

Türkiye Sınai Kalkınma Bankası Anonim Şirketi

Independent Auditor's Audit Report, Unconsolidated Financial Statements And Notes For The Year Ended December 31, 2018

Convenience translation of unconsolidated financial statements and
independent auditor's audit report originally issued in Turkish, See Note I. of
Section three)

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><i>Financial impact of transition to TFRS 9 “Financial Instruments” standard and recognition of impairment on financial assets and related important disclosures</i></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"> - Amount of on and off balance sheet items that are subject to expected credit loss calculation is material to the financial statements. - Transition to TFRS 9 effect 1% on the Bank’s equity - There are complex and comprehensive requirements of TFRS 9. - The classification of the financial assets is based on the Bank’s business model and characteristics of the contractual cash flows in accordance with 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. - 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 - Policies implemented by the Bank management include compliance risk to the regulations and other practices. - New or re-structured processes of TFRS 9 are advanced and complex. - Judgements and estimates used in expected credit loss calculation are new, complex and comprehensive. - Disclosure requirements of TFRS 9 are comprehensive and complex. 	<p>Our audit procedures included among others include:</p> <ul style="list-style-type: none"> - Evaluating the appropriateness of accounting policies as to the requirements of TFRS 9, Bank’s past experience, local and global practices. - 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. - 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. - 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. - Examining the financial instruments classification and measurement models (fair value hierarchy Level 3 financial instruments) and comparing them with TFRS 9 standard requirements - 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. - Assessing the completeness and the accuracy of the data used for expected credit loss calculation. - Testing the mathematical accuracy of expected credit loss calculation on sample basis. - Evaluating the judgments and estimates used for the individually assessed financial assets. - Evaluating the accuracy and the necessity of post-model adjustments. - Auditing of TFRS 9 disclosures.

Pension Fund Obligations	
<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>

Derivative Financial Instruments	
<p>Derivative financial instruments including foreign exchange contracts, currency and interest rate swaps, currency and interest rate options, futures and other derivative financial instruments which are held for trading are initially recognized on the statement of financial position at fair value and subsequently are re-measured at their fair value. Details of related amounts are explained in Section Five Note 1.2.c Positive differences related to derivative financial assets held-for-trading and Section Five Note II.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



Yaşar Bivas, SMMM
Partner

1 February 2019
İstanbul, Türkiye

**THE UNCONSOLIDATED FINANCIAL REPORT OF
TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.
FOR THE YEAR ENDED 31 DECEMBER 2018**


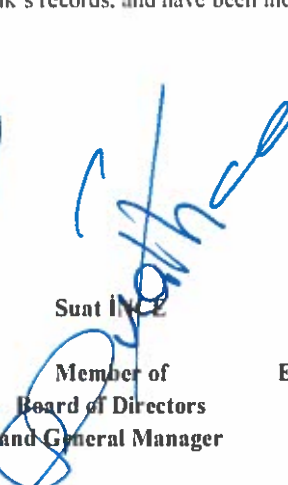


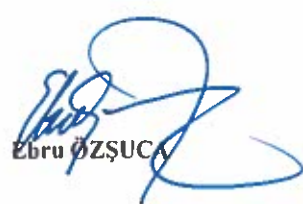

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The unconsolidated financial report for the year end includes the following sections in accordance with "Communiqué on the Financial Statements and Related Explanation and Notes that will be made Publicly Announced" as sanctioned by the Banking Regulation 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 communiqués and the Bank's records, and have been independently audited and presented as attached.

1 February 2019

 H. Ersin ÖZİNCE Chairman of Board of Directors	 Sımt İNCE Member of Board of Directors and General Manager	 Ece BÖRÜ Executive Vice President In Charge of Financial Reporting	 Tolga SERT Head of Financial Control Department
 Ebru ÖZSUCU Member of Audit Committee		 Mehmet ŞENCAN Member of Audit Committee	

Contact information of the personnel in charge for addressing questions about this financial report:

Name-Surname / Title : Ayşe Nazlıca / Head of Budget Planning and Investor Relations
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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:

Current Period	Share Capital	Shareholding Rate (%)	Paid in Capital	Unpaid Capital
<u>Name Surname/Commercial Title</u>				
T. İş Bankası A.Ş. Group	1.425.780	50,92	1.425.780	-
T. Vakıflar Bankası T.A.O.	234.570	8,38	234.570	-
Under Custody at Merkezi Kayıt Kuruluşu (Other Institutions and Individuals)	1.139.650	40,70	1.139.650	-
Total	2.800.000	100,00	2.800.000	-

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

The 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:

Name Surname	Title (1)
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 Özşuca	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

Name Surname	Title / Area of Responsibility
Suat İnce	General Manager
Çiğdem İçel	Vice President – Economic Research, Financial Institutions, Development Finance Institutions and Engineering and Technical Consultancy
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.
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)

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.

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)

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 Current Period 31 December 2018	
		Section 5 Note I	TL	FC	Total
ASSETS					
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 Prior Period 31 December 2017		
		Section 5 Note I	TL	FC
ASSETS				Total
I. CASH AND BALANCES WITH CENTRAL BANK	(1)	10.591	836.540	847.131
II. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS (Net)	(2)	194.100	132.688	326.788
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		-	-	-
III. BANKS	(3)	419	6.033	6.452
IV. MONEY MARKET PLACEMENTS		-	-	-
4.1 Interbank Money Market Placements		-	-	-
4.2 Istanbul Stock Exchange Money Market Placements		-	-	-
4.3 Receivables From Reverse Repurchase Agreements		-	-	-
V. FINANCIAL ASSETS AVAILABLE FOR SALE (Net)	(4)	2.048.302	1.038.542	3.086.844
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
VI. LOANS AND RECEIVABLES	(5)	3.889.490	18.341.523	22.231.013
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
VII. FACTORING RECEIVABLES		-	-	-
VIII. HELD TO MATURITY INVESTMENTS (Net)	(6)	1.334.721	197.326	1.532.047
8.1 Government Debt Securities		1.334.721	197.326	1.532.047
8.2 Other Marketable Securities		-	-	-
IX. INVESTMENTS IN ASSOCIATES (Net)	(7)	308.497	-	308.497
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
X. INVESTMENTS IN SUBSIDIARIES (Net)	(8)	136.355	-	136.355
10.1 Unconsolidated Financial Subsidiaries		134.976	-	134.976
10.2 Unconsolidated Non-Financial Subsidiaries		1.379	-	1.379
XI. ENTITIES UNDER COMMON CONTROL (JOINT VENT.) (Net)	(9)	-	-	-
11.1 Consolidated under Equity Method		-	-	-
11.2 Unconsolidated		-	-	-
11.2.1 Financial Subsidiaries		-	-	-
11.2.2 Non-Financial Subsidiaries		-	-	-
XII. LEASE RECEIVABLES	(10)	-	63.410	63.410
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
XIII. DERIVATIVE FINANCIAL ASSETS FOR HEDGING PURPOSES	(11)	-	-	-
13.1 Fair Value Hedge		-	-	-
13.2 Cash Flow Hedge		-	-	-
13.3 Hedge of Net Investment in Foreign Operations		-	-	-
XIV. TANGIBLE ASSETS (Net)	(12)	50.853	-	50.853
XV. INTANGIBLE ASSETS (Net)	(13)	1.640	-	1.640
15.1 Goodwill		-	-	-
15.2 Other		1.640	-	1.640
XVI. INVESTMENT PROPERTY (Net)	(14)	-	-	-
XVII. TAX ASSET	(15)	39.366	-	39.366
17.1 Current Tax Asset		-	-	-
17.2 Deferred Tax Asset		39.366	-	39.366
XVIII. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (Net)	(16)	-	-	-
18.1 Held for Sale Purpose		-	-	-
18.2 Related to Discontinued Operations		-	-	-
XIX. OTHER ASSETS	(17)	69.206	210.650	279.856
TOTAL ASSETS		8.083.540	20.826.712	28.910.252

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 Current Period 31 December 2018			
		Section 5			
	LIABILITIES	Note II	TL	FC	Total
I.	DEPOSITS	(1)	-	-	-
II.	FUNDS BORROWED	(3)	127.007	23.449.011	23.576.018
III.	MONEY MARKET BALANCES		41.543	137.458	179.001
IV.	MARKETABLE SECURITIES ISSUED (Net)	(3)	-	6.949.189	6.949.189
4.1	Bills		-	-	-
4.2	Assets Backed Securities		-	-	-
4.3	Bonds		-	6.949.189	6.949.189
V.	BORROWER FUNDS		2.408	30.121	32.529
5.1	Borrower Funds		2.408	30.121	32.529
5.2	Other		-	-	-
VI.	FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS		-	-	-
VII.	DERIVATIVE FINANCIAL LIABILITIES		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		-	-	-
VIII.	FACTORING LIABILITIES		-	-	-
IX.	LEASE LIABILITIES	(5)	-	-	-
9.1	Financial Lease		-	-	-
9.2	Operating Lease		-	-	-
9.3	Other		-	-	-
9.4	Deferred Financial Lease Expenses (-)		-	-	-
X.	PROVISIONS	(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
XI.	CURRENT TAX LIABILITY	(8)	91.846	-	91.846
XII.	DEFERRED TAX LIABILITY	(8)	-	-	-
XIII.	LIABILITIES FOR PROPERTY AND EQUIPMENT HELD FOR SALE AND RELATED TO DISCONTINUED OPERATIONS (Net)	(9)	-	-	-
13.1	Held for Sale Purpose		-	-	-
13.2	Related to Discontinued Operations		-	-	-
XIV.	SUBORDINATED DEBT INSTRUMENTS	(10)	-	1.549.774	1.549.774
14.1	Loans		-	-	-
14.2	Other Debt Instruments		-	1.549.774	1.549.774
XV.	OTHER LIABILITIES		121.059	29.796	150.855
XVI.	SHAREHOLDERS' EQUITY		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
TOTAL LIABILITIES AND EQUITY			5.861.854	32.436.257	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 Prior Period 31 December 2017			
		Section 5			
LIABILITIES		Note 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	(2)	123.710	108.693	232.403
III.	FUNDS BORROWED	(3)	190.972	18.490.756	18.681.728
IV.	MONEY MARKET BALANCES		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
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	Others		-	-	-
VII.	MISCELLANEOUS PAYABLES		5.985	48.959	54.944
VIII.	OTHER LIABILITIES	(4)	113.609	2.318	115.927
IX.	FACTORING PAYABLES		-	-	-
X.	LEASE PAYABLES	(5)	-	-	-
10.1	Financial Lease Payables		-	-	-
10.2	Operating Lease Payables		-	-	-
10.3	Other		-	-	-
10.4	Deferred Finance Lease Expenses (-)		-	-	-
XI.	DERIVATIVE FINANCIAL LIABILITIES FOR HEDGING PURPOSES	(6)	-	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)	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
XIII.	TAX LIABILITY	(8)	51.990	-	51.990
13.1	Current Tax Liability		51.990	-	51.990
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		3.522.277	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
TOTAL LIABILITIES AND EQUITY			5.103.078	23.807.174	28.910.252

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 Current Period 31 December 2018			Audited Prior Period 31 December 2017		
Section 5		TL	FC	Total	TL	FC	Total
OFF BALANCE SHEET							
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 Documentary 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 Note IV	Audited Current Period 1 January 2018- 31 December 2018
I.	INTEREST INCOME	(1)	3.034.857
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
II.	INTEREST EXPENSES (-)	(2)	1.281.465
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
III.	NET INTEREST INCOME (I - II)		1.753.392
IV.	NET FEES AND COMMISSIONS INCOME / EXPENSES		19.001
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
V.	PERSONNEL EXPENSES (-)	(7)	107.223
VI.	DIVIDEND INCOME	(3)	4.011
VII.	NET TRADING INCOME	(4)	(267.231)
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
VIII.	OTHER OPERATING INCOME	(5)	94.158
IX.	GROSS OPERATING INCOME (III+IV+V+VI+VII+VIII)		1.496.108
X.	EXPECTED CREDIT LOSS (-)	(6)	531.193
XI.	OTHER OPERATING EXPENSES (-)	(7)	55.652
XII.	NET OPERATING INCOME/(LOSS) (IX-X-XI)		909.263
XIII.	AMOUNT IN EXCESS RECORDED AS GAIN AFTER MERGER		-
XIV.	PROFIT / (LOSS) ON EQUITY METHOD		-
XV.	GAIN / (LOSS) ON NET MONETARY POSITION		-
XVI.	PROFIT/(LOSS) FROM CONTINUED OPERATIONS BEFORE TAXES (XII+...+XV)		909.263
XVII.	TAX PROVISION FOR CONTINUED OPERATIONS (±)	(8)	248.337
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
XVIII.	NET PROFIT/(LOSS) FROM CONTINUED OPERATIONS (XVI±XVII)	(9)	660.926
XIX.	INCOME ON DISCONTINUED OPERATIONS		-
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		-
XX.	LOSS FROM DISCONTINUED OPERATIONS (-)		-
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		-
XXI.	PROFIT / (LOSS) ON DISCONTINUED OPERATIONS BEFORE TAXES (XIX-XX)		-
XXII.	TAX PROVISION FOR DISCONTINUED OPERATIONS (±)		-
22.1	Provision for Current Income Taxes		-
22.2	Deferred Tax Expense Effect (+)		-
22.3	Deferred Tax Income Effect (-)		-
XXIII.	NET PROFIT/LOSS FROM DISCONTINUED OPERATIONS (XXI±XXII)		-
XXIV.	NET PROFIT/LOSS (XVIII+XXIII)	(10)	660.926
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.)

INCOME AND EXPENSE ITEMS		Section 5 Note IV	Audited Prior Period 1 January 2017 – 31 December 2017
I.	INTEREST INCOME	(1)	1.826.236
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
II.	INTEREST EXPENSE (-)	(2)	786.945
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
III.	NET INTEREST INCOME (I - II)		1.039.291
IV.	NET FEES AND COMMISSIONS INCOME		14.435
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
V.	DIVIDEND INCOME	(3)	18.001
VI.	TRADING INCOME / (LOSS) (Net)	(4)	(45.515)
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
VII.	OTHER OPERATING INCOME	(5)	34.834
VIII.	TOTAL OPERATING INCOME (III+IV+V+VI+VII)		1.061.046
IX.	PROVISION FOR LOAN LOSSES AND OTHER RECEIVABLES (-)	(6)	201.300
X.	OTHER OPERATING EXPENSES (-)	(7)	132.443
XI.	NET OPERATING INCOME / (LOSS) (VIII-IX-X)		727.303
XII.	EXCESS AMOUNT RECORDED AS INCOME AFTER MERGER		-
XIII.	INCOME / (LOSS) FROM INVESTMENTS IN SUBSIDIARIES CONSOLIDATED BASED ON EQUITY METHOD		-
XIV.	INCOME / (LOSS) ON NET MONETARY POSITION		-
XV.	PROFIT / (LOSS) BEFORE TAX FROM CONTINUED OPERATIONS (XI+...+XIV)		727.303
XVI.	TAX PROVISION FOR CONTINUED OPERATIONS (±)	(8)	(131.635)
16.1	Current Tax Provision		(161.659)
16.2	Deferred Tax Provision		30.024
XVII.	CURRENT PERIOD PROFIT / LOSS FROM CONTINUED OPERATIONS (XV±XVI)	(9)	595.668
XVIII.	INCOME FROM DISCONTINUED OPERATIONS		-
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		-
XIX.	EXPENSES FROM DISCONTINUED OPERATIONS (-)		-
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		-
XX.	PROFIT / LOSS BEFORE TAX FROM DISCONTINUED OPERATIONS (XVIII-XIX)		-
XXI.	TAX PROVISION FOR DISCONTINUED OPERATIONS (±)		-
21.1	Current Tax Provision		-
21.2	Deferred Tax Provision		-
XXII.	CURRENT PERIOD PROFIT / LOSS FROM DISCONTINUED OPERATIONS (XX±XXI)		-
XXIII.	NET INCOME / LOSS (XVII+XXII)	(10)	595.668
Earning / (loss) per share (Full Kuruş)			0,248

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 AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018**

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

	Audited Current Period 1 January 2018 – 31 December 2018
PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	
I. CURRENT PERIOD INCOME / LOSS	660.926
II. OTHER COMPREHENSIVE INCOME	597.207
2.1 Not Reclassified Through Profit or Loss	712.005
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)
2.2 Reclassified Through Profit or Loss	(114.798)
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
III. TOTAL COMPREHENSIVE INCOME (I+II)	1.258.133

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 Prior Period 1 January 2017 – 31 December 2017
PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME UNDER SHAREHOLDERS' EQUITY	
I. ADDITIONS TO MARKETABLE SECURITIES REVALUATION DIFFERENCES FOR AVAILABLE-FOR-SALE FINANCIAL ASSETS	26.270
II. TANGIBLE ASSETS REVALUATION DIFFERENCES	-
III. INTANGIBLE ASSETS REVALUATION DIFFERENCES	-
IV. TRANSLATION DIFFERENCES FOR TRANSACTIONS IN FOREIGN CURRENCY	3.604
V. GAIN / LOSS ON DERIVATIVE FINANCIAL ASSETS HELD FOR CASH FLOW HEDGES (Effective Portion of Fair Value Differences)	-
VI. GAIN / LOSS ON DERIVATIVE FINANCIAL ASSETS HELD FOR HEDGES OF NET INVESTMENT IN FOREIGN OPERATIONS (Effective Portion)	-
VII. EFFECTS OF CHANGES IN ACCOUNTING POLICY AND CORRECTIONS OF ERRORS	-
VIII. OTHER PROFIT / LOSS ITEMS ACCOUNTED FOR UNDER SHAREHOLDERS' EQUITY AS PER TAS	78.490
IX. DEFERRED TAX OF VALUATION DIFFERENCES	(4.853)
X. NET PROFIT / LOSS ACCOUNTED FOR DIRECTLY UNDER SHAREHOLDERS' EQUITY (I+II+...+IX)	103.511
XI. CURRENT YEAR PROFIT / LOSS	595.668
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
XII. TOTAL PROFIT / LOSS ACCOUNTED FOR THE CURRENT PERIOD (X+XI)	699.179

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 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	Section 5 Note V	Paid in Capital	Other Capital Reserves	Share Premiums	Share Cancellation Profits	Legal Reserves	Status Reserves	Extraordinary Reserves	Other Reserves	Current Period Net Profit / Loss	Prior Period Net Profit / Loss	Marketable Securities Value Increase Fund	Tangible and Intangible Assets Revaluation Differences	Bonus Shares Obtained from Associates, Subs and Jointly Controlled Entities	Hedging Reserves	Revaluation Surplus on Assets Held for sale and on Disc.	Shareholders' Equity Before Non- controlling Interest	Non- Controlling Interest	Total 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		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIV. Capital increase		350.000	-	-	-	-	-	-	-	-	(350.000)	-	-	-	-	-	-	-	-
14.1 Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14.2 Internal sources		350.000	-	-	-	-	-	-	-	-	(350.000)	-	-	-	-	-	-	-	-
XV. Share issuance		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVI. Share cancellation profits		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVII. Effect of inflation on paid-in capital		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVIII. Other		-	(230)	-	-	-	-	-	-	-	-	-	-	-	-	-	(230)	-	(230)
XIX. Period net income		-	-	-	-	-	-	-	-	595.668	-	-	-	-	-	-	595.668	-	595.668
XX. Profit distribution		-	-	-	-	24.931	-	8.713	-	-	(126.445)	-	-	-	-	-	(92.801)	-	(92.801)
20.1 Dividends distributed		-	-	-	-	-	-	-	-	-	(92.801)	-	-	-	-	-	(92.801)	-	(92.801)
20.2 Transfers to reserves		-	-	-	-	24.931	-	8.713	-	-	(33.644)	-	-	-	-	-	-	-	-
20.3 Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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

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 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 Translition 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 CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018
(Amounts are expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

	Note	Audited Current Period 31 December 2018
A. CASH FLOWS FROM BANKING OPERATIONS		
1.1 Operating Profit Before Changes in Operating Assets and Liabilities		1.763.319
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
1.2 Changes in Operating Assets and Liabilities		(1.357.969)
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)
I. Net Cash Provided by / (used in) Banking Operations		405.350
B. CASH FLOWS FROM INVESTING ACTIVITIES		
II. Net Cash Provided by / (used in) Investing Activities		(477.255)
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)
C. CASH FLOWS FROM FINANCING ACTIVITIES		
III. Net Cash Provided by / (used in) Financing Activities		1.208.725
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		-
IV. Effect of Change in Foreign Exchange Rate on Cash and Cash Equivalents	(1)	45.114
V. Net Increase / (Decrease) in Cash and Cash Equivalents		1.181.934
VI. Cash and Cash Equivalents at Beginning of the Period	(4)	20.176
VII. Cash and Cash Equivalents at End of the Period	(4)	1.202.110

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 CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018
(Amounts are expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

		Audited Prior Period 31 December 2017
	Note	
A. CASH FLOWS FROM BANKING OPERATIONS		
1.1 Operating Profit Before Changes in Operating Assets and Liabilities		865.402
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
1.2 Changes in Operating Assets and Liabilities		(2.403.690)
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)
I. Net Cash Provided by / (used in) Banking Operations		(1.538.288)
B. CASH FLOWS FROM INVESTING ACTIVITIES		
II. Net Cash Provided by / (used in) Investing Activities		91.693
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)
C. CASH FLOWS FROM FINANCING ACTIVITIES		
III. Net Cash Provided by / (used in) Financing Activities		984.199
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		-
IV. Effect of Change in Foreign Exchange Rate on Cash and Cash Equivalents	(1)	659
V. Net Increase / (Decrease) in Cash and Cash Equivalents		(461.737)
VI. Cash and Cash Equivalents at Beginning of the Period	(4)	481.913
VII. Cash and Cash Equivalents at End of the Period	(4)	20.176

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 Current Period 31 December 2018 (1)	Audited Prior Period 31 December 2017
I. DISTRIBUTION OF CURRENT YEAR INCOME		
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)
A. NET INCOME FOR THE YEAR (1.1-1.2)	660.926	595.668
1.3 PRIOR YEARS LOSSES (-)	-	-
1.4 FIRST LEGAL RESERVES (-)	-	29.783
1.5 OTHER STATUTORY RESERVES (-)	-	-
B. NET PROFIT AVAILABLE FOR DISTRIBUTION [(A)-(1.3+1.4+1.5)]	660.926	565.885
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	-	-
II. DISTRIBUTION OF RESERVES	-	-
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 (-)	-	-
III. EARNINGS PER SHARE (2)		
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 (%)	-	-
IV. DIVIDEND PER SHARE		
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.

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

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 "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 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 "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 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.

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)

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.

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)

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 indebtness securities portfolio have the attribute of eliminating the risks of interest rate volatility.

The fixed rate Subordinated bond, Eurobond and Greenbond issued by the Bank and a portion of fixed rate funds borrowed are subject to fair value hedge accounting. The Bank enters into interest rate swap agreements in order to hedge the change in fair values of its fixed rate financial liabilities. The changes in the fair value of the hedged fixed rate financial liabilities and hedging interest rate swaps are 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.

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)

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.

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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.

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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.

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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.

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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”.

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

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.

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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.

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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)
- Collateral type
- Duration since origination of a loan
- Remaining time to maturity
- Exposure at default

Probability of Default (PD): PD refers to the likelihood that a loan will default within a specified time horizon given certain characteristics. Based on 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.

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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

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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.

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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.

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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.

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SECTION THREE (Continued)

ACCOUNTING POLICIES (Continued)

XII. Explanations on goodwill and other intangible assets

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the 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 appraisement value and net book value of the property is accounted under shareholder' equity. Related valuation models such as cost model, market value and discounted cash flow projections approaches are used in valuation of real estates. There is no pledge, mortgage or any other lien on tangible assets. Tangible assets are depreciated with straight-line method and their useful lives are determined in accordance with the Turkish Accounting Standards.

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SECTION THREE (Continued)

ACCOUNTING POLICIES (Continued)

XIII. Explanations on tangible assets (continued)

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

Tangible Assets	Expected Useful Lives (Years)	Depreciation Rate (%)
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.

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SECTION THREE (Continued)

ACCOUNTING POLICIES (Continued)

XVI. Explanations on liabilities regarding employee benefits

Bank calculates a provision for severance pay to allocate that employees need to be paid upon retirement or involuntarily leaving by estimating the present value of probable amount. There is no indemnity obligations related to the employees who are employed with contract of limited duration exceeding 12 month period. Actuarial gains and losses are accounted under Shareholder's Equity since 1 January 2013 in accordance with the Revised TAS 19. Employees of the Bank are members of "Türkiye Sınai Kalkınma Bankası Anonim Şirketi Memur ve Müstahdemleri Yardım ve Emekli Vakfı" and "Türkiye Sınai Kalkınma Bankası A.Ş. Mensupları Munzam Sosyal Güvenlik ve Yardımlaşma Vakfı" ("the Pension Fund"). Technical financial statements of those funds are subject to audit in accordance with the Insurance Law and provisions of "Regulations on Actuaries" issued based on the related law by an actuary registered in the Actuarial Registry.

Paragraph 1 of the provisional Article 23 of the Banking Act ("Banking Act") No: 5411 published in the Official Gazette No: 25983 on 1 November 2005 requires the transfer of banking funds to the Social Security Institution within 3 years as of the enactment date of the Banking Act. Under the Banking Act, in order to account for obligations, actuarial calculations will be made considering the income and expenses of those funds by a commission consisting of representatives from various institutions. Such calculated obligation shall be settled in equal instalments in maximum 15 years. Nonetheless, the related Article of the Banking Law was annulled by the Constitutional Court's decision No: E. 2005/39 and K. 2007/33 dated 22 March 2007 that were published in the Official Gazette No: 26479 on 31 March 2007 as of the release of the related decision, and the execution of this article was cancelled as of its publication of the decision and the underlying reasoning for the cancellation of the related article was published in the Official Gazette No: 26731 on 15 December 2007.

After the publication of the reasoning of the cancellation decision of the Constitutional Court, articles related with the transfer of banks pension fund participants to Social Security Institution based on Social Security Law numbered 5754 were accepted by the Grand National Assembly of Turkey on 17 April 2008 and published in the Official Gazette No: 26870 on 8 May 2008.

Present value for the liabilities of the transferees as of the transfer date would be calculated by a commission that involves representatives of Social Security Institution, Ministry of Finance, Turkish Treasury, State Planning Organization, BRSA, SDIF, banks and banks' pension fund institutions and technical interest rate, used in actuarial account, would be 9,80%. If salaries and benefits paid by the pension fund of banks and income and expenses of the pension funds in respect of the insurance branches, stated in the Law, exceeds the salaries and benefits paid under the regulations of Social Security Institution, such differences would be considered while calculating the present value for the liabilities of the transferees and the transfers are completed within 3 years beginning from 1 January 2008.

According to the provisional Article 20 of 73th article of Law No. 5754 dated 17 April 2008, has become effective on 8 May 2008 and was published in the Official Gazette No: 26870, transfer of Pension Funds to Social Security Institution in three years has been anticipated. Related resolution of the Council of Ministers related to four-year extension was published in the Official Gazette No: 28227 dated 8 March 2012. It has been resolved that the transfer process has been extended two year with Council of Ministers' Decree, has become effective on 9 April 2011 and was published in the Official Gazette No: 27900. The transfer had to be completed until 8 May 2013. Accordingly, it has been resolved that, one more year extension with Council of Minister Decree No: 2013/467, has become effective on 3 May 2013 and was published in the Official Gazette No: 28636 and transfer need to be completed until 8 May 2014. However, it has been decided to extend the time related to transfer by the decision of Council of Minister published in the Official Gazette No. 28987 dated 30 April 2014 for one more year due to not to realize the transfer process.

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SECTION THREE (Continued)

ACCOUNTING POLICIES (Continued)

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.

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SECTION THREE (Continued)

ACCOUNTING POLICIES (Continued)

XVII. Explanations on taxation (continued)

Transfer pricing

Transfer pricing is regulated through article 13 of Corporate Tax Law titled “Transfer Pricing Through Camouflage of Earnings”. Detailed information for the practice regarding the subject is found in the “General Communiqué Regarding Camouflage of Earnings Through Transfer Pricing”. According to the aforementioned regulations, in the case of making purchase or sales of goods or services with relevant persons/corporations at a price that is determined against “arm’s length principle”, the gain is considered to be distributed implicitly through transfer pricing and such distribution of gains is not subject to deductions in means of corporate tax.

XVIII. Additional explanations on borrowings

The 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.

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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.

Current Period	Corporate Banking	Investment Banking	Other	Total
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)
Net Profit				660.926
Current Period				
Segment Assets	27.716.305	8.397.472	861.868	36.975.645
Investment in Associates and Subsidiaries	-	-	1.322.466	1.322.466
Total Assets	27.716.305	8.397.472	2.184.334	38.298.111
Segment Liabilities	31.320.591	933.391	1.325.125	33.579.107
Shareholders' Equity	-	-	4.719.004	4.719.004
Total Liabilities	31.320.591	933.391	6.044.129	38.298.111

Prior Period	Corporate Banking	Investment Banking	Other	Total
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)
Net Profit				595.668
Prior Period				
Segment Assets	22.294.423	5.799.030	371.947	28.465.400
Investment in Associates and Subsidiaries	-	-	444.852	444.852
Total Assets	22.294.423	5.799.030	816.799	28.910.252
Segment Liabilities	24.312.703	398.797	664.035	25.375.535
Shareholders' Equity	-	-	3.534.717	3.534.717
Total Liabilities	24.312.703	398.797	4.198.752	28.910.252

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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.

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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.

	Book Value Before TFRS 9	Remeasurements	Book Value Before TFRS 9
	31 December 2017	(6)	1 January 2018
Loans	166.592	111.703	278.295
Stage 1	107.597	41.109	148.706
Stage 2	9.473	72.091	81.564
Stage 3	49.522	(1.497)	48.025
Financial Assets (1)	3.125	527	3.652
Other Assets (2)	1.809	(1.084)	725
Other Receivables as Loan (3)	25.824	(25.824)	-
Non-Cash Loans (4)	2.446	1.769	4.215
Stage 1	2.439	1.760	4.199
Stage 2	7	9	16
Other Provision (5)	90.000	(90.000)	-
Total	289.796	(2.909)	286.887

(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.

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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.

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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.

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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.

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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
CORE EQUITY TIER 1 CAPITAL		
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	-
Core Equity Tier 1 Capital Before Deductions	4.971.025	3.627.210
Deductions from Core Equity Tier 1 Capital		
Valuation adjustments calculated as per the 1 st 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	-	-
Total Regulatory Adjustments to Tier I Capital	815.685	99.183
Core Equity Tier I Capital	4.155.340	3.528.027
ADDITIONAL TIER 1 CAPITAL		
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)	-	-
Additional Tier I Capital before Deductions	-	-
Deductions from Additional Tier I Capital		
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	-	-
Items to be Deducted from Tier I Capital during the Transition Period		
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 (-)	-	-
Total Deductions From Additional Tier I Capital	-	328
Total Additional Tier I Capital	-	-
Total Tier I Capital (Tier I Capital=Core Equity Tier I Capital+Additional Tier I Capital)	4.155.340	3.527.699
TIER II CAPITAL		
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
Tier II Capital Before Deductions	1.900.252	1.276.025
Deductions From Tier II Capital		
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 (-)	-	-
Total Deductions from Tier II Capital	-	-
Total Tier II Capital	1.900.252	1.276.025
Total Capital (The sum of Tier I Capital and Tier II Capital)	6.055.592	4.803.724
Deductions from Total Capital		
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	-	-
Items to be Deducted from sum of Tier I and Tier II (Capital) during the Transition Period		
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	-	-
CAPITAL		
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
CAPITAL ADEQUACY RATIOS		
Core Capital Adequacy Ratio (%)	11,12	12,52
Tier I Capital Adequacy Ratio (%)	11,12	12,52
Capital Adequacy Ratio (%)	16,20	17,05
BUFFERS		
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
Amounts below the Excess Limits as per the Deduction Principles		
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)

Limits Related to Provisions Considered in Tier II Calculation		
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	-	-
Debt instruments subjected to Article 4		
(to be implemented between 1 January 2018 and 1 January 2022)	-	-
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
Regulatory treatment	
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
Convertible or non-convertible	
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
Write-down feature	
If write-down, write-down trigger(s)	According to number 5411 article, 71th article of Law of Banking and number 6102 article of Turkish Code of Commerce, if BRSA has seem in case of default.
If write-down, full or partial	Full or Partial
If write-down, permanent or temporary	Permanent
If temporary write-down, description of write-up mechanism	None
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	After the senior creditors, before the TIER 1 subdebt, same with TIER 2.
In compliance with article number 7 and 8 of "Own fund regulation"	Based on the conditions written on 8th article.
Details of incompliances with article number 7 and 8 of "Own fund regulation"	Not based on the conditions written on 7th article.

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SECTION FOUR (Continued)

INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

II. Explanations related to credit risk

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

The credit monitoring department screens the creditworthiness of loan customers once every six months regularly. The debtors' creditworthiness is screened regularly in 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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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 mortgages	-	-	-	-
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.

Loan Quality Categories	Current Period
Above Average Grade	8.454.861
Average Grade	19.215.700
Below Average Grade	3.133.218
Impaired	595.338
Total	31.399.117

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:

	Current Period				Prior Period			
	31- 60 Days	61- 90 Days	Other	Total (1)	31- 60 Days	61- 90 Days	Other	Total
Corporate Loans	10.631	-	-	10.631	-	1.212	36.513	37.725
SME Loans	-	202	-	202	-	-	-	-
Consumer Loans	-	-	-	-	-	-	-	-
Total	10.631	202	-	10.833	-	1.212	36.513	37.725

(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)											
Current Period	Exposures to sovereigns and their central banks	Exposures to regional and local governments	Exposures to administrative bodies and noncommercial entities	Exposures to multilateral development banks	Exposures to international organizations	Exposures to banks and securities firms	Exposures to corporates	Retail exposures	Exposures secured by property	Past due receivables	Exposures in higher-risk categories	Exposures in the form of bonds secured by mortgages	Short term exposures to banks, brokerage houses and corporates	Equity investments in the form of collective investment undertakings	Equity investments	Other exposures	Total
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

						Risk Types (1)											
Prior Period	Exposures to sovereigns and their central banks	Exposures to regional and local governments	Exposures to administrative bodies and noncommercial entities	Exposures to multilateral development banks	Exposures to international organizations	Exposures to banks and securities firms	Exposures to corporates	Retail exposures	Exposures secured by property	Past due receivables	Exposures in higher-risk categories	Exposures in the form of bonds secured by mortgages	Short term exposures to banks, brokerage houses and corporates	Equity investments in the form of collective investment undertakings	Equity investments	Other exposures	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
Total	5.475.205	-	-	-	-	1.033.507	22.932.938	-	987.801	-	292	-	-	-	513.404	221.115	31.164.262

(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 FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

II. Explanations related to credit risk (continued)

Risk profile by sectors or counterparties

Current Period	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			
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	-	-	2.587.544	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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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)																		
Current Period	Exposures to sovereigns and their central banks	Exposures to regional and local governments	Exposures to administrative bodies and noncommercial entities	Exposures to multilateral development banks	Exposures to international organizations	Exposures to banks and securities firms	Exposures to corporates	Retail exposures	Exposures secured by property	Past due receivables	Exposures in higher-risk categories	Exposures in the form of bonds secured by mortgages	Short term exposures to banks, brokerage houses and corporates	Equity investments in the form of collective investment undertakings	Equity investments	Other exposures	TL	FC	Total
Agriculture	-	-	-	-	-	-	41.146	-	-	-	-	-	-	-	-	340	36.934	4.552	41.486
Farming and Stockbreeding	-	-	-	-	-	-	41.146	-	-	-	-	-	-	-	-	-	36.594	4.552	41.146
Forestry	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	340	340	-	340
Fishery	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Manufacturing	-	-	-	-	-	-	15.321.470	-	259.336	-	292	-	-	-	7	2.553	1.312.378	14.271.280	15.583.658
Mining and Quarrying	-	-	-	-	-	-	167.944	-	-	-	-	-	-	-	-	-	-	167.944	167.944
Production	-	-	-	-	-	-	4.936.560	-	259.336	-	-	-	-	-	7	-	1.015.197	4.180.706	5.195.903
Electricity, Gas and Water	-	-	-	-	-	-	10.216.966	-	-	-	292	-	-	-	-	2.553	297.181	9.922.630	10.219.811
Construction	-	-	-	-	-	-	1.066.096	-	111.298	-	-	-	-	-	-	72	172.732	1.004.734	1.177.466
Services	847.110	-	-	-	-	1.033.507	6.357.239	-	607.130	-	-	-	-	-	513.397	90.055	1.541.303	7.907.135	9.448.438
Wholesale and Retail Trade	-	-	-	-	-	-	486.664	-	-	-	-	-	-	-	-	8.045	102.329	392.380	494.709
Accommodation and Dining	-	-	-	-	-	-	283.442	-	532.342	-	-	-	-	-	-	-	65.872	749.912	815.784
Transportation and Telecommunication	-	-	-	-	-	-	1.242.091	-	-	-	-	-	-	-	1.056	-	21.278	1.221.869	1.243.147
Financial Institutions	847.110	-	-	-	-	1.033.507	2.244.466	-	-	-	-	-	-	-	510.962	82.010	1.081.922	3.636.133	4.718.055
Real Estate and Rental Services	-	-	-	-	-	-	742.817	-	51.533	-	-	-	-	-	-	-	556	793.794	794.350
Professional Services	-	-	-	-	-	-	502.905	-	-	-	-	-	-	-	1.379	-	239.070	265.214	504.284
Educational Services	-	-	-	-	-	-	107.892	-	23.255	-	-	-	-	-	-	-	2.632	128.515	131.147
Health and Social Services	-	-	-	-	-	-	746.962	-	-	-	-	-	-	-	-	-	27.644	719.318	746.962
Others	4.628.095	-	-	-	-	-	146.987	-	10.037	-	-	-	-	-	-	128.095	3.463.911	1.449.303	4.913.214
Total	5.475.205	-	-	-	-	1.033.507	22.932.938	-	987.801	-	292	-	-	-	513.404	221.115	6.527.258	24.637.004	31.164.262

(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
Current Period					
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
Total	3.362.825	980.034	1.257.827	2.179.131	30.285.202

(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
Total	1.877.847	1.081.805	1.529.925	1.688.491	23.867.638

(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	Claims on Sovereigns	Risk Types		
			Claims on Banks and Capital Market Intermediary		Claims on Corporate Receivables
			Claims with Original Maturities Less Than 3 Months	Claims with Original Maturities More Than 3 Months	
1	AAA	%0	%20	%20	%20
	AA+				
	AA				
	AA-				
2	A+	%20	%20	%50	%50
	A				
	A-				
3	BBB+	%50	%20	%50	%100
	BBB				
	BBB-				
4	BB+	%100	%50	%100	%100
	BB				
	BB-				
5	B+	%100	%50	%100	%150
	B				
	B-				
6	CCC+	%150	%150	%150	%150
	CCC				
	CCC-				
	CC				
	C				
Unrated	Unrated	%100	%20 (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

Current Period										
Risk Weights	0%	10%	20%	50%	75%	100%	150%	200%	250%	Deducted from Equity
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

Prior Period										
Risk Weights	0%	10%	20%	50%	75%	100%	150%	200%	250%	Deducted from Equity
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.

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	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
Total	2.943.559	592.374	375.793

(1) Breakdown of cash loans.

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

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INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

II. Explanations related to credit risk (continued)

Miscellaneous information by key sectors or counterparty (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		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	-	-	-	-
Total	49.522	37.725	5.928	(49.522)

(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

Current Period	Opening balance (1)	Provision for the period	Provision reversals	Other adjustments	Closing balance
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)).

Prior Period	Opening balance	Provision for the period	Provision reversals	Other adjustments	Closing balance
Specific Provisions	48.439	4.910	(3.827)	-	49.522
General Loan Loss Provision (1)	178.463	13.283	(41.471)	-	150.275

(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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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.

Current Period Country risk taken ultimately	Private Sector Loans in Banking Book	Risk Weighted Amount calculations for Trading Book	Total
United States	5.823	-	5.823
Georgia	109.969	-	109.969
England	62.733	-	62.733
Turkey	32.532.046	-	32.532.046
Total	32.710.571	-	32.710.571

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

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:

	1 US Dollar	1 Euro
The Bank's "Foreign Exchange Valuation Rate"		
31 December 2018	5,1350	5,8678
<u>Prior Five Workdays:</u>		
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:

Current Period	Euro	US Dollar	Other FC	Total
Assets				
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
Total Assets	12.782.716	16.915.932	17.057	29.715.705
Liabilities				
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
Total Liabilities	11.471.315	20.926.945	952	32.399.212
Net Balance Sheet Position	1.311.401	(4.011.013)	16.105	(2.683.507)
Net Off-Balance Sheet Position	(1.222.855)	3.956.152	(14.992)	2.718.305
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
Prior Period				
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
Net Balance Sheet Position	206.167	(1.498.281)	73.090	(1.219.024)
Net Off –Balance Sheet Position	(194.420)	1.508.745	(72.110)	1.242.215
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.

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SECTION FOUR (Continued)

INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

III. Explanations related to currency risk (continued)

The Bank is mostly exposed to Euro, US Dollars and other foreign currencies.

The following tables detail the Bank's sensitivity to 10% increase/decrease in the TL against US Dollar, Euro and other currencies.

	Increase in Currency Rate	Effect on Profit / Loss (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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SECTION FOUR (Continued)

INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

IV. Explanations related to interest rate risk (continued)

Information related to the interest rate sensitivity of assets, liabilities and off-balance sheet items (based on repricing dates)

Current Period	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Non-interest bearing (1)	Total (2)
Assets							
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
Total Assets	7.519.569	8.448.851	11.348.095	7.010.560	1.428.588	2.542.448	38.298.111
Liabilities							
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
Total Liabilities	4.569.939	8.671.058	6.835.576	10.732.910	2.269.347	5.219.281	38.298.111
Balance Sheet Long Position	2.949.630	-	4.512.519	-	-	-	7.462.149
Balance Sheet Short Position	-	(222.207)	-	(3.722.350)	(840.759)	(2.676.833)	(7.462.149)
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)
Total Position	1.229.365	(2.119.867)	1.177.222	2.955.138	(299.444)	(2.676.833)	265.581

(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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SECTION FOUR (Continued)

INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

IV. Explanations related to interest rate risk (continued)

Information related to the interest rate sensitivity of assets, liabilities and off-balance sheet items (based on repricing dates)

Prior Period	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Non-interest bearing (1)	Total
Assets							
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
Total Assets	4.174.775	7.674.814	9.647.310	4.416.388	1.678.398	1.318.567	28.910.252
Liabilities							
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
Total Liabilities	4.552.600	6.606.046	4.101.827	6.136.557	3.314.470	4.198.752	28.910.252
Balance Sheet Long Position	-	1.068.768	5.545.483	-	-	-	6.614.251
Balance Sheet Short Position	(377.825)	-	-	(1.720.169)	(1.636.072)	(2.880.185)	(6.614.251)
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)
Total Position	(342.211)	(439.788)	1.794.582	3.158.231	(1.223.298)	(2.880.185)	67.331

(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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SECTION FOUR (Continued)

INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

IV. Explanations related to interest rate risk (continued)

Average interest rates applied to monetary financial instruments: %

	Euro	US Dollar	Yen	TL
Current Period				
Assets				
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
Liabilities				
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: %

	Euro	US Dollar	Yen	TL
Prior Period				
Assets				
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
Liabilities				
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
Investment in Shares-Grade A	978.939	-	978.939
Quoted	978.939	-	978.939
Investment in Shares-Grade B	211.144	-	211.144
Quoted	211.144	-	211.144

Prior Period	Comparison		
Share Certificate Investments	Book Value	Fair Value	Market Value
Investment in Shares-Grade A	313.164	-	313.164
Quoted	313.164	-	313.164
Investment in Shares-Grade B	77.891	-	77.891
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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SECTION FOUR (Continued)

INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

V. Explanations related to stock position risk (continued)

Equity shares risk due from banking book (continued)

Current Period	Realized	Revaluation Value Increases		Unrealized Gains and Losses		
Portfolio	Revenues and Losses in the Period	Total	Included in Core Capital	Total	Included in Core Capital	Included in Supplementary Capital
Private Equity Investments	-	-	-	-	-	-
Share Certificates Quoted on a Stock Exchange	-	724.294	724.294	-	-	-
Other Share Certificates	-	67.478	67.478	-	-	-
Total	-	791.772	791.772	-	-	-

Prior Period	Realized	Revaluation Value Increases		Unrealized Gains and Losses		
Portfolio	Revenues and Losses in the Period	Total	Included in Core Capital	Total	Included in Core Capital	Included in Supplementary Capital
Private Equity Investments	-	-	-	-	-	-
Share Certificates Quoted on a Stock Exchange	-	75.054	75.054	-	-	-
Other Share Certificates	-	12.634	12.634	-	-	-
Total	-	87.688	87.688	-	-	-

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SECTION FOUR (Continued)

INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

VI. Explanations related to the liquidity risk management and liquidity coverage ratio (continued)

1. Explanations related to the liquidity risk

1.a Information about the governance of unconsolidated liquidity risk management, including: risk tolerance, structure and responsibilities for unconsolidated liquidity risk management, internal unconsolidated liquidity reporting and communication of unconsolidated liquidity risk strategy, policies and practices across business lines and with the board of directors

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

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

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

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

1.b Information on the centralization degree of unconsolidated liquidity management and funding strategy and the functioning between the Bank and the Bank's subsidiaries

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

1.c Information on the Bank's funding strategy including the policies on funding types and variety of maturities

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

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SECTION FOUR (Continued)

INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

VI. Explanations related to the liquidity risk management and liquidity coverage ratio (continued)

1. Explanations related to the liquidity risk (continued)

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

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

1.d Information on unconsolidated liquidity risk mitigation techniques

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

1.e Information on the use of stress tests

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

1.f General information on urgent and unexpected unconsolidated liquidity situation plans

There is a Contingency Funding Plan for the contingent periods that arises beyond the Bank's control. In a potential liquidity shortfall, Treasury Department is responsible from assessment, taking relevant actions and informing Asset and Liability Committee. In contingent cases, to identify the liquidity risk arising, 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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SECTION FOUR (Continued)

INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

VI. Explanations related to the liquidity risk management and liquidity coverage ratio (continued)

2. Liquidity Coverage Ratio

According to regulations which is published on 28948 numbered gazette on 21 March 2014 related to calculation of liquidity coverage ratio of banks, calculated liquidity coverage ratios are shown below. Including the reporting period for the last three months unconsolidated foreign currency and total liquidity coverage ratios are shown below:

Current Period	Rate of "Percentage to be taken into account" not Implemented Total value		Rate of "Percentage to be taken into account" Implemented Total value	
	TL+FC	FC	TL+FC	FC
HIGH QUALITY LIQUID ASSETS (HQLA)				
1 High quality liquid assets	-	-	3.720.239	1.235.400
CASH OUTFLOWS				
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 TOTAL CASH OUTFLOWS			3.462.477	3.020.050
CASH INFLOWS				
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 TOTAL CASH INFLOWS	2.791.120	3.121.499	2.123.631	2.654.187
			Upper Limit Applied Amounts	
21 TOTAL HQLA STOCK			3.720.239	1.235.400
22 TOTAL NET CASH OUTFLOWS			1.338.846	755.013
23 LIQUIDITY COVERAGE RATIO (%)			278	164

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SECTION FOUR (Continued)

INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

VI. Explanations related to the liquidity risk management and liquidity coverage ratio (continued)

2. Liquidity Coverage Ratio (continued)

	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			1.884.551	963.562
CASH OUTFLOWS				
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 TOTAL CASH OUTFLOWS			4.051.700	2.565.925
CASH INFLOWS				
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 TOTAL CASH INFLOWS	3.940.116	2.093.842	3.459.173	1.917.658
			Upper Limit Applied Amounts	
21 TOTAL HQLA STOCK			1.884.551	963.562
22 TOTAL NET CASH OUTFLOWS			1.012.925	648.267
23 LIQUIDITY COVERAGE RATIO (%)			186	149

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SECTION FOUR (Continued)

INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

VI. Explanations related to the liquidity risk management and liquidity coverage ratio (continued)

3. Minimum explanations related to the liquidity coverage ratio by Banks:

As per The Regulation on The Calculation of Liquidity Coverage Ratio, Liquidity Coverage Ratio is the ratio of high quality liquid assets to net cash outflows. During the implementation process, the minimum limits increase gradually until 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)
Current Period								
Assets								
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
Total Assets	358.118	2.914.822	1.631.373	5.881.611	18.467.685	6.860.172	2.184.330	38.298.111
Liabilities								
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
Total Liabilities	-	535.635	428.401	5.085.636	17.572.986	9.456.172	5.219.281	38.298.111
Liquidity Gap	358.118	2.379.187	1.202.972	795.975	894.699	(2.596.000)	(3.034.951)	-
Net Off-balance sheet Position	-	(49.908)	(9.991)	23.591	286.659	15.232	-	265.583
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
Prior Period								
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
Liquidity Gap	433.448	250.203	1.055.446	2.212.924	1.676.632	(2.315.020)	(3.313.633)	-
Net Off-balance sheet Position	-	(19.773)	527	316	81.569	4.692	-	67.331
Financial Derivative Assets	-	1.397.780	2.836.475	2.775.523	8.614.737	4.586.490	-	20.211.005
Financial Derivative Liabilities	-	1.417.553	2.835.948	2.775.207	8.533.168	4.581.798	-	20.143.674
Non-cash Loans (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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SECTION FOUR (Continued)

INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

VI. Explanations related to the liquidity risk management and liquidity coverage ratio (continued)

Analysis of financial liabilities by remaining contractual maturities

In compliance with the Turkish Financial Reporting Standard No.7, the following table indicates the maturities of the Group's major financial liabilities which are not qualified as derivatives. The following tables have been prepared by referencing the earliest dates of undiscounted cashflow of financial liabilities.

Current Period	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Adjustments	Total
Liabilities							
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
Total	509.997	528.398	5.723.369	19.237.464	10.633.981	(4.346.698)	32.286.511

Prior Period	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Adjustments	Total
Liabilities							
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
Total	972.393	424.326	3.426.705	12.825.076	9.743.393	(2.991.478)	24.400.415

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
Total	7.250.305	4.258.586	8.712.387	23.783.717	14.227.994	58.232.989

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
Total	2.815.330	5.672.421	5.550.733	17.147.907	9.168.288	40.354.679

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SECTION FOUR (Continued)

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)
	Balance sheet Assets		
1	Balance sheet assets (excluding derivative financial assets and credit derivatives, including collaterals)	38.380.347	28.964.409
2	(Assets deducted from Core Capital)	(713.806)	(110.313)
3	Total risk amount of balance sheet assets (sum of lines 1 and 2)	37.666.541	28.854.096
	Derivative financial assets and credit derivatives		
4	Cost of replenishment for derivative financial assets and credit derivatives	1.232.186	360.058
5	Potential credit risk amount of derivative financial assets and credit derivatives	467.538	253.692
6	Total risk amount of derivative financial assets and credit derivatives (sum of lines 4 and 5)	1.699.724	613.750
	Financing transactions secured by marketable security or commodity		
7	Risk amount of financing transactions secured by marketable security or commodity	474.363	507.688
8	Risk amount arising from intermediary transactions	-	-
9	Total risk amount of financing transactions secured by marketable security or commodity (sum of lines 7 and 8)	474.363	507.688
	Off-balance sheet transactions		
10	Gross notional amount of off-balance sheet transactions	6.453.655	7.205.248
11	(Correction amount due to multiplication with credit conversion rates)	(2.294.016)	(3.581.505)
12	Total risk of off-balance sheet transactions (sum of lines 10 and 11)	4.159.639	3.623.743
	Capital and total risk		
13	Core Capital	4.008.660	3.480.315
14	Total risk amount (sum of lines 3, 6, 9 and 12)	44.000.267	33.599.277
	Leverage ratio		
15	Leverage ratio	9,11%	10,36%

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

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SECTION FOUR (Continued)

INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

VIII. Explanations related to presentation of financial assets and liabilities at fair value

The table below shows the carrying and fair values of the financial assets and liabilities in the financial statements of the Bank.

	Carrying Value	Fair Value
	Current Period	Current Period
Financial Assets	34.374.900	34.287.700
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
Financial Liabilities	32.318.330	31.490.795
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.

	Carrying Value	Fair Value
	Current Period	Current Period
Financial Assets	26.919.766	27.071.260
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
Financial Liabilities	24.455.359	24.472.157
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.

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SECTION FOUR (Continued)

INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

VIII. Explanations related to presentation of financial assets and liabilities at fair value (Continued)

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
Financial Assets			
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)	-	-	-
Financial Liabilities			
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
Financial Assets			
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	-	-	-
Financial Liabilities			
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.

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SECTION FOUR (Continued)

INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

X. Explanations related to risk management

Linkages between financial statements and risk amounts

The footnotes prepared in accordance with the "Regulation on Calculation Risk Management Disclosures", which was published in the Official Gazette No. 29511 of 23 October 2015 and entered into force as of 31 March 2016, and the disclosures pertaining thereto are provided in this section.

As the standard approach is utilized for the calculation of the capital adequacy of the Bank, no statement has been included as regards the methods based on internal models as per the relevant communiqué.

Disclosures on the Risk management approach and risk-weighted amount

Risk management approach of the Bank allows for ensuring the establishment of a common risk culture covering the entire institution within the scope of the policies and codes of practice designated by the Board of Directors, for identifying risks in harmony with international arrangements and for performing the activities of measurement, analysis, monitoring and reporting accordingly.

Risk Management Department has been organized within the Bank so as to ensure compliance with the relevant policies, codes of practice and processes and to manage, in parallel with these policies, the risks the Bank is exposed to. Risk Management Department, the duties and responsibilities of which are designated through the regulations approved by the Board of Directors, carries out its activities through the Executive Vice President for Internal Systems under the Audit Committee who serves independently from executive activities and executive units.

Risk Management Department develops the systems required within the process of risk management and carries out the relevant activities, monitors the compliance of risks with policies, standards, limits of the Bank and its risk appetite indicators and performs activities aimed at harmonization with the relevant legislation and the Basel criteria. Risk measurements are performed through the standard approaches for legal reporting and the advanced approaches are utilized internally.

Risk Management Department submits its detailed risk management reports prepared on monthly and quarterly basis to the Board of Directors via the Audit Committee. These reports cover measurements regarding main risks, stress tests and scenario analyses and the status of compliance with the identified limit levels and risk appetite indicators.

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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	Total (1+4+7+8+9+10+11+12+16+19+23+24)	37.368.844	28.175.275	2.989.507

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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 Through Profit or Loss	-	-	-	-	-	-
Financial Assets at Fair Value Through Other Comprehensive Income	3.388.777	3.389.020	1.003.454	-	-	-
Financial Assets Measured at Amortized Cost	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 Operations	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	-	-	-	-	-	
Deferred Tax Assets	3.535	3.535	-	-	-	
Other Assets	731.825	666.925	-	-	-	65.913
Total Assets	38.298.111	37.760.446	2.230.004	-	446.158	629.577

(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
Total Liabilities	38.298.111	-	936.817	-	359.618	37.001.676

(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 Profit and Loss	326.788	-	326.788	-	132.986	-
Banks	6.452	6.452	-	-	-	-
Money Market Placements	-	-	-	-	-	-
Financial Assets Available-for-Sale (net)	3.086.844	3.086.844	1.091.425	-	-	-
Loans and Receivables	22.231.013	22.231.013	-	-	-	-
Factoring Receivables	-	-	-	-	-	-
Investment Held-to-Maturity (net)	1.532.047	1.532.047	552.078	-	-	-
Investment in Associates (net)	308.497	308.497	-	-	-	-
Investment in Subsidiaries (net)	136.355	136.355	-	-	-	-
Joint-Ventures (net)	-	-	-	-	-	-
Finance Lease Receivables	63.410	63.410	-	-	-	-
Derivative Financial Assets Held for Risk	-	-	-	-	-	-
Tangible Assets (net)	50.853	45.820	-	-	-	5.033
Intangible Assets (net)	1.640	-	-	-	-	1.640
Investment Properties (net)	-	-	-	-	-	-
Tax Assets	39.366	39.366	-	-	-	-
Assets Held for Sale and Discontinued Operations (net)	-	-	-	-	-	-
Other Assets	279.856	249.870	-	-	-	29.986
Total Assets	28.910.252	28.546.805	1.970.291	-	132.986	36.659

(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
Total Liabilities	28.910.252	-	1.304.556	-	118.724	27.486.972

(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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SECTION FOUR (Continued)

INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

X. Explanations related to risk management (continued)

Linkages between financial statements and risk amounts (continued)

The main sources of the differences between the risk amounts and the amounts assessed in accordance with TAS in the financial statements

	Current Period	Total	Credit Risk	Securitization Positions	Counterparty credit risk	Market risk
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	Total net amount		37.760.446	-	1.293.187	86.540
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	Risk Amounts	-	39.783.375	-	1.836.547	339.888

(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.

	Prior Period	Total	Credit Risk (1)	Securitization Positions	Counterparty credit risk (1)	Market risk (2)
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	Total net amount	-	28.546.805	-	665.735	14.262
4	Off-balance sheet amounts	47.675.516	2.617.457	-	263.746	-
5	Differences due to prudential filters	-	-	-	114.829	-
6	Risk Amounts	-	31.164.262	-	1.044.310	14.262

(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.

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SECTION FOUR (Continued)

INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

X. Explanations related to risk management (continued)

Explanations related to credit risk

General qualitative information on credit risk

Credit risk is the possibility of incurring losses due to 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

	Gross Carrying Value in Financial Statements Prepared in Accordance with Turkish Accounting Standards (TAS)		Allowances/ amortization and impairments	Net Values (a+b+c)
	Defaulted (a)	Non-defaulted (b)	(c)	(d)
Current Period				
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 Total	595.338	43.575.429	702.316	43.468.451

	Gross Carrying Value in Financial Statements Prepared in Accordance with Turkish Accounting Standards (TAS)		Allowances/ amortization and impairments	Net Values (a+b+c)
	Defaulted (a)	Non-defaulted (b)	(c)	(d)
Prior Period				
1 Loans	49.522	24.045.988	49.522	24.045.988
2 Debt Securities	-	4.598.435	48.096	4.550.339
3 Off-balance sheet exposures	1.166	7.320.254	583	7.320.837
4 Total	50.688	35.964.677	98.201	35.917.164

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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)

Changes in stock of default loans and debt securities

	Current Period	Balance
1	Defaulted loans and debt securities at end of the previous reporting period	50.688
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	Defaulted loans and debt securities at end of the reporting period (1+2+3+4±5)	595.338

	Prior Period	Balance
1	Defaulted loans and debt securities at end of the previous reporting period	49.605
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	Defaulted loans and debt securities at end of the reporting period (1+2+3+4±5)	50.688

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.

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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)

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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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	Total	35.559.967	1.406.836	1.167.285	236.730	188.947	-	-
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	Total	27.199.685	1.171.159	984.202	225.483	183.675	-	-
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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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
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	Total	37.203.533	22.747.222	37.025.791	2.757.584	33.992.342	85,4%

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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

	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
	Risk Groups						
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	Total	28.596.327	14.789.798	28.546.805	2.617.457	25.960.821	83,3%

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SECTION FOUR (Continued)

INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

X. Explanations related to risk management (continued)

Explanations related to credit risk (continued)

Credit risk under standardised approach (continued)

Exposures by asset classes and risk weights

	Current Period											Total Risk Amount (After CCR and CVA)
	Risk Groups/ Risk Weight	0%	10%	20%	50% Secured by Real Estate Property	75%	100%	150%	200%	250%		
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	Total	4.646.082	-	1.050.126	2.025.944	-	31.587.433	2.564	-	471.226	-	39.783.375

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SECTION FOUR (Continued)

INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

X. Explanations related to risk management (continued)

Explanations related to credit risk (continued)

Credit risk under standardised approach (continued)

Exposures by asset classes and risk weights

	Prior Period										
	Risk Groups/ Risk Weight	0%	10%	20%	50% Secured by Real Estate Property	75%	100%	150%	200%	Others	Total Risk Amount (After CCR and 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	Total	4.231.281	-	352.227	1.380.760	-	25.199.994	-	-	-	31.164.262

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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

	Current Period	Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory exposure at default	Exposure at default post Credit risk mitigation	Risk weighted amount
1	Standardised Approach (for derivatives)	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	Total	-	-	-	-	-	1.100.847

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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	Total	-	-	-	-	-	603.525

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	Total subject to the CVA capital charge	1.400.565	396.479

	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	Total subject to the CVA capital charge	590.533	202.064

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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									
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	-	-	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	-	-	-	-	-	-	-	-	-
Total	-	-	290.818	1.006.089	-	539.640	-	-	1.836.547

(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	0%	10%	20%	50%	75%	100%	150%	Other		
Risk groups										
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	-	-	-	-	-	-	-	-	-	-
Total	-	-	173.741	603.583	-	266.986	-	-	-	1.044.310

(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	-	-	-	-	-	-
Total	-	-	-	-	936.817	-

	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	-	-	-	-	-	-
Total	-	-	-	-	1.304.556	-

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)

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SECTION FOUR (Continued)

INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

X. Explanations related to risk management (continued)

Explanations on market risk

Qualitative information to be disclosed to public concerning market risk

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

Interest rate, exchange rate, stock and commodity price risks are the major elements of market risk. In order to control these risks in a healthy manner the core principal is to manage transactions carried out in money and capital markets such that they do not form concentration in terms of instrument, maturity, currency, interest type and other similar parameters, and in a "well diversified" manner in accordance with their risk levels.

Moreover, the creditworthiness of issuers of financial instruments causing market risk is monitored carefully.

Market Risk is managed by using consistent risk measurements and criteria fluctuation level of interest rates and/or prices and Value at Risk calculations, establishing appropriate procedures for control and monitoring compliance with identified risk limits and risk appetite. Market risk is measured, monitored and reported by the Department of Risk Management. The Bank uses two main approaches in the calculation of market risk BRSA Standard Method and Value at Risk (VaR) approach.

The standard method is applied in the calculation of capital adequacy on a monthly basis. VaR calculations are performed on a daily basis and are reported to the senior management. Monte Carlo simulation method is used for VaR calculations.

The VaR model is based on the assumptions of a 99% confidence interval and a 1-day holding period, and the accuracy of the model is assured by back-testing which is based on the comparison of calculated VaR Value against incurred losses. Besides, stress tests are conducted so as to identify the impacts on VaR which will be highly damaging, although their occurrence is a low possibility.

In addition to the activities of the Risk Management Department, the Treasury Control Unit also reports daily positions and limit use status to the senior management

Market Risk-standard approach

		Risk Weighted Amount (RWA)	
		Current Period	Prior Period
	Outright products	-	-
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	-	-
	Options	-	-
5	Simplified approach	-	-
6	Delta-plus method	-	-
7	Scenario approach	-	-
8	Securitisation	-	-
9	Total	339.888	187.713

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SECTION FOUR (Continued)

INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

X. Explanations related to risk management (continued)

Explanations on operational risk

Information to be disclosed to the public regarding operational risk

Operational Risk Exposure is measured in the Bank once a year by using the Basic Indicator Method based on the "Regulation on the Measurement and Assessment of the Capital Adequacy of Banks".

	31/12/2014	31/12/2015	31/12/2016	Toplam/Pozitif BG yılı sayısı	Oran (%)	Toplam
Gross Income	675.871	758.586	1.028.394	820.950	15	123.143
Value at Operational Risk (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 (+/- x basis point)	Revenue/ Loss	Revenue/Shareholders' Equity – Loss / 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 (+/- x basis point)	Revenue/ Loss	Revenue/Shareholders' Equity – Loss/ Shareholders' Equity
	Currency			
1	TL	+500 / (400) basis point	(91.944) / 83.505	(1,91%) / 1,74%
2	Euro	+200 / (200) basis point	56.563 / (18.688)	1,18% / (0,39%)
3	US Dollar	+200 / (200) basis point	(70.306) / 79.127	(1,46%) / 1,65%
	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	-	-	-	-
Total	6.349	736.875	10.591	836.540

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
Total	6.326	736.875	10.571	836.540

(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	-	-	-	-
Total	756.149	222.007	194.100	132.688

(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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SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS
(Continued)

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

3. Information on banks and foreign banks account

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	-	-	-	-
Total	20.650	603.104	419	6.033

(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	-	-	-	-
Total	35.639	4.136	-	-

(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	-	-
Total	41.531	-

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	-	-
Total	16.347	155.306

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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	-	-
Total	634.489	819.159

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	-	-
Total	603.852	785.440

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
Total	3.389.020

(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
Total	3.086.844

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	-
Total	103.438	-	45.082	-

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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	-	-	-	-
Total	24.556.445	1.716.827	219.817	716.255

(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 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	
		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	-	-	-	-	-	-
Total	21.757.352	48.415	-	473.661	143.423	-

(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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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 (continued):

Current Period	Standard Loans and Other Receivables	Loans and Other Receivables Under Close Monitoring
Number of amendments related to the extension of the payment plan		
Extended for 1 or 2 times	59.471	199.478
Extended for 3-4 or 5 times	-	-
Extended for more than 5 times	-	-

Prior Period	Standard Loans and Other Receivables	Loans and Other Receivables Under Close Monitoring
Number of amendments related to the extension of the payment plan		
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	-	-

Current Period	Standard Loans and Other Receivables	Loans and Other Receivables Under Close Monitoring
The time extended via the amendment on payment plan		
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

Prior Period	Standard Loans and Other Receivables	Loans and Other Receivables Under Close Monitoring
The time extended via the amendment on payment plan		
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 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 Under Close Monitoring	
	Loans and Other Receivables (Total)	Restructured or Rescheduled	Loans and Other Receivables (Total)	Restructured or Rescheduled
Short-term loans and other receivables	1.347.133	-	-	-
Non-specialized loans	1.347.133	-	-	-
Specialized loans	-	-	-	-
Other receivables	-	-	-	-
Medium and Long-term loans	20.410.219	48.415	473.661	143.423
Non-specialized loans	20.410.219	48.415	473.661	143.423
Specialized loans	-	-	-	-
Other receivables	-	-	-	-

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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.d Information on consumer loans, individual credit cards, personnel loans and credit cards given to personnel:

Current Period	Short Term	Medium and Long Term	Total
Consumer Loans-TL	-	-	-
Real Estate Loans	-	-	-
Vehicle Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Consumer Loans -Indexed to FC	-	-	-
Real Estate Loans	-	-	-
Vehicle Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Consumer Loans-FC	-	-	-
Real Estate Loans	-	-	-
Vehicle Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Individual Credit Cards-TL	-	-	-
With 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)	-	-	-
Total	65	597	662

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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):

Prior Period	Short Term	Medium and Long Term	Total
Consumer Loans-TL	-	-	-
Real Estate Loans	-	-	-
Vehicle Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Consumer Loans -Indexed to FC	-	-	-
Real Estate Loans	-	-	-
Vehicle Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Consumer Loans-FC	-	-	-
Real Estate Loans	-	-	-
Vehicle Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Individual Credit Cards-TL	-	-	-
With 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)	-	-	-
Total	5	168	173

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EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS
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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
Total	27.500.004	22.231.013

(*)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
Total	27.500.004	22.231.013

(*)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	-	-
Total	437.232	257.470

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
Total	164.653

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
Total	49.522

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EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS
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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:

	III. Group	IV. Group	V. Group
	Loans With Limited Collectability	Loans With Doubtful Collectability	Uncollectible Loans
Current Period			
Gross amounts before provisions	-	-	6.211
Restructured loans	-	-	6.211

	III. Group	IV. Group	V. Group
	Loans With Limited Collectability	Loans With Doubtful Collectability	Uncollectible Loans
Prior Period			
(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:

	III. Group	IV. Group	V. Group
	Loans With Limited Collectability	Loans With Doubtful Collectability	Uncollectible Loans
Current Period			
Prior period end balance	985	4.894	43.643
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	-
Current period end balance	22.719	522.165	47.490
Provision (-)	12.730	104.433	47.490
Net Balances on Balance Sheet	9.989	417.732	-

(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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EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS
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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):

	III. Group	IV. Group	V. Group
	Loans and Receivables With Limited Collectability	Loans and Receivables With Doubtful Collectability	Uncollectible Loans and Receivables
Prior Period			
Prior period end balance	3.092	-	45.347
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	-	-	-
Current period end balance	985	4.894	43.643
Specific provision (-)	985	4.894	43.643
Net Balances on Balance Sheet	-	-	-

5.j.3 Information on foreign currency non-performing loans and other receivables:

	III. Group	IV. Group	V. Group
	Loans With Limited Collectability	Loans With Doubtful Collectability	Uncollectible Loans
Current Period			
Period End Balance	2.098	522.165	32.126
Provision (-)	356	104.433	32.126
Net Balance on Balance Sheet	1.742	417.732	-

	III. Group	IV. Group	V. Group
	Loans and Other Receivables With Limited Collectability	Loans and Other Receivables With Doubtful Collectability	Uncollectible Loans and Other Receivables
Current Period			
Period End Balance	982	-	-
Provision (-)	982	-	-
Net Balance on Balance Sheet	-	-	-

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EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS
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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:

	III. Group	IV. Group	V. Group
	Loans With Limited Collectability	Loans With Doubtful Collectability	Uncollectible Loans
Current Period (Net)			
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)	-	-	-

	III. Group	IV. Group	V. Group
	Loans and Other Receivables With Limited Collectability	Loans and Other Receivables With Doubtful	Uncollectible Loans and Other Receivables
Current Period (Net)			
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:

	III.Group	IV.Group	V.Group
	Loans with Limited Collectability	Loans with Doubtful Collectability	Uncollectible Loans
Current Period (Net) (1)	1.089	48.159	-
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.

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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.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
Total	39.757	294.472

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
Total	600.978	142.281

6.2.a Information on government debt measured at amortized cost:

	Current Period
Government Bonds	2.154.941
Treasury Bills	-
Other Government Debt Securities	-
Total	2.154.941

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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:

	Prior Period
Government Bonds	1.532.047
Treasury Bills	-
Other Government Debt Securities	-
Total	1.532.047

6.3.a Information on financial investments measured at amortized cost:

	Current Period
Debt Securities	
Quoted on a Stock Exchange	1.735.522
Not Quoted	419.419
Impairment provision (-)	-
Total	2.154.941

6.3.b Information on held-to-maturity investments :

	Prior Period
Debt Securities	
Quoted on a Stock Exchange	1.334.722
Not Quoted	199.228
Impairment provision (-)	(1.903)
Total	1.532.047

6.4.a Movement of financial assets at amortized costs within the year :

	Current Period (1)
Balance at Beginning of the Period	1.532.047
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
Balance at End of Period	2.154.941

(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 :

	Prior Period
Balance at Beginning of the Period	1.375.729
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
Balance at End of Period	1.532.047

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EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS
(Continued)

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

7. Information on associates (net)

7.a.1 Information on associates:

	Title	Address (City/ Country)	Bank's share percentage-If different voting percentage (%)	Bank's risk group share percentage (%)
1	İş Faktoring A.Ş. (İş Factoring)	Istanbul/Turkey	21,75	100,00
2	İş Finansal Kiralama A.Ş. (İş Finansal)	Istanbul/Turkey	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 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
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
Balance at the Beginning of the Period	308.497	222.908
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)
Balance at the End of the Period	1.017.509	308.497
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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SECTION FIVE (Continued)

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:

	Current Period	Prior Period
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:

	Current Period	Prior Period
Associates quoted on domestic stock exchanges	970.443	295.559
Associates quoted on foreign stock exchanges	-	-

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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)

8.a.1 Information related to equity component of subsidiaries:

Current Period (1)	YF	TSKB GYO
CORE CAPITAL		
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
Total Core Capital	100.773	264.728
Supplementary Capital	-	-
Capital	-	-
Net Available Capital	100.773	264.728

(1) The information is obtained from financial statements subject to consolidation as of 31 December 2018.

Prior Period (1)	YF	TSKB GYO
CORE CAPITAL		
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
Total Core Capital	83.464	176.453
Supplementary Capital	-	-
Capital	-	-
Net Available Capital	83.464	176.453

(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 (City/ Country)	Bank's share percentage-If different voting percentage (%)	Bank's risk group share percentage (%)
1	TSKB Gayrimenkul Değerleme A.Ş. (TSKB GMD)	Istanbul /Turkey	99,99	99,99
2	Yatırım Finansman Menkul Değerler A.Ş. (YF)	Istanbul /Turkey	95,78	98,51
3	TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. (TSKB GYO)	Istanbul/Turkey	85,41	86,23
4	TSKB Sürdürülebilirlik Danışmanlığı A.Ş. (TSKB SD)	Istanbul/Turkey	80,19	99,83

		Total Assets	Shareholders' Equity	Total Fixed Assets	Interest Income	Income from Marketable Securities	Current Period Profit/Loss	Prior Period Profit/Loss	Fair Value
1	TSKB GMD	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
Balance at the beginning of the period	134.976	127.984
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)	-
Balance at the end of the period	301.178	134.976
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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SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS
(Continued)

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

8. Information on subsidiaries (net) (continued)

8.b.2 Movement schedule for subsidiaries (continued):

Subsidiaries disposed in the current period

In the current period, the Bank has not disposed any subsidiaries.

Subsidiaries purchased in the current period

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
Total	151.102	133.929	73.957	63.410

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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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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				Fair Value of Hedging Instrument(1)		Income Statement Effect (Profit/Loss Through Derivative Financial Instruments)
Hedging Item	Hedged Item	Type of Risk	Fair Value Change of Hedged Item(1)	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 the valuation amount recorded in the previous period.

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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
Total Cost	68.158	4.181	(1.147)	9.160	-	80.352
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)
Total accumulated depreciation	(17.305)	(3.733)	1.125	207	-	(19.706)
Impairment provision						
Land and buildings	-	-	-	-	-	-
Assets held under finance leases	-	-	-	-	-	-
Vehicles	-	-	-	-	-	-
Assets held for resale	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total impairment provision	-	-	-	-	-	-
Net Book Value	50.853	448	(22)	9.367	-	60.646

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
Total Cost	65.485	3.580	(331)	-	(576)	68.158
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)
Total accumulated depreciation	(14.166)	(3.413)	274	-	-	(17.305)
Impairment provision						
Land and buildings	-	-	-	-	-	-
Assets held under finance leases	-	-	-	-	-	-
Vehicles	-	-	-	-	-	-
Assets held for resale	(207)	(18)	-	-	225	-
Other	-	-	-	-	-	-
Total impairment provision	(207)	(18)	-	-	225	-
Net book value	51.112	149	(57)	-	(351)	50.853

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

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SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS
(Continued)

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

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
Total Cost	4.145	2.500	(38)	6.607
Accumulated amortization:				
Software	(2.505)	(978)	1	(3.482)
Total Accumulated Amortization	(2.505)	(978)	1	(3.482)
Impairment provision:				
Software	-	-	-	-
Total Impairment provision	-	-	-	-
Net Book Value	1.640	1.522	(37)	3.125

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SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS
(Continued)

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

13. Information on intangible assets (continued)

13.d Movement of cost and accumulated amortization for the period:

Current Period	Closing Balance of Prior Period	Current Year Additions	Current Year Disposals	Closing Balance of Current Period
Cost:				
Software	2.864	1.281	-	4.145
Total Cost	2.864	1.281	-	4.145
Accumulated amortization:				
Software	(1.915)	(590)	-	(2.505)
Total Accumulated Amortization	(1.915)	(590)	-	(2.505)
Impairment provision:				
Software	-	-	-	-
Total Impairment provision	-	-	-	-
Net Book Value	949	691	-	1.640

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).

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SECTION FIVE (Continued)

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

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

13. Information on intangible assets (continued)

13.l 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.

Deferred tax asset:	Current Period	Prior Period
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
Total Deferred Tax Asset	107.747	87.149
Deferred tax liability:		
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)
Total Deferred Tax Liability	(104.212)	(47.783)
Net Deferred Tax Asset	3.535	39.366

	Current Period	Prior Period
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)
Deferred Tax Asset / (Liability) Net	3.535	39.366

(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	-	-	-	-
Total	442.269	177.792	123.710	108.693

(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
Total	127.007	23.449.011	190.972	18.490.756

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
Total	127.007	23.449.011	190.972	18.490.756

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	-
Total	41.543	137.458	450.040	161.138

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	-	-	-	-
Total	-	172.258	-	78.682

(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
General Provisions	150.275
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).

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SECTION FIVE (Continued)

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

II. Explanations and disclosures related to the liabilities (continued)

7. Information on provisions (continued)

7.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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SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS
(Continued)

II. Explanations and disclosures related to the liabilities (continued)

8. Explanations on taxes payable

8.a Explanations on current taxes payable:

8.a.1 Explanations on taxes payable:

	Current Period		Prior Period	
	TL	FC	TL	FC
Corporate Taxes and Deferred Taxes				
Corporate tax payable	82.363	-	43.662	-
Deferred tax liability	-	-	-	-
Total	82.363	-	43.662	-

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
Total	91.733	51.891

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	-	-
Total	113	99

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SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. Explanations and disclosures related to the liabilities (continued)

8. Explanations on taxes payable (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
Total	-	1.549.774	-	1.146.236

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 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
From Associates, Subsidiaries, and Entities Under Common Control	801.864	-
Available for Sale Financial Assets	(69.635)	(69.434)
Valuation Differences	(85.339)	(69.434)
Foreign Exchange Difference	15.704	-
Total	732.229	(69.434)

	Prior Period	
	TL	FC
From Associates, Subsidiaries, and Entities Under Common Control	95.378	-
Available for Sale Financial Assets	(34.415)	12.440
Valuation Differences	(42.262)	12.440
Foreign Exchange Difference	7.847	-
Total	60.963	12.440

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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	-	-
Total	270.024	238.854

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	-	-
Total	170.106	115.113

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SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

III. Explanations and disclosures related to the off-balance sheet items

1. Explanation on off-balance sheet liabilities

1.a Types and amount of irrevocable loan commitments:

	Current Period	Prior Period
Commitments for Forward Purchase and Sales of Assets	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
Total	591.409	759.579

(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:

	Current Period	Prior Period
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
Total	3.173.809	2.573.713

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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	-	-	-	-	-	-	-	-
Total	487.947	100	2.685.862	100	563.000	100	2.010.713	100

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:

Current Period	Forward Buy	Forward Sell	Swap Buy	Swap Sell	Option Buy	Option Sell	Futures Buy	Futures Sell	Fair Value Hedge
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	-
Total	1.938.460	1.862.489	15.662.505	15.459.497	2.634.254	2.634.254	-	13.401	18.028.129

Prior Period	Forward Buy	Forward Sell	Swap Buy	Swap Sell	Option Buy	Option Sell	Futures Buy	Futures Sell	Fair Value Hedge
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	-
Total	2.413.168	2.412.937	10.180.826	10.040.896	2.325.986	2.325.986	-	72.830	10.582.050

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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
Total	978.156	620.061	40.204.860	326.788	232.403	29.772.629

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 stump duty deducted from allowance and total amount of TL 17.325 tax penalty notice relating to period in question to Bank relying on this report.

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SECTION FIVE (Continued)

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

III. Explanations and disclosures related to the off-balance sheet items (continued)

4. Explanations on contingent liabilities and assets (continued)

The Bank assesses that the Bank's practice is in compliance with the legislation and there is no legal basis for the tax administration's suspended assessments, therefore, lawsuits have been filed against the subjected assessments in various tax courts in İstanbul, Ankara and İzmir. Some of the lawsuits are decided favourable, remaining of lawsuits are decided unfavourable by the tax courts of first instance. On the other hand, appeal and objection have been requested by the Bank against the decision of the Court with respect to the Bank and by the administration against the decision of the Court with respect to the administration and completion of appeal process is waited. The tax and penalty notices related to the decision of the tax court of first instance against the Bank are accrued by administration depending on legal process and as of 31 July 2014 the Bank has made total payments amounting to TL 22.091.

A similar case has been submitted to the Constitutional Court in the form of individual remedies by the main shareholder of the Bank in relation to the Bank's liabilities to pay, the Constitutional Court gave the decision with court file number 2014/6192. According to court decision published in the Official Gazette dated 21 February 2015 and numbered 29274, the assessments against the Bank was contrary to the principle of legality and the Bank's property rights has been violated. This decision is considered to be a precedent for the Bank and an amount of TL 12.750 corresponding to the portion that the Bank was obliged to pay for the related period is 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	-	-	-	-
Total	642.173	1.462.405	413.012	885.902

(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	-	-	-	-
Total	37.226	8.817	38.663	1.973

(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
Total	682.587	78.409

	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
Total	369.008	62.892

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:

	Current Period	Prior Period
Interest received from associates and subsidiaries	26.082	20.793

2. Information on interest expenses

2.a Information on interest on funds borrowed:

	Current Period		Prior Period	
	TL	FC	TL	FC
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
Total (1)	48.994	512.493	27.642	295.036

(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:

	Current Period		Prior Period	
	TL	FC	TL	FC
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

	Current period
Financial Assets at Fair Value Through Profit or Loss	-
Financial Assets at Fair Value Through Other Comprehensive Income	3.098
Other	913
Total	4.011

	Prior period
Financial Assets held for Trading	-
Financial Assets at Fair Value Through Profit and Loss	-
Financial Assets Available For Sale	2.368
Other	15.633
Total	18.001

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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)

	Current Period	Prior Period
Profit	5.547.271	1.822.348
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
Losses (-)	5.814.502	1.867.863
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

	Current Period	Prior Period
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
Total	94.158	34.834

(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

	Current Period
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
Total	531.193

(1) Contains free provision addition in current period.

6.a.2 Provision expenses related to loans and other receivables of the Bank

	Prior Period
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	-
Total	201.300

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SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

IV. Explanations and disclosures related to the income statement (continued)

7. Information related to other operating expenses

	Current Period	Prior Period
Personnel expenses (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
Total	162.875	132.443

(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).

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SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

IV. Explanations and disclosures related to the income statement (continued)

9. 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.

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SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS
(Continued)

VI. Explanations related to the statement of cash flows

1. The effects of the other items stated in the cash flow statement and the changes in foreign currency exchange rates on cash and cash equivalents

In the current period, other income amounting to TL 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).

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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
Total	20.176	481.913

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
Total	1.202.110	20.176

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.

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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.

2. Information on forward, option and other similar agreements made with Bank's own risk group

Risk Group of the Bank	Subsidiaries and Associates		Direct and Indirect Shareholders of the Bank		Other Entities Included in the Risk Group	
	Current Period	Prior Period	Current Period	Prior Period	Current Period	Prior Period
Fair Value Through Profit or Loss Transactions						
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
Hedging Risk Transactions						
Beginning of the Period	-	-	-	-	-	-
End of the Period	-	-	-	-	-	-
Total Profit / Loss	-	-	-	-	-	-

3. Total salaries and similar benefits provided to the key management personnel

Benefits provided to the key management personnel in the current period amount to TL 11.961 (31 December 2017: TL 11.209).

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.
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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.

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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
Foreign Currency (issuer)	
Long-term Maturity	B2
Outlook	Negative
Short-term Maturity	NP
Domestic Currency (issuer)	
Long-term Maturity	B2
Outlook	Negative
Short-term Maturity	NP
Unsecured Debt-Foreign Currency	
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.
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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.