.615                   | 234.747   | 100,0%                       |
| 17 | Equity Investments   | 828.289  | -                        | 828.289  | -                        | 1.535.128   | 185,3%                       |
| 18 | <b>Total</b>   | <b>37.203.533</b>  | <b>22.747.222</b>        | <b>37.025.791</b>  | <b>2.757.584</b>         | <b>33.992.342</b>                                     | <b>85,4%</b>                 |



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

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

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

**Credit risk under standard approach**

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

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



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

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

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

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

**Exposures by asset classes and risk weights**

|    | Current Period | Risk Groups/ Risk Weight   | 0%               | 10%      | 20%              | 50%<br>Secured by<br>Real Estate<br>Property | 75%      | 100%              | 150%         | 200%     | 250%           | Total Risk<br>Amount<br>(After<br>CCR and<br>CVA) |
|----|----------------|--|------------------|----------|------------------|--|----------|-------------------|--------------|----------|----------------|---|
|    |                |  |                  |          |                  |  |          |                   |              |          |                |   |
| 1  |                | Exposures to sovereigns and their central banks                      | 4.646.059        | -        | -                | -  | -        | 1.628.438         | -            | -        | -              | 6.274.497   |
| 2  |                | Exposures to regional and local governments                          | -                | -        | -                | -  | -        | -                 | -            | -        | -              | -   |
| 3  |                | Exposures to administrative bodies and noncommercial entities        | -                | -        | -                | -  | -        | 2.324             | -            | -        | -              | 2.324   |
| 4  |                | Exposures to multilateral development banks                          | -                | -        | -                | -  | -        | -                 | -            | -        | -              | -   |
| 5  |                | Exposures to international organizations                             | -                | -        | -                | -  | -        | -                 | -            | -        | -              | -   |
| 6  |                | Exposures to banks and securities firms                              | -                | -        | 1.040.436        | 177.408                                      | -        | 1.369.700         | -            | -        | -              | 2.587.544   |
| 7  |                | Exposures to corporates  | -                | -        | 9.690            | 451.418                                      | -        | 27.577.428        | -            | -        | -              | 28.038.536  |
| 8  |                | Retail exposures   | -                | -        | -                | -  | -        | -                 | -            | -        | -              | -   |
| 9  |                | Exposures secured by property  | -                | -        | -                | 1.388.579                                    | -        | -                 | -            | -        | -              | 1.388.579   |
| 10 |                | Past due receivables   | -                | -        | -                | 8.247  | -        | 417.732           | 1.742        | -        | -              | 427.721   |
| 11 |                | Exposures in higher-risk categories                                  | -                | -        | -                | 292  | -        | -                 | 822          | -        | -              | 1.114   |
| 12 |                | Exposures in the form of bonds secured by mortgages                  | -                | -        | -                | -  | -        | -                 | -            | -        | -              | -   |
| 13 |                | Short term exposures to banks, brokerage houses and corporates       | -                | -        | -                | -  | -        | -                 | -            | -        | -              | -   |
| 14 |                | Equity investments in the form of collective investment undertakings | -                | -        | -                | -  | -        | -                 | -            | -        | -              | -   |
| 15 |                | Equity investments   | -                | -        | -                | -  | -        | 357.063           | -            | -        | 471.226        | 828.289   |
| 16 |                | Other exposures  | 23               | -        | -                | -  | -        | 234.748           | -            | -        | -              | 234.771   |
| 17 |                | <b>Total</b>   | <b>4.646.082</b> | <b>-</b> | <b>1.050.126</b> | <b>2.025.944</b>                             | <b>-</b> | <b>31.587.433</b> | <b>2.564</b> | <b>-</b> | <b>471.226</b> | <b>39.783.375</b>                                 |



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

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

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

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

**Exposures by asset classes and risk weights**

|    | Prior Period | Risk Groups/ Risk Weight   | 0%               | 10%      | 20%            | 50%<br>Secured by<br>Real Estate<br>Property | 75%      | 100%              | 150%     | 200%     | Others   | Total Risk<br>Amount<br>(After<br>CCR and<br>CVA) |
|----|--------------|--|------------------|----------|----------------|--|----------|-------------------|----------|----------|----------|---|
|    |              |  |                  |          |                |  |          |                   |          |          |          |   |
| 1  |              | Exposures to sovereigns and their central banks                      | 4.230.898        | -        | -              | -  | -        | 1.244.307         | -        | -        | -        | 5.475.205   |
| 2  |              | Exposures to regional and local governments                          | -                | -        | -              | -  | -        | -                 | -        | -        | -        | -   |
| 3  |              | Exposures to administrative bodies and noncommercial entities        | -                | -        | -              | -  | -        | -                 | -        | -        | -        | -   |
| 4  |              | Exposures to multilateral development banks                          | -                | -        | -              | -  | -        | -                 | -        | -        | -        | -   |
| 5  |              | Exposures to international organizations                             | -                | -        | -              | -  | -        | -                 | -        | -        | -        | -   |
| 6  |              | Exposures to banks and securities firms                              | -                | -        | 214.671        | 55.144                                       | -        | 763.692           | -        | -        | -        | 1.033.507   |
| 7  |              | Exposures to corporates  | -                | -        | 137.556        | 337.523                                      | -        | 22.457.859        | -        | -        | -        | 22.932.938  |
| 8  |              | Retail exposures   | -                | -        | -              | -  | -        | -                 | -        | -        | -        | -   |
| 9  |              | Exposures secured by property  | -                | -        | -              | 987.801                                      | -        | -                 | -        | -        | -        | 987.801   |
| 10 |              | Past due receivables   | -                | -        | -              | -  | -        | -                 | -        | -        | -        | -   |
| 11 |              | Exposures in higher-risk categories                                  | -                | -        | -              | 292  | -        | -                 | -        | -        | -        | 292   |
| 12 |              | Exposures in the form of bonds secured by mortgages                  | -                | -        | -              | -  | -        | -                 | -        | -        | -        | -   |
| 13 |              | Short term exposures to banks, brokerage houses and corporates       | -                | -        | -              | -  | -        | -                 | -        | -        | -        | -   |
| 14 |              | Equity investments in the form of collective investment undertakings | -                | -        | -              | -  | -        | -                 | -        | -        | -        | -   |
| 15 |              | Equity investments   | -                | -        | -              | -  | -        | 513.404           | -        | -        | -        | 513.404   |
| 16 |              | Other exposures  | 383              | -        | -              | -  | -        | 220.732           | -        | -        | -        | 221.115   |
| 17 |              | <b>Total</b>   | <b>4.231.281</b> | <b>-</b> | <b>352.227</b> | <b>1.380.760</b>                             | <b>-</b> | <b>25.199.994</b> | <b>-</b> | <b>-</b> | <b>-</b> | <b>31.164.262</b>                                 |



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**SECTION FOUR (Continued)**

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

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

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

**Qualitative disclosures on CCR**

Counterparty credit risk is managed by monitoring the concentrations at various levels with regard to counterparty credit risks, the capital requirement imposed by the counterparty credit risk and the limits set by the Board of Directors for counterparty transactions. Moreover, the ratio of the counterparty credit risk exposure to total risk-weighted assets has been identified as a risk appetite indicator.

Counterparty credit risk resulting from repurchase transactions, securities and commodities lending transactions and derivatives transactions is calculated within the framework of Annex 2 of the Regulation on the Measurement and Assessment of the Capital Adequacy of Banks. Fair Value Valuation Method is applied for derivatives transactions. Risk exposure of derivative transactions is equal to the sum of replacement cost and potential credit risk amount. Besides, capital requirement is also calculated for credit valuation adjustment (CVA) risk in relation to derivatives transactions. For repurchase and securities lending transactions risk amount is calculated considering volatility and credit quality level.

Derivatives transactions executed with counterparties are carried out within the scope of "ISDA" and "CSA" agreements. These agreements contain the same collateralization provisions for our Bank and counterparties and daily collateral settlement is performed.

**Analysis of counterparty credit risk exposure by approach**

|   |  | Replacement<br>cost | Potential<br>future<br>exposure | EEPE | Alpha used for<br>computing<br>regulatory<br>exposure at<br>default | Exposure at<br>default post<br>Credit risk<br>mitigation | Risk<br>weighted<br>amount |
|---|--|---------------------|---------------------------------|------|---|--|----------------------------|
| 1 | Standardised Approach (for derivatives)  | 978.155             | 422.410                         | -    | -   | 1.400.565  | 820.236                    |
| 2 | Internal Model Method (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)                             | -                   | -                               | -    | -   | -  | -                          |
| 3 | Simple Approach for credit risk mitigation (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)        | -                   | -                               | -    | -   | -  | -                          |
| 4 | Comprehensive Approach for credit risk mitigation (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions) | -                   | -                               | -    | -   | 435.981  | 280.611                    |
| 5 | Value-at-Risk (VaR) for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions                                 | -                   | -                               | -    | -   | -  | -                          |
| 6 | <b>Total</b>   | -                   | -                               | -    | -   | -  | <b>1.100.847</b>           |



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**SECTION FOUR (Continued)**

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

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

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

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

|   | Prior Period   | Replacement cost | Potential future exposure | EEPE | Alpha used for computing regulatory exposure at default | Exposure at default post Credit risk mitigation | Risk weighted amount |
|---|--|------------------|---------------------------|------|---|---|----------------------|
| 1 | Standardised Approach (for derivatives)  | 326.787          | 263.746                   | -    | -   | 590.533   | 339.111              |
| 2 | Internal Model Method (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)                             | -                | -                         | -    | -   | -   | -                    |
| 3 | Simple Approach for credit risk mitigation (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)        | -                | -                         | -    | -   | -   | -                    |
| 4 | Comprehensive Approach for credit risk mitigation (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions) | -                | -                         | -    | -   | 453.778   | 264.414              |
| 5 | Value-at-Risk (VaR) for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions                                 | -                | -                         | -    | -   | -   | -                    |
| 6 | <b>Total</b>   | -                | -                         | -    | -   | -   | <b>603.525</b>       |

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

|   | Current Period  | Exposure at default post-credit risk mitigation techniques | Risk weighted amount |
|---|---|--|----------------------|
|   | Total portfolios subject to the Advanced CVA capital charge   | -  | -                    |
| 1 | (i) VaR component (including the 3×multiplier)                | -  | -                    |
| 2 | (ii) Stressed VaR component (including the 3×multiplier)      | -  | -                    |
| 3 | All portfolios subject to the Standardised CVA capital charge | 1.400.565  | 396.479              |
| 4 | <b>Total subject to the CVA capital charge</b>                | <b>1.400.565</b>   | <b>396.479</b>       |

|   | Prior Period  | Exposure at default post-credit risk mitigation techniques | Risk weighted amount |
|---|---|--|----------------------|
|   | Total portfolios subject to the Advanced CVA capital charge   | -  | -                    |
| 1 | (i) VaR component (including the 3×multiplier)                | -  | -                    |
| 2 | (ii) Stressed VaR component (including the 3×multiplier)      | -  | -                    |
| 3 | All portfolios subject to the Standardised CVA capital charge | 590.533  | 202.064              |
| 4 | <b>Total subject to the CVA capital charge</b>                | <b>590.533</b>   | <b>202.064</b>       |



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**SECTION FOUR (Continued)**

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

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

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

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

| Current Period   |    |     |                |                  |     |                |      |       |                          |
|--|----|-----|----------------|------------------|-----|----------------|------|-------|--------------------------|
| Risk weight  |    |     |                |                  |     |                |      |       | Total credit exposure(1) |
| Risk groups  | 0% | 10% | 20%            | 50%              | 75% | 100%           | 150% | Other |                          |
| Exposures to sovereigns and their central banks                      | -  | -   | -              | -                | -   | 154            | -    | -     | 154                      |
| Exposures to regional and local governments                          | -  | -   | -              | -                | -   | -              | -    | -     | -                        |
| Exposures to administrative bodies and noncommercial entities        | -  | -   | -              | -                | -   | 1.099          | -    | -     | 1.099                    |
| Exposures to multilateral development banks                          | -  | -   | -              | -                | -   | -              | -    | -     | -                        |
| Exposures to international organizations                             | -  | -   | -              | -                | -   | -              | -    | -     | -                        |
| Exposures to banks and securities firms                              | -  | -   | 290.818        | 1.006.089        | -   | 57             | -    | -     | 1.296.964                |
| Exposures to corporates  | -  | -   | -              | -                | -   | 534.856        | -    | -     | 534.856                  |
| Retail exposures   | -  | -   | -              | -                | -   | -              | -    | -     | -                        |
| Exposures secured by property  | -  | -   | -              | -                | -   | -              | -    | -     | -                        |
| Past due receivables   | -  | -   | -              | -                | -   | -              | -    | -     | -                        |
| Exposures in higher-risk categories                                  | -  | -   | -              | -                | -   | -              | -    | -     | -                        |
| Exposures in the form of bonds secured by mortgages                  | -  | -   | -              | -                | -   | -              | -    | -     | -                        |
| Securitization positions   | -  | -   | -              | -                | -   | -              | -    | -     | -                        |
| Short term exposures to banks, brokerage houses and corporates       | -  | -   | -              | -                | -   | -              | -    | -     | -                        |
| Exposures to brokerage houses and corporates                         | -  | -   | -              | -                | -   | -              | -    | -     | -                        |
| Equity investments in the form of collective investment undertakings | -  | -   | -              | -                | -   | -              | -    | -     | -                        |
| Equity investments   | -  | -   | -              | -                | -   | -              | -    | -     | -                        |
| Other exposures  | -  | -   | -              | -                | -   | 3.474          | -    | -     | 3.474                    |
| Other assets   | -  | -   | -              | -                | -   | -              | -    | -     | -                        |
| <b>Total</b>   | -  | -   | <b>290.818</b> | <b>1.006.089</b> | -   | <b>539.640</b> | -    | -     | <b>1.836.547</b>         |

(1) Total Credit Exposures Amount: The amount which is related to capital adequacy calculation after implementation of counter party credit risk mitigation techniques.



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**SECTION FOUR (Continued)**

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

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

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

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

| Prior Period   |          |          |                |                |          |                |          |          |  | Total credit exposure(1) |
|--|----------|----------|----------------|----------------|----------|----------------|----------|----------|--|--------------------------|
| Risk weight  |          |          |                |                |          |                |          |          |  |                          |
| Risk groups  | 0%       | 10%      | 20%            | 50%            | 75%      | 100%           | 150%     | Other    |  |                          |
| Exposures to sovereigns and their central banks                      | -        | -        | -              | -              | -        | 300            | -        | -        |  | 300                      |
| Exposures to regional and local governments                          | -        | -        | -              | -              | -        | -              | -        | -        |  | -                        |
| Exposures to administrative bodies and noncommercial entities        | -        | -        | -              | -              | -        | 1.626          | -        | -        |  | 1.626                    |
| Exposures to multilateral development banks                          | -        | -        | -              | -              | -        | -              | -        | -        |  | -                        |
| Exposures to international organizations                             | -        | -        | -              | -              | -        | -              | -        | -        |  | -                        |
| Exposures to banks and securities firms                              | -        | -        | 173.741        | 601.314        | -        | 98             | -        | -        |  | 775.153                  |
| Exposures to corporates  | -        | -        | -              | 2.269          | -        | 262.701        | -        | -        |  | 264.970                  |
| Retail exposures   | -        | -        | -              | -              | -        | -              | -        | -        |  | -                        |
| Exposures secured by property  | -        | -        | -              | -              | -        | -              | -        | -        |  | -                        |
| Past due receivables   | -        | -        | -              | -              | -        | -              | -        | -        |  | -                        |
| Exposures in higher-risk categories                                  | -        | -        | -              | -              | -        | -              | -        | -        |  | -                        |
| Exposures in the form of bonds secured by mortgages                  | -        | -        | -              | -              | -        | -              | -        | -        |  | -                        |
| Securitization positions   | -        | -        | -              | -              | -        | -              | -        | -        |  | -                        |
| Short term exposures to banks, brokerage houses and corporates       | -        | -        | -              | -              | -        | -              | -        | -        |  | -                        |
| Exposures to brokerage houses and corporates                         | -        | -        | -              | -              | -        | -              | -        | -        |  | -                        |
| Equity investments in the form of collective investment undertakings | -        | -        | -              | -              | -        | -              | -        | -        |  | -                        |
| Equity investments   | -        | -        | -              | -              | -        | -              | -        | -        |  | -                        |
| Other exposures  | -        | -        | -              | -              | -        | 2.261          | -        | -        |  | 2.261                    |
| Other assets   | -        | -        | -              | -              | -        | -              | -        | -        |  | -                        |
| <b>Total</b>   | <b>-</b> | <b>-</b> | <b>173.741</b> | <b>603.583</b> | <b>-</b> | <b>266.986</b> | <b>-</b> | <b>-</b> |  | <b>1.044.310</b>         |

(1) Total Credit Exposures Amount: The amount which is related to capital adequacy calculation after implementation of counter party credit risk mitigation techniques.



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**SECTION FOUR (Continued)**

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

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

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

**Collaterals used for CCR**

|                          | Derivative Financial Instrument Collaterals |              |                   |              | Other Instrument Collaterals |                   |
|--------------------------|---|--------------|-------------------|--------------|------------------------------|-------------------|
| Current Period           | Collaterals received                        |              | Collaterals given |              | Collaterals received         | Collaterals given |
|                          | Segregated                                  | Unsegregated | Segregated        | Unsegregated |                              |                   |
| Cash – domestic currency | -   | -            | -                 | -            | 163.550                      | -                 |
| Cash – foreign currency  | -   | -            | -                 | -            | 773.267                      | -                 |
| Domestic sovereign debt  | -   | -            | -                 | -            | -                            | -                 |
| Other sovereign debt     | -   | -            | -                 | -            | -                            | -                 |
| Government agency debt   | -   | -            | -                 | -            | -                            | -                 |
| Corporate bonds          | -   | -            | -                 | -            | -                            | -                 |
| Equity securities        | -   | -            | -                 | -            | -                            | -                 |
| Other collateral         | -   | -            | -                 | -            | -                            | -                 |
| <b>Total</b>             | -   | -            | -                 | -            | <b>936.817</b>               | -                 |

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

**Credit derivatives**

None. (31 December 2017: None)

**Exposures to central counterparties (CCP)**

None. (31 December 2017: None)

**Explanations on securitizations**

None. (31 December 2017: None)



## **SECTION FOUR (Continued)**

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

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

##### **Explanations on market risk**

##### **Qualitative information to be disclosed to public concerning market risk**

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

Interest rate, exchange rate, stock and commodity price risks are the major elements of market risk. In order to control these risks in a healthy manner the core principal is to manage transactions carried out in money and capital markets such that they do not form concentration in terms of instrument, maturity, currency, interest type and other similar parameters, and in a "well diversified" manner in accordance with their risk levels.

Moreover, the creditworthiness of issuers of financial instruments causing market risk is monitored carefully.

Market Risk is managed by using consistent risk measurements and criteria fluctuation level of interest rates and/or prices and Value at Risk calculations, establishing appropriate procedures for control and monitoring compliance with identified risk limits and risk appetite. Market risk is measured, monitored and reported by the Department of Risk Management. The Bank uses two main approaches in the calculation of market risk BRSA Standard Method and Value at Risk (VaR) approach.

The standard method is applied in the calculation of capital adequacy on a monthly basis. VaR calculations are performed on a daily basis and are reported to the senior management. Monte Carlo simulation method is used for VaR calculations.

The VaR model is based on the assumptions of a 99% confidence interval and a 1-day holding period, and the accuracy of the model is assured by back-testing which is based on the comparison of calculated VaR Value against incurred losses. Besides, stress tests are conducted so as to identify the impacts on VaR which will be highly damaging, although their occurrence is a low possibility.

In addition to the activities of the Risk Management Department, the Treasury Control Unit also reports daily positions and limit use status to the senior management

##### **Market Risk-standard approach**

|   |   | <b>Risk Weighted Amount (RWA)</b> |                     |
|---|---|-----------------------------------|---------------------|
|   |   | <b>Current Period</b>             | <b>Prior Period</b> |
|   | <b>Outright products</b>                  | -                                 | -                   |
| 1 | Interest rate risk (general and specific) | 210.413                           | 141.363             |
| 2 | Equity risk (general and specific)        | -                                 | -                   |
| 3 | Foreign exchange risk                     | 129.475                           | 46.350              |
| 4 | Commodity risk                            | -                                 | -                   |
|   | <b>Options</b>                            | -                                 | -                   |
| 5 | Simplified approach                       | -                                 | -                   |
| 6 | Delta-plus method                         | -                                 | -                   |
| 7 | Scenario approach                         | -                                 | -                   |
| 8 | Securitisation                            | -                                 | -                   |
| 9 | <b>Total</b>                              | <b>339.888</b>                    | <b>187.713</b>      |



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**SECTION FOUR (Continued)**

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

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

**Explanations on operational risk**

**Information to be disclosed to the public regarding operational risk**

Operational Risk Exposure is measured in the Bank once a year by using the Basic Indicator Method based on the "Regulation on the Measurement and Assessment of the Capital Adequacy of Banks".

|   | 31/12/2014 | 31/12/2015 | 31/12/2016 | Toplam/Pozitif<br>BG yılı sayısı | Oran (%) | Toplam    |
|---|------------|------------|------------|----------------------------------|----------|-----------|
| Gross Income                              | 675.871    | 758.586    | 1.028.394  | 820.950                          | 15       | 123.143   |
| Value at Operational Risk<br>(Total*12,5) |            |            |            |                                  |          | 1.539.288 |

**Disclosures on interest rate risk resulting from banking book**

It is monthly calculated and reported within the scope of the Standard Shock Measurement and Evaluation Method of the Interest Rate Risk in Banking Accounts Duration.

The economic valuation differences of the Bank arising from fluctuations on interest rates, in different currencies that is calculated in accordance with the communiqué are presented in the table below.

|   | Current Period              | Applied Shock<br>(+/- x basis point) | Revenue/ Loss       | Revenue/Shareholders'<br>Equity – Loss /<br>Shareholders' Equity |
|---|-----------------------------|--------------------------------------|---------------------|--|
|   | Currency                    |                                      |                     |  |
| 1 | TL                          | +500 / (400) basis point             | (127.184) / 114.525 | (2,10%) / 1,89%  |
| 2 | Euro                        | +200 / (200) basis point             | 99.169 / (35.554)   | 1,64% / (0,59%)  |
| 3 | US Dollar                   | +200 / (200) basis point             | 90.703 / (123.367)  | 1,65% / (2,04%)  |
|   | Total (for Negative Shocks) |                                      | (44.397)            | (0,73%)  |
|   | Total (for Positive Shocks) |                                      | 71.688              | 1,18%  |

|   | Prior Period                | Applied Shock<br>(+/- x basis point) | Revenue/ Loss     | Revenue/Shareholders'<br>Equity – Loss/<br>Shareholders' Equity |
|---|-----------------------------|--------------------------------------|-------------------|---|
|   | Currency                    |                                      |                   |   |
| 1 | TL                          | +500 / (400) basis point             | (91.944) / 83.505 | (1,91%) / 1,74%   |
| 2 | Euro                        | +200 / (200) basis point             | 56.563 / (18.688) | 1,18% / (0,39%)   |
| 3 | US Dollar                   | +200 / (200) basis point             | (70.306) / 79.127 | (1,46%) / 1,65%   |
|   | Total (for Negative Shocks) |                                      | 143.944           | 3,00%   |
|   | Total (for Positive Shocks) |                                      | (105.687)         | (2,20%)   |



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**SECTION FIVE**

**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS**

**I. Explanations and disclosures related to the assets**

**1.a Information on cash and balances with the Central Bank of Turkey:**

|  | Current Period |                | Prior Period  |                |
|--|----------------|----------------|---------------|----------------|
|  | TL             | FC             | TL            | FC             |
| Cash in TL/Foreign Currency              | 23             | -              | 20            | -              |
| Balances with the Central Bank of Turkey | 6.326          | 736.875        | 10.571        | 836.540        |
| Other                                    | -              | -              | -             | -              |
| <b>Total</b>                             | <b>6.349</b>   | <b>736.875</b> | <b>10.591</b> | <b>836.540</b> |

**1.b. Information related to the account of the Central Bank of Turkey:**

|                              | Current Period(1) |                | Prior Period  |                |
|------------------------------|-------------------|----------------|---------------|----------------|
|                              | TL                | FC             | TL            | FC             |
| Unrestricted demand deposits | 6.326             | 6.602          | 10.571        | 4.862          |
| Unrestricted time deposits   | -                 | -              | -             | -              |
| Restricted time deposits     | -                 | -              | -             | -              |
| Other (2)                    | -                 | 730.273        | -             | 831.678        |
| <b>Total</b>                 | <b>6.326</b>      | <b>736.875</b> | <b>10.571</b> | <b>836.540</b> |

(1) Provision amounting to TL 243 is allocated in "Balances with the Central Bank of Turkey" due to transition of TFRS 9.

(2) Deposits at Central Bank of Turkey held as reserve requirement.

As per the Communiqué numbered 2005/1 "Reserve Deposits" of the CBRT, banks keep reserve deposits at the CBRT for their TL and FC liabilities mentioned in the communiqué. Reserves are calculated and set aside every two weeks on Fridays for 14 days periods. 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                          | Reserve Ratio                         |
|   | If the fund borrowed Before 28.08.2015 | 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                                     |



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**SECTION FIVE (Continued)**

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

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

**2. Information on financial assets at fair value through profit and loss:**

**2.a Information on financial assets designated at fair value through profit and loss given as collateral or blockage:**

As of the reporting date, the Bank has no financial assets designated at fair value through profit and loss given as collateral or blockage (31 December 2017: None).

**2.b Financial assets designated at fair value through profit and loss subject to repurchase agreements:**

As of the reporting date, the Bank has no financial assets designated at fair value through profit and loss subject to repurchase agreements (31 December 2017: None).

**2.c Positive differences table related to derivative financial assets held-for-trading:**

| Held for Trading Financial Derivative Instruments (1) | Current Period |                | Prior Period   |                |
|---|----------------|----------------|----------------|----------------|
|   | TL             | FC             | TL             | FC             |
| Forward Transactions                                  | 151.345        | 1.008          | 14.734         | 7.175          |
| Swap Transactions                                     | 604.804        | 161.353        | 179.366        | 82.997         |
| Futures Transactions                                  | -              | -              | -              | -              |
| Options   | -              | 59.646         | -              | 42.516         |
| Other   | -              | -              | -              | -              |
| <b>Total</b>  | <b>756.149</b> | <b>222.007</b> | <b>194.100</b> | <b>132.688</b> |

(1) Positive differences from derivative assets for trading were shown at "Financial Assets Fair Value Through Profit/Loss" line account at prior periods. As a result of TFRS 9 adoption at current period, this difference has presented in "Derivative Financial Assets" line.

As part of its economic hedging strategy, the Bank has implemented TL cross currency interest rate swap transactions in which the Bank's default risk is the reference. These swap agreements are subject to a direct closing condition for both the Bank and the counterparty, in the event of a credit default event (such as a non-payment) related to the Bank, to cancel the amounts accrued in the contract and all future payments. The market rediscount value of these swaps with a nominal value of USD 200 million as of 31 December 2018 is TL 423.104 and the average rates are between 2020 and 2022.



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

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

**3. Information on banks and foreign banks account**

**3.a Information on banks:**

|                                 | Current Period (1) |                | Prior Period |              |
|---------------------------------|--------------------|----------------|--------------|--------------|
|                                 | TL                 | FC             | TL           | FC           |
| Banks                           |                    |                |              |              |
| Domestic                        | 20.650             | 567.465        | 419          | 1.897        |
| Foreign                         | -                  | 35.639         | -            | 4.136        |
| Branches and head office abroad | -                  | -              | -            | -            |
| <b>Total</b>                    | <b>20.650</b>      | <b>603.104</b> | <b>419</b>   | <b>6.033</b> |

(1) Provision amounting to TL 3 is allocated in "Banks" due to transition of TFRS 9.

**3.b Information on foreign banks**

|                           | Unrestricted Amount |              | Restricted Amount |              |
|---------------------------|---------------------|--------------|-------------------|--------------|
|                           | Current Period      | Prior Period | Current Period    | Prior Period |
| European Union Countries  | 1.597               | 887          | -                 | -            |
| USA and Canada            | 32.303              | 2.140        | -                 | -            |
| OECD Countries (1)        | 1.739               | 1.109        | -                 | -            |
| Off-shore banking regions | -                   | -            | -                 | -            |
| Other                     | -                   | -            | -                 | -            |
| <b>Total</b>              | <b>35.639</b>       | <b>4.136</b> | <b>-</b>          | <b>-</b>     |

(1) OECD countries other than European Union countries, USA and Canada.

**4. Information on financial assets at fair value through other comprehensive income**

**4.a.1.1 Information on financial assets at fair value through other comprehensive income subject to repurchase agreements:**

|                                      | Current Period |          |
|--------------------------------------|----------------|----------|
|                                      | TL             | FC       |
| Government bonds                     | 41.531         | -        |
| Treasury bills                       | -              | -        |
| Other government debt securities     | -              | -        |
| Bank bonds and bank guaranteed bonds | -              | -        |
| Asset backed securities              | -              | -        |
| Other                                | -              | -        |
| <b>Total</b>                         | <b>41.531</b>  | <b>-</b> |

**4.a.1.2 Available-for-sale financial assets subject to repurchase agreements:**

|                                      | Prior Period  |                |
|--------------------------------------|---------------|----------------|
|                                      | TL            | FC             |
| Government bonds                     | 16.347        | 155.306        |
| Treasury bills                       | -             | -              |
| Other government debt securities     | -             | -              |
| Bank bonds and bank guaranteed bonds | -             | -              |
| Asset backed securities              | -             | -              |
| Other                                | -             | -              |
| <b>Total</b>                         | <b>16.347</b> | <b>155.306</b> |



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

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

**4. Information on financial assets at fair value through other comprehensive income (continued)**

**4.a.2.1 Information on financial assets at fair value through other comprehensive income given as collateral or blockage:**

As of 31 December 2018, all financial assets at fair value through other comprehensive income given as collateral comprise of financial assets issued by the T.R. Undersecretariat of Treasury. The carrying value of those assets is TL 1.453.648.

|   | Current Period |                |
|---|----------------|----------------|
|   | TL             | FC             |
| Share certificates                                    | -              | -              |
| Bond, treasury bill and similar investment securities | 634.489        | 819.159        |
| Other   | -              | -              |
| <b>Total</b>  | <b>634.489</b> | <b>819.159</b> |

**4.a.2.2 Information on available-for-sale financial assets given as collateral or blockage:**

As of 31 December 2017, all available for sale financial assets given as collateral comprise of financial assets issued by the T.R. Undersecretariat of Treasury. The carrying value of those assets is TL 1.389.292.

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

**4.b.1 Major types of financial assets at fair value through other comprehensive income:**

Financial assets at fair value through other comprehensive income comprised of government bonds 59,26%, Eurobonds 34,38% and shares and other securities 6,36%.

**4.b.2 Major types of available for sale financial assets:**

Available for sale financial assets comprised of government bonds 59,01%, Eurobonds 32,72% and shares and other securities 8,27%.



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**SECTION FIVE (Continued)**

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

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

**4. Information on financial assets at fair value through other comprehensive income (continued)**

**4.c.1 Information on financial assets at fair value through other comprehensive income:**

|                            | Current Period (1) |
|----------------------------|--------------------|
| Debt securities            | 3.503.459          |
| Quoted on a stock exchange | 2.252.288          |
| Unquoted                   | 1.251.171          |
| Share certificates         | 68.013             |
| Quoted on a stock exchange | 11.244             |
| Unquoted                   | 56.769             |
| Impairment provision(-)    | 182.452            |
| <b>Total</b>               | <b>3.389.020</b>   |

(1) Provision amounting to TL 243 is allocated in "financial assets at fair value through other comprehensive income" due to transition of TFRS 9.

The net book value of unquoted financial assets at fair value through other comprehensive income share certificates is TL 51.875.

**4.c.2 Information on available for sale financial assets:**

|                            | Prior Period     |
|----------------------------|------------------|
| Debt securities            | 3.066.387        |
| Quoted on a stock exchange | 2.039.864        |
| Unquoted                   | 1.026.523        |
| Share certificates         | 74.933           |
| Quoted on a stock exchange | 32.121           |
| Unquoted                   | 42.812           |
| Impairment provision(-)    | 54.476           |
| <b>Total</b>               | <b>3.086.844</b> |

The net book value of unquoted available for sale share certificates is TL 37.927.

**5. Explanation on loans**

**5.a Information on all types of loans and advances given to shareholders and employees of the Bank:**

|  | Current Period |                | Prior Period  |                |
|--|----------------|----------------|---------------|----------------|
|  | Cash Loans     | Non-Cash Loans | Cash Loans    | Non-Cash Loans |
| Direct loans granted to shareholders   | 102.776        | -              | 44.909        | -              |
| Corporate shareholders                 | 102.776        | -              | 44.909        | -              |
| Real person shareholders               | -              | -              | -             | -              |
| Indirect loans granted to shareholders | -              | -              | -             | -              |
| Loans granted to employees             | 662            | -              | 173           | -              |
| <b>Total</b>                           | <b>103.438</b> | <b>-</b>       | <b>45.082</b> | <b>-</b>       |



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**SECTION FIVE (Continued)**

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

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

**5. Explanation on loans (continued)**

**5.b Information on the first and second group loans and other receivables including restructured or rescheduled loans:**

**5.b.1 Loans measured at Fair Value through Profit/Loss**

| Current Period                                       | Net Book Value |
|--|----------------|
| Loans Measured at Fair Value through Profit/Loss (*) | 290.660        |

(\*)Include the loan granted to the special purpose entity as detailed in Section Five Note 16. This loan is accounted under loans measured at fair value through profit/loss as per TFRS 9.

**5.b.2 Loans measured at Amortized Cost**

| Current Period (1)              | Standard Loans    | Loans Under Close Monitoring       |                                      |                |
|---------------------------------|-------------------|------------------------------------|--------------------------------------|----------------|
|                                 |                   | Loans Not Subject to Restructuring | Amendments on Conditions of Contract |                |
| Cash Loans                      |                   |                                    | Loans with Revised Contract Terms    | Refinance      |
| Non-specialized loans           | 24.556.445        | 1.716.827                          | 219.817                              | 716.255        |
| Working Capital loans           | 2.761.098         | 35.345                             | -                                    | 716.255        |
| Export loans                    | 443.697           | -                                  | 66.900                               | -              |
| Import loans                    | -                 | -                                  | -                                    | -              |
| Loans given to financial sector | 2.986.797         | -                                  | -                                    | -              |
| Consumer loans                  | 662               | -                                  | -                                    | -              |
| Credit cards                    | -                 | -                                  | -                                    | -              |
| Other                           | 18.364.191        | 1.681.482                          | 152.917                              | -              |
| Specialized loans               | -                 | -                                  | -                                    | -              |
| Other receivables               | -                 | -                                  | -                                    | -              |
| <b>Total</b>                    | <b>24.556.445</b> | <b>1.716.827</b>                   | <b>219.817</b>                       | <b>716.255</b> |

(1) According to Bank account plan purchasing Loans, Fleet Leasing Credits, Refinancing Loans and Portfolio Transfer Credits amounting to TL 5.168.405 shown under "Working Capital Loans", due to the nature of "Investment" shown under the category "other" in the above footnote.



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

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

**5. Explanation on loans (continued)**

**5.b Information on the first and second group loans and other receivables including restructured or rescheduled loans (continued):**

| Prior Period (1)                | Standard Loans and Other Receivables |   |          | Loans and Other Receivables Under Close Monitoring (2) |   |          |
|---------------------------------|--------------------------------------|---|----------|--|---|----------|
|                                 | Loans and Other Receivables (Total)  | Amendments on Conditions of Contract                    |          | Loans and Other receivables (Total)                    | Amendments on Conditions of Contract                    |          |
| Cash Loans                      |                                      | Amendments Related To The Extension Of The Payment Plan | Other    |  | Amendments Related To The Extension Of The Payment Plan | Other    |
| Non-specialized loans           | 21.757.352                           | 48.415  | -        | 473.661  | 143.423   | -        |
| Working Capital loans           | 2.930.594                            | -   | -        | 1.212  | 1.212   | -        |
| Export loans                    | 248.568                              | -   | -        | 48.440   | 48.440  | -        |
| Import loans                    | -                                    | -   | -        | -  | -   | -        |
| Loans given to financial sector | 2.795.036                            | -   | -        | -  | -   | -        |
| Consumer loans                  | 173                                  | -   | -        | -  | -   | -        |
| Credit cards                    | -                                    | -   | -        | -  | -   | -        |
| Other                           | 15.782.981                           | 48.415  | -        | 424.009  | 93.771  | -        |
| Specialized loans               | -                                    | -   | -        | -  | -   | -        |
| Other receivables               | -                                    | -   | -        | -  | -   | -        |
| <b>Total</b>                    | <b>21.757.352</b>                    | <b>48.415</b>   | <b>-</b> | <b>473.661</b>   | <b>143.423</b>  | <b>-</b> |

(1) According to Bank account plan purchasing Loans, Fleet Leasing Credits, Refinancing Loans and Portfolio Transfer Credits amounting to TL 4.523.571 shown under "Working Capital Loans", due to the nature of "Investment" shown under the category "other" in the above footnote.

(2) The syndicated loans granted to a company amounting to USD 78.661.835 are classified under Close Monitoring Loans and Other receivables as of 31 December 2017. Discussions between creditor banks and related sovereign institutions about restructuring of loan of this company are proceeding.

| Current Period                      | Standard Loans | Loans under Close Monitoring |
|-------------------------------------|----------------|------------------------------|
| 12 Months Expected Credit Loss      | 134.209        | -                            |
| Significant Increase in Credit Risk | -              | 211.140                      |

Information of prior period is not given because of transition process.



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

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

**5. Explanation on loans (continued)**

**5.b Information on the first and second group loans and other receivables including restructured or rescheduled loans (continued):**

| <b>Current Period</b>  |   |   |
|--|---|---|
| <b>Number of amendments related to the extension of the payment plan</b> | <b>Standard Loans and Other Receivables</b> | <b>Loans and Other Receivables Under Close Monitoring</b> |
| Extended for 1 or 2 times  | 59.471                                      | 199.478   |
| Extended for 3-4 or 5 times  | -   | -   |
| Extended for more than 5 times   | -   | -   |

| <b>Prior Period</b>  |   |   |
|--|---|---|
| <b>Number of amendments related to the extension of the payment plan</b> | <b>Standard Loans and Other Receivables</b> | <b>Loans and Other Receivables Under Close Monitoring</b> |
| Extended for 1 or 2 times  | 48.415                                      | 142.211   |
| Extended for 3-4 or 5 times  | -   | 1.212   |
| Extended for more than 5 times   | -   | -   |

| <b>Current Period</b>                                      |   |   |
|--|---|---|
| <b>The time extended via the amendment on payment plan</b> | <b>Standard Loans and Other Receivables</b> | <b>Loans and Other Receivables Under Close Monitoring</b> |
| 0-6 Months   | -   | -   |
| 6 Months -12 Months  | -   | -   |
| 1-2 Years  | -   | 17.430  |
| 2-5 Years  | 59.471                                      | 156.266   |
| 5 Years and Over   | -   | 25.782  |

| <b>Prior Period</b>  |   |   |
|--|---|---|
| <b>The time extended via the amendment on payment plan</b> | <b>Standard Loans and Other Receivables</b> | <b>Loans and Other Receivables Under Close Monitoring</b> |
| 0-6 Months   | -   | -   |
| 6 Months -12 Months  | -   | -   |
| 1-2 Years  | -   | 27.946  |
| 2-5 Years  | 48.415                                      | 96.688  |
| 5 Years and Over   | -   | 18.789  |



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

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

**5. Explanation on loans (continued)**

**5.c.1 Loans according to their maturity structure:**

| Current Period (*)         | Standard Loans | Loans<br>Under Close Monitoring |              |
|----------------------------|----------------|---------------------------------|--------------|
|                            |                | Nonrestructured                 | Restructured |
| Short-term loans           | 1.207.047      | 324.260                         | 66.900       |
| Non-specialized loans      | 1.207.047      | 324.260                         | 66.900       |
| Specialized loans          | -              | -                               | -            |
| Other receivables          | -              | -                               | -            |
| Medium and Long-term loans | 23.349.398     | 1.683.227                       | 869.172      |
| Non-specialized loans      | 23.349.398     | 1.392.567                       | 869.172      |
| Specialized loans          | -              | -                               | -            |
| Other receivables          | -              | -                               | -            |

(\*)It does not include loans measured at fair value through profit/loss.

**5.c.2 Loans according to their maturity structure:**

| Current Period                            | Standard Loans and Other Receivables      |                                | Loans and Other Receivables<br>Under Close Monitoring |                                |
|---|---|--------------------------------|---|--------------------------------|
|   | Loans and Other<br>Receivables<br>(Total) | Restructured or<br>Rescheduled | Loans and Other<br>Receivables<br>(Total)             | Restructured or<br>Rescheduled |
| Short-term loans and other<br>receivables | 1.347.133                                 | -                              | -   | -                              |
| Non-specialized loans                     | 1.347.133                                 | -                              | -   | -                              |
| Specialized loans                         | -   | -                              | -   | -                              |
| Other receivables                         | -   | -                              | -   | -                              |
| Medium and Long-term loans                | 20.410.219                                | 48.415                         | 473.661   | 143.423                        |
| Non-specialized loans                     | 20.410.219                                | 48.415                         | 473.661   | 143.423                        |
| Specialized loans                         | -   | -                              | -   | -                              |
| Other receivables                         | -   | -                              | -   | -                              |



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

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

**5. Explanation on loans (continued)**

**5.d Information on consumer loans, individual credit cards, personnel loans and credit cards given to personnel:**

| <b>Current Period</b>                | <b>Short Term</b> | <b>Medium and Long Term</b> | <b>Total</b> |
|--------------------------------------|-------------------|-----------------------------|--------------|
| Consumer Loans-TL                    | -                 | -                           | -            |
| Real Estate Loans                    | -                 | -                           | -            |
| Vehicle Loans                        | -                 | -                           | -            |
| General Purpose Loans                | -                 | -                           | -            |
| Other                                | -                 | -                           | -            |
| Consumer Loans –Indexed to FC        | -                 | -                           | -            |
| Real Estate Loans                    | -                 | -                           | -            |
| Vehicle Loans                        | -                 | -                           | -            |
| General Purpose Loans                | -                 | -                           | -            |
| Other                                | -                 | -                           | -            |
| Consumer Loans-FC                    | -                 | -                           | -            |
| Real Estate Loans                    | -                 | -                           | -            |
| Vehicle Loans                        | -                 | -                           | -            |
| General Purpose Loans                | -                 | -                           | -            |
| Other                                | -                 | -                           | -            |
| Individual Credit Cards-TL           | -                 | -                           | -            |
| With Installments                    | -                 | -                           | -            |
| Without Installments                 | -                 | -                           | -            |
| Individual Credit Cards-FC           | -                 | -                           | -            |
| With Installments                    | -                 | -                           | -            |
| Without Installments                 | -                 | -                           | -            |
| Personnel Loans-TL                   | 65                | 597                         | 662          |
| Real Estate Loans                    | -                 | -                           | -            |
| Vehicle Loans                        | -                 | -                           | -            |
| General Purpose Loans                | 65                | 597                         | 662          |
| Other                                | -                 | -                           | -            |
| Personnel Loans- Indexed to FC       | -                 | -                           | -            |
| Real Estate Loans                    | -                 | -                           | -            |
| Vehicle Loans                        | -                 | -                           | -            |
| General Purpose Loans                | -                 | -                           | -            |
| Other                                | -                 | -                           | -            |
| Personnel Loans-FC                   | -                 | -                           | -            |
| Real Estate Loans                    | -                 | -                           | -            |
| Vehicle Loans                        | -                 | -                           | -            |
| General Purpose Loans                | -                 | -                           | -            |
| Other                                | -                 | -                           | -            |
| Personnel Credit Cards-TL            | -                 | -                           | -            |
| With Instalments                     | -                 | -                           | -            |
| Without Instalments                  | -                 | -                           | -            |
| Personnel Credit Cards-FC            | -                 | -                           | -            |
| With Instalments                     | -                 | -                           | -            |
| Without Instalments                  | -                 | -                           | -            |
| Overdraft Accounts-TL (Real Persons) | -                 | -                           | -            |
| Overdraft Accounts-FC (Real Persons) | -                 | -                           | -            |
| <b>Total</b>                         | <b>65</b>         | <b>597</b>                  | <b>662</b>   |



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

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

**5. Explanation on loans (continued)**

**5.d Information on consumer loans, individual credit cards, personnel loans and credit cards given to personnel (continued):**

| <b>Prior Period</b>                  | <b>Short Term</b> | <b>Medium and Long Term</b> | <b>Total</b> |
|--------------------------------------|-------------------|-----------------------------|--------------|
| Consumer Loans-TL                    | -                 | -                           | -            |
| Real Estate Loans                    | -                 | -                           | -            |
| Vehicle Loans                        | -                 | -                           | -            |
| General Purpose Loans                | -                 | -                           | -            |
| Other                                | -                 | -                           | -            |
| Consumer Loans –Indexed to FC        | -                 | -                           | -            |
| Real Estate Loans                    | -                 | -                           | -            |
| Vehicle Loans                        | -                 | -                           | -            |
| General Purpose Loans                | -                 | -                           | -            |
| Other                                | -                 | -                           | -            |
| Consumer Loans-FC                    | -                 | -                           | -            |
| Real Estate Loans                    | -                 | -                           | -            |
| Vehicle Loans                        | -                 | -                           | -            |
| General Purpose Loans                | -                 | -                           | -            |
| Other                                | -                 | -                           | -            |
| Individual Credit Cards-TL           | -                 | -                           | -            |
| With Installments                    | -                 | -                           | -            |
| Without Installments                 | -                 | -                           | -            |
| Individual Credit Cards-FC           | -                 | -                           | -            |
| With Installments                    | -                 | -                           | -            |
| Without Installments                 | -                 | -                           | -            |
| Personnel Loans-TL                   | 5                 | 168                         | 173          |
| Real Estate Loans                    | -                 | -                           | -            |
| Vehicle Loans                        | -                 | -                           | -            |
| General Purpose Loans                | 5                 | 168                         | 173          |
| Other                                | -                 | -                           | -            |
| Personnel Loans- Indexed to FC       | -                 | -                           | -            |
| Real Estate Loans                    | -                 | -                           | -            |
| Vehicle Loans                        | -                 | -                           | -            |
| General Purpose Loans                | -                 | -                           | -            |
| Other                                | -                 | -                           | -            |
| Personnel Loans-FC                   | -                 | -                           | -            |
| Real Estate Loans                    | -                 | -                           | -            |
| Vehicle Loans                        | -                 | -                           | -            |
| General Purpose Loans                | -                 | -                           | -            |
| Other                                | -                 | -                           | -            |
| Personnel Credit Cards-TL            | -                 | -                           | -            |
| With Installments                    | -                 | -                           | -            |
| Without Installments                 | -                 | -                           | -            |
| Personnel Credit Cards-FC            | -                 | -                           | -            |
| With Installments                    | -                 | -                           | -            |
| Without Installments                 | -                 | -                           | -            |
| Overdraft Accounts-TL (Real Persons) | -                 | -                           | -            |
| Overdraft Accounts-FC (Real Persons) | -                 | -                           | -            |
| <b>Total</b>                         | <b>5</b>          | <b>168</b>                  | <b>173</b>   |



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**SECTION FIVE (Continued)**

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

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

**5. Explanation on loans (continued)**

**5.e Information on commercial loans with instalments and corporate credit cards:**

The Bank has not granted any commercial loans with instalments and corporate credit cards as of the reporting date (31 December 2017: None).

**5.f Loans according to borrowers:**

|              | Current Period    | Prior Period      |
|--------------|-------------------|-------------------|
| Public       | 584.752           | 878.502           |
| Private      | 26.915.252        | 21.352.511        |
| <b>Total</b> | <b>27.500.004</b> | <b>22.231.013</b> |

(\*)Includes fair value through profit or loss loans

**5.g Domestic and foreign loans:**

|                | Current Period    | Prior Period      |
|----------------|-------------------|-------------------|
| Domestic loans | 27.400.306        | 22.123.201        |
| Foreign loans  | 99.698            | 107.812           |
| <b>Total</b>   | <b>27.500.004</b> | <b>22.231.013</b> |

(\*)Includes fair value through profit or loss loans

**5.h Loans granted to subsidiaries and associates:**

|   | Current Period | Prior Period   |
|---|----------------|----------------|
| Direct loans granted to subsidiaries and associates   | 437.232        | 257.470        |
| Indirect loans granted to subsidiaries and associates | -              | -              |
| <b>Total</b>  | <b>437.232</b> | <b>257.470</b> |

**5.i.1 Specific provisions provided against loans or default (Stage 3) provisions:**

|  | Current Period |
|--|----------------|
| Loans and receivables with limited collectability  | 12.730         |
| Loans and receivables with doubtful collectability | 104.433        |
| Uncollectible loans and receivables                | 47.490         |
| <b>Total</b>                                       | <b>164.653</b> |

**5.i.1 Specific provisions provided against loans:**

|  | Prior Period  |
|--|---------------|
| Loans and receivables with limited collectability  | 985           |
| Loans and receivables with doubtful collectability | 4.894         |
| Uncollectible loans and receivables                | 43.643        |
| <b>Total</b>                                       | <b>49.522</b> |



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**SECTION FIVE (Continued)**

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

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

**5. Explanation on loans (continued)**

**5.j Information on non-performing loans (net):**

**5.j.1 Information on loans and other receivables restructured or rescheduled from non-performing loans:**

|                                 | <b>III. Group</b>                 | <b>IV. Group</b>                   | <b>V. Group</b>     |
|---------------------------------|-----------------------------------|------------------------------------|---------------------|
|                                 | Loans With Limited Collectability | Loans With Doubtful Collectability | Uncollectible Loans |
| <b>Current Period</b>           |                                   |                                    |                     |
| Gross amounts before provisions | -                                 | -                                  | 6.211               |
| Restructured loans              | -                                 | -                                  | 6.211               |

|  | <b>III. Group</b>                 | <b>IV. Group</b>                   | <b>V. Group</b>     |
|--|-----------------------------------|------------------------------------|---------------------|
|  | Loans With Limited Collectability | Loans With Doubtful Collectability | Uncollectible Loans |
| <b>Prior Period</b>                        |                                   |                                    |                     |
| (Gross amounts before specific provisions) |                                   | -                                  | 7.266               |
| Restructured loans and other receivables   | -                                 | -                                  | -                   |
| Rescheduled loans and other receivables    | -                                 | -                                  | 7.266               |

**5.j.2 Movement of non-performing loans:**

|   | <b>III. Group</b>                 | <b>IV. Group</b>                   | <b>V. Group</b>     |
|---|-----------------------------------|------------------------------------|---------------------|
|   | Loans With Limited Collectability | Loans With Doubtful Collectability | Uncollectible Loans |
| <b>Current Period</b>                                       |                                   |                                    |                     |
| <b>Prior period end balance</b>                             | <b>985</b>                        | <b>4.894</b>                       | <b>43.643</b>       |
| Additions (+)   | 490.340                           | -                                  | 146.741             |
| Transfers from other categories of non-performing loans (+) | -                                 | 469.603                            | 4.894               |
| Transfers to other categories of non-performing loans (-)   | 469.603                           | 4.894                              | -                   |
| Collections (-)   | 319                               | 7.637                              | 1.058               |
| Write-offs (-) (1)  | -                                 | -                                  | 146.730             |
| Sold (-)  | -                                 | -                                  | -                   |
| Corporate and Commercial Loans                              | -                                 | -                                  | -                   |
| Retail Loans  | -                                 | -                                  | -                   |
| Credit Cards  | -                                 | -                                  | -                   |
| Other   | -                                 | -                                  | -                   |
| Exchange rate differences of non-performing loans           | 1.316                             | 60.199                             | -                   |
| <b>Current period end balance</b>                           | <b>22.719</b>                     | <b>522.165</b>                     | <b>47.490</b>       |
| Provision (-)   | 12.730                            | 104.433                            | 47.490              |
| <b>Net Balances on Balance Sheet</b>                        | <b>9.989</b>                      | <b>417.732</b>                     | <b>-</b>            |

(1)The shares that OTAŞ owns and which constitute 55% of Türk Telekom's issued capital are acquired by a company that is established or will be established for private purposes by creditors within the scope of restructuring of loans granted to Ojer Telekomünikasyon A.Ş. (OTAŞ), the main shareholder of Türk Telekomünikasyon A.Ş. (Türk Telekom). The portion of OTAŞ current exposure exceeding Türk Telekom's share value is written off as an expense. This amount which is written as expense according to the Tank ownership rate USD 28 million (TL 146.730 thousands).



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**SECTION FIVE (Continued)**

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

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

**5. Explanation on loans (continued)**

**5.j Information on non-performing loans (net) (continued):**

**5.j.2 Movement of non-performing loans (continued):**

|   | <b>III. Group</b>                                       | <b>IV. Group</b>  | <b>V. Group</b>                        |
|---|---|---|--|
|   | Loans and<br>Receivables With<br>Limited Collectability | Loans and<br>Receivables With<br>Doubtful<br>Collectability | Uncollectible Loans<br>and Receivables |
| <b>Prior Period</b>   |   |   |  |
| <b>Prior period end balance</b>                             | <b>3.092</b>  | <b>-</b>  | <b>45.347</b>                          |
| Additions (+)   | 4.895   | 1   | 14                                     |
| Transfers from other categories of non-performing Loans (+) | -   | 6.621   | 1.728                                  |
| Transfers to other categories of non-performing loans (-)   | 6.621   | 1.728   | -                                      |
| Collections (-)   | 381   | -   | 3.446                                  |
| Write-offs (-)  | -   | -   | -                                      |
| Corporate and Commercial Loans                              | -   | -   | -                                      |
| Retail Loans  | -   | -   | -                                      |
| Credit Cards  | -   | -   | -                                      |
| Other   | -   | -   | -                                      |
| <b>Current period end balance</b>                           | <b>985</b>  | <b>4.894</b>  | <b>43.643</b>                          |
| Specific provision (-)                                      | 985   | 4.894   | 43.643                                 |
| <b>Net Balances on Balance Sheet</b>                        | <b>-</b>  | <b>-</b>  | <b>-</b>                               |

**5.j.3 Information on foreign currency non-performing loans and other receivables:**

|                                     | <b>III. Group</b>                    | <b>IV. Group</b>                      | <b>V. Group</b>     |
|-------------------------------------|--------------------------------------|---------------------------------------|---------------------|
|                                     | Loans With Limited<br>Collectability | Loans With Doubtful<br>Collectability | Uncollectible Loans |
| <b>Current Period</b>               |                                      |                                       |                     |
| Period End Balance                  | 2.098                                | 522.165                               | 32.126              |
| Provision (-)                       | 356                                  | 104.433                               | 32.126              |
| <b>Net Balance on Balance Sheet</b> | <b>1.742</b>                         | <b>417.732</b>                        | <b>-</b>            |

|                                     | <b>III. Group</b>  | <b>IV. Group</b>  | <b>V. Group</b>                              |
|-------------------------------------|--|---|--|
|                                     | Loans and Other Receivables<br>With Limited Collectability | Loans and Other Receivables<br>With Doubtful Collectability | Uncollectible Loans and Other<br>Receivables |
| <b>Current Period</b>               |  |   |  |
| Period End Balance                  | 982  | -   | -  |
| Provision (-)                       | 982  | -   | -  |
| <b>Net Balance on Balance Sheet</b> | <b>-</b>   | <b>-</b>  | <b>-</b>                                     |



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**SECTION FIVE (Continued)**

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

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

**5. Explanation on loans (continued)**

**5.j Information on non-performing loans (net) (continued):**

**5.j.4 Information regarding gross and net amounts of non-performing loans with respect to user groups:**

|  | <b>III. Group</b>                 | <b>IV. Group</b>                   | <b>V. Group</b>     |
|--|-----------------------------------|------------------------------------|---------------------|
|  | Loans With Limited Collectability | Loans With Doubtful Collectability | Uncollectible Loans |
| <b>Current Period (Net)</b>                      |                                   |                                    |                     |
| Loans to Real Persons and Legal Entities (Gross) | 22.719                            | 522.165                            | 47.490              |
| Provision Amount (-)                             | 12.730                            | 104.433                            | 47.490              |
| Loans to Real Persons and Legal Entities (Net)   | 9.989                             | 417.732                            | -                   |
| Banks (Gross)                                    | -                                 | -                                  | -                   |
| Provision Amount (-)                             | -                                 | -                                  | -                   |
| Banks (Net)                                      | -                                 | -                                  | -                   |
| Other Loans and Receivables (Gross)              | -                                 | -                                  | -                   |
| Provision Amount (-)                             | -                                 | -                                  | -                   |
| Other Loans and Receivables (Net)                | -                                 | -                                  | -                   |

|  | <b>III. Group</b>                                       | <b>IV. Group</b>   | <b>V. Group</b>                           |
|--|---|--|---|
|  | Loans and Other Receivables With Limited Collectability | Loans and Other Receivables With Doubtful Collectability | Uncollectible Loans and Other Receivables |
| <b>Current Period (Net)</b>                      |   |  |   |
| Loans to Real Persons and Legal Entities (Gross) | 985   | 4.894  | 43.643                                    |
| Provision Amount (-)                             | 985   | 4.894  | 43.643                                    |
| Loans to Real Persons and Legal Entities (Net)   | -   | -  | -   |
| Banks (Gross)                                    | -   | -  | -   |
| Provision Amount (-)                             | -   | -  | -   |
| Banks (Net)                                      | -   | -  | -   |
| Other Loans and Receivables (Gross)              | -   | -  | -   |
| Provision Amount (-)                             | -   | -  | -   |
| Other Loans and Receivables (Net)                | -   | -  | -   |

**5.j.5 Information on interest accruals, rediscount, and valuation differences calculated for non-performing loans and their provisions:**

|   | <b>III.Group</b>                  | <b>IV.Group</b>                    | <b>V.Group</b>      |
|---|-----------------------------------|------------------------------------|---------------------|
|   | Loans with Limited Collectability | Loans with Doubtful Collectability | Uncollectible Loans |
| <b>Current Period (Net) (1)</b>                             | <b>1.089</b>                      | <b>48.159</b>                      | <b>-</b>            |
| Interest Accruals and Rediscount with Valuation Differences | 1.316                             | 60.199                             | -                   |
| Provision amount (-)  | 227                               | 12.040                             | -                   |

(1) Information of prior period is not given because of transition process.



**SECTION FIVE (Continued)**

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

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

**5. Explanation on loans (continued)**

**5.k Main principles of liquidating non-performing loans and receivables:**

In case of existence of the collateral elements stated in Article 13 of the Regulation on Identification of and Provision against Non-Performing Loans and Other Receivables to be set aside for these, these elements are liquidated as soon as possible as a result of both administrative and legal initiatives and liquidation of the receivables is ensured.

In the absence of collateral, the debtor is provided with an insolvency certificate, but in various periods, intense intelligence is made and the legal asset is applied to determine the acquired assets.

Legal procedures followed before and after; on the financial information of the company when the creditor deemed able to live in the investigation that will be made by the Bank and if it contributed to the economy in relation to firms that dominate considers that contributed to the production, efforts are made to the liquidation of receivables agreement.

**5.l Explanations about the write-off policies from the assets:**

If there is no collateral against loans or uncollectible, and receivables amount of tax payable for legal proceedings to be held, duties, fees and costs compared to smaller loans written off receivables concerned with the demand and the General Directorate of the approval of the Monitoring Department.

However, if the part can not be collected to take after performing all kinds of legal proceedings if there is a guarantee in return will go pledge open the document and the way deletion of assets in the remaining amount by receiving debt forgiveness is followed.

**6. Information on financial assets measured at amortized cost**

**6.1.a The information was subjected to repurchase agreement and given as collateral/blocked amount of investments:**

|                                    | Current Period |                |
|------------------------------------|----------------|----------------|
|                                    | TL             | FC             |
| Collateralised/Blocked Investments | 39.757         | 46.078         |
| Subject to Repurchase Agreements   | -              | 248.394        |
| <b>Total</b>                       | <b>39.757</b>  | <b>294.472</b> |

**6.1.b Information on repurchase agreement and given collateral/blocked investments held to maturity**

|                                    | Prior Period   |                |
|------------------------------------|----------------|----------------|
|                                    | TL             | FC             |
| Collateralised/Blocked Investments | 145.439        | 45.742         |
| Subject to Repurchase Agreements   | 455.539        | 96.539         |
| <b>Total</b>                       | <b>600.978</b> | <b>142.281</b> |

**6.2.a Information on government debt measured at amortized cost:**

|                                  | Current Period   |
|----------------------------------|------------------|
| Government Bonds                 | 2.154.941        |
| Treasury Bills                   | -                |
| Other Government Debt Securities | -                |
| <b>Total</b>                     | <b>2.154.941</b> |



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**SECTION FIVE (Continued)**

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

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

**6. Information on financial assets measured at amortized cost (continued)**

**6.2.b Information on government debt investments held-to-maturity:**

|                                  | <b>Prior Period</b> |
|----------------------------------|---------------------|
| Government Bonds                 | 1.532.047           |
| Treasury Bills                   | -                   |
| Other Government Debt Securities | -                   |
| <b>Total</b>                     | <b>1.532.047</b>    |

**6.3.a Information on financial investments measured at amortized cost:**

|                                 | <b>Current Period</b> |
|---------------------------------|-----------------------|
| <b>Debt Securities</b>          |                       |
| Quoted on a Stock Exchange      | 1.735.522             |
| Not Quoted                      | 419.419               |
| <b>Impairment provision (-)</b> | <b>-</b>              |
| <b>Total</b>                    | <b>2.154.941</b>      |

**6.3.b Information on held-to-maturity investments :**

|                                 | <b>Prior Period</b> |
|---------------------------------|---------------------|
| <b>Debt Securities</b>          |                     |
| Quoted on a Stock Exchange      | 1.334.722           |
| Not Quoted                      | 199.228             |
| <b>Impairment provision (-)</b> | <b>(1.903)</b>      |
| <b>Total</b>                    | <b>1.532.047</b>    |

**6.4.a Movement of financial assets at amortized costs within the year :**

|   | <b>Current Period (1)</b> |
|---|---------------------------|
| <b>Balance at Beginning of the Period</b>       | <b>1.532.047</b>          |
| Foreign Currency Differences on Monetary Assets | 51.793                    |
| Purchases During The Period                     | 227.528                   |
| Disposals Through Sales And Redemptions         | -                         |
| Impairment Provision (-)                        | -                         |
| Interest Income Accruals                        | 343.573                   |
| <b>Balance at End of Period</b>                 | <b>2.154.941</b>          |

(1) Provision amounting to TL 1.628 is allocated in "Financial asset measured at amortized cost" due to transition of TFRS 9.

**6.4.b Movement of held-to-maturity investments within the year :**

|   | <b>Prior Period</b> |
|---|---------------------|
| <b>Balance at Beginning of the Period</b>       | <b>1.375.729</b>    |
| Foreign Currency Differences on Monetary Assets | 13.915              |
| Purchases During The Period                     | -                   |
| Disposals Through Sales And Redemptions         | 836                 |
| Impairment Provision (-)                        | 1.903               |
| Interest Income Accruals                        | 145.142             |
| <b>Balance at End of Period</b>                 | <b>1.532.047</b>    |



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**SECTION FIVE (Continued)**

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

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

**7. Information on associates (net)**

**7.a.1 Information on associates:**

|   | Title  | Address<br>(City/ Country) | Bank's share<br>percentage-If<br>different voting<br>percentage (%) | Bank's risk group<br>share percentage<br>(%) |
|---|--|----------------------------|---|--|
| 1 | İş Faktoring A.Ş. (İş Faktoring)                         | Istanbul/Turkey            | 21,75   | 100,00                                       |
| 2 | İş Finansal Kiralama A.Ş. (İş Finansal)                  | Istanbul/Turkey            | 29,46   | 60,92  |
| 3 | İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. (İş Girişim) | Istanbul/Turkey            | 16,67   | 57,68  |
| 4 | Terme Metal Sanayi ve Ticaret A.Ş. (Terme)               | Istanbul/Turkey            | 17,83   | 18,76  |
| 5 | Ege Tarım Ürünleri Lisanslı Depoculuk A.Ş. (Ege Tarım)   | Izmir/ Turkey              | 10,05   | 20,10  |

|   |              | Total<br>Assets | Equity    | Total<br>Fixed<br>Assets | Interest<br>Income | Income<br>from<br>Marketable<br>Securities<br>Portfolio | Current<br>Period<br>Profit/Loss | Prior<br>Period<br>Profit/Loss | Fair<br>Value |
|---|--------------|-----------------|-----------|--------------------------|--------------------|---|----------------------------------|--------------------------------|---------------|
| 1 | İş Faktoring | 2.770.655       | 301.124   | 1.373                    | 489.758            | -   | 147.016                          | 49.530                         | 46.010        |
| 2 | İş Finansal  | 8.681.652       | 1.085.014 | 13.486                   | 975.831            | -   | 197.536                          | 74.200                         | 945.385       |
| 3 | İş Girişim   | 262.226         | 259.965   | 60                       | 8.618              | 2.453   | 3.074                            | 946                            | 25.058        |
| 4 | Terme (1)    | 18.206          | 5.308     | 1.578                    | -                  | -   | (160)                            | (455)                          | -             |
| 5 | Ege Tarım    | 12.481          | 11.702    | 8.103                    | 186                | -   | 1.730                            | (534)                          | -             |

(1) Represents for the period ended 31 December 2017 financial statements. Prior year profit/loss is obtained from 31 December 2016 financial statements.

**7.a.2 Movements of associates subject to unconsolidation:**

|   | Current Period   | Prior Period   |
|---|------------------|----------------|
| <b>Balance at the Beginning of the Period</b> | <b>308.497</b>   | <b>222.908</b> |
| Movements During the Period                   | 709.012          | 85.589         |
| Purchases                                     | 5.426            | -              |
| Bonus Shares Obtained                         | -                | 14.280         |
| Current Year Share of Profit                  | -                | -              |
| Sales   | -                | -              |
| Revaluation Increase / decrease               | 703.586          | 71.808         |
| Provision for Impairment                      | -                | (499)          |
| <b>Balance at the End of the Period</b>       | <b>1.017.509</b> | <b>308.497</b> |
| Capital Commitments                           | -                | -              |
| Share Percentage at the End of the Period (%) | -                | -              |

**Information on associates sold in the current period**

In the current period the Bank has not disposed any associates.

**Information on associates purchased in the current period**

In current period the Bank has not purchased any associates. The Bank classified security investments of İş Finansal Kiralama A.Ş. (ISFIN) from “financial assets at fair value through other comprehensive income” to “associates” in the prior period.



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

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

**7.a.3 Sectoral information of associates subject to unconsolidation and the related carrying amounts in the legal books:**

|                             | <b>Current Period</b> | <b>Prior Period</b> |
|-----------------------------|-----------------------|---------------------|
| Banks                       | -                     | -                   |
| Insurance Companies         | -                     | -                   |
| Factoring Companies         | 46.010                | 11.882              |
| Leasing Companies           | 945.385               | 273.946             |
| Financial Service Companies | -                     | -                   |
| Other Financial Associates  | 25.058                | 21.613              |

**7.a.4 Information on associates subject to consolidation quoted on stock market:**

|   | <b>Current Period</b> | <b>Prior Period</b> |
|---|-----------------------|---------------------|
| Associates quoted on domestic stock exchanges | 970.443               | 295.559             |
| Associates quoted on foreign stock exchanges  | -                     | -                   |



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**SECTION FIVE (Continued)**

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

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

**8. Information on subsidiaries (net)**

**8.a.1 Information related to equity component of subsidiaries:**

| <b>Current Period (1)</b>                   | <b>YF</b>      | <b>TSKB GYO</b> |
|---|----------------|-----------------|
| <b>CORE CAPITAL</b>                         |                |                 |
| Paid-in Capital                             | 63.504         | 300.000         |
| Share Premium                               | -              | 593             |
| Legal Reserves                              | 2.833          | 8.777           |
| Other Comprehensive Income according to TAS | 17.261         | -               |
| Current and Prior Years' Profit/Loss        | 18.249         | (44.614)        |
| Leasehold Improvements (-)                  | 360            | -               |
| Intangible Assets (-)                       | 714            | 28              |
| <b>Total Core Capital</b>                   | <b>100.773</b> | <b>264.728</b>  |
| <b>Supplementary Capital</b>                | <b>-</b>       | <b>-</b>        |
| <b>Capital</b>                              | <b>-</b>       | <b>-</b>        |
| <b>Net Available Capital</b>                | <b>100.773</b> | <b>264.728</b>  |

(1) The information is obtained from financial statements subject to consolidation as of 31 December 2018.

| <b>Prior Period (1)</b>                     | <b>YF</b>     | <b>TSKB GYO</b> |
|---|---------------|-----------------|
| <b>CORE CAPITAL</b>                         |               |                 |
| Paid-in Capital                             | 64.275        | 150.000         |
| Share Premium                               | -             | 593             |
| Legal Reserves                              | 2.514         | 8.787           |
| Other Comprehensive Income according to TAS | 9.759         | 4               |
| Current and Prior Years' Profit/Loss        | 8.239         | 17.094          |
| Leasehold Improvements (-)                  | 408           | -               |
| Intangible Assets (-)                       | 915           | 25              |
| <b>Total Core Capital</b>                   | <b>83.464</b> | <b>176.453</b>  |
| <b>Supplementary Capital</b>                | <b>-</b>      | <b>-</b>        |
| <b>Capital</b>                              | <b>-</b>      | <b>-</b>        |
| <b>Net Available Capital</b>                | <b>83.464</b> | <b>176.453</b>  |

(1) The information is obtained from financial statements subject to consolidation as of 31 December 2017.

Paid in capital has been indicated as Turkish Lira in articles of incorporation and registered in trade registry. Effect of inflation adjustments on paid in capital is the difference caused by the inflation adjustment on shareholders' equity items. Extraordinary reserves are the status reserves which have been transferred with the General Assembly decision after distributable profit have been transferred to legal reserves. Legal reserves are the status reserves which have been transferred from distributable profit in accordance with the Article 519 of the Turkish Commercial Code numbered 6102.

The Bank's internal capital adequacy assessment process is made annually on a consolidated basis. Consolidated associates and subsidiaries are included in the operation.



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**SECTION FIVE (Continued)**

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

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

**8. Information on subsidiaries (net) (continued)**

**8.a.2 As per Communiqué on Preparation of Consolidated Financial Statements of Banks and Turkish Accounting Standards unconsolidated subsidiaries and reason of consolidating and needed capital if they are subject to capital requirement:**

TSKB Gayrimenkul Değerleme A.Ş. and TSKB Sürdürülebilirlik Danışmanlığı A.Ş. are valued at cost and are not consolidated since it is not a financial subsidiaries. Unconsolidated subsidiary of the Bank are not subject to minimum capital requirement.

**8.b.1 Information on subsidiaries:**

|   | Title  | Address<br>(City/ Country) | Bank's share<br>percentage-If different<br>voting percentage (%) | Bank's risk group<br>share percentage (%) |
|---|--|----------------------------|--|---|
| 1 | TSKB Gayrimenkul Değerleme A.Ş. (TSKB GMD)         | Istanbul /Turkey           | 99,99  | 99,99                                     |
| 2 | Yatırım Finansman Menkul Değerler A.Ş. (YF)        | Istanbul /Turkey           | 95,78  | 98,51                                     |
| 3 | TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. (TSKB GYO) | Istanbul/Turkey            | 85,41  | 86,23                                     |
| 4 | TSKB Sürdürülebilirlik Danışmanlığı A.Ş. (TSKB SD) | Istanbul/Turkey            | 80,19  | 99,83                                     |

|   |              | Total<br>Assets | Shareholders'<br>Equity | Total<br>Fixed<br>Assets | Interest<br>Income | Income<br>from<br>Marketable<br>Securities | Current<br>Period<br>Profit/Loss | Prior<br>Period<br>Profit/Loss | Fair Value |
|---|--------------|-----------------|-------------------------|--------------------------|--------------------|--|----------------------------------|--------------------------------|------------|
| 1 | TSKB GMD     | 22.239          | 16.881                  | 1.096                    | 2.158              | -  | 2.328                            | 2.485                          | -          |
| 2 | YF (1)       | 584.104         | 101.847                 | 1.403                    | 73.166             | 1.494                                      | 11.619                           | 8.401                          | 90.034     |
| 3 | TSKB GYO (1) | 511.187         | 264.756                 | 319                      | 2.114              | -  | (61.455)                         | (21.724)                       | (211.144)  |
| 4 | TSKB SD      | 3.451           | 2.336                   | 6                        | 268                | -  | (1.407)                          | (571)                          | -          |

(1) The financial data of the consolidated subsidiaries are prepared in accordance with BRSA regulations.

**8.b.2 Movement schedule for subsidiaries subject to consolidation:**

|   | Current Period | Prior Period   |
|---|----------------|----------------|
| <b>Balance at the beginning of the period</b> | <b>134.976</b> | <b>127.984</b> |
| Movements in the period                       | 166.202        | 6.992          |
| Purchases                                     | 164.494        | -              |
| Bonus shares obtained                         | -              | -              |
| Current year share of profit                  | -              | -              |
| Sales   | -              | -              |
| Revaluation increase / decrease               | 2.900          | 6.992          |
| Provision for impairment (1)                  | (1.192)        | -              |
| <b>Balance at the end of the period</b>       | <b>301.178</b> | <b>134.976</b> |
| Capital commitments                           | -              | -              |
| Share percentage at the end of the period (%) | -              | -              |

(1)The mentioned amount is impairment provision of the shares of TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. (TSKB GYO) is ,under " Financial Assets at Fair Value Through Other Comprehensive Income" and classified under "Joint Ventures" during the prior period of the Bank.



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

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

**8. Information on subsidiaries (net) (continued)**

**8.b.2 Movement schedule for subsidiaries (continued):**

*Subsidiaries disposed in the current period*

In the current period, the Bank has not disposed any subsidiaries.

*Subsidiaries purchased in the current period*

The Bank classified security investments of TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. (TSGYO) from “financial assets at fair value through other comprehensive income” to “subsidiaries” in the prior period. In the Board of Directors meeting of the Bank held on 27 August 2018, was decided 100% capital increase over the nominal value because of the fact that the financing of borrowing debts by increasing the issued capital of the company will contribute positively to the activities and development of the Company and the Bank participated in the capital increase of TL 150 mio in November 2018. After this participation, the share of the Bank increased from 70,84% to 85,41%.

In addition, in the Board of Directors meeting held on 30 November 2018, the Bank decided to purchase TSKB GYO A.Ş.'s shares traded in the stock market until a nominal share of TL 10 million within the next one year and the shares received under this program are accounted “Financial Assets at Fair Value Through Profit and Loss”.

The Bank pledged capital increase of TL 2.8 million for TSKB Sürdürülebilirlik Danışmanlığı A.Ş.'s cash capital increase of TL 3.5 million. The Bank participated by paying TL 2.4 million on this commitment on 19 December 2018.

**8.b.3 Sectoral information on subsidiaries subject to consolidation and the related carrying amounts in the legal books:**

|                              | Current Period | Prior Period |
|------------------------------|----------------|--------------|
| Subsidiaries                 | -              | -            |
| Banks                        | -              | -            |
| Insurance Companies          | -              | -            |
| Factoring Companies          | -              | -            |
| Leasing Companies            | -              | -            |
| Financial Service Companies  | -              | -            |
| Other Financial Subsidiaries | 301.178        | 134.976      |

**8.b.4 Subsidiaries subject to consolidation quoted on stock market:**

|   | Current Period | Prior Period |
|---|----------------|--------------|
| Subsidiaries quoted on domestic stock exchanges | 211.144        | 64.871       |
| Subsidiaries quoted on foreign stock exchanges  | -              | -            |

**9. Information on entities under common control**

The Bank has no entities under common control as of the reporting date (31 December 2017: None).

**10. Information on finance lease receivables (net)**

**10.a Maturities of investments on finance leases:**

|                    | Current Period |                | Prior Period  |               |
|--------------------|----------------|----------------|---------------|---------------|
|                    | Gross          | Net            | Gross         | Net           |
| Less than 1 year   | 31.462         | 27.962         | 8.627         | 7.439         |
| Between 1- 4 years | 88.470         | 78.539         | 40.269        | 34.632        |
| More than 4 years  | 31.170         | 27.428         | 25.061        | 21.339        |
| <b>Total</b>       | <b>151.102</b> | <b>133.929</b> | <b>73.957</b> | <b>63.410</b> |



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**SECTION FIVE (Continued)**

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

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

**10. Information on finance lease receivables (net) (continued)**

**10.b The information on net investments in finance leases:**

|  | Current Period | Prior Period |
|--|----------------|--------------|
| Gross investments in finance leases      | 151.102        | 73.957       |
| Unearned revenue from finance leases (-) | 17.173         | 10.547       |
| Cancelled finance leases (-)             | -              | -            |
| Net investments in finance leases        | 133.929        | 63.410       |

**10.c Explanation with respect to finance lease agreements, the criteria used in determination of contingent rents, conditions for revisions or purchase options, updates of leasing amounts and the restrictions imposed by lease arrangements, whether arrays in repayment occur, whether the terms of the contract are renewed, if renewed, the renewal conditions, whether the renewal results any restrictions, and other important conditions of the leasing agreement:**

Finance lease agreements are made in accordance with the related articles of Financial Leasing, Factoring and Financing Company Law No 6361. There are no restructuring or restrictions; which have material effect on financial statements.

**11. Explanation on derivative financial assets held for hedging purposes**

**11.a Positive differences on derivative financial instruments held for hedging purposes:**

There is no differences on derivative financial instruments held for hedging purposes (31 December 2017: None).

As of 31 December 2018, the net fair value of derivative financial instruments designated as hedging instruments carried in the contract amount and the balance sheet are summarized in the following table:

|                     | Current Period |       |           | Prior Period |       |           |
|---------------------|----------------|-------|-----------|--------------|-------|-----------|
|                     | Face Value     | Asset | Liability | Face Value   | Asset | Liability |
| Interest Rate Swaps | 18.028.129     | -     | (172.258) | 10.582.050   | -     | (78.682)  |
| FC                  | 18.028.129     | -     | (172.258) | 10.582.050   | -     | (78.682)  |
| TL                  | -              | -     | -         | -            | -     | -         |

**11.a.1 Information on fair value hedge accounting**

| Current Period                  |  | Type of Risk       | Fair Value Change of Hedged Item(1) | Fair Value of Hedging Instrument(1) |             | Income Statement Effect (Profit/Loss Through Derivative Financial Instruments) |
|---------------------------------|--|--------------------|-------------------------------------|-------------------------------------|-------------|--|
| Hedging Item                    | Hedged Item                              |                    |                                     | Assets                              | Liabilities |  |
| Interest Rate Swap Transactions | Fixed Rate Issued Eurobond and Greenbond | Interest Rate Risk | 127.988                             | -                                   | (137.854)   | (9.866)  |
| Interest Rate Swap Transactions | Fixed Rate Loans Used                    | Interest Rate Risk | 20.723                              | -                                   | (21.390)    | (667)  |

(1) The fair value of hedged item and hedging instrument are presented as net market value excluding credit risk and accumulated interest.



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**SECTION FIVE (Continued)**

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

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

**11.a.1 Information on fair value hedge accounting (continued)**

| Prior Period                    | Hedged Item                              | Type of Risk       | Fair Value Change of Hedged Item(1) | Fair Value of Hedging Instrument(1) |             | Income Statement Effect (Profit/Loss Through Derivative Financial Instruments) |
|---------------------------------|--|--------------------|-------------------------------------|-------------------------------------|-------------|--|
| Hedging Item                    |  |                    |                                     | Assets                              | Liabilities |  |
| Interest Rate Swap Transactions | Fixed Rate Issued Eurobond and Greenbond | Interest Rate Risk | 60.540                              | -                                   | (71.434)    | (10.894)   |
| Interest Rate Swap Transactions | Fixed Rate Loans Used                    | Interest Rate Risk | 8.988                               | -                                   | (10.600)    | (1.612)  |

(1) The fair value of hedged item and hedging instrument are presented as net market value excluding credit risk and accumulated interest.

**12. Explanations on tangible assets**

Since the third quarter of 2015, the Bank has changed its accounting policy and adopted the revaluation method under TAS 16 in the valuation of properties included in property, plant and equipment. The appraisal companies authorized by CMB and BRSA are valued for the year 2018 and accounted as with



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

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

**12. Explanations on tangible assets (net) (continued)**

| Current Period                        | Prior Period End | Current Period Additions | Current Period Disposals | Revaluation Surplus | Other    | Current Period End |
|---------------------------------------|------------------|--------------------------|--------------------------|---------------------|----------|--------------------|
| Cost                                  |                  |                          |                          |                     |          |                    |
| Land and buildings                    | 40.370           | 2.719                    | -                        | 9.160               | -        | 52.249             |
| Assets held under finance leases      | 2.359            | -                        | (29)                     | -                   | -        | 2.330              |
| Vehicles                              | 672              | -                        | -                        | -                   | -        | 672                |
| Assets held for resale                | -                | -                        | -                        | -                   | -        | -                  |
| Other                                 | 24.757           | 1.462                    | (1.118)                  | -                   | -        | 25.101             |
| <b>Total Cost</b>                     | <b>68.158</b>    | <b>4.181</b>             | <b>(1.147)</b>           | <b>9.160</b>        | <b>-</b> | <b>80.352</b>      |
| Accumulated depreciation              |                  |                          |                          |                     |          |                    |
| Land and buildings                    | (211)            | (20)                     | -                        | 207                 | -        | (24)               |
| Assets held under finance leases      | (2.218)          | (32)                     | 29                       | -                   | -        | (2.221)            |
| Vehicles                              | (498)            | (134)                    | -                        | -                   | -        | (632)              |
| Assets held for resale                | -                | -                        | -                        | -                   | -        | -                  |
| Other                                 | (14.378)         | (3.547)                  | 1.096                    | -                   | -        | (16.829)           |
| <b>Total accumulated depreciation</b> | <b>(17.305)</b>  | <b>(3.733)</b>           | <b>1.125</b>             | <b>207</b>          | <b>-</b> | <b>(19.706)</b>    |
| Impairment provision                  |                  |                          |                          |                     |          |                    |
| Land and buildings                    | -                | -                        | -                        | -                   | -        | -                  |
| Assets held under finance leases      | -                | -                        | -                        | -                   | -        | -                  |
| Vehicles                              | -                | -                        | -                        | -                   | -        | -                  |
| Assets held for resale                | -                | -                        | -                        | -                   | -        | -                  |
| Other                                 | -                | -                        | -                        | -                   | -        | -                  |
| <b>Total impairment provision</b>     | <b>-</b>         | <b>-</b>                 | <b>-</b>                 | <b>-</b>            | <b>-</b> | <b>-</b>           |
| <b>Net Book Value</b>                 | <b>50.853</b>    | <b>448</b>               | <b>(22)</b>              | <b>9.367</b>        | <b>-</b> | <b>60.646</b>      |

| Current Period                        | Prior Period End | Current Period Additions | Current Period Disposals | Revaluation Surplus | Other        | Current Period End |
|---------------------------------------|------------------|--------------------------|--------------------------|---------------------|--------------|--------------------|
| Cost                                  |                  |                          |                          |                     |              |                    |
| Land and buildings                    | 40.370           | -                        | -                        | -                   | -            | 40.370             |
| Assets held under finance leases      | 2.380            | -                        | (21)                     | -                   | -            | 2.359              |
| Vehicles                              | 938              | -                        | (266)                    | -                   | -            | 672                |
| Assets held for resale                | 576              | -                        | -                        | -                   | (576)        | -                  |
| Other                                 | 21.221           | 3.580                    | (44)                     | -                   | -            | 24.757             |
| <b>Total Cost</b>                     | <b>65.485</b>    | <b>3.580</b>             | <b>(331)</b>             | <b>-</b>            | <b>(576)</b> | <b>68.158</b>      |
| Accumulated depreciation              |                  |                          |                          |                     |              |                    |
| Land and buildings                    | (122)            | (89)                     | -                        | -                   | -            | (211)              |
| Assets held under finance leases      | (2.124)          | (115)                    | 21                       | -                   | -            | (2.218)            |
| Vehicles                              | (590)            | (134)                    | 226                      | -                   | -            | (498)              |
| Assets held for resale                | -                | -                        | -                        | -                   | -            | -                  |
| Other                                 | (11.330)         | (3.075)                  | 27                       | -                   | -            | (14.378)           |
| <b>Total accumulated depreciation</b> | <b>(14.166)</b>  | <b>(3.413)</b>           | <b>274</b>               | <b>-</b>            | <b>-</b>     | <b>(17.305)</b>    |
| Impairment provision                  |                  |                          |                          |                     |              |                    |
| Land and buildings                    | -                | -                        | -                        | -                   | -            | -                  |
| Assets held under finance leases      | -                | -                        | -                        | -                   | -            | -                  |
| Vehicles                              | -                | -                        | -                        | -                   | -            | -                  |
| Assets held for resale                | (207)            | (18)                     | -                        | -                   | 225          | -                  |
| Other                                 | -                | -                        | -                        | -                   | -            | -                  |
| <b>Total impairment provision</b>     | <b>(207)</b>     | <b>(18)</b>              | <b>-</b>                 | <b>-</b>            | <b>225</b>   | <b>-</b>           |
| <b>Net book value</b>                 | <b>51.112</b>    | <b>149</b>               | <b>(57)</b>              | <b>-</b>            | <b>(351)</b> | <b>50.853</b>      |

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



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

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

**13.a Information on intangible assets**

Tangible assets, purchased before 1 January 2005, are accounted for at their restated costs as of 31 December 2004 and the assets purchased in the following periods are accounted for at acquisition cost less accumulated depreciation and reserve for impairment. Rental or administrative purposes or other unspecified purposes of assets that under construction will be amortised when they are ready to use.

**13.b Amortization methods used:**

The intangible assets are amortized principally on straight line basis which amortize the assets over their expected useful lives.

**13.c Cost and accumulated amortization at the beginning and end of the period:**

| Current Period | Beginning of Current Period |                          | End of Current Period |                          |
|----------------|-----------------------------|--------------------------|-----------------------|--------------------------|
|                | Gross Book Value            | Accumulated Amortization | Gross Book Value      | Accumulated Amortization |
| Software       | 4.145                       | (2.505)                  | 6.607                 | (3.482)                  |

| Prior Period | Beginning of Prior Period |                          | End of Prior Period |                          |
|--------------|---------------------------|--------------------------|---------------------|--------------------------|
|              | Gross Book Value          | Accumulated Amortization | Gross Book Value    | Accumulated Amortization |
| Software     | 2.864                     | (1.915)                  | 4.145               | (2.505)                  |

**13.d Movement of cost and accumulated amortization for the period:**

| Current Period                        | Closing Balance of Prior Period | Current Year Additions | Current Year Disposals | Closing Balance of Current Period |
|---------------------------------------|---------------------------------|------------------------|------------------------|-----------------------------------|
| Cost:                                 |                                 |                        |                        |                                   |
| Software                              | 4.145                           | 2.500                  | (38)                   | 6.607                             |
| <b>Total Cost</b>                     | <b>4.145</b>                    | <b>2.500</b>           | <b>(38)</b>            | <b>6.607</b>                      |
| Accumulated amortization:             |                                 |                        |                        |                                   |
| Software                              | (2.505)                         | (978)                  | 1                      | (3.482)                           |
| <b>Total Accumulated Amortization</b> | <b>(2.505)</b>                  | <b>(978)</b>           | <b>1</b>               | <b>(3.482)</b>                    |
| Impairment provision:                 |                                 |                        |                        |                                   |
| Software                              | -                               | -                      | -                      | -                                 |
| <b>Total Impairment provision</b>     | <b>-</b>                        | <b>-</b>               | <b>-</b>               | <b>-</b>                          |
| <b>Net Book Value</b>                 | <b>1.640</b>                    | <b>1.522</b>           | <b>(37)</b>            | <b>3.125</b>                      |



**SECTION FIVE (Continued)**

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

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

**13. Information on intangible assets (continued)**

**13.d Movement of cost and accumulated amortization for the period:**

| Current Period                        | Closing<br>Balance of<br>Prior Period | Current Year<br>Additions | Current Year<br>Disposals | Closing<br>Balance of<br>Current<br>Period |
|---------------------------------------|---------------------------------------|---------------------------|---------------------------|--|
| Cost:                                 |                                       |                           |                           |  |
| Software                              | 2.864                                 | 1.281                     | -                         | 4.145                                      |
| <b>Total Cost</b>                     | <b>2.864</b>                          | <b>1.281</b>              | <b>-</b>                  | <b>4.145</b>                               |
| Accumulated amortization:             |                                       |                           |                           |  |
| Software                              | (1.915)                               | (590)                     | -                         | (2.505)                                    |
| <b>Total Accumulated Amortization</b> | <b>(1.915)</b>                        | <b>(590)</b>              | <b>-</b>                  | <b>(2.505)</b>                             |
| Impairment provision:                 |                                       |                           |                           |  |
| Software                              | -                                     | -                         | -                         | -  |
| <b>Total Impairment provision</b>     | <b>-</b>                              | <b>-</b>                  | <b>-</b>                  | <b>-</b>                                   |
| <b>Net Book Value</b>                 | <b>949</b>                            | <b>691</b>                | <b>-</b>                  | <b>1.640</b>                               |

**13.e The net book value, description and the remaining amortization period of any material individual intangible asset in the financial statements:**

As at the reporting date, the Bank has no individual intangible asset which is material in the financial statements as a whole (31 December 2017: None).

**13.f Disclosure for intangible assets acquired through government grants and accounted for at fair value at initial recognition:**

As at the reporting date, the Bank has no intangible assets acquired through government grants (31 December 2017: None).

**13.g The method of subsequent measurement for intangible assets that are acquired through government incentives and recorded at fair value at the initial recognition:**

As at the reporting date, the Bank has no intangible assets acquired with government incentives (31 December 2017: None).

**13.h The book value of intangible assets that are pledged or restricted for use:**

As at the reporting date, there are no intangible assets with restricted use or pledged (31 December 2017: None).

**13.i Amount of purchase commitments for intangible assets:**

As at the reporting date, the Bank has no purchase commitments for intangible assets (31 December 2017: None).

**13.j Information on revalued intangible assets according to their types:**

The Bank did not revalue its intangible assets as at the reporting date (31 December 2017: None).

**13.k Amount of total research and development expenses recorded in income statement within the period, if any:**

The Bank has no research and development costs expensed in the current period (31 December 2017: None).



**SECTION FIVE (Continued)**

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

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

**13. Information on intangible assets (continued)**

**13.1 Information on goodwill:**

As at the reporting date, the Bank has no goodwill (31 December 2017: None).

**13.m The carrying value of goodwill at beginning and end of the period, and movements within the period:**

As at the reporting date, the Bank has no goodwill in the accompanying financial statements (31 December 2017: None).

**13.n The carrying value of negative goodwill at beginning and end of the period, and movements within the period:**

As at the reporting date, the Bank has no negative goodwill in the accompanying financial statements (31 December 2017: None).

**14. Information on investment property**

The Bank has no investment property (31 December 2017: None).



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**SECTION FIVE (Continued)**

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

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

**15. Information on deferred tax assets**

**15.a Temporary differences, tax losses, exemptions and deductions reflected to balance sheet as deferred tax asset:**

The Bank has computed deferred tax asset or liability on temporary differences arising from carrying values of assets and liabilities in the accompanying financial statements and their tax bases.

| <b>Deferred tax asset:</b>             | <b>Current Period</b> | <b>Prior Period</b> |
|--|-----------------------|---------------------|
| Loan commissions accrual adjustment    | 23.032                | 22.563              |
| Other provisions                       | 79.316                | 61.600              |
| Employee benefit provision             | 2.660                 | 2.269               |
| Other                                  | 2.739                 | 717                 |
| <b>Total Deferred Tax Asset</b>        | <b>107.747</b>        | <b>87.149</b>       |
| <b>Deferred tax liability:</b>         |                       |                     |
| Marketable securities                  | (37.489)              | (20.808)            |
| Valuation of derivative instruments    | (43.303)              | (8.823)             |
| Loan commissions accrual adjustment    | (12.329)              | (10.869)            |
| Useful life difference of fixed assets | (728)                 | (535)               |
| Other                                  | (10.363)              | (6.748)             |
| <b>Total Deferred Tax Liability</b>    | <b>(104.212)</b>      | <b>(47.783)</b>     |
| <b>Net Deferred Tax Asset</b>          | <b>3.535</b>          | <b>39.366</b>       |

|  | <b>Current Period</b> | <b>Prior Period</b> |
|--|-----------------------|---------------------|
| Deferred Tax as of January 1 Asset / (Liability) - Net       | 39.366                | 14.195              |
| Deferred Tax (Loss) / Gain                                   | (102.002)             | 30.024              |
| Deferred Tax that is Realized Under Shareholder's Equity (1) | 66.171                | (4.853)             |
| <b>Deferred Tax Asset / (Liability) Net</b>                  | <b>3.535</b>          | <b>39.366</b>       |

(1) As stated in the Communiqué on "Uniform Chart of Accounts and Prospectus" issued on 20 September 2017, for general provisions (TFRS 9 expected loss provisions for the loans at first and second stages), deferred tax assets calculation has started as of 1 January 2018. Within this scope deferred tax assets amounting to TL 32.750 have been reflected to the opening financials of 1 January 2018.

**15.b Temporary differences over which deferred tax asset are not computed and recorded in the balance sheet in prior periods, if so, their expiry date, losses and tax deductions and exceptions:**

The Bank has no deductible temporary differences that are not included in calculation of deferred tax asset and not reflected to financial statements in prior periods (31 December 2017: None).

**15.c Allowance for deferred tax and deferred tax assets from reversal of allowance:**

As of the reporting date, the Bank has no allowance for deferred tax and deferred tax liability from reversal of allowance (31 December 2017: None).



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**SECTION FIVE (Continued)**

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

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

**16. Explanation on assets held for sale**

Bank have reached an agreement on restructuring the debts of Ojer Telekomünikasyon A.Ş. (OTAŞ), the major shareholder of Türk Telekomünikasyon A.Ş. (Türk Telekom) provided under the loan agreements. It was completed that 192.500.000.000 Class A shares owned by OTAŞ in Türk Telekom, representing 55% of Türk Telekom's issued share capital, which have been pledged as security for the existing loan facilities of OTAŞ, would be taken over by a special purpose vehicle incorporated or to be incorporated in the Republic of Turkey, owned directly or indirectly by the creditors. The Bank has participated in Levent Yapılandırma Yönetimi A.Ş. which was established within this context with 1.6172% stake and amounting to TL 808,62 (full amount). The Bank considered the related investment within the scope of TFRS 5 "Assets Held for Sale and Discontinued Operations" (31 December 2017: None).

**17. Information about other assets**

**17.a Other assets which exceed 10% of the balance sheet total and breakdown of these which constitute at least 20% of grand total:**

Other assets do not exceed 10% of total assets, excluding off-balance sheet commitments (31 December 2017: None).

**II. Explanations and disclosures related to the liabilities**

**1. Information of maturity structure of deposits**

**1.a.1 Maturity structure of deposits:**

The Bank is not authorized to accept deposits.

**1.a.2 Information on saving deposits under the guarantee of saving deposit insurance fund and exceeding the limit of deposit insurance fund:**

The Bank is not authorized to accept deposits.

**1.b Information on the scope whether the Bank with a foreign head office suits saving deposit insurance of the related country:**

The Bank is not authorized to accept deposits.

**1.c Saving deposits which are not under the guarantee of deposit insurance fund:**

The Bank is not authorized to accept deposits.

**2. Negative differences table related to derivative financial liabilities held-for-trading**

| Derivative Financial Liabilities Held for Trading (1) | Current Period |                | Prior Period   |                |
|---|----------------|----------------|----------------|----------------|
|   | TL             | FC             | TL             | FC             |
| Forward Transactions                                  | 87.610         | 6.307          | 14.804         | 6.867          |
| Swap Transactions                                     | 354.659        | 111.839        | 108.906        | 59.403         |
| Futures Transactions                                  | -              | -              | -              | -              |
| Options   | -              | 59.646         | -              | 42.423         |
| Other   | -              | -              | -              | -              |
| <b>Total</b>  | <b>442.269</b> | <b>177.792</b> | <b>123.710</b> | <b>108.693</b> |

(1) Negative differences from derivative financial liabilities at fair value for hedging purpose is classified in "7.1 Derivative Financial Liabilities at Fair Value Through Profit or Loss" line in the balance sheet.



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**SECTION FIVE (Continued)**

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

**II. Explanations and disclosures related to the liabilities (continued)**

**3. Information on banks and other financial institutions**

**3.a General Information on banks and other financial institutions:**

|  | Current Period |                   | Prior Period   |                   |
|--|----------------|-------------------|----------------|-------------------|
|  | TL             | FC                | TL             | FC                |
| Loans from Central Bank of Turkey          | -              | -                 | -              | -                 |
| From Domestic Banks and Institutions       | 5.000          | 265.220           | -              | 272.079           |
| From Foreign Banks, Institutions and Funds | 122.007        | 23.183.791        | 190.972        | 18.218.677        |
| <b>Total</b>                               | <b>127.007</b> | <b>23.449.011</b> | <b>190.972</b> | <b>18.490.756</b> |

**3.b Maturity analysis of funds borrowed:**

|                      | Current Period |                   | Prior Period   |                   |
|----------------------|----------------|-------------------|----------------|-------------------|
|                      | TL             | FC                | TL             | FC                |
| Short-term           | 5.000          | -                 | -              | 134.812           |
| Medium and long-term | 122.007        | 23.449.011        | 190.972        | 18.355.944        |
| <b>Total</b>         | <b>127.007</b> | <b>23.449.011</b> | <b>190.972</b> | <b>18.490.756</b> |

**3.c Information on marketable securities issued**

|            | Current Period |           | Prior Period |           |
|------------|----------------|-----------|--------------|-----------|
|            | TL             | FC        | TL           | FC        |
| Nominal    | -              | 6.932.250 | -            | 3.752.500 |
| Cost       | -              | 6.917.804 | -            | 3.743.915 |
| Book Value | -              | 6.949.189 | -            | 3.746.229 |

As of 27 October 2014, the Bank issued the debt instruments which have nominal value of USD 350 Million, redemption date of 30 October 2019 with fixed interest rate of 5,375%, 5 years maturity and semiannual coupon payment. As of 22 April 2015, the Bank has performed the similar issuance of Eurobond with the nominal amount of USD 350 Million. Interest rate of these debt instruments determined as 5,125% which have the redemption date of 22 April 2020 with fixed interest rate, 5 years maturity and semiannual coupon payment. Selling of Greenbond which was issued by the Bank in abroad with nominal value of USD 300 Million, 5 years maturity and for financing the green and sustainable projects has been completed on 18 May 2016. The return of these bonds which have the redemption date of 18 May 2021 and 5 years maturity is determined as 5,048% and the coupon rate as 4,875%. As of 16 January 2018, the Bank issued the debt instrument 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.



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**SECTION FIVE (Continued)**

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

**II. Explanations and disclosures related to the liabilities (continued)**

**3. Information on banks and other financial institutions (continued)**

**3.d Additional information about the concentrated areas of liabilities:**

Under normal banking operations, the Bank provided funds under repurchase agreements and funds borrowed. Fund resources of the Bank particularly consist of foreign FC funds borrowed and FC and TL repurchase transactions. Information relating to funds provided under repurchase agreements is shown in the table below:

|  | Current Period |                | Prior Period   |                |
|--|----------------|----------------|----------------|----------------|
|  | TL             | FC             | TL             | FC             |
| From Domestic Transactions               | 41.539         | 137.458        | 450.037        | 127.078        |
| Financial institutions and organizations | -              | -              | 415.776        | -              |
| Other institutions and organizations     | 41.013         | 133.730        | 33.813         | 124.383        |
| Real persons                             | 526            | 3.728          | 448            | 2.695          |
| From Foreign Transactions                | 4              | -              | 3              | 34.060         |
| Financial institutions and organizations | -              | -              | -              | 34.060         |
| Other institutions and organizations     | 2              | -              | 2              | -              |
| Real persons                             | 2              | -              | 1              | -              |
| <b>Total</b>                             | <b>41.543</b>  | <b>137.458</b> | <b>450.040</b> | <b>161.138</b> |

**4. Other liabilities which exceed 10% of the balance sheet total and the breakdown of these which constitute at least 20% of grand total**

There are no other liabilities, which exceed 10% of the balance sheet total (31 December 2017: None).



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**SECTION FIVE (Continued)**

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

**II. Explanations and disclosures related to the liabilities (continued)**

**5. Informations on financial lease obligations (net)**

**5.a Explanations on finance lease payables:**

The Bank has no financial lease payables (31 December 2017: None).

**5.b Explanations regarding operational leases:**

As of the reporting date, the Bank's 2 head office buildings, 1 branch, 13 cars and 345 computers are subject to operational leasing. The Bank has no liability for operational leases in the current period (31 December 2017: 2 head office buildings, 1 branch, 13 cars and 291 computers under operational leasing).

**5.c Explanations on the lessor and lessee in sales and lease back transactions, agreement conditions, and major agreement terms:**

The Bank has no sale and lease back transactions as of the reporting date (31 December 2017: None).

**6. Negative differences on derivative financial instruments held for hedging purposes:**

|   | Current Period |                | Prior Period |               |
|---|----------------|----------------|--------------|---------------|
|   | TL             | FC             | TL           | FC            |
| Fair Value Hedge (1)                        | -              | 172.258        | -            | 78.682        |
| Cash Flow Hedge                             | -              | -              | -            | -             |
| Net Investment Hedge in a foreign operation | -              | -              | -            | -             |
| <b>Total</b>                                | <b>-</b>       | <b>172.258</b> | <b>-</b>     | <b>78.682</b> |

(1) Negative differences from derivative financial liabilities at fair value for hedging purpose is classified in "7.1 Derivative Financial Liabilities at Fair Value Through Profit or Loss" line in the balance sheet.

**7. Explanations on provisions**

**7.a Information on general loan loss provisions:**

|   | Prior Period   |
|---|----------------|
| <b>General Provisions</b>                         | <b>150.275</b> |
| Provisions for First Group Loans and Receivables  | 107.597        |
| Provisions for Second Group Loans and Receivables | 9.473          |
| Provisions for Non-Cash Loans                     | 2.447          |
| Other   | 30.758         |

**7.b Foreign exchange losses on the foreign currency indexed loans and finance lease receivables:**

The Bank has no foreign exchange losses on the foreign currency indexed loans. (31 December 2017: TL 4.724).

**7.c The specific provisions provided for unindemnified non cash loans:**

As of the reporting date, the Bank's specific provisions provided for unindemnified non cash loans amounts to TL 736 (31 December 2017: TL 583).



**SECTION FIVE (Continued)**

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

**II. Explanations and disclosures related to the liabilities (continued)**

**7. Information on provisions (continued)**

**7.d Information on other provisions:**

**7.d.1 Provision for possible losses:**

Free provision amounting to TL 220.000 provided by the Bank management in the current period for possible results of the circumstances which may arise from possible changes in the economy and market conditions (31 December 2017: TL 190.000).

**7.d.2 Information on employee termination benefits and unused vacation accrual**

The Bank has calculated reserve for employee termination benefits by using actuarial valuations as set out in the Turkish Accounting Standard No: 19 and reflected the calculated amount to the financial statements.

As of 31 December 2018, employee termination benefits is amounting TL 9.770 reflected in financial statements (31 December 2017: TL 8.312). As of 31 December 2017, the Bank has provided a reserve for unused vacation amounting to TL 2.319 (31 December 2017: TL 2.004). This balance is classified under reserve for employee benefits in the financial statements.

Actuarial gains and losses amount of TL 670 are consisted after 1 January 2018, are recognised under equity in accordance with revised TAS 19 standard (31 December 2017: TL 311 actuarial loss).

***Liabilities on pension rights***

As explained on the Section Three, Accounting Policies, XV. Explanations on Liabilities Regarding Employee Benefits as of 31 December 2018, the Bank has no obligations on pension rights (31 December 2017: None).

***Liabilities for pension funds established in accordance with Social Security Institution***

None (31 December 2017: None).

***Liabilities resulting from all kinds of pension funds, foundations etc. which provide post-retirement benefits for the employees***

The Bank's present value of the liabilities of TSKB A.Ş. Memur ve Müstahdemleri Yardım ve Emekli Vakfı fund, subject to the transfer to the Social Security Institution of the Pension Fund as of 31 December 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.

Accordingly, as of 31 December 2018 the Bank has no requirements for the benefits transferable to the fund and for other benefits not transferable to the fund and arising from other social rights and payments covered by the existing trust indenture of the Fund and medical benefits provided for employees in accordance to the law explained in Note 3.15, the accounting policies related with employee benefits.

**7.d.3 If other provisions exceed 10% of total provisions, the name and amount of sub-accounts:**

Other provisions, except to free provisions for possible losses, includes amount to TL 11.251 for general provision for non-cash loans and other miscellaneous provisions. (31 December 2017: TL 90.000 provision for the risks of loan portfolio).



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

**II. Explanations and disclosures related to the liabilities (continued)**

**8. Explanations on taxes payable**

**8.a Explanations on current taxes payable:**

**8.a.1 Explanations on taxes payable:**

|                                    | Current Period |          | Prior Period  |          |
|------------------------------------|----------------|----------|---------------|----------|
|                                    | TL             | FC       | TL            | FC       |
| Corporate Taxes and Deferred Taxes |                |          |               |          |
| Corporate tax payable              | 82.363         | -        | 43.662        | -        |
| Deferred tax liability             | -              | -        | -             | -        |
| <b>Total</b>                       | <b>82.363</b>  | <b>-</b> | <b>43.662</b> | <b>-</b> |

**8.a.2 Information on taxes payable:**

|  | Current Period | Prior Period  |
|--|----------------|---------------|
| Corporate taxes payable                      | 82.363         | 43.662        |
| Taxation of securities                       | 523            | 171           |
| Property tax                                 | -              | -             |
| Banking and Insurance Transaction Tax (BITT) | 6.460          | 6.106         |
| Foreign Exchange Transaction Tax             | -              | -             |
| Value Added Tax Payable                      | 701            | 399           |
| Other  | 1.686          | 1.553         |
| <b>Total</b>                                 | <b>91.733</b>  | <b>51.891</b> |

**8.a.3 Information on premiums:**

|  | Current Period | Prior Period |
|--|----------------|--------------|
| Social Security Premiums-Employee                    | -              | -            |
| Social Security Premiums-Employer                    | -              | -            |
| Bank Social Aid Pension Fund Premium-Employee        | -              | -            |
| Bank Social Aid Pension Fund Premium-Employer        | -              | -            |
| Pension Fund Membership Fees and Provisions-Employee | -              | -            |
| Pension Fund Membership Fees and Provisions-Employer | -              | -            |
| Unemployment insurance-Employee                      | 38             | 33           |
| Unemployment insurance-Employer                      | 75             | 66           |
| Other  | -              | -            |
| <b>Total</b>   | <b>113</b>     | <b>99</b>    |



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

**II. Explanations and disclosures related to the liabilities (continued)**

**8. Explanations on taxes payable (continued)**

**8.b Information on deferred taxes liabilities:**

As at the reporting date, the Bank has no deferred tax liability (31 December 2017: None).

**9. Explanations on liabilities regarding assets held for sale**

None (31 December 2017: None).

**10. Explanations on the number of subordinated loans the Bank used, maturity, interest rate, institution that the loan was borrowed from, and conversion option, if any:**

As of 28 March 2017, the Bank issued the sustainable subordinated debt instruments which have nominal value of USD 300 Million, redemption date of 29 March 2022 with fixed interest rate of 7,625%, semiannual coupon payment. The value of the borrowing instrument as of the period end is TL 1.549.774.

|  | Current Period |                  | Prior Period |                  |
|--|----------------|------------------|--------------|------------------|
|  | TL             | FC               | TL           | FC               |
| Debt Instruments Subject to Common Equity  |                |                  |              |                  |
| Subordinated Loans                         | -              | -                | -            | -                |
| Subordinated Debt Instruments              | -              | -                | -            | -                |
| Debt Instruments Subject to Tier II Equity | -              | 1.549.774        | -            | 1.146.236        |
| Subordinated Loans                         | -              | -                | -            | -                |
| Subordinated Debt Instruments              | -              | 1.549.774        | -            | 1.146.236        |
| <b>Total</b>                               | <b>-</b>       | <b>1.549.774</b> | <b>-</b>     | <b>1.146.236</b> |

**11. Explanations on shareholders' equity**

**11.a Presentation of paid-in capital:**

|                 | Current Period | Prior Period |
|-----------------|----------------|--------------|
| Common stock    | 2.800.000      | 2.400.000    |
| Preferred stock | -              | -            |

**11.b Paid-in capital amount, explanation as to whether the registered share capital system ceiling is applicable at bank, if so, amount of registered share capital:**

| Capital System            | Paid-in capital | Ceiling   |
|---------------------------|-----------------|-----------|
| Registered Capital System | 2.800.000       | 4.500.000 |

**11.c Information on share capital increases and their sources; other information on increased capital shares in current period:**

In the meeting of the General Assembly held on 23 March 2018, it has been resolved that, paid in capital of the 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. Aforementioned increase was approved by the BRSA dated 26 April 2018 and was announced in the Turkish Trade Registry Gazette dated 7 June 2018 and No. 9605.

In the meeting of the General Assembly held on 23 March 2017, it has been resolved that, paid-in capital of the Bank will be increased from TL 2.050.000 to TL 2.400.000 by adding TL 350.000. In respect of the resolution of the General Assembly, all of this increase will be incorporated from the profit of the year 2016. Aforementioned increase was approved by the BRSA dated 27 April 2017 and was announced in the Turkish Trade Registry Gazette dated 12 June 2017 and No. 9345.



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

**II. Explanations and disclosures related to the liabilities (continued)**

**11. Explanations on shareholders' equity (continued)**

**11.d Information on share capital increases from capital reserves:**

None (31 December 2017: None).

**11.e Capital commitments in the last fiscal year and at the end of the following period, the general purpose of these commitments and projected resources required to meet these commitments:**

The Bank has no capital commitments for its associates in the last fiscal year and at the end of the following period.

**11.f Indicators of the Bank's income, profitability and liquidity for the previous periods and possible effects of these future assumptions on the Bank's equity due to the uncertainty of these indicators:**

The prior period income, profitability and liquidity of the Bank and their trends in the successive periods are followed by Budget Planning and Investor Relations Department by considering the outcomes of the potential changes in the foreign exchange rate, interest rate and maturity alterations on profitability and liquidity under various scenario analyses.

The Bank operations are profitable, and the Bank retains the major part of its profit by capital increases or capital reserves within the shareholders equity.

**11.g Information on preferred shares:**

The Bank has no preferred shares (31 December 2017: None).

**11.h Information on marketable securities value increase fund:**

|   | Current Period |                 |
|---|----------------|-----------------|
|   | TL             | FC              |
| <b>From Associates, Subsidiaries, and Entities Under Common Control</b> | 801.864        | -               |
| <b>Available for Sale Financial Assets</b>                              | (69.635)       | (69.434)        |
| Valuation Differences   | (85.339)       | (69.434)        |
| Foreign Exchange Difference   | 15.704         | -               |
| <b>Total</b>  | <b>732.229</b> | <b>(69.434)</b> |

|   | Prior Period  |               |
|---|---------------|---------------|
|   | TL            | FC            |
| <b>From Associates, Subsidiaries, and Entities Under Common Control</b> | 95.378        | -             |
| <b>Available for Sale Financial Assets</b>                              | (34.415)      | 12.440        |
| Valuation Differences   | (42.262)      | 12.440        |
| Foreign Exchange Difference   | 7.847         | -             |
| <b>Total</b>  | <b>60.963</b> | <b>12.440</b> |



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**SECTION FIVE (Continued)**

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

**II. Explanations and disclosures related to the liabilities (continued)**

**11.i Informations on legal reserves:**

|  | Current Period | Prior Period   |
|--|----------------|----------------|
| First legal reserve  | 184.354        | 154.571        |
| Second legal reserve   | 85.670         | 84.283         |
| Other legal reserves appropriated in accordance with special legislation | -              | -              |
| <b>Total</b>   | <b>270.024</b> | <b>238.854</b> |

**11.j Informations on extraordinary reserves:**

|   | Current Period | Prior Period   |
|---|----------------|----------------|
| Reserves appropriated by the General Assembly       | 170.106        | 115.113        |
| Retained earnings                                   | -              | -              |
| Accumulated losses                                  | -              | -              |
| Foreign currency share capital exchange differences | -              | -              |
| <b>Total</b>  | <b>170.106</b> | <b>115.113</b> |



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

**III. Explanations and disclosures related to the off-balance sheet items**

**1. Explanation on off-balance sheet liabilities**

**1.a Types and amount of irrevocable loan commitments:**

|   | <b>Current Period</b> | <b>Prior Period</b> |
|---|-----------------------|---------------------|
| Commitments for Forward Purchase and Sales of Assets        | 97.040                | 99.151              |
| Commitments for Stock Brokerage Purchase and Sales          | 25.941                | 158.451             |
| Commitments for Letter of Credit                            | 177.294               | 197.571             |
| Capital commitments for subsidiaries and associates (1)     | 97.805                | 78.890              |
| Commitments from Forward Short Term Borrowing and Transfers | -                     | 93                  |
| Other   | 193.329               | 225.423             |
| <b>Total</b>  | <b>591.409</b>        | <b>759.579</b>      |

(1) The Bank, the European Investment Fund (European Investment Fund - EIF), to be established by Turkey, Growth and Innovation Fund (Turkish Growth and Innovation Fund - TGIF) purchase of shares of the fund established under the name situated remaining amount that commitment and capital participation commitment regarding the cash capital increase of TSKB Sürdürülebilirlik A.Ş.

**1.b Possible losses and commitments related to off-balance sheet items including items listed below:**

**1.b.1 Non-cash loans including guarantees, surety and acceptances, financial collaterals and other letters of credits:**

As of the reporting date, total letters of credit, surety and acceptances amount to TL 1.590.814 (31 December 2017: TL 1.098.066).

**1.b.2 Certain guarantees, tentative guarantees, surety ships and similar transactions:**

As of the reporting date, total letters of guarantee given by the Bank is TL 1.582.995 (31 December 2017: TL 1.475.647).

**1.c.1 Total amount of non-cash loans:**

|   | <b>Current Period</b> | <b>Prior Period</b> |
|---|-----------------------|---------------------|
| Non-cash loans given against obtaining cash loans | 1.559.899             | 736.637             |
| With maturity of one year or less than one year   | 92.374                | 25.877              |
| With maturity of more than one year               | 1.467.525             | 710.760             |
| Other non-cash loans                              | 1.613.910             | 1.837.076           |
| <b>Total</b>                                      | <b>3.173.809</b>      | <b>2.573.713</b>    |



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**SECTION FIVE (Continued)**

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

**III. Explanations and disclosures related to the off-balance sheet items (continued)**

**1. Explanation on off-balance sheet liabilities**

**1.c.2 Information on sectoral risk concentration of non cash loans:**

|                                   | Current Period |            |                  |            | Prior Period   |            |                  |            |
|-----------------------------------|----------------|------------|------------------|------------|----------------|------------|------------------|------------|
|                                   | TL             | (%)        | FC               | (%)        | TL             | (%)        | FC               | (%)        |
| Agriculture                       | -              | -          | -                | -          | -              | -          | -                | -          |
| Farming and stockbreeding         | -              | -          | -                | -          | -              | -          | -                | -          |
| Forestry                          | -              | -          | -                | -          | -              | -          | -                | -          |
| Fishing                           | -              | -          | -                | -          | -              | -          | -                | -          |
| Industry                          | 483.461        | 99         | 2.533.836        | 95         | 561.688        | 99         | 1.811.654        | 91         |
| Mining                            | 20.650         | 4          | -                | -          | -              | -          | -                | -          |
| Manufacturing Industry            | 279.645        | 57         | 1.329.829        | 50         | 381.548        | 68         | 937.466          | 48         |
| Electricity, Gas, Water           | 183.166        | 38         | 1.204.007        | 45         | 180.140        | 31         | 874.188          | 43         |
| Construction                      | 2.747          | 1          | 710              | -          | 146            | -          | -                | -          |
| Services                          | 1.739          | -          | 151.316          | 5          | 1.166          | 1          | 199.059          | 9          |
| Wholesale and Retail Trade        | -              | -          | 6.229            | -          | -              | -          | 9.410            | -          |
| Hotel, Food and Beverage Services | -              | -          | 107.718          | 4          | -              | -          | -                | -          |
| Transportation and Communication  | 1.138          | -          | 9.701            | -          | 62             | -          | 44.463           | 2          |
| Financial Institutions            | 321            | -          | 27.668           | 1          | 321            | -          | 145.186          | 7          |
| Real Asset and Leasing Services   | 280            | -          | -                | -          | 783            | 1          | -                | -          |
| Self-employment Services          | -              | -          | -                | -          | -              | -          | -                | -          |
| Education Services                | -              | -          | -                | -          | -              | -          | -                | -          |
| Health and Social Services        | -              | -          | -                | -          | -              | -          | -                | -          |
| Other                             | -              | -          | -                | -          | -              | -          | -                | -          |
| <b>Total</b>                      | <b>487.947</b> | <b>100</b> | <b>2.685.862</b> | <b>100</b> | <b>563.000</b> | <b>100</b> | <b>2.010.713</b> | <b>100</b> |

**1.c.3 Information on non cash loans classified under Group I and Group II:**

|   | Ist Group      |           |              |           | IInd Group     |       |              |    |
|---|----------------|-----------|--------------|-----------|----------------|-------|--------------|----|
|   | Current Period |           | Prior Period |           | Current Period |       | Prior Period |    |
|   | TL             | FC        | TL           | FC        | TL             | FC    | TL           | FC |
| Non-cash Loans                                | 478.129        | 2.676.264 | 558.517      | 2.010.713 | 6.854          | 9.598 | 3.317        | -  |
| Letters of Guarantee                          | 478.129        | 1.095.048 | 558.517      | 912.647   | 6.854          | -     | 3.317        | -  |
| Bank Acceptances                              | -              | -         | -            | 18.763    | -              | -     | -            | -  |
| Letters of Credit                             | -              | 1.581.216 | -            | 1.079.303 | -              | 9.598 | -            | -  |
| Endorsements                                  | -              | -         | -            | -         | -              | -     | -            | -  |
| Purchase Guarantees on Issuance of Securities | -              | -         | -            | -         | -              | -     | -            | -  |
| Factoring Guarantees                          | -              | -         | -            | -         | -              | -     | -            | -  |
| Other   | -              | -         | -            | -         | -              | -     | -            | -  |



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**SECTION FIVE (Continued)**

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

**III. Explanations and disclosures related to the off-balance sheet items (continued)**

**2. Explanation related to derivative financial instruments**

As of 31 December 2018, the breakdown of the Bank's foreign currency forward and swap transactions based on currencies are disclosed below in their TL equivalents:

| <b>Current Period</b> | <b>Forward Buy</b> | <b>Forward Sell</b> | <b>Swap Buy</b>   | <b>Swap Sell</b>  | <b>Option Buy</b> | <b>Option Sell</b> | <b>Futures Buy</b> | <b>Futures Sell</b> | <b>Fair Value Hedge</b> |
|-----------------------|--------------------|---------------------|-------------------|-------------------|-------------------|--------------------|--------------------|---------------------|-------------------------|
| TL                    | 974.149            | 845.785             | 827.263           | 3.432.783         | 1.281.990         | 1.281.990          | -                  | -                   | -                       |
| US Dollar             | 136.897            | 321.265             | 10.777.833        | 6.640.106         | 1.204.750         | 1.204.755          | -                  | -                   | 18.028.129              |
| Euro                  | 827.414            | 695.439             | 3.890.834         | 5.231.512         | 147.514           | 147.509            | -                  | -                   | -                       |
| Other                 | -                  | -                   | 166.575           | 155.096           | -                 | -                  | -                  | 13.401              | -                       |
| <b>Total</b>          | <b>1.938.460</b>   | <b>1.862.489</b>    | <b>15.662.505</b> | <b>15.459.497</b> | <b>2.634.254</b>  | <b>2.634.254</b>   | <b>-</b>           | <b>13.401</b>       | <b>18.028.129</b>       |

| <b>Prior Period</b> | <b>Forward Buy</b> | <b>Forward Sell</b> | <b>Swap Buy</b>   | <b>Swap Sell</b>  | <b>Option Buy</b> | <b>Option Sell</b> | <b>Futures Buy</b> | <b>Futures Sell</b> | <b>Fair Value Hedge</b> |
|---------------------|--------------------|---------------------|-------------------|-------------------|-------------------|--------------------|--------------------|---------------------|-------------------------|
| TL                  | 485.006            | 496.499             | 594.254           | 1.783.828         | 1.159.838         | 1.159.838          | -                  | -                   | -                       |
| US Dollar           | 1.161.362          | 1.149.585           | 6.235.835         | 4.790.697         | 918.051           | 918.051            | -                  | -                   | 10.582.050              |
| Euro                | 423.419            | 423.467             | 3.139.039         | 3.323.127         | 248.097           | 248.097            | -                  | -                   | -                       |
| Other               | 343.381            | 343.386             | 211.698           | 143.244           | -                 | -                  | -                  | 72.830              | -                       |
| <b>Total</b>        | <b>2.413.168</b>   | <b>2.412.937</b>    | <b>10.180.826</b> | <b>10.040.896</b> | <b>2.325.986</b>  | <b>2.325.986</b>   | <b>-</b>           | <b>72.830</b>       | <b>10.582.050</b>       |



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**SECTION FIVE (Continued)**

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

**III. Explanations and disclosures related to the off-balance sheet items (continued)**

**2. Explanation related to derivative financial instruments (continued)**

| Derivative Financial Liabilities Held For Trading | Current Period    |                        |  | Prior Period           |                   |  |
|---|-------------------|------------------------|--|------------------------|-------------------|--|
|   | Fair Value Assets | Fair Value Liabilities | Notional Amount in Turkish Lira Equivalent | Fair Value Liabilities | Fair Value Assets | Notional Amount in Turkish Lira Equivalent |
| Swap Transactions                                 | 658.746           | 394.627                | 14.409.996                                 | 206.665                | 135.793           | 7.007.482                                  |
| Interest Rate Swap Transactions                   | 107.411           | 71.871                 | 16.712.006                                 | 55.695                 | 32.518            | 13.214.240                                 |
| Forward Transactions                              | 152.353           | 93.917                 | 3.800.949                                  | 21.909                 | 21.669            | 4.826.105                                  |
| Option Transactions                               | 59.646            | 59.646                 | 5.268.508                                  | 42.519                 | 42.423            | 4.651.972                                  |
| Other   | -                 | -                      | 13.401                                     | -                      | -                 | 72.830                                     |
| <b>Total</b>                                      | <b>978.156</b>    | <b>620.061</b>         | <b>40.204.860</b>                          | <b>326.788</b>         | <b>232.403</b>    | <b>29.772.629</b>                          |

***Fair value hedge***

For the year ended 31 December 2018, the Bank has interest rate swaps for hedging purposes nominal amount of TL 18.028.129 (31 December 2017: TL 10.582.050)

***Hedging from the cash-flow risk***

As of 31 December 2018 there is no cash-flow hedging transactions (31 December 2017: None).

**3. Explanations on loan derivatives and risk exposures**

The Bank has no loan derivatives and such risk exposures to this respect (31 December 2017: None).

**4. Explanations on contingent liabilities and assets**

There are 37 legal cases against the Bank which are amounting to TL 2.175 as of the reporting date (31 December 2017: TL 2.176 - 34 legal cases).

Tax Audit Committee inspectors made an investigation for the years 2008-2011 about the payments made by the Bank and employees to “Türkiye Sınai Kalkınma Bankası A.Ş. Mensupları Munzam Sosyal Güvenlik ve Yardımlaşma Vakfı” (Foundation) established in accordance with the decisions of Turkish Commercial Law and Civil Law as made to all Foundations in the sector. According to this investigation it has been communicated that the amount Bank is obliged to pay is a benefit in the nature of fee for the members of Foundation worked at the time of payment, the amount Foundation members are obliged to pay should not be deducted from the basis of fee; accordingly tax audit report was issued with the claim that it should be taken penalized income tax surcharge / penalized stamp duty deducted from allowance and total amount of TL 17.325 tax penalty notice relating to period in question to Bank relying on this report.



## **SECTION FIVE (Continued)**

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

#### **III. Explanations and disclosures related to the off-balance sheet items (continued)**

##### **4. Explanations on contingent liabilities and assets (continued)**

The Bank assesses that the Bank's practice is in compliance with the legislation and there is no legal basis for the tax administration's suspended assessments, therefore, lawsuits have been filed against the subjected assessments in various tax courts in İstanbul, Ankara and İzmir. Some of the lawsuits are decided favourable, remaining of lawsuits are decided unfavourable by the tax courts of first instance. On the other hand, appeal and objection have been requested by the Bank against the decision of the Court with respect to the Bank and by the administration against the decision of the Court with respect to the administration and completion of appeal process is waited. The tax and penalty notices related to the decision of the tax court of first instance against the Bank are accrued by administration depending on legal process and as of 31 July 2014 the Bank has made total payments amounting to TL 22.091.

A similar case has been submitted to the Constitutional Court in the form of individual remedies by the main shareholder of the Bank in relation to the Bank's liabilities to pay, the Constitutional Court gave the decision with court file number 2014/6192. According to court decision published in the Official Gazette dated 21 February 2015 and numbered 29274, the assessments against the Bank was contrary to the principle of legality and the Bank's property rights has been violated. This decision is considered to be a precedent for the Bank and an amount of TL 12.750 corresponding to the portion that the Bank was obliged to pay for the related period is recognized as income in the prior period.,

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

##### **5. Custodian and intermediary services:**

The Bank provides trading and safe keeping services in the name and account of real persons, legal entities, funds, pension funds and other entities, which are presented in the statement of contingencies and commitments.



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**SECTION FIVE (Continued)**

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

**IV. Explanations and disclosures related to the income statement**

**1. Information on interest income**

**1.a Information on interest on loans:**

|  | Current Period |                  | Prior Period   |                |
|--|----------------|------------------|----------------|----------------|
|  | TL             | FC               | TL             | FC             |
| Interest on loans (1)                                    |                |                  |                |                |
| Short term loans   | 311.594        | 55.039           | 193.578        | 9.179          |
| Medium and long term loans                               | 330.572        | 1.377.651        | 216.065        | 876.636        |
| Interest on non-performing loans                         | 7              | 29.715           | 3.369          | 87             |
| Premiums received from Resource Utilization Support Fund | -              | -                | -              | -              |
| <b>Total</b>   | <b>642.173</b> | <b>1.462.405</b> | <b>413.012</b> | <b>885.902</b> |

(1) Commission income from loans have been included to the interest on loans.

**1.b Information on interest received from banks:**

|                                 | Current Period |              | Prior Period  |              |
|---------------------------------|----------------|--------------|---------------|--------------|
|                                 | TL             | FC           | TL            | FC           |
| The Central Bank of Turkey (1)  | 10.258         | -            | 5.617         | -            |
| Domestic banks                  | 25.825         | 8.318        | 31.709        | 1.805        |
| Foreign banks                   | 1.143          | 499          | 1.337         | 168          |
| Branches and head office abroad | -              | -            | -             | -            |
| <b>Total</b>                    | <b>37.226</b>  | <b>8.817</b> | <b>38.663</b> | <b>1.973</b> |

(1) Interests given to the Turkish Lira and US Dollar portion of the CBRT Required Reserves, reserve options and unrestricted accounts have been presented under "The Central Bank of Turkey" line in the financial statements.

**1.c Information on interest received from marketable securities:**

|   | Current Period |               |
|---|----------------|---------------|
|   | TL             | FC            |
| Financial Assets at Fair Value Through Profit and Loss            | 20             | -             |
| Financial Assets at Fair Value Through Other Comprehensive Income | 296.002        | 62.774        |
| Financial Assets Measured at Amortized Cost                       | 386.565        | 15.635        |
| <b>Total</b>  | <b>682.587</b> | <b>78.409</b> |

|  | Prior Period   |               |
|--|----------------|---------------|
|  | TL             | FC            |
| Trading Securities                                     | 1.031          | 1             |
| Financial Assets at Fair Value Through Profit and Loss | -              | -             |
| Available for Sale Financial Assets                    | 190.262        | 50.637        |
| Investments Held to Maturity                           | 177.715        | 12.254        |
| <b>Total</b>   | <b>369.008</b> | <b>62.892</b> |

As indicated in accounting policies, the bank evaluate its Consumer Price Indexed (CPI) government bonds which are in securities portfolio of the Bank base on reference index at date of issue and estimated CPI's. The estimated CPI's is updated when it seems necessary. The subjected securities is evaluated based on actual index on the annual balance sheet date as of 31 December 2018.



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**SECTION FIVE (Continued)**

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

**IV. Explanations and disclosures related to the income statement (continued)**

**1. Information on interest income (continued)**

**1.d Information on interest income received from associates and subsidiaries:**

|  | <b>Current Period</b> | <b>Prior Period</b> |
|--|-----------------------|---------------------|
| Interest received from associates and subsidiaries | 26.082                | 20.793              |

**2. Information on interest expenses**

**2.a Information on interest on funds borrowed:**

|                                 | <b>Current Period</b> |                | <b>Prior Period</b> |                |
|---------------------------------|-----------------------|----------------|---------------------|----------------|
|                                 | <b>TL</b>             | <b>FC</b>      | <b>TL</b>           | <b>FC</b>      |
| Banks                           | 46.200                | 72.524         | 24.848              | 40.252         |
| The Central Bank of Turkey      | -                     | -              | -                   | -              |
| Domestic banks                  | 34.673                | 6.760          | 13.220              | 3.689          |
| Foreign banks                   | 11.527                | 65.764         | 11.628              | 36.563         |
| Branches and head office abroad | -                     | -              | -                   | -              |
| Other financial institutions    | 2.794                 | 439.969        | 2.794               | 254.784        |
| <b>Total (1)</b>                | <b>48.994</b>         | <b>512.493</b> | <b>27.642</b>       | <b>295.036</b> |

(1) Commissions given to other financial institutions have been included to interest expense on funds borrowed.

**2.b Information on interest expense to associates and subsidiaries:**

The Bank has no interest expense to its associates and subsidiaries (31 December 2017: None).

**2.c Information on interest expense to securities issued:**

|                                   | <b>Current Period</b> |           | <b>Prior Period</b> |           |
|-----------------------------------|-----------------------|-----------|---------------------|-----------|
|                                   | <b>TL</b>             | <b>FC</b> | <b>TL</b>           | <b>FC</b> |
| Interest on Securities Issued (1) | -                     | 491.351   | -                   | 262.943   |

(1) Commissions given to issuance have been included to interest expense on funds borrowed.

**3. Information on dividend income**

|   | <b>Current period</b> |
|---|-----------------------|
| Financial Assets at Fair Value Through Profit or Loss             | -                     |
| Financial Assets at Fair Value Through Other Comprehensive Income | 3.098                 |
| Other   | 913                   |
| <b>Total</b>  | <b>4.011</b>          |

|  | <b>Prior period</b> |
|--|---------------------|
| Financial Assets held for Trading                      | -                   |
| Financial Assets at Fair Value Through Profit and Loss | -                   |
| Financial Assets Available For Sale                    | 2.368               |
| Other  | 15.633              |
| <b>Total</b>   | <b>18.001</b>       |



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**SECTION FIVE (Continued)**

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

**IV. Explanations and disclosures related to the income statement (continued)**

**4. Information on net trading income (net)**

|  | <b>Current Period</b> | <b>Prior Period</b> |
|--|-----------------------|---------------------|
| <b>Profit</b>                                  | <b>5.547.271</b>      | <b>1.822.348</b>    |
| Gains on capital market operations             | 4.746                 | 9.080               |
| Gains on derivative financial instruments (1)  | 3.219.120             | 986.955             |
| Foreign exchange gains                         | 2.323.405             | 826.313             |
| <b>Losses (-)</b>                              | <b>5.814.502</b>      | <b>1.867.863</b>    |
| Losses on capital market operations            | 2.733                 | 3.217               |
| Losses on derivative financial instruments (1) | 3.696.228             | 1.206.720           |
| Foreign exchange losses                        | 2.115.541             | 657.926             |

(1) Foreign exchange gain from derivative transactions amounting to TL 2.101.244 is presented in "Gains on derivative financial instruments" (31 December 2017: TL 367.511), foreign exchange loss from derivative transactions amounting to TL (2.552.274) is presented in "Losses on derivative financial instruments" (31 December 2017: TL (602.607)).

**5. Explanation related to other operating income**

|                                     | <b>Current Period</b> | <b>Prior Period</b> |
|-------------------------------------|-----------------------|---------------------|
| Provisions Released (1)             | 91.077                | 32.016              |
| Gains on Sale of Assets             | 73                    | 244                 |
| From Associate and Subsidiary Sales | -                     | -                   |
| From Immovable Fixed Asset Sales    | -                     | -                   |
| From Property Sales                 | -                     | 244                 |
| From Other Asset Sales              | 73                    | -                   |
| Other                               | 3.008                 | 2.574               |
| <b>Total</b>                        | <b>94.158</b>         | <b>34.834</b>       |

(1) Includes TL 90.000 other provision released in the current period.



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**SECTION FIVE (Continued)**

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

**IV. Explanations and disclosures related to the income statement (continued)**

**6.a.1 Expected credit loss of the Bank**

|  | <b>Current Period</b> |
|--|-----------------------|
| Expected Credit Loss   | 492.813               |
| 12 Months Expected Credit Loss (Stage 1)   | 81.527                |
| Significant Increase in Credit Risk (Stage 2)  | 131.972               |
| Non-performing Loans (Stage 3)   | 279.314               |
| Marketable Securities Impairment Expenses  | 7.607                 |
| Financial Assets at Fair Value Through Profit or Loss                                      | -                     |
| Financial Assets at Fair Value Through Other Comprehensive Income                          | 7.607                 |
| Associates, Subsidiaries, and Entities under Common Control (Joint Venture) Value Decrease | -                     |
| Associates   | -                     |
| Subsidiaries   | -                     |
| Entities under Common Control (Joint Venture)  | -                     |
| Other (1)  | 30.773                |
| <b>Total</b>   | <b>531.193</b>        |

(1) Contains free provision addition in current period.

**6.a.2 Provision expenses related to loans and other receivables of the Bank**

|   | <b>Prior Period</b> |
|---|---------------------|
| Specific provisions for loans and other receivables | 4.910               |
| III. Group Loans and Receivables                    | -                   |
| IV. Group Loans and Receivables                     | 4.896               |
| V. Group Loans and Receivables                      | 14                  |
| General provision expenses                          | -                   |
| Provision expenses for possible losses              | 190.000             |
| Marketable securities impairment expenses           | 3.988               |
| Trading securities                                  | -                   |
| Investment securities available for sale            | 3.988               |
| Impairment provisions                               | 2.402               |
| Associates  | 499                 |
| Subsidiaries  | -                   |
| Entities under common control (joint vent.)         | -                   |
| Investment securities held to maturity              | 1.903               |
| Other   | -                   |
| <b>Total</b>  | <b>201.300</b>      |



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**SECTION FIVE (Continued)**

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

**IV. Explanations and disclosures related to the income statement (continued)**

**7. Information related to other operating expenses**

|  | <b>Current Period</b> | <b>Prior Period</b> |
|--|-----------------------|---------------------|
| Personnel expenses (1) (2)                                   | 106.436               | 82.574              |
| Reserve for employee termination benefits (1)                | 787                   | 95                  |
| Bank social aid fund deficit provision                       | -                     | -                   |
| Impairment expenses of fixed assets                          | -                     | -                   |
| Depreciation expenses of fixed assets                        | 3.733                 | 3.413               |
| Impairment expenses of intangible assets                     | -                     | -                   |
| Impairment expense of goodwill                               | -                     | -                   |
| Amortization expenses of intangible assets                   | 978                   | 590                 |
| Impairment on subsidiaries accounted for under equity method | -                     | -                   |
| Impairment on assets for resale                              | -                     | 18                  |
| Depreciation expenses of assets for resale                   | -                     | -                   |
| Impairment expenses of assets held for sale                  | -                     | -                   |
| Other operating expenses                                     | 31.458                | 25.067              |
| Rent expenses  | 12.998                | 9.871               |
| Maintenance expenses   | 677                   | 708                 |
| Advertisement expenses                                       | 966                   | 936                 |
| Other expenses   | 16.817                | 13.552              |
| Loss on sale of assets                                       | -                     | 1.340               |
| Other (3)  | 19.483                | 19.346              |
| <b>Total</b>   | <b>162.875</b>        | <b>132.443</b>      |

(1) Due to personnel expenses and reserve for employee termination benefits shown separately on the financial statement in the current period it is not include in the other operating expenses.

(2) Includes the distribution of profit share to the employees in accordance with TAS 19 "Employee Benefits"

(3) It contains vacation liability expenses amounting TL 315.

**8. Information on tax provision for continued and discontinued operations**

As of 31 December 2018, the Bank's profit before tax has increased by 25,02 % compared to the prior period (31 December 2017: 22,6% increase). Net interest income of the Bank has increased by 68,71 % compared to the prior period (31 December 2017: 33,72% increase)

**9. Explanation on tax provision for continued and discontinued operations**

**9.a Explanation on current tax charge or benefit and deferred tax charge or benefit:**

The Bank's current tax charge for the period is TL 146.335 (31 December 2017: TL 161.659). Deferred tax income is TL 102.002 (31 December 2017: TL 30.024 deferred tax charge).

**9.b Explanation related to deferred tax benefit or charge on temporary differences:**

Deferred tax income calculated on temporary differences is TL 102.002 (31 December 2017: TL 30.024 deferred tax charge).

**9.c Explanation related to deferred tax benefit / charge on temporary differences, losses, tax deductions and exceptions:**

There has no deferred tax revenues or expenses reflected in the income statement in respect of financial losses, tax deductions and exemptions (31 December 2017: TL None).



**SECTION FIVE (Continued)**

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

**IV. Explanations and disclosures related to the income statement (continued)**

**9. Explanations on net profit/loss from continued and discontinued operations**

As of 31 December 2017, the Bank's profit before tax has increased by 10,96% compared to the prior period.

**10. Information on net profit/loss**

**10.a The nature and amount of certain income and expense items from ordinary operations is disclosed if the disclosure for nature, amount and repetition rate of such items is required for the complete understanding of the Bank's performance for the period:**

The Bank has generated TL 3.034.857 of interest income, TL 1.281.465 of interest expenses and TL 19.001 of net fee and commission income from banking operations (31 December 2017: TL 1.826.236 interest income, TL 786.945 interest expense, TL 14.435 net fee and commission income).

**10.b The effect of the change in accounting estimates to the net profit/loss; including the effects to the future period, if any:**

There has no change in the accounting estimates and accordingly effect on the financial statement items. (31 December 2017: None).

**10.c Minority share of profit and loss:**

There is no profit and loss attributable to minority interest in the accompanying unconsolidated financial statements (31 December 2017: None).

**11. If the other items in the income statement exceed 10% of the income statement total, accounts amounting to at least 20% of these items are shown below:**

None other than other operating expense explained in Note IV.7, exceeds 10% of the income statement.

**V. Explanations related to the statement of changes in shareholders' equity**

**1. Informations related to capital**

As of the balance sheet date, Paid in capital is TL 2.800.000, legal reserves is TL 270.024 Extraordinary legal reserves is TL 170.106.

**2. Accumulated other comprehensive income or loss not reclassified through profit or loss**

Changes in Accumulated other comprehensive income or loss not reclassified through profit or loss includes valuation differences related to tangible assets, Defined Benefit Pension Plan related to Actuarial gains, related to valuation differences of the shares that are being classified fair value through other comprehensive income are being valued at market value and value increase differences in investment in associates, subsidiaries and entities under common control.

**3. Accumulated other comprehensive income or loss reclassified through profit or loss**

Changes in Accumulated other comprehensive income or loss reclassified through profit or loss includes related to exchange differences of the shares that are being classified fair value through other comprehensive income and related to revaluation differences of fair value through other comprehensive income.



**SECTION FIVE (Continued)**

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

**VI. Explanations related to the statement of cash flows**

**1. The effects of the other items stated in the cash flow statement and the changes in foreign currency exchange rates on cash and cash equivalents**

In the current period, other income amounting to TL 6.135, consists of gain on sale of assets and non-interest income (31 December 2017: TL 41.077 gain on sale of assets, capital market transaction income and non-interest income).

Other caption in changes in assets and liabilities from banking operations amounting to TL 713.499 consists of derivative financial transaction losses, taxes paid except employee termination benefits provision and depreciation expense, other operating expenses, fees and commissions paid and trading income/loss. (31 December 2017: TL 253.750 consists of derivative financial transaction losses, taxes paid except loss employee termination benefits provision and depreciation expense, other operating expenses, fees and commissions paid and trading income/loss).

In the current period, net increase/decrease item in other assets amounting to TL (387.971) (31 December 2017: TL (154.905)), consists of change in miscellaneous receivables, reserve requirement and other assets items.

In the current period, other payables amounting to TL (651.961) (31 December 2017: (TL 113.279)), consists of change in borrower funds, miscellaneous payables and funds from repo transactions.

In the current period, the effect of changes in foreign currency exchange rates on cash and cash equivalents has realized amounting to TL 45.114 (31 December 2017: TL 659).

**2. Information about cash flows from acquisition of associates, subsidiaries and other investments**

In the current period, the Bank has invested TL 4.181 of movable and immovable property and TL 2.500 of intangible assets. In the current period, there is TL 152.380 investment on subsidiaries and affiliates.

In the prior period, the Bank has invested TL 3.580 of movable and immovable property and TL 1.281 of intangible assets.

**Information about disposal of associates, subsidiaries, and other investments**

In the current period, the Bank has generated a cash inflow of TL 94 on sale of movable fixed assets and properties (31 December 2017: TL 300).



**SECTION FIVE (Continued)**

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

**VI. Explanations related to the statement of cash flows (continued)**

**4. Information on cash and cash equivalents at the end of the period**

Information on cash and cash equivalents at the beginning of the period:

|                  | Beginning of the Current Period | Beginning of the Prior Period |
|------------------|---------------------------------|-------------------------------|
| Cash             | 20                              | 27                            |
| Cash Equivalents | 20.156                          | 481.886                       |
| <b>Total</b>     | <b>20.176</b>                   | <b>481.913</b>                |

Information on cash and cash equivalents at the end of the period:

|                  | End of the Current Period | End of the Prior Period |
|------------------|---------------------------|-------------------------|
| Cash             | 23                        | 20                      |
| Cash Equivalents | 1.202.087                 | 20.156                  |
| <b>Total</b>     | <b>1.202.110</b>          | <b>20.176</b>           |

**5. Amount of cash and cash equivalents restricted for the usage of the Bank and the shareholders by legal limitations and other reasons**

Reserves amounting to TL 730.273 (31 December 2017: TL 831.678) in Turkish Republic Central Bank represent Turkish Lira, foreign currency and gold reserve requirements of the Bank.

**6. Additional information related to financial position and liquidity of the Bank**

**6.a Any unused financial borrowing facility which can be utilized in banking operations and unpaid capital commitments and any restrictions on such facilities:**

There are not any unused financial borrowing facilities which can be utilized in banking operations and unpaid capital commitments and any restrictions on such facilities.

**6.b Apart from the cash flows needed to run ordinary operations of the Bank, total of cash flows that shows the increase in the operation capacity of the Bank:**

Under current economical conditions, the cash flows are followed daily and cash flows showing the increase in the capacity of operations of the Bank are investigated.



**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

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

**SECTION FIVE (Continued)**

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

**VI. Explanations on the risk group of the Bank**

**1. Information on the volume of transactions related to the Bank's own risk group, outstanding loan and deposit transactions and income and expenses of the period**

**1.a Current Period:**

| Risk Group of the Bank         | Subsidiaries and Associates |          | Direct and Indirect Shareholders of the Bank |          | Other Entities Included In the Risk Group |          |
|--------------------------------|-----------------------------|----------|--|----------|---|----------|
|                                | Cash                        | Non-cash | Cash   | Non-cash | Cash                                      | Non-cash |
| Loans and Other Receivables    |                             |          |  |          |   |          |
| Balance at Beginning of Period | 257.470                     | 262      | -  | -        | 76.931                                    | -        |
| Balance at End of Period       | 437.232                     | 262      | 102.776                                      | -        | 59.858                                    | -        |
| Interest and Commission Income | 25.211                      | 871      | 76   | -        | 5.823                                     | -        |

**1.b Prior Period:**

| Risk Group of the Bank         | Subsidiaries and Associates |          | Direct and Indirect Shareholders of the Bank |          | Other Entities Included In the Risk Group |          |
|--------------------------------|-----------------------------|----------|--|----------|---|----------|
|                                | Cash                        | Non-cash | Cash   | Non-cash | Cash                                      | Non-cash |
| Loans and Other Receivables    |                             |          |  |          |   |          |
| Balance at Beginning of Period | 346.306                     | 7.878    | 21.131                                       | -        | 90.035                                    | -        |
| Balance at End of Period       | 257.470                     | 262      | -  | -        | 76.931                                    | -        |
| Interest and Commission Income | 20.076                      | 717      | 251  | -        | 6.609                                     | -        |

**1.c Information on deposit held by Bank's own risk group:**

The Bank is not authorized to accept deposits.

| Risk Group of the Bank                                | Subsidiaries and Associates |              | Direct and Indirect Shareholders of the Bank |              | Other Entities Included in the Risk Group |              |
|---|-----------------------------|--------------|--|--------------|---|--------------|
|   | Current Period              | Prior Period | Current Period                               | Prior Period | Current Period                            | Prior Period |
| <b>Fair Value Through Profit or Loss Transactions</b> |                             |              |  |              |   |              |
| Beginning of the Period                               | 444.536                     | 849.378      | -  | -            | -   | -            |
| End of the Period                                     | 364.732                     | 444.536      | -  | -            | 131.758                                   | -            |
| Total Profit / Loss                                   | (356.617)                   | (23.426)     | -  | -            | (1.906)                                   | 1.920        |
| <b>Hedging Risk Transactions</b>                      |                             |              |  |              |   |              |
| Beginning of the Period                               | -                           | -            | -  | -            | -   | -            |
| End of the Period                                     | -                           | -            | -  | -            | -   | -            |
| Total Profit / Loss                                   | -                           | -            | -  | -            | -   | -            |

**2. Information on forward, option and other similar agreements made with Bank's own risk group**

**3. Total salaries and similar benefits provided to the key management personnel**

Benefits provided to the key management personnel in the current period amount to TL 11.961 (31 December 2017: TL 11.209).



**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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(Amounts are expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

**SECTION FIVE (Continued)**

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

**VIII. Information and disclosures related to the domestic, foreign offshore branches and foreign representations of the Bank:**

**1. Domestic and foreign branches and representative offices**

|                                   | Number | Number of Employees |                          |             |                         |
|-----------------------------------|--------|---------------------|--------------------------|-------------|-------------------------|
| Domestic branches                 | 2      | 371                 |                          |             |                         |
|                                   |        |                     | Country of Incorporation |             |                         |
| Foreign representations           | -      | -                   |                          |             |                         |
|                                   |        |                     |                          | Total Asset | Statutory Share Capital |
| Foreign branches                  | -      | -                   |                          | -           | -                       |
| Off-shore banking region branches | -      | -                   |                          | -           | -                       |

**2. Explanation on opening, closing of a branch/agency of the Bank or changing its organizational structure significantly**

In the current year, the Bank has not opened any branch or agency and there is no significant change in the organization structure of the Bank's operating branches.

In the prior period, the Bank has not opened any branch or agency and there is no significant change in the organization structure of the Bank's operating branches.



**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

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

**SECTION SIX**

**OTHER EXPLANATIONS**

**I. Other explanations related to operations of the Bank**

**1.a Brief information related to ratings carried out by international rating firms:**

**FITCH RATINGS**

|   |          |
|---|----------|
| Long-term Maturity Foreign Currency (issuer)          | B+       |
| Long-term Maturity Foreign Currency Outlook (issuer)  | Negative |
| Short-term Maturity Foreign Currency (issuer)         | B        |
|   |          |
| Long-term Maturity National Currency (issuer)         | BB       |
| Long-term Maturity National Currency Outlook (issuer) | Negative |
| Short-term Maturity National Currency (issuer)        | B        |
|   |          |
| Support Note  | 4        |
| Support Note Base                                     | B+       |
| National Note   | AA       |
| National Note Outlook                                 | Stable   |
| Subordinated Debt Rating Note                         | B        |
| Financial Capacity Note                               | b+       |

International credit rating agency Fitch Ratings confirmed the Bank's ratings and outlook on 1 October 2018 and determined Bank's "Financial Capacity Note"

**MOODY'S**

|  |          |
|--|----------|
| Reference Financial Rating Note              | b3       |
| <b>Foreign Currency (issuer)</b>             |          |
| Long-term Maturity                           | B2       |
| Outlook                                      | Negative |
| Short-term Maturity                          | NP       |
| <b>Domestic Currency (issuer)</b>            |          |
| Long-term Maturity                           | B2       |
| Outlook                                      | Negative |
| Short-term Maturity                          | NP       |
| <b>Unsecured Debt-Foreign Currency</b>       |          |
| Long-term Maturity                           | B2       |
| Outlook                                      | Negative |
| Foreign Currency/Domestic Currency MTN Note: | (P) B2   |

Information above represents updated information as of 28 August 2018.

**1.b Informations on corporate governance rating of the Bank:**

SAHA Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş. (SAHA Corporate Governance and Credit Rating Services A.Ş.), a corporate governance rating institution with Capital Markets Board license, updated the Bank's corporate governance rating of 95,42% (9,54 over 10) as of 19 October 2018. Ratings under the main topics of weighted Shareholders, Public Disclosure and Transparency, Stakeholders and Board of Directors are declared as; 9,49 (Weight: 25%), 9,69 (Weight: 25%), 9,85 (Weight: 15%), 9,33 (Weight: 35%) over 10 respectively.



**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

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

**SECTION SIX (Continued)**

**OTHER EXPLANATIONS (Continued)**

**II. Other explanations related to the events after the reporting date**

None.

**SECTION SEVEN**

**AUDITORS' REPORT**

**I. Explanations on the auditors' report**

The unconsolidated financial statements for the period ended 31 December 2018 have been audited by Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (A member firm of Ernst & Young Global Limited). The independent auditor's audit report dated 1 February 2019 is presented preceding the financial statements.

**II. Explanations and notes prepared by independent auditors**

There are no other explanations and notes not expressed in sections above related with the Bank's operations.



# TÜRKİYE SİNAİ KALKINMA BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Independent Auditor's Audit Report, Consolidated Financial Statements and Notes for  
the Year Ended December 31, 2018



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

**INDEPENDENT AUDITOR'S REPORT**

**To the General Assembly of Türkiye Sınai Kalkınma Bankası A.Ş.:**

**Audit of Consolidated Financial Statements**

**Qualified Opinion**

We have audited the consolidated financial statements of Türkiye Sınai Kalkınma Bankası A.Ş. (the Bank) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 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 Türkiye Sınai Kalkınma Bankası A.Ş. (the Bank) and its subsidiaries as at 31 December 2018 and consolidated financial performance and consolidated its cash flows for the year then ended in accordance with the Banking Regulation and Supervision Agency ("BRSA") Accounting and Financial Reporting Legislation which includes "Regulation on Accounting Applications for Banks and Safeguarding of Documents" published in the Official Gazette no.26333 dated 1 November 2006, and other regulations on accounting records of Banks published by Banking Regulation and Supervision Agency and circulars and interpretations published by BRSA and Turkish Financial Reporting Standards ("TFRS") for those matters not regulated by the aforementioned regulations.

**Basis for Qualified Opinion**

As explained in Note 7 in the Explanations and Disclosures related to the Liabilities, the accompanying consolidated financial statements as at 31 December 2018 include a free provision at an amount of TL 220.000 thousands, of which TL 30.000 thousands and TL 190.000 thousands was provided in current and prior years respectively by the Bank 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 41.800 thousands, which was accounted based on the free provision provided in 31 December 2017. Due to the fact that the above mentioned items do not meet the requirements of TAS 37, the "Prior years' income/losses" as of 31 December 2018 is understated by TL 148.200 thousands after deducting the tax effect and the "pretax income" is understated by TL 30.000 thousands.

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

**Key Audit Matters**

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



| Key Audit Matter   | How the matter is addressed in our audit  |
|--|---|
| <p><b>Financial impact of transition to TFRS 9 "Financial Instruments" standard and recognition of impairment on financial assets and related important disclosures</b></p> <p>As presented in Section 3 disclosure XXIV.1, as of 1 January 2018, the Group adopted the TFRS 9 "Financial Instruments" standard began to recognize expected credit losses of financial assets in accordance with TFRS 9. We considered the transition to TFRS 9 and impairment of financial assets as a key audit matter since:</p> <ul style="list-style-type: none"> <li>- Amount of on and off balance sheet items that are subject to expected credit loss calculation is material to the financial statements</li> <li>- Transition to TFRS 9 effect 0,04% on the Group's equity</li> <li>- There are complex and comprehensive requirements of TFRS 9</li> <li>- The classification of the financial assets is based on the Bank's business model and characteristics of the contractual cash flows in accordance with TFRS 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.</li> <li>- Policies implemented by the Group management include compliance risk to the regulations and other practices.</li> <li>- New or re-structured processes of TFRS 9 are advanced and complex.</li> <li>- Judgements and estimates used in expected credit loss calculation are new, complex and comprehensive.</li> <li>- Disclosure requirements of TFRS 9 are comprehensive and complex</li> </ul> | <p>Our audit procedures included among others include:</p> <ul style="list-style-type: none"> <li>- Evaluating the appropriateness of accounting policies as to the requirements of TFRS 9, Group's past experience, local and global practices.</li> <li>- Reviewing and testing of new or re-structured processes which are used to calculate expected credit losses by involving our Information technology and Process audit specialists.</li> <li>- Evaluating the reasonableness of management's key judgements, estimates and data sources used in expected credit loss calculations considering the standard requirements, sectorial, local and global practices</li> <li>- Reviewing the appropriateness of criteria in order to identify the financial assets having solely payments of principal and interest and checking the compliance to the Group's Business model</li> <li>- Examining the financial instruments classification and measurement models (fair value hierarchy Level 3 financial instruments) and comparing them with TFRS 9 standard requirements</li> <li>- Assessing the appropriateness of definition of significant increase in credit risk, default criteria, modification, probability of default, loss given default, exposure at default and forward looking assumptions together with the significant judgements and estimates used in these calculations to regulations and bank's past performance. Evaluating the alignment of those forward looking parameters to Group's internal processes where applicable.</li> <li>- Assessing the completeness and the accuracy of the data used for expected credit loss calculation</li> <li>- Testing the mathematical accuracy of expected credit loss calculation on sample basis</li> <li>- Evaluating the judgments and estimates used for the individually assessed financial assets</li> <li>- Evaluating the accuracy and the necessity of post-model adjustments</li> <li>- Auditing of TFRS 9 disclosures</li> </ul> |



| Pension Fund Obligations   |  |
|--|--|
| <p>Employees of the Parent Bank are members of "TSKB A.Ş. Memur ve Müstahdemleri Yardım ve Emekli Vakfı", ("the Fund"), which is established in accordance with the temporary Article 20 of the Social Security Act No. 506 and related regulations. The Fund is a separate legal entity and foundation recognized by an official decree, providing all qualified employees with pension and post-retirement benefits. As disclosed in Section Three Note XVI the "Explanations on Liabilities regarding employee benefits" to the financial statements, Banks will transfer their pension fund to the Social Security Institution and the Council of Ministers has been authorized to determine the transfer date.</p> <p>The Parent Bank's present value of the liabilities of TSKB A.Ş. Memur ve Müstahdemleri Yardım ve Emekli Vakfı fund, subject to the transfer to the Social Security Institution of the Pension Fund as of 31 December 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.</p> <p>The valuation of the Pension Fund liabilities requires judgment in determining appropriate assumptions such as defining the transferrable social benefits, discount rates, salary increases, demographic assumptions, inflation rate estimates and the impact of any changes in individual pension plans. The Parent 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 expert 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> |



| <b>Derivative Financial Instruments</b>   |   |
|---|---|
| <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 Section Five Note 1.2.c Positive differences related to derivative financial assets held-for-trading and Section Five Note 11.2 Negative differences related to derivative financial liabilities held-for-trading disclosures.</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 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 Turkish Accounting Standards ("TAS") and Turkish Financial Reporting Standards ("TFRS").</p> |

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

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

In preparing the consolidated financial statements, management is responsible for assessing the 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.

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

#### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

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

Our objectives are to obtain reasonable assurance about whether the 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 BRSA Independent Audit Regulation and 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 BRSA Independent Audit Regulation and ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

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

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

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

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



#### Report on Other Legal and Regulatory Requirements

- 1) In accordance with Article 402 paragraph 4 of the Turkish Commercial Code ("TCC") ; no significant matter has come to our attention that causes us to believe that the Bank's bookkeeping activities and financial statements for the period 1 January – 31 December 2018 are not in compliance with the TCC and the Bank's articles of association in relation to financial reporting.
- 2) In accordance with Article 402 paragraph 4 of the TCC; the Board of Directors submitted to us the necessary explanations and provided required documents within the context of audit.

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

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



1 February 2019  
İstanbul, Türkiye



**THE CONSOLIDATED FINANCIAL REPORT OF  
TÜRKİYE İSMAİ KALKINMA BANKASI A.Ş.  
FOR THE YEAR ENDED 31 DECEMBER 2018**

Address: Meclis-i Mebusan Cad. No:81 Fındıklı /İstanbul  
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The consolidated financial report for the year end includes the following sections in accordance with "Communiqué on the Financial Statements and Related Explanation and Notes that will be made Publicly Announced" as sanctioned by the Banking Regulation and Supervision Agency:


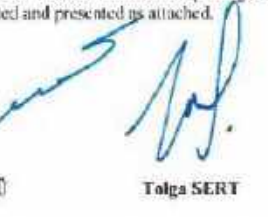


- GENERAL INFORMATION ABOUT THE PARENT BANK
- CONSOLIDATED FINANCIAL STATEMENTS OF THE PARENT BANK
- EXPLANATIONS ON THE CORRESPONDING ACCOUNTING POLICIES APPLIED IN THE RELATED PERIOD
- INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT OF THE GROUP WHICH IS UNDER CONSOLIDATION
- EXPLANATORY DISCLOSURES AND FOOTNOTES ON CONSOLIDATED FINANCIAL STATEMENTS
- OTHER EXPLANATIONS
- INDEPENDENT AUDITOR'S REPORT

The subsidiaries, associates and joint ventures, whose financial statements are consolidated within the framework of the reporting package, are as follows:

| Subsidiaries  | Associates  |
|---|---|
| Yatırım Finansman Menkul Değerler A.Ş.<br>TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. | İş Finansal Kiralama A.Ş.<br>İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.<br>İş Faktoring A.Ş. |

The accompanying consolidated financial statements and the explanatory footnotes and disclosures in this report, unless otherwise indicated, are prepared in thousands of Turkish Lira ("TL"), in accordance with the Communiqué on Bank's Accounting Practice and Maintaining Documents, Turkish Accounting Standards, Turkish Financial Reporting Standards, related communiques and the Bank's records, and have been independently audited and presented as attached.

1 February 2019

|   |  |  |   |
|---|--|--|---|
|  |   |  |  |
| <b>H. Ersin ÖZİNCE</b>  | <b>Sunat İNCE</b>  | <b>Ece BÖRÜ</b>  | <b>Tolga SERT</b>   |
| Chairman of<br>Board of Directors   | Member of<br>Board of Directors<br>and General Manager                               | Executive Vice President<br>In Charge of Financial<br>Reporting                      | Head of Financial<br>Control Department   |
|  |  |  |   |
| <b>Ebru ÖZSUCA</b>  | <b>Mehmet ŞENCAN</b>   |  |   |
| Member of Audit Committee   | Member of Audit Committee  |  |   |

Contact information of the personnel in charge for addressing questions about this financial report:

Name-Surname / Title : Tolga Sert / Head of Financial Control Department  
Telephone Number : (0212) 334 51 97

Türkiye İsmail Kalkınma Bankası A.Ş.  
Meclis-i Mebusan Cad. 81 Fındıklı 34427 İstanbul Tel: (212) 334 50 50 Faks: (212) 334 52 34 Ticaret Sicil No: 42527  
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**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

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

**SECTION ONE**

**GENERAL INFORMATION**

**I. The Parent Bank's incorporation date, beginning status, changes in the existing status**

Türkiye Sınai Kalkınma Bankası A.Ş. ("The Parent Bank") was established in accordance with the decision of President of the Republic of Turkey numbered 3/11203 on 12 May 1950. This decision was declared by T.R. Office of Prime Ministry Procedures Directorate Decision Management on 12 May 1950.

According to the classification set out in the Banking Law No: 5411, the status of the Parent Bank is "Development and Investment Bank". The Parent Bank does not have the license of "Accepting Deposit". Since the establishment date of the Parent Bank, there is no change in its "Development and Investment Bank" status.

**II. Explanations regarding the Parent Bank's shareholding structure, shareholders holding directly or indirectly, collectively or individually, the managing and controlling power and changes in current year, if any and explanations on the controlling group of the Parent Bank**

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

| <b>Current Period</b>   | <b>Share Capital</b> | <b>Shareholding Rate (%)</b> | <b>Paid in Capital</b> | <b>Unpaid Capital</b> |
|---|----------------------|------------------------------|------------------------|-----------------------|
| <b>Name Surname/Commercial Title</b>  |                      |                              |                        |                       |
| 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<br>(Other Institutions and Individuals) | 1.139.650            | 40,70                        | 1.139.650              | -                     |
| <b>Total</b>  | <b>2.800.000</b>     | <b>100,00</b>                | <b>2.800.000</b>       | -                     |

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

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 Star Market with "TSKB" ticker.



**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

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

**SECTION ONE (Continued)**

**GENERAL INFORMATION (Continued)**

**III. Explanations regarding the chairman and the members of board of directors, audit committee, general manager and assistant general managers and their shares and responsibilities in the Parent Bank**

**The Chairman and The Members of Board of Directors:**

| <b>Name Surname</b>  | <b>Title (1)</b>  |
|----------------------|---|
| H. Ersin Özince      | Chairman of the Board of Directors                                    |
| Mehmet Şencan        | Vice Chairman of the Board of Directors and Member of Audit Committee |
| Suat İnce            | Member of the Board of Directors and General Manager                  |
| Yavuz Canevi         | Member of the Board   |
| Mehmet Emin Özcan    | Member of the Board of Directors                                      |
| Ebru Özsuca          | Member of the Board of Directors and Member of Audit Committee        |
| Mithat Rende (2)     | Member of the Board of Directors                                      |
| Zeynep Hansu Uçar    | Member of the Board of Directors                                      |
| Ahmet Hakan Ünal (3) | Member of the Board of Directors                                      |
| Hüseyin Yalçın (3)   | Member of the Board of Directors                                      |
| Can Yücel            | Member of the Board of Directors                                      |

**General Manager and Vice Presidents**

| <b>Name Surname</b>     | <b>Title / Area of Responsibility</b>   |
|-------------------------|---|
| Suat İnce               | General Manager   |
| Çiğdem İçel             | Vice President – Economic Research, Financial Institutions, Development Finance Institutions and Engineering and Technical Consultancy                              |
| Ece Börü (by proxy) (4) | Vice President – Loans, Loan Monitoring and Loan Operations   |
| B. Gökhan Çanakpınar    | Vice President – Support Services, System and Network Support and Application Development   |
| Ece Börü                | Vice President – Budget Planning and Investor Relations, Financial Analysis and Valuation and Financial Control   |
| Hakan Aygen             | Vice President – Corporate Finance, Corporate Banking and Project Finance   |
| A. Ferit Eraslan        | Vice President – Board of Internal Auditors, Internal Control and Risk Management   |
| Aslı Zerrin Hancı       | Vice President – Treasury, Treasury and Capital Markets Operations  |
| H. Yetkin Kesler        | Vice President – Pension and Assistance Funds, Human Resources and Corporate Communication, Enterprise Architecture and Process Management and Corporate Compliance |

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

(2) In the Ordinary General Assembly meeting held on 23 March 2018, Mithat Rende was appointed as member of independent board within the scope of Corporate Governance Communiqué No. II-17.1 of the Capital Markets Board for three years.

(3) In the Ordinary General Assembly meeting held on 23 March 2018, Kamil Yılmaz resigned from his duty. Ahmet Hakan Ünal and Hüseyin Yalçın was appointed as a member of the Board of Directors and started their duties by taking an oath as of 6 April 2018.

(4) As of 31 March 2018, Ufuk Bala Yücel has resigned from her duty as Vice President of Loans, Loan Monitoring and Loan Operations due to retirement and Ece Börü has been appointed by proxy Vice President of Loans, Loan Monitoring and Loan Operations.

According to the regulations on auditing in Articles 397-406 of the Turkish Commercial Code numbered 6102, Güney Bağımsız Denetim ve Serbest Muhasebeci ve Mali Müşavirlik A.Ş. has been elected as the independent auditor for the year 2018 in the General Assembly Meeting held on 23 March 2018.



**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

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

**SECTION ONE (Continued)**

**GENERAL INFORMATION (Continued)**

**IV. Information about the persons and institutions that have qualified shares in the Parent Bank**

Explanation about the people and institutions that have qualified shares control the Parent Bank's capital directly or indirectly are described in General Information Section II.

**V. Summary on the Parent Bank's functions and areas of activity**

Türkiye Sınai Kalkınma Bankası A.Ş. is the first private development and investment bank which was established by the Council of Ministers resolution number of 3/11203 established in 1950 with the support of World Bank, Government of Republic of Turkey, Central Bank of Republic of Turkey and commercial banks. As per the articles of association published in the Official Gazette on 2 June 1950, the aim of the Parent Bank is to support all private sector investments but mostly industrial sectors, to help domestic and foreign capital owners to finance the new firms and to help the improvement of Turkish capital markets. The Parent Bank is succeeding its aims by financing, consulting, giving technical support and financial intermediary services. The Parent Bank, which operates as a non-deposit accepting bank, played a major role on manufacturing and finance sectors in every phase of the economic development of Turkey. The Parent Bank started its journey in 1950 financing the private sector investments in Turkey and today it provides loans and project finance with the goal of sustainable development to corporations in different fields. As a leader in meeting the long term financing needs of the private sector, the Parent Bank also continues to offer solutions with respect to the newest needs and client demands.

The Parent Bank has executed marketing and valuation operations efficiently with two branches opened in Izmir and Ankara on April 2006.



**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

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

**SECTION ONE (Continued)**

**GENERAL INFORMATION (Continued)**

**VI. Differences between the Communiqué on Preparation of Consolidated Financial Statements of Banks and Turkish Accounting Standards and short explanation about the institution subject to line-by-line method or proportional consolidation and institutions which are deducted from equity or not included in these three methods**

Due to differences between the Communiqué on Preparation of Consolidated Financial Statements of Banks and Turkish Account Standards (TAS), the non-financial subsidiaries and associates, TSKB Gayrimenkul Değerleme A.Ş., Terme Metal Sanayi ve Ticaret A.Ş., Ege Tarım Ürünleri Lisanslı Depoculuk A.Ş., TSKB Sürdürülebilirlik Danışmanlığı A.Ş., Adana Hotel Project are Anavarza Otelcilik Anonim Şirketi are not consolidated since they are not in scope of financial institutions according to related Communiqué.

Türkiye Sınai Kalkınma Bankası A.Ş. and its financial institutions, Yatırım Finansman Menkul Değerler A.Ş., TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. are included in the accompanying consolidated financial statements by line by line consolidation method; İş Finansal Kiralama A.Ş., İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. and İş Faktoring A.Ş. are included in the accompanying consolidated financial statements by equity method.

Financial institutions included in the consolidation are determined in accordance with “Communiqué on Preparation of Consolidated Financial Statements of Banks” published in the Official Gazette dated 8 November 2006 numbered 26340.

**Yatırım Finansman Menkul Değerler A.Ş. :**

Yatırım Finansman Menkul Değerler A.Ş. (“YF”) was established in 15 October 1976. The Company’s purpose is to perform capital market operations specified in the Company’s articles of association in accordance with the CMB and the related legislation. The Company was merged with TSKB Menkul Değerler A.Ş. on 29 December 2006. The share of Türkiye Sınai Kalkınma Bankası A.Ş. is 95,78%. The company’s headquarters is located at Istanbul/Turkey.

**TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. :**

TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. (“TSKB GYO”) was established on 3 February 2006. Core business of the Company is real estate trust to construct and develop a portfolio of properties and make investment to capital market instruments linked to properties. The share of Türkiye Sınai Kalkınma Bankası A.Ş. is 85,41%. The company’s headquarters is located at Istanbul/Turkey.

**İş Finansal Kiralama A.Ş. :**

İş Finansal Kiralama A.Ş. (“İş Finansal Kiralama”) was established on 8 February 1988. The Company has been performing its operations in accordance with the Financial Leasing, Factoring and Financing Companies Law No 6361. The purpose of the Company is performing domestic and foreign financial leasing activities and all kind of rental (leasing) transactions within the framework of legislation. The share of Türkiye Sınai Kalkınma Bankası A.Ş. is 29,46%. The Company’s headquarters is located at Istanbul/Turkey.

**İş Faktoring A.Ş. :**

İş Faktoring A.Ş. (“İş Faktoring”), was incorporated in Turkey on 4 July 1993 and it has been performing its operations in accordance with the Financial Leasing, Factoring and Financing Companies Law No: 6361. The Company’s main operation is domestic and export factoring transactions. The share of Türkiye Sınai Kalkınma Bankası A.Ş. is 21,75%. The company’s headquarters is located at Istanbul/Turkey.



**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

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

**SECTION ONE (Continued)**

**GENERAL INFORMATION (Continued)**

- VI. Differences between the Communiqué on Preparation of Consolidated Financial Statements of Banks and Turkish Accounting Standards and short explanation about the institution subject to line-by-line method or proportional consolidation and institutions which are deducted from equity or not included in these three methods (continued)**

**İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. :**

İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. (“İş Girişim”) started its venture capital operations by the decision of Capital Market Board dated 5 October 2000. The principal activity of the Company is to perform long-term investments to venture capital companies mainly established or to be established in Turkey, have development potential and require resource. The share of Türkiye Sınai Kalkınma Bankası A.Ş. is 16,67%. The Company’s headquarters is located at Istanbul/Turkey.

- VII. The existing or potential, actual or legal obstacle on the transfer of shareholder’s equity between the Parent Bank and its subsidiaries or the reimbursement of liabilities**

There is no existing or potential, actual or legal obstacle to the reimbursement of liabilities between the Parent Bank and its subsidiaries. The Parent Bank charge or pay cost of the services according to the service agreements done between the Parent Bank and its subsidiaries. Dividend distribution from shareholders’ equity is made according to related legal regulations.

- VIII. Written policies of the Parent Bank related to compliance to publicly disclosed obligations of the Parent Bank and assessment of accuracy, frequency and compliance of mentioned disclosures**

The Parent Bank Disclosure Policy approved by the meeting of the Board of Directors has entered into force on 28 February 2014. Compliance to public disclosure obligations, frequency of public disclosures and tools and methods used for public disclosures are explained in the disclosure policy of the Parent Bank accessible from the Parent Bank’s corporate website.



**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)**  
**AS OF 31 DECEMBER 2018**

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

|   |                     | Audited<br>Current Period<br>31 December 2018 |                   |                   |
|---|---------------------|---|-------------------|-------------------|
|   | Section 5<br>Note I | TL  | FC                | Total             |
| <b>ASSETS</b>   |                     |   |                   |                   |
| <b>I. FINANCIAL ASSETS (NET)</b>  |                     | <b>5.329.706</b>                              | <b>3.356.329</b>  | <b>8.686.035</b>  |
| <b>1.1 Cash and Cash Equivalents</b>  |                     | <b>616.435</b>                                | <b>1.507.637</b>  | <b>2.124.072</b>  |
| 1.1.1 Cash and Balances with Central Bank   | (1)                 | 6.353   | 736.875           | 743.228           |
| 1.1.2 Banks   | (3)                 | 36.469  | 770.762           | 807.231           |
| 1.1.3 Money Market Placements   |                     | 573.613                                       | -                 | 573.613           |
| <b>1.2 Financial Assets at Fair Value Through Profit or Loss</b>                                      |                     | <b>9.859</b>                                  | <b>-</b>          | <b>9.859</b>      |
| 1.2.1 Government Debt Securities  |                     | 8   | -                 | 8                 |
| 1.2.2 Equity Instruments  |                     | 1   | -                 | 1                 |
| 1.2.3 Other Financial Assets  |                     | 9.850   | -                 | 9.850             |
| <b>1.3 Financial Assets at Fair Value Through Other Comprehensive Income</b>                          | <b>(4)</b>          | <b>2.212.499</b>                              | <b>1.207.814</b>  | <b>3.420.313</b>  |
| 1.3.1 Government Debt Securities  |                     | 2.008.419                                     | 1.165.034         | 3.173.453         |
| 1.3.2 Equity Instruments  |                     | 52.251  | 41.778            | 94.029            |
| 1.3.3 Other Financial Assets  |                     | 151.829                                       | 1.002             | 152.831           |
| <b>1.4 Financial Assets Measured at Amortized Cost</b>  | <b>(6)</b>          | <b>1.735.521</b>                              | <b>419.420</b>    | <b>2.154.941</b>  |
| 1.4.1 Government Debt Securities  |                     | 1.735.521                                     | 419.420           | 2.154.941         |
| 1.4.2 Other Financial Assets  |                     | -   | -                 | -                 |
| <b>1.5 Derivative Financial Assets</b>  |                     | <b>757.214</b>                                | <b>222.007</b>    | <b>979.221</b>    |
| 1.5.1 Derivative Financial Assets at Fair Value Through Profit or Loss                                | (2)                 | 757.214                                       | 222.007           | 979.221           |
| 1.5.2 Derivative Financial Assets at Fair Value Through Other Comprehensive Income                    |                     | -   | -                 | -                 |
| <b>1.6 Non-Performing Financial Assets</b>  |                     | <b>-</b>                                      | <b>-</b>          | <b>-</b>          |
| <b>1.7 Expected Loss Provision (-)</b>  |                     | <b>1.822</b>                                  | <b>549</b>        | <b>2.371</b>      |
| <b>II. LOANS (Net)</b>  | <b>(5)</b>          | <b>3.982.725</b>                              | <b>23.861.017</b> | <b>27.843.742</b> |
| <b>2.1 Loans</b>  |                     | <b>4.042.513</b>                              | <b>23.586.256</b> | <b>27.628.769</b> |
| 2.1.1 Measured at Amortized Cost  |                     | 4.042.513                                     | 23.295.596        | 27.338.109        |
| 2.1.2 Fair Value Through Profit or Loss   |                     | -   | 290.660           | 290.660           |
| 2.1.3 Fair Value Through Other Comprehensive Income   |                     | -   | -                 | -                 |
| <b>2.2 Lease Receivables</b>  | <b>(10)</b>         | <b>-</b>                                      | <b>133.929</b>    | <b>133.929</b>    |
| 2.2.1 Financial Lease Receivables   |                     | -   | 151.102           | 151.102           |
| 2.2.2 Operating Lease Receivables   |                     | -   | -                 | -                 |
| 2.2.3 Unearned Income (-)   |                     | -   | 17.173            | 17.173            |
| <b>2.3 Factoring Receivables</b>  |                     | <b>-</b>                                      | <b>-</b>          | <b>-</b>          |
| 2.3.1 Measured at Amortized Cost  |                     | -   | -                 | -                 |
| 2.3.2 Fair Value Through Profit or Loss   |                     | -   | -                 | -                 |
| 2.3.3 Fair Value Through Other Comprehensive Income   |                     | -   | -                 | -                 |
| <b>2.4 Non-Performing Loans</b>   |                     | <b>40.821</b>                                 | <b>556.389</b>    | <b>597.210</b>    |
| <b>2.5 Expected Credit Loss (-)</b>   |                     | <b>100.609</b>                                | <b>415.557</b>    | <b>516.166</b>    |
| 2.5.1 12 Months Expected Credit Losses (Stage I)  |                     | 19.333  | 116.204           | 135.537           |
| 2.5.2 Significant Increase in Credit Risk (Stage II)  |                     | 48.702  | 162.438           | 211.140           |
| 2.5.3 Credit-Impaired Losses (Stage III / Specific Provision )  |                     | 32.574  | 136.915           | 169.489           |
| <b>III. PROPERTY AND EQUIPMENT HELD FOR SALE PURPOSE AND RELATED TO DISCONTINUED OPERATIONS (NET)</b> | <b>(16)</b>         | <b>1</b>                                      | <b>-</b>          | <b>1</b>          |
| 3.1 Held for Sale Purpose   |                     | 1   | -                 | 1                 |
| 3.2 Related to Discontinued Operations  |                     | -   | -                 | -                 |
| <b>IV. EQUITY INVESTMENTS</b>   |                     | <b>435.915</b>                                | <b>-</b>          | <b>435.915</b>    |
| <b>4.1 Investments in Associates (Net)</b>  | <b>(7)</b>          | <b>429.546</b>                                | <b>-</b>          | <b>429.546</b>    |
| 4.1.1 Accounted Under Equity Method   |                     | 428.490                                       | -                 | 428.490           |
| 4.1.2 Unconsolidated Associates   |                     | 1.056   | -                 | 1.056             |
| <b>4.2 Subsidiaries (Net)</b>   | <b>(8)</b>          | <b>4.609</b>                                  | <b>-</b>          | <b>4.609</b>      |
| 4.2.1 Unconsolidated Financial Subsidiaries   |                     | -   | -                 | -                 |
| 4.2.2 Unconsolidated Non-Financial Subsidiaries   |                     | 4.609   | -                 | 4.609             |
| <b>4.3 Entities under Common Control (Joint Venture) (Net)</b>  | <b>(9)</b>          | <b>1.760</b>                                  | <b>-</b>          | <b>1.760</b>      |
| 4.3.1 Joint Ventures Valued Based on Equity Method  |                     | -   | -                 | -                 |
| 4.3.2 Unconsolidated Joint Ventures   |                     | 1.760   | -                 | 1.760             |
| <b>V. TANGIBLE ASSETS (Net)</b>   | <b>(12)</b>         | <b>292.651</b>                                | <b>-</b>          | <b>292.651</b>    |
| <b>VI. INTANGIBLE ASSETS (Net)</b>  | <b>(13)</b>         | <b>4.872</b>                                  | <b>-</b>          | <b>4.872</b>      |
| 6.1 Goodwill  |                     | 1.005   | -                 | 1.005             |
| 6.2 Other   |                     | 3.867   | -                 | 3.867             |
| <b>VII. INVESTMENT PROPERTY (Net)</b>   | <b>(14)</b>         | <b>247.793</b>                                | <b>-</b>          | <b>247.793</b>    |
| <b>VIII. CURRENT TAX ASSET</b>  |                     | <b>3.575</b>                                  | <b>-</b>          | <b>3.575</b>      |
| <b>IX. DEFERRED TAX ASSET</b>   | <b>(15)</b>         | <b>3.844</b>                                  | <b>-</b>          | <b>3.844</b>      |
| <b>X. OTHER ASSETS</b>  | <b>(17)</b>         | <b>99.968</b>                                 | <b>651.044</b>    | <b>751.012</b>    |
| <b>TOTAL ASSETS</b>   |                     | <b>10.401.050</b>                             | <b>27.868.390</b> | <b>38.269.440</b> |

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



**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)**  
**AS OF 31 DECEMBER 2018**

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

|   |                     | Audited<br>Prior Period<br>31 December 2017 |                   |                   |
|---|---------------------|---|-------------------|-------------------|
| ASSETS  | Section 5<br>Note I | TL  | FC                | Total             |
| <b>I. CASH AND BALANCES WITH CENTRAL BANK</b>                           | <b>(1)</b>          | <b>10.595</b>                               | <b>836.540</b>    | <b>847.135</b>    |
| <b>II. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS (Net)</b> |                     | <b>203.405</b>                              | <b>132.688</b>    | <b>336.093</b>    |
| 2.1 Trading Financial Assets  |                     | 203.405                                     | 132.688           | 336.093           |
| 2.1.1 Government Debt Securities  |                     | -   | -                 | -                 |
| 2.1.2 Share Certificates  |                     | 21  | -                 | 21                |
| 2.1.3 Derivative Financial Assets Held for Trading                      |                     | 194.100                                     | 132.688           | 326.788           |
| 2.1.4 Other Marketable Securities                                       |                     | 9.284                                       | -                 | 9.284             |
| 2.2 Financial Assets at Fair Value Through Profit and Loss              |                     | -   | -                 | -                 |
| 2.2.1 Government Debt Securities  |                     | -   | -                 | -                 |
| 2.2.2 Share Certificates  |                     | -   | -                 | -                 |
| 2.2.3 Other Marketable Securities                                       |                     | -   | -                 | -                 |
| 2.2.4 Loans   |                     | -   | -                 | -                 |
| <b>III. BANKS</b>   | <b>(3)</b>          | <b>464.978</b>                              | <b>28.709</b>     | <b>493.687</b>    |
| <b>IV. MONEY MARKET PLACEMENTS</b>                                      |                     | <b>3</b>                                    | <b>-</b>          | <b>3</b>          |
| 4.1 Interbank Money Market Placements                                   |                     | -   | -                 | -                 |
| 4.2 Istanbul Stock Exchange Money Market Placements                     |                     | -   | -                 | -                 |
| 4.3 Receivables From Reverse Repurchase Agreements                      |                     | 3   | -                 | 3                 |
| <b>V. FINANCIAL ASSETS AVAILABLE FOR SALE (Net)</b>                     | <b>(4)</b>          | <b>2.052.830</b>                            | <b>1.038.542</b>  | <b>3.091.372</b>  |
| 5.1 Share Certificates  |                     | 45.259                                      | 27.821            | 73.080            |
| 5.2 Government Debt Securities  |                     | 1.821.667                                   | 1.009.955         | 2.831.622         |
| 5.3 Other Marketable Securities   |                     | 185.904                                     | 766               | 186.670           |
| <b>VI. LOANS and RECEIVABLES</b>  | <b>(5)</b>          | <b>3.995.707</b>                            | <b>18.341.523</b> | <b>22.337.230</b> |
| 6.1 Loans and Receivables   |                     | 3.995.707                                   | 18.341.523        | 22.337.230        |
| 6.1.1 Loans to the Risk Group of the Bank                               |                     | 104.450                                     | 229.951           | 334.401           |
| 6.1.2 Government Debt Securities  |                     | -   | -                 | -                 |
| 6.1.3 Other   |                     | 3.891.257                                   | 18.111.572        | 22.002.829        |
| 6.2 Non-performing Loans  |                     | 52.593                                      | 982               | 53.575            |
| 6.3 Specific Provisions (-)   |                     | 52.593                                      | 982               | 53.575            |
| <b>VII. FACTORING RECEIVABLES</b>                                       |                     | <b>-</b>                                    | <b>-</b>          | <b>-</b>          |
| <b>VIII. HELD-TO-MATURITY INVESTMENTS (Net)</b>                         | <b>(6)</b>          | <b>1.334.721</b>                            | <b>197.326</b>    | <b>1.532.047</b>  |
| 8.1 Government Debt Securities  |                     | 1.334.721                                   | 197.326           | 1.532.047         |
| 8.2 Other Marketable Securities   |                     | -   | -                 | -                 |
| <b>IX. INVESTMENTS IN ASSOCIATES (Net)</b>                              | <b>(7)</b>          | <b>375.481</b>                              | <b>-</b>          | <b>375.481</b>    |
| 9.1 Accounted for under Equity Method                                   |                     | 374.425                                     | -                 | 374.425           |
| 9.2 Unconsolidated Associates   |                     | 1.056                                       | -                 | 1.056             |
| 9.2.1 Financial Investments   |                     | -   | -                 | -                 |
| 9.2.2 Non-Financial Investments   |                     | 1.056                                       | -                 | 1.056             |
| <b>X. INVESTMENTS IN SUBSIDIARIES (Net)</b>                             | <b>(8)</b>          | <b>1.609</b>                                | <b>-</b>          | <b>1.609</b>      |
| 10.1 Unconsolidated Financial Subsidiaries                              |                     | -   | -                 | -                 |
| 10.2 Unconsolidated Non-Financial Subsidiaries                          |                     | 1.609                                       | -                 | 1.609             |
| <b>XI. ENTITIES UNDER COMMON CONTROL (JOINT VENTURE) (Net)</b>          | <b>(9)</b>          | <b>1.760</b>                                | <b>-</b>          | <b>1.760</b>      |
| 11.1 Consolidated under Equity Method                                   |                     | -   | -                 | -                 |
| 11.2 Unconsolidated   |                     | 1.760                                       | -                 | 1.760             |
| 11.2.1 Financial Subsidiaries   |                     | -   | -                 | -                 |
| 11.2.2 Non-Financial Subsidiaries                                       |                     | 1.760                                       | -                 | 1.760             |
| <b>XII. LEASE RECEIVABLES</b>   | <b>(10)</b>         | <b>-</b>                                    | <b>63.410</b>     | <b>63.410</b>     |
| 12.1 Financial Lease Receivables  |                     | -   | 73.957            | 73.957            |
| 12.2 Operating Lease Receivables  |                     | -   | -                 | -                 |
| 12.3 Other  |                     | -   | -                 | -                 |
| 12.4 Unearned Income (-)  |                     | -   | 10.547            | 10.547            |
| <b>XIII. DERIVATIVE FINANCIAL ASSETS FOR HEDGING PURPOSES</b>           |                     | <b>-</b>                                    | <b>-</b>          | <b>-</b>          |
| 13.1 Fair Value Hedge   |                     | -   | -                 | -                 |
| 13.2 Cash Flow Hedge  |                     | -   | -                 | -                 |
| 13.3 Hedge of Net Investment in Foreign Operations                      |                     | -   | -                 | -                 |
| <b>XIV. TANGIBLE ASSETS (Net)</b>                                       | <b>(12)</b>         | <b>245.798</b>                              | <b>-</b>          | <b>245.798</b>    |
| <b>XV. INTANGIBLE ASSETS (Net)</b>                                      | <b>(13)</b>         | <b>3.585</b>                                | <b>-</b>          | <b>3.585</b>      |
| 15.1 Goodwill   |                     | 1.005                                       | -                 | 1.005             |
| 15.2 Other  |                     | 2.580                                       | -                 | 2.580             |
| <b>XVI. INVESTMENT PROPERTY(Net)</b>                                    | <b>(14)</b>         | <b>243.145</b>                              | <b>-</b>          | <b>243.145</b>    |
| <b>XVII. TAX ASSET</b>  |                     | <b>45.338</b>                               | <b>-</b>          | <b>45.338</b>     |
| 17.1 Current Tax Asset  |                     | 4.448                                       | -                 | 4.448             |
| 17.2 Deferred Tax Asset   | <b>(15)</b>         | 40.890                                      | -                 | 40.890            |
| <b>XVIII. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (Net)</b>    | <b>(16)</b>         | <b>-</b>                                    | <b>-</b>          | <b>-</b>          |
| 18.1 Held for Sale Purpose  |                     | -   | -                 | -                 |
| 18.2 Related to Discontinued Operations                                 |                     | -   | -                 | -                 |
| <b>XIX. OTHER ASSETS</b>  | <b>(17)</b>         | <b>89.293</b>                               | <b>210.650</b>    | <b>299.943</b>    |
| <b>TOTAL ASSETS</b>   |                     | <b>9.068.248</b>                            | <b>20.849.388</b> | <b>29.917.636</b> |

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**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)**  
**AS OF 31 DECEMBER 2018**

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

|  |                      | Audited<br>Current Period<br>31 December 2018 |                   |                   |
|--|----------------------|---|-------------------|-------------------|
|  | Section 5<br>Note II | TL  | FC                | Total             |
| <b>I. DEPOSITS</b>   | (1)                  | -   | -                 | -                 |
| <b>II. FUNDS BORROWED</b>  | (3)                  | 127.007                                       | 23.692.663        | 23.819.670        |
| <b>III. MONEY MARKET BALANCES</b>  |                      | 264.820                                       | 137.458           | 402.278           |
| <b>IV. MARKETABLE SECURITIES ISSUED (Net)</b>  | (3)                  | -   | 6.949.189         | 6.949.189         |
| 4.1 Bills  |                      | -   | -                 | -                 |
| 4.2 Assets Backed Securities   |                      | -   | -                 | -                 |
| 4.3 Bonds  |                      | -   | 6.949.189         | 6.949.189         |
| <b>V. BORROWER FUNDS</b>   |                      | 2.408   | 30.121            | 32.529            |
| 5.1 Borrower Funds   |                      | 2.408   | 30.121            | 32.529            |
| 5.2 Other  |                      | -   | -                 | -                 |
| <b>VI. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS</b>                                    |                      | -   | -                 | -                 |
| <b>VII. DERIVATIVE FINANCIAL LIABILITIES</b>   |                      | 442.290                                       | 350.050           | 792.340           |
| 7.1 Derivative Financial Liabilities at Fair Value Through Profit or Loss                                |                      | 442.290                                       | 350.050           | 792.340           |
| 7.2 Derivative Financial Liabilities at Fair Value Through Other Comprehensive Income                    |                      | -   | -                 | -                 |
| <b>VIII. FACTORING LIABILITIES</b>   |                      | -   | -                 | -                 |
| <b>IX. LEASE LIABILITIES</b>   | (5)                  | -   | -                 | -                 |
| 9.1 Financial Lease  |                      | -   | -                 | -                 |
| 9.2 Operating Lease  |                      | -   | -                 | -                 |
| 9.3 Other  |                      | -   | -                 | -                 |
| 9.4 Deferred Financial Lease Expenses ( - )  |                      | -   | -                 | -                 |
| <b>X. PROVISIONS</b>   | (7)                  | 250.984                                       | 10.292            | 261.276           |
| 10.1 Restructuring Provisions  |                      | -   | -                 | -                 |
| 10.2 Reverse for Employee Benefits   |                      | 15.054  | -                 | 15.054            |
| 10.3 Insurance Technical Provisions (Net)  |                      | -   | -                 | -                 |
| 10.4 Other Provisions  |                      | 235.930                                       | 10.292            | 246.222           |
| <b>XI. CURRENT TAX LIABILITY</b>   | (8)                  | 94.104  | -                 | 94.104            |
| <b>XII. DEFERRED TAX LIABILITY</b>   | (8)                  | -   | -                 | -                 |
| <b>LIABILITIES FOR PROPERTY AND EQUIPMENT HELD FOR SALE AND RELATED TO DISCONTINUED OPERATIONS (Net)</b> | (9)                  | -   | -                 | -                 |
| 13.1 Held for Sale Purpose   |                      | -   | -                 | -                 |
| 13.2 Related to Discontinued Operations  |                      | -   | -                 | -                 |
| <b>XIV. SUBORDINATED DEBT INSTRUMENTS</b>  | (10)                 | -   | 1.549.774         | 1.549.774         |
| 14.1 Loans   |                      | -   | -                 | -                 |
| 14.2 Other Debt Instruments  |                      | -   | 1.549.774         | 1.549.774         |
| <b>XV. OTHER LIABILITIES</b>   |                      | 137.603                                       | 46.601            | 184.204           |
| <b>XVI. SHAREHOLDERS' EQUITY</b>   |                      | 4.253.510                                     | (69.434)          | 4.184.076         |
| 16.1 Paid-in capital   | (11)                 | 2.800.000                                     | -                 | 2.800.000         |
| 16.2 Capital Reserves  |                      | 890   | -                 | 890               |
| 16.2.1 Share Premium   |                      | 516   | -                 | 516               |
| 16.2.2 Share Cancellation Profits  |                      | -   | -                 | -                 |
| 16.2.3 Other Capital Reserves  |                      | 374   | -                 | 374               |
| 16.3 Accumulated Other Comprehensive Income or Loss Not Reclassified Through Profit or Loss              |                      | 278.614                                       | 5.756             | 284.370           |
| 16.4 Accumulated Other Comprehensive Income or Loss Reclassified Through Profit or Loss                  | (11)                 | (64.373)                                      | (75.190)          | (139.563)         |
| 16.5 Profit Reserves   |                      | 529.059                                       | -                 | 529.059           |
| 16.5.1 Legal Reserves  |                      | 272.773                                       | -                 | 272.773           |
| 16.5.2 Status Reserves   |                      | 75.641  | -                 | 75.641            |
| 16.5.3 Extraordinary Reserves  |                      | 177.725                                       | -                 | 177.725           |
| 16.5.4 Other Profit Reserves   |                      | 2.920   | -                 | 2.920             |
| 16.6 Profit Or Loss  |                      | 670.698                                       | -                 | 670.698           |
| 16.6.1 Prior Years' Profit/Loss  |                      | (58)  | -                 | (58)              |
| 16.6.2 Current Year Profit/Loss  |                      | 670.756                                       | -                 | 670.756           |
| 16.7 Non-Controlling Interests   |                      | 38.622  | -                 | 38.622            |
| <b>TOTAL LIABILITIES AND EQUITY</b>  |                      | <b>5.572.726</b>                              | <b>32.696.714</b> | <b>38.269.440</b> |

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**CONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)**  
**AS OF 31 DECEMBER 2018**

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

|                              |  | Audited<br>Prior Period<br>31 December 2017 |           |            |            |
|------------------------------|--|---|-----------|------------|------------|
|                              |  | Section 5 Note                              |           |            |            |
| LIABILITIES                  |  | II  | TL        | FC         | Total      |
| I.                           | DEPOSITS   | (1)   | -         | -          | -          |
| 1.1                          | Deposits from Risk Group of the Bank   |   | -         | -          | -          |
| 1.2                          | Other  |   | -         | -          | -          |
| II.                          | DERIVATIVE FINANCIAL LIABILITIES HELD FOR TRADING  |   | 123.710   | 108.693    | 232.403    |
| III.                         | FUNDS BORROWED   | (3)   | 221.012   | 18.780.615 | 19.001.627 |
| IV.                          | MONEY MARKETS BALANCES   |   | 1.150.784 | 161.138    | 1.311.922  |
| 4.1                          | Interbank Money Market Takings   |   | 202.143   | -          | 202.143    |
| 4.2                          | Istanbul Stock Exchange Money Market Takings   |   | 499.004   | -          | 499.004    |
| 4.3                          | Funds Provided Under Repurchase Agreements   |   | 449.637   | 161.138    | 610.775    |
| V.                           | MARKETABLE SECURITIES ISSUED (Net)   | (3)   | -         | 3.746.229  | 3.746.229  |
| 5.1                          | Bills  |   | -         | -          | -          |
| 5.2                          | Asset Backed Securities  |   | -         | -          | -          |
| 5.3                          | Bonds  |   | -         | 3.746.229  | 3.746.229  |
| VI.                          | BORROWER FUNDS   |   | 1.178     | 11.723     | 12.901     |
| 6.1                          | Borrower Funds   |   | 1.178     | 11.723     | 12.901     |
| 6.2                          | Other  |   | -         | -          | -          |
| VII.                         | MISCELLANEOUS PAYABLES   |   | 15.134    | 59.961     | 75.095     |
| VIII.                        | OTHER LIABILITIES  |   | 113.609   | 2.318      | 115.927    |
| IX.                          | FACTORING PAYABLES   |   | -         | -          | -          |
| X.                           | LEASE PAYABLES (Net)   | (5)   | -         | -          | -          |
| 10.1                         | Financial Lease Payables   |   | -         | -          | -          |
| 10.2                         | Operating Lease Payables   |   | -         | -          | -          |
| 10.3                         | Other  |   | -         | -          | -          |
| 10.4                         | Deferred Financial Lease Expenses ( - )  |   | -         | -          | -          |
| XI.                          | DERIVATIVE FINANCIAL LIABILITIES FOR HEDGING PURPOSES  |   | -         | 78.682     | 78.682     |
| 11.1                         | Fair Value Hedge   |   | -         | 78.682     | 78.682     |
| 11.2                         | Cash Flow Hedge  |   | -         | -          | -          |
| 11.3                         | Hedge of net Investment in Foreign Operations  |   | -         | -          | -          |
| XII.                         | PROVISIONS   | (7)   | 431.625   | -          | 431.625    |
| 12.1                         | General Loan Loss Provisions   |   | 136.131   | -          | 136.131    |
| 12.2                         | Restructuring Provisions   |   | -         | -          | -          |
| 12.3                         | Reserve for Employee Benefits  |   | 12.151    | -          | 12.151     |
| 12.4                         | Insurance Technical Reserves (Net)   |   | -         | -          | -          |
| 12.5                         | Other Provisions   | (8)   | 283.343   | -          | 283.343    |
| XIII.                        | TAX LIABILITY  |   | 53.648    | -          | 53.648     |
| 13.1                         | Current Tax Liability  |   | 53.648    | -          | 53.648     |
| 13.2                         | Deferred Tax Liability   |   | -         | -          | -          |
| XIV.                         | PAYABLES RELATED TO ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (Net)                         | (9)   | -         | -          | -          |
| 14.1                         | Held for Sale  |   | -         | -          | -          |
| 14.2                         | Discontinued Operations  |   | -         | -          | -          |
| XV.                          | SUBORDINATED LOANS   | (10)  | -         | 1.146.236  | 1.146.236  |
| XVI.                         | SHAREHOLDERS' EQUITY   |   | 3.698.901 | 12.440     | 3.711.341  |
| 16.1                         | Paid-in Capital  | (11)  | 2.400.000 | -          | 2.400.000  |
| 16.2                         | Capital Reserves   |   | 175.046   | 12.440     | 187.486    |
| 16.2.1                       | Share Premium  |   | 428       | -          | 428        |
| 16.2.2                       | Share Cancellation Profits   |   | -         | -          | -          |
| 16.2.3                       | Marketable Securities Value Increase Fund  | (11)  | (41.078)  | 12.440     | (28.638)   |
| 16.2.4                       | Tangible Assets Revaluation Differences  |   | 215.352   | -          | 215.352    |
| 16.2.5                       | Intangible Assets Revaluation Differences  |   | -         | -          | -          |
| 16.2.6                       | Investment Property Revaluation Differences  |   | -         | -          | -          |
| 16.2.7                       | Bonus Shares obtained from Associates, Subsidiaries, and Jointly Controlled Entities (Joint Vent.) |   | -         | -          | -          |
| 16.2.8                       | Hedging Reserves (Effective Portion)   |   | -         | -          | -          |
| 16.2.9                       | Accumulated Valuation Differences From Assets Held For Sale And From Discontinued Operations       |   | -         | -          | -          |
| 16.2.10                      | Other Capital Reserves   |   | 344       | -          | 344        |
| 16.3                         | Profit Reserves  |   | 441.740   | -          | 441.740    |
| 16.3.1                       | Legal Reserves   |   | 241.292   | -          | 241.292    |
| 16.3.2                       | Statutory Reserves   |   | 75.641    | -          | 75.641     |
| 16.3.3                       | Extraordinary Reserves   |   | 121.888   | -          | 121.888    |
| 16.3.4                       | Other Profit Reserves  |   | 2.919     | -          | 2.919      |
| 16.4                         | Profit Or Loss   |   | 629.396   | -          | 629.396    |
| 16.4.1                       | Prior Years' Profit/Loss   |   | 18.219    | -          | 18.219     |
| 16.4.2                       | Current Year Profit/Loss   |   | 611.177   | -          | 611.177    |
| 16.5                         | Non-Controlling Interests  |   | 52.719    | -          | 52.719     |
| TOTAL LIABILITIES AND EQUITY |  |   | 5.809.601 | 24.108.035 | 29.917.636 |

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

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



**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF OFF-BALANCE SHEET**  
**AS OF 31 DECEMBER 2018**

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

|  |   | Audited<br>Current Period<br>31 December 2018 |                    |                    | Audited<br>Prior Period<br>31 December 2017 |                    |                    |
|--|---|---|--------------------|--------------------|---|--------------------|--------------------|
| Section 5 No                               |   | III   |                    |                    | TL  |                    |                    |
| OFF-BALANCE SHEET                          |   | TL  |                    |                    | FC  |                    |                    |
|  |   | Total   |                    |                    | Total                                       |                    |                    |
| <b>A.</b>                                  | <b>OFF-BALANCE SHEET COMMITMENTS AND CONTINGENCIES</b>                      |   |                    |                    |   |                    |                    |
|  | (I-II+III)  | 10,490.917                                    | 55,046.934         | 65,537.851         | 8,544.955                                   | 40,594.900         | 49,139.855         |
| <b>I.</b>                                  | <b>GUARANTEES AND COLLATERALS</b>   | (1)   | 487.945            | 2,685.862          | 3,173.807                                   | 562.998            | 2,010.713          |
| 1.1  | Letters of Guarantee  | 487.945                                       | 1,095.048          | 1,582.993          | 562.998                                     | 912.647            | 1,475.645          |
| 1.1.1                                      | Guarantees Subject to State Tender Law                                      | -   | -                  | -                  | -   | -                  | -                  |
| 1.1.2                                      | Guarantees Given for Foreign Trade Operations                               | -   | -                  | -                  | -   | -                  | -                  |
| 1.1.3                                      | Other Letters of Guarantee  | 487.945                                       | 1,095.048          | 1,582.993          | 562.998                                     | 912.647            | 1,475.645          |
| 1.2  | Bank Acceptances  | -   | -                  | -                  | -   | 18.763             | 18.763             |
| 1.2.1                                      | Import Letter of Acceptance   | -   | -                  | -                  | -   | 18.763             | 18.763             |
| 1.2.2                                      | Other Bank Acceptance   | -   | -                  | -                  | -   | -                  | -                  |
| 1.3  | Letters of Credit   | -   | 1,590.814          | 1,590.814          | -   | 1,079.303          | 1,079.303          |
| 1.3.1                                      | Documantary Letters of Credit   | -   | 1,590.814          | 1,590.814          | -   | 1,079.303          | 1,079.303          |
| 1.3.2                                      | Other Letters of Credit   | -   | -                  | -                  | -   | -                  | -                  |
| 1.4  | Prefinancing Given as Guarantee   | -   | -                  | -                  | -   | -                  | -                  |
| 1.5  | Endorsements  | -   | -                  | -                  | -   | -                  | -                  |
| 1.5.1                                      | Endorsements to the Central Bank of Turkey                                  | -   | -                  | -                  | -   | -                  | -                  |
| 1.5.2                                      | Other Endorsements  | -   | -                  | -                  | -   | -                  | -                  |
| 1.6  | Securities Issue Purchase Guarantees  | -   | -                  | -                  | -   | -                  | -                  |
| 1.7  | Factoring Guarantees  | -   | -                  | -                  | -   | -                  | -                  |
| 1.8  | Other Guarantess  | -   | -                  | -                  | -   | -                  | -                  |
| 1.9  | Other Collaterals   | -   | -                  | -                  | -   | -                  | -                  |
| <b>II.</b>                                 | <b>COMMITMENTS</b>  | (1)   | 1,204.053          | 2,621.343          | 3,825.396                                   | 2,302.694          | 3,908.771          |
| 2.1  | Irrevocable Commitments   | 967.278                                       | 358.418            | 1,325.696          | 1,896.825                                   | 327.095            | 2,223.920          |
| 2.1.1                                      | Forward Asset Purchase and Sale Commitments                                 | 29.356  | 67.684             | 97.040             | 40.933                                      | 58.218             | 99.151             |
| 2.1.2                                      | Forward Deposit Purchase and Sales Commitments                              | -   | -                  | -                  | -   | -                  | -                  |
| 2.1.3                                      | Share Capital Commitments to Associates and Subsidiaries                    | 400   | 97.405             | 97.805             | -   | 78.890             | 78.890             |
| 2.1.4                                      | Loan Granting Commitments   | -   | -                  | -                  | -   | -                  | -                  |
| 2.1.5                                      | Securities Underwriting Commitments   | -   | -                  | -                  | -   | -                  | -                  |
| 2.1.6                                      | Commitments for Reserve Deposit Requirements                                | -   | -                  | -                  | -   | -                  | -                  |
| 2.1.7                                      | Payment Commitment for Checks   | -   | -                  | -                  | -   | -                  | -                  |
| 2.1.8                                      | Tax and Fund Liabilities from Export Commitments                            | -   | -                  | -                  | -   | -                  | -                  |
| 2.1.9                                      | Commitments for Credit Card Expenditure Limits                              | -   | -                  | -                  | -   | -                  | -                  |
| 2.1.10                                     | Commitments for Promotions Related with Credit Cards and Banking Activities | -   | -                  | -                  | -   | -                  | -                  |
| 2.1.11                                     | Receivables from Short Sale Commitments                                     | -   | -                  | -                  | -   | -                  | -                  |
| 2.1.12                                     | Payables for Short Sale Commitments   | -   | -                  | -                  | -   | -                  | -                  |
| 2.1.13                                     | Other Irrevocable Commitments   | 937.522                                       | 193.329            | 1,130.851          | 1,855.892                                   | 189.987            | 2,045.879          |
| 2.2  | Revocable Commitments   | 236.775                                       | 2,262.925          | 2,499.700          | 405.869                                     | 3,581.676          | 3,987.545          |
| 2.2.1                                      | Revocable Loan Granting Commitments   | 236.775                                       | 2,262.925          | 2,499.700          | 405.869                                     | 3,581.676          | 3,987.545          |
| 2.2.2                                      | Other Revocable Commitments   | -   | -                  | -                  | -   | -                  | -                  |
| <b>III.</b>                                | <b>DERIVATIVE FINANCIAL INSTRUMENTS</b>                                     | (2)   | 8,798.919          | 49,739.729         | 58,538.648                                  | 5,679.263          | 34,675.416         |
| 3.1  | Derivative Financial Instruments for Hedging Purposes                       | -   | 18,028.129         | 18,028.129         | -   | 10,582.050         | 10,582.050         |
| 3.1.1                                      | Fair Value Hedge  | -   | 18,028.129         | 18,028.129         | -   | 10,582.050         | 10,582.050         |
| 3.1.2                                      | Cash Flow Hedge   | -   | -                  | -                  | -   | -                  | -                  |
| 3.1.3                                      | Hedge of Net Investment in Foreign Operations                               | -   | -                  | -                  | -   | -                  | -                  |
| 3.2  | Held for Trading Transactions   | 8,798.919                                     | 31,711.600         | 40,510.519         | 5,679.263                                   | 24,093.366         | 29,772.629         |
| 3.2.1                                      | Forward Foreign Currency Buy/Sell Transactions                              | 1,819.934                                     | 1,981.015          | 3,800.949          | 981.505                                     | 3,844.600          | 4,826.105          |
| 3.2.1.1                                    | Forward Foreign Currency Transactions-Buy                                   | 974.149                                       | 964.311            | 1,938.460          | 485.006                                     | 1,928.162          | 2,413.168          |
| 3.2.1.2                                    | Forward Foreign Currency Transactions-Sell                                  | 845.785                                       | 1,016.704          | 1,862.489          | 496.499                                     | 1,916.438          | 2,412.937          |
| 3.2.2                                      | Swap Transactions Related to Foreign Currency and Interest Rate             | 4,415.005                                     | 27,012.656         | 31,427.661         | 2,378.082                                   | 17,843.640         | 20,221.722         |
| 3.2.2.1                                    | Foreign Currency Swap-Buy   | 982.222                                       | 6,479.239          | 7,461.461          | 576.866                                     | 2,996.840          | 3,573.706          |
| 3.2.2.2                                    | Foreign Currency Swap-Sell  | 3,432.783                                     | 3,821.411          | 7,254.194          | 1,766.440                                   | 1,667.336          | 3,433.776          |
| 3.2.2.3                                    | Interest Rate Swap-Buy  | -   | 8,356.003          | 8,356.003          | 17.388                                      | 6,589.732          | 6,607.120          |
| 3.2.2.4                                    | Interest Rate Swap-Sell   | -   | 8,356.003          | 8,356.003          | 17.388                                      | 6,589.732          | 6,607.120          |
| 3.2.3                                      | Foreign Currency, Interest Rate, and Securities Options                     | 2,563.980                                     | 2,704.528          | 5,268.508          | 2,319.676                                   | 2,332.296          | 4,651.972          |
| 3.2.3.1                                    | Foreign Currency Options-Buy  | 1,281.990                                     | 1,352.264          | 2,634.254          | 1,159.838                                   | 1,166.148          | 2,325.986          |
| 3.2.3.2                                    | Foreign Currency Options-Sell   | 1,281.990                                     | 1,352.264          | 2,634.254          | 1,159.838                                   | 1,166.148          | 2,325.986          |
| 3.2.3.3                                    | Interest Rate Options-Buy   | -   | -                  | -                  | -   | -                  | -                  |
| 3.2.3.4                                    | Interest Rate Options-Sell  | -   | -                  | -                  | -   | -                  | -                  |
| 3.2.3.5                                    | Securities Options-Buy  | -   | -                  | -                  | -   | -                  | -                  |
| 3.2.3.6                                    | Securities Options-Sell   | -   | -                  | -                  | -   | -                  | -                  |
| 3.2.4                                      | Foreign Currency Futures  | -   | -                  | -                  | -   | -                  | -                  |
| 3.2.4.1                                    | Foreign Currency Futures-Buy  | -   | -                  | -                  | -   | -                  | -                  |
| 3.2.4.2                                    | Foreign Currency Futures-Sell   | -   | -                  | -                  | -   | -                  | -                  |
| 3.2.5                                      | Interest Rate Futures   | -   | -                  | -                  | -   | -                  | -                  |
| 3.2.5.1                                    | Interest Rate Futures-Buy   | -   | -                  | -                  | -   | -                  | -                  |
| 3.2.5.2                                    | Interest Rate Futures-Sell  | -   | -                  | -                  | -   | -                  | -                  |
| 3.2.6                                      | Other   | -   | 13.401             | 13.401             | -   | 72.830             | 72.830             |
| <b>B.</b>                                  | <b>CUSTODY AND PLEDGES SECURITIES (IV+V+VI)</b>                             | 70,908.800                                    | 361,697.865        | 432,606.665        | 60,080.879                                  | 240,634.947        | 300,715.826        |
| <b>IV.</b>                                 | <b>ITEMS HELD IN CUSTODY</b>  | 1,476.393                                     | 268.838            | 1,745.231          | 1,611.893                                   | 276.526            | 1,888.419          |
| 4.1  | Customers' Securities Held  | -   | -                  | -                  | -   | -                  | -                  |
| 4.2  | Investment Securities Held in Custody                                       | 1,425.034                                     | 268.019            | 1,693.053          | 1,307.737                                   | 276.526            | 1,584.263          |
| 4.3  | Checks Received for Collection  | 130   | -                  | 130                | -   | -                  | -                  |
| 4.4  | Commercial Notes Received for Collection                                    | -   | 819                | 819                | -   | -                  | -                  |
| 4.5  | Other Assets Received for Collection  | -   | -                  | -                  | -   | -                  | -                  |
| 4.6  | Assets Received for Public Offering   | -   | -                  | -                  | -   | -                  | -                  |
| 4.7  | Other Items Under Custody   | -   | -                  | -                  | -   | -                  | -                  |
| 4.8  | Custodians  | 51.229  | -                  | 51.229             | 304.156                                     | -                  | 304.156            |
| <b>V.</b>                                  | <b>PLEDGES ITEMS</b>  | 50,395.754                                    | 208,822.385        | 259,218.139        | 44,623.191                                  | 137,020.793        | 181,643.984        |
| 5.1  | Marketable Securities   | 484.248                                       | 12,637.631         | 13,121.879         | 448.045                                     | 8,985.543          | 9,433.588          |
| 5.2  | Guarantee Notes   | 72.835  | 3,180.176          | 3,253.011          | 108.486                                     | 2,362.047          | 2,470.533          |
| 5.3  | Commodity   | -   | -                  | -                  | -   | -                  | -                  |
| 5.4  | Warranty  | -   | -                  | -                  | -   | -                  | -                  |
| 5.5  | Real Estate   | 3,232.731                                     | 56,825.467         | 60,058.198         | 1,662.868                                   | 36,518.097         | 38,180.965         |
| 5.6  | Other Pledged Items   | 46,605.940                                    | 136,179.111        | 182,785.051        | 42,403.792                                  | 89,155.106         | 131,558.898        |
| 5.7  | Pledged Items-Depository  | -   | -                  | -                  | -   | -                  | -                  |
| <b>VI.</b>                                 | <b>ACCEPTED BILL OF EXCHANGE AND COLLATERALS</b>                            | 19,036.653                                    | 152,606.642        | 171,643.295        | 13,845.795                                  | 103,337.628        | 117,183.423        |
| <b>TOTAL OFF BALANCE SHEET ITEMS (A+B)</b> |   | <b>81,399.717</b>                             | <b>416,744.799</b> | <b>498,144.516</b> | <b>68,625.834</b>                           | <b>281,229.847</b> | <b>349,855.681</b> |

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



**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AT 31 DECEMBER 2018**

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

| INCOME AND EXPENSE ITEMS              |  | Section 5<br>Note IV | Audited<br>Current Period<br>1 January 2018-<br>31 December 2018 |
|---------------------------------------|--|----------------------|--|
| <b>I.</b>                             | <b>INTEREST INCOME</b>   | <b>(1)</b>           | <b>3.110.109</b>   |
| 1.1                                   | Interest on Loans  |                      | 2.133.352  |
| 1.2                                   | Interest Received from Reserve Deposits  |                      | 10.258   |
| 1.3                                   | Interest Received from Banks   |                      | 78.878   |
| 1.4                                   | Interest Received from Money Market Placements   |                      | 107.098  |
| 1.5                                   | Interest Received from Marketable Securities Portfolio                                     |                      | 762.490  |
| 1.5.1                                 | Fair Value Through Profit or Loss  |                      | 1.514  |
| 1.5.2                                 | Fair Value Through other Comprehensive Income  |                      | 358.776  |
| 1.5.3                                 | Measured at Amortized Cost   |                      | 402.200  |
| 1.6                                   | Finance Lease Income   |                      | 6.060  |
| 1.7                                   | Other Interest Income  |                      | 11.973   |
| <b>II.</b>                            | <b>INTEREST EXPENSES (-)</b>   | <b>(2)</b>           | <b>1.381.391</b>   |
| 2.1                                   | Interest on Deposits   |                      | -  |
| 2.2                                   | Interest on Funds Borrowed   |                      | 581.108  |
| 2.3                                   | Interest on Money Market Borrowings  |                      | 307.521  |
| 2.4                                   | Interest on Securities Issued  |                      | 491.351  |
| 2.5                                   | Other Interest Expense   |                      | 1.411  |
| <b>III.</b>                           | <b>NET INTEREST INCOME (I - II)</b>  |                      | <b>1.728.718</b>   |
| <b>IV.</b>                            | <b>NET FEES AND COMMISSIONS INCOME / EXPENSES</b>  |                      | <b>51.398</b>  |
| 4.1                                   | Fees and Commissions Received  |                      | 63.929   |
| 4.1.1                                 | Non-cash Loans   |                      | 20.932   |
| 4.1.2                                 | Other  |                      | 42.997   |
| 4.2                                   | Fees and Commissions Paid (-)  |                      | 12.531   |
| 4.2.1                                 | Non-cash Loans   |                      | 2.876  |
| 4.2.2                                 | Other  |                      | 9.655  |
| <b>V.</b>                             | <b>PERSONNEL EXPENSES (-)</b>  | <b>(7)</b>           | <b>133.604</b>   |
| <b>VI.</b>                            | <b>DIVIDEND INCOME</b>   | <b>(3)</b>           | <b>5.525</b>   |
| <b>VII.</b>                           | <b>NET TRADING INCOME</b>  | <b>(4)</b>           | <b>(329.200)</b>   |
| 7.1                                   | Securities Trading Gains / (Losses)  |                      | 2.202  |
| 7.2                                   | Derivative Financial Instruments Gains / Losses  |                      | (616.348)  |
| 7.3                                   | Foreign Exchange Gains / Losses (Net)  |                      | 284.946  |
| <b>VIII.</b>                          | <b>OTHER OPERATING INCOME</b>  | <b>(5)</b>           | <b>109.093</b>   |
| <b>IX.</b>                            | <b>GROSS OPERATING INCOME (III+IV+V+VI+VII+VIII)</b>                                       |                      | <b>1.431.930</b>   |
| <b>X.</b>                             | <b>EXPECTED CREDIT LOSS (-)</b>  | <b>(6)</b>           | <b>532.649</b>   |
| <b>XI.</b>                            | <b>OTHER OPERATING EXPENSES (-)</b>  | <b>(7)</b>           | <b>76.340</b>  |
| <b>XII.</b>                           | <b>NET OPERATING INCOME/(LOSS) (IX-X-XI)</b>   |                      | <b>822.941</b>   |
| <b>XIII.</b>                          | <b>AMOUNT IN EXCESS RECORDED AS GAIN AFTER MERGER</b>                                      |                      | <b>-</b>   |
| <b>XIV.</b>                           | <b>PROFIT / (LOSS) ON EQUITY METHOD</b>  |                      | <b>90.705</b>  |
| <b>XV.</b>                            | <b>GAIN / (LOSS) ON NET MONETARY POSITION</b>  |                      | <b>-</b>   |
| <b>XVI.</b>                           | <b>PROFIT/(LOSS) FROM CONTINUED OPERATIONS BEFORE TAXES (XII+...+XV)</b>                   |                      | <b>913.646</b>   |
| <b>XVII.</b>                          | <b>TAX PROVISION FOR CONTINUED OPERATIONS (±)</b>  | <b>(8)</b>           | <b>250.383</b>   |
| 17.1                                  | Provision for Current Income Taxes   |                      | 147.709  |
| 17.2                                  | Deferred Tax Income Effect (+)   | <b>(9)</b>           | 250.149  |
| 17.3                                  | Deferred Tax Expense Effect (-)  |                      | 147.475  |
| <b>XVIII.</b>                         | <b>NET PROFIT/(LOSS) FROM CONTINUED OPERATIONS (XVI±XVII)</b>                              |                      | <b>663.263</b>   |
| <b>XIX.</b>                           | <b>INCOME ON DISCONTINUED OPERATIONS</b>   |                      | <b>-</b>   |
| 19.1                                  | Income on Assets Held for Sale   |                      | -  |
| 19.2                                  | Income on Sale of Associates, Subsidiaries and Jointly Controlled Entities (Joint Venture) |                      | -  |
| 19.3                                  | Income on Other Discontinued Operations  |                      | -  |
| <b>XX.</b>                            | <b>LOSS FROM DISCONTINUED OPERATIONS (-)</b>   |                      | <b>-</b>   |
| 20.1                                  | Loss from Assets Held for Sale   |                      | -  |
| 20.2                                  | Loss on Sale of Associates, Subsidiaries and Jointly Controlled Entities (Joint Venture)   |                      | -  |
| 20.3                                  | Loss from Other Discontinued Operations  |                      | -  |
| <b>XXI.</b>                           | <b>PROFIT / (LOSS) ON DISCONTINUED OPERATIONS BEFORE TAXES (XIX-XX)</b>                    |                      | <b>-</b>   |
| <b>XXII.</b>                          | <b>TAX PROVISION FOR DISCONTINUED OPERATIONS (±)</b>                                       |                      | <b>-</b>   |
| 22.1                                  | Provision for Current Income Taxes   |                      | -  |
| 22.2                                  | Deferred Tax Expense Effect (+)  |                      | -  |
| 22.3                                  | Deferred Tax Income Effect (-)   |                      | -  |
| <b>XXIII.</b>                         | <b>NET PROFIT/LOSS FROM DISCONTINUED OPERATIONS (XXI±XXII)</b>                             |                      | <b>-</b>   |
| <b>XXIV.</b>                          | <b>NET PROFIT/LOSS (XVIII+XXIII)</b>   | <b>(10)</b>          | <b>663.263</b>   |
| 24.1                                  | Group's Profit / Loss  |                      | 670.756  |
| 24.2                                  | Minority Shares (-)  |                      | (7.493)  |
| Earning / Loss per share (Full Kuruş) |  |                      | 0,240  |

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

**The accompanying notes are an integral part of these consolidated financial statements**



**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE PERIOD ENDED 31 MARCH 2018**

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

|               |   | Section 5<br>Note IV | Audited<br>Prior Period<br>1 January 2017-<br>31 December 2017 |
|---------------|---|----------------------|--|
|               | INCOME AND EXPENSE ITEMS  |                      |  |
| <b>I.</b>     | <b>INTEREST INCOME</b>  | <b>(1)</b>           | <b>1.873.822</b>   |
| 1.1           | Interest on Loans   |                      | 1.314.800  |
| 1.2           | Interest on Reserve Requirements  |                      | 5.617  |
| 1.3           | Interest on Banks   |                      | 65.034   |
| 1.4           | Interest on Money Market Transactions   |                      | 51.435   |
| 1.5           | Interest on Marketable Securities Portfolio   |                      | 432.988  |
| 1.5.1         | Trading Financial Assets  |                      | 2.120  |
| 1.5.2         | Financial Assets at Fair Value Through Profit or Loss   |                      | -  |
| 1.5.3         | Available-for-Sale Financial Assets   |                      | 240.899  |
| 1.5.4         | Held-to-Maturity Investments  |                      | 189.969  |
| 1.6           | Financial Lease Income  |                      | 1.659  |
| 1.7           | Other Interest Income   |                      | 2.289  |
| <b>II.</b>    | <b>INTEREST EXPENSE (-)</b>   | <b>(2)</b>           | <b>856.543</b>   |
| 2.1           | Interest on Deposits  |                      | -  |
| 2.2           | Interest on Funds Borrowed  |                      | 339.360  |
| 2.3           | Interest Expense on Money Market Transactions   |                      | 253.328  |
| 2.4           | Interest on Securities Issued   |                      | 262.943  |
| 2.5           | Other Interest Expenses   |                      | 912  |
| <b>III.</b>   | <b>NET INTEREST INCOME (I - II)</b>   |                      | <b>1.017.279</b>   |
| <b>IV.</b>    | <b>NET FEES AND COMMISSIONS INCOME</b>  |                      | <b>42.662</b>  |
| 4.1           | Fees and Commissions Received   |                      | 53.752   |
| 4.1.1         | Non-Cash Loans  |                      | 15.625   |
| 4.1.2         | Other   | (11)                 | 38.127   |
| 4.2           | Fees and Commissions Paid (-)   |                      | 11.090   |
| 4.2.1         | Non-Cash Loans (-)  |                      | 2.400  |
| 4.2.2         | Other (-)   |                      | 8.690  |
| <b>V.</b>     | <b>DIVIDEND INCOME</b>  | <b>(3)</b>           | <b>5.421</b>   |
| <b>VI.</b>    | <b>TRADING INCOME / (LOSS) (Net)</b>  | <b>(4)</b>           | <b>(65.028)</b>  |
| 6.1           | Trading Gains / (Losses) on Securities  |                      | 5.851  |
| 6.2           | Gains / (Losses) on Derivative Financial Transactions   |                      | (209.793)  |
| 6.3           | Foreign Exchange Gains / (Losses)   |                      | 138.914  |
| <b>VII.</b>   | <b>OTHER OPERATING INCOME</b>   | <b>(5)</b>           | <b>68.409</b>  |
| <b>VIII.</b>  | <b>TOTAL OPERATING INCOME (III+IV+V+VI+VII)</b>   |                      | <b>1.068.743</b>   |
| <b>IX.</b>    | <b>PROVISION FOR LOAN LOSSES AND OTHER RECEIVABLES (-)</b>                                      | <b>(6)</b>           | <b>202.826</b>   |
| <b>X.</b>     | <b>OTHER OPERATING EXPENSES (-)</b>   | <b>(7)</b>           | <b>170.186</b>   |
| <b>XI.</b>    | <b>NET OPERATING INCOME / (LOSS) (VIII-IX-X)</b>  |                      | <b>695.731</b>   |
| <b>XII.</b>   | <b>EXCESS AMOUNT RECORDED AS INCOME AFTER MERGER</b>  |                      | <b>-</b>   |
| <b>XIII.</b>  | <b>INCOME / (LOSS) FROM INVESTMENTS IN SUBSIDIARIES CONSOLIDATED<br/>BASED ON EQUITY METHOD</b> |                      | <b>43.861</b>  |
| <b>XIV.</b>   | <b>INCOME / (LOSS) ON NET MONETARY POSITION</b>   |                      | <b>-</b>   |
| <b>XV.</b>    | <b>PROFIT / (LOSS) BEFORE TAX FROM CONTINUED OPERATIONS (XI+...+XIV)</b>                        | <b>(8)</b>           | <b>739.592</b>   |
| <b>XVI.</b>   | <b>TAX PROVISION FOR CONTINUED OPERATIONS (±)</b>   | <b>(9)</b>           | <b>(134.117)</b>   |
| 16.1          | Current Tax Provision   |                      | (161.659)  |
| 16.2          | Deferred Tax Provision  |                      | 27.542   |
| <b>XVII.</b>  | <b>CURRENT PERIOD PROFIT / LOSS FROM CONTINUED OPERATIONS<br/>(XV±XVI)</b>                      | <b>(10)</b>          | <b>605.475</b>   |
| <b>XVIII.</b> | <b>INCOME FROM DISCONTINUED OPERATIONS</b>  |                      | <b>-</b>   |
| 18.1          | Income from Non-Current Assets Held for Sale  |                      | -  |
| 18.2          | Profit from Sales of Associates, Subsidiaries and Joint Ventures                                |                      | -  |
| 18.3          | Income from Other Discontinued Operations   |                      | -  |
| <b>XIX.</b>   | <b>EXPENSES FROM DISCONTINUED OPERATIONS (-)</b>  |                      | <b>-</b>   |
| 19.1          | Expenses for Non-Current Assets Held for Sale   |                      | -  |
| 19.2          | Loss from Sales of Associates, Subsidiaries and Joint Ventures                                  |                      | -  |
| 19.3          | Expenses for Other Discontinued Operations  |                      | -  |
| <b>XX.</b>    | <b>PROFIT / LOSS BEFORE TAX FROM DISCONTINUED OPERATIONS (XVIII-<br/>XIX)</b>                   |                      | <b>-</b>   |
| <b>XXI.</b>   | <b>TAX PROVISION FOR DISCONTINUED OPERATIONS (±)</b>  |                      | <b>-</b>   |
| 21.1          | Current Tax Provision   |                      | -  |
| 21.2          | Deferred Tax Provision  |                      | -  |
| <b>XXII.</b>  | <b>CURRENT PERIOD PROFIT / LOSS FROM DISCONTINUED OPERATIONS<br/>(XX±XXI)</b>                   |                      | <b>-</b>   |
| <b>XXIII.</b> | <b>NET INCOME / LOSS (XVII+XXII)</b>  | <b>(10)</b>          | <b>605.475</b>   |
| 23.1          | Group's Profit / Loss   |                      | 611.177  |
| 23.2          | Minority Shares (-)   |                      | (5.702)  |
|               | Earning / Loss per share (Full Kuruş)   |                      | 0,255  |

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

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



**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

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

|   | Audited<br>Current Period<br>1 January 2018 –<br>31 December 2018 |
|---|---|
| <b>PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME</b>  |   |
| <b>I. CURRENT PERIOD INCOME / LOSS</b>  | <b>663,263</b>  |
| <b>II. OTHER COMPREHENSIVE INCOME</b>   | <b>(64,978)</b>   |
| <b>2.1 Not Reclassified Through Profit or Loss</b>  | <b>52,250</b>   |
| 2.1.1 Property and Equipment Revaluation Increase / Decrease  | 47,172  |
| 2.1.2 Intangible Assets Revaluation Increase / Decrease   | -   |
| 2.1.3 Defined Benefit Pension Plan Remeasurement Gain / Loss  | (684)   |
| 2.1.4 Other Comprehensive Income Items Not Reclassified Through Profit or Loss  | 7,639   |
| 2.1.5 Tax Related Other Comprehensive Income Items Not Reclassified Through Profit or Loss  | (1,877)   |
| <b>2.2 Reclassified Through Profit or Loss</b>  | <b>(117,228)</b>  |
| 2.2.1 Foreign Currency Translation Differences  | 7,857   |
| 2.2.2 Valuation and / or Reclassification Income / Expense of the Financial Assets at Fair Value Through Other Comprehensive Income | (157,047)   |
| 2.2.3 Cash Flow Hedge Income / Loss   | -   |
| 2.2.4 Income (Loss) Related with Hedges of Net Investments in Foreign Operations  | -   |
| 2.2.5 Other Comprehensive Income Items Reclassified Through Profit or Losses  | (2,431)   |
| 2.2.6 Tax Related Other Comprehensive Income Items Reclassified Through Profit or Loss  | 34,393  |
| <b>III. TOTAL COMPREHENSIVE INCOME (I+II)</b>   | <b>598,285</b>  |

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

|   | Audited<br>Prior Period<br>1 January 2017 –<br>31 December 2017 |
|---|---|
| <b>PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME UNDER SHAREHOLDERS' EQUITY</b>   |   |
| <b>I. ADDITIONS TO MARKETABLE SECURITIES REVALUATION DIFFERENCES FOR AVAILABLE-FOR-SALE FINANCIAL ASSETS</b>                      | <b>32,813</b>   |
| <b>II. TANGIBLE ASSETS REVALUATION DIFFERENCES</b>  | <b>16,315</b>   |
| <b>III. INTANGIBLE ASSETS REVALUATION DIFFERENCES</b>   | <b>-</b>  |
| <b>IV. TRANSLATION DIFFERENCES FOR TRANSACTIONS IN FOREIGN CURRENCY</b>   | <b>3,604</b>  |
| <b>V. GAIN / LOSS ON DERIVATIVE FINANCIAL ASSETS HELD FOR CASH FLOW HEDGES (Effective Portion of Fair Value Differences)</b>      | <b>-</b>  |
| <b>VI. GAIN / LOSS ON DERIVATIVE FINANCIAL ASSETS HELD FOR HEDGES OF NET INVESTMENT IN FOREIGN OPERATIONS (Effective Portion)</b> | <b>-</b>  |
| <b>VII. EFFECTS OF CHANGES IN ACCOUNTING POLICY AND CORRECTIONS OF ERRORS</b>   | <b>-</b>  |
| <b>VIII. OTHER PROFIT / LOSS ITEMS ACCOUNTED FOR UNDER SHAREHOLDERS' EQUITY AS PER TAS</b>  | <b>7,264</b>  |
| <b>IX. DEFERRED TAX OF VALUATION DIFFERENCES</b>  | <b>(4,834)</b>  |
| <b>X. NET PROFIT / LOSS ACCOUNTED FOR DIRECTLY UNDER SHAREHOLDERS' EQUITY (I+II+...+IX)</b>                                       | <b>55,162</b>   |
| <b>XI. CURRENT YEAR PROFIT / LOSS</b>   | <b>605,475</b>  |
| 11.1 Net Change in Fair Value of Marketable Securities (Recycled to Profit/Loss)  | (305)   |
| 11.2 Reclassification and Recycling Derivatives Accounted for Cash Flow Hedge Purposes to Income Statement                        | -   |
| 11.3 Recycling Hedge of Net Investments in Foreign Operations to Income Statement   | -   |
| 11.4 Other  | 605,780   |
| <b>XII. TOTAL PROFIT / LOSS ACCOUNTED FOR THE CURRENT PERIOD (X+XI)</b>   | <b>660,637</b>  |

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

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



**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

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

| CHANGES IN SHAREHOLDERS' EQUITY |  |                 |                          |               |                            |                |                 |                        |                |         |         |           |          |         |   |   |   |           | Current Period Net Income (Loss) | Prior Period Net Income (Loss) | Marketable Securities Valuation Differences | Intangible and Intangible Revaluation Differences | Bonus Shares Obtained from Associates, Subs and Jointly Controlled Entities | Hedging Transactions | Val. Chan. In Prop. and Eq. HFS Purp./Disc. Opr. | Total Equity Except from Minority Interest | Minority Interest | Total Shareholders' Equity |  |
|---------------------------------|--|-----------------|--------------------------|---------------|----------------------------|----------------|-----------------|------------------------|----------------|---------|---------|-----------|----------|---------|---|---|---|-----------|----------------------------------|--------------------------------|---|---|---|----------------------|--|--|-------------------|----------------------------|--|
|                                 | Note   | Paid in Capital | Adjustment Share Capital | Share Premium | Share Cancellation Profits | Legal Reserves | Status Reserves | Extraordinary Reserves | Other Reserves |         |         |           |          |         |   |   |   |           |                                  |                                |   |   |   |                      |  |  |                   |                            |  |
| I.                              | Prior Period – 31 December 2017  |                 |                          |               |                            |                |                 |                        |                |         |         |           |          |         |   |   |   |           |                                  |                                |   |   |   |                      |  |  |                   |                            |  |
|                                 |  | 2,050,000       |                          | 624           | 428                        | -              | 216,361         | 75,641                 | 113,175        | 2,919   | -       | 494,664   | (69,896) | 201,168 | - | - | - | 3,085,084 | 57,969                           | 3,143,053                      |   |   |   |                      |  |  |                   |                            |  |
| II.                             | Opening Balance  |                 |                          |               |                            |                |                 |                        |                |         |         |           |          |         |   |   |   |           |                                  |                                |   |   |   |                      |  |  |                   |                            |  |
|                                 |  |                 |                          |               |                            |                |                 |                        |                |         |         |           |          |         |   |   |   |           |                                  |                                |   |   |   |                      |  |  |                   |                            |  |
| III.                            | Changes in the Period  |                 |                          |               |                            |                |                 |                        |                |         |         |           |          |         |   |   |   |           |                                  |                                |   |   |   |                      |  |  |                   |                            |  |
|                                 |  |                 |                          |               |                            |                |                 |                        |                |         |         |           |          |         |   |   |   |           |                                  |                                |   |   |   |                      |  |  |                   |                            |  |
| IV.                             | Increase/Decrease Due to Merger  |                 |                          |               |                            |                |                 |                        |                |         |         |           |          |         |   |   |   |           |                                  |                                |   |   |   |                      |  |  |                   |                            |  |
|                                 |  |                 |                          |               |                            |                |                 |                        |                |         |         |           |          |         |   |   |   |           |                                  |                                |   |   |   |                      |  |  |                   |                            |  |
| V.                              | Marketable Securities Value Increase   |                 |                          |               |                            |                |                 |                        |                |         |         |           |          |         |   |   |   |           |                                  |                                |   |   |   |                      |  |  |                   |                            |  |
|                                 |  |                 |                          |               |                            |                |                 |                        |                |         |         |           |          |         |   |   |   |           |                                  |                                |   |   |   |                      |  |  |                   |                            |  |
| VI.                             | Fund   |                 |                          |               |                            |                |                 |                        |                |         |         |           |          |         |   |   |   |           |                                  |                                |   |   |   |                      |  |  |                   |                            |  |
|                                 |  |                 |                          |               |                            |                |                 |                        |                |         |         |           |          |         |   |   |   |           |                                  |                                |   |   |   |                      |  |  |                   |                            |  |
| VII.                            | Hedging (Effective Portion)  |                 |                          |               |                            |                |                 |                        |                |         |         |           |          |         |   |   |   |           |                                  |                                |   |   |   |                      |  |  |                   |                            |  |
|                                 |  |                 |                          |               |                            |                |                 |                        |                |         |         |           |          |         |   |   |   |           |                                  |                                |   |   |   |                      |  |  |                   |                            |  |
| VIII.                           | Cash Flow Hedge  |                 |                          |               |                            |                |                 |                        |                |         |         |           |          |         |   |   |   |           |                                  |                                |   |   |   |                      |  |  |                   |                            |  |
|                                 |  |                 |                          |               |                            |                |                 |                        |                |         |         |           |          |         |   |   |   |           |                                  |                                |   |   |   |                      |  |  |                   |                            |  |
| IX.                             | Hedge of Investment in Foreign Operations                                    |                 |                          |               |                            |                |                 |                        |                |         |         |           |          |         |   |   |   |           |                                  |                                |   |   |   |                      |  |  |                   |                            |  |
|                                 |  |                 |                          |               |                            |                |                 |                        |                |         |         |           |          |         |   |   |   |           |                                  |                                |   |   |   |                      |  |  |                   |                            |  |
| X.                              | Tangible Assets Revaluation Differences                                      |                 |                          |               |                            |                |                 |                        |                |         |         |           |          |         |   |   |   |           |                                  |                                |   |   |   |                      |  |  |                   |                            |  |
|                                 |  |                 |                          |               |                            |                |                 |                        |                |         |         |           |          |         |   |   |   |           |                                  |                                |   |   |   |                      |  |  |                   |                            |  |
| XI.                             | Intangible Assets Revaluation Differences                                    |                 |                          |               |                            |                |                 |                        |                |         |         |           |          |         |   |   |   |           |                                  |                                |   |   |   |                      |  |  |                   |                            |  |
|                                 |  |                 |                          |               |                            |                |                 |                        |                |         |         |           |          |         |   |   |   |           |                                  |                                |   |   |   |                      |  |  |                   |                            |  |
| XII.                            | Bonus Shares from Investments in Associates, Subsidiaries and Joint Ventures |                 |                          |               |                            |                |                 |                        |                |         |         |           |          |         |   |   |   |           |                                  |                                |   |   |   |                      |  |  |                   |                            |  |
|                                 |  |                 |                          |               |                            |                |                 |                        |                |         |         |           |          |         |   |   |   |           |                                  |                                |   |   |   |                      |  |  |                   |                            |  |
| XIII.                           | Foreign Exchange Differences   |                 |                          |               |                            |                |                 |                        |                |         |         |           |          |         |   |   |   |           |                                  |                                |   |   |   |                      |  |  |                   |                            |  |
|                                 |  |                 |                          |               |                            |                |                 |                        |                |         |         |           |          |         |   |   |   |           |                                  |                                |   |   |   |                      |  |  |                   |                            |  |
| XIV.                            | Disposal of Assets   |                 |                          |               |                            |                |                 |                        |                |         |         |           |          |         |   |   |   |           |                                  |                                |   |   |   |                      |  |  |                   |                            |  |
|                                 |  |                 |                          |               |                            |                |                 |                        |                |         |         |           |          |         |   |   |   |           |                                  |                                |   |   |   |                      |  |  |                   |                            |  |
| XV.                             | Reclassification of Assets   |                 |                          |               |                            |                |                 |                        |                |         |         |           |          |         |   |   |   |           |                                  |                                |   |   |   |                      |  |  |                   |                            |  |
|                                 |  |                 |                          |               |                            |                |                 |                        |                |         |         |           |          |         |   |   |   |           |                                  |                                |   |   |   |                      |  |  |                   |                            |  |
| XVI.                            | Effects of changes in Equity of Investments in Associates on Bank's Equity   |                 |                          |               |                            |                |                 |                        |                |         |         |           |          |         |   |   |   |           |                                  |                                |   |   |   |                      |  |  |                   |                            |  |
|                                 |  |                 |                          |               |                            |                |                 |                        |                |         |         |           |          |         |   |   |   |           |                                  |                                |   |   |   |                      |  |  |                   |                            |  |
| XVII.                           | Capital Increase   |                 |                          |               |                            |                |                 |                        |                |         |         |           |          |         |   |   |   |           |                                  |                                |   |   |   |                      |  |  |                   |                            |  |
|                                 |  | 350,000         |                          |               |                            |                |                 |                        |                |         |         |           |          |         |   |   |   |           |                                  |                                |   |   |   |                      |  |  |                   |                            |  |
| XVIII.                          | Cash Increase  |                 |                          |               |                            |                |                 |                        |                |         |         |           |          |         |   |   |   |           |                                  |                                |   |   |   |                      |  |  |                   |                            |  |
|                                 |  |                 |                          |               |                            |                |                 |                        |                |         |         |           |          |         |   |   |   |           |                                  |                                |   |   |   |                      |  |  |                   |                            |  |
| XIX.                            | Internal Sources   |                 |                          |               |                            |                |                 |                        |                |         |         |           |          |         |   |   |   |           |                                  |                                |   |   |   |                      |  |  |                   |                            |  |
|                                 |  | 350,000         |                          |               |                            |                |                 |                        |                |         |         |           |          |         |   |   |   |           |                                  |                                |   |   |   |                      |  |  |                   |                            |  |
| XX.                             | Share Issuance   |                 |                          |               |                            |                |                 |                        |                |         |         |           |          |         |   |   |   |           |                                  |                                |   |   |   |                      |  |  |                   |                            |  |
|                                 |  |                 |                          |               |                            |                |                 |                        |                |         |         |           |          |         |   |   |   |           |                                  |                                |   |   |   |                      |  |  |                   |                            |  |
| XXI.                            | Share Cancellation Profits   |                 |                          |               |                            |                |                 |                        |                |         |         |           |          |         |   |   |   |           |                                  |                                |   |   |   |                      |  |  |                   |                            |  |
|                                 |  |                 |                          |               |                            |                |                 |                        |                |         |         |           |          |         |   |   |   |           |                                  |                                |   |   |   |                      |  |  |                   |                            |  |
| XXII.                           | Effect of Inflation on Paid-in Capital                                       |                 |                          |               |                            |                |                 |                        |                |         |         |           |          |         |   |   |   |           |                                  |                                |   |   |   |                      |  |  |                   |                            |  |
|                                 |  |                 |                          |               |                            |                |                 |                        |                |         |         |           |          |         |   |   |   |           |                                  |                                |   |   |   |                      |  |  |                   |                            |  |
| XXIII.                          | Other  |                 |                          |               |                            |                |                 |                        |                |         |         |           |          |         |   |   |   |           |                                  |                                |   |   |   |                      |  |  |                   |                            |  |
|                                 |  |                 | (280)                    |               |                            |                |                 |                        |                |         |         |           |          |         |   |   |   | (280)     | 6                                | (274)                          |   |   |   |                      |  |  |                   |                            |  |
| XXIV.                           | Period Net Income  |                 |                          |               |                            |                |                 |                        |                |         |         |           |          |         |   |   |   |           |                                  |                                |   |   |   |                      |  |  |                   |                            |  |
|                                 |  |                 |                          |               |                            |                |                 |                        |                |         | 611,177 |           |          |         |   |   |   | 611,177   | (5,702)                          | 605,475                        |   |   |   |                      |  |  |                   |                            |  |
| XXV.                            | Profit Distribution  |                 |                          |               |                            |                |                 |                        |                |         |         |           |          |         |   |   |   |           |                                  |                                |   |   |   |                      |  |  |                   |                            |  |
|                                 |  |                 |                          |               |                            | 24,931         |                 | 8,713                  |                |         |         | (126,445) |          |         |   |   |   | (92,801)  | -                                | (92,801)                       |   |   |   |                      |  |  |                   |                            |  |
| XXVI.                           | Dividend Distributed   |                 |                          |               |                            |                |                 |                        |                |         |         |           |          |         |   |   |   |           |                                  |                                |   |   |   |                      |  |  |                   |                            |  |
|                                 |  |                 |                          |               |                            |                |                 |                        |                |         |         | (92,801)  |          |         |   |   |   | (92,801)  | -                                | (92,801)                       |   |   |   |                      |  |  |                   |                            |  |
| XXVII.                          | Transfers to Reserves  |                 |                          |               |                            |                |                 |                        |                |         |         |           |          |         |   |   |   |           |                                  |                                |   |   |   |                      |  |  |                   |                            |  |
|                                 |  |                 |                          |               |                            | 24,931         |                 | 8,713                  |                |         |         | (33,644)  |          |         |   |   |   | -         | -                                | -                              |   |   |   |                      |  |  |                   |                            |  |
| XXVIII.                         | Other  |                 |                          |               |                            |                |                 |                        |                |         |         |           |          |         |   |   |   |           |                                  |                                |   |   |   |                      |  |  |                   |                            |  |
|                                 |  |                 |                          |               |                            |                |                 |                        |                |         |         |           |          |         |   |   |   | -         | -                                | -                              |   |   |   |                      |  |  |                   |                            |  |
| Period-End Balance              |  | 2,400,000       | 344                      | 428           | -                          | 241,292        | 75,641          | 121,888                | 2,919          | 611,177 | 18,219  | (28,638)  | 215,352  | -       | - | - | - | 3,658,622 | 52,719                           | 3,711,341                      |   |   |   |                      |  |  |                   |                            |  |

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

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



**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

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

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

|  |      | Accumulated Other Comprehensive Income or Expenses Not Reclassified Through Profit or Loss |                |                            |                        |         | Accumulated Other Comprehensive Income or Expenses Reclassified Through Profit or Loss |        |        |           |          | Profit   |           | Prior Period Profit or (Loss) |   | Current Period Profit or (Loss) |   | Total Equity Except from Minority Interest | Minority Interest | Total Shareholders' Equity |
|--|------|--|----------------|----------------------------|------------------------|---------|--|--------|--------|-----------|----------|----------|-----------|-------------------------------|---|---------------------------------|---|--|-------------------|----------------------------|
| CHANGES IN SHAREHOLDERS' EQUITY  | Note | Paid-in Capital  | Share Premiums | Share Cancellation Profits | Other Capital Reserves | 1       | 2  | 3      | 4      | 5         | 6        | Reserves |           | (Loss)                        |   | (Loss)                          |   |  |                   |                            |
| I. Current Period – 31 December 2018                                   |      | 2,400,000  | 428            | -                          | 374                    | 215,352 | (30)   | 16,798 | 7,847  | (39,404)  | (13,879) | 441,740  | 629,396   | -                             | - | -                               | - | 3,658,622                                  | 52,719            | 3,711,341                  |
| II. Prior Period End Balance   |      | -  | -              | -                          | -                      | -       | -  | -      | -      | -         | -        | -        | -         | -                             | - | -                               | - | -  | -                 | -                          |
| III. Corrections and Accounting Policy Changes Made According to TAS 8 |      | -  | -              | -                          | -                      | -       | -  | -      | -      | -         | -        | -        | -         | -                             | - | -                               | - | -  | -                 | -                          |
| 2.1 Effects of Errors  |      | -  | -              | -                          | -                      | -       | -  | -      | -      | -         | -        | -        | -         | -                             | - | -                               | - | -  | -                 | -                          |
| 2.2 Effects of the Changes in Accounting Policies                      |      | -  | -              | -                          | -                      | -       | -  | -      | -      | -         | -        | -        | -         | -                             | - | -                               | - | -  | -                 | -                          |
| III. Adjusted Beginning Balance (I+II)                                 |      | 2,400,000  | 428            | -                          | 374                    | 215,352 | (30)   | 16,798 | 7,847  | (39,404)  | 9,222    | 441,740  | 592,220   | -                             | - | -                               | - | 3,644,547                                  | 52,632            | 3,697,179                  |
| IV. Total Comprehensive Income   |      | -  | -              | -                          | -                      | 46,142  | (536)  | 6,644  | 7,857  | (122,654) | (2,431)  | -        | -         | -                             | - | 670,756                         | - | 605,778                                    | (7,493)           | 598,285                    |
| V. Capital Increase by Cash  |      | -  | -              | -                          | -                      | -       | -  | -      | -      | -         | -        | -        | -         | -                             | - | -                               | - | -  | -                 | -                          |
| VI. Capital Increase by Internal Sources                               |      | 400,000  | -              | -                          | -                      | -       | -  | -      | -      | -         | -        | -        | -         | (400,000)                     | - | -                               | - | -  | -                 | -                          |
| VII. Effect of Inflation on Paid-in Capital                            |      | -  | -              | -                          | -                      | -       | -  | -      | -      | -         | -        | -        | -         | -                             | - | -                               | - | -  | -                 | -                          |
| VIII. Convertible Bonds to Share                                       |      | -  | -              | -                          | -                      | -       | -  | -      | -      | -         | -        | -        | -         | -                             | - | -                               | - | -  | -                 | -                          |
| IX. Subordinated Debt Instruments                                      |      | -  | -              | -                          | -                      | -       | -  | -      | -      | -         | -        | -        | -         | -                             | - | -                               | - | -  | -                 | -                          |
| X. Increase/Decrease by Other Changes                                  |      | -  | 88             | -                          | -                      | -       | -  | -      | -      | -         | -        | 851      | 3,695     | -                             | - | -                               | - | 4,634                                      | (6,517)           | (1,883)                    |
| XI. Profit Distribution  |      | -  | -              | -                          | -                      | -       | -  | -      | -      | -         | -        | 86,468   | (195,973) | -                             | - | -                               | - | (109,505)                                  | -                 | (109,505)                  |
| 11.1 Dividends Distributed   |      | -  | -              | -                          | -                      | -       | -  | -      | -      | -         | -        | -        | (109,865) | -                             | - | -                               | - | (109,865)                                  | -                 | (109,865)                  |
| 11.2 Transfers to Reserves   |      | -  | -              | -                          | -                      | -       | -  | -      | -      | -         | -        | 86,468   | (86,108)  | -                             | - | -                               | - | 360  | -                 | 360                        |
| 11.3 Other   |      | -  | -              | -                          | -                      | -       | -  | -      | -      | -         | -        | -        | -         | -                             | - | -                               | - | -  | -                 | -                          |
| Period-End Balance   |      | 2,800,000  | 516            | -                          | 374                    | 261,494 | (566)  | 23,442 | 15,704 | (162,058) | 6,791    | 529,059  | (58)      | -                             | - | 670,756                         | - | 4,145,454                                  | 38,622            | 4,184,076                  |

1.Accumulated Revaluation Increase / Decrease of Fixed Assets,

2.Accumulated Remeasurement Gain / Loss of Defined Benefit Pension Plan,

3.Other (Shares of Investments Valued by Equity Method in Other Comprehensive Income Not Classified Through Profit or Loss and Other Accumulated Amounts of Other Comprehensive Income Items Not Reclassified Through Other Profit or Loss),

4.Foreign Currency Transition Differences,

5.Accumulated Revaluation and/or Remeasurement Gain/Loss of the Financial Asset at Fair Value Through Other Comprehensive Income,

6.Other (Cash Flow Hedge Gain/Loss, Shares of Investments Valued by Equity Method in Other Comprehensive Income Classified Through Profit or Loss and Other Accumulated Amounts of Other Comprehensive Income Items Reclassified Through Other Profit or Loss).

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



**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

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

|   | Note       | Audited<br>Current Period<br>31 December 2018 |
|---|------------|---|
| <b>A. CASH FLOWS FROM BANKING OPERATIONS</b>  |            |   |
| <b>1.1 Operating Profit Before Changes in Operating Assets and Liabilities</b>                |            | <b>1.679.473</b>                              |
| 1.1.1 Interest Received   |            | 2.537.294                                     |
| 1.1.2 Interest Paid   |            | (1.342.871)                                   |
| 1.1.3 Dividends Received  |            | 5.525   |
| 1.1.4 Fees and Commissions Received   |            | 63.929  |
| 1.1.5 Other Income  | (1)        | 78.663  |
| 1.1.6 Collections from Previously Written off loans   |            | 9.100   |
| 1.1.7 Payments to Personnel and Service Suppliers   |            | (155.153)                                     |
| 1.1.8 Taxes Paid  |            | (104.310)                                     |
| 1.1.9 Others  | (1)        | 587.296                                       |
| <b>1.2 Changes in Operating Assets and Liabilities</b>  |            | <b>(1.723.950)</b>                            |
| 1.2.1 Net (Increase) (Decrease) in Financial Assets at Fair Value through Profit or Loss      |            | (1.541)                                       |
| 1.2.2 Net (Increase) (Decrease) in Due from Banks   |            | -   |
| 1.2.3 Net (Increase) (Decrease) in Loans  |            | 1.204.032                                     |
| 1.2.4 Net (Increase) (Decrease) in Other Assets   | (1)        | (392.290)                                     |
| 1.2.5 Net (Increase) (Decrease) in Bank Deposits  |            | -   |
| 1.2.6 Net (Increase) (Decrease) in Other Deposits   |            | -   |
| 1.2.7 Net (Increase) (Decrease) in Financial Liabilities at Fair Value through Profit or Loss |            | -   |
| 1.2.8 Net (Increase) (Decrease) in Funds Borrowed   |            | (1.621.868)                                   |
| 1.2.9 Net (Increase) (Decrease) in Matured Payable  |            | -   |
| 1.2.10 Net (Increase) (Decrease) in Other Liabilities   | (1)        | (912.283)                                     |
| <b>I. Net Cash Provided by / (used in) Banking Operations</b>                                 |            | <b>(44.477)</b>                               |
| <b>B. CASH FLOWS FROM INVESTING ACTIVITIES</b>  |            |   |
| <b>II. Net Cash Provided by / (used in) Investing Activities</b>                              |            | <b>(328.661)</b>                              |
| 2.1 Cash Paid for Purchase of Entities under Common Control, Associates and Subsidiaries      | (2)        | (3.000)                                       |
| 2.2 Cash Obtained from Sale of Entities under Common Control, Associates and Subsidiaries     | (3)        | -   |
| 2.3 Purchases of Property and Equipment   | (2)        | (4.924)                                       |
| 2.4 Disposals of Property and Equipment   | (3)        | 94  |
| 2.5 Purchase of Financial Assets at Fair Value through Other Comprehensive Income             |            | (680.955)                                     |
| 2.6 Sale of Financial Assets at Fair Value through Other Comprehensive Income                 |            | 590.195                                       |
| 2.7 Purchase of Financial Assets Measured at Amortized Cost                                   |            | (227.528)                                     |
| 2.8 Sale of Financial Assets Measured at Amortized Cost                                       |            | -   |
| 2.9 Others  | (2)        | (2.543)                                       |
| <b>C. CASH FLOWS FROM FINANCING ACTIVITIES</b>  |            |   |
| <b>III. Net Cash Provided by / (used in) Financing Activities</b>                             |            | <b>1.208.745</b>                              |
| 3.1 Cash Obtained From Funds Borrowed and Securities Issued                                   |            | 1.318.590                                     |
| 3.2 Cash Used for Repayment of Funds Borrowed and Securities Issued                           |            | -   |
| 3.3 Capital Increase  |            | -   |
| 3.4 Dividends Paid  |            | (109.865)                                     |
| 3.5 Payments for Finance Leases   |            | -   |
| 3.6 Other   |            | 20  |
| <b>IV. Effect of Change in Foreign Exchange Rate on Cash and Cash Equivalents</b>             | <b>(1)</b> | <b>45.970</b>                                 |
| <b>V. Net Increase / (Decrease) in Cash and Cash Equivalents</b>                              |            | <b>881.577</b>                                |
| <b>VI. Cash and Cash Equivalents at Beginning of the Period</b>                               | <b>(4)</b> | <b>504.248</b>                                |
| <b>VII. Cash and Cash Equivalents at End of the Period</b>                                    | <b>(4)</b> | <b>1.385.825</b>                              |

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

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



**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

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

|   | Note       | Audited<br>Prior Period<br>31 December 2017 |
|---|------------|---|
| <b>A. CASH FLOWS FROM BANKING OPERATIONS</b>  |            |   |
| <b>1.1 Operating Profit Before Changes in Operating Assets and Liabilities</b>                |            | <b>842,031</b>                              |
| 1.1.1 Interest Received   |            | 1.578.190                                   |
| 1.1.2 Interest Paid   |            | (846.414)                                   |
| 1.1.3 Dividends Received  |            | 5.421                                       |
| 1.1.4 Fees and Commissions Received   |            | 53.752                                      |
| 1.1.5 Other Income  |            | 99.565                                      |
| 1.1.6 Collections from Previously Written off loans   |            | 4.477                                       |
| 1.1.7 Payments to Personnel and Service Suppliers   |            | (122.637)                                   |
| 1.1.8 Taxes Paid  |            | (122.638)                                   |
| 1.1.9 Others  | (1)        | 192.315                                     |
| <b>1.2 Changes in Operating Assets and Liabilities</b>  |            | <b>(2.318.417)</b>                          |
| 1.2.1 Net (Increase) (Decrease) in Financial Assets at Fair Value through Profit or Loss      |            | 4.853                                       |
| 1.2.2 Net (Increase) (Decrease) in Due from Banks   |            | -   |
| 1.2.3 Net (Increase) (Decrease) in Loans  |            | -   |
| 1.2.4 Net (Increase) (Decrease) in Other Assets   |            | (2.839.528)                                 |
| 1.2.5 Net (Increase) (Decrease) in Bank Deposits  |            | (154.658)                                   |
| 1.2.6 Net (Increase) (Decrease) in Other Deposits   |            | -   |
| 1.2.7 Net (Increase) (Decrease) in Financial Liabilities at Fair Value through Profit or Loss |            | -   |
| 1.2.8 Net (Increase) (Decrease) in Funds Borrowed   |            | 639.937                                     |
| 1.2.9 Net (Increase) (Decrease) in Matured Payable  |            | -   |
| 1.2.10 Net (Increase) (Decrease) in Other Liabilities   | (1)        | 30.979                                      |
| <b>I. Net Cash Provided by / (used in) Banking Operations</b>                                 |            | <b>(1.476.386)</b>                          |
| <b>B. CASH FLOWS FROM INVESTING ACTIVITIES</b>  |            |   |
| <b>II. Net Cash Provided by / (used in) Investing Activities</b>                              |            | <b>79.838</b>                               |
| 2.1 Cash Paid for Purchase of Entities under Common Control, Associates and Subsidiaries      | (2)        | -   |
| 2.2 Cash Obtained from Sale of Entities under Common Control, Associates and Subsidiaries     | (3)        | -   |
| 2.3 Purchases of Property and Equipment   | (2)        | (4.736)                                     |
| 2.4 Disposals of Property and Equipment   | (3)        | 329   |
| 2.5 Purchase of Financial Assets at Fair Value through Other Comprehensive Income             |            | (781.787)                                   |
| 2.6 Sale of Financial Assets at Fair Value through Other Comprehensive Income                 |            | 867.314                                     |
| 2.7 Purchase of Financial Assets Measured at Amortized Cost                                   |            | -   |
| 2.8 Sale of Financial Assets Measured at Amortized Cost                                       |            | -   |
| 2.9 Others  | (2)        | (1.282)                                     |
| <b>C. CASH FLOWS FROM FINANCING ACTIVITIES</b>  |            |   |
| <b>III. Net Cash Provided by / (used in) Financing Activities</b>                             |            | <b>984.199</b>                              |
| 3.1 Cash Obtained From Funds Borrowed and Securities Issued                                   |            | 1.077.000                                   |
| 3.2 Cash Used for Repayment of Funds Borrowed and Securities Issued                           |            | -   |
| 3.3 Capital Increase  |            | -   |
| 3.4 Dividends Paid  |            | (92.801)                                    |
| 3.5 Payments for Finance Leases   |            | -   |
| 3.6 Other   |            | -   |
| <b>IV. Effect of Change in Foreign Exchange Rate on Cash and Cash Equivalents</b>             | <b>(1)</b> | <b>751</b>                                  |
| <b>V. Net Increase / (Decrease) in Cash and Cash Equivalents</b>                              |            | <b>(411.598)</b>                            |
| <b>VI. Cash and Cash Equivalents at Beginning of the Period</b>                               | <b>(4)</b> | <b>915.846</b>                              |
| <b>VII. Cash and Cash Equivalents at End of the Period</b>                                    | <b>(4)</b> | <b>504.248</b>                              |

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

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



**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF PROFIT DISTRIBUTION**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

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

|   | Audited<br>Current Period<br>31 December 2018 (1) | Audited<br>Prior Period<br>31 December 2017 |
|---|---|---|
| <b>I. DISTRIBUTION OF CURRENT YEAR INCOME (2)</b>                   |   |   |
| 1.1 CURRENT YEAR INCOME   | 909.263   | 727.303                                     |
| 1.2 TAXES AND DUTIES PAYABLE  | 248.337   | 131.635                                     |
| 1.2.1 Corporate Tax (Income tax)                                    | 146.335   | 161.659                                     |
| 1.2.2 Income withholding tax  | -   | -   |
| 1.2.3 Other taxes and duties (4)                                    | 102.002   | (30.024)                                    |
| <b>A. NET INCOME FOR THE YEAR (1.1-1.2)</b>                         | <b>660.926</b>                                    | <b>595.668</b>                              |
| 1.3 PRIOR YEARS LOSSES (-)  | -   | -   |
| 1.4 FIRST LEGAL RESERVES (-)  | -   | 29.783                                      |
| 1.5 OTHER STATUTORY RESERVES (-)                                    | -   | -   |
| <b>B. NET PROFIT AVAILABLE FOR DISTRIBUTION [(A)-(1.3+1.4+1.5)]</b> | <b>660.926</b>                                    | <b>565.885</b>                              |
| 1.6 FIRST DIVIDEND TO SHAREHOLDERS (-)                              | -   | 169.820                                     |
| 1.6.1 To owners of ordinary shares                                  | -   | 169.818                                     |
| 1.6.2 To owners of preferred shares                                 | -   | -   |
| 1.6.3 To owners of preferred shares (pre-emptive rights)            | -   | 2   |
| 1.6.4 To profit sharing bonds                                       | -   | -   |
| 1.6.5 To holders of profit and loss sharing certificates            | -   | -   |
| 1.7 DIVIDENDS TO PERSONNEL (-)                                      | -   | 11.882                                      |
| 1.8 DIVIDENDS TO BOARD OF DIRECTORS (-)                             | -   | 1.981                                       |
| 1.9 SECOND DIVIDEND TO SHAREHOLDERS (-)                             | -   | 326.182                                     |
| 1.9.1 To owners of ordinary shares                                  | -   | 326.182                                     |
| 1.9.2 To owners of preferred shares                                 | -   | -   |
| 1.9.3 To owners of preferred shares (pre-emptive rights)            | -   | -   |
| 1.9.4 To profit sharing bonds                                       | -   | -   |
| 1.9.5 To holders of profit and loss sharing certificates            | -   | -   |
| 1.10 SECOND LEGAL RESERVES (-)                                      | -   | 1.387                                       |
| 1.11 STATUTORY RESERVES (-)   | -   | -   |
| 1.12 GENERAL RESERVES   | -   | 54.633                                      |
| 1.13 OTHER RESERVES   | -   | -   |
| 1.14 SPECIAL FUNDS  | -   | -   |
| <b>II. DISTRIBUTION OF RESERVES</b>                                 | <b>-</b>  | <b>-</b>                                    |
| 2.1 APPROPRIATED RESERVES   | -   | -   |
| 2.2 SECOND LEGAL RESERVES (-)                                       | -   | -   |
| 2.3 DIVIDENDS TO SHAREHOLDERS (-)                                   | -   | -   |
| 2.3.1 To owners of ordinary shares                                  | -   | -   |
| 2.3.2 To owners of preferred shares                                 | -   | -   |
| 2.3.3 To owners of preferred shares (pre-emptive rights)            | -   | -   |
| 2.3.4 To profit sharing bonds                                       | -   | -   |
| 2.3.5 To holders of profit and loss sharing certificates            | -   | -   |
| 2.4 DIVIDENDS TO PERSONNEL (-)                                      | -   | -   |
| 2.5 DIVIDENDS TO BOARD OF DIRECTORS (-)                             | -   | -   |
| <b>III. EARNINGS PER SHARE (3)</b>                                  |   |   |
| 3.1 TO OWNERS OF ORDINARY SHARES                                    | 0,24  | 0,25  |
| 3.2 TO OWNERS OF ORDINARY SHARES (%)                                | 23,60   | 24,82                                       |
| 3.3 TO OWNERS OF PRIVILEGED SHARES                                  | -   | -   |
| 3.4 TO OWNERS OF PRIVILEGED SHARES (%)                              | -   | -   |
| <b>IV. DIVIDEND PER SHARE</b>                                       |   |   |
| 4.1 TO OWNERS OF ORDINARY SHARES                                    | -   | 0,21  |
| 4.2 TO OWNERS OF ORDINARY SHARES (%)                                | -   | 20,67                                       |
| 4.3 TO OWNERS OF PRIVILEGED SHARES                                  | -   | -   |
| 4.4 TO OWNERS OF PRIVILEGED SHARES ( % )                            | -   | -   |

(1) Since the Board of Directors has not prepared any proposal for profit distribution relating to the year 2018 yet, only profit available for distribution for the year 2018 is presented.

(2) According to the regulation in Turkey, companies do not distribute profits based on consolidated. Profit distribution is based on non-consolidated financial statements.

(3) A nominal value of 1 Kuruş figures a share in unconsolidated income statement and unconsolidated statement of profit distribution and an earnings per share is calculated for a nominal value of 1 Kuruş.

(4) The current amount is deferred tax expense and the prior amount is deferred tax income.

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



**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

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

**SECTION THREE**

**ACCOUNTING POLICIES**

**I. Basis of presentation**

**I.a Preparation of the financial statements and the accompanying footnotes in accordance with Turkish Accounting Standards and Regulation on Principles Related to Banks' Accounting Applications and Maintaining the Documents**

The consolidated financial statements are prepared its financial statements in accordance with the BRSA Accounting and Reporting Regulation” which includes the regulation on “The Procedures and Principles Regarding Banks’ Accounting Practices and Maintaining Documents” published in the Official Gazette dated 1 November 2006 with No. 26333, and other regulations on accounting records of banks published by the Banking Regulation and Supervision Board and circulars and pronouncements published by the BRSA and Turkish Accounting Standards published by the Public Oversight Accounting and Auditing Standards Authority for the matters not regulated by the aforementioned legislations and the amendments dated 14 March 2018 to the Communiqué on the Financial Statements and Related Disclosures and Footnotes to announced to public dated 28 June 2012 and with No. 28337 “Communiqué’ on Publicly Announced Financial Statements Explanations and notes to the Financial Statements”.

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

Accounting policies and valuation principles used in the preparation of the interim financial statements are determined and applied, in accordance with the regulations, communiqués, interpretations and legislations related to accounting and financial reporting principles published by the Banking Regulation and Supervision Agency (“BRSA”), and are consistent except for the application of TFRS 9 with the accounting policies applied in the annual financial statements prepared for the year ended 31 December 2017. The Parent Bank has adopted TFRS 9 “Financial Instruments” which is related to the classification and measurement of financial Instruments published by the Public Oversight Accounting and Auditing Standards Authority (“POA”) in the Official Gazette numbered 29953 dated 19 January 2017 instead of “TAS 39 Financial Instruments: Accounting and Measurement “ starting from 1 January 2018. TFRS 9 mainly sets out the new principles for the classification and measurement of financial instruments and expected credit loss which will be calculated for financial assets. TFRS 9 permits to defer application of TFRS 9 hedge accounting principles and permits the companies continue to apply hedge accounting principles of TAS 39 as a policy choice. In accordance with the transition rules of TFRS 9, the prior period financial statements and notes are not restated. Accounting policies and valuation principles used for the year 2018 and 2017 periods are separately presented in the notes and the accounting policies for the year 2017 are included in Section three notes XXVI.2. Impacts of transition to TFRS 9 and its adoption is disclosed in Section three notes XXIV.1.

The format and content of the accompanying consolidated financial statements and footnotes have been prepared in accordance with the “Communiqué’ on Publicly Announced Financial Statements Explanations and notes to the Financial Statements” and “Communiqué on Disclosures About Risk Management to be Announced to Public by Banks.”

**Additional paragraph for convenience translation to English**

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



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**SECTION THREE (Continued)**

**ACCOUNTING POLICIES (Continued)**

**I. Basis of presentation (continued)**

**I.a Changes in accounting policies and disclosures**

**I.a.1 Major new and amended standards and interpretations**

The Group and its consolidated financial subsidiaries has started to apply TFRS 9 Financial Instruments (“TFRS 9”) published by Public Oversight Accounting and Auditing Standards Authority (“POA”) in the accompanying financial statements starting from 1 January 2018 for the first time based on the regulation published in the Official Gazette no. 29750 dated 22 June 2016 in connection with procedures and principals regarding classification of loans and allowances allocated for such loans which came into force starting from 1 January 2018. TFRS 15 and other new TFRS/TAS amendments in effect do not have significant impact on the Group’s accounting policies, financial position and performance. Besides, the Group’s adoption process completed regarding TFRS 16 Leases (“TFRS 16”) which is in effect starting from 1 January 2019 and if the Group has applied the relevant standard the effect of the standard on the statement of financial position would be between 0,10–0,12%.

**I.a.2 Standards effective as of 1 January 2018**

**TFRS 9 Financial instruments**

As of 1 January 2018, the Group has started to apply TFRS 9 standard which replaces TAS 39 Financial Instruments: Recognition and Measurement for the first time in the accompanying financial statements. TFRS 9 also includes new hedge accounting rules aiming alignment with risk management activities.

TFRS 9 permits to defer application of TFRS 9 hedge accounting and continue to apply hedge accounting in accordance with TAS 39 as a policy choice. Accordingly, the Group continued to apply hedge accounting in accordance with TAS 39 in this context. The Group has not restated comparative information for 2017 for financial instruments in the scope of TFRS 9 and the total difference arising from the adoption of TFRS 9 has been recognised directly in prior periods’ profit/loss as of 1 January 2018 in the current period statement of changes in shareholders’ equity. In this context, the accompanying financial statements and the disclosures on these financial statements are not presented on a comparative basis due to the fact that the current and prior period financial statements are prepared based on different principles.

The transition impact on the financial statements regarding the first time adoption of TFRS 9 as of 1 January 2018 is presented in Note XXIV.1.

Changes regarding classification and measurement of financials assets determine their classification and measurement category, TFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on both the entity’s business model for managing the assets and the instruments’ contractual cash flow characteristics. The TAS 39 measurement categories of financial assets at fair value through profit/loss, available for sale and held-to-maturity have been replaced by: financial assets measured at fair value through profit/loss, financial assets measured at fair value through other comprehensive income and financial assets measured at amortised cost, respectively as a consequence of TFRS 9. The details regarding the Group’s classification and measurement of its financial assets and liabilities is explained in Note VIII. Impairment TFRS 9 has changed the accounting for loan loss impairments by replacing TAS 39’s incurred loss approach with a forward-looking expected credit loss (ECL) approach. The Group formed an impairment model having 3 stages based on the change in credit quality since initial recognition. The approach of the Group regarding measurement of credit impairment is presented in Note IX.

**TFRS 15 Revenue from contracts with customers**

TFRS 15 Revenue from Contracts with Customers standard provides single and comprehensive model and guidance regarding recognition of revenue and replaces TAS 18 Revenue standard. The standard is in effect starting from 1 January 2018 and does not have significant impact on the financial statements of the Group.



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**SECTION THREE (Continued)**

**ACCOUNTING POLICIES (Continued)**

**I. Basis of presentation (continued)**

**I.a Changes in accounting policies and disclosures**

**I.a.3 New standards not effective as of 1 January 2018**

**TFRS 16 Leases**

TFRS 16 Leases standard abolishes the dual accounting model currently applied for lessees through recognizing finance leases in the balance sheet whereas not recognizing operational lease. Instead, it is set forth a single model similar to the accounting of finance leases (on balance sheet). For lessors, the accounting stays almost the same. The standard is effective from annual periods beginning on or after 1 January 2019. IFRS 16 Leases which will be effective from 1 January 2019 has completed harmonization activities by the Group as of 31 December 2018 if the standard was applied, the effect of the standard on the financial statement would be between 0.10% and 0.12%.

**I.b The valuation principles used in the preparation of the financial statements**

The accounting rules and the valuation principles used in the preparation of the financial statements were implemented as stated in the BRSA Financial Reporting Standards. These accounting policies and valuation principles are explained in the below notes through II to XXIV.

**I.c In preparing the consolidated financial statements, items which different accounting policies adopted and their ratio on total of related consolidated financial statement**

There is no different accounting policy used in consolidated financial statements.

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

The main sources of the funds of the Group have variable interest rates. The financial balances are monitored frequently and fixed and floating interest rate placements are undertaken according to the return on the alternative financial instruments. The macro goals related to balance sheet amounts are set during budgeting process and positions are taken accordingly.

Due to the fact that the great majority of the loans extended by the the Group have a flexibility of reflecting changes in the market interest rates to the customers, the interest rate risk is kept at minimum level. Moreover, the highly profitable Eurobond and the foreign currency government indebtness securities portfolio have the attribute of eliminating the risks of interest rate volatility.

The fixed rate Subordinated bond, Eurobond and Greenbond issued by the Group 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 recognized under the statement of profit/loss.

In the beginning and later period of the hedging transaction, the aforementioned hedging transactions are expected to offset changes occurred in the relevant period of the hedging transaction and hedged risk (attributable to hedging risk) and effectiveness tests are performed in this regard.



## **SECTION THREE (Continued)**

### **ACCOUNTING POLICIES (Continued)**

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

The Group performs effectiveness test at the beginning of the hedge accounting and at each reporting period. The effectiveness tests are carried out using the “Dollar off-set model” and the hedge accounting is applied as long as the test results are between the range of 80%-125% of effectiveness.

The hedge accounting is discontinued when the hedging instrument expires, is exercised, sold or no longer effective. When discontinuing fair value hedge accounting, the cumulative fair value changes in carrying value of the hedged item arising from the hedged risk are amortized and recognized in income statement over the life of the hedged item from that date of the hedge accounting is discontinued.

The Group liquidity is regularly monitored. Moreover, the need of liquidity in foreign currencies is safeguarded by currency swaps.

Commercial placements are managed with high return and low risk assets considering the international and domestic economic expectations, market conditions, creditors’ expectations and their tendencies, interest-liquidity and other similar factors. Prudence principle is adopted in the placement decisions. The long term placements are made under project finance. A credit policy is implemented such a way that harmonizing the profitability of the projects, the collateral and the value add introduced by the Group.

The movements of foreign exchange rates in the market, interest rates and prices are monitored instantaneously. While taking positions, the Group’s unique operating and control limits are watched effectively besides statutory limits. Limit overs are not allowed.

The Bank’s strategy of hedging interest rate and foreign currency risks arising from fixed and variable interest rate funds and foreign currency fair value through other comprehensive income securities:

A great majority of foreign currency fair value through other comprehensive income securities are financed with foreign currency resources. Accordingly, the anticipated possible depreciation of local currency against other currencies is eliminated. A foreign currency basket is formulated in terms of the indicated foreign currency to eliminate the risk exposure of changes in cross currency parity. Interest rate risk is mitigated by constituting a balanced asset composition in compliance with the structure of fixed and floating rate of funding resources. The hedging strategies for other foreign exchange risk exposures: A stable foreign exchange position strategy is implemented and to be secured from cross currency risk, the current foreign exchange position is monitored by considering a currency basket in specific foreign currencies.

The foreign exchange gains and losses on foreign currency transactions are accounted for in the period of the transaction. Foreign exchange assets and liabilities are translated to Turkish Lira using foreign exchange bid rate as of the reporting date, and the resulting gains and losses are recorded in foreign exchange gains or losses.



## **SECTION THREE (Continued)**

### **ACCOUNTING POLICIES (Continued)**

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

The main sources of the funds of the Group have variable interest rates. The financial balances are monitored frequently and fixed and floating interest rate placements are undertaken according to the return on the alternative financial instruments. The macro goals related to balance sheet amounts are set during budgeting process and positions are taken accordingly.

Due to the fact that the great majority of the loans extended by the the Group have a flexibility of reflecting changes in the market interest rates to the customers, the interest rate risk is kept at minimum level. Moreover, the highly profitable Eurobond and the foreign currency government indebtness securities portfolio have the attribute of eliminating the risks of interest rate volatility.

The fixed rate Subordinated bond, Eurobond and Greenbond issued by the Group 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 recognized under the statement of profit/loss. In the beginning and later period of the hedging transaction, the aforementioned hedging transactions are expected to offset changes occurred in the relevant period of the hedging transaction and hedged risk (attributable to hedging risk) and effectiveness tests are performed in this regard.

The Group performs effectiveness test at the beginning of the hedge accounting and at each reporting period. The effectiveness tests are carried out using the “Dollar off-set model” and the hedge accounting is applied as long as the test results are between the range of 80%-125% of effectiveness. The hedge accounting is discontinued when the hedging instrument expires, is exercised, sold or no longer effective. When discontinuing fair value hedge accounting, the cumulative fair value changes in carrying value of the hedged item arising from the hedged risk are amortized and recognized in income statement over the life of the hedged item from that date of the hedge accounting is discontinued. The Bank liquidity is regularly monitored. Moreover, the need of liquidity in foreign currencies is safeguarded by currency swaps.

Commercial placements are managed with high return and low risk assets considering the international and domestic economic expectations, market conditions, creditors’ expectations and their tendencies, interest-liquidity and other similar factors. Prudence principle is adopted in the placement decisions. The long term placements are made under project finance. A credit policy is implemented such a way that harmonizing the profitability of the projects, the collateral and the value add introduced by the Bank.

The movements of foreign exchange rates in the market, interest rates and prices are monitored instantaneously. While taking positions, the Group’s unique operating and control limits are watched effectively besides statutory limits. Limit overs are not allowed.

The Group’s strategy of hedging interest rate and foreign currency risks arising from fixed and variable interest rate funds and foreign currency fair value through other comprehensive income securities:

A great majority of foreign currency fair value through other comprehensive income securities are financed with foreign currency resources. Accordingly, the anticipated possible depreciation of local currency against other currencies is eliminated. A foreign currency basket is formulated in terms of the indicated foreign currency to eliminate the risk exposure of changes in cross currency parity. Interest rate risk is mitigated by constituting a balanced asset composition in compliance with the structure of fixed and floating rate of funding resources.



## **SECTION THREE (Continued)**

### **ACCOUNTING POLICIES (Continued)**

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

Interest rate risk is mitigated by constituting a balanced asset composition in compliance with the structure of fixed and floating rate of funding resources.

The hedging strategies for other foreign exchange risk exposures: A stable foreign exchange position strategy is implemented and to be secured from cross currency risk, the current foreign exchange position is monitored by considering a currency basket in specific foreign currencies.

The foreign exchange gains and losses on foreign currency transactions are accounted for in the period of the transaction. Foreign exchange assets and liabilities are translated to Turkish Lira using foreign exchange bid rate as of the reporting date, and the resulting gains and losses are recorded in foreign exchange gains or losses.

#### **III. Information about the Parent Bank and its subsidiaries and associates subject to consolidation**

Explanations about the Parent Bank and its subsidiaries and associates subject to consolidation are described in General Information Section V.

#### **IV. Explanations on forward and option contracts and derivative instruments**

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

The derivative financial instruments are accounted for at their fair values as of the date of the agreements entered into and subsequently valued at fair value. Derivative financial instruments of the Bank are classified under "TFRS 9 Financial Instruments" ("TFRS 9"), "Derivative Financial Assets Designated at Fair Value Through Profit or Loss" or "Derivative Financial Assets Designated at Fair Value Through Other Comprehensive Income". Payables and receivables arising from the derivative instruments are recorded in the off-balance sheet accounts at their contractual values. Derivative transactions are valued at their fair values subsequent to their acquisition. In accordance with the classification of derivative financial instruments, if the fair value is positive, the amount is classified as "Derivative Financial Assets Designated at Fair Value Through Profit or Loss" or "Derivative Financial Assets Designated at Fair Value Through Other Comprehensive Income", if the fair value is negative, the amount is classified as "Derivative Financial Liabilities Designated at Fair Value Through Profit or Loss" or "Derivative Financial Liabilities Designated at Fair Value Through Other Comprehensive Income". The fair value differences of derivative financial instruments are recognized in the income statement under trading profit/loss line in profit/loss from derivative financial transaction.

When a derivative financial instrument, is originally designed as a hedge by the Group, the relationship between the Group's financial risk from hedged item and the hedging instrument, the risk management objectives and strategy of hedging transaction and the methods that will be used in the measurement of effectiveness, describe in written. The Group, at the beginning of the aforementioned engagement and during the ongoing process, evaluates whether the hedging instruments are effective on changes in the fair values or actual results of hedging are within the range of 80% - 125%.



### **SECTION THREE (Continued)**

#### **ACCOUNTING POLICIES (Continued)**

##### **V. Explanations on associates and subsidiaries**

The Parent Bank's financial subsidiaries' are reflected the consolidated financial statements according to the equity method in accordance with TAS 28 - Investment in Associates and Joint Ventures Related to the Turkish Accounting Standards. Unconsolidated and non financial subsidiaries and associates are presented in the financial statements in accordance with the "TAS 27-Separate Financial Statements" standard with their cost values after the deduction of, if any, impairment losses.

##### **VI. Explanations on interest income and expenses**

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 TFRS 9 "Financial Instruments" standard by applying an accrual basis using 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 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 creditloss models and accordingly, the calculation of expected credit losses includes an interest amount. Therefore, a reclassification is made between the accounts of "Expected Credit Losses" and "Interest Income From Loans" for calculated 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.

##### **VII. Explanations on fees and commission income and expenses**

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 TFRS 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.

##### **VIII. Explanations on financial assets**

###### **Initial recognition of financial instruments**

Initial recognition of financial instruments the 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.



**SECTION THREE (Continued)**

**ACCOUNTING POLICIES (Continued)**

**VIII. Explanations on financial assets (Continued)**

**Initial measurement of financial instruments**

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 TFRS 15 Revenue from contracts with customers, at initial recognition, the 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 TFRS 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,
- 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.



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**SECTION THREE (Continued)**

**ACCOUNTING POLICIES (Continued)**

**VIII. Explanations on financial assets (Continued)**

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 TFRS 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.

**Measurement categories of financial assets and liabilities**

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 XXIV 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

**a. Financial assets 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.

The Parent Bank classifies certain loans and securities issued at their origination dates, as financial assets/liabilities at fair value through profit/ loss, irrevocably in order to eliminate any accounting mismatch in compliance with TFRS 9.

Financial assets at the fair value through profit or loss are initially recognized at fair value and measured at their fair value after recognition. All gains and losses arising from these valuations are reflected in the income statement.



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**SECTION THREE (Continued)**

**ACCOUNTING POLICIES (Continued)**

**VIII. Explanations on financial assets (Continued)**

**a. Financial assets at the fair value through profit or loss (Continued)**

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”.

**b. Financial Assets 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.

During initial recognition an entity can choose in a irrevocable way 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.

**c. 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.



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**SECTION THREE (Continued)**

**ACCOUNTING POLICIES (Continued)**

**VIII. Explanations on financial assets (Continued)**

**c. Financial Assets Measured at Amortized Cost (Continued):**

In the “Fair value through other comprehensive income” and “measured at amortized cost” securities portfolio of the Parent 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 unconsolidated 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.

**d. Loans:**

Loans are financial assets that have fixed or determinable payments terms and are not quoted in an active market. Loans 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". Duties paid, transaction costs and other similar expenses on assets received against such risks are considered as a part of transaction cost and charged to customers. Turkish Lira (“TL”) cash loans are composed of foreign currency indexed loans and working capital loans; foreign currency (“FC”) cash loans are composed of investment loans, export financing loans and working capital loans.

All loans 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.

Foreign currency indexed loans are converted into TL from the foreign currency rate as of the opening date and followed in TL accounts. Repayments are measured with the foreign currency rate at the payment date, the foreign currency gains and losses are reflected to the income statement.



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**SECTION THREE (Continued)**

**ACCOUNTING POLICIES (Continued)**

**IX. Explanations on impairment of financial assets (continued)**

As of 1 January 2018, the Bank recognizes a loss allowance for expected credit losses on financial assets and loans measured at amortized cost, financial assets measured at fair value through other comprehensive income, loan commitments and financial guarantee contracts not measured at fair value through profit/loss based on TFRS 9 and the regulation published in the Official Gazette no. 29750 dated 22 June 2016 in connection with “Procedures and Principals regarding Classification of Loans and Allowances Allocated for Such Loans” effective from 1 January 2018. TFRS 9 impairment requirements are not eligible for equity instruments.

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

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

- Loan portfolio (corporate /specilization)
- Product type
- Credit risk rating notes (ratings)
- Colleteral 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 TFRS 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.



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**SECTION THREE (Continued)**

**ACCOUNTING POLICIES (Continued)**

**IX. Explanations on impairment of financial assets (Continued)**

**Calculation of expected credit losses (Continued)**

Financial assets are divided into three categories depending on the 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.

**Debt instruments measured at fair value through other comprehensive income**

As of 1 January 2018, the impairment requirements in accordance with TFRS 9 are applies 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.

**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.



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**SECTION THREE (Continued)**

**ACCOUNTING POLICIES (Continued)**

**IX. Explanations on impairment of financial assets (Continued)**

**Significant increase in credit risk (Continued)**

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

**X. Explanations on 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 TFRS 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.



**SECTION THREE (Continued)**

**ACCOUNTING POLICIES (Continued)**

**X. Explanations on offsetting, derecognition and restructuring of financial instruments (continued)**

**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 TFRS 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 TFRS 9 and such reclassification details are presented in Section 3, Note VIII.

**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.



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**SECTION THREE (Continued)**

**ACCOUNTING POLICIES (Continued)**

**XI. Explanations on sales and repurchase agreements and lending of securities**

Funds provided under repurchase agreements are accounted under “Funds Provided under Repurchase Agreements-TL” and “Funds Provided under Repurchase Agreements-FC” accounts.

The repurchase agreements of the Group are based on the Eurobonds and government bonds issued by Republic of Turkey Undersecretariat of Treasury. Marketable securities subject to repurchase agreements are classified under assets at fair value through profit or loss, assets at fair value through other comprehensive income or assets at measured at amortized costs with parallel to classifications of financial instruments. The income and expenses from these transactions are reflected to the interest income and interest expense accounts in the income statement. Receivables from reverse repurchase agreements are recorded in “Receivables from Reverse Repurchase Agreements” account in the balance sheet.

**XII. Explanations on assets held for sale and discontinued operations**

Assets held for sale are measured at the lower of the assets’ carrying amount and fair value less costs to sell. This assets are not amortized and presented separately in the financial statements. In order to classify a tangible fixed asset as held for sale, the asset (or the disposal group) should be available for an immediate sale in its present condition subject to the terms of any regular sales of such asset (or such disposal groups) and the sale should be highly probable. For a highly probable sale, the appropriate level of management must be committed to a plan to sell the asset (or the disposal groups) , and an active programme to complete should be initiated to locate a customer. Also the asset (or the disposal group) should have an active market sale value, which is a reasonable value in relation to its current fair value. Also, the sale is expected to be accounted as a completed sale beginning from one year after the classification date; and the essential procedures to complete the plan should indicate the possibility of making significant changes on the plan or lower probability of cancelling. Events or circumstances may extend the completion of the sale more than one year. Such assets are still classified as held for sale if there is sufficient evidence that the delay in the sale process is due to the events and circumstances occurred beyond the control of the entity or the entity remains committed to its plan to sell the asset (or disposal group). A discontinued operation is a component of a bank that either has been disposed of , or is classified as held for sale. Gains or losses relating to discontinued operations are presented separately in the income statement.

**XIII. Explanations on goodwill and other intangible assets**

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the subsidiary or jointly controlled interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognized at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to each of the cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired.



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**SECTION THREE (Continued)**

**ACCOUNTING POLICIES (Continued)**

**XIII. Explanations on goodwill and other intangible assets (continued)**

If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period. On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal. Intangible assets that are acquired prior to 1 January 2005 are carried at restated historical cost as of 31 December 2004; and those acquired subsequently are carried at cost less accumulated amortization, and any impairment. Intangible assets are depreciated on a straight line basis over their expected useful lives. Depreciation method and period are reviewed periodically at the end of each year. Intangible assets are mainly composed of rights and they are depreciated principally on a straight-line basis between 1-15 years.

**XIV. Explanations on tangible assets**

Tangible assets rather than real estate, purchased before 1 January 2005, are accounted for at their restated costs as of 31 December 2004 and the assets purchased in the following periods are accounted for at acquisition cost less accumulated depreciation and reserve for impairment. Gain or loss resulting from disposals of the tangible assets is reflected to the income statement as the difference between the net proceeds and net book value.

As of the third quarter of 2015, the Group changed its accounting policy and adopted revaluation method on annual basis under scope of Standard on Tangible Fixed Assets (TAS 16) with respect to valuation of immovable included in its building and lands. The amortization periods of real estates are specified in the appraisal's report. In case of the cost of tangible assets over the net realizable value estimated under the "Turkish accounting standards for impairment of assets" (TAS 36), the value of the asset is reduced to its "net realizable value" and are reserved impairment provision associated with expense accounts. The positive difference between appraisal value and net book value of the property is accounted under shareholder' equity. Related valuation models such as cost model, market value and discounted cash flow projections approaches are used in valuation of real estates. There is no pledge, mortgage or any other lien on tangible assets. Tangible assets are depreciated with straight-line method and their useful lives are determined in accordance with the Turkish Accounting Standards.

| <b>Tangible Assets</b> | <b>Expected Useful Lives (Years)</b> | <b>Depreciation Rate (%)</b> |
|------------------------|--------------------------------------|------------------------------|
| Cashvault              | 4-50                                 | 2-25                         |
| Vehicles               | 5                                    | 20                           |
| Buildings              | 50                                   | 2                            |
| Other Tangible Assets  | 1-50                                 | 2-100                        |

**Investment Properties**

Investment properties are real estate held to earn rent income, gain in value or both. An investment property is recognized as an asset if it is probable that future economic benefits related to the property will be available to operate and the cost of the investment property can be reliably measured. The fair value model has been chosen for valuation of investment properties. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.



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**SECTION THREE (Continued)**

**ACCOUNTING POLICIES (Continued)**

**XV. Explanations on leasing transactions**

*The Group as Lessor*

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. The lease payments are allocated as principle and interest. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Bank's net investment outstanding in respect of the leases.

*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 balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are included in profit or loss in accordance with the Group's general policy on borrowing costs. Tangible assets acquired by financial leases are amortized based on the useful lives of the assets.

**XVI. Explanations on provisions and contingent liabilities**

Provisions are recognized when there is a present obligation due to a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If aforesaid criteria did not form, the Bank discloses the issues mentioned in notes to financial statements. Provisions are determined by using the Parent Bank's best expectation of expenses in fulfilling the obligation, and discounted to present value if material.

*Explanations on contingent assets*

Contingent assets consist of unplanned or other unexpected events that usually cause a possible inflow of economic benefits to the Parent Bank. Since recognition of the contingent assets in the financial statements would result in the accounting of an income, which may never be generated, the related assets are not included in the financial statements; on the other hand, if the inflow of the economic benefits of these assets to the Parent Bank is probable, an explanation is made thereon in the footnotes of the financial statements. Nevertheless, the developments related to the contingent assets are constantly evaluated and in case the inflow of the economic benefit to the Parent Bank is almost certain, the related asset and the respective income are recognized in the financial statements of the period in which the change occurred. Severance pay according to the current laws and collective bargaining agreements in Turkey, is paid in case of retirement or dismissal.

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

Bank calculates a provision for severance pay to allocate that employees need to be paid upon retirement or involuntarily leaving by estimating the present value of probable amount. There is no indemnity obligations related to the employees who are employed with contract of limited duration exceeding 12 month period. Actuarial gains and losses are accounted under Shareholder's Equity since 1 January 2013 in accordance with the Revised TAS 19.



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**SECTION THREE (Continued)**

**ACCOUNTING POLICIES (Continued)**

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

Employees of the Parnet Bank are members of “Türkiye Sınai Kalkınma Bankası Anonim Şirketi Memur ve Müstahdemleri Yardım ve Emekli Vakfı” and “Türkiye Sınai Kalkınma Bankası A.Ş. Mensupları Munzam Sosyal Güvenlik ve Yardımlaşma Vakfı” (“the Pension Fund”). Technical financial statements of those funds are subject to audit in accordance with the Insurance Law and provisions of “Regulations on Actuaries” issued based on the related law by an actuary registered in the Actuarial Registry.

Paragraph 1 of the provisional Article 23 of the Banking Act (“Banking Act”) No: 5411 published in the Official Gazette No: 25983 on 1 November 2005 requires the transfer of banking funds to the Social Security Institution within 3 years as of the enactment date of the Banking Act. Under the Banking Act, in order to account for obligations, actuarial calculations will be made considering the income and expenses of those funds by a commission consisting of representatives from various institutions. Such calculated obligation shall be settled in equal instalments in maximum 15 years. Nonetheless, the related Article of the Banking Law was annulled by the Constitutional Court’s decision No: E. 2005/39 and K. 2007/33 dated 22 March 2007 that were published in the Official Gazette No: 26479 on 31 March 2007 as of the release of the related decision, and the execution of this article was cancelled as of its publication of the decision and the underlying reasoning for the cancellation of the related article was published in the Official Gazette No: 26731 on 15 December 2007.

After the publication of the reasoning of the cancellation decision of the Constitutional Court, articles related with the transfer of banks pension fund participants to Social Security Institution based on Social Security Law numbered 5754 were accepted by the Grand National Assembly of Turkey on 17 April 2008 and published in the Official Gazette No: 26870 on 8 May 2008.

Present value for the liabilities of the transferees as of the transfer date would be calculated by a commission that involves representatives of Social Security Institution, Ministry of Finance, Turkish Treasury, State Planning Organization, BRSA, SDIF, banks and banks’ pension fund institutions and technical interest rate, used in actuarial account, would be 9,80%. If salaries and benefits paid by the pension fund of banks and income and expenses of the pension funds in respect of the insurance branches, stated in the Law, exceeds the salaries and benefits paid under the regulations of Social Security Institution, such differences would be considered while calculating the present value for the liabilities of the transferees and the transfers are completed within 3 years beginning from 1 January 2008.

According to the provisional Article 20 of 73th article of Law No. 5754 dated 17 April 2008, has become effective on 8 May 2008 and was published in the Official Gazette No: 26870, transfer of Pension Funds to Social Security Institution in three years has been anticipated. Related resolution of the Council of Ministers related to four-year extension was published in the Official Gazette No: 28227 dated 8 March 2012. It has been resolved that the transfer process has been extended two year with Council of Ministers’ Decree, has become effective on 9 April 2011 and was published in the Official Gazette No: 27900. The transfer had to be completed until 8 May 2013. Accordingly, it has been resolved that, one more year extension with Council of Minister Decree No: 2013/467, has become effective on 3 May 2013 and was published in the Official Gazette No: 28636 and transfer need to be completed until 8 May 2014. However, it has been decided to extend the time related to transfer by the decision of Council of Minister published in the Official Gazette No. 28987 dated 30 April 2014 for one more year due to not to realize the transfer process. In accordance with the Health and Safety Law which became effective on 4 April 2015 and published in the Official Gazette No: 29335 and dated 23 April 2015 and together with some amendments and statutory decree, Council of Ministers authorized for the determination of transfer date to the Social Security institution and the transfer of Pension Fund was postponed to an unknown date. There is no decision taken by the Cabinet with regards to issue at the date of financial statements. Unmet social benefits and payments of the pension fund participants and other employees that receive monthly income although they are within the scope of the related settlement deeds would be met by pension funds and the institutions employ these participants after the transfer of pension funds to the Social Security Institution.



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**ACCOUNTING POLICIES (Continued)**

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

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.

**XVIII. Explanations on taxation**

The income tax charge is composed of the sum of current tax charge and deferred tax benefit or charge. The current tax liability is calculated over taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible and it further excludes items that are never taxable or deductible. 22% is used in the calculation of the corporate tax (31 December 2017: 20%). In accordance with the Temporary Article 10 added to the Corporate Tax Law, Corporate Tax applied as 22% for corporate earnings for the taxation periods of 2018, 2019 and 2020.

Deferred tax asset or liability is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and currently enacted tax rates are used to determine deferred tax on income. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. The carrying amount of deferred tax assets is reviewed at each reporting date. Deferred tax is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized and reflected in the income statement as expense or income.

Moreover, if the deferred tax is related with items directly recorded under the equity in the same or different period, deferred tax is also associated directly with equity. Deferred tax assets and liabilities are also offset. According to the second paragraph of the Article 53 of the Banking Act No 5411 dated 19 October 2005, all specific reserves for loans and other receivables are considered as deductible expense for determining corporate tax base.

As of 1 January 2018, the Group started calculating deferred tax for the expected credit losses for Stage 1 and Stage 2 with the transition to TFRS 9.



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**SECTION THREE (Continued)**

**ACCOUNTING POLICIES (Continued)**

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

*Transfer pricing*

Transfer pricing is regulated through article 13 of Corporate Tax Law titled “Transfer Pricing Through Camouflage of Earnings”. Detailed information for the practice regarding the subject is found in the “General Communiqué Regarding Camouflage of Earnings Through Transfer Pricing”. According to the aforementioned regulations, in the case of making purchase or sales of goods or services with relevant persons/corporations at a price that is determined against “arm’s length principle”, the gain is considered to be distributed implicitly through transfer pricing and such distribution of gains is not subject to deductions in means of corporate tax.

**XIX. Additional explanations on borrowings**

The Parent Bank borrows funds from domestic and foreign institutions borrowing from money market and issues marketable securities in domestic and foreign markets when needed. The funds borrowed are recorded at their purchase costs and valued at amortized costs using the effective interest method. Some of the securities issued by the Bank and resources used with fixed interest rates are subject to fair value hedge accounting. While the credit risk and rediscounted accumulated interest on hedging liabilities are recorded in the income statement under the interest expense, the credit risk and net amount excluding accumulated interest results from hedge accounting are accounted in the income statement under the derivative financial instruments gains/losses by fair value.

**XX. Explanations on share certificates issued**

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 2018 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.

**XXI. Explanations on acceptances**

The Parent Bank realize acceptances simultaneously with the payment dates of the customers and they are presented as commitments in the off-balance sheet accounts.

**XXII. Explanations on government incentives**

The Bank does not use government incentives.

**XXIII. Explanations on segment reporting**

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



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**ACCOUNTING POLICIES (Continued)**

**XXIII. Explanations on segment reporting (continued)**

Income from the activities of investment banking includes income from the operations of Treasury and Corporate Finance. Under the investment banking activities, portfolio management for corporate, marketable securities intermediary activities, cash flow management and all types of corporate finance services is provided.

The segmental allocation of the Group's net profit, total assets and total liabilities are shown below.

| <b>Current Period</b>                     | <b>Corporate Banking</b> | <b>Investment Banking</b> | <b>Other</b>     | <b>Total</b>      |
|---|--------------------------|---------------------------|------------------|-------------------|
| Net Interest Income                       | 795.430                  | 957.962                   | (24.674)         | 1.728.718         |
| Net Fees and Commission Income            | 20.698                   | (1.697)                   | 32.397           | 51.398            |
| Other Income                              | -                        | -                         | 205.323          | 205.323           |
| Other Expense                             | (512.293)                | (289.978)                 | (269.522)        | (1.071.793)       |
| Profit Before Tax                         | 303.835                  | 666.287                   | (56.476)         | 913.646           |
| Tax Provision                             |                          |                           |                  | (250.383)         |
| <b>Net Profit</b>                         |                          |                           |                  | <b>663.263</b>    |
| Group's profit / loss                     |                          |                           |                  | 670.756           |
| Minority share profit / loss              |                          |                           |                  | (7.493)           |
| <b>Current Period</b>                     | <b>Corporate Banking</b> | <b>Investment Banking</b> | <b>Other</b>     | <b>Total</b>      |
| Segment Assets                            | 27.716.305               | 8.402.131                 | 1.715.089        | 37.833.525        |
| Investment in Associates and Subsidiaries | -                        | -                         | 435.915          | 435.915           |
| <b>Total Assets</b>                       | <b>27.716.305</b>        | <b>8.402.131</b>          | <b>2.151.004</b> | <b>38.269.440</b> |
| Segment Liabilities                       | 31.320.591               | 933.391                   | 1.831.382        | 34.085.364        |
| Shareholders' Equity                      | -                        | -                         | 4.184.076        | 4.184.076         |
| <b>Total Liabilities</b>                  | <b>31.320.591</b>        | <b>933.391</b>            | <b>6.015.458</b> | <b>38.269.440</b> |

| <b>Prior Period</b>                       | <b>Corporate Banking</b> | <b>Investment Banking</b> | <b>Other</b>     | <b>Total</b>      |
|---|--------------------------|---------------------------|------------------|-------------------|
| Net Interest Income                       | 494.462                  | 544.800                   | (21.983)         | 1.017.279         |
| Net Fees and Commission Income            | 15.521                   | (1.086)                   | 28.227           | 42.662            |
| Other Income                              | 34.150                   | -                         | 109.585          | 143.735           |
| Other Expense                             | (119.127)                | (60.193)                  | (284.764)        | (464.084)         |
| Profit Before Tax                         | 425.006                  | 483.521                   | (168.935)        | 739.592           |
| Tax Provision                             |                          |                           |                  | (134.117)         |
| <b>Net Profit</b>                         |                          |                           |                  | <b>605.475</b>    |
| Group's profit / loss                     |                          |                           |                  | 611.177           |
| Minority share profit / loss              |                          |                           |                  | (5.702)           |
| <b>Prior Period</b>                       | <b>Corporate Banking</b> | <b>Investment Banking</b> | <b>Other</b>     | <b>Total</b>      |
| Segment Assets                            | 22.294.423               | 5.777.357                 | 1.467.006        | 29.538.786        |
| Investment in Associates and Subsidiaries | -                        | -                         | 378.850          | 378.850           |
| <b>Total Assets</b>                       | <b>22.294.423</b>        | <b>5.777.357</b>          | <b>1.845.856</b> | <b>29.917.636</b> |
| Segment Liabilities                       | 24.312.703               | 398.797                   | 1.494.795        | 26.206.295        |
| Shareholders' Equity                      | -                        | -                         | 3.711.341        | 3.711.341         |
| <b>Total Liabilities</b>                  | <b>24.312.703</b>        | <b>398.797</b>            | <b>5.206.136</b> | <b>29.917.636</b> |



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**SECTION THREE (Continued)**

**ACCOUNTING POLICIES (Continued)**

**XXIV. Explanations on other matters**

**1. Disclosures of TFRS 9 Financial Instruments**

TFRS 9 Financial Instruments (“TFRS 9”) published by Public Oversight Accounting and Auditing Standards Authority (“POA”) in the Official Gazette numbered 29953 dated 19 January 2017 has been started to apply in lieu of TAS 39 Financial Instruments: “Accounting and Measurement” starting from 1 January 2018. TFRS 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.

According to paragraph 15 of Article 7 of TFRS 9 Financial Instruments Standards published in the Official Gazette numbered 29953 dated 19 January 2017, it is stated that it is not compulsory to restate previous period information in accordance with TFRS 9 and if the previous period information is not revised, it is stated that the difference between the book value of 1 January 2018 at the date of application should be reflected in the opening aspect of equity. The explanations about the transition effects to TFRS 9 presented in the equity items under the scope of this article are given below.

**a. Reconciliation of the opening balances of the provision for expected credit losses to TFRS 9**

The table below shows the reconciliation of the provision for impairment of the Bank as of 31 December 2017 and the provision for the expected loss model as measured in accordance with TFRS 9 as of 1 January 2018.

|   | <b>Book Value Before TFRS 9</b> | <b>Remeasurements</b> | <b>Book Value Before TFRS 9</b> |
|---|---------------------------------|-----------------------|---------------------------------|
|   | <b>31 December 2017</b>         | <b>(6)</b>            | <b>1 January 2018</b>           |
| <b>Loans</b>                              | <b>170.645</b>                  | <b>113.610</b>        | <b>284.255</b>                  |
| Stage 1                                   | 107.597                         | 43.016                | 150.613                         |
| Stage 2                                   | 9.473                           | 72.091                | 81.564                          |
| Stage 3                                   | 53.575                          | (1.497)               | 52.078                          |
| <b>Financial Assets (1)</b>               | <b>3.125</b>                    | <b>527</b>            | <b>3.652</b>                    |
| <b>Other Assets (2)</b>                   | <b>1.809</b>                    | <b>(1.084)</b>        | <b>725</b>                      |
| <b>Other Receivables as Loan (3)</b>      | <b>11.680</b>                   | <b>(11.680)</b>       | <b>-</b>                        |
| <b>Non-Cash Loans (4)</b>                 | <b>2.446</b>                    | <b>1.769</b>          | <b>4.215</b>                    |
| Stage 1                                   | 2.439                           | 1.760                 | 4.199                           |
| Stage 2                                   | 7                               | 9                     | 16                              |
| <b>Other Provision (5)</b>                | <b>90.000</b>                   | <b>(90.000)</b>       | <b>-</b>                        |
| <b>Total</b>                              | <b>279.705</b>                  | <b>13.142</b>         | <b>292.847</b>                  |
| <b>Investment in Associates (Net) (7)</b> | <b>375.481</b>                  | <b>(18.630)</b>       | <b>356.851</b>                  |
| <b>TOTAL</b>                              |                                 | <b>(31.772)</b>       |                                 |

(1) Within the scope of TFRS 9, provisions include provisions for Financial Assets Measured at Amortized Cost, Fair Value Through Other Comprehensive Income, Receivables from Banks and Receivables from Money Markets

(2) Within the scope of TFRS 9, provisions include provisions for Other Assets.

(3) Before TFRS 9, provisions include provisions for transaction as loan as described in the article 48 of Banking Law No 5411 .

(4) According to TFRS 9 articles, expected credit loss for non-cash loans is presented “10.4 Other Provision” in liabilities.

(5) As of 31 December 2017, the provision amounting to TL 90.000 for the risks related to the loan portfolio is recorded as income as of 1 January 2018. This provision was included in the first group as of 1 January 2018 and is allocated as an additional general provision for customers who may be subject to the second group.

(6) As of 1 January 2018 deferred tax amounting TL 33.112 is calculated for general loan loss provision.

(7) The amount is related to the TFRS 9 transition effect of the associates that equity method applied.



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**SECTION THREE (Continued)**

**ACCOUNTING POLICIES (Continued)**

**XXIV. Explanations on other matters (continued)**

**1. Disclosures of TFRS 9 Financial Instruments (continued)**

**b. Effects on equity with TFRS 9 transition:**

According to paragraph 15 of Article 7 of TFRS 9 Financial Instruments Standards published in the Official Gazette numbered 29953 dated 19 January 2017, it is stated that it is not compulsory to restate previous period information in accordance with TFRS 9 and if the previous period information is not revised, it is stated that the difference between the book value of 1 January 2018 at the date of application should be reflected in the opening aspect of equity. The explanations about the transition effects to TFRS 9 presented in the equity items under the scope of this article are given below.

The amounting to TL 31.772 difference which is an income between the provision for impairment of the previous period of the Group and the provision for loss that is measured in accordance with TFRS 9 impairment model as of 1 January 2018 is classified as "Prior years' income/losses" in shareholders' equity.

As stated in the Communiqué on "Uniform Chart of Accounts and Prospectus" issued on 20 September 2017, for general provisions (TFRS 9 expected loss provisions for the loans at first and second stages), deferred tax assets calculation has started as of 1 January 2018. Within this scope, deferred tax assets amounting to TL 33.112 have been reflected to the opening financials of 1 January 2018 and the related amount has been classified under "Prior years' income/losses" in shareholders' equity.



## **SECTION THREE (Continued)**

### **ACCOUNTING POLICIES (Continued)**

#### **XXIV. Explanations on other matters (continued)**

##### **2. Explanations on prior period accounting policies not valid for the current period**

"TFRS 9 Financial Instruments" has been started applying instead of "TAS 39 Financial Instruments: Recognition and Measurement" as of 1 January 2018. Accounting policies lost their validity with the transition of TFRS 9 are given below.

##### **a. Explanations on financial assets**

The Group categorizes its financial assets as "Fair value through profit/loss", "Available-for-sale", "Loans and receivables" or "Held-to-maturity". Sale and purchase transactions of the financial assets mentioned above are recognized and derecognized at the "Settlement dates". The appropriate classification of financial assets of the Bank is determined at the time of purchase by the Bank management, taking into consideration the purpose of the investment.

Financial assets at fair value through profit and loss: These transactions are classified in two categories. (i) Trading securities for the purposes of short term profit taking through sale or buying back in a near future. (ii) The financial assets classified at the inception as financial assets at fair value through profit or loss by the Bank. The Bank uses such classification above when permitted or for the purposes of providing a more proper disclosure. In this category, trading securities are initially recognized at cost and measured at fair value on the financial statements. Fair values of securities that are traded in an active market are determined based on quoted prices or current market prices. Gains or losses resulting from such valuation are recorded in the profit and loss accounts. As per the explanations of the Uniform Code of Accounts (UCA), any positive difference between the historical cost and amortized cost of financial assets are booked under the "Interest Income" account, and in case the fair value of the asset is over the amortized cost, the positive difference is booked under the "Gains on Securities Trading" account. If the fair value is under the amortized cost, the negative difference is booked under the "Losses on Securities Trading" account. Any profit or loss resulting from the disposal of those assets before their maturity date is recognized within the framework of the same principles.

Available for sale financial assets are initially recognized at cost including the transaction costs. The interest income related to securities with fixed and variable interest under available for sale financial assets are recorded in interest income. After the initial recognition, available for sale securities are measured at fair value and the unrealized gain/loss originating from the difference between the amortized cost and the fair value is recorded in "Marketable Securities Value Increase Fund" under the equity. All unquoted available for sale stocks are recorded by considering impairment, since respective fair values cannot be reliably measured. At the disposal of available for sale financial assets, value increases/decreases that are recorded in the securities value increase fund under equity are transferred to income statement.

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

Investments held to maturity include securities with fixed or determinable payments and fixed maturity where there is an intention of holding till maturity and the relevant conditions for fulfilment of such intention, including the funding ability. This portfolio excludes loans and receivables. After initial recognition held to maturity investments are measured at amortized cost by using internal rate of return less impairment losses, if any. Interest income earned from held-to-maturity investments is recognized as interest income on income statement.



### **SECTION THREE (Continued)**

#### **ACCOUNTING POLICIES (Continued)**

#### **XXIV. Explanations on other matters (continued)**

##### **2. Explanations on prior period accounting policies not valid for the current period (continued)**

###### **a. Explanations on financial assets (continued)**

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

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

Loans are classified and followed in line with the provisions of the “Regulation on Identification of Loans and Other Receivables and Provisioning against Them”, published on the Official Gazette No: 26333 dated 1 November 2006. Specific provision is allocated for the total amount of loans and other receivables, which is deemed non-performing, without being restricted by the minimum legal requirements stated in the related regulation, and such specific provisions are recognized in the income statement.

The provisions, which are released within the same year, are credited to the “Provision Expenses” account and the released parts of the provisions from the previous years are transferred to and recognized in the “Other Operating Income” account. Other than specific provisions, the Bank provides general loan loss provision for loans and other receivables classified in accordance with the Regulation on Identification of and Provision against Non-Performing Loans and Other Receivables.

###### **b. Explanations on forward and option contracts and derivative instruments**

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

The derivative financial instruments are accounted for at their fair values as of the date of the agreements entered into and subsequently valued at fair value.

###### **c. Explanations on interest income and expenses**

Interest income and expenses are recognized in the income statement for all interest bearing instruments on an accrual basis using the effective interest method (the rate that equalizes the future cash flows of financial assets and liabilities to the current net book value). In accordance with the related regulation, realized and unrealized interest accruals of the non-performing loans are reversed and interest income related to these loans are recorded as interest income only when collected.



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**SECTION THREE (Continued)**

**ACCOUNTING POLICIES (Continued)**

**XXIV. Explanations on other matters (continued)**

**2. Explanations on prior period accounting policies not valid for the current period (continued)**

**d. Explanations on impairment on financial assets**

At each reporting date, the Parent Bank evaluates the carrying amounts of its financial asset or a group of financial assets to determine whether there is an objective indication that those assets have suffered an impairment loss. If any such indication exists, the Bank determines the related impairment. A financial asset or a financial asset group incurs impairment loss only if there is an objective evidence related to the occurrence of one or more than one event (“loss event”) after the first recognition of that asset; and such loss event (or events) causes, an impairment as a result of the effect on the reliable estimate of the expected future cash flows of the related financial asset and asset group. Irrespective of high probability the expected losses for future events are not recognized.

**e. Explanations on fees and commission income and expenses**

Fees and commissions received from cash loans, that are not an integral part of the effective interest rate, and fees for various banking services are recorded as income when collected. Fees and commissions paid for the funds borrowed, which are not integral parts of the effective interest rate of the funds borrowed, are recorded as expense on the date of the payment. The fees and commission income and expenses obtained from cash and non-cash loans are recorded under income and expense accounts in the related period by discounting with effective interest method according to matching principle. Commission income received from non-cash loans are recorded on accrual basis.

**f. Explanations on taxation**

Deferred tax asset had not been provided over provisions for general loan loss provisions according to the circular of BRSA numbered BRSA.DZM.2/13/1-a-3 and dated 8 December 2004. Deferred tax rate calculation has started to be measured over temporary expected provision losses differences according to TFRS 9 articles from 1 January 2018. Deferred tax calculation is not made for free provisions. Deferred tax, related to items recognized directly in equity is also credited or charged directly to equity.



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**SECTION FOUR**

**INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT**

**I. Explanations related to consolidated shareholders' equity**

Total capital and Capital adequacy ratio have been calculated in accordance with the "Regulation on Equity of Banks" and "Regulation on Measurement and Assessment of Capital Adequacy of Banks". As of 31 December 2018, the capital adequacy ratio of the Parent Bank has been calculated as 15,99% (31 December 2017:17,03%).

|   | <b>Consolidated</b> | <b>Consolidated</b> |
|---|---------------------|---------------------|
|   | <b>Current</b>      | <b>Prior</b>        |
|   | <b>Period</b>       | <b>Period</b>       |
| <b>CORE EQUITY TIER 1 CAPITAL</b>   |                     |                     |
| Paid-in capital to be entitled for compensation after all creditors   | 2.800.374           | 2.401.116           |
| Share premiums  | 516                 | 428                 |
| Reserves  | 529.059             | 441.740             |
| Other comprehensive income according to TAS   | 397.130             | 279.380             |
| Profit  | 670.698             | 629.396             |
| Current Period Profit   | 670.756             | 611.177             |
| Prior Period Profit   | (58)                | 18.219              |
| Bonus shares from associates, subsidiaries and joint-ventures not accounted in current period's profit  | -                   | -                   |
| Minority shareholder  | 38.622              | 52.719              |
| <b>Core Equity Tier 1 Capital Before Deductions</b>   | <b>4.436.399</b>    | <b>3.804.779</b>    |
| <b>Deductions from Core Equity Tier 1 Capital</b>   |                     |                     |
| Valuation adjustments calculated as per the 1 <sup>st</sup> clause of article 9.(i) of the Regulation on Bank Capital   | -                   | -                   |
| Current and prior periods' losses not covered by reserves, and losses accounted under equity according to TAS   | 252.323             | 92.666              |
| Leasehold improvements on operational leases  | 3.985               | 5.440               |
| Goodwill (net of related tax liability)   | -                   | 804                 |
| Other intangible assets other than mortgage-servicing rights (net of related tax liability)   | 4.872               | 2.064               |
| Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)   | -                   | -                   |
| Differences are not recognized at the fair value of assets and liabilities subject to hedge of cash flow risk   | -                   | -                   |
| Communiqué Related to Principles of the amount credit risk calculated with the Internal Ratings Based Approach, total expected loss amount exceeds the total provision  | -                   | -                   |
| Gains arising from securitization transactions  | -                   | -                   |
| Unrealized gains and losses due to changes in own credit risk on fair valued liabilities  | -                   | -                   |
| Net amount of defined benefit plans   | -                   | (772)               |
| Investments in own common equity  | -                   | -                   |
| Shares obtained against article 56, paragraph 4 of Banking Law  | -                   | -                   |
| Total of net long positions of the investments in equity items of unconsolidated banks and financial institutions where the bank does not own 10% or less of the issued share capital exceeding the 10% threshold of above Tier I capital | -                   | -                   |
| Total of net long positions of the investments in equity items of unconsolidated banks and financial institutions where the bank owns 10% or more of the issued share capital exceeding the 10% threshold of above Tier I capital         | 31.177              | 20.892              |
| Mortgage servicing rights not deducted  | -                   | -                   |
| Excess amount arising from deferred tax assets from temporary differences   | -                   | -                   |
| Amount exceeding 15% of the common equity as per the 2nd clause of the Provisional Article 2 of the Regulation on the Equity of Banks   | -                   | -                   |



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**SECTION FOUR (Continued)**

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

**II. Explanations related to consolidated shareholders' equity (continued)**

|  |                  |                  |
|--|------------------|------------------|
| Excess amount arising from deferred tax assets from temporary differences  | -                | -                |
| Excess amount arising from mortgage servicing rights   | -                | -                |
| Excess amount arising from deferred tax assets based on temporary differences  | -                | -                |
| Other items to be defined by the BRSA  | -                | -                |
| Deductions from Tier I capital in cases where there are no adequate additional Tier I or Tier II capitals  | -                | -                |
| <b>Total Regulatory Adjustments to Tier I Capital</b>  | <b>292.357</b>   | <b>121.094</b>   |
| <b>Core Equity Tier I Capital</b>  | <b>4.144.042</b> | <b>3.683.685</b> |
| <b>ADDITIONAL TIER I CAPITAL</b>   |                  |                  |
| Preferred stock not included in core equity and related share premiums   | -                | -                |
| Debt instruments and the related issuance premiums defined by the BRSA   | -                | -                |
| Debt instruments and the related issuance premiums defined by the BRSA (Temporary Article 4)   | -                | -                |
| Shares of Third Parties in Additional Tier I Capital   | -                | -                |
| Shares of Third Parties in Additional Tier I Capital (Temporary Article 4)   | -                | -                |
| <b>Additional Tier I Capital before Deductions</b>   | <b>-</b>         | <b>-</b>         |
| <b>Deductions from Additional Tier I Capital</b>   |                  |                  |
| Direct and indirect investments of the Bank in its own Additional Tier I Capital   | -                | -                |
| Investments of Bank to Banks that invest in Bank's additional equity and components of equity issued by financial institutions with compatible with Article 7.   | -                | -                |
| Total of net long positions of the investments in equity items of unconsolidated banks and financial institutions where the bank owns 10% or less of the issued share capital exceeding the 10% threshold of above tier i capital                    | -                | -                |
| The total of net long position of the direct or indirect investments in additional Tier I capital of unconsolidated banks and financial institutions where the bank owns more than 10% of the issued share capital                                   | -                | -                |
| Other items to be defined by the BRSA  | -                | -                |
| <b>Items to be Deducted from Tier I Capital during the Transition Period</b>   |                  |                  |
| Goodwill and other intangible assets and related deferred tax liabilities which will not deducted from Core Equity Tier 1 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-) | -                | 717              |
| Net deferred tax asset/liability which is not deducted from Core Equity Tier 1 capital for the purposes of the sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)  | -                | -                |
| Deductions to be made from common equity in the case that adequate Additional Tier I Capital or Tier II Capital is not available (-)   | -                | -                |
| <b>Total Deductions From Additional Tier I Capital</b>   | <b>-</b>         | <b>717</b>       |
| <b>Total Additional Tier I Capital</b>   | <b>-</b>         | <b>-</b>         |
| <b>Total Tier I Capital (Tier I Capital=Core Equity Tier I Capital+Additional Tier I Capital)</b>  | <b>4.144.042</b> | <b>3.682.968</b> |
| <b>TIER II CAPITAL</b>   |                  |                  |
| Debt instruments and the related issuance premiums defined by the BRSA   | 1.540.500        | 1.125.750        |
| Debt instruments and the related issuance premiums defined by the BRSA (Temporary Article 4)   | -                | -                |
| Provisions (Article 8 of the Regulation on the Equity of Banks)  | 361.452          | 136.131          |
| Shares of Third Parties in Tier II Capital   | -                | -                |
| Shares of Third Parties in Tier II Capital (Temporary Article 3)   | -                | -                |
| <b>Tier II Capital Before Deductions</b>   | <b>1.901.952</b> | <b>1.261.881</b> |
| <b>Deductions From Tier II Capital</b>   |                  |                  |
| Direct and indirect investments of the Bank on its own Tier II Capital (-)   | -                | -                |
| Investments of Bank to Banks that invest on Bank's Tier 2 and components of equity issued by financial institutions with the conditions declared in Article 8.   | -                | -                |



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

**II. Explanations related to consolidated shareholders' equity (continued)**

|   |                  |                  |
|---|------------------|------------------|
| Total of net long positions of the investments in equity items of unconsolidated banks and financial institutions where the Bank owns 10% or less of the issued share capital exceeding the 10% threshold of above Common Equity Tier I capital (-)   | -                | -                |
| Total of net long positions of the investments in Tier II Capital items of unconsolidated banks and financial institutions where the bank owns 10% or more of the issued share capital  | -                | -                |
| Other items to be defined by the BRSA (-)   | -                | -                |
| <b>Total Deductions from Tier II Capital</b>  | -                | -                |
| <b>Total Tier II Capital</b>  | <b>1.901.952</b> | <b>1.261.881</b> |
| <b>Total Capital (The sum of Tier I Capital and Tier II Capital)</b>  | <b>6.045.994</b> | <b>4.944.849</b> |
| <b>Deductions from Total Capital</b>  |                  |                  |
| Loans granted against the articles 50 and 51 of the banking law   | -                | -                |
| Net book values of movables and immovables exceeding the limit defined in the article 57, clause 1 of the Banking law and the assets acquired against overdue receivables and held for sale but retained more than five years   | -                | -                |
| Other items to be defined by the BRSA   | -                | -                |
| <b>Items to be Deducted from sum of Tier I and Tier II (Capital) during the Transition Period</b>   | -                | -                |
| The Sum of net long positions of investments (the portion which exceeds the 10% of Banks Common Equity) in the capital of banking, and financial entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity which will not deducted from Common Equity Tier I capital, Additional Tier I capital, Tier II capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds | -                | -                |
| The Sum of net long positions of investments in the Additional Tier I capital and Tier II capital of banking, and financial entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity which will not deducted from Common Equity Tier I capital, Additional Tier I capital, Tier II capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds                      | -                | -                |
| The Sum of net long positions of investments in the common stock of banking, and financial entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity, mortgage servicing rights, deferred tax assets arising from temporary differences which will not deducted from Core Equity Tier I capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds                  | -                | 5.223            |
| <b>CAPITAL</b>  |                  |                  |
| Total Capital (Total of Tier I Capital and Tier II Capital)   | 6.045.994        | 4.939.626        |
| Total Risk Weighted Assets  | 37.814.453       | 29.002.503       |
| <b>CAPITAL ADEQUACY RATIOS</b>  |                  |                  |
| Core Capital Adequacy Ratio (%)   | 10,96            | 12,70            |
| Tier I Capital Adequacy Ratio (%)   | 10,96            | 12,70            |
| Capital Adequacy Ratio (%)  | 15,99            | 17,03            |
| <b>BUFFERS</b>  |                  |                  |
| Total buffer requirement (%)  | 1,883            | 1,255            |
| Capital conservation buffer requirement (%)   | 1,875            | 1,250            |
| Bank specific counter-cyclical buffer requirement (%)   | 0,008            | 0,005            |
| Systematic significant buffer (%)   | -                | -                |
| The ratio of Additional Core Equity Tier I capital which will be calculated by the first paragraph of the Article 4 of Regulation on Capital Conservation and Countercyclical Capital Buffers to risk weighted assets   | 4,96             | 8,20             |
| <b>Amounts below the Excess Limits as per the Deduction Principles</b>  |                  |                  |
| Total of net long positions of the investments in equity items of unconsolidated banks and financial institutions where the bank owns 10% or less of the issued share capital   | -                | -                |
| Total of net long positions of the investments in Tier I capital of unconsolidated banks and financial institutions where the bank owns more than 10% or less of the issued share capital   | 413.659          | 365.186          |
| Remaining mortgage servicing rights   | -                | -                |
| Excess amount arising from deferred tax assets from temporary differences   | -                | -                |



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

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

| <b>Limits Related to Provisions Considered in Tier II Calculation</b>  |         |         |
|--|---------|---------|
| General reserves for receivables where the standard approach used (before tenthousandtwentyfive limitation)  | 361.452 | 136.131 |
| Up to 1,25% of total risk-weighted amount of general reserves for receivables where the standard approach used   | 361.452 | 136.131 |
| Excess amount of total provision amount to credit risk amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation                                      | -       | -       |
| Excess amount of total provision amount to 0,6% of risk weighted receivables of credit risk amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation | -       | -       |
| <b>Debt instruments subjected to Article 4<br/>(to be implemented between 1 January 2018 and 1 January 2022)</b>   |         |         |
| Upper limit for Additional Tier I Capital subjected to temporary Article 4   | -       | -       |
| Amounts Excess the Limits of Additional Tier I Capital subjected to temporary Article 4  | -       | -       |
| Upper limit for Additional Tier II Capital subjected to temporary Article 4  | -       | -       |
| Amounts Excess the Limits of Additional Tier II Capital subjected to temporary Article 4   | -       | -       |

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

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



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

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

**Details on Subordinated Liabilities**

|   |  |
|---|--|
| Issuer  | Türkiye Sınai Kalkınma Bankası A.Ş.  |
| Unique identifier (eg CUSIP, ISIN etc.)   | XS1584113184   |
| Governing law(s) of the instrument  | BRSA, Cominque on Subordinated Liabilities of CMB numbered CMB-II-31.1   |
| <b>Regulatory treatment</b>   |  |
| Subject to 10% deduction as of 1/1/2015   | No   |
| Eligible on unconsolidated and/or consolidated basis  | Eligible on unconsolidated and consolidated  |
| Instrument type   | Secondary subordinated loan which is categorized in subordinated loans equalling bill of exchanges   |
| Amount recognized in regulatory capital (Currency in mil, as of most recent reporting date – Million USD )    | 300  |
| Par value of instrument (Million USD)   | 300  |
| Accounting classification   | 347011 (Liability) - Subordinated Debt Instruments   |
| Original date of issuance   | 28 March 2017  |
| Perpetual or dated  | Dated  |
| Original starting and maturity date   | 28 March 2017 - 29 March 2027 (10 years)   |
| Issuer call subject to prior supervisory approval   | Yes  |
| Optional call date, contingent call dates and redemption amount   | There is an early repayment option on 29 March 2022 (After 5th year)   |
| Subsequent call dates, if applicable  | After 5th year only for once   |
| Fixed or floating dividend/coupon   | Fixed / semiannually coupon payment, principal payment at the maturity   |
| Coupon rate and any related index   | 7,625%   |
| Existence of a dividend stopper   | None   |
| Fully discretionary, partially discretionary or mandatory   | None   |
| Existence of step up or other incentive to redeem   | None   |
| Noncumulative or cumulative   | Noncumulative  |
| <b>Convertible or non-convertible</b>   |  |
| If convertible, conversion trigger (s)  | None   |
| If convertible, fully or partially  | None   |
| If convertible, conversion rate   | None   |
| If convertible, mandatory or optional conversion  | None   |
| If convertible, specify instrument type convertible into  | None   |
| If convertible, specify issuer of instrument it converts into   | None   |
| <b>Write-down feature</b>   |  |
| If write-down, write-down trigger(s)  | According to number 5411 article, 71th article of Law of Banking and number 6102 article of Turkish Code of Commerce, if BRSA has seem in case of default. |
| If write-down, full or partial  | Full or Partial  |
| If write-down, permanent or temporary   | Permanent  |
| If temporary write-down, description of write-up mechanism  | None   |
| Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | After the senior creditors, before the TIER 1 subdebt, same with TIER 2.   |
| In compliance with article number 7 and 8 of "Own fund regulation"  | Based on the conditions written on 8th article.  |
| Details of incompliances with article number 7 and 8 of "Own fund regulation"                                 | Not based on the conditions written on 7th article.  |



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**SECTION FOUR (Continued)**

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

**II. Explanations related to consolidated credit risk**

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

The credit monitoring department screens the creditworthiness of loan customers once every six months regularly. The debtors' creditworthiness is screened regularly in 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 Four, Note X.



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

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

*Total amount of exposures after offsetting transactions but before applying risk mitigations and the average exposure amounts that are classified in different risk groups and types*

|  | Current Period  |                        | Prior Period    |                        |
|--|-----------------|------------------------|-----------------|------------------------|
|  | Risk Amount (1) | Average Risk Amount(2) | Risk Amount (1) | Average Risk Amount(2) |
| Exposures to sovereigns and their central banks                      | 6.245.307       | 6.036.196              | 5.480.685       | 5.241.800              |
| Exposures to regional and local governments                          | 3.000           | 3.000                  | 3.000           | 3.000                  |
| Exposures to administrative bodies and noncommercial entities        | 11.946          | 4.126                  | 1.526           | 8.741                  |
| Exposures to multilateral development banks                          | -               | -                      | -               | -                      |
| Exposures to international organizations                             | -               | -                      | -               | -                      |
| Exposures to banks and securities firms                              | 3.824.818       | 3.612.202              | 3.226.191       | 4.382.330              |
| Exposures to corporates  | 47.310.220      | 42.081.652             | 34.308.386      | 29.940.592             |
| Retail exposures   | -               | -                      | -               | -                      |
| Exposures secured by property  | 1.395.232       | 1.240.266              | 991.399         | 1.049.534              |
| Past due receivables   | 427.721         | 237.052                | -               | -                      |
| Exposures in higher-risk categories                                  | 106.668         | 52.661                 | 583             | 97                     |
| Exposures in the form of bonds secured by mortgages                  | -               | -                      | -               | -                      |
| Securitization positions   | -               | -                      | -               | -                      |
| Short term exposures to banks, brokerage houses and corporates       | -               | -                      | -               | -                      |
| Equity investments in the form of collective investment undertakings | -               | -                      | -               | -                      |
| Equity investments   | 498.767         | 448.606                | 399.609         | 366.478                |
| Other exposures  | 931.678         | 1.361.423              | 1.208.795       | 1.155.102              |

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

(2) Average risk amounts are the arithmetical average of the amounts in monthly reports prepared as per the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks.

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

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



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**SECTION FOUR (Continued)**

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

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

The first 100 and 200 largest cash loans constitute 70,90% and 89,03% of the total cash loans portfolio of the Group respectively (31 December 2017: 73,98% and 92,82%).

The first 100 and 200 largest non cash loans constitute 100% and 100% of the total non cash loans portfolio of the Group respectively (31 December 2017: 100% and 100%).

The first 100 and 200 largest cash and non cash loans constitute 70,0% and 88,82% of the total on and off balance sheet accounts of the Group respectively (31 December 2017: 72,53% and 91,93%).

The Group calculated the expected credit loss provision amounting to TL 364.062 in accordance with TFRS 9 impairment model (31 December 2017: TL 136.131).

Credit risk is evaluated according to the Parent Bank's internal rating. Non financial services customers included in credit portfolio are rated with respect to the Parent Bank's internal rating and ratings of the financial services customers, which are rated by external rating firms, are matched to the Parent Bank's internal ratings. With the transition to TFRS 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 the footnote.

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

| <b>Loan Quality Categories</b> | <b>Current Period</b> |
|--------------------------------|-----------------------|
| Above Average Grade            | 8.454.861             |
| Average Grade                  | 19.216.471            |
| Below Average Grade            | 3.132.445             |
| Impaired (1)                   | 600.174               |
| <b>Total</b>                   | <b>31.403.951</b>     |

(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 31.533.715 and TL 129.764 of these customers have not been rated.

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

|                 | <b>Current Period (1)</b> |                    |              |               | <b>Prior Period</b> |                    |               |               |
|-----------------|---------------------------|--------------------|--------------|---------------|---------------------|--------------------|---------------|---------------|
|                 | <b>31- 60 Days</b>        | <b>61- 90 Days</b> | <b>Other</b> | <b>Total</b>  | <b>31- 60 Days</b>  | <b>61- 90 Days</b> | <b>Other</b>  | <b>Total</b>  |
| Corporate Loans | 10.631                    | -                  | -            | 10.631        | -                   | 1.212              | 36.513        | 37.725        |
| SME Loans       | -                         | 202                | -            | 202           | -                   | -                  | -             | -             |
| Consumer Loans  | -                         | -                  | -            | -             | -                   | -                  | -             | -             |
| <b>Total</b>    | <b>10.631</b>             | <b>202</b>         | <b>-</b>     | <b>10.833</b> | <b>-</b>            | <b>1.212</b>       | <b>36.513</b> | <b>37.725</b> |

(1) Only the overdue amounts of the loans included in the related items are included and the total credit amount of the related loans is TL 85.867.



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

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

**Profile of Significant Exposures in Major Region**

| Current Period                              | Risk Types (1)                                  |   |   |   |  |   |                         |                  |                               |                      |                                     |   |  |  |                    |                 | Total             |
|---|---|---|---|---|--|---|-------------------------|------------------|-------------------------------|----------------------|-------------------------------------|---|--|--|--------------------|-----------------|-------------------|
|   | Exposures to sovereigns and their central banks | Exposures to regional and local governments | Exposures to administrative bodies and noncommercial entities | Exposures to multilateral development banks | Exposures to international organizations | Exposures to banks and securities firms | Exposures to corporates | Retail exposures | Exposures secured by property | Past due receivables | Exposures in higher-risk categories | Exposures in the form of bonds secured by mortgages | Short term exposures to banks, brokerages and corporates | Equity investments in the form of collective investment undertakings | Equity investments | Other exposures |                   |
| Domestic                                    | 6.283.170                                       | 600   | 2.389   | -   | -  | 2.301.918                               | 27.935.798              | -                | 1.388.579                     | 427.721              | 1.114                               | -   | -  | -  | 52.251             | 570.328         | 38.963.868        |
| European Union (EU) Countries               | -   | -   | -   | -   | -  | 516.755                                 | -                       | -                | -                             | -                    | -                                   | -   | -  | -  | 41.778             | 97.405          | 655.938           |
| OECD Countries (2)                          | -   | -   | -   | -   | -  | 3.229                                   | -                       | -                | -                             | -                    | -                                   | -   | -  | -  | -                  | -               | 3.229             |
| Off-Shore Banking Regions                   | -   | -   | -   | -   | -  | -                                       | -                       | -                | -                             | -                    | -                                   | -   | -  | -  | -                  | -               | -                 |
| USA, Canada                                 | -   | -   | -   | -   | -  | 100.763                                 | -                       | -                | -                             | -                    | -                                   | -   | -  | -  | -                  | -               | 100.763           |
| Other Countries                             | -   | -   | -   | -   | -  | -                                       | 109.969                 | -                | -                             | -                    | -                                   | -   | -  | -  | -                  | -               | 109.969           |
| Associates, Subsidiaries and Joint-Ventures | -   | -   | -   | -   | -  | -                                       | -                       | -                | -                             | -                    | -                                   | -   | -  | -  | 404.738            | -               | 404.738           |
| Unallocated Assets/Liabilities (3)          | -   | -   | -   | -   | -  | -                                       | 1.283                   | -                | -                             | -                    | -                                   | -   | -  | -  | -                  | 47.585          | 48.868            |
| <b>Total</b>                                | <b>6.283.170</b>                                | <b>600</b>                                  | <b>2.389</b>  | <b>-</b>                                    | <b>-</b>                                 | <b>2.922.665</b>                        | <b>28.047.050</b>       | <b>-</b>         | <b>1.388.579</b>              | <b>427.721</b>       | <b>1.114</b>                        | <b>-</b>  | <b>-</b>   | <b>-</b>   | <b>498.767</b>     | <b>715.318</b>  | <b>40.287.373</b> |

(1) Risk types in the Communiqué on "Measurement and Assessment of Capital Adequacy of Banks" have been used. Since there is no securitization position, risk class of "Securitization Positions" has not been included in the table. Includes risk amounts after the effect of credit risk mitigation and the credit conversion.

(2) Includes OECD countries other than EU countries, USA and Canada.

(3) Includes asset and liability items that cannot be allocated on a consistent basis.



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

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

**Profile of Significant Exposures in Major Region (continued)**

| Prior Period                                | Risk Types (1)                                  |   |   |   |  |   |                         |                  |                               |                      |                                     |   |  |  |                    |                 |                   |
|---|---|---|---|---|--|---|-------------------------|------------------|-------------------------------|----------------------|-------------------------------------|---|--|--|--------------------|-----------------|-------------------|
|   | Exposures to sovereigns and their central banks | Exposures to regional and local governments | Exposures to administrative bodies and noncommercial entities | Exposures to multilateral development banks | Exposures to international organizations | Exposures to banks and securities firms | Exposures to corporates | Retail exposures | Exposures secured by property | Past due receivables | Exposures in higher-risk categories | Exposures in the form of bonds secured by mortgages | Short term exposures to banks, brokerage houses and corporates | Equity investments in the form of collective investment undertakings | Equity investments | Other exposures | Total             |
| Domestic                                    | 5.488.609                                       | 600   | 1.342   | -   | -  | 1.596.257                               | 22.834.531              | -                | 987.801                       | -                    | 292                                 | -   | -  | -  | 119.992            | 548.749         | 31.578.173        |
| European Union (EU) Countries               | -   | -   | -   | -   | -  | 150.422                                 | -                       | -                | -                             | -                    | -                                   | -   | -  | -  | 27.821             | 78.902          | 257.145           |
| OECD Countries (2)                          | -   | -   | -   | -   | -  | 14.371                                  | -                       | -                | -                             | -                    | -                                   | -   | -  | -  | -                  | -               | 14.371            |
| Off-Shore Banking Regions                   | -   | -   | -   | -   | -  | -                                       | -                       | -                | -                             | -                    | -                                   | -   | -  | -  | -                  | -               | -                 |
| USA, Canada                                 | -   | -   | -   | -   | -  | 19.412                                  | -                       | -                | -                             | -                    | -                                   | -   | -  | -  | -                  | -               | 19.412            |
| Other Countries                             | -   | -   | -   | -   | -  | 54.983                                  | 108.752                 | -                | -                             | -                    | -                                   | -   | -  | -  | -                  | -               | 163.735           |
| Associates, Subsidiaries and Joint-Ventures | -   | -   | -   | -   | -  | -                                       | -                       | -                | -                             | -                    | -                                   | -   | -  | -  | 251.796            | -               | 251.796           |
| Unallocated Assets/Liabilities (3)          | -   | -   | -   | -   | -  | -                                       | 999                     | -                | -                             | -                    | -                                   | -   | -  | -  | -                  | 35.292          | 36.291            |
| <b>Total</b>                                | <b>5.488.609</b>                                | <b>600</b>                                  | <b>1.342</b>  | <b>-</b>                                    | <b>-</b>                                 | <b>1.835.445</b>                        | <b>22.944.282</b>       | <b>-</b>         | <b>987.801</b>                | <b>-</b>             | <b>292</b>                          | <b>-</b>  | <b>-</b>   | <b>-</b>   | <b>399.609</b>     | <b>662.943</b>  | <b>32.320.923</b> |

(1) Risk types in the Communiqué on "Measurement and Assessment of Capital Adequacy of Banks" have been used. Since there is no securitization position, risk class of "Securitization Positions" has not been included in the table. Includes risk amounts after the effect of credit risk mitigation and the credit conversion.

(2) Includes OECD countries other than EU countries, USA and Canada.

(3) Includes asset and liability items that cannot be allocated on a consistent basis.



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

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

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

*Risk profile by sectors or counterparties*

|                                      | Risk Types (1)                                  |   |   |   |  |   |                         |                  |                               |                      |                                     |   |  |  |                    |                 |           |            |            |
|--------------------------------------|---|---|---|---|--|---|-------------------------|------------------|-------------------------------|----------------------|-------------------------------------|---|--|--|--------------------|-----------------|-----------|------------|------------|
|                                      | Exposures to sovereigns and their central banks | Exposures to regional and local governments | Exposures to administrative bodies and noncommercial entities | Exposures to multilateral development banks | Exposures to international organizations | Exposures to banks and securities firms | Exposures to corporates | Retail exposures | Exposures secured by property | Past due receivables | Exposures in higher-risk categories | Exposures in the form of bonds secured by mortgages | Short term exposures to banks, brokerage houses and corporates | Equity investments in the form of collective investment undertakings | Equity investments | Other exposures | TL        | FC         | Total      |
| Current Period                       |   |   |   |   |  |   |                         |                  |                               |                      |                                     |   |  |  |                    |                 |           |            |            |
| Agriculture                          | -   | -   | -   | -   | -  | -                                       | 77.627                  | -                | -                             | -                    | -                                   | -   | -  | -  | -                  | 340             | 33.050    | 44.917     | 77.967     |
| Farming and Stockbreeding            | -   | -   | -   | -   | -  | -                                       | 77.627                  | -                | -                             | -                    | -                                   | -   | -  | -  | -                  | -               | 32.710    | 44.917     | 77.627     |
| Forestry                             | -   | -   | -   | -   | -  | -                                       | -                       | -                | -                             | -                    | -                                   | -   | -  | -  | -                  | 340             | 340       | -          | 340        |
| Fishery                              | -   | -   | -   | -   | -  | -                                       | -                       | -                | -                             | -                    | -                                   | -   | -  | -  | -                  | -               | -         | -          | -          |
| Manufacturing                        | -   | -   | -   | -   | -  | -                                       | 18.424.244              | -                | 390.215                       | 417.732              | 1.114                               | -   | -  | -  | -                  | -               | 1.024.780 | 18.208.525 | 19.233.305 |
| Mining and Quarrying                 | -   | -   | -   | -   | -  | -                                       | 574.527                 | -                | 16.880                        | -                    | -                                   | -   | -  | -  | -                  | -               | 12.155    | 579.252    | 591.407    |
| Production                           | -   | -   | -   | -   | -  | -                                       | 5.447.388               | -                | 223.227                       | -                    | -                                   | -   | -  | -  | -                  | -               | 783.423   | 4.887.192  | 5.670.615  |
| Electricity, Gas and Water           | -   | -   | -   | -   | -  | -                                       | 12.402.329              | -                | 150.108                       | 417.732              | 1.114                               | -   | -  | -  | -                  | -               | 229.202   | 12.742.081 | 12.971.283 |
| Construction                         | -   | -   | -   | -   | -  | -                                       | 1.113.505               | -                | 215.620                       | 1.742                | -                                   | -   | -  | -  | -                  | -               | 207.493   | 1.123.374  | 1.330.867  |
| Services                             | 743.202   | -   | 2.324   | -   | -  | 2.922.665                               | 7.970.253               | -                | 767.165                       | 8.247                | -                                   | -   | -  | -  | 498.767            | 178.019         | 2.385.996 | 10.704.646 | 13.090.642 |
| Wholesale and Retail Trade           | -   | -   | -   | -   | -  | -                                       | 562.168                 | -                | 6.598                         | -                    | -                                   | -   | -  | -  | 160                | 365             | 8.405     | 560.886    | 569.291    |
| Accommodation and Dining             | -   | -   | -   | -   | -  | -                                       | 561.736                 | -                | 653.028                       | -                    | -                                   | -   | -  | -  | 1.750              | -               | 109.144   | 1.107.370  | 1.216.514  |
| Transportation and Telecommunication | -   | -   | -   | -   | -  | -                                       | 1.959.934               | -                | -                             | -                    | -                                   | -   | -  | -  | 1.056              | -               | 1.628     | 1.959.362  | 1.960.990  |
| Financial Institutions               | 743.202   | -   | 2.324   | -   | -  | 2.922.665                               | 2.333.426               | -                | -                             | -                    | -                                   | -   | -  | -  | 491.191            | 177.644         | 1.811.962 | 4.858.490  | 6.670.452  |
| Real Estate and Rental Services      | -   | -   | -   | -   | -  | -                                       | 377.052                 | -                | 57.961                        | 8.247                | -                                   | -   | -  | -  | -                  | -               | 8.247     | 435.013    | 443.260    |
| Professional Services                | -   | -   | -   | -   | -  | -                                       | 1.089.457               | -                | -                             | -                    | -                                   | -   | -  | -  | 4.610              | 10              | 427.304   | 666.773    | 1.094.077  |
| Educational Services                 | -   | -   | -   | -   | -  | -                                       | 133.827                 | -                | 23.010                        | -                    | -                                   | -   | -  | -  | -                  | -               | 877       | 155.960    | 156.837    |
| Health and Social Services           | -   | -   | -   | -   | -  | -                                       | 952.653                 | -                | 26.568                        | -                    | -                                   | -   | -  | -  | -                  | -               | 18.429    | 960.792    | 979.221    |
| Others                               | 5.539.968                                       | 600   | 65  | -   | -  | -                                       | 461.421                 | -                | 15.579                        | -                    | -                                   | -   | -  | -  | -                  | 536.959         | 4.476.456 | 2.078.136  | 6.554.592  |
| Total                                | 6.283.170                                       | 600   | 2.389   | -   | -  | 2.922.665                               | 28.047.050              | -                | 1.388.579                     | 427.721              | 1.114                               | -   | -  | -  | 498.767            | 715.318         | 8.127.775 | 32.159.598 | 40.287.373 |

(1) Risk types in the Communiqué on "Measurement and Assessment of Capital Adequacy of Banks" have been used. Since there is no securitization position, risk class of "Securitization Positions" has not been included in the table. Includes risk amounts after the effect of credit risk mitigation and the credit conversion.



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

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

**Profile of Significant Exposures in Major Region (continued)**

|                                      | Risk Types (1)                                  |   |   |   |  |   |                         |                  |                               |                      |                                     |   |  |  |                    |                 |           |            |            |
|--------------------------------------|---|---|---|---|--|---|-------------------------|------------------|-------------------------------|----------------------|-------------------------------------|---|--|--|--------------------|-----------------|-----------|------------|------------|
|                                      | Exposures to sovereigns and their central banks | Exposures to regional and local governments | Exposures to administrative bodies and noncommercial entities | Exposures to multilateral development banks | Exposures to international organizations | Exposures to banks and securities firms | Exposures to corporates | Retail exposures | Exposures secured by property | Past due receivables | Exposures in higher-risk categories | Exposures in the form of bonds secured by mortgages | Short term exposures to banks, brokerage houses and corporates | Equity investments in the form of collective investment undertakings | Equity investments | Other exposures | TL        | FC         | Total      |
| Prior Period                         |   |   |   |   |  |   |                         |                  |                               |                      |                                     |   |  |  |                    |                 |           |            |            |
| Agriculture                          | -   | -   | -   | -   | -  | -                                       | 41.147                  | -                | -                             | -                    | -                                   | -   | -  | -  | -                  | 340             | 36.935    | 4.552      | 41.487     |
| Farming and Stockbreeding            | -   | -   | -   | -   | -  | -                                       | 41.147                  | -                | -                             | -                    | -                                   | -   | -  | -  | -                  | -               | 36.595    | 4.552      | 41.147     |
| Forestry                             | -   | -   | -   | -   | -  | -                                       | -                       | -                | -                             | -                    | -                                   | -   | -  | -  | -                  | 340             | 340       | -          | 340        |
| Fishery                              | -   | -   | -   | -   | -  | -                                       | -                       | -                | -                             | -                    | -                                   | -   | -  | -  | -                  | -               | -         | -          | -          |
| Manufacturing                        | -   | -   | -   | -   | -  | -                                       | 15.321.606              | -                | 259.337                       | -                    | 292                                 | -   | -  | -  | 7                  | 2.553           | 1.312.515 | 14.271.280 | 15.583.795 |
| Mining and Quarrying                 | -   | -   | -   | -   | -  | -                                       | 167.944                 | -                | -                             | -                    | -                                   | -   | -  | -  | -                  | -               | -         | 167.944    | 167.944    |
| Production                           | -   | -   | -   | -   | -  | -                                       | 4.936.560               | -                | 259.337                       | -                    | -                                   | -   | -  | -  | 7                  | -               | 1.015.198 | 4.180.706  | 5.195.904  |
| Electricity, Gas and Water           | -   | -   | -   | -   | -  | -                                       | 10.217.102              | -                | -                             | -                    | 292                                 | -   | -  | -  | -                  | 2.553           | 297.317   | 9.922.630  | 10.219.947 |
| Construction                         | -   | -   | -   | -   | -  | -                                       | 1.066.097               | -                | 111.297                       | -                    | -                                   | -   | -  | -  | -                  | 72              | 172.732   | 1.004.734  | 1.177.466  |
| Services                             | 847.110   | -   | -   | -   | -  | 1.835.445                               | 6.368.136               | -                | 607.131                       | -                    | -                                   | -   | -  | -  | 399.602            | 90.055          | 2.217.338 | 7.930.141  | 10.147.479 |
| Wholesale and Retail Trade           | -   | -   | -   | -   | -  | -                                       | 487.101                 | -                | -                             | -                    | -                                   | -   | -  | -  | -                  | 8.045           | 102.766   | 392.380    | 495.146    |
| Accommodation and Dining             | -   | -   | -   | -   | -  | -                                       | 283.463                 | -                | 532.342                       | -                    | -                                   | -   | -  | -  | 1.760              | -               | 67.653    | 749.912    | 817.565    |
| Transportation and Telecommunication | -   | -   | -   | -   | -  | -                                       | 1.242.094               | -                | -                             | -                    | -                                   | -   | -  | -  | 1.056              | -               | 21.281    | 1.221.869  | 1.243.150  |
| Financial Institutions               | 847.110   | -   | -   | -   | -  | 1.835.445                               | 2.254.901               | -                | -                             | -                    | -                                   | -   | -  | -  | 395.176            | 82.010          | 1.755.503 | 3.659.139  | 5.414.642  |
| Real Estate and Rental Services      | -   | -   | -   | -   | -  | -                                       | 742.817                 | -                | 51.534                        | -                    | -                                   | -   | -  | -  | -                  | -               | 557       | 793.794    | 794.351    |
| Professional Services                | -   | -   | -   | -   | -  | -                                       | 502.906                 | -                | -                             | -                    | -                                   | -   | -  | -  | 1.610              | -               | 239.302   | 265.214    | 504.516    |
| Educational Services                 | -   | -   | -   | -   | -  | -                                       | 107.892                 | -                | 23.255                        | -                    | -                                   | -   | -  | -  | -                  | -               | 2.632     | 128.515    | 131.147    |
| Health and Social Services           | -   | -   | -   | -   | -  | -                                       | 746.962                 | -                | -                             | -                    | -                                   | -   | -  | -  | -                  | -               | 27.644    | 719.318    | 746.962    |
| Others                               | 4.641.499                                       | 600   | 1.342   | -   | -  | -                                       | 147.296                 | -                | 10.036                        | -                    | -                                   | -   | -  | -  | -                  | 569.923         | 3.921.393 | 1.449.303  | 5.370.696  |
| Total                                | 5.488.609                                       | 600   | 1.342   | -   | -  | 1.835.445                               | 22.944.282              | -                | 987.801                       | -                    | 292                                 | -   | -  | -  | 399.609            | 662.943         | 7.660.913 | 24.660.010 | 32.320.923 |

(1) Risk types in the Communiqué on "Measurement and Assessment of Capital Adequacy of Banks" have been used. Since there is no securitization position, risk class of "Securitization Positions" has not been included in the table. Includes risk amounts after the effect of credit risk mitigation and the credit conversion.



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**SECTION FOUR (Continued)**

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

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

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

| <b>Risk Types</b>  | <b>Term to Maturity</b> |                   |                   |                    |                    |
|--|-------------------------|-------------------|-------------------|--------------------|--------------------|
| <b>Current Period (1)</b>  | <b>1 month</b>          | <b>1-3 months</b> | <b>3-6 months</b> | <b>6-12 months</b> | <b>Over 1 year</b> |
| Exposures to sovereigns and their central banks                      | 747.991                 | 45.012            | 312.004           | 513.776            | 4.619.586          |
| Exposures to regional and local governments                          | -                       | -                 | -                 | -                  | -                  |
| Exposures to administrative bodies and noncommercial entities        | 2.324                   | -                 | -                 | -                  | -                  |
| Exposures to multilateral development banks                          | -                       | -                 | -                 | -                  | -                  |
| Exposures to international organizations                             | -                       | -                 | -                 | -                  | -                  |
| Exposures to banks and securities firms                              | 1.726.232               | 261.034           | 44.950            | -                  | 803.585            |
| Exposures to corporates  | 1.058.391               | 764.440           | 837.867           | 1.646.756          | 23.532.190         |
| Retail exposures   | -                       | -                 | -                 | -                  | -                  |
| Exposures secured by property  | 395                     | -                 | 63.006            | 18.081             | 1.307.096          |
| Past due receivables   | -                       | -                 | -                 | -                  | -                  |
| Exposures in higher-risk categories                                  | -                       | -                 | -                 | -                  | 1.114              |
| Exposures in the form of bonds secured by mortgages                  | -                       | -                 | -                 | -                  | -                  |
| Securitization positions   | -                       | -                 | -                 | -                  | -                  |
| Short term exposures to banks, brokerage houses and corporates       | -                       | -                 | -                 | -                  | -                  |
| Equity investments in the form of collective investment undertakings | -                       | -                 | -                 | -                  | -                  |
| Equity investments   | -                       | -                 | -                 | -                  | -                  |
| Other exposures  | 1.579                   | -                 | -                 | 518                | 21.631             |
| <b>Total</b>   | <b>3.536.912</b>        | <b>1.070.486</b>  | <b>1.257.827</b>  | <b>2.179.131</b>   | <b>30.285.202</b>  |

(1) Includes risk amounts after the effect of credit risk mitigation and the credit conversion.



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

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

**Analysis of maturity-bearing exposures according to remaining maturities (continued)**

| <b>Risk Types</b>  | <b>Term to Maturity</b> |                   |                   |                    |                    |
|--|-------------------------|-------------------|-------------------|--------------------|--------------------|
|  | <b>1 month</b>          | <b>1-3 months</b> | <b>3-6 months</b> | <b>6-12 months</b> | <b>Over 1 year</b> |
| <b>Prior Period (1)</b>  |                         |                   |                   |                    |                    |
| Exposures to sovereigns and their central banks                      | 833.407                 |                   |                   |                    | 3.991.484          |
| Exposures to regional and local governments                          |                         | -                 | -                 | -                  | -                  |
| Exposures to administrative bodies and noncommercial entities        | -                       | -                 | -                 | -                  | -                  |
| Exposures to multilateral development banks                          | -                       | -                 | -                 | -                  | -                  |
| Exposures to international organizations                             | -                       | -                 | -                 | -                  | -                  |
| Exposures to banks and securities firms                              | 700.266                 | 272.029           | 76.105            | 4                  | 662.893            |
| Exposures to corporates  |                         | 903.970           | 1.311.584         | 1.444.613          | 18.302.190         |
| Retail exposures   | -                       | -                 | -                 | -                  | -                  |
| Exposures secured by property  | 3.141                   | 1.049             | 51.094            | 65.371             | 866.781            |
| Past due receivables   | -                       | -                 | -                 | -                  | -                  |
| Exposures in higher-risk categories                                  | -                       | -                 | 165               | -                  | 126                |
| Exposures in the form of bonds secured by mortgages                  | -                       | -                 | -                 | -                  | -                  |
| Securitization positions   | -                       | -                 | -                 | -                  | -                  |
| Short term exposures to banks, brokerage houses and corporates       | -                       | -                 | -                 | -                  | -                  |
| Equity investments in the form of collective investment undertakings | -                       | -                 | -                 | -                  | -                  |
| Equity investments   |                         | -                 | -                 | -                  | -                  |
| Other exposures  | 2.193                   | -                 | -                 | -                  | 44.162             |
| <b>Total</b>   | <b>2.368.615</b>        | <b>1.276.377</b>  | <b>1.529.926</b>  | <b>1.688.491</b>   | <b>23.867.636</b>  |

(1) Includes risk amounts after the effect of credit risk mitigation and the credit conversion.



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

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

**Credit risk under standard approach**

The ratings given by international credit rating agency Fitch Ratings are used to determine the risk weights in capital adequacy calculation regarding exposures to banks and securities firms and corporates reside abroad, central sovereigns and central bank. Receivables from residents in Turkey are classified as unrated. These credit ratings are not used for the instruments issued by the debtor.

Ratings given by Fitch Ratings are matched with credit quality levels and risk weights based on risk classes as shown in the following table:

| Credit Quality Grades | Fitch Ratings | Risk Types           |  |  |                                 |
|-----------------------|---------------|----------------------|--|--|---------------------------------|
|                       |               | Claims on Sovereigns | Claims on Banks and Capital Market Intermediary    |  | Claims on Corporate Receivables |
|                       |               |                      | Claims with Original Maturities Less Than 3 Months | Claims with Original Maturities More Than 3 Months |                                 |
| 1                     | AAA           | %0                   | %20  | %20  | %20                             |
|                       | AA+           |                      |  |  |                                 |
|                       | AA            |                      |  |  |                                 |
|                       | AA-           |                      |  |  |                                 |
| 2                     | A+            | %20                  | %20  | %50  | %50                             |
|                       | A             |                      |  |  |                                 |
|                       | A-            |                      |  |  |                                 |
| 3                     | BBB+          | %50                  | %20  | %50  | %100                            |
|                       | BBB           |                      |  |  |                                 |
|                       | BBB-          |                      |  |  |                                 |
| 4                     | BB+           | %100                 | %50  | %100   | %100                            |
|                       | BB            |                      |  |  |                                 |
|                       | BB-           |                      |  |  |                                 |
| 5                     | B+            | %100                 | %50  | %100   | %150                            |
|                       | B             |                      |  |  |                                 |
|                       | B-            |                      |  |  |                                 |
| 6                     | CCC+          | %150                 | %150   | %150   | %150                            |
|                       | CCC           |                      |  |  |                                 |
|                       | CCC-          |                      |  |  |                                 |
|                       | CC            |                      |  |  |                                 |
|                       | C             |                      |  |  |                                 |
| Unrated               | Unrated       | %100                 | %20 (1)  | %50 (1)  | %100                            |

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



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**INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT**  
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**II. Explanations related to consolidated credit risk (continued)**

*Exposures by risk weights*

| Current Period                              |           |     |           |           |     |            |       |      |         |                      |
|---|-----------|-----|-----------|-----------|-----|------------|-------|------|---------|----------------------|
| Risk Weights                                | 0%        | 10% | 20%       | 50%       | 75% | 100%       | 150%  | 200% | 250%    | Deducted from Equity |
| Exposures Before Credit Risk Mitigation (1) | 4.467.367 | -   | 1.132.570 | 721.429   | -   | 33.690.867 | 2.565 | -    | 413.659 | 40.034               |
| Exposures After Credit Risk Mitigation      | 4.654.759 | -   | 1.132.570 | 2.111.562 | -   | 31.972.258 | 2.565 | -    | 413.659 | 40.034               |

(1) The figures represent total risk amounts before credit risk mitigation and after credit conversion factor.

| Prior Period                                |           |     |           |           |     |            |      |      |      |                      |
|---|-----------|-----|-----------|-----------|-----|------------|------|------|------|----------------------|
| Risk Weights                                | 0%        | 10% | 20%       | 50%       | 75% | 100%       | 150% | 200% | 250% | Deducted from Equity |
| Exposures Before Credit Risk Mitigation (1) | 4.061.014 | -   | 1.028.509 | 496.367   | -   | 26.841.250 | -    | -    | -    | 34.368               |
| Exposures After Credit Risk Mitigation      | 4.244.689 | -   | 1.028.509 | 1.484.168 | -   | 25.563.557 | -    | -    | -    | 34.368               |

(1) The figures represent total risk amounts before credit risk mitigation and after credit conversion factor.

*Information of major sectors or type of counterparties*

The Parent Bank's all impaired and non-performing receivables comprise of domestic receivables.

| Current Period                              | Loans (1) (2)                                 |                     | Provisions                      |
|---|---|---------------------|---------------------------------|
| Major Sectors / Counterparties              | Impaired                                      |                     | Expected Credit Losses (TFRS 9) |
|   | Significant Increase in Credit Risk (Stage 2) | Defaulted (Stage 3) |                                 |
| 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 Services | 801.267                                       | 20.618              | 76.961                          |
| Professional Services                       | -   | 149                 | 149                             |
| Educational Services                        | -   | -                   | -                               |
| Health and Social Services                  | -   | -                   | -                               |
| Others                                      | 461.604                                       | 8.831               | 21.964                          |
| <b>Total</b>                                | <b>2.943.559</b>                              | <b>597.210</b>      | <b>380.629</b>                  |

(3) Breakdown of cash loans.

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



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

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

*Information of major sectors or type of counterparties (continued)*

| Prior Period                         | Loans          |                    |                       |                 |
|--------------------------------------|----------------|--------------------|-----------------------|-----------------|
| Major Sectors / Counterparties       | Impaired Loans | Past Due Loans (1) | Value Adjustments (2) | Provisions (3)  |
| Agriculture                          | -              | -                  | -                     | -               |
| Farming and Stockbreeding            | -              | -                  | -                     | -               |
| Forestry                             | -              | -                  | -                     | -               |
| Fishery                              | -              | -                  | -                     | -               |
| Manufacturing                        | 40.800         | -                  | -                     | (40.800)        |
| Mining and Quarrying                 | 193            | -                  | -                     | (193)           |
| Production                           | 6.866          | -                  | -                     | (6.866)         |
| Electricity, Gas and Water           | 33.741         | -                  | -                     | (33.741)        |
| Construction                         | 8.722          | 1.212              | 24                    | (8.722)         |
| Services                             | 3.945          | 36.513             | 5.904                 | (3.945)         |
| Wholesale and Retail Trade           | 931            | -                  | -                     | (931)           |
| Accommodation and Dining             | 710            | -                  | -                     | (710)           |
| Transportation and Telecommunication | 57             | 36.513             | 5.904                 | (57)            |
| Financial Institutions               | 2.091          | -                  | -                     | (2.091)         |
| Real Estate and Rental Services      | -              | -                  | -                     | -               |
| Professional Services                | 156            | -                  | -                     | (156)           |
| Educational Services                 | -              | -                  | -                     | -               |
| Health and Social Services           | -              | -                  | -                     | -               |
| Others                               | 108            | -                  | -                     | (108)           |
| <b>Total</b>                         | <b>53.575</b>  | <b>37.725</b>      | <b>5.928</b>          | <b>(53.575)</b> |

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

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

(3) Represents specific provisions reserved for impaired loans.

*Information related with value adjustments and loan loss provisions*

| Current Period              | Opening balance (1) | Provision for the period | Provision reversals | Other adjustments | Closing balance |
|-----------------------------|---------------------|--------------------------|---------------------|-------------------|-----------------|
| Specific Provisions         | 52.078              | 108.311                  | (9.100)             | -                 | 169.489         |
| General Loan Loss Provision | 150.769             | 213.547                  | (85)                | -                 | 364.231         |

(2) Includes expected credit losses differences for the expected loss model as measured in accordance with TFRS 9 of the Bank as of 1 January 2018. (Specific Provisions: TL (463), General Provisions: TL (26.398)).

| Prior Period                    | Opening balance | Provision for the period | Provision reversals | Other adjustments | Closing balance |
|---------------------------------|-----------------|--------------------------|---------------------|-------------------|-----------------|
| Specific Provisions             | 61.017          | 3.567                    | (12.969)            | -                 | 51.615          |
| General Loan Loss Provision (1) | 144.043         | 33.124                   | -                   | -                 | 177.167         |

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



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

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

**Exposures Subject to Countercyclical Capital Buffer**

The geographical distribution of receivables from the private sector taken into account for Calculation of Bank specific Counter Cyclical Capital Buffer with the scope of Capital Conservation and Counter-Cyclical Capital Buffers Regulation which is published on the Official Gazette no.28812 dated 5 November 2013 and sub arrangements is given table below.

**Information about receivables from consolidated private sector:**

| <b>Current Period</b><br><b>Country risk taken</b><br><b>ultimately</b> | <b>Private Sector Loans in</b><br><b>Banking Book</b> | <b>Risk Weighted Amount</b><br><b>calculations for Trading</b><br><b>Book</b> | <b>Total</b>      |
|---|---|---|-------------------|
| United States   | 5.823   | -   | 5.823             |
| Georgia   | 109.969   | -   | 109.969           |
| England   | 62.733  | -   | 62.733            |
| Turkey  | 32.608.375  | -   | 32.608.375        |
| <b>Total</b>  | <b>32.786.900</b>                                     | <b>-</b>  | <b>32.786.900</b> |

| <b>Prior Period</b><br><b>Country risk taken</b><br><b>ultimately</b> | <b>Private Sector Loans in</b><br><b>Banking Book</b> | <b>Risk Weighted Amount</b><br><b>calculations for Trading</b><br><b>Book</b> | <b>Total</b>      |
|---|---|---|-------------------|
| United States   | 3.389   | -   | 3.389             |
| Georgia   | 108.752   | -   | 108.752           |
| England   | 3.135   | -   | 3.135             |
| Turkey  | 25.401.525  | 268.023   | 25.669.548        |
| <b>Total</b>  | <b>25.516.801</b>                                     | <b>268.023</b>  | <b>25.784.824</b> |



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**III. Explanations related to consolidated currency risk**

No long or short position is taken due to the uncertainties and changes in the markets therefore; no exposure to foreign currency risk is expected. However, possible foreign currency risks are calculated on monthly basis under the standard method in the foreign currency risk table and their results are reported to the official authorities and the Parent Bank's top management. Thus, foreign currency risk is closely monitored. Foreign currency risk, as a part of general market risk, is also taken into consideration in the calculation of Capital Adequacy Standard Ratio.

No short position is taken regarding foreign currency risk, whereas, counter position is taken for any foreign currency risks arising from customer transactions as to avoid foreign currency risk.

Announced current foreign exchange buying rates of the Parent Bank as at reporting date and the previous five working days in US Dollar and Euro are as follows:

|  | <b>1 US Dollar</b> | <b>1 Euro</b> |
|--|--------------------|---------------|
| <b>The Parent Bank's "Foreign Exchange Valuation Rate"</b> |                    |               |
| 31 December 2018   | 5,1350             | 5,8678        |
| <b>Prior Five Workdays:</b>                                |                    |               |
| 28 December 2018   | 5,2625             | 6,0282        |
| 27 December 2018   | 5,2475             | 5,9711        |
| 26 December 2018   | 5,2550             | 5,9912        |
| 25 December 2018   | 5,2850             | 6,0328        |
| 24 December 2018   | 5,2700             | 6,0015        |

Simple arithmetic thirty-day averages of the US Dollar and Euro buying rates of the Parent Bank before the reporting date are full TL 5,2671 and 5,9969 respectively.



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

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

|   | <b>Euro</b>        | <b>US Dollar</b>   | <b>Other FC</b> | <b>Total</b>       |
|---|--------------------|--------------------|-----------------|--------------------|
| <b>Current Period</b>   |                    |                    |                 |                    |
| <b>Assets</b>   |                    |                    |                 |                    |
| Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Checks Purchased, Precious Metals) and Balances with the Central Bank of Turkey | 306.256            | 417.218            | 13.401          | 736.875            |
| Banks   | 155.566            | 612.773            | 2.423           | 770.762            |
| Financial Assets at Fair Value Through Profit and Loss (1)  | 42.247             | 75.877             | 1.609           | 119.733            |
| Money Market Placements   | -                  | -                  | -               | -                  |
| Available-For-Sale Financial Assets   | 75.973             | 1.131.841          | -               | 1.207.814          |
| Loans (2)   | 12.276.612         | 13.701.012         | -               | 25.977.624         |
| Subsidiaries, Associates and Entities Under Common Control (Joint Vent.)  | -                  | -                  | -               | -                  |
| Held-To-Maturity Investments  | -                  | 419.420            | -               | 419.420            |
| Derivative Financial Assets for Hedging Purposes  | -                  | -                  | -               | -                  |
| Tangible Assets   | -                  | -                  | -               | -                  |
| Intangible Assets   | -                  | -                  | -               | -                  |
| Other Assets (3)  | 79.490             | 571.643            | -               | 651.133            |
| <b>Total Assets</b>   | <b>12.936.144</b>  | <b>16.929.784</b>  | <b>17.433</b>   | <b>29.883.361</b>  |
| <b>Liabilities</b>  |                    |                    |                 |                    |
| Bank Deposits   | -                  | -                  | -               | -                  |
| Foreign Currency Deposits   | -                  | -                  | -               | -                  |
| Money Market Borrowings   | 89.326             | 48.132             | -               | 137.458            |
| Funds Provided From Other Financial Institutions  | 11.521.560         | 12.171.103         | -               | 23.692.663         |
| Marketable Securities Issued (4)  | -                  | 8.498.963          | -               | 8.498.963          |
| Miscellaneous Payables  | 17.532             | 26.957             | 413             | 44.902             |
| Derivative Financial Liabilities for Hedging Purposes (5)   | -                  | 172.258            | -               | 172.258            |
| Other Liabilities (6)   | 52.279             | 60.229             | 917             | 113.425            |
| <b>Total Liabilities</b>  | <b>11.680.697</b>  | <b>20.977.642</b>  | <b>1.330</b>    | <b>32.659.669</b>  |
| <b>Net Balance Sheet Position</b>   | <b>1.255.447</b>   | <b>(4.047.858)</b> | <b>16.103</b>   | <b>(2.776.308)</b> |
| <b>Net Off-Balance Sheet Position</b>   | <b>(1.373.555)</b> | <b>3.956.152</b>   | <b>(14.992)</b> | <b>2.567.605</b>   |
| Financial Derivative Assets   | 1.902.722          | 6.761.213          | 153.506         | 8.817.441          |
| Financial Derivative Liabilities  | (3.276.277)        | (2.805.061)        | (168.498)       | (6.249.836)        |
| Non-Cash Loans (7)  | 1.351.786          | 1.334.076          | -               | 2.685.862          |
| <b>Prior Period</b>   |                    |                    |                 |                    |
| Total Assets  | 9.659.966          | 12.784.390         | 75.954          | 22.520.310         |
| Total Liabilities   | 9.701.966          | 14.312.688         | 2.865           | 24.017.519         |
| <b>Net Balance Sheet Position</b>   | <b>(42.000)</b>    | <b>(1.528.298)</b> | <b>73.089</b>   | <b>(1.497.209)</b> |
| <b>Net Off –Balance Sheet Position</b>  | <b>(194.420)</b>   | <b>1.508.745</b>   | <b>(72.110)</b> | <b>1.242.215</b>   |
| Financial Derivative Assets   | 1.090.414          | 4.529.407          | 487.346         | 6.107.167          |
| Financial Derivative Liabilities  | (1.284.834)        | (3.020.662)        | (559.456)       | (4.864.952)        |
| Non-Cash Loans (7)  | 883.016            | 1.125.806          | 1.891           | 2.010.713          |

(1) Includes derivative financial assets amounting to TL 222.007. Exchange rate differences arising from derivative transactions amounting to TL 102.274 is deducted from "Financial Assets at Fair Value Through Profit and Loss".

(2) Loans include TL 1.837.965 foreign currency indexed loans, TL 133.929 financial lease receivables, TL 556.389 non-performing loans, and TL (121.093) credit-impaired losses (stage III / specific provision).

(3) Forward foreign exchange purchase transaction rediscounts amounting to TL 39, prepaid expenses amounting to TL 763, 12 months expected credit loss for other assets amounting to TL (891) are not included other assets.

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

(5) Derivative financial liabilities for hedging purposes has classified in line of derivative financial liabilities in financial statement.

(6) Marketable securities value increase fund amounting to TL (69.434), exchange rate differences arising from derivative transactions amounting to TL 96.182, forward foreign exchange purchase transaction rediscounts amounting to TL 5, and other provisions amounting to TL 10.292 have not been included in "Other Liabilities".

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



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

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

The Group is mostly exposed to Euro, US Dollars and other foreign currencies.

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

|           | Increase in Currency Rate | Effect on Profit / Loss (1) |              | Effect on Equity (2) |              |
|-----------|---------------------------|-----------------------------|--------------|----------------------|--------------|
|           |                           | Current Period              | Prior Period | Current Period       | Prior Period |
| US Dollar | 10                        | (9.715)                     | (2.555)      | 544                  | 600          |
| Euro      | 10                        | (11.842)                    | (23.808)     | 31                   | 166          |
| Other     | 10                        | 111                         | 98           | -                    | -            |

|           | Decrease in Currency Rate | Effect on Profit / Loss (1) |              | Effect on Equity (2) |              |
|-----------|---------------------------|-----------------------------|--------------|----------------------|--------------|
|           |                           | Current Period              | Prior Period | Current Period       | Prior Period |
| 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.

**IV. Explanations related to consolidated interest rate risk**

Interest rate sensitivity of the assets, liabilities and off-balance sheet items are measured by the Parent Bank. General and specific interest rate risk tables in the standard method, by including assets and liabilities, are taken into account in determination of the Capital Adequacy Standard Ratio and to calculate the overall interest rate risk of the Parent Bank.

Forecast results which have been formed using estimation-simulation reports are prepared and then the effects of fluctuations in interest rates are evaluated with sensitivity and scenario analyzes. Cash requirement for every maturity period are determined based on maturity distribution analysis (Gap). In addition, a positive spread between the yield on assets and the cost of liabilities is kept while determining interest rates.

The amount of local borrowings is very low considering the total liabilities of the Parent Bank. As the Parent Bank is a development and investment bank, it obtains most of the funding from abroad.

The fluctuations in interest rates are controlled with interest rate risk tables, gap analysis, scenario analysis and stress tests, its effect in assets and liabilities and the probable changes in cash flows are being screened. The Parent Bank screens many risk control ratio including the markets risk ratio to the sum of risk weighted assets and the ratio of the value at risk calculated as per the internal model to the equity.

Under the scope of risk policies, continuous controls are made to prevent assets or shareholders' equity from adverse effects because of fluctuations in interest rates or liquidity difficulties and top management, the Board of Directors and the Audit Committee are informed of these risks.



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

**IV. Explanations related to consolidated interest rate risk (continued)**

*Information related to the interest rate sensitivity of assets, liabilities and off-balance sheet items*

| Current Period   | Up to 1 Month    | 1-3 Months         | 3-12 Months       | 1-5 Years          | 5 Years and Over | Non-interest bearing (1) | Total (2)          |
|--|------------------|--------------------|-------------------|--------------------|------------------|--------------------------|--------------------|
| <b>Assets</b>  |                  |                    |                   |                    |                  |                          |                    |
| Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Checks Purchased) and Balances with the Central Bank of Turkey | 423.408          | -                  | -                 | -                  | -                | 319.577                  | 742.985            |
| Banks (2)  | 659.844          | 90.342             | -                 | -                  | -                | 56.811                   | 806.997            |
| Financial Assets at Fair Value Through Profit and Loss (3)   | 284.565          | 438.541            | 212.485           | 52.037             | -                | 1.452                    | 989.080            |
| Money Market Placements (2)  | 358.064          | 170.576            | 44.950            | -                  | -                | -                        | 573.590            |
| Available-for-Sale Financial Assets (2)  | 131.914          | 92.670             | 1.341.530         | 1.538.414          | 221.517          | 94.025                   | 3.420.070          |
| Loans (2)  | 5.553.655        | 6.842.331          | 9.081.972         | 5.423.543          | 942.241          | -                        | 27.843.742         |
| Held-to-Maturity Investments (2)   | 311.618          | 904.733            | 672.132           | -                  | 264.830          | -                        | 2.153.313          |
| Other Assets (2)   | -                | -                  | -                 | -                  | -                | 1.739.663                | 1.739.663          |
| <b>Total Assets</b>  | <b>7.723.068</b> | <b>8.539.193</b>   | <b>11.353.069</b> | <b>7.013.994</b>   | <b>1.428.588</b> | <b>2.211.528</b>         | <b>38.269.440</b>  |
| <b>Liabilities</b>   |                  |                    |                   |                    |                  |                          |                    |
| Bank Deposits  | -                | -                  | -                 | -                  | -                | -                        | -                  |
| Other Deposits   | -                | -                  | -                 | -                  | -                | -                        | -                  |
| Money Market Borrowings  | 402.184          | 94                 | -                 | -                  | -                | -                        | 402.278            |
| Miscellaneous Payables   | -                | -                  | -                 | -                  | -                | 65.568                   | 65.568             |
| Marketable Securities Issued (4)   | -                | -                  | 1.797.030         | 6.701.933          | -                | -                        | 8.498.963          |
| Funds Provided from Other Financial Institutions   | 4.365.770        | 8.445.071          | 4.753.669         | 3.985.813          | 2.269.347        | -                        | 23.819.670         |
| Other Liabilities (5)  | 232.024          | 262.990            | 284.877           | 45.164             | -                | 4.657.906                | 5.482.961          |
| <b>Total Liabilities</b>   | <b>4.999.978</b> | <b>8.708.155</b>   | <b>6.835.576</b>  | <b>10.732.910</b>  | <b>2.269.347</b> | <b>4.723.474</b>         | <b>38.269.440</b>  |
| <b>Balance Sheet Long Position</b>   | <b>2.723.090</b> | <b>-</b>           | <b>4.517.493</b>  | <b>-</b>           | <b>-</b>         | <b>-</b>                 | <b>7.240.583</b>   |
| <b>Balance Sheet Short Position</b>  | <b>-</b>         | <b>(168.962)</b>   | <b>-</b>          | <b>(3.718.916)</b> | <b>(840.759)</b> | <b>(2.511.946)</b>       | <b>(7.240.583)</b> |
| Off-Balance Sheet Long Position  | 2.024            | 2.235              | -                 | 6.677.488          | 541.315          | -                        | 7.223.062          |
| Off-Balance Sheet Short Position   | (1.718.241)      | (1.897.660)        | (3.335.297)       | -                  | -                | -                        | (6.951.198)        |
| <b>Total Position</b>  | <b>1.006.873</b> | <b>(2.064.387)</b> | <b>1.182.196</b>  | <b>2.958.572</b>   | <b>(299.444)</b> | <b>(2.511.946)</b>       | <b>271.864</b>     |

*(based on repricing dates)*

- (1) Amounts in investments in associates and subsidiaries, deferred tax asset, tangible and intangible assets, other assets, other miscellaneous liabilities, shareholders' equity, provisions and tax liability are presented in non-interest bearing column, in order to reconcile the total assets and liabilities on the balance sheet.
- (2) Cash and balances with the Central Bank of Turkey amounting TL 243, banks amounting to TL 234, money market placements amounting to TL 23, financial assets at fair value through other comprehensive income amounting to TL 243, loans and financial leasing receivables amounting to TL 346.677, financial asset measured at amortized cost amounting to TL 1.628, and other assets amounting to TL 1.322 are shown with expected credit loss by offsetting.
- (3) Includes derivative financial assets amounting to TL 979.221 in financial statement.
- (4) Includes Tier 2 subordinated bonds which are classified on the balance sheet as subordinated loans.
- (5) Borrower funds amounting to TL 32.529 are presented in "Other Liabilities" within 1-month maturity column.



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**IV. Explanations related to consolidated interest rate risk (continued)**

*Information related to the interest rate sensitivity of assets, liabilities and off-balance sheet items (based on repricing dates)*

| Prior Period   | 1 Month          | 1-3 Months       | 3-12 Months      | 1-5 Years          | 5 Years and Over   | Non-interest bearing (1) | Total              |
|--|------------------|------------------|------------------|--------------------|--------------------|--------------------------|--------------------|
| <b>Assets</b>  |                  |                  |                  |                    |                    |                          |                    |
| Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Checks Purchased) and Balances with the Central Bank of Turkey | 420.135          | -                | -                | -                  | -                  | 427.000                  | 847.135            |
| Banks  | 279.626          | 194.572          | -                | -                  | -                  | 19.489                   | 493.687            |
| Financial Assets at Fair Value Through Profit and Loss   | 74.832           | 148.151          | 83.756           | 28.334             | -                  | 1.020                    | 336.093            |
| Money Market Placements  | 3                | -                | -                | -                  | -                  | -                        | 3                  |
| Available-for-Sale Financial Assets  | 88.570           | 155.606          | 1.047.061        | 971.432            | 755.623            | 73.080                   | 3.091.372          |
| Loans  | 3.493.798        | 6.649.087        | 8.107.041        | 3.372.960          | 714.344            | -                        | 22.337.230         |
| Held-to-Maturity Investments   | 201.806          | 723.091          | 409.824          | -                  | 197.326            | -                        | 1.532.047          |
| Other Assets   | 1.851            | -                | 3.861            | 46.593             | 11.105             | 1.216.659                | 1.280.069          |
| <b>Total Assets</b>  | <b>4.560.621</b> | <b>7.870.507</b> | <b>9.651.543</b> | <b>4.419.319</b>   | <b>1.678.398</b>   | <b>1.737.248</b>         | <b>29.917.636</b>  |
| <b>Liabilities</b>   |                  |                  |                  |                    |                    |                          |                    |
| Bank Deposits  | -                | -                | -                | -                  | -                  | -                        | -                  |
| Other Deposits   | -                | -                | -                | -                  | -                  | -                        | -                  |
| Money Market Borrowings  | 1.277.713        | 87               | 34.122           | -                  | -                  | -                        | 1.311.922          |
| Miscellaneous Payables   | -                | -                | -                | -                  | -                  | 75.095                   | 75.095             |
| Marketable Securities Issued (2)   | -                | -                | -                | 3.746.229          | 1.146.236          | -                        | 4.892.465          |
| Funds Provided from Other Financial Institutions   | 3.922.001        | 6.507.042        | 4.065.817        | 2.343.537          | 2.163.230          | -                        | 19.001.627         |
| Other Liabilities (3)  | 44.825           | 128.938          | 98.428           | 46.791             | 5.004              | 4.312.541                | 4.636.527          |
| <b>Total Liabilities</b>   | <b>5.244.539</b> | <b>6.636.067</b> | <b>4.198.367</b> | <b>6.136.557</b>   | <b>3.314.470</b>   | <b>4.387.636</b>         | <b>29.917.636</b>  |
| <b>Balance Sheet Long Position</b>   | <b>-</b>         | <b>1.234.440</b> | <b>5.453.176</b> | <b>-</b>           | <b>-</b>           | <b>-</b>                 | <b>6.687.616</b>   |
| <b>Balance Sheet Short Position</b>  | <b>(683.918)</b> | <b>-</b>         | <b>-</b>         | <b>(1.717.238)</b> | <b>(1.636.072)</b> | <b>(2.650.388)</b>       | <b>(6.687.616)</b> |
| Off-Balance Sheet Long Position  | -                | -                | -                | 4.878.400          | 412.774            | -                        | 5.291.174          |
| Off-Balance Sheet Short Position   | 35.614           | (1.508.556)      | (3.750.901)      | -                  | -                  | -                        | (5.223.843)        |
| <b>Total Position</b>  | <b>(648.304)</b> | <b>(274.116)</b> | <b>1.702.275</b> | <b>3.161.162</b>   | <b>(1.223.298)</b> | <b>(2.650.388)</b>       | <b>67.331</b>      |

(1) Amounts in investments in associates and subsidiaries, deferred tax asset, tangible and intangible assets, other assets, other miscellaneous liabilities and shareholders' equity, provisions, and tax liability are presented in non-interest bearing column, in order to reconcile the total assets and liabilities on the balance sheet.

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

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



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**IV. Explanations related to consolidated interest rate risk (continued)**

*Average interest rates applied to monetary financial instruments: %*

|  | <b>Euro</b> | <b>US Dollar</b> | <b>Yen</b> | <b>TL</b> |
|--|-------------|------------------|------------|-----------|
| <b>Current Period</b>  |             |                  |            |           |
| <b>Assets</b>  |             |                  |            |           |
| Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Checks Purchased) and Balances with the Central Bank of Turkey | -           | 2,10             | -          | 11,35     |
| Banks  | 2,90        | 2,30             | -          | 22,92     |
| Financial Assets at Fair Value Through Profit and Loss   | -           | -                | -          | 27,62     |
| Money Market Placements  | -           | -                | -          | 24,59     |
| Available-for-Sale Financial Assets  | 5,62        | 4,32             | -          | 16,94     |
| Loans  | 4,49        | 7,46             | -          | 19,10     |
| Held-to-Maturity Investments   | -           | 6,77             | -          | 16,76     |
| <b>Liabilities</b>   |             |                  |            |           |
| Bank Deposits  | -           | -                | -          | -         |
| Other Deposits   | -           | -                | -          | -         |
| Money Market Borrowings  | 0,75        | 1,50             | -          | 22,59     |
| Miscellaneous Payables   | -           | -                | -          | -         |
| Marketable Securities Issued (1)   | -           | 5,71             | -          | -         |
| Borrower Funds   | 0,75        | 1,50             | -          | 15,00     |
| Funds Provided From Other Financial Institutions   | 1,07        | 3,29             | -          | 10,30     |

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



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**IV. Explanations related to consolidated interest rate risk (continued)**

*Average interest rates applied to monetary financial instruments in prior period: %*

|  | <b>Euro</b> | <b>US Dollar</b> | <b>Yen</b> | <b>TL</b> |
|--|-------------|------------------|------------|-----------|
| <b>Prior Period</b>  |             |                  |            |           |
| <b>Assets</b>  |             |                  |            |           |
| Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Checks Purchased) and Balances with the Central Bank of Turkey | -           | 1,43             | -          | 3,48      |
| Banks  | 1,00        | -                | -          | 15,47     |
| Financial Assets at Fair Value Through Profit and Loss   | -           | -                | -          | 14,90     |
| Money Market Placements  | -           | -                | -          | 11,01     |
| Available-for-Sale Financial Assets  | 5,61        | 4,55             | -          | 11,71     |
| Loans  | 4,00        | 6,16             | -          | 14,90     |
| Held-to-Maturity Investments   | -           | 5,59             | -          | 11,69     |
| <b>Liabilities</b>   |             |                  |            |           |
| Bank Deposits  | -           | -                | -          | -         |
| Other Deposits   | -           | -                | -          | -         |
| Money Market Borrowings  | 0,28        | 0,50             | -          | 12,98     |
| Miscellaneous Payables   | -           | -                | -          | -         |
| Marketable Securities Issued   | -           | 5,71             | -          | -         |
| Borrower Funds   | 0,25        | 0,50             | -          | 8,00      |
| Funds Provided From Other Financial Institutions   | 1,01        | 2,37             | -          | 7,74      |

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

The Group is exposed to equity shares risk arising from investments on firms traded in Borsa Istanbul (BIST). Share certificate investments are almost used for trading purpose. However, these investments are not actively bought/sold by the Group. The Group classified its share certificate investments both as available for sale and as trading securities and net profit/loss of the Group is not affected unless the Group sell share certificates in portfolio of available for sale.

*Equity shares risk due from banking book*

Below is the comparison table of the Group's share certificate instruments' book value, fair value and market value.

| <b>Current Period</b>                | <b>Comparison</b> |                   |                     |
|--------------------------------------|-------------------|-------------------|---------------------|
| <b>Share Certificate Investments</b> | <b>Book Value</b> | <b>Fair Value</b> | <b>Market Value</b> |
| <b>Investment in Shares-Grade A</b>  | <b>373.145</b>    | <b>-</b>          | <b>980.592</b>      |
| Quoted                               | 373.145           | -                 | 980.592             |

| <b>Prior Period</b>                  | <b>Comparison</b> |                   |                     |
|--------------------------------------|-------------------|-------------------|---------------------|
| <b>Share Certificate Investments</b> | <b>Book Value</b> | <b>Fair Value</b> | <b>Market Value</b> |
| <b>Investment in Shares-Grade A</b>  | <b>301.878</b>    | <b>-</b>          | <b>314.891</b>      |
| Quoted                               | 301.878           | -                 | 314.891             |



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

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

On the basis of the following table, private equity investments in sufficiently diversified portfolios, type and amount of other risks, cumulative realized gains and losses arising from selling and liquidation in the current period, total unrealized gains and losses, total revaluation increases of trading positions on stock market and their amount that included to core capital and supplementary capital are shown.

| Current Period                                   | Realized<br>Revenues and<br>Losses in Period | Revaluation Value<br>Increases |                             | Unrealized Gains and Losses |                                |   |
|--|--|--------------------------------|-----------------------------|-----------------------------|--------------------------------|---|
| Portfolio  |  | Total                          | Included in<br>Core Capital | Total                       | Included<br>in Core<br>Capital | Included in<br>Supplementary<br>Capital |
| Private Equity Investments                       | -  | -                              | -                           | -                           | -                              | -                                       |
| Share Certificates Quoted on<br>a Stock Exchange | -  | (456)                          | (456)                       | -                           | -                              | -                                       |
| Other Share Certificates                         | -  | 40.468                         | 40.468                      | -                           | -                              | -                                       |
| <b>Total</b>                                     | -  | <b>40.012</b>                  | <b>40.012</b>               | -                           | -                              | -                                       |

| Prior Period                                     | Realized<br>Revenues and<br>Losses in Period | Revaluation Value<br>Increases |                             | Unrealized Gains and Losses |                                |   |
|--|--|--------------------------------|-----------------------------|-----------------------------|--------------------------------|---|
| Portfolio  |  | Total                          | Included in<br>Core Capital | Total                       | Included<br>in Core<br>Capital | Included in<br>Supplementary<br>Capital |
| Private Equity Investments                       | -  | -                              | -                           | -                           | -                              | -                                       |
| Share Certificates Quoted on<br>a Stock Exchange | -  | 75                             | 75                          | -                           | -                              | -                                       |
| Other Share Certificates                         | -  | 12.634                         | 12.634                      | -                           | -                              | -                                       |
| <b>Total</b>                                     | -  | <b>12.709</b>                  | <b>12.709</b>               | -                           | -                              | -                                       |



**SECTION FOUR (Continued)**

**INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT**  
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**VI. Consolidated liquidity risk management and coverage ratio**

**1. Explanations related to the consolidated liquidity risk**

**1.a Information about the governance of consolidated liquidity risk management, including: risk tolerance; structure and responsibilities for consolidated liquidity risk management; internal consolidated liquidity reporting; and communication of consolidated liquidity risk strategy, policies and practices across business lines and with the board of directors**

Liquidity risk management is conducted by Treasury Department in line with the strategies set by Asset and Liability Committee within the limits and policies approved by Board of Directors, and is monitored and controlled through reportings from Risk Management, Budget Planning and Financial Control Departments to Audit Committee, Board of Directors, Senior Management and relevant departments. The Bank's liquidity risk capacity is determined by the Bank's internal limits and the regulations on liquidity coverage ratio and liquidity adequacy. Regarding its risk appetite, in addition to legal limits, the Bank also applies internal limits for monitoring and controlling the liquidity risk.

Considering the Bank's strategies and competitive conditions, Asset and Liability Committee has the responsibility of taking the relevant decisions regarding optimal balance sheet management of the Bank, and monitoring the implementations. Treasury Department performs cash position management within the framework of the decisions taken at Asset and Liability Committee meetings. The Risk Management Department reports to the Board of Directors and the Asset and Liability Committee regarding liquidity risk within the scope of internal limits and legal regulations. Additionally, liquidity stress tests are performed based on various scenarios and reported with their impact on legal limit utilization. Treasury Control Unit under the Budget Planning and Investor Relations Department also makes cash flow projection reportings to the Treasury Department and the Asset Liability Committee at certain periods and when needed.

**1.b Information on the centralization degree of consolidated liquidity management and funding strategy and the functioning between the Parent Bank and the Parent Bank's subsidiaries**

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

**1.c Information on the Parent Bank's funding strategy including the policies on funding types and variety of maturities**

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

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

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



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**INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT**  
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**VI. Consolidated liquidity risk management and coverage ratio (continued)**

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

**1.d Information on consolidated liquidity risk mitigation techniques:**

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

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

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

**1.f General information on urgent and unexpected consolidated liquidity situation plans:**

There is a Contingency Funding Plan for the contingent periods that arises beyond the Parent Bank's control. In a potential liquidity shortfall, Treasury Department is responsible from assessment, taking relevant actions and informing Parent Bank's Asset and Liability Committee. In contingent cases, to identify the liquidity risk arising, cashflow projections and funding requirement estimations are exercised based on various scenarios. To assess the stress scenarios, cashflow in terms of local currency is monitored regularly by Treasury Department. Scenario analysis on the Parent Bank's unencumbered sources are conducted daily. Transaction limits for organized markets are monitored timely and essential collateral amount to trade in those markets is withheld at hand. Repo transactions and/or available for sale portfolio securities in local and foreign currency that are major funding sources in shortfall periods for the Parent Bank are monitored consistently. In contingent periods outflows due to the irrevocable commitments, contingencies and derivative transactions can be deferred temporarily in a way that won't hurt the Bank's reputation. TSKB has the optionality of choosing one or more of the following for meeting its liquidity requirement that are selling liquid assets off, increasing short term borrowing, decreasing illiquid assets, increasing capital.



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**VI. Consolidated liquidity risk management and coverage ratio (continued)**

**2. Consolidated Liquidity Coverage Ratio**

According to regulations which is published on 28948 numbered gazette on 21 March 2014 related to calculation of liquidity coverage ratio of banks, calculated liquidity coverage ratios are shown below. Including the reporting period for the last three months consolidated foreign currency and total liquidity coverage ratio and consolidated foreign currency and total liquidity coverage ratio's minimum and maximum levels are shown below by specified thereby weekly.

|   | Rate of "Percentage to be taken into account" not Implemented Total value |                  | Rate of "Percentage to be taken into account" Implemented Total value |                  |
|---|---|------------------|---|------------------|
|   | TL+FC   | FC               | TL+FC   | FC               |
| <b>Current Period</b>   |   |                  |   |                  |
| <b>HIGH QUALITY LIQUID ASSETS (HQLA)</b>  |   |                  |   |                  |
| 1 High quality liquid assets  |   |                  | 3.725.887   | 1.235.099        |
| <b>CASH OUTFLOWS</b>  |   |                  |   |                  |
| 2 Retail and Customers Deposits   | 37  | 8                | 4   | 1                |
| 3 Stable deposits   | -   | -                | -   | -                |
| 4 Less stable deposits  | 37  | 8                | 4   | 1                |
| 5 Unsecured Funding other than Retail and Small Business Customers Deposits                                 | 1.519.701   | 758.594          | 1.318.314   | 564.669          |
| 6 Operational deposits  | 49.366  | 39.616           | 12.341  | 9.904            |
| 7 Non-Operational Deposits  | -   | -                | -   | -                |
| 8 Other Unsecured Funding   | 1.470.335   | 718.978          | 1.305.973   | 554.765          |
| 9 Secured funding   |   |                  | -   | -                |
| 10 Other Cash Outflows  | 953.824   | 1.268.703        | 953.824   | 1.268.703        |
| 11 Liquidity needs related to derivatives and market valuation changes on derivatives transactions          | 790.111   | 1.104.990        | 790.111   | 1.104.990        |
| 12 Debts related to the structured financial products   | -   | -                | -   | -                |
| 13 Commitment related to debts to financial markets and other off balance sheet liabilities                 | 163.713   | 163.713          | 163.713   | 163.713          |
| 14 Commitments that are unconditionally revocable at any time by the Bank and other contractual commitments | 16.329.005  | 13.187.181       | 816.450   | 659.359          |
| 15 Other irrevocable or conditionally revocable commitments   | 7.625.905   | 5.868.830        | 1.152.249   | 667.446          |
| 16 <b>TOTAL CASH OUTFLOWS</b>   |   |                  | <b>4.240.841</b>  | <b>3.160.178</b> |
| <b>CASH INFLOWS</b>   |   |                  |   |                  |
| 17 Secured Lending Transactions   | 491   | -                | -   | -                |
| 18 Unsecured Lending Transactions   | 3.441.545   | 1.736.736        | 2.742.901   | 1.268.912        |
| 19 Other contractual cash inflows   | 78.475  | 1.560.514        | 78.475  | 1.560.514        |
| 20 <b>TOTAL CASH INFLOWS</b>  | <b>3.520.511</b>  | <b>3.297.250</b> | <b>2.821.376</b>  | <b>2.829.426</b> |
|   |   |                  | Üst Sınır Uygulanmış Değerler   |                  |
| 21 <b>TOTAL HQLA STOCK</b>  |   |                  | <b>3.725.887</b>  | <b>1.235.099</b> |
| 22 <b>TOTAL NET CASH OUTFLOWS</b>   |   |                  | <b>1.419.465</b>  | <b>790.045</b>   |
| 23 <b>Liquidity Coverage Ratio (%)</b>  |   |                  | <b>262</b>  | <b>156</b>       |



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**VI. Consolidated liquidity risk management and coverage ratio (continued)**

**2. Consolidated Liquidity Coverage Ratio (continued):**

|                                   |  | Rate of “Percentage to be taken into account” not Implemented Total value |           | Rate of “Percentage to be taken into account” Implemented Total value |           |
|-----------------------------------|--|---|-----------|---|-----------|
|                                   |  | TL+FC   | FC        | TL+FC   | FC        |
| Prior Period                      |  |   |           |   |           |
| HIGH QUALITY LIQUID ASSETS (HQLA) |  |   |           |   |           |
| 1                                 | High quality liquid assets   |   |           | 2.334.272   | 977.670   |
| CASH OUTFLOWS                     |  |   |           |   |           |
| 2                                 | Retail and Customers Deposits  | 40  | 7         | 13  | 3         |
| 3                                 | Stable deposits  | -   | -         | -   | -         |
| 4                                 | Less stable deposits   | 40  | 7         | 13  | 3         |
| 5                                 | Unsecured Funding other than Retail and Small Business Customers Deposits                                | 1.782.191   | 764.625   | 1.437.070   | 550.440   |
| 6                                 | Operational deposits   | 39.136  | 35.159    | 9.784   | 8.790     |
| 7                                 | Non-Operational Deposits   | -   | -         | -   | -         |
| 8                                 | Other Unsecured Funding  | 1.743.055   | 729.466   | 1.427.286   | 541.650   |
| 9                                 | Secured funding  |   |           | -   | -         |
| 10                                | Other Cash Outflows  | 1.400.848   | 809.493   | 1.400.848   | 809.493   |
| 11                                | Liquidity needs related to derivatives and market valuation changes on derivatives transactions          | 1.400.848   | 809.493   | 1.400.848   | 809.493   |
| 12                                | Debts related to the structured financial products   | -   | -         | -   | -         |
| 13                                | Commitment related to debts to financial markets and other off balance sheet liabilities                 | -   | -         | -   | -         |
| 14                                | Commitments that are unconditionally revocable at any time by the Bank and other contractual commitments | 6.963.447   | 5.415.996 | 348.172   | 270.800   |
| 15                                | Other irrevocable or conditionally revocable commitments   | 8.860.567   | 5.967.301 | 1.682.121   | 829.224   |
| 16                                | TOTAL CASH OUTFLOWS  |   |           | 4.868.224   | 2.459.960 |
| CASH INFLOWS                      |  |   |           |   |           |
| 17                                | Secured Lending Transactions   | 436   | -         | -   | -         |
| 18                                | Unsecured Lending Transactions   | 2.619.706   | 836.510   | 2.103.804   | 650.284   |
| 19                                | Other contractual cash inflows   | 1.375.296   | 1.294.475 | 1.375.296   | 1.294.475 |
| 20                                | TOTAL CASH INFLOWS   | 3.995.438   | 2.130.985 | 3.479.100   | 1.944.759 |
|                                   |  |   |           | Upper Limit Applied Amounts   |           |
| 21                                | TOTAL HQLA STOCK   |   |           | 2.334.272   | 977.670   |
| 22                                | TOTAL NET CASH OUTFLOWS  |   |           | 1.389.124   | 614.990   |
| 23                                | Liquidity Coverage Ratio (%)   |   |           | 168   | 159       |



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**VI. Consolidated liquidity risk management and coverage ratio (continued)**

**3. Minimum explanations related to the liquidity coverage ratio by Banks:**

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

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

Main funding source of the Parent Bank is long term loans attained from international financial institutions. The ratio of those loans in total funding is around 67%. The total ratio of the securities issued in purpose of funding diversification and loans attained through syndication loans in overall borrowing is 30%. 3% of the Parent Bank's total funding is provided from repurchase agreements.

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



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**VI. Consolidated liquidity risk management and coverage ratio (continued)**

*Presentation of assets and liabilities according to their remaining maturities*

|  | Demand           | Up to 1 Month    | 1-3 Months       | 3-12 Months      | 1-5 Years         | 5 Years and Over   | Undistributed (1)  | Total (2)         |
|--|------------------|------------------|------------------|------------------|-------------------|--------------------|--------------------|-------------------|
| <b>Current Period</b>  |                  |                  |                  |                  |                   |                    |                    |                   |
| <b>Assets</b>  |                  |                  |                  |                  |                   |                    |                    |                   |
| Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Checks Purchased) and Balances with the Central Bank of Turkey | 319.577          | 423.408          | -                | -                | -                 | -                  | -                  | 742.985           |
| Banks  | 56.811           | 659.844          | 90.342           | -                | -                 | -                  | -                  | 806.997           |
| Financial Assets at Fair Value Through Profit and Loss (3)   | 1.452            | 75.787           | 50.650           | 133.834          | 590.261           | 137.096            | -                  | 989.080           |
| Money Market Placements  | -                | 358.064          | 170.577          | 44.949           | -                 | -                  | -                  | 573.590           |
| Financial Assets Available-for-Sale  | -                | -                | 34.122           | 697.216          | 2.316.282         | 278.425            | 94.025             | 3.420.070         |
| Loans  | -                | 1.601.218        | 1.336.298        | 4.856.313        | 14.107.634        | 5.942.279          | -                  | 27.843.742        |
| Held-to-Maturity Investments   | -                | -                | 39.727           | 154.272          | 1.456.942         | 502.372            | -                  | 2.153.313         |
| Other Assets   | 12.438           | -                | -                | -                | -                 | -                  | 1.727.225          | 1.739.663         |
| <b>Total Assets</b>  | <b>390.278</b>   | <b>3.118.321</b> | <b>1.721.716</b> | <b>5.886.584</b> | <b>18.471.119</b> | <b>6.860.172</b>   | <b>1.821.250</b>   | <b>38.269.440</b> |
| <b>Liabilities</b>   |                  |                  |                  |                  |                   |                    |                    |                   |
| Bank Deposits  | -                | -                | -                | -                | -                 | -                  | -                  | -                 |
| Other Deposits   | -                | -                | -                | -                | -                 | -                  | -                  | -                 |
| Funds Provided from Other Financial Institutions   | -                | 219.956          | 378.133          | 3.193.322        | 10.569.989        | 9.458.270          | -                  | 23.819.670        |
| Money Market Borrowings  | -                | 402.184          | 94               | -                | -                 | -                  | -                  | 402.278           |
| Marketable Securities Issued (4)   | -                | -                | -                | 1.797.030        | 6.701.933         | -                  | -                  | 8.498.963         |
| Miscellaneous Payables   | -                | -                | -                | -                | -                 | -                  | 65.568             | 65.568            |
| Other Liabilities (5)  | -                | 137.639          | 53.199           | 98.969           | 432.975           | 102.273            | 4.657.906          | 5.482.961         |
| <b>Total Liabilities</b>   | <b>-</b>         | <b>759.779</b>   | <b>431.426</b>   | <b>5.089.321</b> | <b>17.704.897</b> | <b>9.560.543</b>   | <b>4.723.474</b>   | <b>38.269.440</b> |
| <b>Liquidity Gap</b>   | <b>390.278</b>   | <b>2.358.542</b> | <b>1.290.290</b> | <b>797.263</b>   | <b>766.222</b>    | <b>(2.700.371)</b> | <b>(2.902.224)</b> | <b>-</b>          |
| Net Off-balance sheet Position   | -                | (47.884)         | (7.756)          | 23.591           | 286.659           | 15.232             | -                  | 269.842           |
| Financial Derivative Assets  | -                | 3.662.503        | 2.206.118        | 4.378.824        | 12.035.187        | 7.121.613          | -                  | 29.404.245        |
| Financial Derivative Liabilities   | -                | 3.710.387        | 2.213.874        | 4.355.233        | 11.748.528        | 7.106.381          | -                  | 29.134.403        |
| Non-cash Loans (6)   | -                | 117.206          | 149.450          | 1.331.212        | 249.706           | 840.965            | 485.268            | 3.173.807         |
| <b>Prior Period</b>  |                  |                  |                  |                  |                   |                    |                    |                   |
| Total Assets   | 1.017.046        | 1.679.546        | 1.634.360        | 5.223.318        | 13.197.992        | 6.445.172          | 720.202            | 29.917.636        |
| Total Liabilities  | -                | 1.576.361        | 385.050          | 3.108.749        | 11.593.779        | 8.866.061          | 4.387.636          | 29.917.636        |
| <b>Liquidity Gap</b>   | <b>1.017.046</b> | <b>103.185</b>   | <b>1.249.310</b> | <b>2.114.569</b> | <b>1.604.213</b>  | <b>(2.420.889)</b> | <b>(3.667.434)</b> | <b>-</b>          |
| <b>Net Off-balance sheet Position</b>  | <b>-</b>         | <b>(19.773)</b>  | <b>527</b>       | <b>316</b>       | <b>81.569</b>     | <b>4.692</b>       | <b>-</b>           | <b>67.331</b>     |
| Financial Derivative Assets  | -                | 1.397.780        | 2.836.475        | 2.775.523        | 8.614.737         | 4.586.490          | -                  | 20.211.005        |
| Financial Derivative Liabilities   | -                | 1.417.553        | 2.835.948        | 2.775.207        | 8.533.168         | 4.581.798          | -                  | 20.143.674        |
| Non-cash Loans (6)   | -                | 46.294           | 268.206          | 843.606          | 621.648           | 771.147            | 22.810             | 2.573.711         |

(1) Other assets and shareholders' equity, provisions and tax liability, which are necessary and cannot be converted into cash in the near future for the Bank's ongoing activities, such as tangible and intangible assets, deferred tax asset, other miscellaneous receivables, investments in subsidiaries and associates, entities under common control, office supply inventory, prepaid expenses and non-performing loans are classified under "Undistributed" column.

(2) Cash and balances with the Central Bank of Turkey amounting to TL 243, banks amounting to TL 234, money market placements amounting to TL 23, financial assets at fair value through other comprehensive income amounting to TL 243, loans and financial leasing receivables amounting to TL 346.677, financial asset measured at amortized cost amounting to TL 1.628, other assets amounting to TL 1.322 are shown in expected credit loss by offsetting.

(3) Includes derivative financial assets amounting to TL 979.921 in financial statement.

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

(5) Borrower funds amounting to TL 32.529 are presented in "Other Liabilities" within 1-month maturity column.

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



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**INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT**  
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**VI. Consolidated liquidity risk management and coverage ratio (continued)**

*Analysis of financial liabilities by remaining contractual maturities*

In compliance with the Turkish Financial Reporting Standard No.7, the following table indicates the maturities of the Group's major financial liabilities which are not qualified as derivatives. The following tables have been prepared by referencing the earliest dates of capital outflows without discounting the financial liabilities.

| <b>Current Period</b>                            | <b>Up to 1 Month</b> | <b>1-3 Months</b> | <b>3-12 Months</b> | <b>1-5 Years</b>  | <b>Over 5 Years</b> | <b>Adjustments</b> | <b>Total</b>      |
|--|----------------------|-------------------|--------------------|-------------------|---------------------|--------------------|-------------------|
| <b>Liabilities</b>                               |                      |                   |                    |                   |                     |                    |                   |
| Funds Provided from Other Financial Institutions | 250.750              | 473.529           | 3.564.137          | 11.932.773        | 10.745.190          | (3.146.709)        | 23.819.670        |
| Money Market Borrowings                          | 402.220              | 97                | -                  | -                 | -                   | (39)               | 402.278           |
| Marketable Securities Issued                     | 49.424               | 58.732            | 2.169.217          | 7.473.832         | -                   | (1.252.242)        | 8.498.963         |
| Funds  | 32.529               | -                 | -                  | -                 | -                   | -                  | 32.529            |
| <b>Total</b>                                     | <b>734.923</b>       | <b>532.358</b>    | <b>5.733.354</b>   | <b>19.406.605</b> | <b>10.745.190</b>   | <b>(4.398.990)</b> | <b>32.753.440</b> |

| <b>Prior Period</b>                              | <b>Up to 1 Month</b> | <b>1-3 Months</b> | <b>3-12 Months</b> | <b>1-5 Years</b>  | <b>Over 5 Years</b> | <b>Adjustments</b> | <b>Total</b>      |
|--|----------------------|-------------------|--------------------|-------------------|---------------------|--------------------|-------------------|
| <b>Liabilities</b>                               |                      |                   |                    |                   |                     |                    |                   |
| Funds Provided from Other Financial Institutions | 218.189              | 384.059           | 3.267.276          | 8.525.381         | 8.343.922           | (1.737.200)        | 19.001.627        |
| Money Market Borrowings                          | 1.278.961            | 88                | 34.143             | -                 | -                   | (1.270)            | 1.311.922         |
| Funds  | -                    | 42.919            | 235.703            | 4.404.866         | 1.514.306           | (1.305.329)        | 4.892.465         |
| <b>Total</b>                                     | <b>12.901</b>        | <b>-</b>          | <b>-</b>           | <b>-</b>          | <b>-</b>            | <b>-</b>           | <b>12.901</b>     |
| <b>Prior Period</b>                              | <b>1.510.051</b>     | <b>427.066</b>    | <b>3.537.122</b>   | <b>12.930.247</b> | <b>9.858.228</b>    | <b>(3.043.799)</b> | <b>25.218.915</b> |

Analysis of contractual expiry by maturity of the Group's derivative financial instruments:

| <b>Current Period</b> | <b>Up to 1 Month</b> | <b>1-3 Months</b> | <b>3-12 Months</b> | <b>1-5 Years</b>  | <b>Over 5 Years</b> | <b>Total</b>      |
|-----------------------|----------------------|-------------------|--------------------|-------------------|---------------------|-------------------|
| Swap Contracts        | 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         |
| Futures Transactions  | -                    | -                 | -                  | -                 | -                   | -                 |
| Options               | 726.110              | 1.028.724         | 3.476.077          | 37.597            | -                   | 5.268.508         |
| Other                 | -                    | 13.401            | -                  | -                 | -                   | 13.401            |
| <b>Total</b>          | <b>7.372.889</b>     | <b>4.441.661</b>  | <b>8.712.387</b>   | <b>23.783.717</b> | <b>14.227.994</b>   | <b>58.538.648</b> |

| <b>Prior Period</b>  | <b>Up to 1 Month</b> | <b>1-3 Months</b> | <b>3-12 Months</b> | <b>1-5 Years</b>  | <b>Over 5 Years</b> | <b>Total</b>      |
|----------------------|----------------------|-------------------|--------------------|-------------------|---------------------|-------------------|
| Swap Contracts       | 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         |
| Futures Transactions | -                    | -                 | -                  | -                 | -                   | -                 |
| Options              | 391.076              | 2.209.193         | 2.051.703          | -                 | -                   | 4.651.972         |
| Other                | 72.830               | -                 | -                  | -                 | -                   | 72.830            |
| <b>Total</b>         | <b>2.815.330</b>     | <b>5.672.421</b>  | <b>5.550.733</b>   | <b>17.147.907</b> | <b>9.168.288</b>    | <b>40.354.679</b> |



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**INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT**  
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**VII. Explanations related to consolidated leverage ratio**

**a) Information about the consolidated leverage ratio between current and prior periods**

The table related to calculation of leverage ratio in accordance with the principles of the “Regulation on Measurement and Evaluation of Banks’ Leverage Level” which is published on the Official Gazette no.28812 dated 5 November 2013 is given below.

As of 31 December 2018, leverage ratio of the Bank calculated from the arithmetic average of the three months is 8,57% (31 December 2017: 9,83%). Leverage ratio is almost on the same level in the current and prior period. Total balance sheet assets decreased by 13% compare to prior period.

**b) Comparison table of total assets and total risk amounts in the financial statements prepared in accordance with TAS**

|          |   | Current Period    | Prior Period      |
|----------|---|-------------------|-------------------|
| <b>1</b> | Total Amount of Asset and Risk Situated in The Consolidated Financial Statements Prepared in Accordance with TAS (2)  | 36.040.264        | 29.857.351        |
| <b>2</b> | The difference between Total Amount of Asset in the Consolidated Financial Statements Prepared in Accordance with TAS and the Communiqué on Preparation of Consolidated Financial Statements of Banks (2)                 | (2.229.176)       | (60.388)          |
| <b>3</b> | The difference between total amount and total risk amount of derivative financial instruments with credit derivative in the Communiqué on Preparation of Consolidated Financial Statements of Banks (1)                   | (535.603)         | (312.337)         |
| <b>4</b> | The difference between total amount and total risk amount of risk investment securities or commodity collateral financing transactions in the Communiqué on Preparation of Consolidated Financial Statements of Banks (1) | 1.421.363         | 1.829.247         |
| <b>5</b> | The difference between total amount and total risk amount of off-balance sheet transactions in the Communiqué on Preparation of Consolidated Financial Statements of Banks (1)  | (2.294.016)       | (3.581.505)       |
| <b>6</b> | The other differences between amount of assets and risk in the Communiqué on Preparation of Consolidated Financial Statements of Banks (1)  | -                 | -                 |
| <b>7</b> | <b>Total Exposures (1)</b>  | <b>46.770.242</b> | <b>36.730.076</b> |

(1) The arithmetic average of the last 3 months in the related periods.

(2) The consolidated financial statements prepared in accordance with the sixth paragraph of the Article 5 in the Communiqué on Preparation of Consolidated Financial Statements of the Banks. 30 June 2018 figures used in this table for the current period due to consolidated financial statements prepared in accordance with TAS are not prepared as of the date of this report and 31 December 2017 figures used in this table for the prior period.

**c) Consolidated Leverage Ratio**

|           |  | Current Period(1) | Prior Period(1)   |
|-----------|--|-------------------|-------------------|
|           | <b>Balance sheet Assets</b>  |                   |                   |
| <b>1</b>  | Balance sheet assets (excluding derivative financial assets and credit derivatives, including collaterals)     | 39.226.657        | 30.429.254        |
| <b>2</b>  | (Assets deducted from Core capital)  | (40.829)          | (134.589)         |
| <b>3</b>  | Total risk amount of balance sheet assets (sum of lines 1 and 2)   | <b>39.185.828</b> | <b>30.294.665</b> |
|           | <b>Derivative financial assets and credit derivatives</b>  |                   |                   |
| <b>4</b>  | Cost of replenishment for derivative financial assets and credit derivatives                                   | 1.071.953         | 374.558           |
| <b>5</b>  | Potential credit risk amount of derivative financial assets and credit derivatives                             | 442.871           | 264.567           |
| <b>6</b>  | Total risk amount of derivative financial assets and credit derivatives (sum of lines 4 and 5)                 | <b>1.514.824</b>  | <b>639.125</b>    |
|           | <b>Financing transactions secured by marketable security or commodity</b>                                      |                   |                   |
| <b>7</b>  | Risk amount of financing transactions secured by marketable security or commodity                              | 474.260           | 507.764           |
| <b>8</b>  | Risk amount arising from intermediary transactions   | 114.299           | 77.417            |
| <b>9</b>  | Total risk amount of financing transactions secured by marketable security or commodity (sum of lines 7 and 8) | <b>588.559</b>    | <b>585.181</b>    |
|           | <b>Off-balance sheet transactions</b>  |                   |                   |
| <b>10</b> | Gross notional amount of off-balance sheet transactions  | 7.775.047         | 8.792.610         |
| <b>11</b> | (Correction amount due to multiplication with credit conversion rates)   | (2.294.016)       | (3.581.505)       |
| <b>12</b> | Total risk of off-balance sheet transactions (sum of lines 10 and 11)  | <b>5.481.031</b>  | <b>5.211.105</b>  |
|           | <b>Capital and total risk</b>  |                   |                   |
| <b>13</b> | Core Capital   | 4.009.392         | 3.610.277         |
| <b>14</b> | Total risk amount (sum of lines 3, 6, 9 and 12)  | 46.770.242        | 36.730.076        |
|           | <b>Leverage ratio</b>  |                   |                   |
| <b>15</b> | Leverage ratio   | <b>8,57%</b>      | <b>9,83%</b>      |

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



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**VIII. Explanations related to presentation of financial assets and liabilities at fair value**

The table below shows the carrying and fair values of the financial assets and liabilities in the consolidated financial statements of the Group.

|  | <b>Carrying Value</b> | <b>Fair Value</b>     |
|--|-----------------------|-----------------------|
|  | <b>Current Period</b> | <b>Current Period</b> |
| <b>Financial Assets</b>                              | <b>34.718.796</b>     | <b>34.631.596</b>     |
| Money Market Placements                              | 573.613               | 573.613               |
| Banks  | 807.231               | 807.231               |
| Available-For-Sale Financial Assets                  | 3.420.313             | 3.420.313             |
| Held-To-Maturity Investments                         | 2.154.941             | 2.033.904             |
| Loans (1)  | 27.762.698            | 27.796.535            |
| <b>Financial Liabilities</b>                         | <b>32.819.009</b>     | <b>31.991.474</b>     |
| Bank Deposits  | -                     | -                     |
| Other Deposits                                       | -                     | -                     |
| Funds Provided From Other Financial Institutions (3) | 24.254.477            | 24.254.477            |
| Marketable Securities Issued (2)                     | 8.498.963             | 7.671.428             |
| Miscellaneous Payables                               | 65.569                | 65.569                |

(4) Loans include financial lease receivables.

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

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

|  | <b>Carrying Value</b> | <b>Fair Value</b>   |
|--|-----------------------|---------------------|
|  | <b>Prior Period</b>   | <b>Prior Period</b> |
| <b>Financial Assets</b>                              | <b>27.517.749</b>     | <b>27.669.243</b>   |
| Money Market Placements                              | 3                     | 3                   |
| Banks  | 493.687               | 493.687             |
| Available-For-Sale Financial Assets                  | 3.091.372             | 3.091.372           |
| Held-To-Maturity Investments                         | 1.532.047             | 1.528.305           |
| Loans (1)  | 22.400.640            | 22.555.876          |
| <b>Financial Liabilities</b>                         | <b>25.294.010</b>     | <b>25.310.808</b>   |
| Bank Deposits  | -                     | -                   |
| Other Deposits                                       | -                     | -                   |
| Funds Provided From Other Financial Institutions (3) | 20.326.450            | 20.326.450          |
| Marketable Securities Issued (2)                     | 4.892.465             | 4.909.263           |
| Miscellaneous Payables                               | 75.095                | 75.095              |

(1) Loans include financial lease receivables.

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

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

The methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements:

**i-** For the fair value calculation of loans, the prevailing interest rates as of the reporting date were used.

**ii-** For the fair value calculation of the balances with banks, the prevailing interest rates as of the reporting date were used.

**iii-** For the fair value calculation of held-to-maturity investments, quoted prices as of the reporting date were used.



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**VIII. Explanations related to presentation of financial assets and liabilities at fair value (continued)**

**iv-** For the fair value calculation of marketable securities, market prices as of the reporting date were used.

The following table shows an analysis of financial instruments recorded at fair value, between those whose fair value is recorded on quoted market prices, those involving valuation techniques where all model inputs are observable in the market and, those where the valuation techniques involves the use of non observable inputs.

The table below analyses financial instruments carried at fair value, by valuation method.

- a) Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- b) Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2);
- c) Inputs for the asset or liability that are not based on observable market data (Level 3).

| Current Period  | Level I   | Level II | Level III |
|---|-----------|----------|-----------|
| <b>Financial Assets</b>   |           |          |           |
| Financial Assets at Fair Value Through Profit or Loss             | 4.887     | -        | 4.972     |
| Financial Assets at Fair Value Through Other Comprehensive Income | 3.260.050 | 72.786   | 82.581    |
| Loans at Fair Value Through Profit or Loss                        | -         | -        | 290.660   |
| Derivative Financial Assets Held-for-trading (1)                  | -         | 979.221  | -         |
| Derivative Financial Assets for Hedging Purposes (1)              | -         | -        | -         |
| <b>Financial Liabilities</b>                                      |           |          |           |
| Derivative Financial Liabilities Held-for-trading (2)             | -         | 620.082  | -         |
| Derivative Financial Liabilities for Hedging Purposes (2)         | -         | 172.258  | -         |

(1) Positive differences from Derivative Financial Assets Held-for-trading and Derivative Financial Assets for Hedging Purposes are classified in "1.5.1 Derivative Financial Assets at Fair Value Through Profit or Loss" line in the balance sheet.

(2) Positive differences from Derivative Financial Liabilities Held-for-trading and Derivative Financial Liabilities for Hedging Purposes are classified in "7.1 Derivative Financial Liabilities at Fair Value Through Profit or Loss" line in the balance sheet.

| Prior Period  | Level I   | Level II | Level III |
|---|-----------|----------|-----------|
| <b>Financial Assets</b>                               |           |          |           |
| Financial Assets Held for Trading                     | 13.001    | 374.036  | -         |
| Financial Assets Available For Sale                   | 2.894.863 | 18.583   | 172.233   |
| Derivative Financial Assets For Hedging Purposes      | -         | 272      | -         |
| <b>Financial Liabilities</b>                          |           |          |           |
| Derivative Financial Liabilities Held For Trading     | -         | 320.797  | -         |
| Derivative Financial Liabilities For Hedging Purposes | -         | 51.433   | -         |

Real estates which are presented in the financial statements at fair value are classified at level 2; investment properties of companies included in consolidation are classified at level 2 and level 3.

**IX. Explanations related to transactions made on behalf of others and fiduciary transactions**

The Parent Bank performs trading transactions on behalf of its customers, and gives custody, administration and consultancy services. The Parent Bank does not deal with fiduciary transactions.



## **SECTION FOUR (Continued)**

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

#### **X. Explanations related to consolidated risk management**

##### **Linkages between financial statements and risk amounts**

The footnotes prepared in accordance with the "Regulation on Calculation Risk Management Disclosures", which was published in the Official Gazette No. 29511 of 23 October 2015 and entered into force as of 31 March 2016, and the disclosures pertaining thereto are provided in this section.

As the standard approach is utilized for the calculation of the capital adequacy of the Bank, no statement has been included as regards the methods based on internal models as per the relevant communiqué.

##### **Disclosures on the Risk management approach and risk-weighted amount**

Risk management approach of the Parent Bank allows for ensuring the establishment of a common risk culture covering the entire institution within the scope of the policies and codes of practice designated by the Board of Directors, for identifying risks in harmony with international arrangements and for performing the activities of measurement, analysis, monitoring and reporting accordingly.

Risk management process is structured within the scope of related policies and practice principals that creates a risk culture throughout the company and has a framework which is coherent with international regulations in the manner of evaluation, analyzing, monitoring, and reporting operations. Risk Management Department has been organized within the Bank so as to ensure compliance with the relevant policies, codes of practice and processes and to manage, in parallel with these policies, the risks the Bank is exposed to. Risk Management Department, the duties and responsibilities of which are designated through the regulations approved by the Board of Directors, carries out its activities through the Executive Vice President for Internal Systems under the Audit Committee who serves independently from executive activities and executive units.

Risk Management Department develops the systems required within the process of risk management and carries out the relevant activities, monitors the compliance of risks with policies, standards, limits of the Bank and its risk appetite indicators and performs activities aimed at harmonization with the relevant legislation and the Basel criteria. Risk measurements are performed through the standard approaches for legal reporting and the advanced approaches are utilized internally.

Risk Management Department submits its detailed risk management reports prepared on monthly and quarterly basis to the Board of Directors via the Audit Committee. These reports cover measurements regarding main risks, stress tests and scenario analyses and the status of compliance with the identified limit levels and risk appetite indicators.

Prospective risk assessments are carried out by conducting periodical stress tests on loan, market and interest risks and the impact of results on the overall financial power of the Bank is evaluated. The relevant results are notified to the Audit Committee and contribute to the assessment of the financial structure of the Bank at the moment of stress. Stress test scenarios are determined by evaluating the impacts posed by previous economic crises on macroeconomic indicators and expectations from the upcoming period. By estimating the risks and capital position of the Bank within the upcoming period, various analyses are performed in terms of legal and internal capital adequacy ratios, and the ICAAP (Internal Capital Adequacy Assessment Process) report is submitted to the BRSA.



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

**Overview of risk weighted assets**

|    |   | Risk Weighted Amount |                   | Minimum Capital Requirement |
|----|---|----------------------|-------------------|-----------------------------|
|    |   | Current Period       | Prior Period      | Current Period              |
| 1  | Credit risk (excluding counterparty credit risk)                                      | 33.258.400           | 26.511.342        | 2.660.672                   |
| 2  | Standardised approach   | 33.258.400           | 26.511.342        | 2.660.672                   |
| 3  | Internal rating-based approach  | -                    | -                 | -                           |
| 4  | Counterparty credit risk  | 1.498.190            | 805.591           | 119.855                     |
| 5  | Standardised approach for counterparty credit risk                                    | 1.498.190            | 805.591           | 119.855                     |
| 6  | Internal model method   | -                    | -                 | -                           |
| 7  | Basic risk weight approach to internal models equity position in the banking account  | -                    | -                 | -                           |
| 8  | Investments made in collective investment companies – look-through approach           | -                    | -                 | -                           |
| 9  | Investments made in collective investment companies – mandate-based approach          | -                    | -                 | -                           |
| 10 | Investments made in collective investment companies – 1250% weighted risk approach    | -                    | -                 | -                           |
| 11 | Settlement risk   | -                    | -                 | -                           |
| 12 | Securitization positions in banking accounts  | -                    | -                 | -                           |
| 13 | IRB ratings-based approach  | -                    | -                 | -                           |
| 14 | IRB supervisory formula approach  | -                    | -                 | -                           |
| 15 | Simplified supervisory formula approach   | -                    | -                 | -                           |
| 16 | Market risk   | 501.850              | 433.000           | 40.148                      |
| 17 | Standardised approach   | 501.850              | 433.000           | 40.148                      |
| 18 | Internal model approaches   | -                    | -                 | -                           |
| 19 | Operational risk  | 1.521.866            | 1.252.570         | 121.749                     |
| 20 | Basic indicator approach  | 1.521.866            | 1.252.570         | 121.749                     |
| 21 | Standard approach   | -                    | -                 | -                           |
| 22 | Advanced measurement approach   | -                    | -                 | -                           |
| 23 | The amount of the discount threshold under the equity (subject to a 250% risk weight) | 1.034.147            | -                 | 82.732                      |
| 24 | Floor adjustment  | -                    | -                 | -                           |
| 25 | <b>Total (1+4+7+8+9+10+11+12+16+19+23+24)</b>   | <b>37.814.453</b>    | <b>29.002.503</b> | <b>3.025.156</b>            |



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

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

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

**Linkages between financial statements and risk amounts (continued)**

**Differences and linkage between scopes of accounting consolidation and regulated consolidation**

| Current Period  | Carrying values in financial statements prepared as per TAS (1) | Carrying values in consolidated financial statements prepared as per TAS | Carrying values of items in accordance with Turkish Accounting Standards |                                     |                          |                        |  |
|---|---|--|--|-------------------------------------|--------------------------|------------------------|--|
|   |   |  | Subject to credit risk   | Subject to counterparty credit risk | Securitization Positions | Subject to market risk | Not subject to capital requirements or subject to deduction from capital |
| <b>Assets</b>   |   |  |  |                                     |                          |                        |  |
| Cash and balances at Central Bank                                 | 1.011.829   | 742.985  | 743.228  | -                                   | -                        | -                      | -  |
| Banks   | 499.031   | 806.997  | 807.231  | -                                   | -                        | -                      | -  |
| Money Market Placements   | 231   | 573.590  | 573.613  | 361                                 | -                        | -                      | -  |
| Financial Assets at Fair Value Through Profit or Loss             | 12.193  | 9.859  | -  | -                                   | -                        | -                      | -  |
| Financial Assets at Fair Value Through Other Comprehensive Income | 3.303.566   | 3.420.070  | 3.420.313  | 1.003.456                           | -                        | -                      | -  |
| Financial Assets Measured at Amortized Cost                       | 1.634.807   | 2.153.313  | 2.154.941  | 248.394                             | -                        | -                      | -  |
| Derivative Financial Assets                                       | 816.058   | 979.221  | -  | 979.221                             | -                        | 447.224                | -  |
| Loans   | 26.803.779  | 27.711.22  | 28.225.979   | -                                   | -                        | -                      | -  |
| Leasing Receivables   | 117.742   | 132.518  | 133.929  | -                                   | -                        | -                      | -  |
| Factoring Receivables   | -   | -  | -  | -                                   | -                        | -                      | -  |
| Assets Held for Sale and Discontinued Operations                  | -   | 1  | 1  | -                                   | -                        | -                      | -  |
| Associates (net)  | 375.039   | 429.546  | 429.546  | -                                   | -                        | -                      | 31.177   |
| Subsidiaries (net)  | -   | 4.609  | 4.609  | -                                   | -                        | -                      | -  |
| Joint-Ventures (net)  | -   | 1.760  | 1.760  | -                                   | -                        | -                      | -  |
| Tangible Assets (net)   | 244.421   | 292.651  | 289.026  | -                                   | -                        | -                      | 3.985  |
| Intangible Assets (net)   | 2.594   | 4.872  | -  | -                                   | -                        | -                      | 4.872  |
| Investment Properties (net)                                       | 243.151   | 247.793  | 247.793  | -                                   | -                        | -                      | -  |
| Tax Assets  | 4.562   | 3.575  | 3.575  | -                                   | -                        | -                      | -  |
| Deferred Tax Assets   | 50.336  | 3.844  | 3.844  | -                                   | -                        | -                      | -  |
| Other Assets  | 620.533   | 751.012  | 686.422  | -                                   | -                        | -                      | 65.909   |
| <b>Total Assets</b>   | <b>35.739.872</b>   | <b>38.269.440</b>  | <b>37.725.810</b>  | <b>2.231.432</b>                    | <b>-</b>                 | <b>447.224</b>         | <b>105.943</b>   |

(1) The consolidated financial statements prepared in accordance with the sixth paragraph of the Article 5 in the Communiqué on Preparation of Consolidated Financial Statements of the Banks as at 30 June 2018 are used.

(2) The amount of the financial instruments included in the trading accounts in accordance with TAS within the scope of the "Regulation on Measurement and Assessment of Capital Adequacy of Banks", has been included.



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

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

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

**Linkages between financial statements and risk amounts (continued)**

**Differences and linkage between scopes of accounting consolidation and regulated consolidation**  
**(continued)**

| Current Period<br><br>Liabilities                                      | Carrying values in financial statements prepared as per TAS (1) | Carrying values in consolidated financial statements prepared as per TAS | Carrying values of items in accordance with Turkish Accounting Standards |                                     |                          |                            |  |
|--|---|--|--|-------------------------------------|--------------------------|----------------------------|--|
|  |   |  | Subject to credit risk   | Subject to counterparty credit risk | Securitization Positions | Subject to market risk (2) | Not subject to capital requirements or subject to deduction from capital |
| Deposits   | -   | -  | -  | -                                   | -                        | -                          | -  |
| Funds Borrowed   | 22.679.295  | 23.819.670   | -  | 757.816                             | -                        | -                          | 23.061.854   |
| Money Market Funds   | 607.064   | 402.278  | -  | 179.001                             | -                        | -                          | 223.277  |
| Securities Issued  | 6.131.722   | 6.949.189  | -  | -                                   | -                        | -                          | 6.949.189  |
| Funds  | 21.302  | 32.529   | -  | -                                   | -                        | -                          | 32.529   |
| Financial Liabilities at Fair Value Through Profit or Loss             | -   | -  | -  | -                                   | -                        | -                          | -  |
| Derivative Financial Liabilities                                       | 790.080   | 792.340  | -  | -                                   | -                        | 359.639                    | 432.701  |
| Factoring Payables   | -   | -  | -  | -                                   | -                        | -                          | -  |
| Lease Payables   | -   | -  | -  | -                                   | -                        | -                          | -  |
| Provisions   | 39.228  | 261.276  | -  | -                                   | -                        | -                          | 261.276  |
| Current Tax Liability  | 27.190  | 94.104   | -  | -                                   | -                        | -                          | 94.104   |
| Deffered tax Liability   | -   | -  | -  | -                                   | -                        | -                          | -  |
| Liabilities for Assets Held for Sale and Discontinued Operations (net) | -   | -  | -  | -                                   | -                        | -                          | -  |
| Subordinated Debts   | 1.364.250   | 1.549.774  | -  | -                                   | -                        | -                          | 1.549.774  |
| Other Liabilities  | 222.799   | 184.204  | -  | -                                   | -                        | -                          | 184.204  |
| Shareholders' Equity   | 3.856.942   | 4.184.076  | -  | -                                   | -                        | -                          | 4.184.076  |
| <b>Total Liabilities</b>   | <b>35.739.872</b>   | <b>38.269.440</b>  | -  | <b>936.817</b>                      | -                        | <b>359.639</b>             | <b>36.972.984</b>  |

(1) The consolidated financial statements prepared in accordance with the sixth paragraph of the Article 5 in the Communiqué on Preparation of Consolidated Financial Statements of the Banks as at 30 June 2018 are used.

(2) The amount of the financial instruments included in the trading accounts in accordance with TAS within the scope of the "Regulation on Measurement and Assessment of Capital Adequacy of Banks", has been included.



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

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

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

**Linkages between financial statements and risk amounts (continued)**

**Differences and linkage between scopes of accounting consolidation and regulated consolidation (continued)**

| Prior Period<br><br>Assets                             | Carrying values in financial statements prepared as per TAS (1) | Carrying values in consolidated financial statements prepared as per TAS | Carrying values of items in accordance with Turkish Accounting Standards |                                     |                          |                            |  |
|--|---|--|--|-------------------------------------|--------------------------|----------------------------|--|
|  |   |  | Subject to credit risk   | Subject to counterparty credit risk | Securitization Positions | Subject to market risk (2) | Not subject to capital requirements or subject to deduction from capital |
| Cash and Balances at Central Bank                      | 830.336   | 847.135  | 847.135  | -                                   | -                        | -                          | -  |
| Financial Assets Held for Trading                      | -   | -  | -  | -                                   | -                        | -                          | -  |
| Financial Assets at Fair Value through Profit and Loss | 11.543  | 336.093  | -  | 326.788                             | -                        | 142.292                    | -  |
| Bank   | 699.909   | 493.687  | 493.687  | -                                   | -                        | -                          | -  |
| Money Market Placements                                | 449   | 3  | -  | 3                                   | -                        | -                          | -  |
| Financial Assets Available-for-Sale (net)              | 2.664.992   | 3.091.372  | 3.091.372  | 1.091.425                           | -                        | -                          | -  |
| Loans and Receivables                                  | 19.674.396  | 22.337.230   | 22.337.230   | -                                   | -                        | -                          | -  |
| Factoring Receivables                                  | -   | -  | -  | -                                   | -                        | -                          | -  |
| Investment Held-to-Maturity (net)                      | 1.425.586   | 1.532.047  | 1.532.047  | 552.078                             | -                        | -                          | -  |
| Investment in Associates (net)                         | 346.804   | 375.481  | 349.360  | -                                   | -                        | -                          | 26.121   |
| Investment in Subsidiaries (net)                       | -   | 1.609  | 1.609  | -                                   | -                        | -                          | -  |
| Joint-Ventures (net)                                   | -   | 1.760  | 1.760  | -                                   | -                        | -                          | -  |
| Finance Lease Receivables                              | -   | 63.410   | 63.410   | -                                   | -                        | -                          | -  |
| Derivative Financial Assets Held for Risk Management   | 350.300   | -  | -  | -                                   | -                        | -                          | -  |
| Tangible Assets (net)                                  | 229.314   | 245.798  | 240.765  | -                                   | -                        | -                          | 5.033  |
| Intangible Assets (net)                                | 2.460   | 3.585  | -  | -                                   | -                        | -                          | 3.585  |
| Investment Properties                                  | 231.796   | 243.145  | 243.145  | -                                   | -                        | -                          | -  |
| Tax Assets   | 4.433   | 45.338   | 45.338   | -                                   | -                        | -                          | -  |
| Assets Held for Sale and Discontinued Operations (net) | -   | -  | -  | -                                   | -                        | -                          | -  |
| Other Assets   | 255.751   | 299.943  | 269.958  | -                                   | -                        | -                          | 29.985   |
| <b>Total Assets</b>                                    | <b>26.728.069</b>   | <b>29.917.636</b>  | <b>29.516.816</b>  | <b>1.970.294</b>                    | <b>-</b>                 | <b>142.292</b>             | <b>64.724</b>  |

(1) The consolidated financial statements prepared in accordance with the sixth paragraph of the Article 5 in the Communiqué on Preparation of Consolidated Financial Statements of the Banks as at 30 June 2017 are used.

(2) The amount of the financial instruments included in the trading accounts in accordance with TAS within the scope of the "Regulation on Measurement and Assessment of Capital Adequacy of Banks", has been included.



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

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

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

**Linkages between financial statements and risk amounts (continued)**

**Differences and linkage between scopes of accounting consolidation and regulated consolidation (continued)**

| Prior Period<br><br>Liabilities  | Carrying values in financial statements prepared as per TAS (1) | Carrying values in consolidated financial statements prepared as per TAS | Carrying values of items in accordance with Turkish Accounting Standards |                                     |                          |                            |  |
|--|---|--|--|-------------------------------------|--------------------------|----------------------------|--|
|  |   |  | Subject to credit risk   | Subject to counterparty credit risk | Securitization Positions | Subject to market risk (2) | Not subject to capital requirements or subject to deduction from capital |
| Deposits   | -   | -  | -  | -                                   | -                        | -                          | -  |
| Derivative Financial Liabilities Held for Trading                      | 298.870   | 232.403  | -  | -                                   | -                        | 118.724                    | 113.679  |
| Funds Borrowed   | 16.619.472  | 19.001.627   | -  | 693.378                             | -                        | -                          | 18.308.249   |
| Money Market Funds   | 1.240.846   | 1.311.922  | -  | 611.178                             | -                        | -                          | 700.744  |
| Securities Issued  | 3.510.152   | 3.746.229  | -  | -                                   | -                        | -                          | 3.746.229  |
| Funds  | -   | 12.901   | -  | -                                   | -                        | -                          | 12.901   |
| Miscellaneous Payables   | -   | 75.095   | -  | -                                   | -                        | -                          | 75.095   |
| Other Liabilities  | -   | 115.927  | -  | -                                   | -                        | -                          | 115.927  |
| Factoring Payables   | -   | -  | -  | -                                   | -                        | -                          | -  |
| Lease Payables   | -   | -  | -  | -                                   | -                        | -                          | -  |
| Derivative Financial Liabilities Held for Risk Management              | -   | 78.682   | -  | -                                   | -                        | -                          | 78.682   |
| Provisions   | 304.995   | 431.625  | -  | -                                   | -                        | -                          | 431.625  |
| Tax Liability  | -   | 53.648   | -  | -                                   | -                        | -                          | 53.648   |
| Liabilities for Assets Held for Sale and Discontinued Operations (net) | -   | -  | -  | -                                   | -                        | -                          | -  |
| Subordinated Debts   | 1.086.704   | 1.146.236  | -  | -                                   | -                        | -                          | 1.146.236  |
| Shareholders' Equity   | 3.667.030   | 3.711.341  | -  | -                                   | -                        | -                          | 3.711.341  |
| <b>Total Liabilities</b>   | <b>26.728.069</b>   | <b>29.917.636</b>  | -  | <b>1.304.556</b>                    | -                        | <b>118.724</b>             | <b>28.494.356</b>  |

(1) The consolidated financial statements prepared in accordance with the sixth paragraph of the Article 5 in the Communiqué on Preparation of Consolidated Financial Statements of the Banks as at 30 June 2017 are used.

(2) The amount of the financial instruments included in the trading accounts in accordance with TAS within the scope of the "Regulation on Measurement and Assessment of Capital Adequacy of Banks", has been included.



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

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

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

**Linkages between financial statements and risk amounts (continued)**

**The main sources of the differences between the risk amounts and the amounts assessed in accordance with TAS in the financial statements**

|   | <b>Current Period</b>   | <b>Total</b> | <b>Credit Risk (1)</b> | <b>Securitization Positions</b> | <b>Counterparty credit risk (1)</b> | <b>Market risk (2)</b> |
|---|---|--------------|------------------------|---------------------------------|-------------------------------------|------------------------|
| 1 | Asset carrying value amount under scope of regulatory consolidation       | 38.269.440   | 37.725.810             | -                               | 2.231.432                           | 447.224                |
| 2 | Liabilities carrying value amount under regulatory scope of consolidation | 38.269.440   | -                      | -                               | 936.817                             | 359.639                |
|   | <b>Total net amount</b>   | <b>-</b>     | <b>37.725.810</b>      | <b>-</b>                        | <b>1.294.615</b>                    | <b>87.585</b>          |
| 3 | Off-balance sheet amounts   | 65.537.851   | 2.904.440              | -                               | 423.960                             | -                      |
| 4 | Differences due to prudential filters                                     | -            | (342.877)              | -                               | 120.598                             | 414.265                |
|   | <b>Risk Amounts</b>   | <b>-</b>     | <b>40.287.373</b>      | <b>-</b>                        | <b>1.839.173</b>                    | <b>501.850</b>         |

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

(2)The valuation amounts of financial instruments included in trading accounts in accordance with TAS are included

|   | <b>Prior Period</b>   | <b>Total</b> | <b>Credit Risk (1)</b> | <b>Securitization Positions</b> | <b>Counterparty credit risk (1)</b> | <b>Market risk (2)</b> |
|---|---|--------------|------------------------|---------------------------------|-------------------------------------|------------------------|
| 1 | Asset carrying value amount under scope of regulatory consolidation       | 29.917.636   | 29.516.816             | -                               | 1.970.294                           | 142.292                |
| 2 | Liabilities carrying value amount under regulatory scope of consolidation | 29.917.636   | -                      | -                               | 1.304.556                           | 118.724                |
|   | <b>Total net amount</b>   | <b>-</b>     | <b>29.516.816</b>      | <b>-</b>                        | <b>665.738</b>                      | <b>23.568</b>          |
| 3 | Off-balance sheet amounts   | 49.139.855   | 2.910.324              | -                               | 263.746                             | -                      |
| 4 | Differences due to prudential filters                                     | -            | (106.216)              | -                               | 114.826                             | -                      |
|   | <b>Risk Amounts</b>   | <b>-</b>     | <b>32.320.923</b>      | <b>-</b>                        | <b>1.044.310</b>                    | <b>23.568</b>          |

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

(2) Gross position amounts included in the calculation of market risk are taken as basis.



**SECTION FOUR (Continued)**

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

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

**Linkages between financial statements and risk amounts (continued)**

**The differences between the risk amounts and the amounts assessed in accordance with TAS in the financial statements**

There is no major differences between the financial and regulatory scope of consolidation.

Difference between the amounts of assets within the scope of legal consolidation as valued in accordance with TAS and credit risk exposures results from the transactions which are not subject to credit risk. Difference between off-balance sheet exposures and credit risk exposures results from the application of credit conversion factors to off-balance sheet exposures in line with the Regulation on the Measurement and Assessment of the Capital Adequacy of Banks.

The Bank takes into consideration the principles stipulated in Annex 3 of the Regulation on the Measurement and Assessment of the Capital Adequacy of Banks for all positions concerning its trading and banking book to be considered in the measurement of its fair value and capital adequacy. The Bank generally uses fair value as valuation methodology. Valuation methods are covered in detail under the title "VI. Disclosures on financial assets" in section "Accounting Policies" of chapter three of the report.



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

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

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

**Explanations on credit risk**

**General qualitative information on credit risk**

Credit risk is the possibility of incurring losses due to the credit fulfill customer or the counterparty, with whom the Bank has made an agreement with, does not fulfill its obligations appropriately or is not able to meet these obligations. While the largest and most visible source of credit risk consists of the loans extended by the bank, other assets included in balance sheets, non-cash loans and commitments are also taken into consideration within the scope of credit risk.

Credit risk is measured and managed in accordance with the Credit Risk Policies developed within the scope of the Risk Management Policies of the Bank. In this sense, the structure and characteristics of a loan, the provisions of loan agreements and financial conditions, structure of the risk profile until the end of maturity in parallel with potential market trends, guarantees and collaterals, internal risk ratings and potential changes with regard to the ratings in the process of risk exposure and concentrations (a single company, a group of affiliated companies, sector, country etc.) are taken into consideration. Compliance with the limits and risk appetite levels determined by the Board of Directors is monitored. Credit risk is managed by loan allocation and loan monitoring units in the Bank. Creditworthiness of loan customers is monitored and reviewed on a regular basis. Credit limits are set by the Board of Directors, the credit committee of the bank and the loan management. The Bank receives a sufficient amount of collateral in return for the loans extended thereby and its other receivables.

Credit risk is measured, monitored and reported by the Risk Management Department. Concentrations in the loan portfolio, loan quality of the portfolio, collateral structure, measurements concerning capital adequacy, stress tests and scenario analyses and the level of compliance with limits are regularly reported to the Board of Directors and the senior management.

**Credit quality of assets**

|                       |                             | <b>Gross Carrying Value in Financial Statements<br/>Prepared in Accordance with Turkish Accounting Standards (TAS)</b> |                          | <b>Allowances/<br/>amortization<br/>and impairments</b> | <b>Net Values<br/>(a+b+c)</b> |
|-----------------------|-----------------------------|--|--------------------------|---|-------------------------------|
| <b>Current Period</b> |                             | <b>Defaulted (a)</b>   | <b>Non-defaulted (b)</b> | <b>(c)</b>  | <b>(d)</b>                    |
| 1                     | Loans                       | 597.210  | 32.124.533               | 507.264   | 32.214.479                    |
| 2                     | Debt Securities             | -  | 5.660.275                | 179.050   | 5.481.225                     |
| 3                     | Off-balance sheet exposures | 2.964  | 7.008.225                | 11.986  | 6.999.203                     |
| 4                     | <b>Total</b>                | <b>600.174</b>   | <b>44.793.033</b>        | <b>698.300</b>  | <b>44.694.907</b>             |

|                     |                             | <b>Gross Carrying Value in Financial Statements<br/>Prepared in Accordance with Turkish Accounting Standards (TAS)</b> |                          | <b>Allowances/<br/>amortization<br/>and impairments</b> | <b>Net Values<br/>(a+b+c)</b> |
|---------------------|-----------------------------|--|--------------------------|---|-------------------------------|
| <b>Prior Period</b> |                             | <b>Defaulted (a)</b>   | <b>Non-defaulted (b)</b> | <b>(c)</b>  | <b>(d)</b>                    |
| 1                   | Loans                       | 53.575   | 25.020.052               | 53.575  | 25.020.052                    |
| 2                   | Debt Securities             | -  | 4.598.435                | 48.096  | 4.550.339                     |
| 3                   | Off-balance sheet exposures | 1.166  | 8.784.593                | 583   | 8.785.176                     |
| 4                   | <b>Total</b>                | <b>54.741</b>  | <b>38.403.080</b>        | <b>102.254</b>  | <b>38.355.567</b>             |



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**SECTION FOUR (Continued)**

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

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

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

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

|   | <b>Current Period</b>   | <b>Balance</b> |
|---|---|----------------|
| 1 | <b>Defaulted loans and debt securities at end of the previous reporting</b>           | <b>54.741</b>  |
| 2 | Loans and debt securities that have defaulted since the last reporting period         | 640.289        |
| 3 | Receivables back to non-defaulted status  | -              |
| 4 | Amounts written off   | 147.271        |
| 5 | Other changes   | 52.415         |
| 6 | <b>Defaulted loans and debt securities at end of the reporting period (1+2-3-4±5)</b> | <b>600.174</b> |

|   | <b>Prior Period</b>   | <b>Balance</b> |
|---|---|----------------|
| 1 | <b>Defaulted loans and debt securities at end of the previous reporting</b>           | <b>52.781</b>  |
| 2 | Loans and debt securities that have defaulted since the last reporting period         | 6.436          |
| 3 | Receivables back to non-defaulted status  | -              |
| 4 | Amounts written off   | -              |
| 5 | Other changes   | (4.476)        |
| 6 | <b>Defaulted loans and debt securities at end of the reporting period (1+2-3-4±5)</b> | <b>54.741</b>  |

**Additional disclosure related to the credit quality of assets**

The Parent Bank considers stage 2 loans that collections of principal and interest payments have not been realized on due dates as past due in accordance with the “Regulation on Identification of and Provision against Non-Performing Loans and Other Receivables”.

Loans that collections of principal and interest payments are over due more than 90 days and losing creditworthiness is considered by the Parent Bank as impaired or provisioned loans.

General loan loss provision is calculated for past due loans; Specific provision is calculated for impaired loans. The methods used in determining the provision amounts are explained in Section Three Note VIII.

Refinancing and restructuring; is the replacement of one or several loans extended by the Parent Bank to a new loan that will cover the principal or interest payment in whole or in part due to the financial distress expected by the customer or the group in the present or future, or change the terms in the current loans to ensure that the debt can be paid.



## **SECTION FOUR (Continued)**

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

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

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

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

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

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

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

On the basis of major regions impaired loans of the bank consist of domestic receivables. On sectoral basis, the amount of the Bank's impaired loans and related provisions is presented in footnote II. "Information of major sectors or type of counterparties" under Section Four explanations consolidated credit risk explanations. The Parent Bank allocates 100% Provision for these receivables. The Bank has written off receivables amounting to TL 147.271 as of 31 December 2018 (31 December 2017: None).

##### ***The aging analysis of the receivables past due***

The aging analysis of the receivables past due is presented in footnote under Section Four II. "Explanations related to consolidated credit risk".

#### **Credit Risk Mitigation**

##### **Qualitative disclosure on credit risk mitigation techniques**

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

Financial collaterals are assessed on a daily basis at the Parent Bank. Depending on the use of the comprehensive financial guarantee method, the risk-mitigating effects of the collateral are taken into account by means of standard volatility adjustments. Valuations of real estate mortgages used in capital adequacy calculations are regularly reviewed. The value of the real estates is determined by the valuation institutions authorized by the CMB.

Major collaterals that can be used by the Bank within the scope of credit risk mitigation techniques are financial collaterals, guarantees and mortgages. In the report dated 31 December 2018, financial collaterals, guarantees and mortgages were used as the credit risk reduction technique in the calculation of credit risk exposure.



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**(Continued)**

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

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

**Credit risk mitigation techniques - Standard approach**

| <b>Current Period</b> |                  | <b>Exposures unsecured: value in accordance with TAS.</b> | <b>Exposures secured by collateral</b> | <b>Exposures secured by collateral, of which: secured amount</b> | <b>Exposures secured by financial guarantees</b> | <b>Exposures secured by financial guarantees of which: secured amount</b> | <b>Exposures secured by credit derivatives</b> | <b>Exposures secured by credit derivatives, of which: secured amount</b> |
|-----------------------|------------------|---|--|--|--|---|--|--|
| 1                     | Loans            | 30.440.714  | 1.535.601                              | 1.296.045  | 236.730  | 188.947   | -  | -  |
| 2                     | Debt securities  | 5.481.225   | -                                      | -  | -  | -   | -  | -  |
| 3                     | <b>Total</b>     | <b>35.921.939</b>   | <b>1.535.601</b>                       | <b>1.296.045</b>   | <b>236.730</b>                                   | <b>188.947</b>  | <b>-</b>                                       | <b>-</b>   |
| 4                     | Of which default | 597.210   | -                                      | -  | -  | -   | -  | -  |

| <b>Prior Period</b> |                  | <b>Exposures unsecured: value in accordance with TAS.</b> | <b>Exposures secured by collateral</b> | <b>Exposures secured by collateral, of which: secured amount</b> | <b>Exposures secured by financial guarantees</b> | <b>Exposures secured by financial guarantees of which: secured amount</b> | <b>Exposures secured by credit derivatives</b> | <b>Exposures secured by credit derivatives, of which: secured amount</b> |
|---------------------|------------------|---|--|--|--|---|--|--|
| 1                   | Loans            | 23.517.193  | 1.277.376                              | 1.090.419  | 225.483  | 183.675   | -  | -  |
| 2                   | Debt securities  | 4.550.339   | -                                      | -  | -  | -   | -  | -  |
| 3                   | <b>Total</b>     | <b>28.067.532</b>   | <b>1.277.376</b>                       | <b>1.090.419</b>   | <b>225.483</b>                                   | <b>183.675</b>  | <b>-</b>                                       | <b>-</b>   |
| 4                   | Of which default | 53.575  | -                                      | -  | -  | -   | -  | -  |



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

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

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

**Credit risk under standard approach**

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

The related disclosures are presented footnote II "Explanations related to consolidated credit risk" in Section Four.

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

|    | Current Period   | Exposures before credit conversion factor and credit risk mitigation |                          | Exposures post credit conversion factor and credit risk mitigation |                          | Risk weighted amount and risk weighted amount density |                              |
|----|--|--|--------------------------|--|--------------------------|---|------------------------------|
|    |  | On-Balance sheet amount  | Off-balance sheet amount | On-Balance sheet amount  | Off-balance sheet amount | Risk weighted amount                                  | Risk weighted amount density |
| 1  | Exposures to sovereigns and their central banks                      | 6.058.395  | 186.912                  | 6.245.788  | 37.382                   | 1.628.438   | 26%                          |
| 2  | Exposures to regional and local governments                          | -  | 3.000                    | -  | 600                      | 300   | 50%                          |
| 3  | Exposures to administrative bodies and noncommercial entities        | -  | 11.946                   | -  | 2.389                    | 2.389   | 100%                         |
| 4  | Exposures to multilateral development banks                          | -  | -                        | -  | -                        | -   | -                            |
| 5  | Exposures to international organizations                             | -  | -                        | -  | -                        | -   | -                            |
| 6  | Exposures to banks and securities firms                              | 2.741.096  | 1.083.722                | 2.742.650  | 180.015                  | 1.893.147   | 65%                          |
| 7  | Exposures to corporates  | 25.907.012   | 21.403.208               | 25.696.342   | 2.350.707                | 27.813.589  | 99%                          |
| 8  | Retail exposures   | -  | -                        | -  | -                        | -   | -                            |
| 9  | Exposures secured by residential real estate property                | -  | -                        | -  | -                        | -   | -                            |
| 10 | Exposures secured by commercial real estate property                 | 1.154.961  | 240.271                  | 1.154.961  | 233.618                  | 694.289   | 50%                          |
| 11 | Past due receivables   | 597.210  | -                        | 427.721  | -                        | 424.469   | 99%                          |
| 12 | Exposures in higher-risk categories                                  | -  | 107.404                  | -  | 1.114                    | 1.380   | 124%                         |
| 13 | Exposures in the form of bonds secured by mortgages                  | -  | -                        | -  | -                        | -   | -                            |
| 14 | Short term exposures to banks, brokerage houses and corporates       | -  | -                        | -  | -                        | -   | -                            |
| 15 | Equity investments in the form of collective investment undertakings | -  | -                        | -  | -                        | -   | -                            |
| 16 | Other exposures  | 736.831  | 194.847                  | 616.703  | 98.615                   | 715.291   | 100%                         |
| 17 | Equity investments   | 498.767  | -                        | 498.767  | -                        | 1.119.256   | 224%                         |
| 18 | <b>Total</b>   | <b>37.694.271</b>  | <b>23.231.310</b>        | <b>37.382.933</b>  | <b>2.904.440</b>         | <b>34.292.548</b>                                     | <b>85%</b>                   |



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

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

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

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

**Credit risk exposure and credit risk mitigation effects (continued)**

|    | Prior Period   | Exposures before credit conversion factor and credit risk mitigation |                          | Exposures post credit conversion factor and credit risk mitigation |                          | Risk weighted amount and risk weighted amount density |                              |
|----|--|--|--------------------------|--|--------------------------|---|------------------------------|
|    |  | On-Balance sheet amount  | Off-balance sheet amount | On-Balance sheet amount  | Off-balance sheet amount | Risk weighted amount                                  | Risk weighted amount density |
| 1  | Exposures to sovereigns and their central banks                      | 5.260.996  | 219.689                  | 5.444.671  | 43.938                   | 1.244.307   | 23%                          |
| 2  | Exposures to regional and local governments                          | -  | 3.000                    | -  | 600                      | 300   | 50%                          |
| 3  | Exposures to administrative bodies and noncommercial entities        | 1.297  | 229                      | 1.297  | 45                       | 1.342   | 100%                         |
| 4  | Exposures to multilateral development banks                          | -  | -                        | -  | -                        | -   | -                            |
| 5  | Exposures to international organizations                             | -  | -                        | -  | -                        | -   | -                            |
| 6  | Exposures to banks and securities firms                              | 1.440.091  | 1.786.100                | 1.440.091  | 395.354                  | 1.043.706   | 57%                          |
| 7  | Exposures to corporates  | 20.741.899   | 13.566.487               | 20.558.224   | 2.386.058                | 22.665.476  | 99%                          |
| 8  | Retail exposures   | -  | -                        | -  | -                        | -   | -                            |
| 9  | Exposures secured by residential real estate property                | -  | -                        | -  | -                        | -   | -                            |
| 10 | Exposures secured by commercial real estate property                 | 984.202  | 7.197                    | 984.202  | 3.599                    | 493.900   | 50%                          |
| 11 | Past due receivables   | 53.575   | -                        | -  | -                        | -   | -                            |
| 12 | Exposures in higher-risk categories                                  | -  | 1.167                    | -  | 292                      | 146   | 50%                          |
| 13 | Exposures in the form of bonds secured by mortgages                  | -  | -                        | -  | -                        | -   | -                            |
| 14 | Short term exposures to banks, brokerage houses and corporates       | -  | -                        | -  | -                        | -   | -                            |
| 15 | Equity investments in the form of collective investment undertakings | -  | -                        | -  | -                        | -   | -                            |
| 16 | Other exposures  | 688.721  | 520.073                  | 582.506  | 80.437                   | 662.556   | 100%                         |
| 17 | Equity investments   | 399.609  | -                        | 399.609  | -                        | 399.609   | 100%                         |
| 18 | <b>Total</b>   | <b>29.570.390</b>  | <b>16.103.942</b>        | <b>29.410.600</b>  | <b>2.910.323</b>         | <b>26.511.342</b>                                     | <b>82%</b>                   |



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

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

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

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

**Exposures by asset classes and risk weights**

|    | Current Period   |                  |          |                  | 50%<br>Secured by<br>Real Estate<br>Property |          |                   |              |          |                | Total Risk<br>Amount<br>(after CCR<br>and CVA) |
|----|--|------------------|----------|------------------|--|----------|-------------------|--------------|----------|----------------|--|
|    | Risk Groups/ Risk Weight   | 0%               | 10%      | 20%              |  | 75%      | 100%              | 150%         | 200%     | 250%           |  |
| 1  | Exposures to sovereigns and their central banks                      | 4.654.732        | -        | -                | -  | -        | 1.628.438         | -            | -        | -              | 6.283.170                                      |
| 2  | Exposures to regional and local governments                          | -                | -        | -                | 600  | -        | -                 | -            | -        | -              | 600  |
| 3  | Exposures to administrative bodies and noncommercial entities        | -                | -        | -                | -  | -        | 2.389             | -            | -        | -              | 2.389  |
| 4  | Exposures to multilateral development banks                          | -                | -        | -                | -  | -        | -                 | -            | -        | -              | -  |
| 5  | Exposures to international organizations                             | -                | -        | -                | -  | -        | -                 | -            | -        | -              | -  |
| 6  | Exposures to banks and securities firms                              | -                | -        | 1.122.881        | 262.426                                      | -        | 1.537.358         | -            | -        | -              | 2.922.665                                      |
| 7  | Exposures to corporates  | -                | -        | 9.689            | 451.418                                      | -        | 27.585.942        | -            | -        | -              | 28.047.049                                     |
| 8  | Retail exposures   | -                | -        | -                | -  | -        | -                 | -            | -        | -              | -  |
| 9  | Exposures secured by property  | -                | -        | -                | 1.388.579                                    | -        | -                 | -            | -        | -              | 1.388.579                                      |
| 10 | Past due receivables   | -                | -        | -                | 8.247  | -        | 417.732           | 1.742        | -        | -              | 427.721  |
| 11 | Exposures in higher-risk categories                                  | -                | -        | -                | 292  | -        | -                 | 822          | -        | -              | 1.114  |
| 12 | Exposures in the form of bonds secured by mortgages                  | -                | -        | -                | -  | -        | -                 | -            | -        | -              | -  |
| 13 | Short term exposures to banks, brokerage houses and corporates       | -                | -        | -                | -  | -        | -                 | -            | -        | -              | -  |
| 14 | Equity investments in the form of collective investment undertakings | -                | -        | -                | -  | -        | -                 | -            | -        | -              | -  |
| 15 | Equity investments   | -                | -        | -                | -  | -        | 85.108            | -            | -        | 413.659        | 498.767  |
| 16 | Other exposures  | 27               | -        | -                | -  | -        | 715.292           | -            | -        | -              | 715.319  |
| 17 | <b>Total</b>   | <b>4.654.759</b> | <b>-</b> | <b>1.132.570</b> | <b>2.111.562</b>                             | <b>-</b> | <b>31.972.259</b> | <b>2.564</b> | <b>-</b> | <b>413.659</b> | <b>40.287.373</b>                              |



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

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

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

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

**Exposures by asset classes and risk weights (continued)**

|    | Prior Period   |                  |          |                  | 50%<br>Secured by<br>Real Estate<br>Property |          |                   |          |          |          | Total Risk<br>Amount (after<br>CCR and<br>CVA) |
|----|--|------------------|----------|------------------|--|----------|-------------------|----------|----------|----------|--|
|    | Risk Groups/ Risk Weight   | 0%               | 10%      | 20%              |  | 75%      | 100%              | 150%     | 200%     | Others   |  |
| 1  | Exposures to sovereigns and their central banks                      | 4.244.302        | -        | -                | -  | -        | 1.244.307         | -        | -        | -        | 5.488.609                                      |
| 2  | Exposures to regional and local governments                          | -                | -        | -                | 600  | -        | -                 | -        | -        | -        | 600  |
| 3  | Exposures to administrative bodies and noncommercial entities        | -                | -        | -                | -  | -        | 1.342             | -        | -        | -        | 1.342  |
| 4  | Exposures to multilateral development banks                          | -                | -        | -                | -  | -        | -                 | -        | -        | -        | -  |
| 5  | Exposures to international organizations                             | -                | -        | -                | -  | -        | -                 | -        | -        | -        | -  |
| 6  | Exposures to banks and securities firms                              | -                | -        | 890.953          | 157.953                                      | -        | 786.539           | -        | -        | -        | 1.835.445                                      |
| 7  | Exposures to corporates  | -                | -        | 137.556          | 337.522                                      | -        | 22.469.203        | -        | -        | -        | 22.944.281                                     |
| 8  | Retail exposures   | -                | -        | -                | -  | -        | -                 | -        | -        | -        | -  |
| 9  | Exposures secured by property  | -                | -        | -                | 987.801                                      | -        | -                 | -        | -        | -        | 987.801  |
| 10 | Past due receivables   | -                | -        | -                | -  | -        | -                 | -        | -        | -        | -  |
| 11 | Exposures in higher-risk categories                                  | -                | -        | -                | 292  | -        | -                 | -        | -        | -        | 292  |
| 12 | Exposures in the form of bonds secured by mortgages                  | -                | -        | -                | -  | -        | -                 | -        | -        | -        | -  |
| 13 | Short term exposures to banks, brokerage houses and corporates       | -                | -        | -                | -  | -        | -                 | -        | -        | -        | -  |
| 14 | Equity investments in the form of collective investment undertakings | -                | -        | -                | -  | -        | -                 | -        | -        | -        | -  |
| 15 | Equity investments   | -                | -        | -                | -  | -        | 399.609           | -        | -        | -        | 399.609  |
| 16 | Other exposures  | 387              | -        | -                | -  | -        | 662.557           | -        | -        | -        | 662.944  |
| 17 | <b>Total</b>   | <b>4.244.689</b> | <b>-</b> | <b>1.028.509</b> | <b>1.484.168</b>                             | <b>-</b> | <b>25.563.557</b> | <b>-</b> | <b>-</b> | <b>-</b> | <b>32.320.923</b>                              |



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

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

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

**Qualitative disclosures on CCR (continued)**

Counterparty credit risk is managed by monitoring the concentrations at various levels with regard to counterparty credit risks, the capital requirement imposed by the counterparty credit risk and the limits set by the Board of Directors for counterparty transactions. Moreover, the ratio of the counterparty credit risk exposure to total risk-weighted assets has been identified as a risk appetite indicator.

Counterparty credit risk resulting from repurchase transactions, securities and commodities lending transactions and derivatives transactions is calculated within the framework of Annex 2 of the Regulation on the Measurement and Assessment of the Capital Adequacy of Banks. Fair Value Valuation Method is applied for derivatives transactions. Risk exposure of derivative transactions is equal to the sum of replacement cost and potential credit risk amount. Besides, capital requirement is also calculated for credit valuation adjustment (CVA) risk in relation to derivatives transactions. For repurchase and securities lending transactions risk amount is calculated considering volatility and credit quality level.

Derivatives transactions executed with counterparties are carried out within the scope of "ISDA" and "CSA" agreements. These agreements contain the same collateralization provisions for our Bank and counterparties and daily collateral settlement is performed.

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

|   |  | Replacement<br>cost | Potential<br>future<br>exposure | EEPE | Alpha used<br>for<br>computing<br>regulatory<br>exposure at<br>default | Exposure at<br>default post<br>Credit risk<br>mitigation | Risk<br>weighted<br>amount |
|---|--|---------------------|---------------------------------|------|--|--|----------------------------|
|   | <b>Current Period</b>  |                     |                                 |      |  |  |                            |
| 1 | Standardised Approach (for derivatives)  | 979.220             | 423.960                         | -    | -  | 1.403.180  | 820.760                    |
| 2 | Internal Model Method (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)                             | -                   | -                               | -    | -  | -  | -                          |
| 3 | Simple Approach for credit risk mitigation (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)        | -                   | -                               | -    | -  | -  | -                          |
| 4 | Comprehensive Approach for credit risk mitigation (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions) | -                   | -                               | -    | -  | 435.992  | 280.613                    |
| 5 | Value-at-Risk (VaR) for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions                                 | -                   | -                               | -    | -  | -  | -                          |
| 6 | <b>Total</b>   | -                   | -                               | -    | -  | -  | <b>1.101.373</b>           |



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

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

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

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

|   |  | Replacement<br>cost | Potential<br>future<br>exposure | EEPE | Alpha<br>used for<br>computing<br>regulatory<br>exposure<br>at default | Exposure at<br>default post<br>Credit risk<br>mitigation | Risk<br>weighted<br>amount |
|---|--|---------------------|---------------------------------|------|--|--|----------------------------|
|   | <b>Prior Period</b>  |                     |                                 |      |  |  |                            |
| 1 | Standardised Approach (for derivatives)  | 326.787             | 263.746                         | -    | -  | 590.533  | 339.111                    |
| 2 | Internal Model Method (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)                             | -                   | -                               | -    | -  | -  | -                          |
| 3 | Simple Approach for credit risk mitigation (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)        | -                   | -                               | -    | -  | -  | -                          |
| 4 | Comprehensive Approach for credit risk mitigation (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions) | -                   | -                               | -    | -  | 453.778  | 264.414                    |
| 5 | Value-at-Risk (VaR) for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions                                 | -                   | -                               | -    | -  | -  | -                          |
| 6 | <b>Total</b>   | -                   | -                               | -    | -  | -  | <b>603.525</b>             |

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

|   | <b>Current Period</b>   | Exposure at default post-<br>credit risk mitigation<br>techniques | Risk weighted<br>amount |
|---|---|---|-------------------------|
|   | Total portfolios subject to the Advanced CVA capital charge   | -   | -                       |
| 1 | (i) VaR component (including the 3*multiplier)                | -   | -                       |
| 2 | (ii) Stressed VaR component (including the 3*multiplier)      | -   | -                       |
| 3 | All portfolios subject to the Standardised CVA capital charge | 1.403.180   | 396.817                 |
| 4 | <b>Total subject to the CVA capital charge</b>                | <b>1.403.180</b>  | <b>396.817</b>          |

|   | <b>Prior Period</b>   | Exposure at default post-<br>credit risk mitigation<br>techniques | Risk weighted<br>amount |
|---|---|---|-------------------------|
|   | Total portfolios subject to the Advanced CVA capital charge   | -   | -                       |
| 1 | (i) VaR component (including the 3*multiplier)                | -   | -                       |
| 2 | (ii) Stressed VaR component (including the 3*multiplier)      | -   | -                       |
| 3 | All portfolios subject to the Standardised CVA capital charge | 590.533   | 202.064                 |
| 4 | <b>Total subject to the CVA capital charge</b>                | <b>590.533</b>  | <b>202.064</b>          |



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

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

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

**Standardised approach – Counterparty credit risk exposures by regulatory portfolio and risk weights**

| Current Period<br>Risk Weight  |    |     |                |                  |     |                |      |       |                          |
|--|----|-----|----------------|------------------|-----|----------------|------|-------|--------------------------|
| Risk Groups  | 0% | 10% | 20%            | 50%              | 75% | 100%           | 150% | Other | Total credit exposure(1) |
| Exposures to sovereigns and their central banks                      | -  | -   | -              | -                | -   | 154            | -    | -     | 154                      |
| Exposures to regional and local governments                          | -  | -   | -              | -                | -   | -              | -    | -     | -                        |
| Exposures to administrative bodies and noncommercial entities        | -  | -   | -              | -                | -   | 1.099          | -    | -     | 1.099                    |
| Exposures to multilateral development banks                          | -  | -   | -              | -                | -   | -              | -    | -     | -                        |
| Exposures to international organizations                             | -  | -   | -              | -                | -   | -              | -    | -     | -                        |
| Exposures to banks and securities firms                              | -  | -   | 293.444        | 1.006.089        | -   | 57             | -    | -     | 1.299.590                |
| Exposures to corporates  | -  | -   | -              | -                | -   | 534.856        | -    | -     | 534.856                  |
| Retail exposures   | -  | -   | -              | -                | -   | -              | -    | -     | -                        |
| Exposures secured by property  | -  | -   | -              | -                | -   | -              | -    | -     | -                        |
| Past due receivables   | -  | -   | -              | -                | -   | -              | -    | -     | -                        |
| Exposures in higher-risk categories                                  | -  | -   | -              | -                | -   | -              | -    | -     | -                        |
| Exposures in the form of bonds secured by mortgages                  | -  | -   | -              | -                | -   | -              | -    | -     | -                        |
| Securitization positions   | -  | -   | -              | -                | -   | -              | -    | -     | -                        |
| Short term exposures to banks, brokerage houses and corporates       | -  | -   | -              | -                | -   | -              | -    | -     | -                        |
| Equity investments in the form of collective investment undertakings | -  | -   | -              | -                | -   | -              | -    | -     | -                        |
| Equity investments   | -  | -   | -              | -                | -   | -              | -    | -     | -                        |
| Other exposures  | -  | -   | -              | -                | -   | 3.474          | -    | -     | 3.474                    |
| Other assets   | -  | -   | -              | -                | -   | -              | -    | -     | -                        |
| <b>Total</b>   | -  | -   | <b>293.444</b> | <b>1.006.089</b> | -   | <b>539.640</b> | -    | -     | <b>1.839.173</b>         |

(1) Total Credit Exposures Amount: The amount which is related to capital adequacy calculation after implementation of counter party credit risk mitigation techniques.



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

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

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

**Standardised approach – Counterparty credit risk exposures by regulatory portfolio and risk weights (continued)**

| Prior Period   |          |          |                |                |          |                |          |          |                          |
|--|----------|----------|----------------|----------------|----------|----------------|----------|----------|--------------------------|
| Risk Weight  |          |          |                |                |          |                |          |          |                          |
| Risk Classes   | 0%       | 10%      | 20%            | 50%            | 75%      | 100%           | 150%     | Other    | Total credit exposure(1) |
| Exposures to sovereigns and their central banks                      | -        | -        | -              | -              | -        | 300            | -        | -        | 300                      |
| Exposures to regional and local governments                          | -        | -        | -              | -              | -        | -              | -        | -        | -                        |
| Exposures to administrative bodies and noncommercial entities        | -        | -        | -              | -              | -        | 1.626          | -        | -        | 1.626                    |
| Exposures to multilateral development banks                          | -        | -        | -              | -              | -        | -              | -        | -        | -                        |
| Exposures to international organizations                             | -        | -        | -              | -              | -        | -              | -        | -        | -                        |
| Exposures to banks and securities firms                              | -        | -        | 173.741        | 601.314        | -        | 98             | -        | -        | 775.153                  |
| Exposures to corporates  | -        | -        | -              | 2.269          | -        | 262.701        | -        | -        | 264.970                  |
| Retail exposures   | -        | -        | -              | -              | -        | -              | -        | -        | -                        |
| Exposures secured by property  | -        | -        | -              | -              | -        | -              | -        | -        | -                        |
| Past due receivables   | -        | -        | -              | -              | -        | -              | -        | -        | -                        |
| Exposures in higher-risk categories                                  | -        | -        | -              | -              | -        | -              | -        | -        | -                        |
| Exposures in the form of bonds secured by mortgages                  | -        | -        | -              | -              | -        | -              | -        | -        | -                        |
| Securitization positions   | -        | -        | -              | -              | -        | -              | -        | -        | -                        |
| Short term exposures to banks, brokerage houses and corporates       | -        | -        | -              | -              | -        | -              | -        | -        | -                        |
| Equity investments in the form of collective investment undertakings | -        | -        | -              | -              | -        | -              | -        | -        | -                        |
| Equity investments   | -        | -        | -              | -              | -        | -              | -        | -        | -                        |
| Other exposures  | -        | -        | -              | -              | -        | 2.261          | -        | -        | 2.261                    |
| Other assets   | -        | -        | -              | -              | -        | -              | -        | -        | -                        |
| <b>Total</b>   | <b>-</b> | <b>-</b> | <b>173.741</b> | <b>603.583</b> | <b>-</b> | <b>266.986</b> | <b>-</b> | <b>-</b> | <b>1.044.310</b>         |

(1) Total Credit Exposures Amount: The amount which is related to capital adequacy calculation after implementation of counter party credit risk mitigation techniques.



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

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

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

**Collaterals used for CCR**

| Current Period           | Collaterals received |              | Collaterals given |              | Collaterals received | Collaterals given |
|--------------------------|----------------------|--------------|-------------------|--------------|----------------------|-------------------|
|                          | Segregated           | Unsegregated | Segregated        | Unsegregated |                      |                   |
| Cash – domestic currency | -                    | -            | -                 | -            | 163.910              | -                 |
| Cash – foreign currency  | -                    | -            | -                 | -            | 773.267              | -                 |
| Domestic sovereign debt  | -                    | -            | -                 | -            | -                    | -                 |
| Other sovereign debt     | -                    | -            | -                 | -            | -                    | -                 |
| Government agency debt   | -                    | -            | -                 | -            | -                    | -                 |
| Corporate bonds          | -                    | -            | -                 | -            | -                    | -                 |
| Equity securities        | -                    | -            | -                 | -            | -                    | -                 |
| Other collateral         | -                    | -            | -                 | -            | -                    | -                 |
| <b>Total</b>             | -                    | -            | -                 | -            | <b>937.177</b>       | -                 |

| Prior Period             | Collaterals received |              | Collaterals given |              | Collaterals received | Collaterals given |
|--------------------------|----------------------|--------------|-------------------|--------------|----------------------|-------------------|
|                          | Segregated           | Unsegregated | Segregated        | Unsegregated |                      |                   |
| Cash – domestic currency | -                    | -            | -                 | -            | 641.015              | -                 |
| Cash – foreign currency  | -                    | -            | -                 | -            | 663.544              | -                 |
| Domestic sovereign debt  | -                    | -            | -                 | -            | -                    | -                 |
| Other sovereign debt     | -                    | -            | -                 | -            | -                    | -                 |
| Government agency debt   | -                    | -            | -                 | -            | -                    | -                 |
| Corporate bonds          | -                    | -            | -                 | -            | -                    | -                 |
| Equity securities        | -                    | -            | -                 | -            | -                    | -                 |
| Other collateral         | -                    | -            | -                 | -            | -                    | -                 |
| <b>Total</b>             | -                    | -            | -                 | -            | <b>1.304.559</b>     | -                 |

**Credit derivatives**

None (31 December 2017 : None).

**Exposure to central counterparties (CCP)**

None (31 December 2017 : None).

**Explanations on securitizations**

None (31 December 2017 : None).



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

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

**Disclosures on market risk**

**Qualitative information to be disclosed to public concerning market risk**

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

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

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

In addition to the activities of the Risk Management Department, the Treasury Control Unit also reports daily positions and limit use status to the senior management.

**Market Risk-standard approach**

|   |   | <b>Risk Weighted Amount (RWA)</b> |                     |
|---|---|-----------------------------------|---------------------|
|   |   | <b>Current Period</b>             | <b>Prior Period</b> |
|   | <b>Outright products</b>                  | -                                 | -                   |
| 1 | Interest rate risk (general and specific) | 218.825                           | 149.650             |
| 2 | Equity risk (general and specific)        | -                                 | 50                  |
| 3 | Foreign exchange risk                     | 283.025                           | 283.300             |
| 4 | Commodity risk                            | -                                 | -                   |
|   | <b>Options</b>                            | -                                 | -                   |
| 5 | Simplified approach                       | -                                 | -                   |
| 6 | Delta-plus method                         | -                                 | -                   |
| 7 | Scenario approach                         | -                                 | -                   |
| 8 | Securitisation                            | -                                 | -                   |
| 9 | <b>Total</b>                              | <b>501.850</b>                    | <b>433.000</b>      |



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

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

**Disclosure on operational risk**

**Information to be disclosed to the public regarding operational risk**

Operational Risk Exposure is measured in the Bank once a year by using the Basic Indicator Method based on the "Regulation on the Measurement and Assessment of the Capital Adequacy of Banks".

|  | 31/12/2015 | 31/12/2016 | 31/12/2017 | Total/No. of<br>years of positive<br>gross | Rate (%) | Total     |
|--|------------|------------|------------|--|----------|-----------|
| Gross Income   | 660.354    | 739.710    | 1.034.921  | 811.662                                    | 15       | 121.749   |
| Capital Requirement for<br>Operational Risk (Total*12,5) |            |            |            |  |          | 1.521.866 |

**Disclosures on interest rate risk resulting from banking book**

It is monthly calculated and reported within the scope of the Standard Shock Measurement and Evaluation Method of the Interest Rate Risk in Banking Accounts Duration.

**The economic valuation differences of the Bank arising from fluctuations on interest rates, in different currencies that is calculated in accordance with the communiqué are presented in the table below.**

| Current Period                     | Applied Shock<br>(+/- x basis point) | Revenue/ Loss       | Revenue/Shareholders'<br>Equity – Loss /<br>Shareholders' Equity |
|------------------------------------|--------------------------------------|---------------------|--|
| Currency                           |                                      |                     |  |
| 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%)  |
| <b>Total (for Negative Shocks)</b> |                                      | <b>(44.397)</b>     | <b>(0,73%)</b>   |
| <b>Total (for Positive Shocks)</b> |                                      | <b>71.688</b>       | <b>1,18%</b>   |

| Prior Period                       | Applied Shock<br>(+/- x basis point) | Revenue/ Loss     | Revenue/Shareholders'<br>Equity – Loss /<br>Shareholders' Equity |
|------------------------------------|--------------------------------------|-------------------|--|
| Currency                           |                                      |                   |  |
| TL                                 | +500 / (400) basis point             | (91.944) / 83.505 | (1,91%) / 1,74%  |
| Euro                               | +200 / (200) basis point             | 56.563 / (18.688) | 1,18% / (0,39%)  |
| US Dollar                          | +200 / (200) basis point             | (70.306) / 79.127 | (1,46%) / 1,65%  |
| <b>Total (for Negative Shocks)</b> |                                      | <b>143.944</b>    | <b>3,00%</b>   |
| <b>Total (for Positive Shocks)</b> |                                      | <b>(105.687)</b>  | <b>2,20%</b>   |



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**SECTION FIVE**

**EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS**

**I. Explanations and disclosures related to the consolidated assets**

**1.a Information on cash and balances with the Central Bank of Turkey:**

|  | Current Period |                | Prior Period  |                |
|--|----------------|----------------|---------------|----------------|
|  | TL             | FC             | TL            | FC             |
| Cash in TL/Foreign Currency              | 27             | -              | 24            | -              |
| Balances with the Central Bank of Turkey | 6.326          | 736.875        | 10.571        | 836.540        |
| Other                                    | -              | -              | -             | -              |
| <b>Total</b>                             | <b>6.353</b>   | <b>736.875</b> | <b>10.595</b> | <b>836.540</b> |

|                              | Current Period (1) |                | Prior Period  |                |
|------------------------------|--------------------|----------------|---------------|----------------|
|                              | TL                 | FC             | TL            | FC             |
| Unrestricted demand deposits | 6.326              | 6.602          | 10.571        | 4.862          |
| Unrestricted time deposits   | -                  | -              | -             | -              |
| Restricted time deposits     | -                  | -              | -             | -              |
| Other (2)                    | -                  | 730.273        | -             | 831.678        |
| <b>Total</b>                 | <b>6.326</b>       | <b>736.875</b> | <b>10.571</b> | <b>836.540</b> |

(3) Provision amounting to TL 243 is allocated in "Balances with the Central Bank of Turkey" due to transition of TFRS 9.

(4) Deposits at Central Bank of Turkey held as reserve requirement.

As per the Communiqué numbered 2005/1 "Reserve Deposits" of the CBRT, banks keep reserve deposits at the CBRT for their TL and FC liabilities mentioned in the communiqué. Reserves are calculated and set aside every two weeks on Fridays for 14 days periods. 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<br>If the fund borrowed<br>Before 28.08.2015 | Reserve Ratio<br>If the fund borrowed<br>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   |



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**EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS**

**I. Explanations and disclosures related to the consolidated assets**

**2 Information on financial assets at fair value through profit and loss:**

**2.a Information on financial assets designated at fair value through profit and loss given as collateral or blockage:**

As of the reporting date, the Group has no financial assets designated at fair value through profit and loss given as collateral or blockage.

**2.a.1 Trading securities given as collateral or blockage:**

The Group has no trading securities given as collateral or blockage as of 31 December 2017.

**2.b Financial assets designated at fair value through profit and loss subject to repurchase agreements:**

As of the reporting date, the Bank has no financial assets designated at fair value through profit and loss subject to repurchase agreements.

**2.b.1 Trading securities subject to repurchase agreements:**

The Group has no trading securities subject to repurchase agreements as of 31 December 2017.

**2.c Positive differences related to derivative financial assets held-for-trading:**

| Derivative Instruments Held for Trading (1) | Current Period |                | Prior Period   |                |
|---|----------------|----------------|----------------|----------------|
|   | FC             | TL             | FC             | FC             |
| Forward Transactions                        | 151.345        | 1.008          | 14.734         | 7.175          |
| Swap Transactions                           | 605.869        | 161.353        | 179.366        | 82.997         |
| Futures Transactions                        | -              | -              | -              | -              |
| Options                                     | -              | 59.646         | -              | 42.516         |
| Other                                       | -              | -              | -              | -              |
| <b>Total</b>                                | <b>757.214</b> | <b>222.007</b> | <b>194.100</b> | <b>132.688</b> |

(1) Positive differences from derivative assets for trading were shown at "Financial Assets Fair Value Through Profit/Loss" line account at prior periods. As a result of TFRS 9 adoption at current period, this difference has presented in "Derivative Financial Assets" line.

As part of its economic hedging strategy, the Parent Bank has implemented TL cross currency interest rate swap transactions in which the Bank's default risk is the reference. These swap agreements are subject to a direct closing condition for both the Bank and the counterparty, in the event of a credit default event (such as a non-payment) related to the Bank, to cancel the amounts accrued in the contract and all future payments. The market rediscount value of these swaps with a nominal value of USD 200 million as of 31 December 2018 is TL 423.104 and the average rates are between 2020 and 2022.



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

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

**3. Information on banks and foreign bank accounts**

**3.a Information on banks:**

|                                 | Current Period |                | Prior Period   |               |
|---------------------------------|----------------|----------------|----------------|---------------|
|                                 | TL             | FC             | TL             | FC            |
| Banks                           |                |                |                |               |
| Domestic                        | 36.469         | 735.123        | 464.978        | 24.573        |
| Foreign                         | -              | 35.639         | -              | 4.136         |
| Branches and head office abroad | -              | -              | -              | -             |
| <b>Total</b>                    | <b>36.469</b>  | <b>770.762</b> | <b>464.978</b> | <b>28.709</b> |

(1) Provision amounting to TL 3 is allocated in "Banks" due to transition of TFRS 9.

**3.b Information on banks and foreign bank accounts:**

|                           | Unrestricted Amount |              | Restricted Amount |              |
|---------------------------|---------------------|--------------|-------------------|--------------|
|                           | Current Period      | Prior Period | Current Period    | Prior Period |
| European Union Countries  | 1.597               | 887          | -                 | -            |
| USA and Canada            | 32.303              | 2.140        | -                 | -            |
| OECD Countries (1)        | 1.739               | 1.109        | -                 | -            |
| Off-shore banking regions | -                   | -            | -                 | -            |
| Other                     | -                   | -            | -                 | -            |
| <b>Total</b>              | <b>35.639</b>       | <b>4.136</b> | <b>-</b>          | <b>-</b>     |

(1) OECD countries other than European Union countries, USA and Canada.

**4. Available-for-sale financial assets subject to repurchase agreements:**

**4.a.1.1 Information on financial assets at fair value through other comprehensive income subject to repurchase agreements:**

|                                      | Current Period |                |
|--------------------------------------|----------------|----------------|
|                                      | TL             | FC             |
| Government bonds                     | 16.347         | 155.306        |
| Treasury bills                       | -              | -              |
| Other government debt securities     | -              | -              |
| Bank bonds and bank guaranteed bonds | -              | -              |
| Asset backed securities              | -              | -              |
| Other                                | -              | -              |
| <b>Toplam</b>                        | <b>16.347</b>  | <b>155.306</b> |

**4.a.1.2 Available-for-sale financial assets subject to repurchase agreements:**

|                                      | Prior Period  |                |
|--------------------------------------|---------------|----------------|
|                                      | TL            | FC             |
| Government bonds                     | 15.944        | -              |
| Treasury bills                       | -             | -              |
| Other government debt securities     | -             | 155.306        |
| Bank bonds and bank guaranteed bonds | -             | -              |
| Asset backed securities              | -             | -              |
| Other                                | -             | -              |
| <b>Toplam</b>                        | <b>15.944</b> | <b>155.306</b> |



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**SECTION FIVE (Continued)**

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

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

**4. Information on financial assets at fair value through other comprehensive income (continued):**

**4.a.2.1 Information on financial assets at fair value through other comprehensive income given as collateral or blockage:**

As of balance sheet date, all financial assets at fair value through other comprehensive income given as collateral comprise of financial assets issued by the T.R. Undersecretariat of Treasury. The carrying value of those assets is TL 1.453.648.

|   | Current Period |                |
|---|----------------|----------------|
|   | TL             | FC             |
| Share certificates                                    | -              | -              |
| Bond, Treasury bill and similar investment securities | 634.489        | 819.159        |
| Other   | -              | -              |
| <b>Total</b>  | <b>634.489</b> | <b>819.159</b> |

**4.a.2.2 Information on available-for-sale financial assets given as collateral or blockage:**

As of 31 December 2017, all available for sale financial assets given as collateral comprise of financial assets issued by the T.R. Undersecretariat of Treasury. The carrying value of those assets is TL 1.389.292.

|   | Prior period   |                |
|---|----------------|----------------|
|   | TL             | FC             |
| Share certificates                                    | -              | -              |
| Bond, Treasury bill and similar investment securities | 603.852        | 785.440        |
| Other   | -              | -              |
| <b>Total</b>  | <b>603.852</b> | <b>785.440</b> |

**4.b.1 Major types of financial assets at fair value through other comprehensive income:**

Financial assets at fair value through other comprehensive income comprised of government bonds 58,72%, Eurobonds 34,06% and shares and other securities 7,22%.

**4.b.2 Major types of available for sale financial assets:**

Available for sale financial assets comprised of government bonds 58,93%, Eurobonds 32,67% and shares and other securities 8,27% as of 31 December 2017.



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**SECTION FIVE (Continued)**

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

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

**4. Information on financial assets at fair value through other comprehensive income (continued):**

**4.c.1 Information on financial assets at fair value through other comprehensive income:**

|                            | <b>Current Period (1)</b> |
|----------------------------|---------------------------|
| Debt securities            | 3.503.459                 |
| Quoted on a stock exchange | 2.252.288                 |
| Unquoted                   | 1.251.171                 |
| Share certificates         | 99.306                    |
| Quoted on a stock exchange | 10.533                    |
| Unquoted                   | 88.773                    |
| Impairment provision(-)    | (182.452)                 |
| <b>Total</b>               | <b>3.420.313</b>          |

(1) Provision amounting to TL 243 is allocated in "financial assets at fair value through other comprehensive income" due to transition of TFRS 9.

The net book value of unquoted financial assets at fair value through other comprehensive income share certificates is TL 74.161.

**4.c.2 Information on available for sale financial assets:**

|                            | <b>Prior Period</b> |
|----------------------------|---------------------|
| Debt securities            | 3.066.387           |
| Quoted on a stock exchange | 2.039.864           |
| Unquoted                   | 1.026.523           |
| Share certificates         | 81.194              |
| Quoted on a stock exchange | 13.907              |
| Unquoted                   | 67.287              |
| Impairment provision(-)    | 56.209              |
| <b>Total</b>               | <b>3.091.372</b>    |

The net book value of unquoted available for sale share certificates is TL 62.401 as of 31 December 2017.

**6. Explanation on loans**

**5.a Information on all types of loans and advances given to shareholders and employees of the Bank:**

|  | <b>Current Period</b> |                       | <b>Prior Period</b> |                       |
|--|-----------------------|-----------------------|---------------------|-----------------------|
|  | <b>Cash Loans</b>     | <b>Non-Cash Loans</b> | <b>Cash Loans</b>   | <b>Non-Cash Loans</b> |
| Direct loans granted to shareholders   | 102.776               | -                     | 44.909              | -                     |
| Corporate shareholders                 | 102.776               | -                     | 44.909              | -                     |
| Real person shareholders               | -                     | -                     | -                   | -                     |
| Indirect loans granted to shareholders | -                     | -                     | -                   | -                     |
| Loans granted to employees             | 662                   | -                     | 173                 | -                     |
| <b>Total</b>                           | <b>103.438</b>        | <b>-</b>              | <b>45.082</b>       | <b>-</b>              |



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**SECTION FIVE (Continued)**

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

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

**5. Explanation on loans**

**5.b Information on the first and second group loans and other receivables including restructured or rescheduled loans:**

**5.b.1 Loans measured at Fair Value through Profit/Loss:**

| Current Period                                       | Net Book Value |
|--|----------------|
| Loans Measured at Fair Value through Profit/Loss (*) | 290.660        |

(\*)Include the loan granted to the special purpose entity as detailed in Section Five Note 16. This loan is accounted under loans measured at fair value through profit/loss as per TFRS 9.

**5.b.2 Loans measured at Amortized Cost**

| Current Period (1)              | Standard Loans    | Loans Under Close Monitoring       |                                      |                |
|---------------------------------|-------------------|------------------------------------|--------------------------------------|----------------|
|                                 |                   | Loans Not Subject to Restructuring | Amendments on Conditions of Contract |                |
| Cash Loans                      |                   |                                    | Loans with Revised Contract Terms    | Refinance      |
| Non-specialized loans           | 24.556.445        | 1.716.827                          | 219.817                              | 716.255        |
| Working Capital loans           | 2.761.098         | 35.345                             | -                                    | 716.255        |
| Export loans                    | 443.697           | -                                  | 66.900                               | -              |
| Import loans                    | -                 | -                                  | -                                    | -              |
| Loans given to financial sector | 2.986.797         | -                                  | -                                    | -              |
| Consumer loans                  | 662               | -                                  | -                                    | -              |
| Credit cards                    | -                 | -                                  | -                                    | -              |
| Other                           | 18.364.191        | 1.681.482                          | 152.917                              | -              |
| Specialized loans               | -                 | -                                  | -                                    | -              |
| Other receivables               | 128.765           | -                                  | -                                    | -              |
| <b>Total</b>                    | <b>24.685.210</b> | <b>1.716.827</b>                   | <b>219.817</b>                       | <b>716.255</b> |

(1) According to Bank account plan purchasing Loans, Fleet Leasing Credits, Refinancing Loans and Portfolio Transfer Credits amounting to TL 5.168.405 shown under "Working Capital Loans", due to the nature of "Investment" shown under the category "other" in the above footnote.



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**SECTION FIVE (Continued)**

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

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

**5. Explanations on loans (continued)**

**5.b Information on the first and second group loans and other receivables including restructured or rescheduled loans:**

| Prior Period (1)                | Standard Loans and Other Receivables |   |          | Loans and Other Receivables Under Close Monitoring (2) |   |          |
|---------------------------------|--------------------------------------|---|----------|--|---|----------|
|                                 | Loans and Other Receivables (Total)  | Amendments on Conditions of Contract                    |          | Loans and Other Receivables (Total)                    | Amendments on Conditions of Contract                    |          |
| Cash Loans                      |                                      | Amendments Related to the Extension of the Payment Plan | Other    |  | Amendments Related to the Extension of the Payment Plan | Other    |
| Non-specialized loans           | 21.757.352                           | 48.415  | -        | 473.661  | 143.423   | -        |
| Working Capital loans           | 2.930.594                            | -   | -        | 1.212  | 1.212   | -        |
| Export loans                    | 248.568                              | -   | -        | 48.440   | 48.440  | -        |
| Import loans                    | -                                    | -   | -        | -  | -   | -        |
| Loans given to financial sector | 2.795.036                            | -   | -        | -  | -   | -        |
| Consumer loans                  | 173                                  | -   | -        | -  | -   | -        |
| Credit cards                    | -                                    | -   | -        | -  | -   | -        |
| Other                           | 15.782.981                           | 48.415  | -        | 424.009  | 93.771  | -        |
| Specialized loans               | -                                    | -   | -        | -  | -   | -        |
| Other receivables               | 106.217                              | -   | -        | -  | -   | -        |
| <b>Total</b>                    | <b>21.863.569</b>                    | <b>48.415</b>   | <b>-</b> | <b>473.661</b>   | <b>143.423</b>  | <b>-</b> |

(1) According to Bank account plan purchasing Loans, Fleet Leasing Credits, Refinancing Loans and Portfolio Transfer Credits amounting to TL 4.523.571 shown under "Working Capital Loans", due to the nature of "Investment" shown under the category "other" in the above footnote.

(2) The syndicated loans granted to a company amounting to USD 78.661.835 are classified under Close Monitoring Loans and Other receivables as of 31 December 2017. Discussions between creditor banks and related sovereign institutions about restructuring of loan of this company are proceeding.

| Current Period                      | Standard Loans | Loans under Close Monitoring |
|-------------------------------------|----------------|------------------------------|
| 12 Months Expected Credit Loss      | 135.537        | -                            |
| Significant Increase in Credit Risk | -              | 211.140                      |

Information of prior period is not given because of transition process.



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

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

**5. Explanations on loans (continued)**

**5.b Information on the first and second group loans and other receivables including restructured or rescheduled loans (continued):**

| <b>Current Period</b>  |                       |                                     |
|--|-----------------------|-------------------------------------|
| <b>Number of amendments related to the extension of the payment plan</b> | <b>Standard Loans</b> | <b>Loans Under Close Monitoring</b> |
| Extended for 1 or 2 times  | 59.471                | 199.478                             |
| Extended for 3-4 or 5 times  | -                     | -                                   |
| Extended for more than 5 times   | -                     | -                                   |

| <b>Prior Period</b>  |   |   |
|--|---|---|
| <b>Number of amendments related to the extension of the payment plan</b> | <b>Standard Loans and Other Receivables</b> | <b>Loans and Other Receivables Under Close Monitoring</b> |
| Extended for 1 or 2 times  | 48.415                                      | 142.211   |
| Extended for 3,4 or 5 times  | -   | 1.212   |
| Extended for more than 5 times   | -   | -   |

| <b>Current Period</b>                                      |                       |                                     |
|--|-----------------------|-------------------------------------|
| <b>The time extended via the amendment on payment plan</b> | <b>Standard Loans</b> | <b>Loans Under Close Monitoring</b> |
| 0-6 Months   | -                     | -                                   |
| 6 Months - 12 Months                                       | -                     | -                                   |
| 1-2 Years  | -                     | 17.430                              |
| 2-5 Years  | 59.471                | 156.266                             |
| 5 Years and Over   | -                     | 25.782                              |

| <b>Prior Period</b>  |   |   |
|--|---|---|
| <b>The time extended via the amendment on payment plan</b> | <b>Standard Loans and Other Receivables</b> | <b>Loans and Other Receivables Under Close Monitoring</b> |
| 0-6 Months   | -   | -   |
| 6 Months - 12 Months                                       | -   | -   |
| 1-2 Years  | -   | 27.946  |
| 2-5 Years  | 48.415                                      | 96.688  |
| 5 Years and Over   | -   | 18.789  |



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

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

**5. Explanations on loans (continued)**

**5.c Loans according to their maturity structure:**

| Current Period (*)           | Standard Loans | Loans Under Close Monitoring |              |
|------------------------------|----------------|------------------------------|--------------|
|                              |                | Nonrestructured              | Restructured |
| Short-term loans             | 1.335.812      | 324.260                      | 66.900       |
| Non-specialized loans        | 1.207.047      | 324.260                      | 66.900       |
| Specialized loans            | -              | -                            | -            |
| Other receivables            | 128.765        | -                            | -            |
| Orta ve Uzun Vadeli Krediler | 23.349.398     | 1.392.567                    | 869.172      |
| Non-specialized loans        | 23.349.398     | 1.392.567                    | 869.172      |
| Specialized loans            | -              | -                            | -            |
| Other receivables            | -              | -                            | -            |

(\*)It does not include loans measured at fair value through profit/loss.

**5.c Loans according to their maturity structure:**

| Prior Period                           | Standard Loans and Other Receivables |                             | Loans and Other Receivables Under Close Monitoring |                             |
|--|--------------------------------------|-----------------------------|--|-----------------------------|
|  | Loans and Other Receivables (Total)  | Restructured or Rescheduled | Loans and Other Receivables (Total)                | Restructured or Rescheduled |
| Short-term loans and other receivables | 662.731                              | -                           | -  | -                           |
| Non-specialized loans                  | 593.265                              | -                           | -  | -                           |
| Specialized loans                      | -                                    | -                           | -  | -                           |
| Other receivables                      | 69.466                               | -                           | -  | -                           |
| Medium and Long-term loans             | 16.478.202                           | 49.896                      | 195.112  | 145.098                     |
| Non-specialized loans                  | 16.478.202                           | 49.896                      | 195.112  | 145.098                     |
| Specialized loans                      | -                                    | -                           | -  | -                           |
| Other receivables                      | -                                    | -                           | -  | -                           |



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

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

**5. Explanations on loans (continued)**

**5.d Information on consumer loans, individual credit cards, personnel loans and credit cards given to personnel:**

| <b>Current Period</b>                 | <b>Short Term</b> | <b>Medium and Long Term</b> | <b>Total</b> |
|---------------------------------------|-------------------|-----------------------------|--------------|
| Consumer Loans-TL                     | -                 | -                           | -            |
| Real Estate Loans                     | -                 | -                           | -            |
| Vehicle Loans                         | -                 | -                           | -            |
| General Purpose Loans                 | -                 | -                           | -            |
| Other                                 | -                 | -                           | -            |
| Consumer Loans -Indexed to FC         | -                 | -                           | -            |
| Real Estate Loans                     | -                 | -                           | -            |
| Vehicle Loans                         | -                 | -                           | -            |
| General Purpose Loans                 | -                 | -                           | -            |
| Other                                 | -                 | -                           | -            |
| Consumer Loans-FC                     | -                 | -                           | -            |
| Real Estate Loans                     | -                 | -                           | -            |
| Vehicle Loans                         | -                 | -                           | -            |
| General Purpose Loans                 | -                 | -                           | -            |
| Other                                 | -                 | -                           | -            |
| Individual Credit Cards-TL            | -                 | -                           | -            |
| With Instalments                      | -                 | -                           | -            |
| Without Instalments                   | -                 | -                           | -            |
| Individual Credit Cards-FC            | -                 | -                           | -            |
| With Instalments                      | -                 | -                           | -            |
| Without Instalments                   | -                 | -                           | -            |
| Personnel Loans- TL                   | 65                | 597                         | 662          |
| Real Estate Loans                     | -                 | -                           | -            |
| Vehicle Loans                         | -                 | -                           | -            |
| General Purpose Loans                 | 65                | 597                         | 662          |
| Other                                 | -                 | -                           | -            |
| Personnel Loans- Indexed to FC        | -                 | -                           | -            |
| Real Estate Loans                     | -                 | -                           | -            |
| Vehicle Loans                         | -                 | -                           | -            |
| General Purpose Loans                 | -                 | -                           | -            |
| Other                                 | -                 | -                           | -            |
| Personnel Loans-FC                    | -                 | -                           | -            |
| Real Estate Loans                     | -                 | -                           | -            |
| Vehicle Loans                         | -                 | -                           | -            |
| General Purpose Loans                 | -                 | -                           | -            |
| Other                                 | -                 | -                           | -            |
| Personnel Credit Cards- TL            | -                 | -                           | -            |
| With Instalments                      | -                 | -                           | -            |
| Without Instalments                   | -                 | -                           | -            |
| Personnel Credit Cards-FC             | -                 | -                           | -            |
| With Instalments                      | -                 | -                           | -            |
| Without Instalments                   | -                 | -                           | -            |
| Overdraft Accounts- TL (Real Persons) | -                 | -                           | -            |
| Overdraft Accounts-FC (Real Persons)  | -                 | -                           | -            |
| <b>Total</b>                          | <b>65</b>         | <b>597</b>                  | <b>662</b>   |



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**EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS**

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

**5. Explanations on loans (continued)**

**5.d Information on consumer loans, individual credit cards, personnel loans and credit cards given to personnel (continued):**

| <b>Prior Period</b>                   | <b>Short Term</b> | <b>Medium and Long Term</b> | <b>Total</b> |
|---------------------------------------|-------------------|-----------------------------|--------------|
| Consumer Loans-TL                     | -                 | -                           | -            |
| Real Estate Loans                     | -                 | -                           | -            |
| Car Loans                             | -                 | -                           | -            |
| General Purpose Loans                 | -                 | -                           | -            |
| Other                                 | -                 | -                           | -            |
| Consumer Loans -Indexed to FC         | -                 | -                           | -            |
| Real Estate Loans                     | -                 | -                           | -            |
| Car Loans                             | -                 | -                           | -            |
| General Purpose Loans                 | -                 | -                           | -            |
| Other                                 | -                 | -                           | -            |
| Consumer Loans-FC                     | -                 | -                           | -            |
| Real Estate Loans                     | -                 | -                           | -            |
| Car Loans                             | -                 | -                           | -            |
| General Purpose Loans                 | -                 | -                           | -            |
| Other                                 | -                 | -                           | -            |
| Individual Credit Cards-TL            | -                 | -                           | -            |
| With Instalments                      | -                 | -                           | -            |
| Without Instalments                   | -                 | -                           | -            |
| Individual Credit Cards-FC            | -                 | -                           | -            |
| With Instalments                      | -                 | -                           | -            |
| Without Instalments                   | -                 | -                           | -            |
| Personnel Loans- TL                   | 5                 | 168                         | 173          |
| Real Estate Loans                     | -                 | -                           | -            |
| Car Loans                             | -                 | -                           | -            |
| General Purpose Loans                 | 5                 | 168                         | 173          |
| Other                                 | -                 | -                           | -            |
| Personnel Loans- Indexed to FC        | -                 | -                           | -            |
| Real Estate Loans                     | -                 | -                           | -            |
| Car Loans                             | -                 | -                           | -            |
| General Purpose Loans                 | -                 | -                           | -            |
| Other                                 | -                 | -                           | -            |
| Personnel Loans-FC                    | -                 | -                           | -            |
| Real Estate Loans                     | -                 | -                           | -            |
| Car Loans                             | -                 | -                           | -            |
| General Purpose Loans                 | -                 | -                           | -            |
| Other                                 | -                 | -                           | -            |
| Personnel Credit Cards- TL            | -                 | -                           | -            |
| With Instalments                      | -                 | -                           | -            |
| Without Instalments                   | -                 | -                           | -            |
| Personnel Credit Cards-FC             | -                 | -                           | -            |
| With Instalments                      | -                 | -                           | -            |
| Without Instalments                   | -                 | -                           | -            |
| Overdraft Accounts- TL (Real Persons) | -                 | -                           | -            |
| Overdraft Accounts-FC (Real Persons)  | -                 | -                           | -            |
| <b>Total</b>                          | <b>5</b>          | <b>168</b>                  | <b>173</b>   |



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**(Continued)**

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

**5. Explanations on loans (continued)**

**5.e Information on commercial loans with instalments and corporate credit cards:**

The Parent Bank has not granted any commercial loans with instalments and corporate credit cards as of the reporting date (31 December 2017: None).

**5.f Loans according to borrowers:**

|              | Current Period    | Prior Period      |
|--------------|-------------------|-------------------|
| Public       | 584.752           | 878.502           |
| Private      | 27.044.017        | 21.458.728        |
| <b>Total</b> | <b>27.628.769</b> | <b>22.337.230</b> |

(\*)Includes fair value through profit or loss loans

**5.g Domestic and foreign loans:**

|                | Current Period    | Prior Period      |
|----------------|-------------------|-------------------|
| Domestic Loans | 27.529.071        | 22.229.418        |
| Foreign Loans  | 99.698            | 107.812           |
| <b>Total</b>   | <b>27.628.769</b> | <b>22.337.230</b> |

(\*)Includes fair value through profit or loss loans

**5.h Loans granted to subsidiaries and associates:**

|   | Current Period | Prior Period   |
|---|----------------|----------------|
| Direct loans granted to subsidiaries and associates   | 437.232        | 257.470        |
| Indirect loans granted to subsidiaries and associates | -              | -              |
| <b>Total</b>  | <b>437.232</b> | <b>257.470</b> |

**5.i.1 Specific provisions provided against loans or default (Stage 3) provisions:**

|  | Current Period |
|--|----------------|
| Loans and receivables with limited collectability  | 12.730         |
| Loans and receivables with doubtful collectability | 104.433        |
| Uncollectible loans and receivables                | 52.326         |
| <b>Total</b>                                       | <b>169.489</b> |

**5.i.2 Specific provisions provided against loans or default (Stage 3) provisions:**

|  | Prior Period  |
|--|---------------|
| Loans and receivables with limited collectability  | 985           |
| Loans and receivables with doubtful collectability | 4.894         |
| Uncollectible loans and receivables                | 43.643        |
| <b>Total</b>                                       | <b>49.522</b> |



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**(Continued)**

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

**5. Explanations on loans (continued)**

**5.j Information on non-performing loans (net):**

**5.j.1 Information on loans and other receivables restructured or rescheduled from non-performing loans:**

|  | <b>III. Group</b>                                 | <b>IV. Group</b>                                   | <b>V. Group</b>                     |
|--|---|--|-------------------------------------|
|  | Loans and Receivables With Limited Collectability | Loans and Receivables With Doubtful Collectability | Uncollectible Loans and Receivables |
| <b>Current Period</b>                    |   |  |                                     |
| Restructured loans and other receivables | -   | -  | 6.211                               |
| Rescheduled loans and other receivables  | -   | -  | 6.211                               |

|  | <b>III. Group</b>                                 | <b>IV. Group</b>                                   | <b>V. Group</b>                     |
|--|---|--|-------------------------------------|
|  | Loans and Receivables With Limited Collectability | Loans and Receivables With Doubtful Collectability | Uncollectible Loans and Receivables |
| <b>Prior Period</b>                      |   |  |                                     |
| (Gross amounts before provisions)        | -   | -  | 7.266                               |
| Restructured loans and other receivables | -   | -  | -                                   |
| Rescheduled loans and other receivables  | -   | -  | 7.266                               |

**5.j.2 Movement of non-performing loans:**

|   | <b>III. Group</b>                                 | <b>IV. Group</b>                                   | <b>V. Group</b>                     |
|---|---|--|-------------------------------------|
|   | Loans and Receivables With Limited Collectability | Loans and Receivables With Doubtful Collectability | Uncollectible Loans and Receivables |
| <b>Current Period</b>                                       |   |  |                                     |
| <b>Prior Period End Balance</b>                             | <b>985</b>  | <b>4.894</b>                                       | <b>47.696</b>                       |
| Additions (+)   | 490.340   | -  | 148.151                             |
| Transfers from Other Categories of Non-performing Loans (+) | -   | 469.603  | 4.894                               |
| Transfers to Other Categories of Non-performing Loans (-)   | 469.603   | 4.894  | -                                   |
| Collections (-)   | 319   | 7.637  | 1.144                               |
| Write-offs (-) (1)  | -   | -  | 147.271                             |
| Sold (-)  | -   | -  | -                                   |
| Corporate and Commercial Loans                              | -   | -  | -                                   |
| Retail Loans  | -   | -  | -                                   |
| Credit Cards  | -   | -  | -                                   |
| Other   | -   | -  | -                                   |
| Exchange rate differences of non-performing loans           | 1.316   | 60.199   | -                                   |
| <b>Current Period End Balance</b>                           | <b>22.719</b>                                     | <b>522.165</b>                                     | <b>52.326</b>                       |
| Provisions (-)  | 12.730  | 104.433  | 52.326                              |
| <b>Net Balance on Balance Sheet</b>                         | <b>9.989</b>                                      | <b>417.732</b>                                     | <b>-</b>                            |

(1) The shares that OTAS owns and which constitute 55% of Türk Telekom's issued capital are acquired by a company that is established or will be established for private purposes by creditors within the scope of restructuring of loans granted to Ojer Telekomünikasyon A.Ş. (OTAS), the main shareholder of Türk Telekomünikasyon A.Ş. (Türk Telekom). The portion of OTAS current exposure exceeding Türk Telekom's share value is written off as an expense. This amount which is written as expense according to the ownership rate USD 28 million (TL 146.730 thousands).



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

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

**5. Explanations on loans (continued)**

**5.j Information on non-performing loans (net) (continued):**

**5.j.2 Movement of non-performing loans (continued):**

|  | <b>III. Group</b>                                       | <b>IV. Group</b>  | <b>V. Group</b>                        |
|--|---|---|--|
|  | Loans and Receivables<br>With Limited<br>Collectability | Loans and<br>Receivables With<br>Doubtful<br>Collectability | Uncollectible Loans<br>and Receivables |
| <b>Prior Period</b>  |   |   |  |
| <b>Prior Period End Balance</b>                                | <b>3.092</b>  | <b>-</b>  | <b>48.523</b>                          |
| Additions (+)  | 4.895   | 1   | 1.540                                  |
| Transfers from Other Categories of Non-performing<br>Loans (+) | -   | 6.621   | 1.728                                  |
| Transfers to Other Categories of Non-performing<br>Loans (-)   | 6.621   | 1.728   | -                                      |
| Collections (-)  | 381   | -   | 4.095                                  |
| Write-offs (-)   | -   | -   | -                                      |
| Corporate and Commercial Loans                                 | -   | -   | -                                      |
| Retail Loans   | -   | -   | -                                      |
| Credit Cards   | -   | -   | -                                      |
| Other  | -   | -   | -                                      |
| <b>Current Period End Balance</b>                              | <b>985</b>  | <b>4.894</b>  | <b>47.696</b>                          |
| Provisions (-)   | 985   | 4.894   | 47.696                                 |
| <b>Net Balance on Balance Sheet</b>                            | <b>-</b>  | <b>-</b>  | <b>-</b>                               |

**5.j.3 Information on foreign currency non-performing loans and other receivables:**

|                                     | <b>III. Group</b>                                       | <b>IV. Group</b>  | <b>V. Group</b>                        |
|-------------------------------------|---|---|--|
|                                     | Loans and Receivables<br>With Limited<br>Collectability | Loans and<br>Receivables With<br>Doubtful<br>Collectability | Uncollectible Loans<br>and Receivables |
| <b>Current Period</b>               |   |   |  |
| Period End Balance                  | 2.098   | 522.165   | 32.126                                 |
| Provision (-)                       | 356   | 104.433   | 32.126                                 |
| <b>Net Balance on Balance Sheet</b> | <b>1.742</b>  | <b>417.732</b>  | <b>-</b>                               |
| <b>Prior Period:</b>                |   |   |  |
| Period End Balance                  | 982   | -   | -                                      |
| Specific Provision (-)              | 982   | -   | -                                      |
| <b>Net Balance on Balance Sheet</b> | <b>-</b>  | <b>-</b>  | <b>-</b>                               |



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

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

**5. Explanations on loans (continued)**

**5.j Information on non-performing loans (net) (continued):**

**5.j.4 Information regarding gross and net amounts of non-performing loans with respect to user groups:**

|  | <b>III. Group</b>                 | <b>IV. Group</b>                   | <b>V. Group</b>     |
|--|-----------------------------------|------------------------------------|---------------------|
|  | Loans With Limited Collectability | Loans With Doubtful Collectability | Uncollectible Loans |
| <b>Current Period (Net)</b>                      |                                   |                                    |                     |
| Loans to Real Persons and Legal Entities (Gross) | 22.719                            | 522.165                            | 47.490              |
| Provision Amount (-)                             | 12.730                            | 104.433                            | 47.490              |
| Loans to Real Persons and Legal Entities (Net)   | 9.989                             | 417.732                            | -                   |
| Banks (Gross)                                    | -                                 | -                                  | -                   |
| Provision Amount (-)                             | -                                 | -                                  | -                   |
| Banks (Net)                                      | -                                 | -                                  | -                   |
| Other Loans (Gross)                              | -                                 | -                                  | 4.836               |
| Provision Amount (-)                             | -                                 | -                                  | 4.836               |
| Other Loans and Receivables (Net)                | -                                 | -                                  | -                   |

**5.j.5 Information on interest accruals, rediscount, and valuation differences calculated for non-performing loans and their provisions:**

(1) Information of prior period is not given because of transition process..

|  | <b>III. Group</b>                                 | <b>IV. Group</b>                                   | <b>V. Group</b>                     |
|--|---|--|-------------------------------------|
|  | Loans and Receivables With Limited Collectability | Loans and Receivables With Doubtful Collectability | Uncollectible Loans and Receivables |
| <b>Prior Period (Net)</b>                        |   |  |                                     |
| Loans to Real Persons and Legal Entities (Gross) | 985   | 4.894  | 43.643                              |
| Provision Amount (-)                             | 985   | 4.894  | 43.643                              |
| Loans to Real Persons and Legal Entities (Net)   | -   | -  | -                                   |
| Banks (Gross)                                    | -   | -  | -                                   |
| Provision Amount (-)                             | -   | -  | -                                   |
| Banks (Net)                                      | -   | -  | -                                   |
| Other Loans (Gross)                              | -   | -  | -                                   |
| Provision Amount (-)                             | -   | -  | -                                   |
| Other Loans (Net)                                | -   | -  | -                                   |

|   | <b>III. Group</b>                 | <b>IV. Group</b>                   | <b>V. Group</b>     |
|---|-----------------------------------|------------------------------------|---------------------|
|   | Loans With Limited Collectability | Loans With Doubtful Collectability | Uncollectible Loans |
| <b>Current Period (Net) (1)</b>                             | <b>1.089</b>                      | <b>48.159</b>                      | <b>-</b>            |
| Interest Accruals and Rediscount with Valuation Differences | 1.316                             | 60.199                             | -                   |
| Provision amount (-)  | 227                               | 12.040                             | -                   |



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

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

**5.k Main principles of liquidating non-performing loans and receivables:**

If there are collaterals received in according to Article 13 of the “Regulation on the Procedures And Principles For Determination of Qualifications of Loans and Other Receivables By Banks And Provisions to be Set Aside”, these collaterals are converted into cash as soon as possible as a result of both administrative and legal proceedings.

In the absence of collaterals, even if there is evidence of insolvency for the debtor, several financial investigations are apply at various periods to determine whether any property are subsequently acquired and legal proceedings are being followed.

Before and after the beginning of the liquidation process; the Bank management makes investigations on the financial data of the debtor companies. As a result of these investigations, if the Bank management agrees that the companies show any indication of operating on an ongoing basis and probably are going to have contributions in the economic environment in the future; the Bank management tries to make the collection through rescheduling the payment terms.

**5.l Explanations about the write-off policies from the assets:**

If there is no collateral against uncollectible loans and receivables and if the receivable amount is less than the cost; tax, fee, and other expenses, made for the legal actions, the receivable is written off from the assets upon the request of the Credit Monitoring Department and the approval of the General Management.

However, if there is a collateral against the receivable and after all the costs of legal actions are fulfilled, and if there is still a part of receivables not collected, the receivables are written off after getting of pledge shortage and evidence of insolvency subsequently.

**6. Information on held-to-maturity investments**

**6.a.1 The information was subjected to repo transactions and given as collateral/blocked amount of investments :**

|                                    | Current Period |                |
|------------------------------------|----------------|----------------|
|                                    | TL             | FC             |
| Collateralised/Blocked Investments | 39.757         | 46.078         |
| Subject to Repurchase Agreements   | -              | 248.394        |
| <b>Total</b>                       | <b>39.757</b>  | <b>294.472</b> |

**6.a.2 The information was subjected to repo transactions and given as collateral/blocked amount of investments :**

|                                    | Prior Period   |                |
|------------------------------------|----------------|----------------|
|                                    | TL             | FC             |
| Collateralised/Blocked Investments | 145.439        | 45.742         |
| Subject to Repurchase Agreements   | 455.539        | 96.539         |
| <b>Total</b>                       | <b>600.978</b> | <b>142.281</b> |

**6.b.1 Information on government debt investments held-to-maturity:**

|                                  | Current Period   |
|----------------------------------|------------------|
| Government Bonds                 | 2.154.941        |
| Treasury Bills                   | -                |
| Other Government Debt Securities | -                |
| <b>Total</b>                     | <b>2.154.941</b> |



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**SECTION FIVE (Continued)**

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

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

**6.b.2 Information on government debt investments held-to-maturity:**

|                                  | Prior Period     |
|----------------------------------|------------------|
| Government Bonds                 | 1.532.047        |
| Treasury Bills                   | -                |
| Other Government Debt Securities | -                |
| <b>Total</b>                     | <b>1.532.047</b> |

**6.c.1 Information on held-to-maturity investments :**

|                                  | Current Period   |
|----------------------------------|------------------|
| <b>Debt Securities</b>           |                  |
| Quoted on a Stock Exchange       | 1.735.522        |
| Not Quoted                       | 419.419          |
| <b>Value Increase/(Decrease)</b> | <b>-</b>         |
| <b>Total</b>                     | <b>2.154.941</b> |

**6.c.2 Information on held-to-maturity investments :**

|                                  | Prior Period     |
|----------------------------------|------------------|
| <b>Debt Securities</b>           |                  |
| Quoted on a Stock Exchange       | 1.334.722        |
| Not Quoted                       | 199.228          |
| <b>Value Increase/(Decrease)</b> | <b>(1.903)</b>   |
| <b>Total</b>                     | <b>1.532.047</b> |

**6.d.1 Movement of held-to-maturity investments within the year :**

|   | Current Period (1) |
|---|--------------------|
| <b>Balance at Beginning of the Period</b>       | <b>1.532.047</b>   |
| Foreign Currency Differences on Monetary Assets | 51.793             |
| Purchases During The Period                     | 227.528            |
| Disposals Through Sales And Redemptions         | -                  |
| Impairment Provision                            | -                  |
| Interest Income Accruals                        | 343.573            |
| <b>Balance at End of Period</b>                 | <b>2.154.941</b>   |

(1) Provision amounting to TL 1.628 is allocated in "Financial asset measured at amortized cost" due to transition of TFRS9.

**6.d.2 Movement of held-to-maturity investments within the year :**

|   | Prior Period     |
|---|------------------|
| <b>Balance at Beginning of the Period</b>       | <b>1.375.729</b> |
| Foreign Currency Differences on Monetary Assets | 13.914           |
| Purchases During The Period                     | -                |
| Disposals Through Sales And Redemptions         | (836)            |
| Impairment Provision                            | (1.903)          |
| Interest Income Accruals                        | 145.143          |
| <b>Balance at End of Period</b>                 | <b>1.532.047</b> |



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

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

**7. Information on investments in associates (net):**

**7.a.1 As per Communiqué on Preparation of Consolidated Financial Statements of Banks and Turkish Accounting Standards unconsolidated associates and reason of unconsolidating:**

Unconsolidated non-financial associates are valued at cost.

**7.a.2 Information on unconsolidated associates:**

|   | Title  | Address<br>(City/ Country) | Bank's share<br>percentage-If<br>different voting<br>percentage (%) | Bank's risk<br>group share<br>percentage<br>(%) |
|---|--|----------------------------|---|---|
| 1 | Terme Metal Sanayi ve Ticaret A.Ş. (Terme)             | Istanbul/Turkey            | 17,83   | 18,76   |
| 2 | Ege Tarım Ürünleri Lisanslı Depoculuk A.Ş. (Ege Tarım) | Izmir/Turkey               | 10,05   | 20,10   |

Non-financial associates, as above, are not consolidated in accordance with the Communiqué on "Preparing Consolidated Financial Statements of the Banks".

|   |           | Total<br>Assets | Equity | Total<br>Fixed<br>Assets | Interest<br>Income | Income from<br>Marketable<br>Securities<br>Portfolio | Current<br>Period Profit<br>/Loss | Prior Period<br>Profit/Loss | Fair<br>Value |
|---|-----------|-----------------|--------|--------------------------|--------------------|--|-----------------------------------|-----------------------------|---------------|
| 1 | Terme (1) | 18.206          | 5.308  | 1.578                    | -                  | -  | (160)                             | (455)                       | -             |
| 2 | Ege Tarım | 12.481          | 11.702 | 8.103                    | 186                | -  | 1.730                             | (534)                       | -             |

(1) Represents for the period ended 31 December 2017 financial statements. Prior year profit/loss is obtained from 31 December 2016 financial statements.

**Information on associates disposed in the current period**

In the current period the Group has not disposed any associates.

**Information on associates purchased in the current period**

In the current period the Group has not purchased any associates.

**7.a.3 Information on the consolidated associates:**

|   | Title  | Address (City/ Country) | Bank's share<br>percentage-If<br>different voting<br>percentage (%) | Bank's risk<br>group share<br>percentage (%) |
|---|--|-------------------------|---|--|
| 1 | İş Faktoring A.Ş. (İş Faktoring)                         | Istanbul/Turkey         | 21,75   | 100,00                                       |
| 2 | İş Finansal Kiralama A.Ş. (İş Finansal)                  | Istanbul/Turkey         | 29,46   | 60,92  |
| 3 | İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. (İş Girişim) | Istanbul/Turkey         | 16,67   | 57,68  |



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

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

**7. Information on investments in associates (net) (continued):**

**7.a.3 Information on the consolidated associates (continued):**

|   |              | Total Assets | Equity    | Total Fixed Assets | Interest Income | Income from Marketable Securities Portfolio | Current Period Profit/Loss | Prior Period Profit/Loss | Fair Value |
|---|--------------|--------------|-----------|--------------------|-----------------|---|----------------------------|--------------------------|------------|
| 1 | İş Faktoring | 2.770.655    | 301.124   | 1.373              | 489.758         | -   | 147.016                    | 49.530                   | 46.010     |
| 2 | İş Finansal  | 8.681.652    | 1.085.014 | 13.486             | 975.831         | -   | 197.536                    | 74.200                   | 945.385    |
| 3 | İş Girişim   | 262.226      | 259.965   | 60                 | 8.618           | 2.453                                       | 3.074                      | 946                      | 25.058     |

|   | Current Period  | Prior Period   |
|---|-----------------|----------------|
| <b>Balance at the Beginning of the Period</b> | <b>374.425</b>  | <b>322.922</b> |
| <b>Effect of TFRS 9</b>                       | <b>(18.630)</b> | <b>-</b>       |
| <b>Balance at January 1, 2018</b>             | <b>355.795</b>  | <b>322.922</b> |
| 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)        | -              |
| <b>Balance at the End of the Period</b>       | <b>428.490</b>  | <b>374.425</b> |
| Capital Commitments                           | -               | -              |
| Share Percentage at the End of the Period (%) | -               | -              |

(1) Özkaynak yöntemi ile muhasebeleştirme farklarını içermektedir.

**Information on associates disposed in the current period**

In the current period the Group has not disposed any associates.

**Information on associates purchased in the current period**

In current period the Group has not purchased any associates.

**7.a.4 Sectoral information of consolidated associates and the related carrying amounts in the legal books:**

|                             | Current Period | Prior Period |
|-----------------------------|----------------|--------------|
| Banks                       | -              | -            |
| Insurance Companies         | -              | -            |
| Factoring Companies         | 65.494         | 83.226       |
| Leasing Companies           | 319.645        | 247.371      |
| Financial Service Companies | -              | -            |
| Other Financial Associates  | 43.351         | 43.828       |

**7.a.5 Information on consolidated associates quoted on stock market:**

|   | Cari Dönem | Önceki Dönem |
|---|------------|--------------|
| Associates Quoted on Domestic Stock Markets | 362.996    | 291.199      |
| Associates Quoted on Foreign Stock Markets  | -          | -            |



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

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

**8. Information related to subsidiaries (net)**

**8.a.1 Information related to equity component of subsidiaries:**

|  | <b>YF</b>             | <b>TSKB GYO</b>       |
|--|-----------------------|-----------------------|
| <b>Current Period (1)</b>                        | <b>Current Period</b> | <b>Current Period</b> |
| <b>CORE CAPITAL</b>                              |                       |                       |
| Paid-in Capital                                  | 63.504                | 300.000               |
| Share Premium                                    | -                     | 593                   |
| Legal Reserves                                   | 2.833                 | 8.777                 |
| Other Comprehensive Income/Loss according to TAS | 17.261                | -                     |
| Current and Prior Years' Profit                  | 18.249                | (44.614)              |
| Leasehold Improvements (-)                       | 360                   | -                     |
| Intangible Assets (-)                            | 714                   | 28                    |
| <b>Total Core Capital</b>                        | <b>100.773</b>        | <b>264.728</b>        |
| <b>Supplementary Capital</b>                     | <b>-</b>              | <b>-</b>              |
| <b>Capital</b>                                   | <b>-</b>              | <b>-</b>              |
| <b>Net Available Capital</b>                     | <b>100.773</b>        | <b>264.728</b>        |

(1) The information is obtained from financial statements subject to consolidation as of 31 December 2018.

|   | <b>YF</b>           | <b>TSKB GYO</b>     |
|---|---------------------|---------------------|
| <b>Prior Period (1)</b>                     | <b>Prior Period</b> | <b>Prior Period</b> |
| <b>CORE CAPITAL</b>                         |                     |                     |
| Paid-in Capital                             | 64.275              | 150.000             |
| Share Premium                               | -                   | 593                 |
| Legal Reserves                              | 2.514               | 8.787               |
| Other Comprehensive Income according to TAS | 9.759               | 4                   |
| Current and Prior Years' Profit / Loss      | 8.239               | 17.094              |
| Leasehold Improvements (-)                  | 408                 | -                   |
| Intangible Assets (-)                       | 915                 | 25                  |
| <b>Total Core Capital</b>                   | <b>83.464</b>       | <b>176.453</b>      |
| <b>Supplementary Capital</b>                | <b>-</b>            | <b>-</b>            |
| <b>Capital</b>                              | <b>-</b>            | <b>-</b>            |
| <b>Net Available Capital</b>                | <b>83.464</b>       | <b>176.453</b>      |

(1) The information is obtained from financial statements subject to consolidation as of 31 December 2017.

Paid in capital has been indicated as Turkish Lira in articles of incorporation and registered in trade registry. Effect of inflation adjustments on paid in capital is the difference caused by the inflation adjustment on shareholders' equity items. Extraordinary reserves are the status reserves which have been transferred with the General Assembly decision after distributable profit have been transferred to legal reserves. Legal reserves are the status reserves which have been transferred from distributable profit in accordance with the Article of 519 of the Turkish Commercial Code No 6102. The Parent Bank's internal capital adequacy assessment process is made annually on a consolidated basis. Consolidated subsidiaries and associates are included in the assessment.



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

**8. Information related to subsidiaries (net) (continued)**

**8.a.2 As per Communiqué on Preparation of Consolidated Financial Statements of Banks and Turkish Accounting Standards unconsolidated subsidiaries and reason of unconsolidating and needed capital if they are subject to capital requirement:**

TSKB Gayrimenkul Değerleme A.Ş., and TSKB Sürdürülebilirlik Danışmanlığı A.Ş. are valued at cost and are not consolidated since they are not financial subsidiaries. Unconsolidated subsidiaries of the Parent Bank are not subject to minimum capital requirement.

**8.a.3 Information related to unconsolidated subsidiaries:**

|   | Title  | Address (City/<br>Country) | Bank's share percentage-<br>If different voting<br>percentage (%) | Bank's risk group share<br>percentage (%) |
|---|--|----------------------------|---|---|
| 1 | TSKB Gayrimenkul Değerleme A.Ş. (TSKB GMD)         | Istanbul /Türkiye          | 99,99   | 99,99                                     |
| 2 | TSKB Sürdürülebilirlik Danışmanlığı A.Ş. (TSKB SD) | Istanbul/Türkiye           | 80,19   | 99,83                                     |

|   |          | Total<br>Assets | Shareholders'<br>Equity | Total Fixed<br>Assets | Interest<br>Income | Income from<br>Marketable<br>Securities<br>Portfolio | Current<br>Period<br>Profit/Loss | Prior<br>Period<br>Profit/Loss | Fair<br>Value |
|---|----------|-----------------|-------------------------|-----------------------|--------------------|--|----------------------------------|--------------------------------|---------------|
| 1 | TSKB GMD | 22.239          | 16.881                  | 1.096                 | 2.158              | -  | 2.328                            | 2.485                          | -             |
| 2 | TSKB SD  | 3.451           | 2.336                   | 6                     | 268                | -  | (1.407)                          | (571)                          | -             |

***Subsidiaries disposed in the current period***

In the current period, the Group has not disposed any subsidiaries.

***Subsidiaries purchased in the current period***

The Parent Bank and YFAŞ pledged capital contribution of TL 2,8 million and TL 0,7 million respectively for TSKB Sürdürülebilirlik Danışmanlığı A.Ş. and participated in this commitment by paying TL 2,4 million and TL 0,6 million respectively.

**8.a.4 Information related to consolidated subsidiaries:**

|   | Title  | Address (City/<br>Country) | Bank's share<br>percentage-If different<br>voting percentage (%) | Bank's risk group<br>share percentage<br>(%) |
|---|--|----------------------------|--|--|
| 1 | Yatırım Finansman Menkul Değerler A.Ş.(YF)         | Istanbul /Turkey           | 95,78  | 98,51  |
| 2 | TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. (TSKB GYO) | Istanbul/Turkey            | 85,41  | 86,23  |

|              | Total<br>Assets | Equity  | Total<br>Fixed<br>Assets | Interest<br>Income | Income from<br>Marketable<br>Securities<br>Portfolio | Current<br>Period<br>Profit/Loss | Prior<br>Period<br>Profit/Loss | Fair<br>Value |
|--------------|-----------------|---------|--------------------------|--------------------|--|----------------------------------|--------------------------------|---------------|
| YF (1)       | 584.104         | 101.847 | 1.403                    | 73.166             | 1.494  | 11.619                           | 8.401                          | 90.034        |
| TSKB GYO (1) | 511.187         | 264.756 | 319                      | 2.114              | -  | (61.455)                         | (21.724)                       | (211.144)     |

(1) The consolidated financial data of the subsidiaries are prepared in accordance with BRSA regulations.



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**EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS**  
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**I. Explanations and disclosures related to the consolidated assets (continued)**

**8. Information related to subsidiaries (net) (continued)**

**8.a.4 Information related to consolidated subsidiaries (continued):**

Unconsolidated movement related subsidiaries subjected to consolidation is as follows:

|   | Current Period | Prior Period   |
|---|----------------|----------------|
| <b>Balance at the Beginning of the Period</b> | <b>134.976</b> | <b>127.984</b> |
| Movements During the Period                   | 166.202        | 6.992          |
| Purchases                                     | 164.494        | -              |
| Bonus Shares Obtained                         | -              | -              |
| Current Year Shares of Profit                 | -              | -              |
| Sales   | -              | -              |
| Revaluation Increase                          | 2.900          | 6.992          |
| Provision for Impairment                      | (1.192)        | -              |
| <b>Balance At the End of the Period</b>       | <b>301.178</b> | <b>134.976</b> |
| Capital Commitments                           | -              | -              |
| Share Percentage at the End of the Period (%) | -              | -              |

(1)The mentioned amount is impairment provision of the shares of TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. (TSKB GYO) is ,under “Financial Assets at Fair Value Through Other Comprehensive Income” and classified under “Joint Ventures” during the prior period of the Bank.

According to the principles of consolidation accounting, the cost values of the consolidated subsidiaries have been deducted from the accompanying consolidated financial statements.

***Subsidiaries disposed in the current period***

*In the current period, the Group has not disposed any subsidiaries.*

***Subsidiaries purchased in the current period***

The Bank classified security investments of TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. (TSGYO) from “financial assets at fair value through other comprehensive income” to “subsidiaries” in the prior period.In the Board of Directors meeting of the Bank held on 27 August 2018, was decided 100% Capital increase over the nominal value because of the fact that the financing of borrowing debts by increasing the issued capital of the company will contribute positively to the activities and development of the Company and the Bank participated in the capital increase of TL 150 mio in 30 November 2018. After this participation, the share of the Bank increased from 70,84% to 85,41%.

In addition, in the Board of Directors meeting held on 30 November 2018, the Bank decided to purchase TSKB GYO A.Ş's shares traded in the stock market until a nominal share of TL 10 million within the next one year and the shares received under this program are accounted “Financial Assets at Fair Value Through Profit and Loss”.

**8.a.5 Sectoral information on subsidiaries subject to consolidation and the related carrying amounts in the legal books:**

|                              | Current Period | Prior Period |
|------------------------------|----------------|--------------|
| Subsidiaries                 | -              | -            |
| Banks                        | -              | -            |
| Insurance Companies          | -              | -            |
| Factoring Companies          | -              | -            |
| Leasing Companies            | -              | -            |
| Financial Service Companies  | -              | -            |
| Other Financial Subsidiaries | 301.178        | 134.976      |



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**EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS**  
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**I. Explanations and disclosures related to the consolidated assets (continued)**

**8. Information on subsidiaries (net) (continued)**

**8.a.6 Subsidiaries subject to consolidation quoted on stock market:**

|   | Current Period | Prior Period |
|---|----------------|--------------|
| Subsidiaries quoted on domestic stock exchanges | 211.144        | 79.351       |
| Subsidiaries quoted on foreign stock exchanges  | -              | -            |

**9. Information related to entities under common control**

TSKB GYO, one of the subsidiaries of the Parent Bank, established a joint venture with Bilici Yatırım Sanayi ve Ticaret A.Ş. in Adana under the name of Adana Otel Projesi Adi Ortaklığı (“Adana Hotel Project”) on 26 May 2011 and Anavarza Otelcilik Anonim Şirketi on 27 March 2015.

The capital structure of the Adana Otel Projesi Adi Ortaklığı (“Adana Hotel Project”) is designated as 50% of participation Bilici Yatırım Sanayi ve Ticaret A.Ş. and 50% of participation for TSKB GYO. The main operations of Adana Otel Projesi Adi Ortaklığı is to start, execute, and complete the hotel project which will be operated by Divan Turizm İşletmeleri A.Ş. ( previous name “Palmira Turizm Ticaret A.Ş.”).

The capital structure of Anavarza Otelcilik Anonim Şirketi is designated as 50% of participation Bilici Yatırım Sanayi ve Ticaret A.Ş. and 50% of participation for TSKB GYO. The main operations of Anavarza Otelcilik Anonim Şirketi is tourism oriented hotels, motels, accommodation facilities, gastronomy, sports, entertainment and health care.

|                    | Total Assets | Equity   | Total Fixed Assets | Interest Income | Securities Income | Current Year Profit /Loss | Prior Year Profit /Loss | Fair Value |
|--------------------|--------------|----------|--------------------|-----------------|-------------------|---------------------------|-------------------------|------------|
| Divan Adana Otel   | 9.642        | (11.131) | 6.774              | -               | -                 | (1.864)                   | (2.244)                 | -          |
| Anavarza Otelcilik | 3.892        | (1.322)  | 271                | -               | -                 | 1,006                     | 321                     | -          |

**10. Information on finance lease receivables (net)**

**10.a Maturities of investments on finance leases:**

|                    | Current Period |                | Prior Period  |               |
|--------------------|----------------|----------------|---------------|---------------|
|                    | Gross          | Net            | Gross         | Net           |
| Less than 1 year   | 31.462         | 27.962         | 8.627         | 7.439         |
| Between 1- 4 years | 88.470         | 78.539         | 40.269        | 34.632        |
| More than 4 years  | 31.170         | 27.428         | 25.061        | 21.339        |
| <b>Total</b>       | <b>151.102</b> | <b>133.929</b> | <b>73.957</b> | <b>63.410</b> |

**10.b The information on net investments in finance leases:**

|  | Current Period | Prior Period  |
|--|----------------|---------------|
| <b>Gross investments in finance leases</b> | 151.102        | <b>73.957</b> |
| Unearned revenue from finance leases (-)   | 17.173         | 10.547        |
| Cancelled finance leases (-)               | -              | -             |
| <b>Net investments in finance leases</b>   | <b>133.929</b> | <b>63.410</b> |



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**(Continued)**

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

**10. Information on finance lease receivables (net) (continued)**

**10.c Explanation with respect to finance lease agreements, the criteria used in determination of contingent rents, conditions for revisions or purchase options, updates of leasing amounts and the restrictions imposed by lease arrangements, whether arrays in repayment occur, whether the terms of the contract are renewed, if renewed, the renewal conditions, whether the renewal results any restrictions, and other important conditions of the leasing agreement:**

Finance lease agreements are made in accordance with the related articles of the Financial Leasing, Factoring and Financing Company Law No. 6361. There are no restructuring or restrictions having material effect on financial statements.

**11. Information on derivative financial assets for hedging purposes**

There is no differences on derivative financial instruments held for hedging purposes (31 December 2017: None).

As of 31 December 2018, the net fair value of derivative financial instruments designated as hedging instruments carried in the contract amount and the balance sheet are summarized in the following table:

|                    | Current Period |       |           | Prior Period |       |           |
|--------------------|----------------|-------|-----------|--------------|-------|-----------|
|                    | Face Value     | Asset | Liability | Face Value   | Asset | Liability |
| Interest Rate Swap | 18.028.129     | -     | (172.258) | 10.582.050   | -     | (78.682)  |
| FC                 | 18.028.129     | -     | (172.258) | 10.582.050   | -     | (78.682)  |
| TL                 | -              | -     | -         | -            | -     | -         |

**11.a.1 Information on fair value hedge accounting**

| Current Period                  |   | Type of Risk       | Fair Value Change of Hedged Item (1) | Fair Value of Hedging Instrument (1) |           | Income St Effect (Profit/Loss Through Derivative Financial Instruments) |
|---------------------------------|---|--------------------|--------------------------------------|--------------------------------------|-----------|---|
| Hedging Item                    | Hedged Item                               |                    |                                      | Aktif                                | Pasif     |   |
| Interest Rate Swap Transactions | Fixed Rate Eurobond and Green bond Issued | Interest Rate Risk | 127.988                              | -                                    | (137.854) | (9.866)   |
| Interest Rate Swap Transactions | Fixed Rate Loans Used                     | Interest Rate Risk | 20.723                               | -                                    | (21.390)  | (667)   |

(1) The fair value of hedged item and hedging instrument are presented as net market value excluding credit risk and accumulated interest.



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

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

**11.a.1 Information on fair value hedge accounting (continued)**

| Prior Period | Hedging Item                    | Hedged Item                               | Type of Risk       | Fair Value Change of Hedged Item (1) | Fair Value of Hedging Instrument (1) |           | Income St Effect (Profit/Loss Through Derivative Financial Instruments) |
|--------------|---------------------------------|---|--------------------|--------------------------------------|--------------------------------------|-----------|---|
|              |                                 |   |                    |                                      | Asset                                | Liability |   |
|              | Interest Rate Swap Transactions | Fixed Rate Eurobond and Green bond Issued | Interest Rate Risk | 60.540                               | -                                    | (71.434)  | (10.894)  |
|              | Interest Rate Swap Transactions | Fixed Rate Loans Used                     | Interest Rate Risk | 8.988                                | -                                    | (10.600)  | (1.612)   |

(1) The fair value of hedged item is presented as net market value less credit risk and accumulated interest.

**12. Information on tangible assets (net)**

Since the third quarter of 2015, the Group has changed its accounting policy and adopted the revaluation method under TAS 16 in the valuation of properties included in property, plant and equipment. The appraisal companies authorized by CMB and BRSA are valued for the year 2018 and are not accounted as there is no significant change with the valuation amount recorded in the previous period.

| Current Period                        | Prior Period End | Current Period Additions | Current Period Disposals | Revaluation Surplus | Current Period End |
|---------------------------------------|------------------|--------------------------|--------------------------|---------------------|--------------------|
| <b>Cost</b>                           |                  |                          |                          |                     |                    |
| 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             |
| <b>Total Cost</b>                     | <b>277.506</b>   | <b>4.889</b>             | <b>(1.204)</b>           | <b>46.965</b>       | <b>328.156</b>     |
| <b>Accumulated depreciation</b>       |                  |                          |                          |                     |                    |
| 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)           |
| <b>Total accumulated depreciation</b> | <b>(31.708)</b>  | <b>(4.459)</b>           | <b>1.182</b>             | <b>(520)</b>        | <b>(35.505)</b>    |
| <b>Impairment provision</b>           |                  |                          |                          |                     |                    |
| Land and buildings                    | -                | -                        | -                        | -                   | -                  |
| Assets held under finance leases      | -                | -                        | -                        | -                   | -                  |
| Vehicles                              | -                | -                        | -                        | -                   | -                  |
| Assets held for resale                | -                | -                        | -                        | -                   | -                  |
| Other                                 | -                | -                        | -                        | -                   | -                  |
| <b>Total impairment provision</b>     | <b>-</b>         | <b>-</b>                 | <b>-</b>                 | <b>-</b>            | <b>-</b>           |
| <b>Net book value</b>                 | <b>245.798</b>   | <b>430</b>               | <b>(22)</b>              | <b>46.445</b>       | <b>292.651</b>     |



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

**12. Information on fair value hedge accounting (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             |
| <b>Total Cost</b>                     | <b>258.697</b>   | <b>3.750</b>             | <b>(680)</b>             | <b>16.315</b>       | <b>(576)</b> | <b>277.506</b>     |
| Accumulated depreciation              |                  |                          |                          |                     |              |                    |
| Land and buildings                    | 515              | (793)                    | -                        | -                   | -            | (278)              |
| Assets held under finance leases      | (4.999)          | (115)                    | 21                       | -                   | -            | (5.093)            |
| Vehicles                              | (825)            | (234)                    | 356                      | -                   | -            | (703)              |
| Assets held for resale                | -                | -                        | -                        | -                   | -            | -                  |
| Other                                 | (21.853)         | (4.000)                  | 219                      | -                   | -            | (25.634)           |
| <b>Total accumulated depreciation</b> | <b>(27.162)</b>  | <b>(5.142)</b>           | <b>596</b>               | <b>-</b>            | <b>-</b>     | <b>(31.708)</b>    |
| Impairment provision                  |                  |                          |                          |                     |              |                    |
| Land and buildings                    | -                | -                        | -                        | -                   | -            | -                  |
| Assets held under finance leases      | -                | -                        | -                        | -                   | -            | -                  |
| Vehicles                              | -                | -                        | -                        | -                   | -            | -                  |
| Assets held for resale                | (207)            | (18)                     | -                        | -                   | 225          | -                  |
| Other                                 | -                | -                        | -                        | -                   | -            | -                  |
| <b>Total impairment provision</b>     | <b>(207)</b>     | <b>(18)</b>              | <b>-</b>                 | <b>-</b>            | <b>225</b>   | <b>-</b>           |
| <b>Net book value</b>                 | <b>231.328</b>   | <b>(1.410)</b>           | <b>(84)</b>              | <b>16.315</b>       | <b>(351)</b> | <b>245.798</b>     |

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



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**EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS**  
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**I. Explanations and disclosures related to the consolidated assets (continued)**

**13. Information on intangible assets**

**13.a Useful lives and amortization rates used:**

Tangible assets, purchased before 1 January 2005, are accounted for at their restated costs as of 31 December 2004 and the assets purchased in the following periods are accounted for at acquisition cost less accumulated depreciation and reserve for impairment.

Rental or administrative purposes or other unspecified purposes of assets that under construction will be amortised when they are ready to use.

**13.b Amortization methods used:**

The intangible assets are amortized principally on straight line basis which amortize the assets over their expected useful lives.

**13.c Cost and accumulated amortization at the beginning and end of the period:**

| Current Period | Beginning of Current Period |                          | End of Current Period |                          |
|----------------|-----------------------------|--------------------------|-----------------------|--------------------------|
|                | Gross Book Value            | Accumulated Amortization | Gross Book Value      | Accumulated Amortization |
| Software       | 6.537                       | (3.957)                  | 9.042                 | (5.175)                  |
| Goodwill       | 1.005                       | -                        | 1.005                 | -                        |

| Prior Period | Beginning of Current Period |                          | End of Current Period |                          |
|--------------|-----------------------------|--------------------------|-----------------------|--------------------------|
|              | Gross Book Value            | Accumulated Amortization | Gross Book Value      | Accumulated Amortization |
| Software     | 5.232                       | (3.139)                  | 6.537                 | (3.957)                  |
| Goodwill     | 1.005                       | -                        | 1.005                 | -                        |



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

**13. Information on intangible assets (continued)**

**13.d Movement of cost and accumulated amortization for the period:**

| Current Period                        | Closing<br>Balance of<br>Prior Period | Current<br>Year<br>Additions | Current Year<br>Disposals | Closing<br>Balance of<br>Current<br>Period |
|---------------------------------------|---------------------------------------|------------------------------|---------------------------|--|
| Cost                                  |                                       |                              |                           |  |
| Software                              | 6.537                                 | 2.543                        | (38)                      | 9.042                                      |
| Goodwill                              | 1.005                                 | -                            | -                         | 1.005                                      |
| <b>Total Cost</b>                     | <b>7.542</b>                          | <b>2.543</b>                 | <b>(38)</b>               | <b>10.047</b>                              |
| Accumulated Amortization              |                                       |                              |                           |  |
| Software                              | (3.957)                               | (1.219)                      | 1                         | (5.175)                                    |
| Goodwill                              | -                                     | -                            | -                         | -  |
| <b>Total Accumulated Amortization</b> | <b>(3.957)</b>                        | <b>(1.219)</b>               | <b>1</b>                  | <b>(5.175)</b>                             |
| Impairment Provision                  |                                       |                              |                           |  |
| Software                              | -                                     | -                            | -                         | -  |
| <b>Total Impairment Provision</b>     | <b>-</b>                              | <b>-</b>                     | <b>-</b>                  | <b>-</b>                                   |
| <b>Net Book Value</b>                 | <b>3.585</b>                          | <b>1.324</b>                 | <b>(37)</b>               | <b>4.872</b>                               |

| Prior Period                          | Closing<br>Balance of<br>Prior Period | Current Year<br>Additions | Current<br>Year<br>Disposals | Closing<br>Balance of<br>Current<br>Period |
|---------------------------------------|---------------------------------------|---------------------------|------------------------------|--|
| Cost                                  |                                       |                           |                              |  |
| Software                              | 5.232                                 | 1.305                     | -                            | 6.537                                      |
| Goodwill                              | 1.005                                 | -                         | -                            | 1.005                                      |
| <b>Total Cost</b>                     | <b>6.237</b>                          | <b>1.305</b>              | <b>-</b>                     | <b>7.542</b>                               |
| Accumulated Amortization              |                                       |                           |                              |  |
| Software                              | (3.139)                               | (818)                     | -                            | (3.957)                                    |
| Goodwill                              | -                                     | -                         | -                            | -  |
| <b>Total Accumulated Amortization</b> | <b>(3.139)</b>                        | <b>(818)</b>              | <b>-</b>                     | <b>(3.957)</b>                             |
| Impairment Provision                  |                                       |                           |                              |  |
| Software                              | -                                     | -                         | -                            | -  |
| <b>Total Impairment Provision</b>     | <b>-</b>                              | <b>-</b>                  | <b>-</b>                     | <b>-</b>                                   |
| <b>Net Book Value</b>                 | <b>3.098</b>                          | <b>487</b>                | <b>-</b>                     | <b>3.585</b>                               |

**13.e The net book value, description and the remaining amortization period of any material individual intangible asset in the financial statements:**

As of the reporting date, the Group has no individual intangible asset which is material to the financial statements as a whole (31 December 2017: None).

**13.f Disclosure for intangible assets acquired through government grants and accounted for at fair value at initial recognition:**

As of the reporting date, the Group has no intangible assets acquired through government grants (31 December 2017: None).

**13.g The method of subsequent measurement for intangible assets that are acquired through government incentives and recorded at fair value at the initial recognition:**

As of the reporting date, the Group has no intangible assets acquired with government incentives (31 December 2017: None).



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

**13. Information on intangible assets (continued)**

**13.h The book value of intangible assets that are pledged or restricted for use:**

As of the reporting date, the Group has no intangible assets with restricted use or pledged (31 December 2017: None).

**13.i Amount of purchase commitments for intangible assets:**

As of the reporting date, the Group has no purchase commitments for intangible assets (31 December 2017: None).

**13.j Information on revalued intangible assets according to their types:**

The Group did not revalue its intangible assets as at the reporting date (31 December 2017: None).

**13.k Amount of total research and development expenses recorded in income statement within the period, if any:**

The Group has no research and development costs expensed in the current period (31 December 2017: None).

**13.l Information on goodwill:**

| Goodwill on Consolidation              | Effective Share Rate % | Carrying Amount |
|--|------------------------|-----------------|
| Yatırım Finansman Menkul Değerler A.Ş. | 95,78                  | 1.005           |

**13.m The carrying value of goodwill at beginning and end of the period, and movements within the period:**

|   | Current Period | Prior Period |
|---|----------------|--------------|
| Net Value at the Beginning of the Period  | 1.005          | 1.005        |
| Changes in the Period:  | -              | -            |
| Additional Goodwill   | -              | -            |
| Restatements Arising from Changes in Assets and Liabilities                                       | -              | -            |
| Goodwill Written off due to Discontinued Operations or Partial/Full Derecognizing of an Asset (-) | -              | -            |
| Impairment Loss (-)   | -              | -            |
| Reversal of Impairment loss (-)   | -              | -            |
| Changes in Carrying Value   | -              | -            |
| Net Value at the End of Period  | 1.005          | 1.005        |

**13.n The carrying value of negative goodwill at beginning and end of the period, and movements within the period:**

As of the reporting date, the Group has no negative goodwill in the accompanying financial statements (31 December 2017: None).



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

**14. Information on investment properties**

In the current period, the Group has three investment properties with a net book value of TL 247.793 (31 December 2017: TL 243.145) belonging to the Parent Bank's subsidiary operating in the real-estate investment trust sector. Investment properties movement table as of 31 December 2018 and 31 December 2017 is as follows:

| Current Period      | Opening Balance of Current Period | Additions | Disposals | Change in Fair Value | Closing Balance of Current Period |
|---------------------|-----------------------------------|-----------|-----------|----------------------|-----------------------------------|
| Tahir Han           | 25.425                            | -         | -         | 2.705                | 28.130                            |
| Pendorya Mall       | 152.990                           | 6         | -         | 1.159                | 154.155                           |
| Adana Hotel Project | 64.730                            | -         | -         | 778                  | 65.508                            |
| <b>Total</b>        | <b>243.145</b>                    | <b>6</b>  | <b>-</b>  | <b>4.642</b>         | <b>247.793</b>                    |

| Prior Period        | Closing Balance of Prior Period | Additions  | Disposals | Change in Fair Value | Closing Balance of Prior Period |
|---------------------|---------------------------------|------------|-----------|----------------------|---------------------------------|
| Tahir Han           | 23.020                          | -          | -         | 2.405                | 25.425                          |
| Pendorya Mall       | 143.690                         | 947        | -         | 8.353                | 152.990                         |
| Adana Hotel Project | 64.613                          | 10         | -         | 107                  | 64.730                          |
| <b>Total</b>        | <b>231.323</b>                  | <b>957</b> | <b>-</b>  | <b>10.865</b>        | <b>243.145</b>                  |

**15. Information on deferred tax assets**

**15.a Temporary differences, tax losses, exemptions and deductions reflected to balance sheet as deferred tax asset:**

The Group has computed deferred tax asset or liability on "temporary differences" arising from carrying values of assets and liabilities in the accompanying financial statements and their tax bases.

| Assets:                                   | Current Period   | Prior Period    |
|---|------------------|-----------------|
| Loan commissions accrual adjustment       | 23.032           | 22.563          |
| Other provisions                          | 79.690           | 61.603          |
| Employee benefit provision                | 3.258            | 2.605           |
| Others                                    | 3.334            | 1.839           |
| <b>Total Deferred Tax Asset</b>           | <b>109.314</b>   | <b>88.610</b>   |
| <b>Deferred tax liabilities:</b>          |                  |                 |
| Marketable securities                     | (38.458)         | (20.635)        |
| Borrowings commissions accrual adjustment | (12.329)         | (10.869)        |
| Valuation of derivative instruments       | (43.533)         | (8.823)         |
| Useful life difference of fixed assets    | (787)            | (592)           |
| Others                                    | (10.363)         | (6.801)         |
| <b>Total Deferred Tax Liability</b>       | <b>(105.470)</b> | <b>(47.720)</b> |
| <b>Net Deferred Tax Asset</b>             | <b>3.844</b>     | <b>40.890</b>   |



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

**15. Information on deferred tax assets**

**15.a Temporary differences, tax losses, exemptions and deductions reflected to balance sheet as deferred tax asset (continued):**

|  | <b>Current Period</b> | <b>Prior Period</b> |
|--|-----------------------|---------------------|
| Deferred Tax as of January 1 Asset / (Liability) - Net       | 40.890                | 18.182              |
| Deferred Tax (Loss) / Gain                                   | (102.674)             | 27.542              |
| Deferred Tax that is Realized Under Shareholder's Equity (1) | 65.628                | (4.834)             |
| <b>Deferred Tax Asset / (Liability) Net</b>                  | <b>3.844</b>          | <b>40.890</b>       |

(1) As stated in the Communiqué on "Uniform Chart of Accounts and Prospectus" issued on 20 September 2017, for general provisions (TFRS 9 expected loss provisions for the loans at first and second stages), deferred tax assets calculation has started as of 1 January 2018. Within this scope deferred tax assets amounting to TL 33.112 have been reflected to the opening financials of 1 January 2018.

**15.b Temporary differences over which deferred tax asset are not computed and recorded in the balance sheet in prior periods, if so, their expiry date, losses and tax deductions and exceptions:**

YF has no unused tax losses that can be offset against future profits (31 December 2017: TL 12.522 unused tax losses, TL 1.582 temporary differences, TL 316 deferred tax assets).

**15.c Allowance for deferred tax and deferred tax assets from reversal of allowance:**

As of the reporting date, the Group has no allowance for deferred tax and deferred tax liability from reversal of allowance (31 December 2017: None).

**16. Explanation on assets held for sale:**

The Parent Bank have reached an agreement on restructuring the debts of Ojer Telekomünikasyon A.Ş. (OTAŞ), the major shareholder of Türk Telekomünikasyon A.Ş. (Türk Telekom) provided under the loan agreements. It was completed that 192.500.000.000 Class A shares owned by OTAŞ in Türk Telekom, representing 55% of Türk Telekom's issued share capital, which have been pledged as security for the existing loan facilities of OTAŞ, would be taken over by a special purpose vehicle incorporated or to be incorporated in the Republic of Turkey, owned directly or indirectly by the creditors. The Bank has participated in Levent Yapılandırma Yönetimi A.Ş. which was established within this context with 1,6172% stake and amounting to TL 808.62 (full amount). The Parent Bank considered the related investment within the scope of TFRS 5 "Assets Held for Sale and Discontinued Operations" (31 December 2017: None).

**17. Information about other assets**

**17.a Other assets which exceed 10% of the balance sheet total and breakdown of these which constitute at least 20% of grand total:**

Other assets do not exceed 10% of total assets, excluding off-balance sheet commitments (31 December 2017: None).

**II. Explanations and disclosures related to the liabilities**

**1. Information of maturity structure of deposits**

**1.a.1 Maturity structure of deposits:**

The Parent Bank is not authorized to accept deposits.



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**EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS**  
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**II. Explanations and disclosures related to the consolidated liabilities (continued)**

**1. Information of maturity structure of deposits (continued)**

**1.a.2 Information on saving deposits under the guarantee of saving deposit insurance fund and exceeding the limit of deposit insurance fund:**

The Parent Bank is not authorized to accept deposits.

**1.b Information on the scope whether the Bank with a foreign head office suits saving deposit insurance of the related country:**

The Parent Bank is not authorized to accept deposits.

**1.c Saving deposits which are not under the guarantee of deposit insurance fund:**

The Parent Bank is not authorized to accept deposits.

**2. Negative differences table related to derivative financial liabilities held-for-trading**

| Derivative Financial Liabilities Held For Trading<br>(1) | Current Period |                | Prior Period   |                |
|--|----------------|----------------|----------------|----------------|
|  | TL             | FC             | TL             | FC             |
| Forward Transactions                                     | 87.610         | 6.307          | 14.804         | 6.867          |
| Swap Transactions  | 354.680        | 111.839        | 108.906        | 59.403         |
| Futures Transactions                                     | -              | -              | -              | -              |
| Options  | -              | 59.646         | -              | 42.423         |
| Other  | -              | -              | -              | -              |
| <b>Total</b>   | <b>442.290</b> | <b>177.792</b> | <b>123.710</b> | <b>108.693</b> |

(1) Negative differences from derivative financial liabilities at fair value for hedging purpose is classified in "7.1 Derivative Financial Liabilities at Fair Value Through Profit or Loss" line in the balance sheet.

**3. Information on banks and other financial institutions**

**3.a Information on banks and other financial institutions:**

|  | Current Period |                   | Prior Period   |                   |
|--|----------------|-------------------|----------------|-------------------|
|  | TL             | FC                | TL             | FC                |
| Loans from Central Bank of Turkey          | -              | -                 | -              | -                 |
| From Domestic Banks and Institutions       | 5.000          | 420.465           | 30.040         | 561.938           |
| From Foreign Banks, Institutions and Funds | 122.007        | 23.272.198        | 190.972        | 18.218.677        |
| <b>Total</b>                               | <b>127.007</b> | <b>23.692.663</b> | <b>221.012</b> | <b>18.780.615</b> |

**3.b Maturity analysis of funds borrowed:**

|                      | Current Period |                   | Prior Period   |                   |
|----------------------|----------------|-------------------|----------------|-------------------|
|                      | TL             | FC                | TL             | FC                |
| Short-term           | 5.000          | -                 | 30.040         | 134.812           |
| Medium and long-term | 122.007        | 23.692.663        | 190.972        | 18.645.803        |
| <b>Total</b>         | <b>127.007</b> | <b>23.692.663</b> | <b>221.012</b> | <b>18.780.615</b> |



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**II. Explanations and disclosures related to the consolidated liabilities (continued)**

**3. Information on banks and other financial institutions (continued)**

**3.c Additional information about the concentrated areas of liabilities:**

|            | Current Period |           | Prior Period |           |
|------------|----------------|-----------|--------------|-----------|
|            | TL             | FC        | TL           | FC        |
| Nominal    | -              | 6.932.250 | -            | 3.752.500 |
| Cost       | -              | 6.917.804 | -            | 3.743.915 |
| Book Value | -              | 6.949.189 | -            | 3.746.229 |

As of 27 October 2014, the Bank issued the debt instruments which have nominal value of USD 350 Million, redemption date of 30 October 2019 with fixed interest rate of 5,375%, 5 years maturity and semiannual coupon payment. As of 22 April 2015, the Bank has performed the similar issuance of Eurobond with the nominal amount of USD 350 Million. Interest rate of these debt instruments determined as 5,125% which have the redemption date of 22 April 2020 with fixed interest rate, 5 years maturity and semiannual coupon payment. Selling of Greenbond which was issued by the Bank in abroad with nominal value of USD 300 Million, 5 years maturity and for financing the green and sustainable projects has been completed on 18 May 2016. The return of these bonds which have the redemption date of 18 May 2021 and 5 years maturity is determined as 5,048% and the coupon rate as 4,875%. As of 16 January 2018, the Bank issued the debt instrument 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.

**3.d Additional information about the concentrated areas of liabilities:**

Under normal banking operations, the Parent Bank provided funds under repurchase agreements and funds borrowed. Fund resources of the Parent Bank particularly consist of foreign FC funds borrowed and FC and TL repurchase transactions. Information relating to funds provided under repurchase agreements is shown in the table below:

|  | Current Period |                | Prior Period   |               |
|--|----------------|----------------|----------------|---------------|
|  | TL             | FC             | TL             | FC            |
| From Domestic Transactions               | 41.539         | 137.458        | 234.353        | 60.998        |
| Financial institutions and organizations | -              | -              | 208.657        | -             |
| Other institutions and organizations     | 41.013         | 133.730        | 25.209         | 58.387        |
| Real persons                             | 526            | 3.728          | 487            | 2.611         |
| From Foreign Transactions                | 4              | -              | 3              | -             |
| Financial institutions and organizations | -              | -              | -              | -             |
| Other institutions and organizations     | 2              | -              | 2              | -             |
| Real persons                             | 2              | -              | 1              | -             |
| <b>Total</b>                             | <b>41.543</b>  | <b>137.458</b> | <b>234.356</b> | <b>60.998</b> |

**4. Other liabilities which exceed 10% of the balance sheet total and the breakdown of these which constitute at least 20% of grand total**

There are no other liabilities which exceed 10% of the balance sheet total (31 December 2017: None).



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**EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS**  
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**II. Explanations and disclosures related to the consolidated liabilities (continued)**

**5. Explanations on financial lease obligations (net)**

**5.a Explanations on finance lease payables:**

The Group has no finance lease payables (31 December 2017: None).

**5.b Explanations regarding operational leases:**

As of the reporting date, 9 branches of the Group companies are subject to operational leasing. Additionally, 24 cars and 327 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 head office, 24 cars and 291 computers are subject to operational leasing).

**5.c Explanations on the lessor and lessee in sale and lease back transactions, agreement conditions, and major agreement terms:**

The Group has no sale and lease back transactions as of the reporting date (31 December 2017: None).



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**(Continued)**

**II. Explanations and disclosures related to the consolidated liabilities (continued)**

**6. Negative differences on derivative financial instruments held for hedging purposes:**

|   | Current Period |                | Prior Period |               |
|---|----------------|----------------|--------------|---------------|
|   | TL             | FC             | TL           | FC            |
| Fair Value Hedge (1)                          | -              | 172.258        | -            | 78.682        |
| Cash Flow Hedge                               | -              | -              | -            | -             |
| Hedge of net investment in foreign operations | -              | -              | -            | -             |
| <b>Total</b>                                  | <b>-</b>       | <b>172.258</b> | <b>-</b>     | <b>78.682</b> |

(1) Negative differences from derivative financial liabilities at fair value for hedging purpose is classified in "7.1 Derivative Financial Liabilities at Fair Value Through Profit or Loss" line in the balance sheet.

**7. Information on provisions**

**7.a Information on general loan loss provisions:**

|  | Prior Period   |
|--|----------------|
| <b>General Provisions</b>                            | <b>136.131</b> |
| I.Provisions for First Group Loans and Receivables   | 107.597        |
| II.Provisions for Second Group Loans and Receivables | 9.473          |
| Provisions for Non-Cash Loans                        | 2.447          |
| Other  | 16.614         |

**7.b Foreign exchange losses on the foreign currency indexed loans and finance lease receivables:**

As of the reporting date, the Bank's foreign exchange losses on the foreign currency indexed loans amount to TL 4.724 (31 December 2017: TL 4.724). The foreign exchange losses on the foreign currency indexed loans are net off from the loans line in the financial statements.

**7.c The specific provisions provided for unindemnified non cash loans:**

As at the reporting date, the Bank's specific provisions provided for unindemnified non cash loan amount to TL 736 (31 December 2017: TL 583).

**7.d Information related to other provisions:**

**7.d.1 Provisions for possible losses:**

Free provision amounting to TL 220.000 provided by the Bank management in the current period for possible results of the circumstances which may arise from possible changes in the economy and market conditions. (31 December 2017: 190.000)

**7.d.2 Information on employee termination benefits and unused vacation accrual:**

The Bank has calculated reserve for employee termination benefits by using actuarial valuations as set out in the Turkish Accounting Standard No: 19 and reflected the calculated amount to the financial statements.

As of 31 December 2018, employee termination benefits is amounting TL 12.093 reflected in financial statements (31 December 2017: TL 9.763). As of 31 December 2018, the Bank has provided a reserve for unused vacation amounting to TL 2.825 (31 December 2017: TL 2.388). This balance is classified under reserve for employee benefits in the financial statements.

The actuarial gains amounting to TL 684 after 1 January 2018 have been accounted under equity in accordance with the revised TAS 19 standard (31 December 2017: TL 380 actuarial loss).



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**EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS**  
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**II. Explanations and disclosures related to the consolidated liabilities (continued)**

**7. Information on provisions (continued)**

**7.d.2 Information on employee termination benefits and unused vacation accrual:**

*Liabilities on pension rights*

As explained on the Section Three, Accounting Policies, XVII. Explanations on Liabilities Regarding Employee Benefits as of 31 December 2018, the Group has no obligations on pension rights (31 December 2017: None).

*Liabilities for pension funds established in accordance with Social Security Institution*

None (31 December 2017: None).

*Liabilities resulting from all kinds of pension funds, foundations etc. which provide post-retirement benefits for the employees*

The Bank's present value of the liabilities of TSKB A.Ş. Memur ve Müstahdemleri Yardım ve Emekli Vakfı fund, subject to the transfer to the Social Security Institution of the Pension Fund as of 31 December 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.

Accordingly, as of 31 December 2018 the Parent Bank has no requirements for the benefits transferable to the fund and for other benefits not transferable to the fund and arising from other social rights and payments covered by the existing trust indenture of the Fund and medical benefits provided for employees in accordance to the law explained in Note 3.17, the accounting policies related with employee benefits.

**7.d.3 If other provisions exceeds 10% of total provisions, the name and amount of sub-accounts:**

Other provisions, except to free provisions for possible losses, includes amount to TL 11.251 for general provision for non-cash loans and other Miscellaneous provisions. (31 December 2017: TL 90.000 provision for the risks of loan portfolio).



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**EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS**  
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**II. Explanations and disclosures related to the consolidated liabilities (continued)**

**8. Information on taxes payable**

**8.a Information on current taxes payable**

**8.a.1 Information on taxes payable:**

|                                    | Current Period |          | Prior Period  |          |
|------------------------------------|----------------|----------|---------------|----------|
|                                    | TL             | FC       | TL            | FC       |
| Corporate Taxes and Deferred Taxes |                |          |               |          |
| Corporate Taxes Payable            | 82.363         | -        | 43.662        | -        |
| Deferred Tax Liability             | -              | -        | -             | -        |
| <b>Total</b>                       | <b>82.363</b>  | <b>-</b> | <b>43.662</b> | <b>-</b> |

**8.a.2 Information on taxes payable:**

|  | Current Period | Prior Period  |
|--|----------------|---------------|
| Corporate Taxes Payable                      | 82.363         | 43.662        |
| Taxation of Securities                       | 1.442          | 754           |
| Capital gains tax on property                | -              | -             |
| Banking and Insurance Transaction Tax (BITT) | 6.835          | 6.358         |
| Foreign Exchange Transaction Tax             | -              | -             |
| Value Added Tax Payable                      | 838            | 478           |
| Other  | 2.120          | 1.951         |
| <b>Total</b>                                 | <b>93.598</b>  | <b>53.203</b> |

**8.a.3 Information on premiums:**

|  | Current Period | Prior Period |
|--|----------------|--------------|
| Social Security Premiums-Employee                    | 156            | 132          |
| Social Security Premiums-Employer                    | 178            | 149          |
| Bank Social Aid Pension Fund Premium-Employee        | -              | -            |
| Bank Social Aid Pension Fund Premium-Employer        | -              | -            |
| Pension Fund Membership Fees and Provisions-Employee | -              | -            |
| Pension Fund Membership Fees and Provisions-Employer | -              | -            |
| Unemployment Insurance-Employee                      | 50             | 43           |
| Unemployment Insurance-Employer                      | 99             | 86           |
| Other  | 23             | 35           |
| <b>Total</b>   | <b>506</b>     | <b>445</b>   |

**8.b Explanations on deferred taxes liabilities:**

As of the reporting date, the Group has no deferred tax liability (31 December 2017: None).

**9. Information on liabilities regarding assets held for sale**

None (31 December 2017: None).



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

**II. Explanations and disclosures related to the consolidated liabilities (continued)**

**10. Explanations on the number of subordinated loans the Parent Bank used, maturity, interest rate, institution that the loan was borrowed from, and conversion option, if any:**

As of 28 March 2017, the Parent Bank issued the sustainable subordinated debt instruments which have nominal value of USD 300 Million, redemption date of 29 March 2022 with fixed interest rate of 7,625%, semiannual coupon payment. The value of the borrowing instrument as of the period end is TL 1.549.774.

|  | Current Period |                  | Prior Period |                  |
|--|----------------|------------------|--------------|------------------|
|  | TP             | FC               | TP           | FC               |
| Debt Instruments Subject to Common Equity  |                |                  |              |                  |
| Subordinated Loans                         | -              | -                | -            | -                |
| Subordinated Debt Instruments              | -              | -                | -            | -                |
| Debt Instruments Subject to Tier II Equity | -              | 1.549.774        | -            | 1.146.236        |
| Subordinated Loans                         | -              | -                | -            | -                |
| Subordinated Debt Instruments              | -              | 1.549.774        | -            | 1.146.236        |
| <b>Total</b>                               | <b>-</b>       | <b>1.549.774</b> | <b>-</b>     | <b>1.146.236</b> |

**11. Explanations on shareholders' equity**

**11.a Presentation of paid-in capital:**

|                 | Current Period | Prior Period |
|-----------------|----------------|--------------|
| Common stock    | 2.800.000      | 2.400.000    |
| Preferred stock | -              | -            |

**11.b Paid-in capital amount, explanation as to whether the registered share capital system ceiling is applicable at bank, if so, amount of registered share capital:**

| Capital System            | Paid-in capital | Ceiling   |
|---------------------------|-----------------|-----------|
| Registered Capital System | 2.800.000       | 4.500.000 |

**11.c Information on share capital increases and their sources; other information on increased capital shares in current period:**

In the meeting of the General Assembly held on 23 March 2018, it has been resolved that, paid in capital of the 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. Aforementioned increase was approved by the BRSA dated 26 April 2018 and was announced in the Turkish Trade Registry Gazette dated 7 June 2018 and No. 9605.

In the meeting of the General Assembly held on 23 March 2017, it has been resolved that, paid-in capital of the Bank will be increased from TL 2.050.000 to TL 2.400.000 by adding TL 350.000. In respect of the resolution of the General Assembly, all of this increase will be incorporated from the profit of the year 2016. Aforementioned increase was approved by the BRSA dated 27 April 2017 and was announced in the Turkish Trade Registry Gazette dated 12 June 2017 and No. 9345.



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**SECTION FIVE (Continued)**

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

**II. Explanations and disclosures related to the consolidated liabilities (continued)**

**11. Explanations on shareholders' equity (devamı)**

**11.d Information on share capital increases from capital reserves:**

None (31 December 2017: None).

**11.e Capital commitments in the last fiscal year and at the end of the following period, the general purpose of these commitments and projected resources required to meet these commitments:**

The Bank has no capital commitments for its associates in the last fiscal year and at the end of the following period (31 December 2017: None).

**11.f Indicators of the Bank's income, profitability and liquidity for the previous periods and possible effects of these future assumptions on the Bank's equity due to the uncertainty of these indicators:**

The prior period income, profitability and liquidity of the Parent Bank and their trends in the successive periods are followed by Budget Planning and Investor Relations Department by considering the outcomes of the potential changes in the foreign exchange rate, interest rate and maturity alterations on profitability and liquidity under various scenario analyses. The Parent Bank operations are profitable, and the Bank retains the major part of its profit by capital increases or capital reserves within the shareholders equity.

**11.g Information on preferred shares:**

The Parent Bank has no preferred shares (31 December 2017: None).

**11.h Information on marketable securities value increase fund:**

|   | Current Period  |                 |
|---|-----------------|-----------------|
|   | TL              | FC              |
| <b>From Associates, Subsidiaries, and Entities Under Common Control</b> | <b>6.791</b>    | <b>-</b>        |
| <b>Available for Sale Financial Assets</b>                              | <b>(53.478)</b> | <b>(69.434)</b> |
| Valuation Differences   | (69.182)        | (69.434)        |
| Foreign Exchange Difference   | 15.704          | -               |
| <b>Total</b>  | <b>(46.687)</b> | <b>(69.434)</b> |

|   | Prior Period    |               |
|---|-----------------|---------------|
|   | TL              | TL            |
| <b>From Associates, Subsidiaries, and Entities Under Common Control</b> | <b>(13.878)</b> | <b>-</b>      |
| <b>Available for Sale Financial Assets</b>                              | <b>(27.200)</b> | <b>12.440</b> |
| Valuation Differences   | (35.047)        | 12.440        |
| Foreign Exchange Difference   | 7.847           | -             |
| <b>Total</b>  | <b>(41.078)</b> | <b>12.440</b> |



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**SECTION FIVE (Continued)**

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

**II. Explanations and disclosures related to the consolidated liabilities (continued)**

**11. Explanations on shareholders' equity (devamı)**

**11.i Informations on legal reserves:**

|  | <b>Current Period</b> | <b>Prior Period</b> |
|--|-----------------------|---------------------|
| First legal reserve  | 186.482               | 132.885             |
| Second legal reserve   | 85.918                | 83.422              |
| Other Legal Reserves Appropriated In Accordance with Special Legislation | 373                   | 54                  |
| <b>Total</b>   | <b>272.773</b>        | <b>216.361</b>      |

**11.j Information on extraordinary reserves:**

|   | <b>Current Period</b> | <b>Prior Period</b> |
|---|-----------------------|---------------------|
| Reserves Appropriated by the General Assembly       | 177.725               | 113.175             |
| Retained Earnings                                   | -                     | -                   |
| Accumulated Losses                                  | -                     | -                   |
| Foreign Currency Share Capital Exchange Differences | -                     | -                   |
| <b>Total</b>  | <b>177.725</b>        | <b>113.175</b>      |

**12. Information on minority shares:**

|  | <b>Current Period</b> |
|--|-----------------------|
| Paid-in-Capital  | 41.566                |
| Other Capital Reserves   | 33                    |
| Share Premium  | 77                    |
| Accumulated Other Comprehensive Income or Loss Reclassified Through Profit or Loss | 713                   |
| Legal Reserves   | 126                   |
| Extraordinary Reserves   | 837                   |
| Other Profit Reserves  | -                     |
| Retained Earnings / Accumulated Losses   | 2.763                 |
| Net Profit or Loss   | (7.493)               |
| <b>Total</b>   | <b>38.622</b>         |

|  | <b>Prior Period</b> |
|--|---------------------|
| Paid-in-Capital                        | 44.416              |
| Other Capital Reserves                 | 19                  |
| Share Premium                          | 165                 |
| Securities Value Increase Fund         | 1                   |
| Legal Reserves                         | 118                 |
| Extraordinary Reserves                 | 1.682               |
| Other Profit Reserves                  | -                   |
| Retained Earnings / Accumulated Losses | 19.086              |
| Net Profit or Loss                     | (7.518)             |
| <b>Total</b>                           | <b>57.969</b>       |



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**SECTION FIVE (Continued)**

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

**III. Explanations and disclosures related to the consolidated off-balance sheet items**

**1. Information on off-balance sheet liabilities**

**1.a Nature and amount of irrevocable loan commitments:**

|   | <b>Current Period</b> | <b>Prior Period</b> |
|---|-----------------------|---------------------|
| Commitments for Forward Purchase and Sales of Assets        | 97.040                | 99.151              |
| Commitments for Money Market Brokerage Purchase and Sales   | -                     | 84.711              |
| Commitments for Stock Brokerage Purchase and Sales          | 11.621                | 1.058.598           |
| Commitments for Letter of Credit                            | 925.901               | 611.167             |
| Commitments from Forward Short Term Borrowing and Transfers | -                     | 93                  |
| Capital commitments for subsidiaries and associates (1)     | 97.805                | 78.890              |
| Other   | 193.329               | 291.310             |
| <b>Total</b>  | <b>1.325.696</b>      | <b>2.223.920</b>    |

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

**1.b Possible losses and commitments related to off-balance sheet items including items listed below:**

**1.b.1 Non-cash loans including guarantees, surety and acceptances, financial collaterals and other letters of credits:**

As of the reporting date, total letters of credits, surety and acceptance amount to TL 1.590.814 (31 December 2017: TL 1.098.066).

**1.b.2 Certain guarantees, tentative guarantees, surety ships and similar transactions:**

As of the reporting date, total letters of guarantee is TL 1.582.993 (31 December 2017: TL 1.475.645).

**1.c.1 Total amount of non-cash loans:**

|   | <b>Current Period</b> | <b>Prior Period</b> |
|---|-----------------------|---------------------|
| Non-cash Loans Given Against Achieving Cash Loans | 1.559.897             | 736.635             |
| With Maturity of One Year or Less than One Year   | 92.372                | 25.875              |
| With Maturity of More than One Year               | 1.467.525             | 710.760             |
| Other Non-Cash Loans                              | 1.613.910             | 1.837.076           |
| <b>Total</b>                                      | <b>3.173.807</b>      | <b>2.573.711</b>    |



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

**III. Explanations and disclosures related to the consolidated off-balance sheet items (continued)**

**1. Information on off-balance sheet liabilities (continued)**

**1.c.2 Information on sectoral risk breakdown of non-cash loans:**

|                                  | Current Period |            |                  |            | Prior Period   |            |                  |            |
|----------------------------------|----------------|------------|------------------|------------|----------------|------------|------------------|------------|
|                                  | TL             | (%)        | TL               | (%)        | TL             | (%)        | TL               | (%)        |
| Agriculture                      | -              | -          | -                | -          | -              | -          | 4.073            | 1          |
| Farming and stockbreeding        | -              | -          | -                | -          | -              | -          | 4.073            | 1          |
| Forestry                         | -              | -          | -                | -          | -              | -          | -                | -          |
| Fishing                          | -              | -          | -                | -          | -              | -          | -                | -          |
| Industry                         | 561.688        | 99         | 1.811.654        | 91         | 203.711        | 97         | 1.320.782        | 90         |
| Mining                           | -              | -          | -                | -          | -              | -          | -                | -          |
| Manufacturing Industry           | 381.548        | 68         | 937.466          | 48         | 6.740          | 3          | 647.831          | 44         |
| Electricity, Gas, Water          | 180.140        | 31         | 874.188          | 43         | 196.971        | 94         | 672.951          | 46         |
| Construction                     | 146            | -          | -                | -          | 2.900          | 1          | -                | -          |
| Services                         | 1.164          | 1          | 199.059          | 9          | 3.837          | 2          | 133.905          | 9          |
| Wholesale and Retail Trade       | -              | -          | 9.410            | -          | -              | -          | -                | -          |
| Hotel, Food and Beverage         | -              | -          | -                | -          | -              | -          | -                | -          |
| Services                         | -              | -          | -                | -          | -              | -          | -                | -          |
| Transportation and Communication | 62             | -          | 44.463           | 2          | -              | -          | -                | -          |
| Financial Institutions           | 321            | -          | 145.186          | 7          | 321            | -          | 133.905          | 9          |
| Real Estate and Leasing Services | 781            | 1          | -                | -          | 3.516          | 2          | -                | -          |
| Self-employment Services         | -              | -          | -                | -          | -              | -          | -                | -          |
| Education Services               | -              | -          | -                | -          | -              | -          | -                | -          |
| Health and Social Services       | -              | -          | -                | -          | -              | -          | -                | -          |
| Other                            | -              | -          | -                | -          | -              | -          | -                | -          |
| <b>Total</b>                     | <b>562.998</b> | <b>100</b> | <b>2.010.713</b> | <b>100</b> | <b>210.448</b> | <b>100</b> | <b>1.458.760</b> | <b>100</b> |

**1.c.3 Information on non cash loans classified under Group I and Group II:**

|                        | Ist Group      |           |              |           | IInd Group     |       |              |    |
|------------------------|----------------|-----------|--------------|-----------|----------------|-------|--------------|----|
|                        | Current Period |           | Prior Period |           | Current Period |       | Prior Period |    |
|                        | TL             | FC        | TL           | FC        | TL             | FC    | TL           | FC |
| Non-cash Loans         | 478.127        | 2.676.264 | 558.515      | 2.010.713 | 6.854          | 9.598 | 3.317        | -  |
| Letters of Guarantee   | 478.127        | 1.095.048 | 558.515      | 912.647   | 6.854          | -     | 3.317        | -  |
| Bank Acceptances       | -              | -         | -            | 18.763    | -              | -     | -            | -  |
| Letters of Credit      | -              | 1.581.216 | -            | 1.079.303 | -              | 9.598 | -            | -  |
| Endorsements           | -              | -         | -            | -         | -              | -     | -            | -  |
| Purchase Guarantees on | -              | -         | -            | -         | -              | -     | -            | -  |
| Factoring Guarantees   | -              | -         | -            | -         | -              | -     | -            | -  |
| Other                  | -              | -         | -            | -         | -              | -     | -            | -  |



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**EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS**  
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**III. Explanations related to the consolidated off-balance sheet items (continued)**

**2. Information related to derivative financial instruments**

As of 31 December 2018, the breakdown of the Bank's foreign currency forward and swap transactions based on currencies are disclosed below in their TL equivalents:

| <b>Current Perior</b> | <b>Forward Buy</b> | <b>Forward Sell</b> | <b>Swap Buy</b>   | <b>Swap Sell</b>  | <b>Option Buy</b> | <b>Option Sell</b> | <b>Other Buy</b> | <b>Other Sell</b> | <b>Fair Value Hedge</b> |
|-----------------------|--------------------|---------------------|-------------------|-------------------|-------------------|--------------------|------------------|-------------------|-------------------------|
| TL                    | 974.149            | 845.785             | 982.222           | 3.432.783         | 1.281.990         | 1.281.990          | -                | -                 | -                       |
| ABD Doları            | 136.897            | 321.265             | 10.777.833        | 6.640.106         | 1.204.750         | 1.204.755          | -                | -                 | 18.028.129              |
| Avro                  | 827.414            | 695.439             | 3.890.834         | 5.382.212         | 147.514           | 147.509            | -                | -                 | -                       |
| Diğer                 | -                  | -                   | 166.575           | 155.096           | -                 | -                  | -                | 13.401            | -                       |
| <b>Toplam</b>         | <b>1.938.460</b>   | <b>1.862.489</b>    | <b>15.817.464</b> | <b>15.610.197</b> | <b>2.634.254</b>  | <b>2.634.254</b>   | <b>-</b>         | <b>13.401</b>     | <b>18.028.129</b>       |

| <b>Prior Period</b> | <b>Forward Buy</b> | <b>Forward Sell</b> | <b>Swap Buy</b>   | <b>Swap Sell</b>  | <b>Option Buy</b> | <b>Option Sell</b> | <b>Other Buy</b> | <b>Other Sell</b> | <b>Fair Value Hedge</b> |
|---------------------|--------------------|---------------------|-------------------|-------------------|-------------------|--------------------|------------------|-------------------|-------------------------|
| TL                  | 485.006            | 496.499             | 594.254           | 1.783.828         | 1.159.838         | 1.159.838          | -                | -                 | -                       |
| ABD Doları          | 1.161.362          | 1.149.585           | 6.235.835         | 4.790.697         | 918.051           | 918.051            | -                | -                 | 10.582.050              |
| Avro                | 423.419            | 423.467             | 3.139.039         | 3.323.127         | 248.097           | 248.097            | -                | -                 | -                       |
| Diğer               | 343.381            | 343.386             | 211.698           | 143.244           | -                 | -                  | -                | 72.830            | -                       |
| <b>Toplam</b>       | <b>2.413.168</b>   | <b>2.412.937</b>    | <b>10.180.826</b> | <b>10.040.896</b> | <b>2.325.986</b>  | <b>2.325.986</b>   | <b>-</b>         | <b>72.830</b>     | <b>10.582.050</b>       |



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

**III. Explanations related to the consolidated off-balance sheet items (continued)**

**2. Information related to derivative financial instruments (continued)**

| <b>Derivative Financial Liabilities Held For Trading</b> | <b>Current Period</b>    |                               |                          | <b>Prior Period</b>           |                          |                               |
|--|--------------------------|-------------------------------|--------------------------|-------------------------------|--------------------------|-------------------------------|
|  | <b>Fair value assets</b> | <b>Fair value liabilities</b> | <b>Fair value assets</b> | <b>Fair value liabilities</b> | <b>Fair value assets</b> | <b>Fair value liabilities</b> |
| Swap Transactions  | 659.811                  | 394.648                       | 14.715.655               | 203.692                       | (135.793)                | 7.007.482                     |
| Interest Rate Swap Transactions                          | 107.411                  | 71.871                        | 16.712.006               | 55.695                        | (32.518)                 | 13.214.240                    |
| Forward Transactions                                     | 152.353                  | 93.917                        | 3.800.949                | 21.909                        | (21.669)                 | 4.826.105                     |
| Futures Transactions                                     | -                        | -                             | -                        | -                             | -                        | -                             |
| Option Transactions                                      | 59.646                   | 59.646                        | 5.268.508                | 42.519                        | (42.423)                 | 4.651.972                     |
| Other  | -                        | 410                           | 13.401                   | 2.973                         | -                        | 72.830                        |
| <b>Total</b>   | <b>979.221</b>           | <b>620.492</b>                | <b>40.510.519</b>        | <b>326.788</b>                | <b>(232.403)</b>         | <b>29.772.629</b>             |

***Fair value hedges***

For the year ended 31 December 2018, the Parent Bank has interest rate swaps for hedging purposes nominal amount of TL 18.028.129 (31 December 2017: TL 10.582.050).

***Hedging from the cash-flow risk***

As of 31 December 2018 there is no cash-flow hedging transactions (31 December 2017: None).

**3. Explanations on loan derivatives and risk exposures**

The Bank has no loan derivatives and such risk exposures to this respect (31 December 2017: None).

**4. Explanations on contingent liabilities and assets**

There are 67 legal cases against the Group which are amounting to TL 5.225 as of the reporting date (31 December 2017: TL 4.976 - 56 legal cases).

Tax Audit Committee inspectors made an investigation for the years 2008-2011 about the payments made by the Parent Bank and employees to “Türkiye Sınai Kalkınma Bankası A.Ş. Mensupları Munzam Sosyal Güvenlik ve Yardımlaşma Vakfı” (Foundation) established in accordance with the decisions of Turkish Commercial Law and Civil Law as made to all Foundations in the sector. According to this investigation it has been communicated that the amount Parent Bank is obliged to pay is a benefit in the nature of fee for the members of Foundation worked at the time of payment, the amount Foundation members are obliged to pay should not been deducted from the basis of fee; accordingly tax audit report was issued with the claim that it should be taken penalized income tax surcharge / penalized stamp duty deducted from allowance and total amount of TL 17.325 tax penalty notice relating to period in question to Parent Bank relying on this report.



## **SECTION FIVE (Continued)**

### **EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

#### **III. Explanations related to the consolidated off-balance sheet items (continued)**

##### **4. Information related to derivative financial instruments (continued)**

Some of the lawsuits are decided favorable, remaining of lawsuits are decided unfavorable by the tax courts of first instance. On the other hand, appeal and objection have been requested by the Parent Bank against the decision of the Court with respect to the Parent Bank and by the administration against the decision of the Court with respect to the administration and completion of appeal process is waited. The tax and penalty notices related to the decision of the tax court of first instance against the Parent Bank are accrued by administration depending on legal process and as of 31 July 2014 the Parent Bank has made total payments amounting to TL 22.091.

A similar case has been submitted to the Constitutional Court in the form of individual remedies by the main shareholder of the parent Bank in relation to the parent Bank's liabilities to pay, the Constitutional Court gave the decision with court file number 2014/6192. According to court decision published in the Official Gazette dated 21 February 2015 and numbered 29274, the assessments against the Parent Bank was contrary to the principle of legality and the Parent Bank's property rights has been violated. This decision is considered to be a precedent for the Parent Bank and an amount of TL 12.750 corresponding to the portion that the Parent Bank was obliged to pay for the related period is recognized as income in the prior period.

There is a lawsuit for Pendorya Mall of TSKB GYO registered in Pendik, Doğu District, plot 105, map 865, parcel 64 against IBB and Karacan Yapı at Pendik 2<sup>nd</sup> Court of First Instance Pendorya Mall claiming the road intersects his own property and demanding compensation amounting TL 7. TSKB GYO has been involved in the lawsuit as intervening party.

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

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

Expert reports submitted to the Court on 30 May 2013 and the Court decided to add Pendik Municipality as a defendant in the case. At the latest hearing on 24 December 2013 it was decided to accept the expert reports and Pendik Municipality to pay the relevant amount (TL 645) to the plaintiff. The reasoned decision has been notified, the decision which has been appealed by the appellant and the respondent Pendik Municipality has turned deteriorate the Supreme Court decision was a request for the correction requested by the İstanbul Metropolitan Municipality (IMM). The decision has been requested adjustment by IMM and plaintiff Sağlam Satış ve Paz. A.Ş. (Malazlar A.Ş.). Breaking decision of the Supreme Court is expected to evaluate the requests for correction of decision. The Court decided to apply of Supreme Court's decision to dismiss. The notification of reasoned decision is expected.



## **SECTION FIVE (Continued)**

### **EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

#### **III. Explanations related to the consolidated off-balance sheet items (continued)**

##### **4. Information related to derivative financial instruments (continued)**

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.

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. In the legal period, the appeal law was appealed by the Beyoğlu Municipality and was sent to the Council of State upon the decision of the Court of Appeal by the Court of Appeal.

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, the request for interim injunction requested for the suspension of the execution was rejected and an appeal was filed by the plaintiff. The notification of the reasoned decision is expected.

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

##### **5. Custodian and intermediary services**

The Group provides trading and safe keeping services in the name and account of real persons, legal entities, funds, pension funds and other entities, which are presented in the statement of contingencies and commitments.



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

**IV. Explanations and disclosures related to the consolidated income statement**

**1. Information on interest income**

**1.a Information on interest on loans:**

|  | Current Period |                  | Prior Period   |                |
|--|----------------|------------------|----------------|----------------|
|  | TL             | FC               | TL             | FC             |
| Interest on Loans (1)                                    |                |                  |                |                |
| Short Term Loans   | 340.368        | 55.039           | 209.464        | 9.179          |
| Medium and Long Term Loans                               | 330.572        | 1.377.651        | 216.065        | 876.636        |
| Interest on Non-performing Loans                         | 7              | 29.715           | 3.369          | 87             |
| Premiums received from Resource Utilization Support Fund | -              | -                | -              | -              |
| <b>Total</b>   | <b>670.947</b> | <b>1.462.405</b> | <b>428.898</b> | <b>885.902</b> |

(1) Commission income from loans has been included to the interest on loans.

**1.b Information on interest received from banks:**

|                                 | Current Period |               | Prior Period  |              |
|---------------------------------|----------------|---------------|---------------|--------------|
|                                 | TL             | FC            | TL            | FC           |
| The Central Bank of Turkey (1)  | 10.258         | -             | 5.617         | -            |
| Domestic Banks                  | 60.854         | 16.382        | 54.372        | 9.157        |
| Foreign Banks                   | 1.143          | 499           | 1.337         | 168          |
| Branches and Head Office Abroad | -              | -             | -             | -            |
| <b>Total</b>                    | <b>72.255</b>  | <b>16.881</b> | <b>61.326</b> | <b>9.325</b> |

(1) Interests given to the Turkish Lira and US Dollar portion of the CBRT Required Reserves, reserve options and unrestricted accounts have been presented under "The Central Bank of Turkey" line in the financial statements.

|   | Current Period |               |
|---|----------------|---------------|
|   | TL             | TL            |
| Financial Assets at Fair Value Through Profit and Loss            | 1.514          | -             |
| Financial Assets at Fair Value Through Other Comprehensive Income | 296.002        | 62.774        |
| Financial Assets Measured at Amortized Cost                       | 386.565        | 15.635        |
| <b>Total</b>  | <b>684.081</b> | <b>78.409</b> |

**1.c Information on interest received from marketable securities:**

|                                     | Prior Period   |               |
|-------------------------------------|----------------|---------------|
|                                     | TL             | TL            |
| Trading Securities                  | 2.119          | 1             |
| Available for Sale Financial Assets | 190.262        | 50.637        |
| Investments Held to Maturity        | 177.715        | 12.254        |
| <b>Total</b>                        | <b>370.096</b> | <b>62.892</b> |

As indicated in accounting policies, the Parent Bank evaluate its Consumer Price Indexed (CPI) government bonds which are in securities portfolio of the Parent Bank base on reference index at date of issue and estimated CPI's. The estimated CPI's is updated when it seems necessary. The subjected securities is evaluated based on actual index on the annual balance sheet date as of 31 December 2018.



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**EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS**  
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**IV. Explanations and disclosures related to the consolidated income statement**

**1. Information on interest income**

**1.d Information on interest income received from associates and subsidiaries:**

|  | Current Period | Prior Period |
|--|----------------|--------------|
| Interest Received from Associates and Subsidiaries | 26.076         | 20.054       |

**2. Faiz giderlerine ilişkin bilgiler**

**2.a Kullanılan kredilere verilen faizlere ilişkin bilgiler:**

|                                 | Current Period |                | Prior Period  |                |
|---------------------------------|----------------|----------------|---------------|----------------|
|                                 | FC             | TL             | FC            | YP             |
| Banks                           | 47.147         | 91.198         | 28.387        | 53.395         |
| The Central Bank of Turkey      | -              | -              | -             | -              |
| Domestic Banks                  | 35.620         | 25.434         | 16.759        | 16.832         |
| Foreign Banks                   | 11.527         | 65.764         | 11.628        | 36.563         |
| Branches and Head Office Abroad | -              | -              | -             | -              |
| Other Financial Institutions    | 2.794          | 439.969        | 2.794         | 254.784        |
| <b>Total (1)</b>                | <b>49.941</b>  | <b>531.167</b> | <b>31.181</b> | <b>308.179</b> |

(1) Commissions given to the Banks and Other Institutions are presented under interest expense.

**2.b Information on interest expenses to associates and subsidiaries:**

There is no interest expense to its associates and subsidiaries (31 December 2017: None).

**2.c Information on interest expense to securities issued:**

|                                   | Current Period |         | Prior Period |         |
|-----------------------------------|----------------|---------|--------------|---------|
|                                   | FC             | TL      | FC           | TL      |
| Interest on securities issued (1) | -              | 491.351 | -            | 262.943 |

(1) Commissions given to issuance have been included to interest expense.

**3. Information on dividend income:**

|   | Current Period |
|---|----------------|
| Financial Assets at Fair Value Through Profit or Loss             | -              |
| Financial Assets at Fair Value Through Other Comprehensive Income | 4.612          |
| Other   | 913            |
| <b>Total</b>  | <b>5.525</b>   |

|  | Prior Period |
|--|--------------|
| Financial Assets held for Trading                      | -            |
| Financial Assets at Fair Value Through Profit and Loss | -            |
| Financial Assets Available For Sale                    | 4.519        |
| Other  | 902          |
| <b>Total</b>   | <b>5.421</b> |



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**(Continued)**

**IV. Explanations and disclosures related to the consolidated income statement (continued)**

**4. Information on net trading income (net)**

|  | Current period   | Prior period     |
|--|------------------|------------------|
| <b>Profit</b>                                  | <b>5.948.542</b> | <b>2.104.270</b> |
| Gains on capital market operations             | 5.041            | 9.212            |
| Gains on derivative financial instruments (1)  | 3.241.829        | 1.044.199        |
| Foreign exchange gains                         | 2.701.672        | 1.050.859        |
| <b>Losses (-)</b>                              | <b>6.277.742</b> | <b>2.169.298</b> |
| Losses on capital market operations            | 2.839            | 3.361            |
| Losses on derivative financial instruments (1) | 3.858.177        | 1.253.992        |
| Foreign exchange losses                        | 2.416.726        | 911.945          |

(1) Foreign exchange gain from derivative transactions amounting to TL 2.112.377 is presented in "Gains on derivative financial instruments" (31 December 2017: TL 423.893), foreign exchange loss from derivative transactions amounting to TL (2.703.018) is presented in "Losses on derivative financial instruments" (31 December 2017: TL (645.396)).

**5. Information related to other operating income**

|                                     | Current Period | Prior Period  |
|-------------------------------------|----------------|---------------|
| Provisions Released (1)             | 91.162         | 45.514        |
| Gains on Sale of Assets             | 73             | 244           |
| From Associate and Subsidiary Sales | -              | -             |
| From Immovable Fixed Asset Sales    | -              | -             |
| From Property Sales                 | -              | 244           |
| From Other Asset Sales              | 73             | -             |
| Other                               | 17.858         | 22.651        |
| <b>Total</b>                        | <b>109.093</b> | <b>68.409</b> |

(1) Includes TL 90.000 provision released in the current period.



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

**IV. Explanations and disclosures related to the consolidated income statement (continued)**

**6. Provision expenses related to loans and other receivables of the Group**

|  | <b>Current Period</b> |
|--|-----------------------|
| Expected Credit Loss   | 494.269               |
| 12 Months Expected Credit Loss (Stage 1)   | 81.575                |
| Significant Increase in Credit Risk (Stage 2)  | 131.972               |
| Non-performing Loans (Stage 3)   | 280.722               |
| Marketable Securities Impairment Expenses  | 7.607                 |
| Financial Assets at Fair Value Through Profit or Loss                                      | -                     |
| Financial Assets at Fair Value Through Other Comprehensive Income                          | 7.607                 |
| Associates, Subsidiaries, and Entities under Common Control (Joint Venture) Value Decrease | -                     |
| Associates   | -                     |
| Subsidiaries   | -                     |
| Entities under Common Control (Joint Venture)  | -                     |
| Other (1)  | 30.773                |
| <b>Total</b>   | <b>532.649</b>        |

|   | <b>Prior Period</b> |
|---|---------------------|
| Specific provisions for loans and other receivables | 6.436               |
| III. Group Loans and Receivables                    | -                   |
| IV. Group Loans and Receivables                     | 4.896               |
| V. Group Loans and Receivables                      | 1.540               |
| General provision expenses                          | -                   |
| Provision expenses for possible losses              | 190.000             |
| Marketable securities impairment expenses           | 3.988               |
| Trading securities                                  | -                   |
| Investment securities available for sale            | 3.988               |
| Impairment provisions                               | 2.402               |
| Associates  | 499                 |
| Subsidiaries  | -                   |
| Entities under common control (joint vent.)         | -                   |
| Investment securities held to maturity              | 1.903               |
| Other (*)   | -                   |
| <b>Total</b>  | <b>202.826</b>      |



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

**IV. Explanations and disclosures related to the consolidated income statement (continued)**

**7. Information related to other operating expenses**

|  | <b>Current Period</b> | <b>Prior Period</b> |
|--|-----------------------|---------------------|
| Personnel Expenses (1) (2)                                   | 131.246               | 102.719             |
| Reserve for Employee Termination Benefits (1)                | 2.358                 | 523                 |
| Bank Social Aid Fund Deficit Provision                       | -                     | -                   |
| Impairment Expenses of Fixed Assets                          | -                     | -                   |
| Depreciation Expenses of Fixed Assets                        | 5.185                 | 5.160               |
| Impairment Expenses of Intangible Assets                     | -                     | -                   |
| Impairment Expense of Goodwill                               | -                     | -                   |
| Amortization Expenses of Intangible Assets                   | 1.219                 | 819                 |
| Impairment on Subsidiaries Accounted for Under Equity Method | -                     | -                   |
| Impairment on Assets for Resale                              | -                     | 18                  |
| Depreciation Expenses of Assets Held for Resale              | -                     | -                   |
| Impairment Expenses of Assets Held for Sale                  | -                     | -                   |
| Other Operating Expenses                                     | 43.376                | 35.317              |
| Rent Expenses  | 3.405                 | 2.818               |
| Maintenance Expenses   | 1.454                 | 1.972               |
| Advertisement Expenses                                       | 970                   | 1.121               |
| Other Expenses   | 37.547                | 29.406              |
| Loss on Sales of Assets                                      | -                     | 1.340               |
| Other (3)  | 26.560                | 24.290              |
| <b>Total</b>   | <b>209.944</b>        | <b>170.186</b>      |

(1) Due to personnel expenses and reserve for employee termination benefits shown separately on the financial statement in the current period it is not include in the other operating expenses.

(2) Includes the distribution of profit share to the employees in accordance with TAS 19 "Employee Benefits"

(3) It contains vacation liability expenses amounting TL 436.

**8. Information on profit/loss before tax from continued and discontinued operations before tax**

As of 31 December 2018, profit before tax of the Group has increased by 23,53% as compared to the prior period (31 December 2017: 33,59% increase). In comparison with the prior period, the Group's net interest income has increased by 69,94% (31 December 2017: 34,06% increase).

**9. Information on tax provision for continued and discontinued operations**

**9.a Information on current tax charge or benefit and deferred tax charge or benefit:**

The Group's current tax charge for the period is TL 147.709 (31 December 2017: TL 161.659). Deferred tax income is TL 102.674 (31 December 2017: TL 27.542 income).

**9.b Information related to deferred tax benefit or charge on temporary differences:**

Deferred tax income calculated on temporary differences is TL 102.674 (31 December 2017: TL 27.542 income).



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

**IV. Explanations and disclosures related to the consolidated income statement (continued)**

**9. Information on tax provision for continued and discontinued operations (continued)**

**9.c Information related to deferred tax benefit / charge on temporary differences, losses, tax deductions and exceptions:**

There has no deferred tax revenues or expenses reflected in the income statement in respect of financial losses, tax deductions and exemptions (31 December 2017: TL 28.073 tax charge). Deferred tax expense reflected in the income statement on carry forward tax losses, tax deductions and exceptions amounts to TL 2.716 )

**10. Explanations on net profit/loss from continued and discontinued operations:**

As of 31 December 2018, the Bank's profit before tax has increased by 9,54% compared to the prior period.

**11. Information on net profit/loss**

**11.a The nature and amount of certain income and expense items from ordinary operations is disclosed if the disclosure for nature, amount and repetition rate of such items is required for the complete understanding of the Bank's performance for the period:**

The Group has generated TL 3.110.109 of interest income, TL 1.381.391 of interest expenses and TL 51.398 of net fee and commission income from banking operations (31 December 2017: TL 1.873.822 interest income, TL 856.543 interest expense, TL 42.662 net fee and commission income).

**11.b The effect of the change in accounting estimates to the net profit/loss; including the effects to the future period, if any:**

There has no change in the accounting estimates and accordingly effect on the financial statement items. (31 December 2017: None).

**11.c Minority share of profit and loss:**

The current year loss attributable to minority shares is TL 7.493 (31 December 2017: TL 5.702 loss). The total shareholders' equity, including current year profit attributable to minority shares is TL 38.622 (31 December 2017: TL 52.719).

**12. If the other items in the income statement exceed 10% of the income statement total, accounts amounting to at least 20% of these items are shown below**

|  | <b>Current Period</b> | <b>Prior Period</b> |
|--|-----------------------|---------------------|
| Gains on Other Fees and Commissions      |                       |                     |
| Gains on Brokerage Commissions           | 34.678                | 28.941              |
| Commissions from Initial Public Offering | 1.311                 | 1.360               |
| Investment Fund Management Income        | 2.113                 | 2.092               |
| Other                                    | 4.895                 | 5.734               |
| <b>Total</b>                             | <b>42.997</b>         | <b>38.127</b>       |



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**EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS**  
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**V. Explanations related to consolidated statement of changes in shareholders' equity**

**1. Information related to capital**

As of the balance sheet date, Paid in capital is TL 2.800.000 , legal reserves is TL 272.773  
Extraordinary legal reserves is TL 177.725.

**2. Accumulated other comprehensive income or loss not reclassified through profit or loss**

Changes in Accumulated other comprehensive income or loss not reclassified through profit or loss includes valuation differences related to tangible assets, Defined Benefit Pension Plan related to Actuarial gains, related to valuation differences of the shares that are being classified fair value through other comprehensive income are being valued at market value and value increase differences in investment in associates, subsidiaries and entities under common control.

**3. Accumulated other comprehensive income or loss reclassified through profit or loss**

Changes in Accumulated other comprehensive income or loss reclassified through profit or loss includes related to exchange differences of the shares that are being classified fair value through other comprehensive income and related to revaluation differences of fair value through other comprehensive income.



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

**VI. Explanations related to consolidated statement of cash flows**

**1. Explanations about other cash flows items and the effect of changes in foreign exchange rates in cash and cash equivalents**

In the current period, other income amounting to TL 78.663 consists of gain from sale of assets and non-interest income (31 December 2017: TL 99.565 other income consists of other income, gain from sale of assets and non-interest income.)

Other caption in changes in assets and liabilities from banking operations amounting to TL 587.296 (31 December 2017: TL 192.315) consists of derivative financial transaction losses, other operating expenses, except employee termination benefits provision and depreciation expense and taxes paid, fees and commissions paid and foreign exchange gain and loss.

In the current period, net increase/decrease in other assets amounting to TL 392.290 (31 December 2017: TL 154.658) consists of changes in miscellaneous receivables, reserve requirement and other assets. In the current period, other liabilities amounting to TL 912.283 (31 December 2017: TL 30.979) consists of changes in funds, miscellaneous payables and funds provided under repurchase agreements.

In the current period, the effect of foreign currency differences on cash and cash equivalents is TL 45.970 (31 December 2017: TL 751).

**2. Information about cash flows from acquisition of associates, subsidiaries, and other investments:**

In the current period, the Group invested TL 4.924 in tangible fixed assets and properties and invested TL 2.543 in intangible fixed assets. In the prior period, there is TL 3.000 investment on subsidiaries and affiliates.

In the prior period, the Group invested TL 4.736 in tangible fixed assets and properties and invested TL 1.282 in intangible fixed assets. The Parent Bank provided cash participation to share capital of its subsidiaries amounting TL 1.000 in prior period.

**3. Information about disposal of associates, subsidiaries, and other investments:**

In the current period, the Group has generated a cash inflow of TL 94 on sale of movable fixed assets and properties. There is no sale of associates and subsidiaries in the current period.

In the prior period, the Group has generated cash inflows of TL 329 on sale of movable fixed assets and properties. The Group has not sold any associates and subsidiaries in the current period.



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**(Continued)**

**VI. Explanations related to consolidated statement of cash flows**

**4. Cash and cash equivalents at the beginning and end of period:**

Cash and cash equivalents at the beginning of period:

|                  | Beginning of the<br>Current Period | Beginning of the<br>Prior Period |
|------------------|------------------------------------|----------------------------------|
| Cash             | 24                                 | 29                               |
| Cash Equivalents | 504.224                            | 915.817                          |
| <b>Total</b>     | <b>504.248</b>                     | <b>915.846</b>                   |

Cash and cash equivalents at the end of period:

|                  | End of the Current<br>Period | End of the Prior<br>Period |
|------------------|------------------------------|----------------------------|
| Cash             | 27                           | 24                         |
| Cash Equivalents | 1.385.796                    | 504.224                    |
| <b>Total</b>     | <b>1.385.823</b>             | <b>504.248</b>             |

**5. Amount of cash and cash equivalents restricted for the usage of the Parent Bank and the shareholders by legal limitations and other reasons**

Reserves amounting to TL 730.273(31 December 2017: TL 831.678) in Turkish Republic Central Bank represent of Turkish Lira, foreign currency and gold reserve requirements of the Parent Bank.

**6. Additional information related to financial position and liquidity**

**6.a Any unused financial borrowing facility which can be utilized in banking operations and unpaid capital commitments and any restrictions on such facilities:**

There are not any unused financial borrowing facilities which can be utilized in banking operations and unpaid capital commitments and any restrictions on such facilities.

**6.b Apart from the cash flows needed to run ordinary operations of the Bank, total of cash flows that shows the increase in the operation capacity of the Bank:**

Under current economical conditions, the cash flows are followed daily and cash flows showing the increase in the capacity of operations of the Bank are investigated.



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

**VII. Explanations on the risk group of the Parent Bank**

**1. Information on the volume of transactions related to the Parent Bank's own risk group, outstanding loan and deposit transactions and income and expenses of the period**

**1.a Current period:**

| Risk Group of the Parent Bank           | Subsidiaries and Associates |          | Direct and Indirect Shareholders of the Parent Bank |          | Other Entities Included in the Risk Group |          |
|---|-----------------------------|----------|---|----------|---|----------|
|   | Cash                        | Non-Cash | Cash  | Non-Cash | Cash                                      | Non-Cash |
| Loans and other receivables             |                             |          |   |          |   |          |
| Balance at the beginning of the period  | 257.470                     | 262      | -   | -        | 76.931                                    | -        |
| Balance at the end of the period        | 437.232                     | 262      | 102.776   | -        | 59.858                                    | -        |
| Interest and commission income received | 25.205                      | 871      | 76  | -        | 5.823                                     | -        |

**1.b Prior period:**

| Risk Group of the Parent Bank           | Subsidiaries and Associates |          | Direct and Indirect Shareholders of the Parent Bank |          | Other Entities Included in the Risk Group |          |
|---|-----------------------------|----------|---|----------|---|----------|
|   | Cash                        | Non-Cash | Cash  | Non-Cash | Cash                                      | Non-Cash |
| Loans and other receivables             |                             |          |   |          |   |          |
| Balance at the beginning of the period  | 294.292                     | 7.878    | 21.131  | -        | 90.035                                    | -        |
| Balance at the end of the period        | 257.470                     | 260      | -   | -        | 76.931                                    | -        |
| Interest and commission income received | 20.047                      | 7        | 251   | -        | 6.609                                     | -        |

**1.c Information on deposit held by Parent Bank's own risk group:**

The Parent Bank is not authorized to accept deposits.

**2. Information on forward and option agreements and other similar agreements made with related parties**

| Risk Group of the Parent Bank                  | Subsidiaries and Associates |              | Direct and Indirect Shareholders of the Parent Bank |              | Other Entities Included in the Risk Group |              |
|--|-----------------------------|--------------|---|--------------|---|--------------|
|  | Current Period              | Prior Period | Current Period                                      | Prior Period | Current Period                            | Prior Period |
| Fair Value Through Profit or Loss Transactions |                             |              |   |              |   |              |
| Beginning of the Period                        | 444.536                     | 417.925      | -   | -            | -   | -            |
| End of the Period                              | 364.732                     | 444.536      | -   | -            | 131.758                                   | -            |
| Total Profit / Loss (1)                        | (356.617)                   | (32.621)     | -   | -            | (1.906)                                   | -            |
| <b>Hedging Risk Transactions</b>               |                             |              |   |              |   |              |
| Beginning of the Period                        | -                           | -            | -   | -            | -   | -            |
| End of the Period                              | -                           | -            | -   | -            | -   | -            |
| Total Profit / Loss                            | -                           | -            | -   | -            | -   | -            |

(1) Prior period includes the informations belong to 31 December 2017.

**3. Total salaries and similar benefits provided to the key management personnel**

Benefits provided to key management personnel in the current period amount to TL 16.846 (31 December 2017: TL 15.828).



**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

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

**SECTION FIVE (Continued)**

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

**VIII. Information and disclosures related to the domestic, foreign offshore branches and foreign representations of the Parent Bank**

**1. Information and disclosures related to the domestic, foreign branches and foreign representations of the Group**

|                                   | Number | Number of Employees |                          |             |                         |
|-----------------------------------|--------|---------------------|--------------------------|-------------|-------------------------|
| Domestic branches (1)             | 2      | 371                 |                          |             |                         |
|                                   |        |                     | Country of Incorporation |             |                         |
| Foreign representations           | -      | -                   |                          |             |                         |
|                                   |        |                     |                          | Total Asset | Statutory Share Capital |
| Foreign branches                  | -      | -                   |                          | -           | -                       |
| Off-shore banking region branches | -      | -                   |                          | -           | -                       |

(1) Consolidated subsidiaries have 9 branches and 134 personnels which are not presented in the table.

**2. Explanation on opening, closing of a branch/agency of the Parent Bank or changing its organizational structure significantly:**

In the current year, the Parent Bank has not opened any branch or agency and there is no significant change in the organization structure of the Parent Bank's operating branches (31 December 2017: None).



**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

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

**SECTION SIX**

**OTHER EXPLANATIONS**

**I. Other explanations related to the operations of the Parent Bank**

**1.a Brief information related to rating carried out by international rating firms:**  
**FITCH RATINGS**

|   |          |
|---|----------|
| Long-term Maturity Foreign Currency (issuer)          | B+       |
| Long-term Maturity Foreign Currency Outlook (issuer)  | Negative |
| Short-term Maturity Foreign Currency (issuer)         | B        |
|   |          |
| Long-term Maturity National Currency (issuer)         | BB       |
| Long-term Maturity National Currency Outlook (issuer) | Negative |
| Short-term Maturity National Currency (issuer)        | B        |
|   |          |
| Support Note  | 4        |
| Base Support Note                                     | B+       |
| National Note   | AA       |
| National Note Outlook                                 | Stable   |
| Subordinated Debt Rating Note                         | B        |
| Financial Capacity Note                               | b+       |

International credit rating agency Fitch Ratings confirmed the Bank's ratings and outlook on 1 October 2018 and determined Bank's "Financial Capacity Note".

**MOODY'S**

|   |          |
|---|----------|
| Reference Financial Rating Note                 | b3       |
| <b>Foreign Currency (issuer)</b>                |          |
| Long-term Maturity                              | B2       |
| Outlook   | Negative |
| Short-term Maturity                             | NP       |
| <b>Domestic Currency (issuer)</b>               |          |
| Long-term Maturity                              | B2       |
| Outlook   | Negative |
| Short-term Maturity                             | NP       |
| <b>Unsecured Debt-Foreign Currency (issuer)</b> |          |
| Long-term Maturity                              | B2       |
| Outlook   | Negative |
| Foreign Currency/Domestic Currency MTN Note     | (P) B2   |

Information above represents updated information as of 28 August 2018.



**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

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

**SECTION SIX (Continued)**

**OTHER EXPLANATIONS (Continued)**

**I. Other explanations related to the operations of the Parent Bank (continued)**

**1.b Informations on corporate governance rating of the Parent Bank:**

SAHA Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş. (SAHA Corporate Governance and Credit Rating Services A.Ş.), a corporate governance rating institution with Capital Markets Board license, updated the Bank's corporate governance rating of 95,42% (9,54 over 10) as of 19 October 2018. Ratings under the main topics of weighted Shareholders, Public Disclosure and Transparency, Stakeholders and Board of Directors are declared as; 9,49 (Weight: 25%), 9,69 (Weight: 25%), 9,85 (Weight: 15%), 9,33 (Weight: 35%) over 10 respectively.

**II. Other explanations related to the events after the reporting date**

None.

**SECTION SEVEN**

**AUDITORS' REPORT**

**I. Explanations on the auditors' report**

The consolidated financial statements as of and for the year ended 31 December 2018 have been audited by Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik AŞ (A Member firm of Ernst & Young Global Limited) and Auditors' Report dated 1 February 2019 is presented in the introduction of this report.

**II. Explanations and notes prepared by independent auditors**

There are no other explanations and notes not expressed in sections above related with the Group's operation.



# GRI STANDARDS INDEX - CORE

"For the Materiality Disclosures Service, GRI Services reviewed that the GRI content index is clearly presented and the references for Disclosures 102-40 to 102-49 align with appropriate sections in the body of the report."





| TSKB - GRI STANDARDS - CORE              |                               |   |           |
|--|-------------------------------|---|-----------|
| GRI STANDARD NUMBER                      | DISCLOSURES                   | PAGE NUMBER/DIRECT REFERENCE  | OMISSIONS |
| <b>GRI 101: FOUNDATION 2016</b>          |                               |   |           |
| <b>GENERAL DISCLOSURES</b>               |                               |   |           |
| <b>GRI 102: GENERAL DISCLOSURES 2016</b> | <b>ORGANIZATIONAL PROFILE</b> |   |           |
|  | 102-1                         | Türkiye Sinai Kalkınma Bankası A.Ş.   |           |
|  | 102-2                         | Page: 6   |           |
|  | 102-3                         | <b>HEADQUARTERS</b>   |           |
|  |                               | Meclisi Mebusan Cad. No: 81 Fındıklı 34427 İstanbul   |           |
|  | 102-4                         | Turkey  |           |
|  | 102-5                         | Page: 4   |           |
|  | 102-6                         | Page: 4   |           |
|  | 102-7                         | Page: 4, 7  |           |
|  | 102-8                         | Page: 84-89   |           |
|  | 102-9                         | Page: 4   |           |
|  |                               | <a href="http://www.tskb.com.tr/i/assets/document/pdf/Tskb-Sustainable-Procurements-Management-Policy.pdf">http://www.tskb.com.tr/i/assets/document/pdf/Tskb-Sustainable-Procurements-Management-Policy.pdf</a>           |           |
|  | 102-10                        | There were no significant changes during the reporting period.  |           |
|  | 102-11                        | Page: 120-122   |           |
|  | 102-12                        | Page: 62-63   |           |
|  | 102-13                        | Page: 62-63   |           |
|  | <b>STRATEGY</b>               |   |           |
|  | 102-14                        | Page: 24-25 / Chairman's Message  |           |
|  |                               | Page: 26-29 / CEO's Assessment  |           |
|  | 102-15                        | Page: 77  |           |
|  | <b>ETHICS AND INTEGRITY</b>   |   |           |
|  | 102-16                        | Page: 5   |           |
|  | <b>GOVERNANCE</b>             |   |           |
|  | 102-18                        | Page: 110-116   |           |
|  | 102-19                        | Page: 74-75   |           |
|  | 102-20                        | Page: 74-75   |           |
|  | 102-22                        | Page: 115-116   |           |
|  |                               | <a href="http://www.tskb.com.tr/en/investor-relations/bank-information/board-of-directors-senior-management">http://www.tskb.com.tr/en/investor-relations/bank-information/board-of-directors-senior-management</a>       |           |
|  |                               | <a href="http://www.tskb.com.tr/en/investor-relations/bank-information/committees">http://www.tskb.com.tr/en/investor-relations/bank-information/committees</a>   |           |
|  | 102-23                        | The Chairman of the Board of Directors has no executive duty.   |           |
|  | 102-24                        | Regarding the minimum qualities to be sought in appointments to Board Member, the Bank acts in accordance with the provisions of Banking legislation, Turkish Commerce Code and the regulations of Capital Markets Board. |           |
|  | 102-35                        | <a href="http://www.tskb.com.tr/i/assets/document/pdf/TSKB_Remuneration_Policy.pdf">http://www.tskb.com.tr/i/assets/document/pdf/TSKB_Remuneration_Policy.pdf</a>   |           |
|  | <b>STAKEHOLDER ENGAGEMENT</b> |   |           |
|  | 102-40                        | Page: 32-33   |           |
|  | 102-41                        | There is no collective bargaining application in TSKB.  |           |
|  | 102-42                        | Page: 34-35   |           |
|  | 102-43                        | Page: 34-35   |           |
|  | 102-44                        | Page: 36-37   |           |
|  | <b>REPORTING PRACTICE</b>     |   |           |
|  | 102-45                        | The report is prepared on unconsolidated basis. The activities of TSKB's subsidiaries are not included.   |           |
|  | 102-46                        | Page: 1   |           |
|  | 102-47                        | Page: 36-37   |           |
|  | 102-48                        | There is no restated information.   |           |
|  | 102-49                        | There are no significant changes from previous reporting periods in the list of material topics and topic boundaries.   |           |
|  | 102-50                        | 01.01.2018-31.12.2018   |           |
|  | 102-51                        | 2017  |           |
|  | 102-52                        | Annual  |           |
|  | 102-53                        | Ms. Özen Çaylı<br>Tel: +90 212 334 52 49<br>Özen Çaylı <HALILOGLUO@tskb.com.tr>   |           |
|  | 102-54                        | This report is prepared in accordance with GRI Standards- Core option.  |           |
|  | 102-55                        | Page: will be given when added to the report.   |           |
|  | 102-56                        | Page: 1, 128-133  |           |



# GRI STANDARDS INDEX - CORE

| GRI STANDARD NUMBER                            | DISCLOSURES                      | PAGE NUMBER/DIRECT REFERENCE  | OMISSIONS |
|--|----------------------------------|---|-----------|
| <b>GRI 200: ECONOMIC STANDARD SERIES</b>       |                                  |   |           |
|  | <b>ECONOMIC PERFORMANCE</b>      |   |           |
| <b>GRI 103: MANAGEMENT APPROACH 2016</b>       | 103-1                            | Page: 36-37   |           |
|  | 103-2                            | Page: 24-25, 26-29  |           |
|  | 103-3                            | Page: 24-25, 26-29  |           |
| <b>GRI 201: ECONOMIC PERFORMANCE 2016</b>      | 201-1                            | Page: 38-39, 42-57  |           |
|  | 201-2                            | Page: 43-45   |           |
|  | 201-3                            | <a href="http://www.tskb.com.tr/i/content/3483_1_TSKB%20SOLO%20EN%2031.12.2018.pdf">http://www.tskb.com.tr/i/content/3483_1_TSKB%20SOLO%20EN%2031.12.2018.pdf</a><br>Please see pages 35-36 of the above mentioned PDF. |           |
|  | 201-4                            | There is no financial assistance received from government during the reporting period.  |           |
|  | <b>MARKET PRESENCE</b>           |   |           |
| <b>GRI 103: MANAGEMENT APPROACH 2016</b>       | 103-1                            | Page: 84-89   |           |
|  | 103-2                            | Page: 24-25, 26-29  |           |
|  | 103-3                            | Page: 24-25, 26-29  |           |
| <b>GRI 202: MARKET PRESENCE 2016</b>           | 202-1                            | In TSKB, the standard entry level wage of all employees is above the local minimum wage.  |           |
|  | 202-2                            | All members of TSKB senior management are Turkish Republic citizens.  |           |
|  | <b>INDIRECT ECONOMIC IMPACTS</b> |   |           |
| <b>GRI 103: MANAGEMENT APPROACH 2016</b>       | 103-1                            | Page: 38-41   |           |
|  | 103-2                            | Page: 24-25, 26-29  |           |
|  | 103-3                            | Page: 24-25, 26-29  |           |
| <b>GRI 203: INDIRECT ECONOMIC IMPACTS 2016</b> | 203-1                            | Page: 24-25, 26-29  |           |
|  | 203-2                            | Page: 40-41   |           |
|  | <b>PROCUREMENT PRACTICES</b>     |   |           |
| <b>GRI 103: MANAGEMENT APPROACH 2016</b>       | 103-1                            | <a href="http://www.tskb.com.tr/i/assets/document/pdf/Tskb-Sustainable-Procurements-Management-Policy.pdf">http://www.tskb.com.tr/i/assets/document/pdf/Tskb-Sustainable-Procurements-Management-Policy.pdf</a>         |           |
|  | 103-2                            | <a href="http://www.tskb.com.tr/i/assets/document/pdf/Tskb-Sustainable-Procurements-Management-Policy.pdf">http://www.tskb.com.tr/i/assets/document/pdf/Tskb-Sustainable-Procurements-Management-Policy.pdf</a>         |           |
|  | 103-3                            | <a href="http://www.tskb.com.tr/i/assets/document/pdf/Tskb-Sustainable-Procurements-Management-Policy.pdf">http://www.tskb.com.tr/i/assets/document/pdf/Tskb-Sustainable-Procurements-Management-Policy.pdf</a>         |           |
| <b>GRI 204: PROCUREMENT PRACTICES 2016</b>     | 204-1                            | <a href="http://www.tskb.com.tr/i/assets/document/pdf/Tskb-Sustainable-Procurements-Management-Policy.pdf">http://www.tskb.com.tr/i/assets/document/pdf/Tskb-Sustainable-Procurements-Management-Policy.pdf</a>         |           |
|  | <b>ANTI-CORRUPTION</b>           |   |           |
| <b>GRI 103: MANAGEMENT APPROACH 2016</b>       | 103-1                            | <a href="http://www.tskb.com.tr/i/assets/document/pdf/TSKB_anti_bribery_and_anti_corruption_policy.pdf">http://www.tskb.com.tr/i/assets/document/pdf/TSKB_anti_bribery_and_anti_corruption_policy.pdf</a>               |           |
|  | 103-2                            | <a href="http://www.tskb.com.tr/i/assets/document/pdf/TSKB_anti_bribery_and_anti_corruption_policy.pdf">http://www.tskb.com.tr/i/assets/document/pdf/TSKB_anti_bribery_and_anti_corruption_policy.pdf</a>               |           |
|  | 103-3                            | <a href="http://www.tskb.com.tr/i/assets/document/pdf/TSKB_anti_bribery_and_anti_corruption_policy.pdf">http://www.tskb.com.tr/i/assets/document/pdf/TSKB_anti_bribery_and_anti_corruption_policy.pdf</a>               |           |



| GRI STANDARD NUMBER                           | DISCLOSURES                      | PAGE NUMBER/DIRECT REFERENCE  | OMISSIONS |
|---|----------------------------------|---|-----------|
| GRI 205: ANTI-CORRUPTION 2016                 | 205-1                            | <a href="http://www.tskb.com.tr/i/assets/document/pdf/TSKB_anti_bribery_and_anti_corruption_policy.pdf">http://www.tskb.com.tr/i/assets/document/pdf/TSKB_anti_bribery_and_anti_corruption_policy.pdf</a> |           |
|   | 205-3                            | Page: 120-122<br>There are no confirmed incidents of corruption during the reporting period.  |           |
|   | <b>ANTI-COMPETITIVE BEHAVIOR</b> |   |           |
| GRI 103: MANAGEMENT APPROACH 2016             | 103-1                            | <a href="http://www.tskb.com.tr/i/assets/document/pdf/TBB_Principles_of_Banking_Ethics(1).pdf">http://www.tskb.com.tr/i/assets/document/pdf/TBB_Principles_of_Banking_Ethics(1).pdf</a>                   |           |
|   | 103-2                            | <a href="http://www.tskb.com.tr/i/assets/document/pdf/TBB_Principles_of_Banking_Ethics(1).pdf">http://www.tskb.com.tr/i/assets/document/pdf/TBB_Principles_of_Banking_Ethics(1).pdf</a>                   |           |
|   | 103-3                            | <a href="http://www.tskb.com.tr/i/assets/document/pdf/TBB_Principles_of_Banking_Ethics(1).pdf">http://www.tskb.com.tr/i/assets/document/pdf/TBB_Principles_of_Banking_Ethics(1).pdf</a>                   |           |
| GRI 206: ANTI-COMPETITIVE BEHAVIOR 2016       | 206-1                            | There are no legal actions for anti-competitive behavior, anti-trust, and monopoly practices during the reporting period.   |           |
| <b>GRI 300: ENVIRONMENTAL STANDARD SERIES</b> |                                  |   |           |
|   | <b>ENERGY</b>                    |   |           |
| GRI 103: MANAGEMENT APPROACH 2016             | 103-1                            | Page: 36-37   |           |
|   | 103-2                            | <a href="http://www.tskb.com.tr/i/assets/document/pdf/TSKB-ENVIRONMENTAL-AND-SOCIAL-IMPACT-POLICY.pdf">http://www.tskb.com.tr/i/assets/document/pdf/TSKB-ENVIRONMENTAL-AND-SOCIAL-IMPACT-POLICY.pdf</a>   |           |
|   | 103-3                            | <a href="http://www.tskb.com.tr/i/assets/document/pdf/TSKB-ENVIRONMENTAL-AND-SOCIAL-IMPACT-POLICY.pdf">http://www.tskb.com.tr/i/assets/document/pdf/TSKB-ENVIRONMENTAL-AND-SOCIAL-IMPACT-POLICY.pdf</a>   |           |
| GRI 302: ENERGY 2016                          | 302-1                            | Page: 78-79   |           |
|   | 302-2                            | Page: 78-79   |           |
|   | 302-3                            | Page: 78-79   |           |
|   | 302-4                            | Page: 78-79   |           |
|   | <b>WATER</b>                     |   |           |
| GRI 103: MANAGEMENT APPROACH 2016             | 103-1                            | Page: 36-37   |           |
|   | 103-2                            | Page: 24-25, 26-29  |           |
|   | 103-3                            | Page: 24-25, 26-29  |           |
| GRI 303: WATER 2016                           | 303-1                            | Page: 78-79   |           |
|   | 303-2                            | There are no water sources significantly affected by withdrawal of water.   |           |
|   | 303-3                            | Page: 78-79   |           |
|   | <b>EMISSIONS</b>                 |   |           |
| GRI 103: MANAGEMENT APPROACH 2016             | 103-1                            | Page: 36-37   |           |
|   | 103-2                            | Page: 24-25, 26-29  |           |
|   | 103-3                            | Page: 24-25, 26-29  |           |
| GRI 305: EMISSIONS 2016                       | 305-1                            | Page: 78-79   |           |
|   | 305-2                            | Page: 78-79   |           |
|   | 305-3                            | Page: 78-79   |           |
|   | 305-4                            | Page: 78-79   |           |
|   | 305-5                            | Page: 78-79   |           |
|   | <b>EFFLUENTS AND WASTE</b>       |   |           |
| GRI 103: MANAGEMENT APPROACH 2016             | 103-1                            | Page: 36-37   |           |
|   | 103-2                            | Page: 24-25, 26-29  |           |
|   | 103-3                            | Page: 24-25, 26-29  |           |



# GRI STANDARDS INDEX - CORE

| GRI STANDARD NUMBER                             | DISCLOSURES | PAGE NUMBER/DIRECT REFERENCE  | OMISSIONS  |
|---|-------------|---|--|
| GRI 306: EFFLUENTS AND WASTE 2016               | 306-1       |   | The disclosure is omitted because it is not directly related with TSKB's business activities and operations. |
|   | 306-2       | Page: 78-79   |  |
|   | 306-3       |   | The disclosure is omitted because it is not directly related with TSKB's business activities and operations. |
|   | 306-4       |   | The disclosure is omitted because it is not directly related with TSKB's business activities and operations. |
|   | 306-5       |   | The disclosure is omitted because it is not directly related with TSKB's business activities and operations. |
| <b>ENVIRONMENTAL COMPLIANCE</b>                 |             |   |  |
| GRI 103: MANAGEMENT APPROACH 2016               | 103-1       | Page: 36-37   |  |
|   | 103-2       | <a href="http://www.tskb.com.tr/i/assets/document/pdf/TSKB-ENVIRONMENTAL-AND-SOCIAL-IMPACT-POLICY.pdf">http://www.tskb.com.tr/i/assets/document/pdf/TSKB-ENVIRONMENTAL-AND-SOCIAL-IMPACT-POLICY.pdf</a>   |  |
|   | 103-3       | <a href="http://www.tskb.com.tr/i/assets/document/pdf/TSKB-ENVIRONMENTAL-AND-SOCIAL-IMPACT-POLICY.pdf">http://www.tskb.com.tr/i/assets/document/pdf/TSKB-ENVIRONMENTAL-AND-SOCIAL-IMPACT-POLICY.pdf</a>   |  |
| GRI 307: ENVIRONMENTAL COMPLIANCE 2016          | 307-1       | There are no significant fines or sanctions in the reporting period.  |  |
| <b>SUPPLIER ENVIRONMENTAL ASSESSMENT</b>        |             |   |  |
| GRI 103: MANAGEMENT APPROACH 2016               | 103-1       | Page: 36-37   |  |
|   | 103-2       | <a href="http://www.tskb.com.tr/i/assets/document/pdf/Tskb-Sustainable-Procurements-Management-Policy.pdf">http://www.tskb.com.tr/i/assets/document/pdf/Tskb-Sustainable-Procurements-Management-Policy.pdf</a>   |  |
|   |             | <ul style="list-style-type: none"> <li>TSKB works closely with its suppliers in order to manage the environmental and social impact of its supply chain operations. Suppliers are supported in their efforts to improve their own environmental and social sustainability performance. Such matters will be dealt with as called for in TSKB's Sustainable Procurements Management Policy.</li> </ul> |  |
|   | 103-3       | <a href="http://www.tskb.com.tr/i/assets/document/pdf/Tskb-Sustainable-Procurements-Management-Policy.pdf">http://www.tskb.com.tr/i/assets/document/pdf/Tskb-Sustainable-Procurements-Management-Policy.pdf</a>   |  |
| GRI 308: SUPPLIER ENVIRONMENTAL ASSESSMENT 2016 | 308-1       | Although the suppliers are expected to pay attention to their environmental impact, there are no suppliers that were screened using environmental criteria.   |  |
| <b>GRI 400: SOCIAL STANDARD SERIES</b>          |             |   |  |
| <b>EMPLOYMENT</b>                               |             |   |  |
| GRI 103: MANAGEMENT APPROACH 2016               | 103-1       | Page: 84-89   |  |
|   | 103-2       | Page: 84-89   |  |
|   | 103-3       | Page: 84-89   |  |
| GRI 401: EMPLOYMENT 2016                        | 401-1       | Total number of new employees hired in 2018 is 31.  |  |
|   | 401-2       | Page: 84<br>All TSKB employees are working on full-time basis.  |  |



| GRI STANDARD NUMBER   | DISCLOSURES   | PAGE NUMBER/DIRECT REFERENCE   | OMISSIONS |
|---|---|--|-----------|
|   | <b>LABOR/MANAGEMENT RELATIONS</b>                       |  |           |
| <b>GRI 103: MANAGEMENT APPROACH 2016</b>                              | 103-1   | Page: 84-89  |           |
|   | 103-2   | Page: 84-89  |           |
|   | 103-3   | Page: 84-89  |           |
| <b>GRI 402: LABOR/MANAGEMENT RELATIONS 2016</b>                       | 402-1   | TSKB is fully compliant with current laws and regulations about this subject in Turkey.  |           |
|   | <b>OCCUPATIONAL HEALTH AND SAFETY</b>                   |  |           |
| <b>GRI 103: MANAGEMENT APPROACH 2016</b>                              | 103-1   | Page: 84-89  |           |
|   | 103-2   | <a href="http://www.tskb.com.tr/i/assets/document/pdf/Tskb-Occupational-Health-and-Safety-Policy.pdf">http://www.tskb.com.tr/i/assets/document/pdf/Tskb-Occupational-Health-and-Safety-Policy.pdf</a>  |           |
|   | 103-3   | <a href="http://www.tskb.com.tr/i/assets/document/pdf/Tskb-Occupational-Health-and-Safety-Policy.pdf">http://www.tskb.com.tr/i/assets/document/pdf/Tskb-Occupational-Health-and-Safety-Policy.pdf</a>  |           |
| <b>GRI 403: OCCUPATIONAL HEALTH AND SAFETY 2016</b>                   | 403-2   | There are no injury, occupational diseases, lost days, and absenteeism, and work-related fatalities during the reporting period.   |           |
|   | 403-3   | As per the nature of its activities, TSKB's employees are not subject to high risk of injury or occupational diseases.   |           |
|   | <b>TRAINING AND EDUCATION</b>                           |  |           |
| <b>GRI 103: MANAGEMENT APPROACH 2016</b>                              | 103-1   | Page: 84-89  |           |
|   | 103-2   | Page: 84-89  |           |
|   | 103-3   | Page: 84-89  |           |
| <b>GRI 404: TRAINING AND EDUCATION 2016</b>                           | 404-1   | Page: 86-87, 97-98   |           |
|   | 404-2   | Page: 86-87, 97-98   |           |
|   | <b>DIVERSITY AND EQUAL OPPORTUNITY</b>                  |  |           |
| <b>GRI 103: MANAGEMENT APPROACH 2016</b>                              | 103-1   | Page: 84-89  |           |
|   | 103-2   | Page: 84-89  |           |
|   | 103-3   | Page: 84-89  |           |
| <b>GRI 405: DIVERSITY AND EQUAL OPPORTUNITY 2016</b>                  | 405-1   | Page: 88-89, 104-109, 113  |           |
|   | 405-2   | There is no gender-based wage discrimination in TSKB.  |           |
|   | <b>NON-DISCRIMINATION</b>                               |  |           |
| <b>GRI 103: MANAGEMENT APPROACH 2016</b>                              | 103-1   | Page: 84-89  |           |
|   | 103-2   | <a href="http://www.tskb.com.tr/i/assets/document/pdf/TBB_Principles_of_Banking_Ethics(1).pdf">http://www.tskb.com.tr/i/assets/document/pdf/TBB_Principles_of_Banking_Ethics(1).pdf</a>                |           |
|   | 103-3   | Page: 84-89  |           |
| <b>GRI 406: NON-DISCRIMINATION 2016</b>                               | 406-1   | There are no incidents of discrimination during the reporting period.  |           |
|   | <b>FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING</b> |  |           |
| <b>GRI 103: MANAGEMENT APPROACH 2016</b>                              | 103-1   | Page: 84-89  |           |
|   | 103-2   | Page: 84-89  |           |
|   | 103-3   | Page: 84-89  |           |
| <b>GRI 407: FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING 2016</b> | 407-1   | TSKB respects the right of collective bargaining. During the reporting period, TSKB had no dealings with any supplier who, to the Bank's knowledge, was in violation of their employees' union rights. |           |
|   | <b>CHILD LABOR</b>                                      |  |           |
| <b>GRI 103: MANAGEMENT APPROACH 2016</b>                              | 103-1   | <a href="http://www.tskb.com.tr/i/assets/document/pdf/TSKB-Human-Rights-Policy.pdf">http://www.tskb.com.tr/i/assets/document/pdf/TSKB-Human-Rights-Policy.pdf</a>                                      |           |
|   | 103-2   | <a href="http://www.tskb.com.tr/i/assets/document/pdf/TSKB-Human-Rights-Policy.pdf">http://www.tskb.com.tr/i/assets/document/pdf/TSKB-Human-Rights-Policy.pdf</a>                                      |           |
|   | 103-3   | <a href="http://www.tskb.com.tr/i/assets/document/pdf/TSKB-Human-Rights-Policy.pdf">http://www.tskb.com.tr/i/assets/document/pdf/TSKB-Human-Rights-Policy.pdf</a>                                      |           |



# GRI STANDARDS INDEX - CORE

| GRI STANDARD NUMBER                      | DISCLOSURES                        | PAGE NUMBER/DIRECT REFERENCE  | OMISSIONS |
|--|------------------------------------|---|-----------|
| GRI 408: CHILD LABOR 2016                | 408-1                              | TSKB does not employ child labor in any way. TSKB expects all of its suppliers comply with age restrictions mentioned on related laws and regulations.  |           |
|  | <b>FORCED OR COMPULSORY LABOR</b>  |   |           |
| GRI 103: MANAGEMENT APPROACH 2016        | 103-1                              | <a href="http://www.tskb.com.tr/i/assets/document/pdf/TSKB-Human-Rights-Policy.pdf">http://www.tskb.com.tr/i/assets/document/pdf/TSKB-Human-Rights-Policy.pdf</a>   |           |
|  | 103-2                              | <a href="http://www.tskb.com.tr/i/assets/document/pdf/TSKB-Human-Rights-Policy.pdf">http://www.tskb.com.tr/i/assets/document/pdf/TSKB-Human-Rights-Policy.pdf</a>   |           |
|  | 103-3                              | <a href="http://www.tskb.com.tr/i/assets/document/pdf/TSKB-Human-Rights-Policy.pdf">http://www.tskb.com.tr/i/assets/document/pdf/TSKB-Human-Rights-Policy.pdf</a>   |           |
| GRI 409: FORCED OR COMPULSORY LABOR 2016 | 409-1                              | There are no activities and operations at TSKB with significant risk for incidents of forced or compulsory labor. TSKB expects all of its suppliers do not employ forced or compulsory labor in any case. |           |
|  | <b>HUMAN RIGHTS ASSESSMENT</b>     |   |           |
| GRI 103: MANAGEMENT APPROACH 2016        | 103-1                              | <a href="http://www.tskb.com.tr/i/assets/document/pdf/TSKB-Human-Rights-Policy.pdf">http://www.tskb.com.tr/i/assets/document/pdf/TSKB-Human-Rights-Policy.pdf</a>   |           |
|  | 103-2                              | <a href="http://www.tskb.com.tr/i/assets/document/pdf/TSKB-Human-Rights-Policy.pdf">http://www.tskb.com.tr/i/assets/document/pdf/TSKB-Human-Rights-Policy.pdf</a>   |           |
|  | 103-3                              | <a href="http://www.tskb.com.tr/i/assets/document/pdf/TSKB-Human-Rights-Policy.pdf">http://www.tskb.com.tr/i/assets/document/pdf/TSKB-Human-Rights-Policy.pdf</a>   |           |
| GRI 412: HUMAN RIGHTS ASSESSMENT 2016    | 412-1                              | None.   |           |
|  | <b>CUSTOMER PRIVACY</b>            |   |           |
| GRI 103: MANAGEMENT APPROACH 2016        | 103-1                              | <a href="http://www.tskb.com.tr/i/assets/document/pdf/TBB_Principles_of_Banking_Ethics(1).pdf">http://www.tskb.com.tr/i/assets/document/pdf/TBB_Principles_of_Banking_Ethics(1).pdf</a>                   |           |
|  | 103-2                              | <a href="http://www.tskb.com.tr/i/assets/document/pdf/TBB_Principles_of_Banking_Ethics(1).pdf">http://www.tskb.com.tr/i/assets/document/pdf/TBB_Principles_of_Banking_Ethics(1).pdf</a>                   |           |
|  | 103-3                              | <a href="http://www.tskb.com.tr/i/assets/document/pdf/TBB_Principles_of_Banking_Ethics(1).pdf">http://www.tskb.com.tr/i/assets/document/pdf/TBB_Principles_of_Banking_Ethics(1).pdf</a>                   |           |
| GRI 418: CUSTOMER PRIVACY 2016           | 418-1                              | There are no complaints concerning breaches of customer privacy and losses of customer data.  |           |
|  | <b>FINANCIAL SECTOR SUPPLEMENT</b> |   |           |
|  | <b>PRODUCT PORTFOLIO</b>           |   |           |
| GRI 103: MANAGEMENT APPROACH 2016        | 103-1                              | Page: 76  |           |
|  | 103-2                              | <a href="http://www.tskb.com.tr/i/assets/document/pdf/TSKB-ENVIRONMENTAL-AND-SOCIAL-IMPACT-POLICY.pdf">http://www.tskb.com.tr/i/assets/document/pdf/TSKB-ENVIRONMENTAL-AND-SOCIAL-IMPACT-POLICY.pdf</a>   |           |
|  | 103-3                              | <a href="http://www.tskb.com.tr/i/assets/document/pdf/TSKB-ENVIRONMENTAL-AND-SOCIAL-IMPACT-POLICY.pdf">http://www.tskb.com.tr/i/assets/document/pdf/TSKB-ENVIRONMENTAL-AND-SOCIAL-IMPACT-POLICY.pdf</a>   |           |
| FINANCIAL SECTOR SUPPLEMENT              | FS6                                | Page: 42-43, 48-49  |           |
|  | FS7                                | Page: 42-43, 48-49  |           |
|  | FS8                                | Page: 42-43, 48-49, 70-72, 76   |           |
|  | <b>ACTIVE OWNERSHIP</b>            |   |           |
| GRI 103: MANAGEMENT APPROACH 2016        | 103-1                              | Page: 32-37   |           |
|  | 103-2                              | Page: 74-77   |           |
| FINANCIAL SECTOR SUPPLEMENT              | FS10                               | Page: 32-37, 48-49  |           |
|  | FS11                               | Page: 32-37, 48-49  |           |







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