

**SUPPLEMENT TO THE BASE PROSPECTUS DATED 17 JULY 2019
THE DATE OF THIS SUPPLEMENT IS 23 AUGUST 2019**



**TÜRKİYE SINAİ KALKINMA BANKASI A.Ş.
U.S.\$2,000,000,000
Global Medium Term Note Programme**

This base prospectus supplement (“**Supplement**”) to the base prospectus dated 17 July 2019 (the “**Base Prospectus**”) constitutes a supplement to the Base Prospectus for the purposes of Article 16 of Directive 2003/71/EC, as amended or superseded (the “**Prospectus Directive**”) (as implemented in the Republic of Ireland by the Prospectus (Directive 2003/71/EC) Regulations 2005, as amended) and is prepared in relation to the U.S.\$2,000,000,000 Global Medium Term Note Programme (the “**Programme**”) of Türkiye Sınai Kalkınma Bankası A.Ş. (the “**Bank**” or the “**Issuer**”).

This Supplement has been approved by the Central Bank of Ireland as a competent authority under the Prospectus Directive. The Central Bank of Ireland only approves this Supplement as meeting the requirements imposed under Irish and European Union law pursuant to the Prospectus Directive.

Unless the context otherwise requires, terms defined in the Base Prospectus shall have the same meaning when used in this Supplement. This Supplement is supplemental to, and should be read in conjunction with, the Base Prospectus and all documents which are incorporated herein or therein by reference.

To the extent that there is any inconsistency between (a) any statement in this Supplement or any statement incorporated by reference into this Supplement and (b) any statement in or incorporated by reference in the Base Prospectus, the statements referred to in (a) will prevail.

The Issuer accepts responsibility for the information contained in this Supplement. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case), the information contained in this Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information.

Save as disclosed in this Supplement, no other significant new factor, material mistake or inaccuracy relating to information included in the Base Prospectus has arisen or been noted, as the case may be, since the publication of the Base Prospectus.

This Supplement will be available on the website of the Central Bank of Ireland at www.centralbank.ie for a period of 12 months from the date of the Base Prospectus or may be obtained on written request and without charge from the registered office of the Issuer at Meclisi Mebusan Cad., No: 81 Fındıklı 34427, İstanbul, Turkey. In addition, copies of this Supplement and the documents incorporated by reference herein will also be available in electronic format on the Issuer’s website.

PURPOSE OF THIS SUPPLEMENT

The purpose of this Supplement is to:

- (i) supplement the information under the heading “Presentation of Financial and Other Information – Presentation of Financial Information” on pages 9 and 10 of the Base Prospectus;

- (ii) incorporate by reference into the Base Prospectus the Group’s 2019 Q2 Consolidated Interim Financial Statements and the Issuer’s 2019 Q2 Unconsolidated Interim Financial Statements (each as defined below);
- (iii) amend and supplement the following Risk Factors:
 - (i) “Risks Related to the Group’s Business – The Group may be negatively affected by volatility in interest rates” on pages 20 and 21 of the Base Prospectus;
 - (ii) “Risks Related to the Group’s Business – The audit and review reports in relation to the Group’s financial statements include a qualification” on page 30 of the Base Prospectus;
 - (iii) “Political, Economic and Legal Risks Related to Turkey – The Turkish economy is subject to macro-economic risks” on pages 32 and 33 of the Base Prospectus;
 - (iv) “Political, Economic and Legal Risks Related to Turkey – Turkey’s economy has been subject to significant inflationary pressures in the past and may become subject to significant inflationary pressures in the future” on pages 33 and 34 of the Base Prospectus;
 - (v) “Political, Economic and Legal Risks Related to Turkey – The Turkish foreign exchange markets have historically been volatile, which could adversely affect Turkey’s general economy” on pages 34 and 35 of the Base Prospectus;
 - (vi) “Political, Economic and Legal Risks Related to Turkey – Turkey and its economy are subject to internal and external unrest and the threat of terrorism” on page 36 of the Base Prospectus; and
 - (vii) “Political, Economic and Legal Risks Related to Turkey – The Turkish economy is subject to geo-political risks” on pages 36, 37 and 38 of the Base Prospectus;
- (iv) supplement the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section beginning on page 147 of the Base Prospectus for certain recent developments;
- (v) amend and supplement the information under the heading “Business of the Group – Lending Policies and Procedures – Loan Classification and Provisioning Policy” on page 222 of the Base Prospectus;
- (vi) amend and supplement the following information under the “Turkish Regulatory Environment” section of the Base Prospectus:
 - (i) “Loan Loss Reserves” on page 264 of the Base Prospectus;
 - (ii) “Liquidity and Reserve Requirements” on pages 279 and 280 of the Base Prospectus; and
 - (iii) “Recent Amendments to the Turkish Insolvency and Restructuring Regime” on page 292 of the Base Prospectus;
- (iv) supplement the information under the heading “Significant or Material Change” on page 326 in the section entitled “General Information” of the Base Prospectus; and
- (v) supplement the information under the heading “Independent Auditors” on page 326 in the section entitled “General Information” of the Base Prospectus.

PRESENTATION OF FINANCIAL INFORMATION

The 2019 Q2 Consolidated Interim Financial Statements and the 2019 Q2 Unconsolidated Interim Financial Statements have been prepared in accordance with BRSA Principles and have been reviewed by EY in

accordance with the Standard on Review Engagements (SRE) 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”.

DOCUMENTS INCORPORATED BY REFERENCE

By virtue of this Supplement:

- (i) the independent auditors’ review report and consolidated unaudited financial statements of the Group as of and for the six months ended 30 June 2019 published on 2 August 2019 (the “**2019 Q2 Consolidated Interim Financial Statements**”) (http://www.tskb.com.tr/i/content/4202_1_TSKB%20KONS%20EN%2030.06.2019.pdf); and
- (ii) the independent auditors’ review report and unconsolidated unaudited financial statements of the Issuer as of and for the six months ended 30 June 2019 published on 2 August 2019 (the “**2019 Q2 Unconsolidated Interim Financial Statements**”) (http://www.tskb.com.tr/i/content/4202_1_TSKB%20SOLO%20EN%2030.06.2019.pdf),

which have previously been published and have been filed with the Central Bank of Ireland, shall be incorporated in, and form part of, the Base Prospectus.

Any documents themselves incorporated by reference in the documents incorporated by reference do not (and shall not be deemed to) form part of this Supplement for the purposes of the Prospectus Directive except where such information or other documents are specifically incorporated by reference.

RISK FACTORS

Risks Related to the Group’s Business – The Group may be negatively affected by volatility in interest rates

The last sentence of the fifth paragraph of the Risk Factor shall be deleted and replaced in its entirety with the following:

“On 25 July 2019, the Central Bank reduced the one week repo rate from 24 per cent. to 19.75 per cent., a decrease of 425 basis points, which is the largest rate cut since the Central Bank shifted to a policy of inflation targeting in 2002.”

Risks Related to the Group’s Business – The audit and review reports in relation to the Group’s financial statements include a qualification

The second paragraph of the Risk Factor shall be deleted and replaced in its entirety with the following:

“The auditor’s audit reports in the Group’s BRSA Financial Statements include: (a) a qualification in the Group’s 2017 BRSA Financial Statements related to the free provision amounting to TL 190,000 thousand as of and for the year ended 31 December 2017, including a deferred tax asset based on this reserve amounting to TL 41,800 thousand, provided by the Bank’s management for possible results of circumstances which may arise from possible changes in the economy and market conditions, (b) a qualification in the Group’s 2018 BRSA Financial Statements related to the free provision amounting to TL 220,000 thousand as of and for the year ended 31 December 2018, including a reversal of a deferred tax asset in the amount of TL 41,800 thousand, which was accounted based on the free provision provided as of 31 December 2017 and (c) a qualification in the Group’s Q2 2019 BRSA Financial Statements related to the free provision amounting to TL 240,000 thousand as of and for the six months ended 30 June 2019, of which TL 20,000 thousand and TL 220,000 thousand were provided in current and prior years respectively by the Bank’s management, for the possible effects of the negative circumstances which may arise in the economy or

market conditions. Due to the fact that the above mentioned items do not meet the requirements of TAS 37, the “Prior years’ income/losses” as of 30 June 2019 is understated by TL 220,000 thousand and the “pretax income” is understated by TL 20,000 thousand. There was no free provision amount as of 31 December 2016.”

Political, Economic and Legal Risks Related to Turkey – The Turkish economy is subject to macro-economic risks

The ninth sentence of the third paragraph of the Risk Factor shall be deleted its entirety. The following sentence is hereby included as the penultimate sentence of the third paragraph of the Risk Factor:

“Further, on 25 July 2019, the Central Bank reduced the one week repo rate from 24 per cent. to 19.75 per cent., a decrease of 425 basis points, which is the largest rate cut since the Central Bank shifted to a policy of inflation targeting in 2002.”

Political, Economic and Legal Risks Related to Turkey – Turkey’s economy has been subject to significant inflationary pressures in the past and may become subject to significant inflationary pressures in the future

The last sentence of the second paragraph of the Risk Factor shall be deleted and replaced in its entirety with the following:

“In response to high inflation and the depreciating Turkish Lira, the Central Bank implemented a number of stabilising measures and adopted a tighter monetary policy, increasing its main policy rate to 24 per cent. on 13 September 2018, until it then reduced its main policy rate to 19.75 per cent. on 25 July 2019.”

Political, Economic and Legal Risks Related to Turkey – The Turkish foreign exchange markets have historically been volatile, which could adversely affect Turkey’s general economy

The following sentence is hereby included as the last sentence of the second paragraph of the Risk Factor:

“Further, on 25 July 2019, the Central Bank reduced the one week repo rate from 24 per cent. to 19.75 per cent., a decrease of 425 basis points, which is the largest rate cut since the Central Bank shifted to a policy of inflation targeting in 2002.”

Political, Economic and Legal Risks Related to Turkey – Turkey and its economy are subject to internal and external unrest and the threat of terrorism

The following sentence is hereby included before the second to last sentence of the second paragraph of the Risk Factor:

“On 4 August 2019, President Erdoğan announced that Turkey will launch a military operation in a Kurdish-controlled region of Syria, which could escalate tensions between Ankara and the United States.”

Political, Economic and Legal Risks Related to Turkey – The Turkish economy is subject to geo-political risks

The second paragraph of the Risk Factor shall be deleted and replaced in its entirety with the following:

“In December 2017, Turkey entered into an agreement with Russia for the purchase of S-400 missile defence systems independent of the North Atlantic Treaty Organisation (“NATO”), prompting the U.S. to threaten possible sanctions against Turkey unless Turkey cancelled the purchase. In July 2019, Turkey accepted the

first shipment of the S-400 missile defence system and as a result, the U.S. suspended Turkey's subcontracting work on the F-35 fighter programme. Turkey now faces the threat of sanctions under the Countering America's Adversaries Through Sanctions Act, in connection with significant purchases of Russian-made weapons. It is uncertain how Turkey's relationship with the United States or any other members of NATO will be impacted. Further disagreements with the U.S. and/or NATO, or economic sanctions that arise in relation to this agreement may result in (or contribute to) a deterioration in the relationship between Turkey and the United States or Russia and may have a material negative impact on the Turkish economy."

RECENT DEVELOPMENTS

The following summary financial and operating data for the six month periods ended 30 June 2019 and 2018 and balance sheet information as of 30 June 2019 and 31 December 2018 have been extracted from the 2019 Q2 Consolidated Interim Financial Statements without material adjustment. This information should be read in conjunction with the 2019 Q2 Consolidated Interim Financial Statements (including the notes therein). Except to the extent stated otherwise, the financial data for the Group included herein are extracted from the 2019 Q2 Consolidated Interim Financial Statements without material adjustment. Potential investors in the Notes should note that this section also includes certain financial information for the Bank only, which is extracted from the 2019 Q2 Unconsolidated Interim Financial Statements of the Bank without material adjustment. Such financial information is identified as being of "the Bank" in the description of the associated tables or information (rather than for the Group on a segmented basis).

The 2019 Q2 Consolidated Interim Financial Statements are not directly comparable to the IFRS financial statements incorporated by reference into the Base Prospectus, which are prepared in accordance with the IFRS and on a different consolidation basis. For a description of some of the more significant accounting differences between Turkish GAAP and/or BRSA reporting standards and IFRS, see Appendix A to the Base Prospectus.

Significant Factors Affecting the Group's Financial Condition and Results of Operations

The Group's business, financial condition and results of operations depend significantly upon the macro-economic conditions prevailing in Turkey as well as other factors. The impact of these and other potential factors may vary significantly in the future and many of these factors are outside the control of the Group. In addition to the factors described in the Base Prospectus, the Group's results of operations during the six months ended 30 June 2019 were principally affected by the factors described below.

The Group's business, financial condition and results of operations have been impacted by decreases in CPI expectations in the market in accordance with realised inflation in the first half of 2019 and macroeconomic indicators, which has resulted in the Group altering its own yearly (October to October) CPI expectation from 12.7 per cent. as of 31 March 2019 to 10.6 per cent. as of 30 June 2019. Changes in the Group's CPI expectation have lowered yields of the CPI linked bonds in the Group's security portfolio and as a result, the interest income from such securities decreased, which caused a fall in the Group's net interest margin by 10 basis points as of 30 June 2019 compared to 31 March 2019.

Loan growth in the Turkish banking sector also began to slow down during the six months ended 30 June 2019. Although total loans and corporate loans in the banking sector increased by 2.6 per cent. and 2.9 per cent., respectively, in the six months ended 30 June 2019, corporate loans for private banks, the Bank's peer group, decreased by 0.3 per cent. over the same period. The Group's foreign exchange adjusted loan growth amounted to negative 2.2 per cent. in accordance with the sectoral loan growth trend.

The Group has also experienced an increase in its TL-denominated loan book portfolio. For the six months ended 30 June 2019, the Group extended new loans primarily in TL, which resulted in a 17 per cent. increase in the Group's TL loan book portfolio compared to 31 March 2019. The share of energy loans and foreign

exchange loans in the Group's total loan portfolio was 36 per cent. and 91 per cent., respectively, for the six months ended 30 June 2019.

The Group's available liquidity has been supported by a syndicated term loan agreement, signed on 9 July 2019, which allowed the Bank to roll over its maturing syndicated term loan agreement for 367 days in the amount of EUR 97,500,000 and U.S.\$67,500,000.

Analysis of Results of Operations for the six months ended 30 June 2018 and 2019

The table below sets out the Group's income statement for the periods indicated.

	Six months ended 30 June	
	2018	2019⁽²⁾
	<i>(TL thousands)</i>	
Interest Income	1,262,421	1,800,417
Interest on Loans	927,495	1,208,076
Interest Received from Reserve Deposits	4,386	5,357
Interest Received from Banks	33,778	31,288
Interest Received from Money Market Placements	51,584	197,603
Interest Received from Marketable Securities Portfolio	240,127	348,452
Fair Value Through Profit or Loss	474	953
Fair Value Through other Comprehensive Income	153,401	219,740
Measured at Amortised Cost	86,252	127,759
Finance Lease Income	2,533	3,377
Other Interest Income	2,518	6,264
Interest Expenses	600,505	793,708
Interest on Deposits	—	—
Interest on Funds Borrowed	241,451	356,459
Interest on Money Market Borrowings	147,172	140,655
Interest on Securities Issued	211,403	294,439
Leasing Interest Expense	—	43
Other Interest Expense	479	2,112
Net Interest Income	661,916	1,006,709
Net Fees and Commissions Income / Expenses	24,574	27,642
Fees and Commissions Received	30,906	35,012
Non-cash Loans	10,003	11,140
Other	20,903	23,872
Fees and Commissions Paid	6,332	7,370

	Six months ended 30 June	
	2018	2019⁽²⁾
	<i>(TL thousands)</i>	
Non-cash Loans	1,489	1,702
Other	4,843	5,668
Dividend Income	5,062	6,707
Net Trading Income	(98,640)	(215,631)
Securities Trading Gains / Losses	1,392	978
Derivative Financial Instruments Gains /Losses.....	53,158	(172,325)
Foreign Exchange Gains / Losses (Net)	(153,190)	(44,284)
Other Operating Income	157,242	31,258
Gross Operating Income	750,154	856,685
Expected Credit Loss	243,239	236,156
Other Provision Expenses	—	20,000
Personnel Expense	65,473	78,080
Other Operating Expenses	36,393	45,983
Net Operating Income / Loss	405,049	476,466
Amount in Excess Recorded as Gain After Merger	—	—
Profit / Loss on Equity Method	33,536	16,005
Gain / Loss on Net Monetary Position	—	—
Profit / Loss from Continued Operations Before Taxes	438,585	492,471
Tax Provision for Continued Operations	129,251	109,616
Provision for Current Income Taxes	64,675	136,554
Deferred Tax Income Effect.....	90,711	133,382
Deferred Tax Expense Effect	26,135	160,320
Net Profit / Loss from Continued Operations	309,334	382,855
Income on Discontinued Operations	—	—
Loss from Discontinued Operations	—	—
Profit / Loss on Discontinued Operations Before Taxes	—	—
Tax Provision for Discontinued Operations	—	—
Net Profit / Loss from Discontinued Operations	—	—
Net Profit / Loss	309,334	382,855

	Six months ended 30 June	
	2018	2019⁽²⁾
	<i>(TL thousands)</i>	
Group's Profit / Loss	323,495	384,955
Minority Shares	(14,161)	(2,100)
Earning / Loss per Share ⁽¹⁾	0.110	0.137

Notes:

- (1) Earnings per share are calculated by using the average number of shares of the current period. Presented in Turkish Lira, instead of thousands of Turkish Lira.
- (2) The necessary reclassifications have been made to the prior period's financial statements in order to be comparable with the current period financial statements in the new financial statements format published by BRSA on 1 February 2019.

Results of Operations as of and for the six months ended 30 June 2019 and 2018

Interest Income

The Group's interest income is derived from interest on loans, securities, banks and money market placements. In the six months ended 30 June 2019, the Group's interest income increased by 42.6 per cent. to TL 1,800.4 million from TL 1,262.4 million in the six months ended 30 June 2018. This increase was driven by higher net foreign currency loan spreads. Average balances of loans and lease receivables increased by TL 4,513.2 million while that of the securities portfolio increased by TL 1,280.9 million. Average interest rates also had a net positive effect on growth in net interest income, with average rates on interest earning assets increasing by 40 basis points, primarily due to increasing loan spreads. For the six months ended 30 June 2019, interest income from loans amounted to TL 1.2 billion (67.1 per cent. of total interest income), interest from securities amounted to TL 348.5 million (19.4 per cent. of total interest income) and interest from money market placements and interest received from banks amounted to TL 234.2 million (13.0 per cent. of total interest income), compared to TL 927.5 million (73.5 per cent.), TL 240.1 million (19.0 per cent.) and TL 89.7 million (7.1 per cent.), respectively, in the six months ended 30 June 2018.

Interest Expenses

In the six months ended 30 June 2019, the Group's interest expenses increased by 32.2 per cent. to TL 793.7 million from TL 600.5 million in the six months ended 30 June 2018. This was mainly due to changes in currency rates. As 85.9 per cent. of the Group's liabilities are foreign currency denominated, valuation changes in the Turkish Lira results in growth in the Group's interest expense.

Net Interest Income

The Group's net interest income is the difference between interest income from interest earning assets and interest expense on interest-bearing liabilities. The Group's net interest income increased by 52.1 per cent. to TL 1,006.7 million in the six months ended 30 June 2019 from TL 661.9 million in the six months ended 30 June 2018. The Group's net interest margin in the six months ended 30 June 2019 was 4.4 per cent. as compared to 3.9 per cent. in the six months ended 30 June 2018, as a result of higher foreign exchange loan spreads.

Net Fees and Commission Income

The Group's net fees and commission income increased by 12.5 per cent. to TL 27.6 million in the six months ended 30 June 2019 from TL 24.6 million in the six months ended 30 June 2018. This stemmed from higher investment banking and brokerage commissions compared to the prior period.

Dividend Income

The Group's dividend income increased by 32.5 per cent. from TL 5.1 million in the six months ended 30 June 2018 to TL 6.7 million in the six months ended 30 June 2019.

Trading Income/(Loss)(Net)

The Group's trading income/(loss) is comprised of three components: securities trading, derivative transactions and foreign exchange income. The Group's trading loss increased from a loss of TL 98.6 million in the six months ended 30 June 2018 to a net loss of TL 215.6 million in the six months ended 30 June 2019. In 2019, a certain amount of foreign exchange liquidity is transferred into TL by short-term swaps, which are used in TL liquid assets for arbitrage purposes. The expenses of these transactions are booked in trading income/(loss) while the revenues are booked in interest income. In addition, the remaining trading loss was primarily driven by hedge accounting expenses, partially offset by the additional revenues from the long position in foreign currency as a result of the TL depreciation.

Other Operating Income

The Group's other operating income decreased by 80.1 per cent. to TL 31.3 million in the six months ended 30 June 2019 from TL 157.2 million in the six months ended 30 June 2018. The decrease is primarily driven by changes in the amount of provisions that have been reversed, including the reversal of TL 150,101 thousand in provisions as of 30 June 2018 and the reversal of TL 25,298 thousand in provisions as of 30 June 2019.

Expected Credit Losses

In the six months ended 30 June 2019, the Group's provisioning for loans and other receivables decreased by 2.9 per cent. to TL 236.2 million (excluding free provisions in the amount of TL 20 million) from TL 243.2 million in the six months ended 30 June 2018. The decrease in provisioning is mainly driven by general provisioning between the periods. For the six months ended 30 June 2019, the Bank's Stage 2 and Stage 3 loan ratio was 11.0 per cent. and 2.2 per cent., respectively, compared to 6.8 per cent. and 1.9 per cent., respectively, for the six months ended 30 June 2018. Furthermore, the Bank's Stage 2 and Stage 3 coverage ratio for the six months ended 30 June 2019 amounted to 10.5 per cent. and 26.9 per cent., respectively, compared to 12.8 per cent. and 24.1 per cent., respectively, for the six months ended 30 June 2018. These changes are in line with the Bank's proactive and prudent approach under TFRS 9, in line with other Turkish banks that finance the relevant syndicated loans as members of the syndicate with the Bank. There have been no significant changes in non-performing loans other than the depreciation effect and minor additions during the quarter.

The following table shows the Group's provisioning for loans and other receivables as of the indicated dates.

	For the six months ended 30 June	
	2018	2019
	<i>(TL thousands)</i>	
Expected Credit Loss.....	238,706	200,338
12 Months Expected Credit Loss (Stage 1)	5,314	32,182

	For the six months ended 30 June	
	2018	2019
	<i>(TL thousands)</i>	
Significant Increase in Credit Risk (Stage 2).....	157,691	143,146
Non-performing Loans (Stage 3).....	75,701	25,010
Marketable Securities Impairment Expenses	3,943	35,818
Financial Assets at Fair Value through Profit or Loss.....	—	30,988
Financial Assets at Fair Value through Other Comprehensive Income	3,943	4,830
Associates, Subsidiaries, and Entities under Common Control (Joint Venture)	—	—
Value Decrease	—	—
Associates	—	—
Subsidiaries.....	—	—
Entities under Common Control (Joint Venture)	—	—
Other ⁽¹⁾	590	20,000
Total	243,239	256,156

Note:

- (1) Contains a free provision addition of TL 20,000 thousand in the current period, which have resulted in a qualification to the auditor's report in relation to the Group. The free provision is included in other provision expenses in the statement of profit or loss.

Other Operating Expenses

In the six months ended 30 June 2019, the Group's other operating expenses increased by 26.4 per cent. to TL 46.0 million from TL 36.4 million in the six months ended 30 June 2018. The increase in 2019 is in line with guidance approved by the Bank's Board of Directors for the year ending 31 December 2019.

Net Profit from Continuing Operations

The Group's net profit from continuing operations in the six months ended 30 June 2019 increased by 23.8 per cent. to TL 382.9 million from TL 309.3 million in the six months ended 30 June 2018 which is mainly attributable to higher loan spreads despite a challenging provisioning environment.

For the six months ended 30 June 2019, the Group's return on average total assets was 1.9 per cent. and the return on its average equity was 17.5 per cent., compared to 2.0 per cent. and 17.3 per cent., respectively, for the six months ended 30 June 2018.

Segmental Analysis

The following tables set forth certain information regarding the Group's business segments as of the indicated dates:

As of (or for the six months ended) 30 June 2019

	Corporate Banking	Investment Banking	Other	Total
	<i>(TL thousands)</i>			
Net Interest Income	344,657	679,221	(17,169)	1,006,709
Net Fees and Commissions Income	11,172	1,817	14,653	27,642
Other Income	3,466	—	50,503	53,970
Other Expense.....	(245,099)	(243,050)	(107,701)	(595,850)
Profit Before Tax	114,196	437,988	(59,714)	492,471
Tax Provision.....	—	—	—	(109,616)
Net Profit	—	—	—	382,855
Group's Profit/Loss	—	—	—	384,955
Non-Controlling Interests	—	—	—	(2,100)
Segment Assets	29,906,192	9,839,528	1,765,809	41,511,529
Investment in Associates and Subsidiaries.....	-	-	457,578	457,578
Total Assets	29,906,192	9,839,528	2,223,387	41,969,107
Segment Liabilities	34,579,314	1,022,095	1,758,481	37,359,890
Shareholders' Equity.....	—	—	4,609,217	4,609,217
Total Liabilities and Shareholders' Equity	34,579,314	1,022,095	6,367,698	41,969,107

As of (or for the six months ended) 30 June 2018

	Corporate Banking	Investment Banking	Other	Total
	<i>(TL thousands)</i>			
Net Interest Income	316,925	358,755	(13,764)	661,916
Net Fees and Commissions Income	9,742	(1,223)	16,055	24,574
Other Income	—	—	195,840	195,840
Other Expense.....	(181,020)	(77,969)	(184,756)	(443,745)
Profit Before Tax	145,647	279,563	13,375	438,585
Tax Provision.....	—	—	—	(129,251)
Net Profit	—	—	—	309,334
Group's Profit/Loss	—	—	—	323,495
Non-Controlling Interests	—	—	—	14,161
Segment Assets.....	26,829,816	6,878,786	1,651,793	35,360,395
Investment in Associates and	—	—	379,464	379,464

As of (or for the six months ended) 30 June 2018

	Corporate Banking	Investment Banking	Other	Total
	<i>(TL thousands)</i>			
Subsidiaries.....				
Total Assets	26,829,816	6,878,786	2,031,257	35,739,859
Segment Liabilities	29,837,202	1,025,165	1,120,566	31,982,933
Shareholders' Equity.....	—	—	3,756,926	3,756,926
Total Liabilities and Shareholders' Equity	29,837,202	1,025,165	4,877,492	35,739,859

Financial Condition

There have been no significant changes in the Group's balance sheet from 30 June 2018 to 30 June 2019. The tables below set forth the Group's balance sheet data as of the indicated dates.

	As of 31 December	As of 30 June
	2018⁽¹⁾	2019⁽¹⁾
	<i>(TL thousands)</i>	
Assets		
Financial Assets (Net)	6,823,382	8,211,933
Cash and Cash Equivalents	2,123,572	3,084,650
Cash and Balances with Central Bank.....	743,228	927,298
Banks	807,231	1,030,727
Money Market Placements	573,613	1,127,341
Expected Credit Losses (-).....	500	716
Financial Assets at Fair Value Through Profit or Loss	300,519	327,270
Government Debt Securities.....	8	8
Equity Instruments.....	1	1
Other Financial Assets	300,510	327,261
Financial Assets at Fair Value Through Other Comprehensive Income ...	3,420,070	3,681,893
Government Debt Securities.....	3,173,453	3,415,686
Equity Instruments.....	94,029	98,652
Other Financial Assets	152,588	167,555
Derivative Financial Assets	979,221	1,118,120
Derivative Financial Assets at Fair Value Through Profit or Loss.....	979,221	1,118,120

	As of 31 December	As of 30 June
	2018⁽¹⁾	2019⁽¹⁾
	<i>(TL thousands)</i>	
Derivative Financial Assets at Fair Value Through Other Comprehensive Income	—	—
Financial Assets Measured at Amortised Cost	29,706,395	32,024,529
Loans	27,935,319	30,349,920
Lease Receivables	133,929	123,244
Factoring Receivables	—	—
Other Financial Assets Measured at Amortised Cost	2,154,941	2,257,029
Government Debt Securities	2,154,941	2,257,029
Other Financial Assets	—	—
Expected Credit Losses (-)	517,794	705,664
Property and Equipment Held for Sale Purpose and Related to Discontinued Operations (Net)	1	1
Held for Sale Purpose	1	1
Related to Discontinued Operations	—	—
Equity Investments	435,915	457,578
Investments in Associates (Net)	429,546	451,209
Accounted Under Equity Method	428,490	450,153
Unconsolidated Associates	1,056	1,056
Subsidiaries (Net)	4,609	4,609
Unconsolidated Financial Subsidiaries	—	—
Unconsolidated Non-Financial Subsidiaries	4,609	4,609
Entities under Common Control (Joint Venture) (Net)	1,760	1,760
Joint Ventures Valued Based on Equity Method	—	—
Unconsolidated Joint Ventures	1,760	1,760
Tangible Assets (Net)	292,651	300,490
Intangible Assets (Net)	4,872	4,961
Goodwill	1,005	1,005
Other	3,867	3,956
Investment Property (Net)	247,793	247,999
Current Tax Asset	3,575	454
Deferred Tax Asset	3,844	20,062

	As of 31 December	As of 30 June
	2018⁽¹⁾	2019⁽¹⁾
	<i>(TL thousands)</i>	
Other Assets	751,012	701,100
Total Assets	38,269,440	41,969,107
Liabilities		
Deposits	—	—
Funds Borrowed	23,819,670	25,907,225
Money Market Balances	402,278	391,731
Marketable Securities Issued (Net)	6,949,189	7,999,671
Bills.....	—	98,405
Assets Backed Securities	—	—
Bonds.....	6,949,189	7,901,266
Borrower Funds	32,529	41,608
Borrower Funds	32,529	41,608
Other	—	—
Financial Liabilities at Fair Value Through Profit or Loss	—	—
Derivative Financial Liabilities	792,340	602,204
Derivative Financial Liabilities at Fair Value Through Profit or Loss	792,340	602,204
Derivative Financial Liabilities at Fair Value Through Other Comprehensive Income	—	—
Factoring Liabilities	—	—
Lease Liabilities	—	9,397
Provisions	261,276	270,509
Restructuring Provisions.....	—	—
Reverse for Employee Benefits	15,054	17,513
Insurance Technical Provisions (Net)	—	—
Other Provisions	246,222	252,996
Current Tax Liability	94,104	105,593
Deferred Tax Liability	—	—
Liabilities for Property and Equipment Held for Sale and Related to Discontinued Operations (Net)	—	—
Held for Sale Purpose	—	—
Related to Discontinued Operations	—	—

	As of 31 December	As of 30 June
	2018⁽¹⁾	2019⁽¹⁾
	<i>(TL thousands)</i>	
Subordinated Debt Instruments	1,549,774	1,785,961
Loans	—	—
Other Debt Instruments.....	1,549,774	1,785,961
Other Liabilities	184,204	245,991
Shareholders' Equity	4,184,076	4,609,217
Paid-in capital	2,800,000	2,800,000
Capital Reserves	890	898
Share Premium	516	524
Share Cancellation Profits	—	—
Other Capital Reserves	374	374
Accumulated Other Comprehensive Income or Loss Not Reclassified Through Profit or Loss.....	284,370	281,472
Accumulated Other Comprehensive Income or Loss Reclassified Through Profit or Loss.....	(139,563)	(90,934)
Profit Reserves.....	529,059	1,266,538
Legal Reserves.....	272,773	306,633
Status Reserves	75,641	75,641
Extraordinary Reserves.....	177,725	841,344
Other Profit Reserves.....	2,920	2,920
Profit Or Loss	670,698	358,558
Prior Years' Profit/Loss.....	(58)	(26,397)
Current Year Profit/Loss	670,756	384,955
Non-Controlling Interests	38,622	32,685
Total Liabilities and Equity	38,269,440	41,969,107

Note:

- (1) The necessary reclassifications have been made to the prior period's financial statements in order to be comparable with the current period financial statements in the new financial statements format published by BRSA on 1 February 2019.

Assets

As of 30 June 2019, the Group had total assets of TL 42.0 billion, a 9.7 per cent. increase from TL 38.3 billion as of 31 December 2018. During the same period, foreign exchange assets decreased by 3.1 per cent. in foreign exchange adjusted terms and TL assets increased by 13.7 per cent.

Cash and Balances with the Central Bank

As of 30 June 2019, the amount of the Group's cash and balances with the Central Bank was TL 927.3 million, a 24.8 per cent. increase compared to TL 743 million as of 31 December 2018.

Loans and Leasing Receivables

As of 30 June 2019, the Group had loans and leasing receivables net of allowance for expected credit losses of TL 29.8 billion (70.9 per cent. of total assets), an increase of 8.0 per cent. compared to TL 27.6 billion (73.0 per cent.) as of 31 December 2018. The Group's portfolio of cash total loans and advances to customers, less allowance for possible losses, increased by 8.0 per cent. as of 30 June 2019 compared to year-end 2018. The real loan growth in the six months ended 30 June 2019 is negative 2.2 per cent.

In addition to loans, the Group had outstanding guarantees amounting to TL 1.7 billion and letters of credit amounting to TL 2.0 billion as of 30 June 2019 (TL 1.6 billion and TL 1.6 billion, respectively, as of 31 December 2018).

As of 30 June 2019, the average effective interest rates charged to borrowers on loans were 4.8 per cent. for EUR and 7.3 per cent. for USD (4.5 per cent. and 7.4 per cent. respectively in EUR and USD as of 31 December 2018). The average effective interest rates on TL loan rates were 23.0 per cent. as of 30 June 2019 (14.9 per cent. as of 31 December 2018).

Liabilities

As of 30 June 2019, the Group had total liabilities of TL 42.0 billion, an increase of 9.7 per cent. from TL 38.3 billion as of 31 December 2018.

As of 30 June 2019, the Group had TL 391.7 million in money market balances, and TL 25.9 billion in funds borrowed.

Off-Balance Sheet Arrangements

The aggregate amount of off-balance sheet arrangements, comprising guarantees, letters of credit and similar obligations, totalled TL 3.8 billion as of 30 June 2019 and TL 3.2 billion as of 31 December 2018.

Capital Adequacy

The following table sets out information on the Group's capital and its capital adequacy ratios as of the indicated dates, calculated in accordance with Basel III.

	As of 31 December	As of 30 June
	2018	2019
	<i>(TL thousands)</i>	
Paid-in capital	2,800,000	2,800,000
Paid-in capital inflation adjustments.....	374	374
Profit reserves	525,053	1,226,538

	As of 31 December	As of 30 June
	2018	2019
	<i>(TL thousands)</i>	
Profit.....	670,698	358,558
Tier I Capital (I).....	4,144,042	4,589,667
Tier II Capital (II).....	1,901,952	2,218,576
Deductions (III).....	—	—
Own Funds (I+II-III).....	6,045,994	6,808,243
Risk Weighted Assets (including market and operational risk).....	37,814,453	41,448,214
Capital Ratios:		
Tier I Ratio.....	10.96%	11.07%
Total Capital Adequacy Ratio ⁽¹⁾	15.99%	16.43%

Note:

(1) The Group's own funds as a percentage of its risk-weighted assets.

As of 30 June 2019 and 31 December 2018, the Group's total capital adequacy ratio was 16.4 per cent. and 16.0 per cent., respectively (16.4 per cent. and 16.2 per cent., respectively, for the Bank). The increase in the Group's total adequacy ratio is primarily due to profitability of the Bank. The Bank expects its total capital adequacy ratios to be above 15 per cent. and intends to maintain its (and the Group's) capital ratios in excess of those required by both Turkish law and internal risk limits determined by Board of Directors.

Liquidity and Funding

The Group's principal sources of funding are loans from developmental organisations, of which 41.5 per cent. is provided by the World Bank Group and the European Investment Bank as of 30 June 2019. As of 30 June 2019, 69.6 per cent. (73.5 per cent. as of 31 December 2018) of the Group's foreign currency-denominated borrowings were sourced from international banks and DFIs. For its other funding, the Bank's strategy has been largely to utilise money market funds (including repos), issuances of debt securities, bilateral loans and syndicated loans, although this approach is subject to change, depending upon market opportunities and changes in prevailing rates and other funding sources.

As of 30 June 2019, the Group's total foreign currency-denominated borrowings constituted 85.0 per cent. of its consolidated assets (83.7 per cent. as of 31 December 2018). In addition, 52.7 per cent. of the Bank's long-term funds were guaranteed by the Turkish Treasury as of 30 June 2019 (53.4 per cent. as of 31 December 2018). Development and investment banks (such as the Bank) are exempt from reserve requirements for their funding guaranteed by the Turkish Treasury.

The Group's loans constituted in aggregate 61.7 per cent. and 62.2 per cent. of its total liabilities as of 30 June 2019 and 31 December 2018, respectively. As of 30 June 2019, the Group's loans amounted to TL 25.9 billion, an increase of 8.8 per cent. from TL 23.8 billion as of 31 December 2018. The remaining sources of funds for the Group are repos and money market funds, which accounted for 1.1 per cent. and 0.9 per cent. of the Group's total liabilities as of 31 December 2018 and as of 30 June 2019, respectively, and issuances of

debt securities, which accounted for 18.8 per cent. and 18.2 per cent. as of 30 June 2019 and 31 December 2018, respectively. The Bank's short-term funding, including syndicated loans, bilateral loans and money market transactions, represented 7.4 per cent. of its outstanding funding base as of 30 June 2019.

BUSINESS OF THE GROUP

Lending Policies and Procedures – Loan Classification and Provisioning Policy

The first paragraph of the section titled "*Loan Classification and Provisioning Policy*" on page 222 of the Base Prospectus is hereby deleted in its entirety and replaced by the following:

"Pursuant to Article 53 of the Banking Law, banks must formulate, implement and regularly review policies regarding compensation for losses that have arisen or are likely to arise in connection with loans, and reserve an adequate level of provisions against such losses, qualification and classification of loans, receipt of guarantees and securities and measurement of their value and reliability. In addition, such policies must address issues such as monitoring loans, writing-down loans according to TFRS and repaying loans (including repayments through restructuring). Banks must also establish and operate systems to perform these functions. All special provisions set aside for loans in accordance with this article are considered expenditures deductible from the corporate tax base in the year they are set aside.

Loans that are written down due to becoming uncollectable after reserving private provisions are considered as uncollectible receivables within the scope of Tax Procedure Law."

TURKISH REGULATORY ENVIRONMENT

Loan Loss Reserves

The first paragraph of the section titled "*Loan Loss Reserves*" on page 264 of the Base Prospectus is hereby deleted in its entirety and replaced by the following:

"Pursuant to Article 53 of the Banking Law, banks must formulate, implement and regularly review policies regarding compensation for losses that have arisen or are likely to arise in connection with loans, and reserve an adequate level of provisions against such losses, qualification and classification of loans, receipt of guarantees and securities and measurement of their value and reliability. In addition, such policies must address issues such as monitoring loans, writing-down loans according to TFRS and repaying loans (including repayments through restructuring). Banks must also establish and operate systems to perform these functions. All special provisions set aside for loans in accordance with this article are considered expenditures deductible from the corporate tax base in the year they are set aside.

Loans that are written down due to becoming uncollectable after reserving private provisions are considered as uncollectible receivables within the scope of Tax Procedure Law."

Liquidity and Reserve Requirements

The fifth paragraph and the following table of the section titled "*Liquidity and Reserve Requirements*" on pages 279 and 280 of the Base Prospectus are hereby deleted in their entirety and replaced by the following:

"Pursuant to the amendments to the Communiqué Regarding Reserve Requirements, published in the Official Gazette dated 7 August 2019 and numbered 30855 (the "**Communiqué Regarding Reserve Requirements**"), the reserve requirements starting from 26 July 2019 and onwards for foreign currency liabilities, are as set forth below:

Category of Foreign Currency Liabilities	Required Reserve Ratio
Demand deposits, notice deposits, private current accounts, deposit/participation accounts up to one-month, three-month, six-month and one-year maturities	16%
Deposit/participation accounts with maturities of one-year and longer.....	12%
Other liabilities up to one-year maturity (including one-year)	21%
Other liabilities up to two-year maturity (including two-year).....	16%
Other liabilities up to three-year maturity (including three-year).....	11%
Other liabilities up to five-year maturity (including five-year)	7%
Other liabilities longer than five-year maturity	5%
Borrowers' deposit accounts held at development and investment banks ⁽¹⁾	16%

Note:

- (1) Due to laws applicable to development and investment banks, the amount deposited in such accounts cannot exceed the total outstanding loan amount extended by the relevant development and investment bank to such borrower.

The following paragraph is hereby included after the table above in the section titled “*Liquidity and Reserve Requirements*” on page 280 of the Base Prospectus:

Pursuant to the amendments to the Communiqué Regarding Reserve Requirements, published in the Official Gazette dated 20 August 2019 and numbered 30864, the reserve requirements for the banks have been indexed to the annual growth rates of the total of banks' Turkish lira-denominated standardized cash loans and cash loans under close monitoring, excluding foreign currency-indexed loans and loans extended to banks. The banks that have such a growth rate between 10 per cent. and 20 per cent. will apply the reserve requirement ratios for Turkish lira liabilities in all maturity terms excluding deposits and participation accounts with 1-year or longer maturity (excluding deposits/participation funds for banks abroad) and other liabilities with longer than 3-year maturity (including deposits/participation funds for banks abroad), as 2 per cent.

Recent Amendments to the Turkish Insolvency and Restructuring Regime

The following sentence is hereby included as the last sentence of the third paragraph in the section titled “*Recent Amendments to the Turkish Insolvency and Restructuring Regime*” on page 292:

“Pursuant to the Provisional Article 32 set forth in the Banking Law, published on the Official Gazette no. 30836 dated 19 July 2019, the rules regarding restructuring of the debts in the financial sector were incorporated in the Banking Law, which are to be applied for a period of two years following 19 July 2019, and the President of the Republic of Turkey will be entitled to extend the term for an additional two years.”

SIGNIFICANT OR MATERIAL CHANGE

There has been (a) no significant change in the financial or trading position of either the Group or the Bank since 30 June 2019 and (b) no material adverse change in the financial position or prospects of either the Group or the Bank since 31 December 2018.

INDEPENDENT AUDITORS

The 2019 Q2 Consolidated Interim Financial Statements and the 2019 Q2 Unconsolidated Interim Financial Statements have been reviewed by EY in accordance with the Standard on Review Engagements (SRE) 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”.