



**INTEGRATED  
REPORT  
2017**

# Contents

3 ABOUT THE REPORT



4 TSKB AT A GLANCE



7 TSKB FROM 1950 TO 2017



10 2017 ECONOMIC OUTLOOK



20 CHAIRMAN'S MESSAGE



22 MESSAGE FROM THE CEO



26 BUSINESS MODEL



34 TSKB AND SUSTAINABILITY



40 CORPORATE GOVERNANCE





48 ASSESSMENT OF MATERIALITY ANALYSIS  
AND STAKEHOLDER COMMUNICATION




54 CAPITALS




58  FINANCIAL CAPITAL

74  HUMAN CAPITAL

82  NATURAL CAPITAL

90  INTELLECTUAL CAPITAL

98  MANUFACTURED CAPITAL

102  SOCIAL CAPITAL

112 TSKB IN THE FUTURE



# About the Report

## Scope

THE INDUSTRIAL DEVELOPMENT BANK OF TURKEY (TSKB) published the first integrated report in the finance sector last year and hereby shares with its stakeholders a new integrated report with information on its operations.

This Integrated Report by TSKB provides information on TSKB’s performance between January 1, 2017 and December 31, 2017. The report is issued on a bank-only basis and excludes the operations of TSKB affiliates. Since the Bank does not deliver any operations abroad, the report only reflects the operations in Turkey.

As required by the integrated reporting approach, the report incorporates not only financials but also the value created through banking operations, the performance in the current period, the goals for the upcoming period and stakeholder expectations as well as risks and opportunities. This ensures the stakeholders are provided with a rather holistic picture.

## Capitals Approach

Prioritization analysis and the Integrated Reporting Framework of the International Integrated Reporting Council (IIRC) are taken as basis while drawing up the TSKB Integrated Report. The value created by TSKB is analyzed under six capital categories, namely financial, human, natural, intellectual, manufactured and social capital, reflecting on how priority matters are transposed to the business model, performance and goals.

Key performance indicators and goals for the upcoming period are explained in detail under various headings including but not limited to financial outcomes, resource diversity, sectoral expertise, tailored products and services, sustainability loans, zero carbon banking, qualified human resources, equal opportunities, social responsibility projects and experience exchange.

## Value Creation Model

Based on the fact that financial outcomes are not the only criteria for success at an organization, TSKB’s ‘Value Creation Model’ focuses on economic, social and environmental added value created through all capital. The Value Creation Model incorporates a myriad of distinctive qualities for the Bank such as the power to create value from information, independent and multidimensional evaluation, and environmental and social impact analysis for lending process.

## Audit

TSKB Integrated Report was subject to limited assurance audit by EY (Ernst&Young) in terms of financials, human resources and internal environmental impact. Furthermore, TSKB is audited under ISO 14001 certification for a Sustainable Management System and under ISO 14064 certification regarding the calculation and verification of greenhouse gas emissions from operations.

## External Review Committee

As TSKB’s 2017 Integrated Report was drawn up, the outcomes of consultations with the External Review Committee which was comprised of Prof. Güler Aras from Yıldız Technical University, Prof. Hakan Berument from Bilkent University and Prof. Kamil Yılmaz from Koç University, were considered and utilized in developing the content and scope of the report.

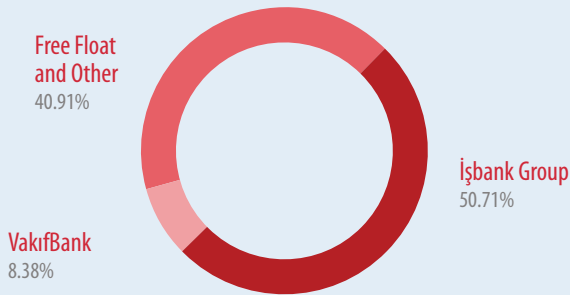
SKD-Turkey (Business Council for Sustainable Development - Turkey)’s feedback on TSKB’s 2016 Integrated Report under the “Reporting Matters” project is also taken into account and reflected in the report.



# TSKB at a Glance

TSKB was established in 1950 in Istanbul as Turkey’s first private development and investment bank with the support of the World Bank and the Central Bank of the Republic of Turkey and the shareholding of commercial banks. The Bank operates in three main fields, namely Corporate Banking, Investment Banking and Consultancy Services. TSKB has its headquarters in Istanbul with two branches in Ankara and Izmir. Extending medium and long-term loans for financing investment projects, TSKB’s loans have a concentration on production and services sectors. TSKB not only extends direct loans to finance the investments of private sector organizations but also supports SMEs and exporters with indirect loans through leasing companies, commercial banks and participation banks within the scope of wholesale banking (APEX banking). TSKB does not collect deposits and meets its need for medium and long term funds through the funds it obtains from national, regional and supranational financial institutions and bond issues.

## TSKB’S SHAREHOLDING STRUCTURE



TSKB is a listed company with 39% of its shares being traded under the ticker symbol “TSKB” on the Borsa Istanbul (BIST) Star Market. As of end-2017, the Bank’s registered capital stood at TL 4,500,000,000 while its paid-in capital was TL 2,400,000,000.

## RATINGS

	TSKB	TURKEY
Fitch	BB+	BB+
Moody’s	Ba1	Ba1
SAHA	9.54/10	

## TSKB in Numbers

- TL 29 billion asset size
- 15<sup>th</sup> bank in terms of asset size
- A family of 573 with its subsidiaries

*TSKB: The first development and investment bank paving the way for the investments of the Turkish Private Sector*

## PIONEERING ROLE IN MULTIPLE AREAS OF THE TURKISH BANKING SECTOR

- First development bank of Turkey
- First equity participation of International Financial Corporation in Turkey
- First issuance of private sector bonds
- First issuance of bonds outside Turkey in Turkish economic history
- First bank in Turkey to have its accounts voluntarily audited by an independent audit company
- First bank in Turkey to integrate environmental due-diligence in the credit appraisal process
- First bank in Turkey to get ISO 14001 Certificate
- First bank in Turkey to set-up an Environmental Management System
- First carbon-neutral bank of Turkey
- First bank to issue a Green/Sustainable Bond in Turkey and CEEMEA
- First “Sustainable Subordinated Bond” in the world
- First integrated report in the finance sector

## MAIN SUBSIDIARIES

Yatırım Finansman Securities  
 TSKB Real Estate Appraisal  
 TSKB Real Estate Investment Trust  
 TSKB Sustainability Consultancy (Escarus)  
 European Investment Fund (EIF)

## Our Mission

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

## Our Vision

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

## Our Values

PIONEERING	HUMAN-FOCUSED	SOLUTION-ORIENTED	RELIABLE & RESPECTFUL
<p>We create <b>long-term value</b> for customers, society and the future of our country, using a <b>visionary</b> perspective and <b>innovative</b> services as leverage.</p> <p>We keep a close eye on international banking practices and lead our sector as a <b>pioneer with our initiatives.</b></p>	<p>With a human-oriented approach for a qualified economic growth we contribute to employment, equal opportunities and social development through <b>inclusive</b> banking solutions.</p> <p>We make business decisions together based <b>on collective intelligence.</b></p> <p>We value team success over individual success. We work in harmony both within the Bank and with the organizations we <b>cooperate.</b></p> <p>We never discriminate among our employees. We protect the rights of employees and ensure they always have <b>equal opportunities.</b></p> <p>We contribute to employees’ <b>professional and personal development</b> and encourage them to take the <b>initiative.</b></p>	<p>We produce <b>flexible, fast and efficient solutions</b> in order to optimally meet our customers’ expectations and needs.</p> <p>We are utterly prudent about the <b>quality</b> of the work we do and resolute in fulfilling commitments.</p> <p>Knowing that we are <b>the leaders in our job</b>, we take <b>responsibility</b> and act timely and swiftly at each stage without need for any prior guidance.</p>	<p>We build <b>trustful</b> and <b>respectful</b> relations with all our stakeholders.</p> <p>We never compromise on a <b>fair, accountable, transparent and ethical</b> banking approach, and the contemporary rules of corporate governance.</p> <p>We create value for <b>sustainable</b> development through an <b>environment-friendly</b> banking approach, and take responsibility to leave future generations a world to live in.</p>



# TSKB from 1950 to 2017

# TSKB from 1950 to 2017



## 1950s

Founded in 1950 with the initiation of the World Bank (IBRD) and Central Bank of Republic of Turkey under the mission of supporting the development of Turkey's private sector, TSKB has achieved several significant breakthroughs in development and investment banking. These include securing medium- and long-term loans, providing technical support to project sponsors, and conducting preliminary studies for the formation of the capital markets in Turkey. During the same period, TSKB was the only bank capable of supplying foreign currency loans needed to finance imports. It was also the only organization handling cash sales of foreign currencies released under the Marshall Plan.

## 1960s

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

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

## 1970s

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

## 1980s

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

## 1990s

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

## 2000s

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

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

## 2010s

TSKB diversified its financial resources in the 2010s. In addition to the combat against, TSKB takes responsibility to meet the energy demand with the resources provided by Islamic Development Bank, Japan International Cooperation Agency (JICA), European Bank for Reconstruction and Development (EBRD), the International Finance Corporation (IFC), the French Development Agency (AFD) and the Development Bank of Austria.

After the 2008 global financial crisis, interest rates fell sharply across the world, creating a need for new banking products and services. Thanks to its vast experience in this area, TSKB began to provide clients an array of new, competitive investment instruments, such as capital-protected and guaranteed products. Meanwhile, the Bank continued to add value for its stakeholders by taking on key roles in Turkey's electricity distribution privatizations, asset purchase & sale financing, acquisition financing, bond issues, and public offerings. During this time, TSKB introduced new types of loans under the themes of sustainable tourism and resource efficiency.

In 2014, TSKB continued to increase support for SMEs and mid-sized exporters with the loan provided from IBRD and disbursed by the participation banks and factoring companies for the first time in Turkey.

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

The Bank signed the 2015 Climate Change Summit (COP21) final declaration for transition to low-carbon economy of ELTI (European Long-Term Investors Association) and IDFC (International Development Finance Club), of which TSKB is the only member from Turkey.

In 2016, providing a loan from the World Bank (IBRD) for supporting geothermal energy investments, TSKB increased its support for renewable energy investments.

Moreover, TSKB was included in the BIST Sustainability Index, which is made up of companies traded on Borsa Istanbul and that perform well in terms of sustainability. The best sustainability practices of the Bank also captured the attention of the international indices, resulting in the inclusion of TSKB's stock in the FTSE4 Good Emerging Markets Index by December 2016.

Reinforcing its leading position in sustainability, TSKB becomes the first Turkish bank to issue a "Green/Sustainable Bond" on international markets in 2016. Encouraged by the interest shown in this issuance, TSKB breaks new global ground and issues a Subordinated Sustainable Bond in 2017.

In 2016, TSKB takes a major step in social inclusion in collaboration with the French Development Agency (AFD) to finance investments on occupational health and safety in Turkey in addition to the investments by firms that observe gender equality in working environment and support women's employment.

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

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

Opening a new chapter on women's employment within its social responsibility projects for sustainability which it has implemented since early 2000s, TSKB takes key steps to empower the women employees of tomorrow in terms of education and equal opportunities.

# 2017 Economic Outlook

- GLOBAL OUTLOOK
- TURKISH ECONOMY
- BANKING SECTOR

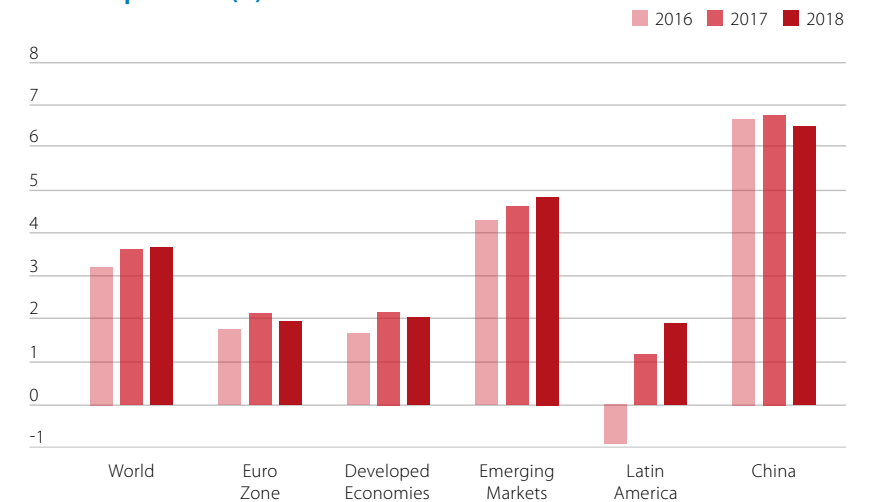
## GLOBAL ECONOMIC OPERATIONS GAINED MOMENTUM.

In developed and developing countries alike, growth dynamics were fed by sustained favorable financing conditions globally and stability in commodity prices, chiefly in industrial metals and oil. Unemployment rates fell specifically in developed countries while some major developing countries such as Argentina, Brazil and Russia managed to recover from recession. This enabled organizations such as the International Monetary Fund (IMF) and the Organization for Economic Co-operation and Development (OECD) to revise their global growth projections upwards. IMF projects global growth, which was 3.8% in 2017 at its highest since 2011, to reach 3.9% in 2018. In addition, OECD revised its global growth projection for 2018 from 3.7% to 3.9% and declared its 3.9% projection for 2019 in its report of March 2018.

## SLOWDOWN IN THE NORMALIZATION OF MONETARY POLICIES IN DEVELOPED COUNTRIES

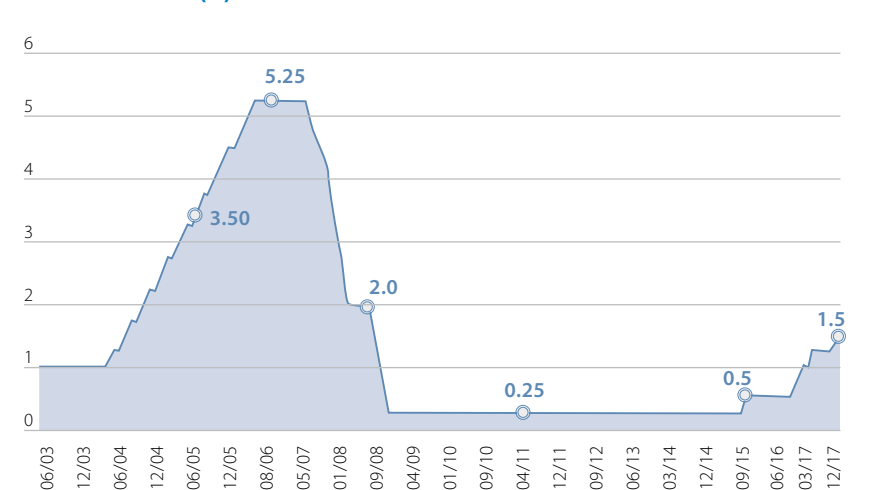
Weak global inflation against an accelerated economic recovery led to moderate progress in the normalization processes of monetary policies by the central banks of developed countries. In 2017, the US Federal Reserve (Fed) hiked interest rates three times. Moreover, three further rate hikes are expected in 2018. The European Central Bank (ECB), on the other hand, declared that the monthly EUR 60 billion purchases under its asset purchase program would be reduced to EUR 30 billion starting from 2018 and that the bond purchase process would continue as long as required.

Growth Expectations (%)



Source: IMF

Fed's Interest Rate (%)



Source: Federal Reserve

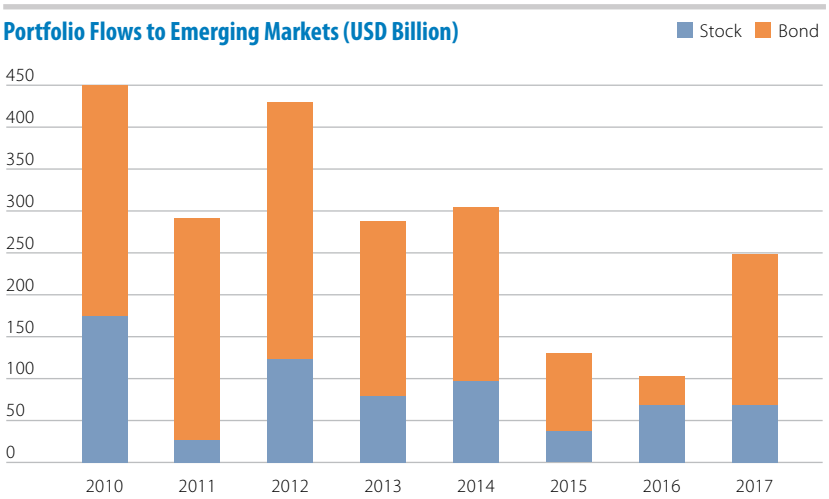


The European and Japanese central banks are not expected to hike interest rates in 2018. Following the Fed, the Bank of Canada hiked the policy interest rate once while the rising inflation in the Brexit process and a rather positive progress in growth indicators against expectations allowed the Bank of England (BoE) to hike the rate by only 25 basis points, a very limited tightening.

An upward pressure on the USD was prevented by the Fed's signaling for tightening measures in advance and the fact that these measures proved to be in parallel with the projected pathway. The U.S. Dollar Index (DXY) closed 2017 with a 9.9% decline. Against a depreciating USD, the EUR/USD parity pursued a year-long upward trend after the economic recovery rallied in the Eurozone and the election results in the Netherlands, France and Germany favored the minimization of political risks in the European Union. It is possible for the US economy to set on a higher growth pathway as facilitated by the divergence between the interest regimes and balance sheet scale-back actions in the policies of central banks globally, coupled with fiscal expansion. In a cycle when the costs of USD increase and EUR positions hit record highs, it is estimated that the EUR/USD parity would be subject to a downward pressure in 2018.



Source: Thomson Reuters



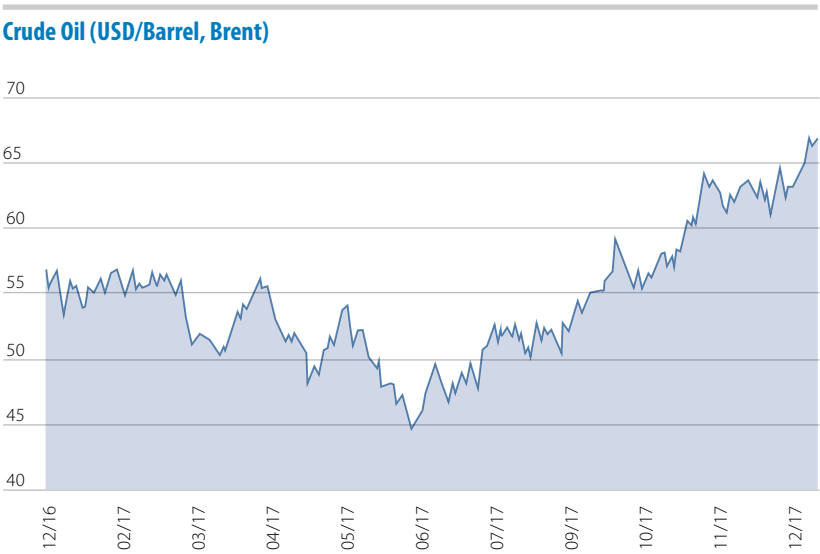
Source: IIF

### A POSITIVE OUTLOOK IN DEVELOPING COUNTRIES

In developing countries, on the other hand, the improvement in growth indicators led by Russia and Brazil, coupled with declining inflation rates, made room for loosening monetary policies. Since the start of the year, Russia reduced interest rates by 225 basis points while Brazil and India followed by a decrease of 675 and 25 basis points, respectively. Sustained and ample global liquidity in addition to improved macroeconomic indicators increased portfolio flows into developing countries. Data from the Institute of International Finance (IIF) shows that the portfolio flows into developing countries, which stood at a total of USD 99 billion including stocks and bonds in 2016, rose to USD 240 billion in 2017.

### RIISING OIL PRICES

Hitting the lowest level of the last 12 years in 2016 at USD 27, the price of Brent Crude reached USD 67 following a 2-year journey upwards. This rise was kicked off with the contraction in production led by low prices and the recovery in global growth expectations. The following production cuts by the Organization of Petroleum Exporting Countries (OPEC) and non-OPEC producers in January-June 2017 backed the rise in the oil price to USD 58. Producers extended production cuts until the end of 2018, ensuring that the oil price exceeds USD 65. For 2018, the expectation is that the rise in oil price may be replaced by side ways trend.



Source: Thomson Reuters

### POSITIVE OUTLOOK IN FINANCIAL MARKETS

Recovery in global growth indicators and moderate normalization steps by central banks made a positive impact on stock prices and led to limited increases in interest rates for bonds. In 2017, the Emerging Markets Index (MSCI EM), the European exchanges (Stoxx600) and the U.S. exchange (S&P500) rose by 34%, 8% and 19%, respectively. The U.S. 10-year interest rate started the year at 2.45% to reach as far as 2.63% before going down to 2.41% by year-end. The German 10-year interest rate started and ended the year at 0.2% and 0.42%, respectively.

### TURKISH ECONOMY GREW BY 7.4% IN 2017.

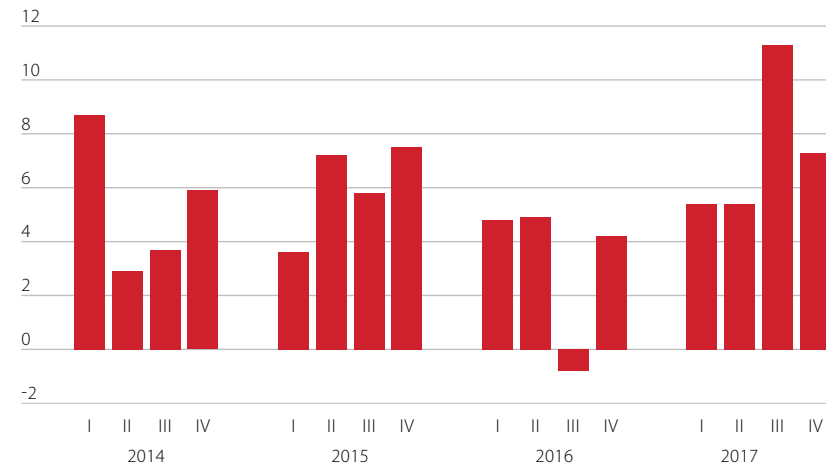
The Turkish economy posted 7.3% YoY growth in the last quarter of 2017, thus completing the year with 7.4% GDP growth. Interest rate campaigns and tax incentives in the housing sector, lifting of special consumption tax on the white goods sales and reduction of VAT in the furniture sector from 18% to 8%, incentives for investments and the expansion of the scope and guarantee levels of the Credit Guarantee Fund (CGF) had upside impacts on the growth figure. From the expenditure side, 6.6% growth in household consumption, with 4.1 points contribution, was the driving force behind the strong topline growth in the last quarter. However, 22% expansion in imports led by gold pulled the headline figure 5 points down.

Compared to the previous year, fixed capital investments increased 7.2% in 2017. Investments were driven by construction expenditures which increased by 12.3%. The growth rate in machinery and equipment investment expenditures was relatively low at 0.7% due to a weak performance in the first half of the year. This brought about a change in favor of construction expenditures within the composition of investment expenditures. In 2017, the shares of machinery and equipment expenditures and of other assets decreased to 35.3% and 7%, respectively, while the share of construction expenditures increased to 57.7%. In addition, the leading indicators on investment expenditures point to a possible acceleration in fixed capital investments in the first quarter of 2018. Projections in the annual government program suggest that investment expenditures will increase by 14.5% in 2018. A ranking of sectors based on the expected increase in investment expenditures considering the said program shows that the housing, energy and healthcare sectors make the top of the list. Taking into account the very fact that investments in these three sectors will focus mainly on construction, the share of construction investments in total fixed capital investments might continue to increase in 2018 as well.

From the production side, agriculture's last quarter performance at 6% growth supported by exports could be seen strong throughout the last quarters. Industrial production, construction and services grew 8.8%, 5.8% and 9%, respectively. In the last quarter of 2017, the seasonally adjusted figure pointed to 1.8% growth compared to the previous quarter. As of end-2017, the Turkish economy's size was TL 3.1 trillion (USD 851 billion).

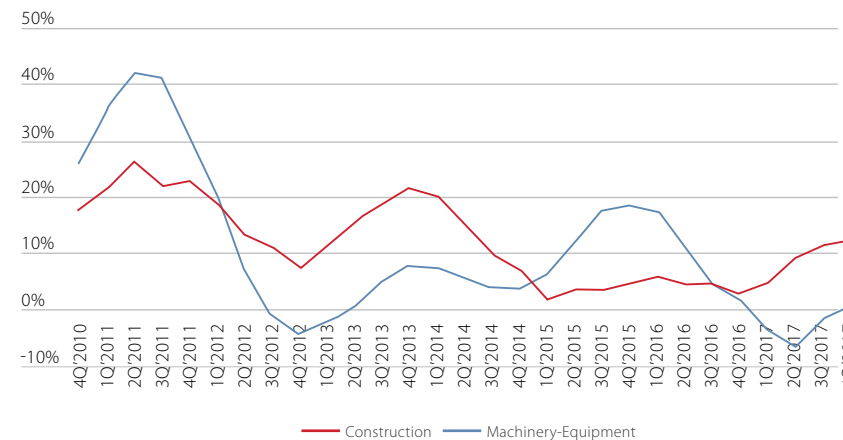
It is estimated that the rapid growth which was mainly driven by significant incentives in 2017 will be moderate in 2018.

### Growth of Turkish Economy by Quarters (%)



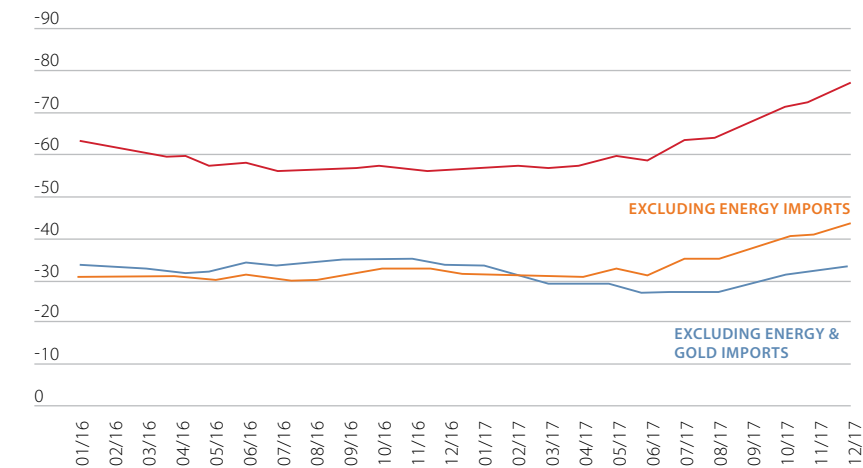
Source: TURKSTAT

### Change in Investment (Real, Annual, 4 Quarter Moving Average)



Source: TURKSTAT, TSKB Economic Research

### Trade Deficit (USD billion, yoy basis)



Source: TURKSTAT

### DEVELOPMENTS IN FOREIGN TRADE

Despite positive developments in exports, high gold imports and the rise in the cost of energy imports led to a rise in the foreign trade deficit. Exports increased mainly in the iron&steel, energy and automotive sectors while textile exports tended to recover. On the imports side, gold imports as well as the rise in commodity and energy prices served as determining factors. In 2017, although Turkey's exports to the European Union (EU) increased by 7.5%, the share of exports to the EU in total exports declined from

48% to 47.1%. Exports to Russia recovered significantly with an increase of 58%. In 2017, exports increased by 10% to USD 157 billion, imports rose to USD 234 billion with an increase of 18% and the foreign trade deficit surged by 37% to USD 77 billion.

The rise in gold imports and oil prices triggered an increase in the foreign trade deficit, which further led to a similar trend in the current account deficit. In 2017, the current account deficit rose by 43% to USD 47.4 billion. The current account deficit/GDP ratio was 5.6% at 2017 year-end.

### ANNUAL INFLATION (%)

Transportation	18.2
Food and Soft Drinks	13.8
Miscellaneous Goods and Services	12.8
Furniture, Home Appliances and Home Care Services	12.7
General	11.9
Health	11.9
Clothing and Shoes	11.5
Restaurant and Hotels	11.5
Education	10.5
Housing, Water, Electricity, Gas and Other	9.6
Entertainment and Culture	8.4
Alcoholic Beverages and Tobacco	2.9
Communication	1.4

Source: TURKSTAT



### INFLATION TENDED TO RISE

Strong domestic demand, the depreciation in the TL, the rise in USD-denominated import prices and the base effect in food prices as a legacy of the previous year increased inflationary pressure. The annual inflation rate which stood at 8.53% at 2016 year-end rose to 11.92% at 2017 year-end. In 2017, the inflationary impact spread to the entire basket and pricing behavior was disrupted. Annual inflation rates for food, clothing and shoes, and transportation stood at 13.8%, 11.5% and 18.2%, respectively. This was reflected in the rise in core inflation. Core inflation (excluding unprocessed food, energy, tobacco and alcohol) stood at 12.3% at the end of December, maintaining a double-digit rate for five months in a row and marking a 13-year high. In 2018, a significant rise in oil prices is not expected while the U.S. expectations for a rise in inflation and the continuation of tightening measures point to an appreciation in the USD. Therefore, inflation is expected to decline in the first quarter of the year under the base effect but may otherwise remain close to double digits throughout 2018.

### TCMB (CENTRAL BANK OF THE REPUBLIC OF TURKEY) IMPLEMENTED A TIGHT MONETARY POLICY.

To control inflation and curb volatility in exchange rates, the Central Bank implemented tightening measures throughout the year. Furthermore, it changed its market funding mechanism from the quotation method to the late liquidity window facility, thus raising the weighted average cost of funding by 200 basis points. The late liquidity window interest rate was gradually increased by 175 basis points during the year, eventually raising the cost of funding in markets by 445 basis points to 12.75% compared to the beginning of the year. In 2017, the Central Bank started to launch foreign exchange swap auctions against TL deposits and Turkish lira-settled forward foreign exchange sale auctions.

### STOCKS HIT RECORD HIGH.

BIST-100 Index started the year 2017 at 78,139. Influenced by the expectation that the positive growth outlook will have positive repercussions on corporate profits and portfolio flows into developing countries, the Index exceeded its record-high level of 93,000 to reach 115,000 in 2017 and completed the year at 115,333 with a return of 47%. Upward trends in global bond interest rates, tightening measures by the Central Bank and the rise in inflation caused the two-year bond interest rate to move up from 10.63% to 13.40%. Despite a weakening USD abroad, the USD/TL parity was influenced by domestic developments, fluctuating within a wide range of 3.39 to 3.98 and completing the year at 3.77.





**TURKISH BANKING SECTOR**

**SECTOR'S GROWTH ACCELERATED IN 2017.**

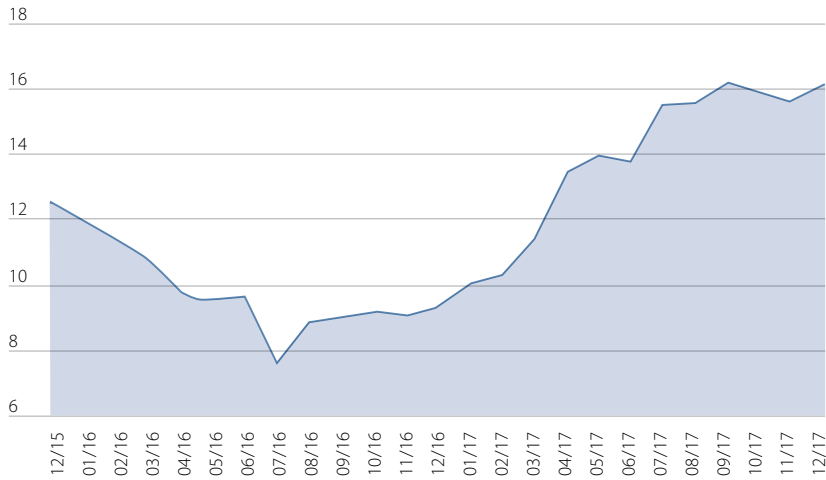
The total number of banks as of 2017 year-end in the Turkish banking sector stood at 49. In 2017, assets in the sector grew by 14.2% on a FX-adjusted basis to reach TL 3.3 trillion.

Constituting 65% of total assets, loans grew by a nominal 16.8% and by 9.4% on a currency-adjusted basis in 2016 while they rose by 21.1% nominally and by 16.2% on a currency-adjusted basis in 2017. The accelerated loan growth in 2017 was mainly influenced by CGF support in lending. Backed by CGF-supported loans, total TL loans rose 26.8%, with the TL-denominated SME loans and TL-denominated installment commercial loans growing 25.4% and 68.5%, respectively. On the other hand, Foreign Currency (FX) loans recorded a limited contraction on a currency-adjusted basis. In 2017, growth in personal loans gained momentum and reached 16.3%.

In 2017, new sectoral funds were mainly allocated to loans, and the securities portfolio grew by 10.4%.

Although the growth in deposits, which constitute about 55.1% of sectoral funds, increased as well, this growth was still

**Sector's Loan Growth (Recent One Year) (%)**



Source: BRSA

below the loan growth rate. In 2017, total deposits grew by 10.6% on a currency-adjusted basis.

Total TL deposits increased 12.2% while FX deposits rose 8.6% on a currency-adjusted basis.

In 2017, the loan-to-deposit ratio in the banking sector exceeded 121% in total and 151% on a TL basis. On the other hand, when other main FX funds are considered, the ratio of loans to FX funds stood at 88.4%.

FX funds shrank in a limited fashion in 2016 but increased by 9.9% on a USD basis in 2017. Constituting about half of FX funds, loans grew by 7.0%. As of 2017 year-end, FX funding made up 21% of the sectoral balance sheet.

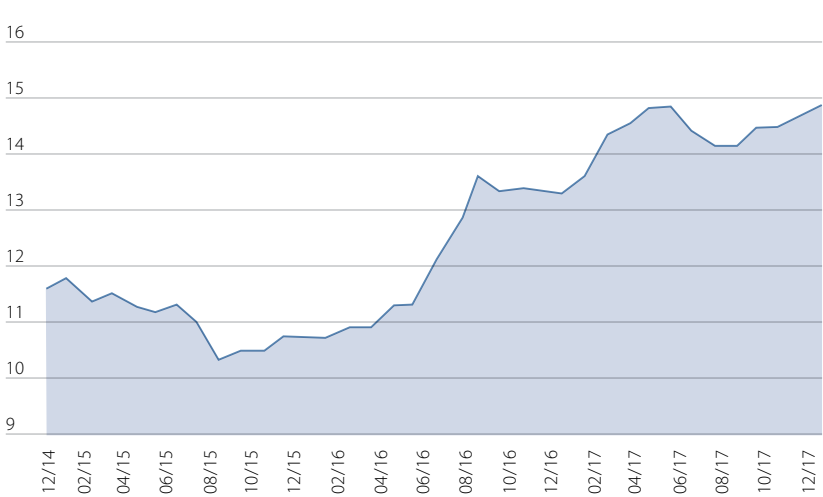
CGF practices also helped maintain the asset quality in the sector. In 2017, NPL growth was limited to 9.9% while the rate of NPLs in the sector decreased from 3.2% at 2016 year-end to 2.9% under the impact of portfolio sales. 2017 data from the top 10 banks in the sector indicate that NPLs corresponding to 10.5% of NPLs and 0.3% of total loans were written off and thus removed from portfolios. 2017 data from

the top 10 banks also show that closely-monitored loans surged by 40.4% after a large-scale loan was flagged as a closely-monitored loan in the last quarter, with the closely-monitored loans rising to 4.5% following a year-on-year increase of 63 basis points approximately. Although the growth rate in loans with extended repayment plans stood at 62% in 2016 but fell down to 26.5% in 2017, the ratio of such loans to total loans rose to 3.6% from 3.4% at 2016 year-end. The reserve ratio in the sector stood at 79.4%.

**ACCELERATION IN THE RETURN ON EQUITY LOST MOMENTUM.**

Net income in the sector grew by 30.9% in 2017. Although the rise in return on equity observed since 2015 was interrupted in the summer months, it gained momentum once again in September 2017 and completed the year at 14.8%. Return on equity was pressured by a contracting net interest margin and an expanding cost/income ratio during the year.

**Sector's Return on Equity (%)**



Source: BRSA

The capital adequacy ratio in the sector stood at 16.9% at 2017 year-end, marking an approximate increase of 130 basis points on a year-on-year basis. The practice of applying a zero risk weight to that portion of the CGF-supported loans for which a guarantee is taken led to a positive impact of approximately 110 basis points on the capital adequacy ratio. The core capital adequacy ratio in the sector has risen by 90 basis points since the beginning of the year and stood at 14.1%.

**LOAN GROWTH OF 14-15% IS EXPECTED IN 2018.**

In 2018, the sector is expected to attain 14-15% nominal growth in loans and 12-13% growth in deposits. It is projected that the net profit increase in the sector will be 10-11% and return on equity will remain flat at around the 14% level.

# Chairman's Message



*What lies beneath TSKB's success is our approach that is based on economic development in the long run rather than short-term financial profitability.*

Esteemed Shareholders,

2017 was a year when the moderate growth in the global economy accelerated in all developed and developing countries. Despite the growth dynamics improving under the impact of ample liquidity and the stable performance of commodity prices, the inflation outlook remains fragile. This forced the central banks of developed countries to adopt a cautious attitude in terms of monetary tightening. In 2017, market perception towards emerging economies including Turkey turned positive, leading to a visible recovery in capital inflows. As was the case in 2017, the global movement of capital will be shaped by the growth outlook, current and potential

geopolitical risks and the steps to be taken by the the central banks of developed countries in 2018.

## **TURKEY POSTED STRONG GROWTH IN 2017.**

Meanwhile, the Turkish economy exhibited significant growth potential as a result of the support for domestic demand facilitated by the Credit Guarantee Fund (CGF) and financial incentives, and of the improvement in net exports. Furthermore, the risk appetite trend towards developing countries led to an increase in demand for Turkish financial assets in 2017. On the other hand, the sharp depreciation in the Turkish lira caused by the increase in production costs resulted in double-digit inflation.

The Central Bank maintains its tight stance in the monetary policy despite this inflationary pressure.

The banking sector, as the main support mechanism for the Turkish economy, not only facilitated the transfer of CGF funds to productive areas but also maintained healthy loan growth. In a period when external financing imposes tougher conditions and savings are not at the desired level yet, the sector retained its asset quality and attained a return on equity of almost 15%. Recently, the Turkish banking sector has rapidly internalized efficiency-based new business models such as digitization and will continue to play a guiding and transforming role among all sectors.

## **TSKB CONTINUES TO SUPPORT TURKEY'S DEVELOPMENT.**

Remaining faithful to its founding mission for the last 67 years and supporting Turkey's inclusive and sustainable development, TSKB continued to power our country in terms of international competitiveness through the funding and consultancy products it provided in 2017. At TSKB, we are delighted to have completed the year by growing our balance sheet soundly without compromising on the principles of sustainability and efficiency.

What lies beneath TSKB's success is our approach that is based on economic development in the long run rather than short-term financial profitability. To this end, sustainability is not only among our corporate priorities but also a management approach for us. Fostering this very same approach in 2017 as well, TSKB published the 2016 Integrated Report, a groundbreaking initiative in the Turkish private sector, to provide its entire set of stakeholders with the details of its business model focusing on creating economic, social and environmental added value. TSKB's groundbreaking work on sustainability in 2017 was not only restricted to its Integrated Report. Our Subordinated Sustainable Bond issuance in the first quarter of the year was a global first as regards the theme of sustainability.

## **WE TAKE CONFIDENT STEPS INTO THE FUTURE.**

As it has been the case to date, TSKB's operational focus will remain to uphold Turkey's economy using our know-how and experience in development and investment banking, our visionary approach, and our financing and consultancy solutions driven by the long-established international cooperation initiatives we have. Our deep-rooted and dynamic corporate culture, our strong capital structure and our employees who are always at the heart of our success will guarantee our value proposition for our stakeholders.

I would like to take this opportunity to thank, first and foremost, our shareholders who confided in and contributed to TSKB, our employees, customers, business partners and, last but not the least, our stakeholders.

Sincerely,

H. Ersin Özince  
**Chairman**

# Message from the CEO



*TSKB, a core component in development banking in Turkey, completed its 67<sup>th</sup> year of operations and continues to contribute tangibly to the country's development, reinforce its reputation domestically and internationally, and further strengthen its position in the industry.*

Distinguished Shareholders, Customers, Business Partners and Esteemed Members of the TSKB Family,

TSKB, a core component in development banking in Turkey, completed its 67<sup>th</sup> year of operations. The Bank continues to contribute tangibly to the country's development, reinforce its reputation domestically and internationally, and further strengthen its position in the industry. Using its innovative approach, qualified workforce, expertise and experience to create added value for all its stakeholders, our Bank maintained healthy growth and increased the added value for the sustainable and inclusive development of Turkey thanks to a successful financial and operational performance in 2017.

The successful operations we delivered during 2017 enabled us to expand our assets by 20% year-on-year to TL 28.9 billion. We are delighted to have successfully attained our updated annual loan growth target of 15%, revised after we accomplished, as of the end of the third quarter, our year-end FX-adjusted loan growth target of 10-13% which was announced at the beginning of the year. In 2017, our Bank boosted the number of its active customers by 25% year-on-year, and provided its customers with cash and non-cash loans totaling USD 2.5 billion. Our total cash loan portfolio rose by 29% to TL 22.3 billion. Having increased its loan volume while maintaining its healthy and sound asset quality at the same time, our Bank

recorded a further decrease in the rate of non-performing loans, which dropped to 0.2% compared to 2016 year-end.

As of January 1, 2018, the Bank completed its transition to IFRS 9 in accordance with legislation, proving the soundness of its portfolio once again. The Bank has no additional provision requirement within the framework of the amendments set forth in IFRS 9.

Our Bank continues to strengthen its capital structure through stable growth. Despite increasing its general and free provisions by 60% at 2017 year-end in order to support growth in the upcoming period, TSKB posted net income of TL 596 million with an annual increase of 25%. Our Bank's total equity rose by 21% to TL 3.5 billion. At 2017 year-end, our return on equity and return on assets were 18.4% and 2.3%, respectively.

## **NEW GROUND BROKEN IN SUSTAINABILITY BOLSTERS OUR LEADING POSITION.**

Our Bank places sustainability at the heart of its business model, thus maintaining its leadership in the field. TSKB broke new ground in the world when it issued its Subordinated Sustainable Bond in 2017, proving once again how much it deserves to emerge as a brand synonymous with sustainability. Our issuance totaling USD 300 million on a 10-year maturity was four times oversubscribed by international investors. Such demand was highly

welcome as an indicator of the confidence in Turkey's economy as well as our Bank.

TSKB also recorded firsts in sustainability in the key areas of strategy and reporting. Adopting an approach that went beyond performance reporting and providing information on our economic, social and environmental strategies as well as our forward-looking expectations and guidance, TSKB published its Integrated Report at the beginning of 2017. This is the first Integrated Report in the Turkish private sector and is included in the integrated reporting examples database of the International Integrated Reporting Council (IIRC), thus earning a place as a new milestone that cements our leadership in sustainability.

In 2017, we offered our contribution, together with TSKB Sustainability Consultancy (Escarus), an affiliate of our Bank, to the Ministry of Development project called "Due Diligence for Turkey under the UN Sustainable Development Goals," a proud involvement by us in a sustainable development initiative. TSKB is the only representative of the Turkish financial sector at the International Development Finance Club (IDFC) and is among the first to support the Climate Action in Financial Institutions Initiative launched in 2015. In 2017, our Bank hosted the distinguished representatives of this major initiative in our country for their annual meeting. Furthermore, TSKB shared

its experience in financing sustainability with the world's leading financial institutions during the One Planet Summit held by the IDFC in Paris to keep bolstering the recognition it receives and the brand value it has on international platforms.

Our innovative and leading efforts continued to attract interest and acknowledgment on international platforms in 2017. It took a very short time for Turkey's first Green/Sustainable Bond that we issued in 2016 to receive five awards on prestigious platforms such as Thomson Reuters, Bonds & Loans and EMEA Finance.

## **TSKB NOT ONLY PLANS THE NEXT 5-10 YEARS BUT ALSO TAKES CRUCIAL STEPS TO PREPARE FOR THE DISTANT FUTURE.**

The transition of the business world to more efficient and flexible models has accelerated recently when technology advances at an astounding, blistering pace. On the other hand, life-enriching investments which place people at their core attract more and more attention each day.

TSKB made considerable progress last year under its transformation program, "A Prospective Glance," which was started in 2016 with a view to extending the Bank's current success into the future which will be shaped by high technology, new business models and the expectations of the younger generations.



“A Prospective Glance” enabled significant improvements in 2017 in organizational structure, customer management, provision and management of funds, lending processes, brand recognition, internal customer satisfaction and performance management.

2017 was also a significant year for emphasizing TSKB’s identity as an advisor bank, a factor positively differentiating our Bank in the banking sector. For the future, it is our ultimate goal to reinforce our identity as “an advisor bank as well as a financial lender.” It is a key focus for us to utilize all collaboration opportunities to the fullest to diversify and mobilize collective intelligence on our way to becoming “the first advisor bank that comes to customers’ minds.”

### **UPDATED MISSION AND VISION, BRAND-NEW VALUES**

Under the program “A Prospective Glance,” TSKB updated its mission and vision in line with the new fields it focused on, and put its values shaped by collective intelligence down in black and white for the first time.

Other major projects completed in 2017 included increasing our brand visibility and reflecting our common values through architectural work launched in our buildings and workspaces in order to physically strengthen our corporate transformation.

### **EXPONENTIALLY INCREASING CONTRIBUTION TO INCLUSIVE ECONOMIC GROWTH**

The involvement of people from all walks of life in economic activity introduces both qualitative and quantitative contribution to development. The banking sector has an important role in rendering growth an inclusive one. TSKB attaches special importance to the concept of inclusion and particularly underlines it in its updated mission. Inclusion will become a most essential component of our business model in the future.

It is among our priority goals to facilitate the transformation of our country’s potential into production. To this end, our Bank will exponentially increase its contribution to inclusive economic growth through its support to qualified development investments such as those in energy, infrastructure, education, healthcare, efficiency, women’s employment and technological transformation.

### **WOMEN DRIVING SUSTAINABLE DEVELOPMENT**

The female workforce has significant potential in emerging economies such as Turkey. Any support for the female workforce thus contributes directly to the country’s growth. Equal opportunities are an indispensable element of inclusive development and have been among the policies of our Bank for years.

At the beginning of 2017, TSKB utilized the loan for social development it secured from AFD to create a new funding opportunity for “women-friendly” firms, a vital step to ensure women join the labor force and be empowered socially and economically. In a time frame as short as a year, significant developments took place at firms to which we provided loans, including additional employment of women and the launching of exemplary projects to introduce more favorable working conditions for women.

Our Bank is willing to assume more responsibility to realize this potential for Turkey’s development and has made a decision to support women’s employment through social responsibility projects in addition to loans. Given the fact that a qualified education is a must for joining the workforce, the “Empower through

Education” scholarship fund has been established for female university students in collaboration with the Turkish Education Foundation (TEV). The scholarship fund aims to support more women in joining the workforce.

Our Bank develops in-depth expertise in any field it focuses on. We are fully confident that we will deliver many more investments and projects in the field of women’s employment.

I would like to take this opportunity to thank our female employees who hold 55% of our executive positions drive development through their successful work and inspire us regarding the design of our 2017 annual report.

### **WE ARE HOPEFUL FOR THE FUTURE.**

We believe the Turkish economy will maintain its positive course in 2018 and our Bank will fulfill all its goals of attaining growth and profitability rates which are almost parallel with the previous year. In the period ahead, we will continue to strengthen our funding structure and exponentially increase our support to the country’s sustainable development with both the funding we will obtain from

development finance institutions under various themes and the bond issuances and other kinds of borrowings we will be involved in international markets. We are fully confident that our Bank will deliver further successful and seminal results for Turkey thanks to the dedicated contribution of our best-in-the-sector employees, the uninterrupted support of our shareholders and business partners, and the strong synergy we have created together with all our stakeholders.

On behalf of TSKB, I hereby thank our shareholders for their endless support, our customers and business partners for their confidence, and our employees for their efforts.

Sincerely,

Suat İnce  
**CEO**  
**Board Member**

# Business Model

## Goals

- › *Supporting sustainable development*
- › *Providing entrepreneurs with brokerage and consultancy support on monetary and capital markets*
- › *Ensuring sustainable profitability and growth*
- › *Strengthening the corporate structure*
- › *Developing in harmony with stakeholders*

Pursuing a vision to be the business partner that stakeholders consult and prefer as the first choice **TOWARDS THE ECONOMIC, ENVIRONMENTAL AND SOCIAL DEVELOPMENT OF TURKEY**, TSKB develops its future goals and strategies in an integrated perspective which is a natural part of its corporate culture and way of doing business. The Bank considers the support it extends to sustainable development to be a very valuable and continuous tool in creating long-term and permanent value for all stakeholders. The Bank's goals and strategy involves not only ensuring sustainable income for its shareholders but also using all its resources in the most accurate, efficient and responsible manner to create value for internal and external stakeholders alike.

### TSKB'S VALUE CREATION MODEL

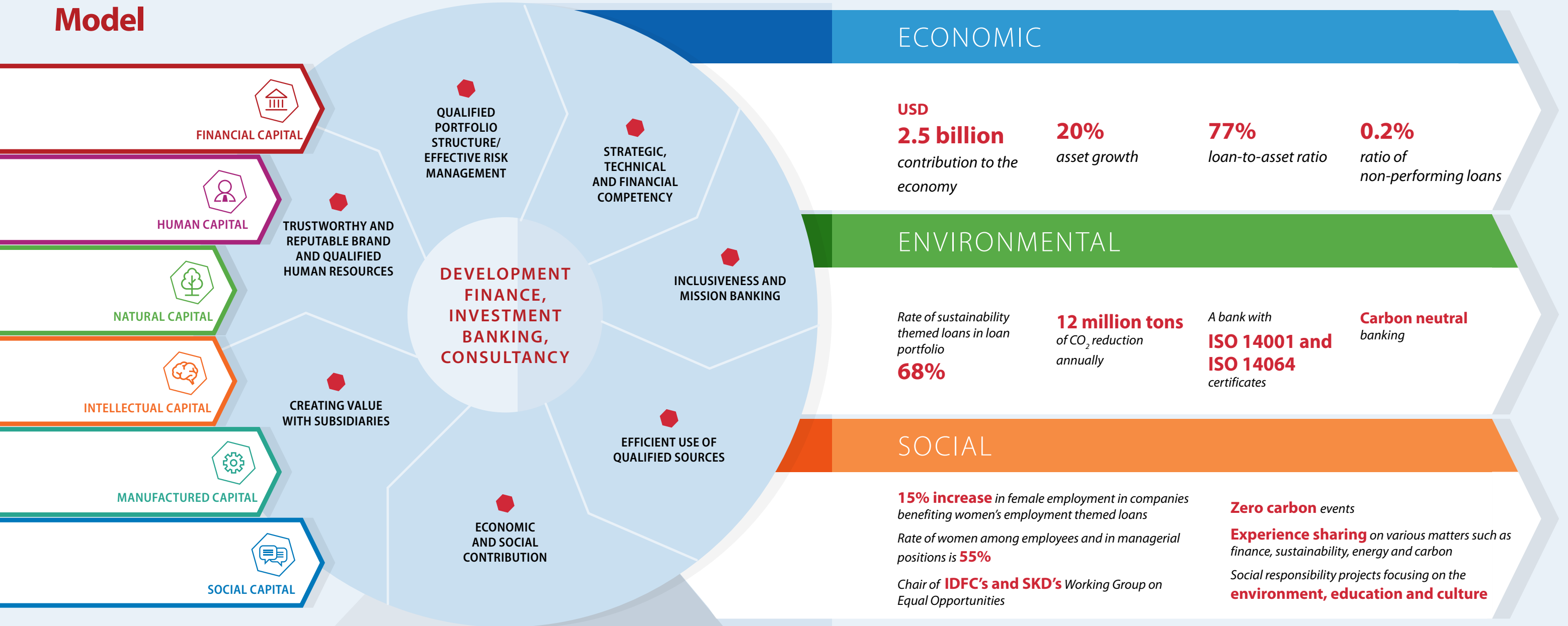
TSKB's Value Creation Model takes six capitals as input. Shaped by stakeholder expectations, global trends and the Sustainable Development Goals, TSKB's Value Creation Model reflects the economic, environmental and social benefit the Bank creates in its operational areas.

As TSKB's 2017 Integrated Report was drawn up, the Value Creation Model was extended with a particular focus on the Sustainable Development Goals and inclusiveness.

# Value Creation Model

Trends

Sustainable Development Goals



## Our Stakeholders

- » SHAREHOLDERS
- » CUSTOMERS
- » EMPLOYEES

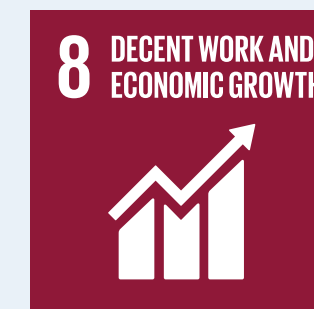
- » SUBSIDIARIES
- » INITIATIVES
- » FINANCE INSTITUTIONS

- » PUBLIC SECTOR
- » MEDIA
- » UNIVERSITIES
- » SUPPLIERS

Operations		
CORPORATE BANKING	INVESTMENT BANKING	CONSULTANCY
<b>PRODUCTS AND SERVICES THAT CONTRIBUTE TO THE TURKISH ECONOMY AND LABOR FORCE</b> <p><b>CORPORATE LOANS</b></p> <ul style="list-style-type: none"> <li>» INDUSTRIAL INVESTMENTS</li> <li>» ENERGY AND RESOURCE EFFICIENCY</li> <li>» ENVIRONMENT FRIENDLY INVESTMENTS</li> <li>» RENEWABLE ENERGY</li> <li>» WOMEN'S EMPLOYMENT</li> <li>» OCCUPATIONAL HEALTH AND SAFETY</li> <li>» SUSTAINABLE TOURISM</li> <li>» HEALTH AND EDUCATION INVESTMENTS</li> <li>» R&amp;D AND INNOVATION</li> </ul> <p><b>PROJECT FINANCE</b></p> <ul style="list-style-type: none"> <li>» POWER GENERATION AND DISTRIBUTION</li> <li>» HOTELS, SHOPPING MALLS AND COMMERCIAL REAL ESTATE</li> <li>» LOGISTICS</li> <li>» TRANSPORTATION/INFRASTRUCTURE</li> <li>» PUBLIC-PRIVATE PARTNERSHIP PROJECTS</li> <li>» MERGERS &amp; ACQUISITIONS</li> </ul> <p><b>OTHER LOANS</b></p> <ul style="list-style-type: none"> <li>» WHOLESALE BANKING</li> <li>» SME FINANCE</li> <li>» EXPORT FINANCE</li> <li>» FOREIGN TRADE FINANCE</li> <li>» COUNTRY (ECA) LOANS</li> <li>» WORKING CAPITAL FINANCE</li> <li>» FINANCIAL LEASING</li> </ul>	<b>PRODUCTS AND SERVICES THAT SUPPORT TO IMPROVE CLIENTS ASSETS</b> <p><b>CORPORATE FINANCE</b></p> <ul style="list-style-type: none"> <li>» EQUITY PUBLIC OFFERINGS AND TRANSACTIONS</li> <li>» DEBT SECURITY OFFERINGS AND TRANSACTIONS</li> <li>» MERGERS &amp; ACQUISITIONS</li> <li>» ASSET PURCHASES &amp; SALES ADVISORY</li> <li>» PRIVATIZATION ADVISORY</li> </ul> <p><b>CAPITAL MARKETS*</b></p> <ul style="list-style-type: none"> <li>» EQUITIES BROKERAGE SERVICES</li> <li>» FIXED INCOME SECURITIES BROKERAGE SERVICES</li> <li>» FX TRANSACTIONS</li> <li>» WARRANT TRANSACTIONS</li> <li>» REPO TRANSACTIONS</li> <li>» FOREIGN DERIVATIVE TRANSACTIONS</li> <li>» FOREX AND LEVERAGED TRANSACTIONS</li> <li>» LOANS AGAINST SECURITIES</li> <li>» PORTFOLIO MANAGEMENT</li> <li>» INVESTMENT CONSULTANCY</li> </ul> <p><b>DERIVATIVES</b></p> <ul style="list-style-type: none"> <li>» FORWARDS</li> <li>» OPTIONS</li> <li>» CAPS &amp; FLOORS</li> <li>» SWAPTIONS</li> <li>» SWAP TRANSACTIONS <ul style="list-style-type: none"> <li>» FOREX</li> <li>» INTEREST RATE</li> <li>» CROSS CURRENCY</li> </ul> </li> </ul>	<b>TAILOR-MADE PRODUCTS AND SERVICES THAT ADD VALUE TO THE BANK'S CLIENTS' OPERATIONS</b> <p><b>STRATEGIC FINANCIAL CONSULTANCY</b></p> <ul style="list-style-type: none"> <li>» COMPANY, BRAND AND LICENSE APPRAISAL</li> <li>» VALUATION AND FEASIBILITY ANALYSIS</li> <li>» FINANCIAL STRUCTURING</li> <li>» STRATEGIC ROADMAPS</li> <li>» SECTOR ANALYSIS</li> <li>» PROJECT FINANCE CONSULTANCY</li> </ul> <p><b>REAL ESTATE APPRAISAL*</b></p> <ul style="list-style-type: none"> <li>» REAL ESTATE APPRAISAL</li> <li>» MACHINERY AND EQUIPMENT APPRAISAL</li> <li>» BIDDING CONSULTANCY</li> <li>» THE HIGHEST AND BEST-USE ANALYSES</li> <li>» COLLATERAL APPRAISAL</li> <li>» FEASIBILITY AND PROJECT MONITORING</li> <li>» SECTOR ANALYSIS AND MARKET RESEARCH REPORTS</li> <li>» GREEN BUILDING ANALYSIS</li> <li>» URBAN TRANSFORMATION CONSULTANCY</li> <li>» CONCEPT DEVELOPMENT CONSULTANCY</li> </ul> <p><b>SUSTAINABILITY AND ENVIRONMENT*</b></p> <ul style="list-style-type: none"> <li>» SUSTAINABILITY MANAGEMENT</li> <li>» ENVIRONMENTAL AND SOCIAL IMPACT ASSESSMENT</li> <li>» TECHNICAL CONSULTANCY</li> <li>» CLIMATE CHANGE MANAGEMENT</li> <li>» CARBON CONSULTANCY</li> <li>» ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT</li> <li>» INVESTMENT MONITORING FOR FINANCIAL INSTITUTIONS</li> <li>» RENEWABLE ENERGY CONSULTANCY</li> </ul>

<sup>(\*)</sup> TSKB provides a part of its service in investment banking and advisory within the scope of cooperation with its subsidiaries namely Yatırım Finansman Securities, TSKB Real Estate Appraisal and Escarus TSKB Sustainability Consultancy.

## Sustainable Development Goals Supported by TSKB



# Support to Sustainable Development Goals



The United Nations Sustainable Development Goals (SDGs) are a set of 17 Sustainable Development Goals and 169 targets under these goals adopted by world leaders during the United Nations Sustainable Development Summit on September 25, 2015 in order to eradicate poverty, fight inequality and injustice, and combat climate change until 2030. The Sustainable Development Goals adopt a more comprehensive and holistic approach than the Millennium Development Goals, which encompassed the period 2000 to 2015. To this end, international cooperation as well as coordination among the public sector, private sector and non-governmental organizations at the national and local level gain significance.

Contributing to Turkey's development and particularly leading sustainable development efforts among other environmental concerns since 1950, TSKB integrates into its goals and strategies its current sustainable development approach, with an ultimate target for the year 2030. The due diligence for Turkey under the Sustainable Development Goals was performed in 2017 for the Ministry of Development of the Republic of Turkey and emerged as a turning point. This key project enabled TSKB Group to reinforce its experience in sustainable development and find an opportunity to share its knowledge.

TSKB adopts an integrated approach and considers each project it finances not just a banking transaction but a milestone that contributes to both the country's development and global sustainability. TSKB sets all its goals and makes all its decisions with awareness that it is part of a holistic solidarity for sustainability. Be it the lending and consultancy services or the intra-Bank sustainability practices, TSKB positively contributes to the United Nations Sustainable Development Goals. As required by an integrated development approach, all Sustainable Development Goals are closely related to each other. TSKB supports sustainable development through its particular efforts in Industry, Innovation and Infrastructure (SDG 9), Affordable and Clean Energy (SDG 7), Combat against Climate Change (SDG 13), Decent Work and Economic Growth (SDG 8), Gender Equality (SDG 5) and Sustainable Consumption and Production (SDG 12).

TSKB uses the international theme funds it obtains, the sustainable bonds it issues and funds from other sources to finance those projects that support sustainable development goals. Efforts are initiated under the "Value and Impact Analysis Project" in order to measure the impact of the allocated loans on these goals more effectively. There are plans to include the outcomes in next year's reports.

# Inclusiveness

The term "inclusive economic growth" is a fresh concept that emerged in the early 2000s. Developments such as the global financial crisis and the increasing protective policies across the world drew more and more attention to this concept. The main reasons why this concept became popular include the inability of low income groups to sufficiently participate in the economy as well as poverty, unemployment and inequality, coupled with inadequate demand on a global scale. Inclusiveness deals with the failure of certain economic actors to access various markets and enjoy certain opportunities due to insufficient human capital and opportunities and to a lack of access to basic services. The failure of all segments of the society to have equal access to basic services, resources and opportunities, i.e. their deprivation from such opportunities and services, prevents economic actors from displaying their potential.

The concept of inclusiveness has not only secured a place on the agenda of international institutions such as the World Bank, OECD and the United Nations but also assumed a key role in the state policies of national authorities. For instance, inclusiveness was one of the three key priorities set during Turkey's G20 Presidency in 2015. While policy makers aim to enable persons and companies excluded from economic activities to realize their potential through action plans focusing on inclusiveness, financial institutions also have roles to play on the matter.

By adopting the "inclusiveness" principle within its mission, TSKB added yet another emphasis - this time on inclusiveness - to its existing support for sustainability in Turkey's development process. It aims to enable growth to qualify as a more inclusive one through the investments it finances and the consultancy services it offers. Supporting inclusive policies, the Bank aims to accelerate the participation of all segments of society to economic activity, pave the way for everyone to turn their

potential into production and thus enable qualified growth. For instance, women in Turkey are still underrepresented in both the labor markets and the management of corporations. The Bank supports the efforts to increase female labor force participation through the loans and consultancy services it offers. In 2016, the female employment rate in "women-friendly" companies which received funding support through the social development loans secured from the AFD increased by 15% in the post-lending process with almost 700 female employees joining the labor force.

In addition, TSKB further contributes to inclusive growth through the support it extends to both the innovation investments and the projects that will ensure a sectoral and geographic mainstreaming of current technologies. The Bank aims to continue its efforts in rendering growth an inclusive one particularly based on its experience in supporting sustainable development as accumulated through renewable energy and resource efficiency projects. Inclusiveness is expected to become a most essential component of the Bank's business model in the future.

# TSKB and Sustainability

***TSKB's sustainability strategy** is based on the approach that the key to qualified development is sustainable banking. The Bank's sustainable banking strategies are set in accordance with the following goals:*

- › *supporting Turkey's sustainable development model,*
- › *assuming an active role in combating climate change,*
- › *contributing to our country's transition to an industrial structure that is based on a low carbon economy.*

## Institutionalizing Sustainability

**INFLUENCED BY TSKB'S FOUNDING MISSION, THE EVER-DEVELOPING GLOBAL AWARENESS ON SUSTAINABILITY** and the Bank's intellectual capacity, sustainability secured a place in TSKB's management structure in time as a concept that guides its business model.

The 1970s and 1980s saw remarkable development and investment projects come into life around the world. Therefore, the need to pay attention to environmental issues together with economic development around the world and consider the environmental dimensions and impact of investments have occupied the agenda since then. Environmental issues have received increasing focus in the credit assessment process and the relevant reports by TSKB starting from the 1980s.

TSKB aims to make the best use of its close relations with international development finance institutions in order to contribute to Turkey's sustainable development. These international development finance institutions, supranational and multilateral organizations which the Bank cooperates with have a global vision on matters such as the environment, climate change, social impact and energy. They observe a mission to guide and improve the organizations they work with through capacity building and awareness raising to this end and to support such organizations via lending operations. This perspective from the development finance institutions has fully overlapped with TSKB's development banking vision as well as its internal capacity and the intellectual capital it developed and has been transposed into successful business models.

Based on such cooperation with development finance institutions, TSKB's process of financing sustainability began at the end of 1990s through the financing of environmental investments and continued into 2000s with the financing of energy investments. This was followed by energy efficiency, resource efficiency and sustainable tourism investments.

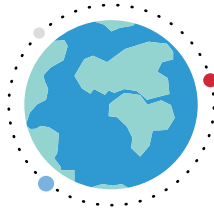
Today, TSKB does not limit the scope of sustainability with the environment but considers financing sustainability as a comprehensive approach that may be extended to cover innovative business models. TSKB's approach also incorporates a myriad of themes such as the environment, social, energy, efficiency, R&D, occupational health and safety, women's employment and sustainable tourism.

# TSKB's Sustainability Journey

## 1980

### > CONSIDERING THE ENVIRONMENTAL FACTOR IN CREDIT APPRAISAL PROCESSES

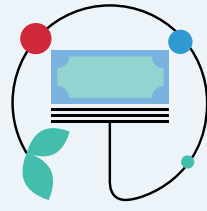
Fully on its own initiative, TSKB started to consider the environmental factor in credit appraisal processes and monitor the fulfilment of environmental responsibilities in projects.



## 1990

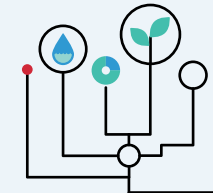
### > FIRST ENVIRONMENTAL LOANS OFFERED TO TURKISH INDUSTRY

TSKB secured funds from international markets to finance environmental investments in the 1990s and stood out as the first bank to offer environmental loans to Turkish industry.



## 2002

### > FINANCING THE FIRST RENEWABLE ENERGY PROJECT



## 2005

### > ENVIRONMENTAL MANAGEMENT SYSTEM

In 2005, TSKB began to transpose sustainable banking to the corporate dimensions and completed its efforts to establish an Environmental Management System in mid-2006.



## 2006

### > SHARING THE BANK'S ENVIRONMENTAL POLICY WITH STAKEHOLDERS AND THE PUBLIC

The Bank internationalized the notion of environment and sustainability and published its first policy to that end.

## 2007

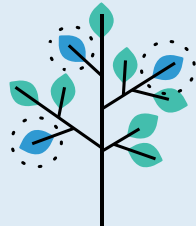
### > FIRST TURKISH BANK TO OBTAIN ISO 14001 CERTIFICATE

### > LAUNCH OF WWW.CEVRECİYİZ.COM PORTAL

### > LAUNCH OF ERET (ENVIRONMENTAL RISK EVALUATION TOOL)

## 2008

### > TURKEY'S FIRST CARBON NEUTRAL BANK



## 2009

### > FIRST BANK IN TURKEY TO BECOME A MEMBER OF THE UNITED NATIONS ENVIRONMENT PROGRAMME FINANCE INITIATIVE (UNEP FI)

### > SUBSIDIARY OF GLOBAL REPORTING INITIATIVE (GRI) AS A CORPORATE STAKEHOLDER

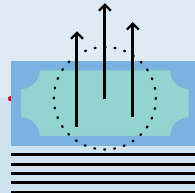
## 2010

### > PUBLISHING THE FIRST GRI-APPROVED SUSTAINABILITY REPORT IN THE FINANCIAL SECTOR

### > INVOLVEMENT IN THE CARBON DISCLOSURE PROJECT (CDP)

### > SIGNING OF THE GLOBAL COMPACT

### > MEMBERSHIP IN THE LONG TERM INVESTORS CLUB



## 2011

### > SUPPORTING THE "WATER DISCLOSURE PROJECT" (WDP)

### > FIRST PROGRESS REPORT UNDER THE UN GLOBAL COMPACT

### > ESTABLISHMENT OF TSKB SUSTAINABILITY CONSULTANCY-ESCARUS

### > FOUNDING MEMBER OF INTERNATIONAL DEVELOPMENT FINANCE CLUB (IDFC)

## 2012

### > FIRST TURKISH BANK TO BE GRANTED ISO 14064 GREENHOUSE GAS MANAGEMENT STANDARD CERTIFICATION. ESTABLISHMENT OF THE SUSTAINABILITY MANAGEMENT SYSTEM

### > ESTABLISHMENT OF THE LIST FOR SECTORS AND OPERATIONS NOT SUITABLE FOR LENDING (EXCLUSION LIST)

## 2013

### > GRI A+ SUSTAINABILITY REPORT

### > FOUNDING MEMBER OF THE EUROPEAN ASSOCIATION OF LONG-TERM INVESTORS (ELTI)



## 2014

### > ESTABLISHMENT OF THE SUSTAINABILITY COMMITTEE

### > DRAFTING OF THE SUSTAINABILITY POLICY AND COMPLEMENTARY POLICIES

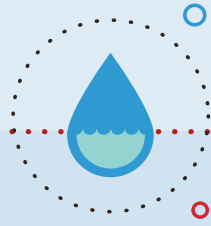
### > FIRST CARBON-NEUTRAL CONCERT OF TURKEY

## 2015

### > GRI G4 SUSTAINABILITY INDEX

### > INCLUSION IN THE BIST SUSTAINABILITY INDEX

### > SIGNING OF THE UN WOMEN'S EMPOWERMENT PRINCIPLES (WEPS)



## 2016

### > TURKEY'S FIRST GREEN/SUSTAINABLE BOND DEAL

### > TSKB'S STATEMENT ON CLIMATE CHANGE

### > INCLUSION IN THE FTSE4GOOD EMERGING MARKETS INDEX

## 2017

### > FIRST INTEGRATED REPORT OF THE TURKISH FINANCE SECTOR

### > FIRST SUSTAINABLE SUBORDINATED BOND IN THE WORLD





# Sustainability Management at TSKB

TSKB has structured its Sustainability Management System so as to mitigate environmental and social impacts from banking operations and support Turkey's transition to a low carbon economy while **BACKING THE COUNTRY'S SUSTAINABLE DEVELOPMENT** at the same time in a way to cover all business processes of the Bank. To this end, the entire system is managed via the Bank's Sustainability Policy.

Internalizing the environment and sustainability issues, the Bank published the "Environmental Policy," its first policy in this field, in June 2006 before revising the Environmental Policy as the Sustainability Policy in 2012. Currently, the Sustainability Policy of February 26, 2015 is in force. TSKB's Sustainability Policy is also supported by complementary policies published in this field.

The "List of Unfunded Operations" is published as an appendix to the "TSKB Environmental and Social Impact Policy," a complementary policy, and lists the sectors that are not funded by TSKB for the sake of responsible banking.

## SUSTAINABILITY COMMITTEE

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

This Committee convenes every three months with at least 50% participation and at least four times a year. In 2017, four meetings were organized in total.

The Sustainability Committee is supported by the Sustainability Subcommittee and working groups, of which representatives from various departments are active members.

## SUSTAINABILITY SUBCOMMITTEE

The Sustainability Subcommittee, which is established to spread sustainability operations to the entire Bank and integrate them with all business processes in parallel with the vision, strategy, goals and business plans of the Bank on sustainability and climate change, is composed of the managers of various departments and reports to TSKB's Sustainability Committee. Every year, clear and measurable annual goals of the Sustainability Subcommittee are determined and these goals are reflected on the performance assessment of all members.

## TSKB's Sustainable Banking Policies

### TSKB Sustainability Policy

#### Complementary Policies:

- > TSKB ENVIRONMENTAL AND SOCIAL IMPACT POLICY - LIST OF ACTIVITIES THAT ARE NOT TO BE FINANCED
- > TSKB OCCUPATIONAL HEALTH & SAFETY POLICY
- > TSKB HUMAN RIGHTS POLICY
- > TSKB SUSTAINABLE PROCUREMENTS MANAGEMENT POLICY
- > TSKB ANTI-BRIBERY AND ANTI-CORRUPTION POLICY - TSKB ANTI-BRIBERY AND ANTI-CORRUPTION PROGRAM

## WORKING GROUPS AND THEIR RESPONSIBILITIES

At TSKB, sustainability work is conducted by four different working groups affiliated with the Sustainability Subcommittee. In 2017, four working groups actively performed sustainability work. The responsibility of these working groups covers maintaining the certifications for ISO 14001 Environmental Management System Standard and ISO 14064, which is the international calculation and verification standard to restrict direct greenhouse gas emissions from banking operations, managing relations with sustainability indices which the Bank is a

part of, and delivering sustainability reports by considering the expectations of internal and external stakeholders and engaging in communication management. One of the common causes of the working groups is to organize internal training events/informative meetings in order to ensure capacity development for all employees of the Bank on sustainability. Some 10% of TSKB employees take part in sustainability working groups. The Sustainability Committee's goals are disseminated to every employee in this structure and taken into consideration within the employee performance appraisal.



## TSKB as a Signatory in the Field of Sustainability

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

- > CLIMATE ACTION IN FINANCIAL INSTITUTIONS AS PREPARED BY IDFC
- > DECLARATION ON TRANSITION TO A LOW-CARBON ECONOMY ISSUED BY ELTI MEMBERS UNDER COP21
- > WOMEN'S EMPOWERMENT PRINCIPLES (WEPS)
- > JOINT STATEMENT ON ENERGY EFFICIENCY ISSUED BY THE EBRD AND UNEP FI
- > GLOBAL COMPACT TURKEY - DECLARATION OF SUSTAINABLE FINANCE

# Corporate Governance

## Corporate Governance

**AT TSKB, CORPORATE GOVERNANCE AND FULL COMPLIANCE WITH LAWS** set the driver for sustainable economic performance, the framework for ethical and honest banking, and the main tool for balancing and maintaining stakeholder interests. Constituting the basis for TSKB's stable development, the corporate governance understanding is also a consequence of the Bank's developing all these processes based on integrated thinking.

The Board of Directors, CEO, senior management and the committees are the main components in TSKB's corporate governance organization. In addition, the Bank takes utmost care to establish structures in which all right holders and stakeholders, chiefly the employees and shareholders, can contribute to management.

TSKB has clearly defined policies, procedures, risk management principles and systems in place for core business fields, services and products. TSKB's existing IT infrastructure ensures that policies, procedures and systems are efficiently and rapidly internalized within the service cycle, all management reporting functions are delivered in the most efficient manner and the internal and external audit functions are performed completely.

Since 2009 when it was quoted on Borsa Istanbul (BIST) Corporate Governance Index, TSKB has been among the companies with the highest corporate governance rating in Turkey. The Bank's corporate governance rating stood at 9.53 over 10 in October 2017 then rose to 9.54. Continually updating its goals, the Bank's Corporate Governance Rating has always been high since 2009, an indicator that the Bank has fully institutionalized and internalized the matter.

***TSKB is among organizations with highest corporate governance rating since it was first rated in 2009.***

## Management Structure

In accordance with the Bank's Articles of Association and the laws of the Republic of Turkey, TSKB is controlled by the shareholders via the General Assembly. The Bank's statutes stipulate that the decisions made at the General Assembly can be adopted with the affirmative votes of the absolute majority of the votes present at the meeting on the condition that a quorum is ensured.

The Bank has eight Executive Vice President Offices and 28 Departments to be effective as of December 31, 2017. Of those Departments, 25 report to the General Management Office while the Internal Audit, Internal Control and Risk Management Departments directly report to the Board of Directors via the Executive Vice President reporting to the Audit Committee.



# Board of Directors

The Bank's Articles of Association provides that the Board of Directors be comprised of a minimum of five members to be elected by the shareholders at the General Assembly. The Chief Executive Officer is a natural member of the Board of Directors and appointed by the Board of Directors. Each Board member assumes office for a term of three years.

## MEMBERS OF THE BOARD OF DIRECTORS

**H. Ersin Özince** › Chairman  
**Mehmet Şencan\*** › Vice Chairman  
**Suat İnce** › Board Member and CEO  
**Yavuz Canevi** › Board Member  
**Mehmet Emin Özcan** › Board Member  
**Ebru Özsuca\*** › Board Member  
**Mithat Rende** › Board Member  
**Zeynep Hansu Uçar** › Board Member  
**Kamil Yılmaz** › Independent Board Member  
**Can Yücel** › Independent Board Member

## EXECUTIVE

For detailed information on the Bank's management structure, please visit <http://www.tskb.com.tr/en/investor-relations/bank-information/board-of-directors-seniormanagement>

<sup>(\*)</sup> Members of the Audit Committee were accepted as Independent Board Members as per the provisions of the Capital Market Board's Corporate Governance Communiqué No: II.17.1., Article 6/(3)-a.

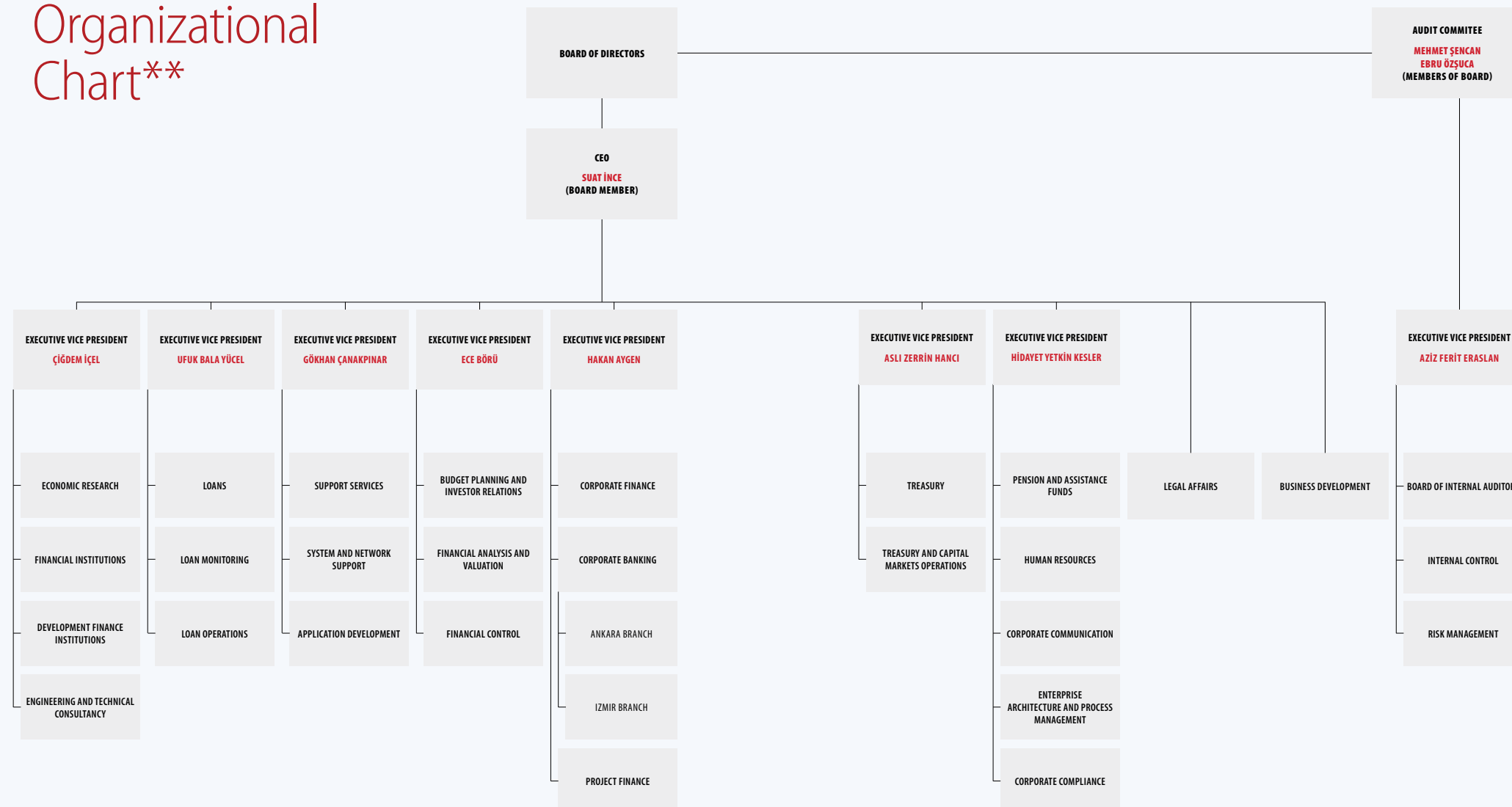
# Committees

TSKB Board of Directors has a Sustainability Committee established on its own initiative in addition to an Audit Committee, Corporate Governance Committee and Compensation Committee set up in line with banking and Capital Markets Board legislation.

Detailed information on the committees appears in the 2017 Annual Report and on the corporate website of the Bank.

The Bank's Internal Systems is composed of the Internal Control and Risk Management Departments and Board of Internal Auditors. The Internal Systems directly reports to the Board of Directors via the Executive Vice President for Internal Systems.

## Organizational Chart\*\*



<sup>(\*\*)</sup> As of 31 December 2017



# Audit, Control and Risk Management

The Internal Audit, Internal Control and Risk Management Departments, i.e. the Bank's Internal Systems, are responsible for analyzing and sharing with relevant bodies all potential risks that could possibly impact the Bank's business strategy and risk profile. The organization of Internal Systems is indicated below.

## Board of Internal Auditors

The Board of Internal Auditors directly reports to the Board of Directors via the Executive Vice President for Internal Systems and the Audit Committee and carries out the audit function that applies to all operations of TSKB and the affiliates thereof. To this end, the Department conducts audit, inspection and investigation work at the Bank's Head Office departments, branches and affiliates. In addition, the Department provides assurance in terms of the efficiency and adequacy of internal control and risk management systems as well as the accuracy, reliability, completeness and up-to-dateness of all financial and management information.

At the beginning of each year, the Board of Internal Auditors drafts a detailed internal audit plan that specifies the departments, affiliates and processes to be inspected and the projects to be attended as part of the internal audit operations for the following year and submits it to the Audit Committee and then the Board of Directors for approval. Internal audit and information technologies audit operations are performed by inspectors and information technologies

inspectors within the framework of the audit plan and in an unbiased and independent manner reflecting the required professional prudence.

Pursuing a risk-oriented and modern audit approach, the Board of Internal Auditors carries out risk assessment work that sets the basis for audit plans. In risk assessment, the risks the Bank is exposed to and relevant controls are considered to identify the priority areas for audit work and the frequency of audits. This ensures an efficient use of resources and a rapid and effective intervention in areas perceived as risky.

## Internal Control

TSKB's Internal Control System is structured in a way to continuously keep all financial and operational risks concerning the operations at a reasonable level and under full control.

The Internal Control Department is responsible for the presence of an internal control system that covers the entire control operations aiming to detect and manage, in advance, the risks the Bank might be exposed to in attaining its goals, conduct the Bank's operations efficiently and effectively, protect its assets, ensure compliance with the existing laws and regulations, and guarantee the reliability and integrity of the accounting and financial reporting system.

TSKB Internal Control Department has also integrated the prevention of laundering of the proceeds of crime and the financing of terrorism into its control operations to check compliance with the relevant legislation as well as the adequacy of the measures taken.

TSKB has ensured full compliance with current Turkish legislation on preventing the laundering of proceeds of crime and the financing of terrorism and works to seamlessly execute control, warning and other mechanisms required in business processes.

## Risk Management

TSKB's Risk Management Policies and the codes of practice pertaining to such policies are comprised of written standards set by the Board of Directors and applied by the Bank's senior management.

Under TSKB's Risk Management Policies, the main risks the Bank is exposed to are identified as credit risks, asset-liability management risks (market risk, structural interest rate risk, liquidity risk) and operational risks. The Risk Management Department has been established within the Bank to ensure compliance with the mentioned risk policies and the codes of practice pertaining thereto and manage the risks the Bank is exposed to in parallel with these policies.

TSKB Risk Management Department is actively involved in all processes regarding the management of risks and regularly reports to the Board of Directors, the Audit Committee, senior management and the relevant departments within the Bank. The roles, responsibilities and structure of the Department are set in the Regulation on the Risk Management Department.

- CREDIT RISK
- ASSET-LIABILITY MANAGEMENT RISK
- MARKET RISK
- STRUCTURAL INTEREST RATE RISK
- LIQUIDITY RISK
- OPERATIONAL RISK
- SUBSIDIARIES RISK MANAGEMENT
- OTHER RISKS

### CREDIT RISK MANAGEMENT POLICY

Credit risk is the probability of a credit customer or a party to an agreement therewith to fail to fulfil an obligation in line with the agreed conditions. Although the loans extended by the Bank are the most common and visible sources of credit risk, other banking services bearing counterparty risk also pose a credit risk. To this end, all the relevant banking operations are assessed to fall within the scope of credit risk.

The structure and characteristics of a loan, the provisions of loan agreements and financial conditions, the 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, concentrations (a single company, a group of affiliated companies, sector, country, etc.) and conformity with the limits set by the Board of Directors to prevent such concentrations are taken into consideration, measured and managed.

In measuring the credit risk, the Internal Rating-Based Model is duly employed to monitor and control the credit risk and issue advance warnings.

Maximum care is displayed in ensuring that the limits and policies adopted in agreements with foreign and domestic funders are not significantly different from the policies and limits set by the Bank. Although the articles in agreements differ from the existing policies, they are still binding.

### ASSET-LIABILITY MANAGEMENT RISK POLICIES

All financial risks arising from the Bank's assets and liabilities excluding the credit risk are defined as asset-liability management risks. Such risks include market risk for trading portfolio, structural interest rate risk and liquidity risk.

#### MARKET RISK MANAGEMENT POLICY

Market risk is the possibility of a loss being incurred by the portfolio or position accepted within the scope of the trading portfolio as a result of fluctuations of interest rates, share prices, commodity prices and exchange rates in financial markets. The aim of the market risk assessment is to maximize the risk-adjusted return of the Bank by managing the potential risks to be faced by the Bank in a proactive manner and in line with appropriate parameters.



Market risk is managed by using consistent risk measurements and criteria such as the level of fluctuation of interest rates and/or prices and Risk-Exposed Value calculations, establishing appropriate procedures for control and monitoring compliance with established risk limits and risk appetite.

Interest rate, exchange rate, share price, commodity price and settlement risks are the main elements of market risk. In order to contain these risks in a sound way, it is essential to manage the transactions executed in monetary and capital markets in a way to prevent any concentration in terms of instrument, maturity, currency, type of interest and other similar parameters and in a “well-diversified” way by considering the level of risk posed by these transactions. Moreover, creditworthiness of issuers of financial instruments that pose a market risk is duly considered.

The Bank uses two main approaches in the calculation of market risk: Standard Method of the BRSA and Risk-Exposed Value (REV) approach. The accuracy of the REV model is confirmed by way of back-testing. The said test is based on the comparison of calculated Risk-Exposed Value against incurred losses. In addition, stress tests are conducted to identify the impacts on Risk-Exposed Value of developments which will be highly damaging, although their occurrence is a low possibility.

**STRUCTURAL INTEREST RATE RISK MANAGEMENT POLICY**

Structural interest rate risk refers to the probable impact on a bank’s capital from potential changes in interest rates due to differences in the repricing period and interest structure for interest-sensitive assets and liabilities in banking accounts.

Structural interest rate risk is managed by providing all organizational levels with consistent information on structural interest rate risk by employing risk measurements and criteria such as fluctuation of interest rates, interest shock and stress test.

The inconsistency of asset/liability structure in terms of its repricing based on various currencies and within the set maturity terms is monitored and measured.

TSKB manages interest rate risk with the awareness that it is comprised of elements such as repricing risk, yield curve risk, basis risk, spread risk, option risk and jeopardizes the Bank’s income, capital, liquidity and reputation.

**LIQUIDITY RISK MANAGEMENT POLICY**

Liquidity risk is defined as the risk of failing to meet on-balance-sheet and off-balance sheet liabilities on time. A bank’s incurring a loss since it does not have the cash or cash inflow at a level and quality that compensate for cash outflows fully and timely is an example for liquidity risk.

In capital markets and trading operations, there are two main types of liquidity risks, namely funding liquidity risk and market liquidity risk. Funding liquidity risk is a risk that investment and funding requirements cannot be met on time or can only be met at an uneconomic price due to incongruities in cash flows. Market liquidity risk, on the other hand, means the risk that a bank fails to close out its positions on time or by bearing reasonable costs due to shallow markets, market disruptions and/or the bank’s inability to penetrate the markets.

To ensure effectiveness in liquidity management and maintain its sustainable position, it is essential to make a maximum use of diversification opportunities based on funding sources, markets, instruments and maturities.

In the management of liquidity risk, a portfolio structure that is congruous with the functions of yielding returns from the portfolio and market risk management is established and the risk return balance is continuously maintained without compromising on liquidity requirements.

**OPERATIONAL RISK POLICY**

Operational risk is defined as the risk of loss arising from the inadequacy of processes, people and systems or the defects or faults they have and from external events. This definition also includes compliance with laws and ethical standards.

Such risks are managed by performing specific controls for basic functionalities pertaining to the Bank’s operations and taking the required measures, establishing an appropriate internal audit system and mechanism to distribute the powers within the Bank, testing and controlling all operational systems of the Bank in detail, establishing full compliance between internal & external systems and having an independent data backup mechanism in place.

The Bank observes the principle of separating tasks and distributing functions to mitigate risks in relation to deliberate transactions, manipulations or errors. Minimum functions that need to be separated are: (i) initiating the transaction, (ii) authorization and approval, (iii) recording transactions, (iv) confirming transactions, (v) safekeeping services, (vi) monitoring and audit, and (vii) activities pertaining to the development of IT systems and to daily operations. It is essential to enter transaction information into the system by using IT applications the moment the transaction takes place.

The Basic Indicator Approach is employed in measuring operational risks.

**RISK MANAGEMENT POLICY AT THE SUBSIDIARIES**

Attention is given to ensure that the basic principles and standards related to risk management systems and processes observed at TSKB are also observed at the subsidiaries to the same extent, and the Consolidated Risk Policies are set and approved by the Board of Directors. It is essential for subsidiaries to internalize such policies and implement the minimum risk management systems and processes for risk management on a consolidated basis, and comply with the risk limits set at the Group level.

**POLICIES ON OTHER RISKS**

Other risks include model risk, which is defined as the risk of loss resulting from a failing design in models employed by the Bank in pricing, lending, risk measurement, and other processes and/or from problems suffered in the implementation of such models; strategy risk, which arises from defective or untimely decisions; and reputation risk, which can be defined as damage to the Bank’s reputation in the market and in the eyes of the customers. These risks are included in TSKB’s Risk Management Policies document to ensure that the awareness level in relation to such risks are improved.

**ENSURING SYSTEMIC FOLLOW-UP OF EXCLUDED PERSON LISTS**

Within the framework of national laws and international regulations as well as the commitments the Bank undertakes to institutions and organizations that it has correspondence and funding source relations with, the Bank is responsible for monitoring the national and international exclusion lists and sanction decisions and conducting exclusion and sanction checks in all its operations.

To perform more comprehensive and systematic exclusion and sanction checks for this process which was carried out partially manually before 2016, a system that will be integrated with all systems of the Bank, enabling making of queries with most comprehensive details in all current exclusion lists and running automatic checks on query screens by using multiple data during transaction has been established.

To this end, checks will be carried out more systematically, savings from both workload and time will be attained and our Bank’s risk in detecting transactions subject to exclusion and sanction will be minimized.

# Assessment of Materiality Analysis and Stakeholder Communication





# Materiality Analysis

## STAKEHOLDER COMMUNICATION

TSKB builds different communication platforms for each stakeholder group and attaches great importance to engaging in sustainable dialogue with them. Feedback from stakeholders provides guidance on a myriad of matters ranging from identification of the strategic priorities of TSKB to setting the relevant policies, from business models to social responsibility projects. TSKB employs the following methods in its communication with stakeholders.

### SHAREHOLDERS

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

### CUSTOMERS

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

### EMPLOYEES

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

### SUBSIDIARIES

Board Meetings  
Joint Project Work  
Executives' Meetings

### FINANCIAL INSTITUTIONS

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

### SUPPLIERS

Corporate Meetings  
Feedback for Satisfaction Surveys  
Periodic Reporting and Assessments

### REGULATORY BODIES

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

### BANKING SECTOR

Meetings under Sectoral Association Memberships  
Corporate Cooperation

### MEDIA

Press Meetings  
PDP and Bulletin Communication  
Columns

### NGOs

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

### UNIVERSITIES

Career Workshop  
Sustainability Workshop  
Thematic Course Contents

## STAKEHOLDER ANALYSIS

Focusing on creating value for Turkey's sustainable development, TSKB sets its corporate priorities in all sustainable banking operations in line with the expectations of its stakeholders.

In addition to the contacts and meetings with all stakeholder groups, TSKB also conducts regular stakeholder analysis. With its business model and customer portfolio focused on development banking, TSKB conducts stakeholder analyses every two years. This report takes as basis the stakeholder analysis conducted in 2016. The Bank's stakeholder analysis will be updated in 2018.

The stakeholder survey was conducted as an on-line survey that covered the priority areas identified under seven different headings and the relevant applications under each heading and was widely responded to by stakeholders. Stakeholder groups responding to the stakeholder analysis are as follows:

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

As a result of the stakeholder analysis survey, matters highly important for the main stakeholder groups are examined in the prioritization matrix.

## ASPECTS OF MATERIALITY ANALYSIS

In an on-line survey, stakeholders were requested to rank the seven headings below according to importance degree in terms of TSKB's sustainability priorities.

<b>SUPPORTING UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS AND FINANCING THE COMBAT AGAINST CLIMATE CHANGE</b>	<b>Financing investments such as renewable energy, energy and resource efficiency, sustainable tourism, waste management and innovation investments and effective cooperation with national and international funders to this end</b>
<b>MEASURING AND MANAGING ENVIRONMENTAL AND SOCIAL RISKS IN ALL INVESTMENT PROJECTS</b>	<b>Measuring the environmental and social risks in all investment projects, a responsible lending approach that observes various dimensions such as compliance with environmental regulations, efficiency, biodiversity, occupational health and safety and human rights</b>
<b>FULL COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES AND EFFECTIVE RISK MANAGEMENT</b>	<b>An ethical, fair, transparent, responsible and accountable management understanding, an effective and active risk management (capital, operational, credit, asset-liability risks)</b>
<b>IMPROVING CUSTOMER SATISFACTION</b>	<b>Satisfying customers' expectations through appropriate cost, effective lending and high service quality</b>
<b>CREATING RESPONSIBLE AND SUSTAINABLE GROWTH AND INCOME</b>	<b>Return on equity, sustainable growth, robust capital adequacy ratio, high asset quality and effective management of the liquidity position</b>
<b>INVESTMENT IN HUMAN CAPITAL</b>	<b>Training/development, compensation, effective performance management, striking a balance of work/social life</b>
<b>CONDUCTING SOCIAL RESPONSIBILITY PROJECTS FOR SUSTAINABILITY</b>	<b>Raising awareness on sustainability through collaboration with employees, the business world, initiatives at universities, nongovernmental organizations and the public sector</b>



RESULTS AND ASSESSMENT OF MATERIALITY ANALYSIS

Stakeholder analysis indicates the following priorities for TSKB Management and all stakeholders:

PRIORITIES OF TSKB MANAGEMENT

*in order of importance*

- 1. Creating responsible and sustainable growth and income,
- 2. Improving customer satisfaction,
- 3. Measuring and managing environmental and social risks in all investment projects,
- 4. Complying fully with Corporate Governance principles and effective risk management,
- 5. Investing in human capital,
- 6. Supporting United Nations Sustainable Development Goals and financing the combat against the climate change,
- 7. Conducting social responsibility projects for sustainability.

The results of the 2016 Stakeholder Analysis display a compatible outlook between the priorities of the TSKB management and the main goals and strategies of TSKB, a bank with a mission to operate for Turkey’s economic development. The most significant priority to this end is creating responsible and sustainable growth and

income. A robust financial performance is the first and top priority way to continue financing high quality development investments. Provision of sustainable funds from international financial institutions and channeling such funds to the investments of the Turkish private sector in the most reliable manner are two goals standing out under this priority.

In all banking services it delivers to customers, TSKB acts with an understanding of long-term partnership and considers it a high priority goal to sustain operations with a view to creating maximum added value for investments and investors.

TSKB’s experience in relation to Turkey’s sustainable development is the basis for its responsible lending approach. The measurement and management of environmental and social risks in all investment projects are among the Bank’s highest priorities.

TSKB aims to ensure full compliance with the Corporate Governance principles that set the basis for sustainable banking and once again highlights its permanent policy for fair, transparent, accountable and responsible banking.

PRIORITIES OF ALL TSKB STAKEHOLDERS\*

*in order of importance*

- 1. Measuring and managing environmental and social risks in all investment projects
- 2. Complying fully with Corporate Governance principles and executing effective risk management
- 3. Supporting United Nations Sustainable Development Goals and financing the combat against the climate change,
- 4. Creating responsible and sustainable growth and income
- 5. Investing in human capital
- 6. Improving customer satisfaction
- 7. Conducting social responsibility projects for sustainability

Considering the environmental and social risks of investments and financing the combat against climate change are two key priorities for TSKB’s customers, business partners, the financial institutions it cooperates with and the initiatives it is a member of as well as its employees.

<sup>(\*)</sup>This also includes the employees of TSKB.

The Bank placed sustainability on its agenda at an early phase in the finance sector and has launched many leading practices while allocating an increasing amount of funding to renewable energy, energy and resource efficiency investments in addition to environmental investments. TSKB has emerged as a most experienced business partner, launching projects to create a solution to climate change.

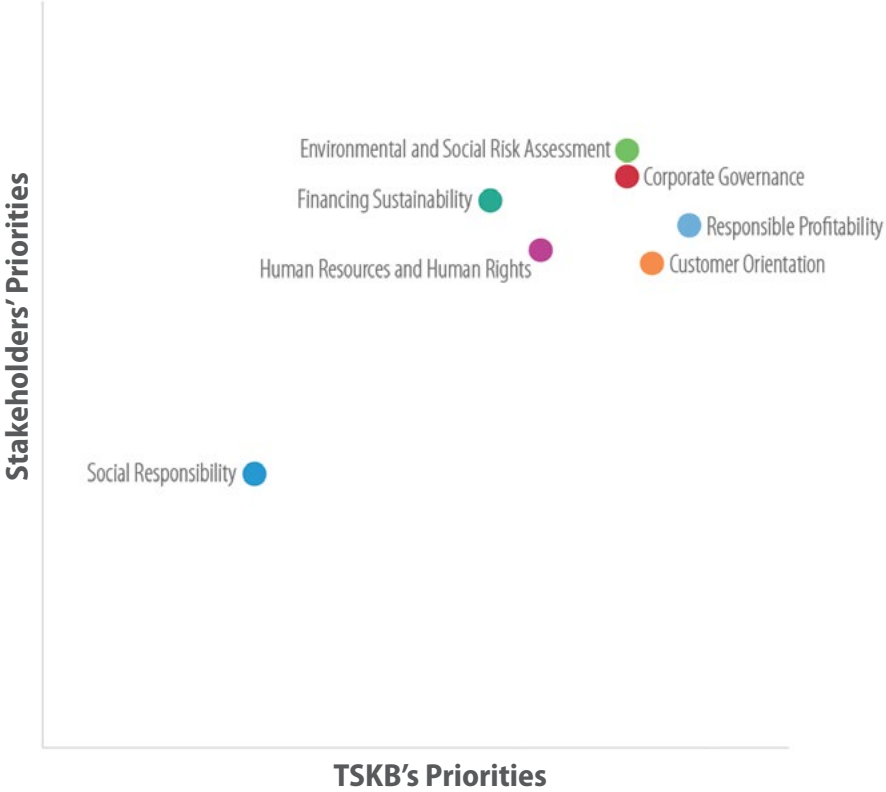
The awareness of TSKB’s human capital and business world stakeholders in this sense strengthen the Bank’s sustainability strategy.

TSKB’s commitment to corporate governance principles overlaps with stakeholders’ expectations and supports the Bank’s strategy to grow by creating value for the country’s economy.

REFLECTING PRIORITY AREAS IN THE INTEGRATED REPORT

**In identifying TSKB’s priority areas, the decisive factors in TSKB’s sustainable business model were considered in addition to the comprehensive prioritization analysis containing the opinions of stakeholders. To that end, trends, Sustainable Development Goals and the focus on economic and social inclusiveness are among key factors. Therefore, the integrated report provides details on certain matters such as Social Responsibility that were not listed as a top priority in the prioritization analysis and handles them within the perspective of Sustainable Development Goals and inclusiveness.**

Materiality Matrix



# Capitals

*The Integrated Reporting Framework of the International Integrated Reporting Council (IIRC) is taken as basis in terms of Capital in the TSKB Integrated Report.*

*The value created by TSKB is analyzed under six capital categories, namely financial, human, natural, intellectual, manufactured and social capital, and how priority matters are transposed to the business model, performance and goals is reflected.*

*Key performance indicators and forward-looking goals are explained in detail under various headings including but not limited to financial outcomes, resource diversity, sector expertise, tailored products and services, sustainability loans, zero carbon banking, qualified human resources, equal opportunities, social responsibility projects and exchange of experience.*

# Capitals

## VALUE FOR TSKB

## VALUE FOR SOCIETY

## KEY PERFORMANCE INDICATORS (2017)

<b>FINANCIAL CAPITAL</b> <ul style="list-style-type: none"> <li>Diversity of funds</li> <li>Provision and lending of medium- and long-term funds</li> <li>Access to state-guaranteed funds</li> <li>Robust capital</li> </ul>	<ul style="list-style-type: none"> <li>Increasing in allocated funds</li> <li>Increasing loan volume</li> <li>Financial sustainability</li> <li>Robust stock performance and increasing investor interest</li> </ul>	<ul style="list-style-type: none"> <li>Contributing to sustainable development</li> <li>Reliable solution partner for stakeholders</li> <li>Structured products that respond to customer needs</li> <li>Supporting inclusiveness</li> </ul>	<ul style="list-style-type: none"> <li>A portfolio, 82% of which consists of investment and APEX loans</li> <li>Cost-to-Income ratio of 12.5%</li> <li>Return on Equity ratio of 18.4%</li> </ul> <b>68%</b> RATIO OF SUSTAINABILITY THEMED LOANS IN LOAN PORTFOLIO
<b>HUMAN CAPITAL</b> <ul style="list-style-type: none"> <li>Investing in employees</li> <li>Equal opportunities</li> <li>Social benefits</li> <li>Employee clubs</li> </ul>	<ul style="list-style-type: none"> <li>Qualified workforce</li> <li>Competitive edge</li> <li>Employee satisfaction and engagement</li> <li>The Great Family of TSKB</li> </ul>	<ul style="list-style-type: none"> <li>Signatory to projects providing added value to the society</li> <li>Contributing to social equality</li> <li>Qualified workforce</li> <li>Contributing to employment</li> </ul>	<ul style="list-style-type: none"> <li>Management staff: Female: 55%, Male: 45%</li> <li>Average training hours per person: 50</li> <li>Participation rate for satisfaction survey: 78%</li> </ul> <b>55%</b> FEMALE EMPLOYEE RATIO
<b>NATURAL CAPITAL</b> <ul style="list-style-type: none"> <li>Evaluating environmental and social impact in lending processes</li> <li>Zero Carbon Banking</li> <li>Focusing on sustainability loans</li> </ul>	<ul style="list-style-type: none"> <li>Responsible banking approach that funds and meets the needs of stakeholders</li> <li>Improving reputation in the eyes of stakeholders</li> <li>Mitigating and managing environmental and social risks</li> </ul>	<ul style="list-style-type: none"> <li>Contributing to low-carbon and environmentally friendly economic growth and development</li> <li>Making a difference in the business world</li> <li>Contribution to renewable energy, energy and resource efficiency practices in Turkey</li> </ul>	<ul style="list-style-type: none"> <li>Support to annual CO<sub>2</sub>e emission reduction by 12 million tons</li> <li>Offsetting 15,000 tons of carbon footprints of stakeholders in the last three years</li> <li>100% green energy use and carbon neutral bank</li> </ul> <b>15%</b> TSKB'S SHARE IN RENEWABLE ENERGY INVESTMENTS IN TURKEY
<b>INTELLECTUAL CAPITAL</b> <ul style="list-style-type: none"> <li>3-disciplined evaluation and analysis power based on technical, financial and economic perspectives</li> <li>Sector expertise</li> <li>Ability to develop themes and products suited for needs</li> <li>Power of affiliates having various expertise</li> </ul>	<ul style="list-style-type: none"> <li>Innovative products and services</li> <li>Low rate of non-performing loans</li> <li>Revenue diversification</li> </ul>	<ul style="list-style-type: none"> <li>Solution-oriented banking services</li> <li>Integrated solutions for our customers and affiliates</li> <li>Sector reports with a global perspective</li> </ul>	<ul style="list-style-type: none"> <li>First subordinated sustainable bond in the world</li> <li>First integrated report in the Turkish finance industry</li> <li>Participating in sustainability indices</li> </ul> <b>SUSTAINABLE EUROBOND WORTH USD 300 MILLION</b>
<b>MANUFACTURED CAPITAL</b> <ul style="list-style-type: none"> <li>A compact campus compatible with the corporate operation structure</li> <li>IT infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>Efficiency improvement in business processes</li> <li>Institutionalizing the Bank's knowledge</li> </ul>	<ul style="list-style-type: none"> <li>Timely and fast response to customer needs</li> <li>Increasing customer satisfaction</li> </ul>	<ul style="list-style-type: none"> <li>Efficiency in processes</li> <li>Integrated service building with affiliates</li> <li>Healthy, efficient and ergonomic work environment</li> </ul> <b>12.5%</b> COST-TO-INCOME RATIO (BANKING SECTOR AVERAGE 38.2%)
<b>SOCIAL CAPITAL</b> <ul style="list-style-type: none"> <li>Long-term and efficient communication with stakeholders</li> <li>Social responsibility projects</li> <li>Exchange of experience</li> <li>Membership and cooperation with initiatives</li> </ul>	<ul style="list-style-type: none"> <li>Improving reputation in the eyes of stakeholders</li> <li>National and international recognition</li> <li>Power to attract a qualified workforce</li> <li>Internal capacity increase</li> </ul>	<ul style="list-style-type: none"> <li>Contributing to a qualified workforce</li> <li>Creating awareness in stakeholders in terms of climate change and sustainability</li> <li>Supporting equal opportunities and gender equality in society</li> <li>Exchange of opinions and knowledge with public authorities on legislative arrangements</li> </ul>	<ul style="list-style-type: none"> <li>Supporting female participation in the workforce through the scholarship fund called Empower through Education</li> <li>Raising awareness for sustainability via <a href="http://www.cevreciyiz.com">www.cevreciyiz.com</a></li> <li>Supporting art through IKSİV Istanbul Music Festival Concerts</li> <li>Supporting culture through excavations in the ancient city of Patara</li> <li>Inclusive approach to employee volunteering through TSKB Volunteers</li> </ul> <b>30%</b> RATE OF TSKB VOLUNTEERS IN EMPLOYEES



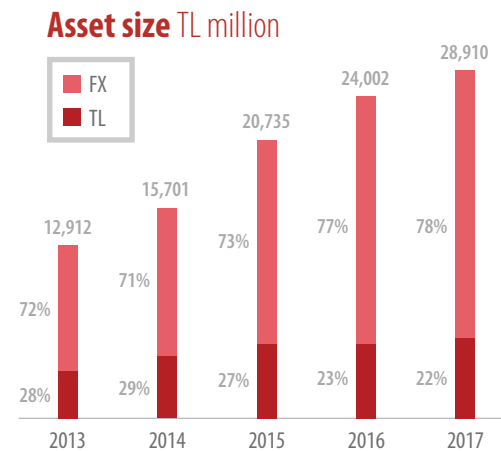
# Financial Capital

*TSKB's financial capital includes the products and services the Bank provides to its customers through its funds as well as the added value it creates via its corporate culture while extending such funds. The Bank's organizational structure, which is focused on the economy and development, enables it to evaluate and extend the funds it has in line with this goal.*



# 23%

Average asset growth over the last five years

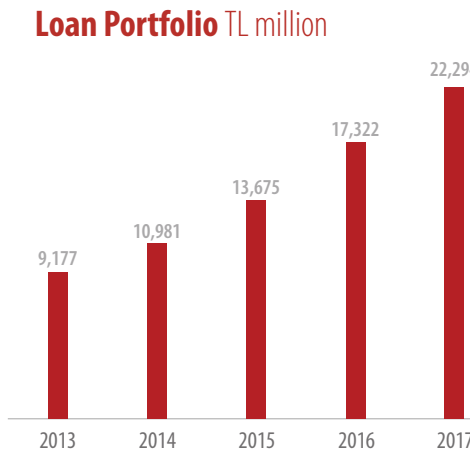


Ranks 15<sup>th</sup> in the sector with an asset size of TL 29 billion

17% market share in development and investment banking in terms of asset size

# 26%

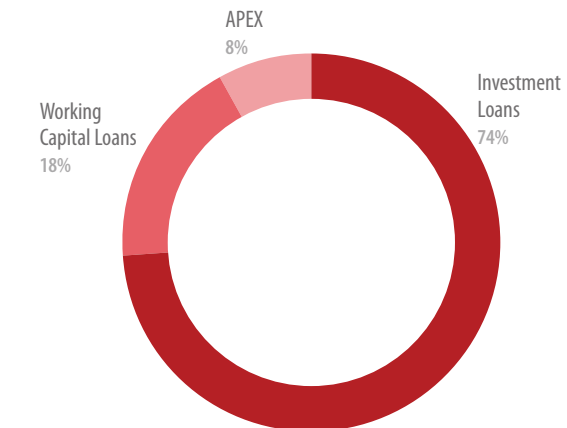
Average loan growth over the last five years



# 74%

Share of investment loans

**Loans by Type**



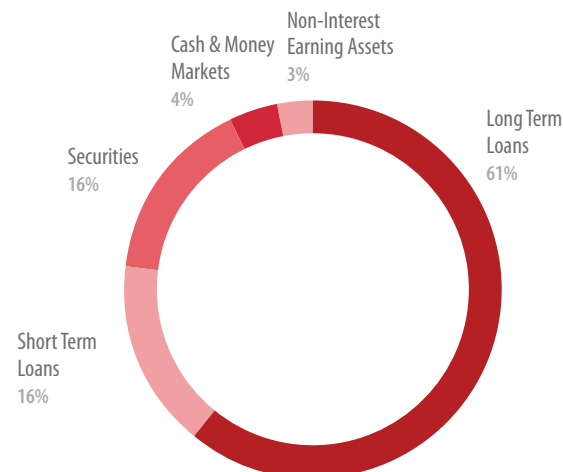
# 5.3 years

Average Loan Term

# USD 15 million

Average Loan Portfolio

**Asset Composition**

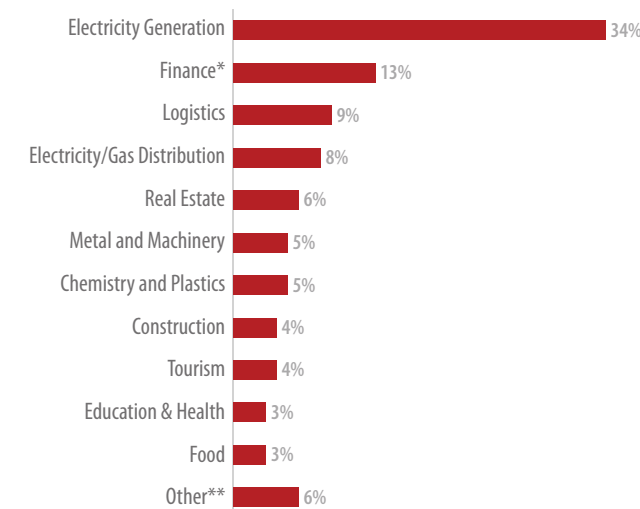


# 77%

Average Loan/Asset Ratio over the last five years

A market share of 39% in the development and investment banking sector in terms of mid and long term FX loans

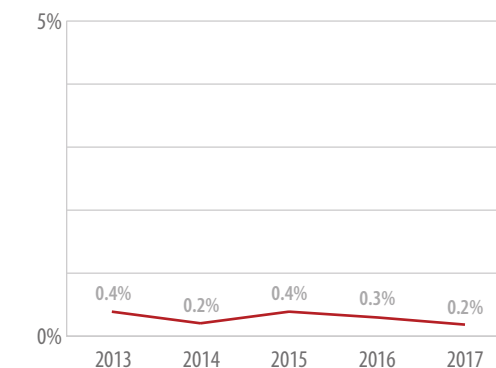
**Sectoral Breakdown of Loans**



\* Includes APEX Banking.

\*\* Automotive 1.6%, textiles 1.9%, Other 4.4%.

**Percentage of Non-Performing Loans**

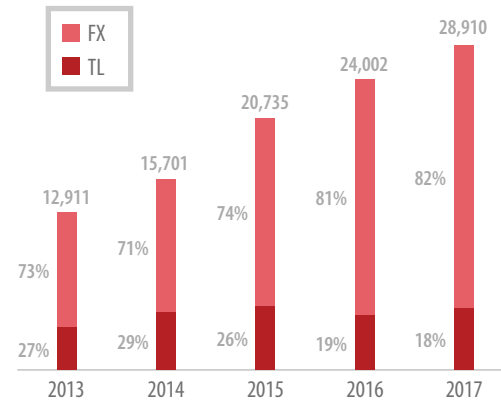


# 0.3%

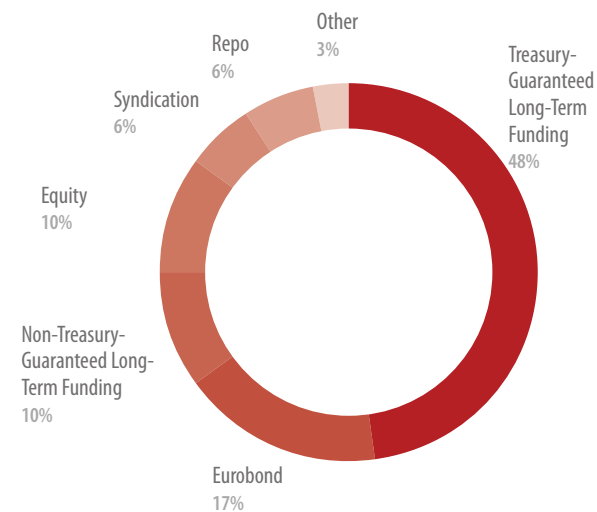
Average NPL rate over the last five years

87% of Total  
Funding is  
Long-term

### Total Liabilities TL million



### Composition of Liabilities



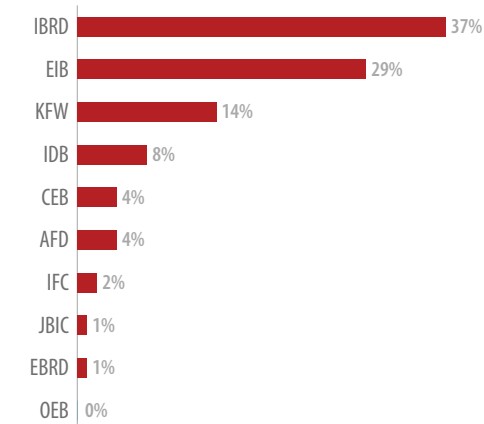
USD  
6.5  
billion

Total funding

USD  
1 billion

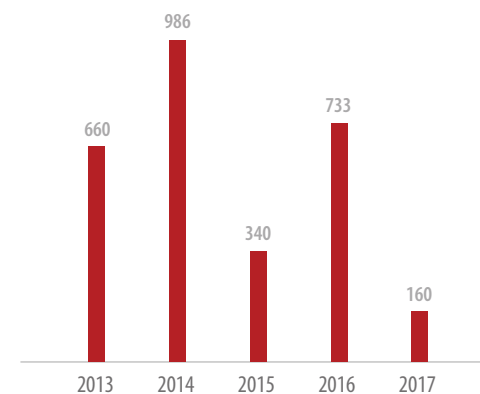
Total Eurobonds issued

### Distribution of Thematic Long-Term Funding with respect to DFIs<sup>(\*)</sup>

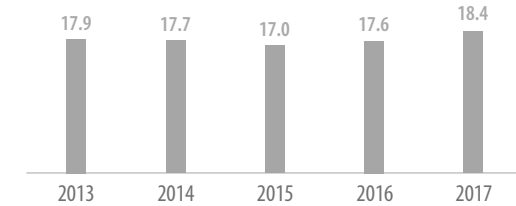


(\*) DFI: Development Finance Institutions

### Funding Agreements signed with DFIs (USD million)



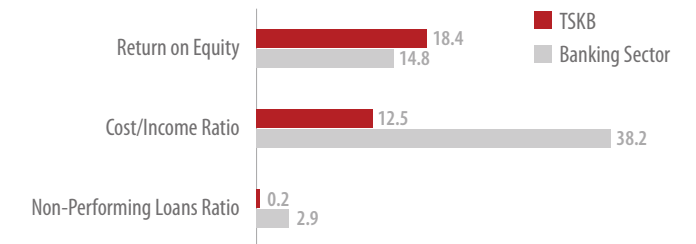
### Return on Equity %



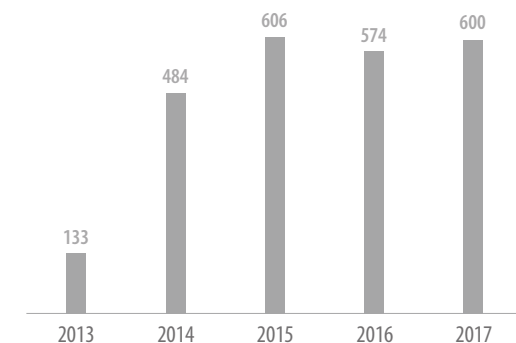
18%

Average ROE over the last five years

### Outstanding Ratios relative to the banking sector %



### Funds raised through syndication facilities and from debt/capital markets (USD million)





# Highlights

## ROBUST GROWTH OF ASSETS

In 2017, TSKB's total asset size rose to TL 28.9 billion with an increase of 20% on a year-on-year basis. About 78% of TSKB's assets were comprised of foreign currency (FX) assets and the Bank's capital adequacy ratio stood at 17.1% despite the Turkish lira depreciating in 2017.

## A LOAN PORTFOLIO SIZE POWERING THE REAL ECONOMY

TSKB has a strong loan portfolio and the Bank's total loan volume grew by 29% on a TL basis and 15% in FX-adjusted terms in 2017. Such growth was in parallel with the sector average in FX loans and, as a result, the Bank's total loans stood at about TL 22.3 billion while the loans-to-total assets ratio was 77%.

## LINES OF CREDIT EXTENDED TO CLIENTS TOTALED USD 4.5 BILLION

As a result of successful operations in 2017, TSKB allocated a cash and non-cash credit line of USD 4.5 billion (excluding APEX) to its customers and signed new loan agreements amounting to a total of USD 2.4 billion.

## A 25% INCREASE IN THE NUMBER OF ACTIVE CUSTOMERS

In 2017, TSKB continued to gain new customers as a result of active marketing activities. Posting a 25% increase in the number of active customers, the Bank signed 44% of loan agreements with new customers.

## CASH LOAN DISBURSEMENT OF USD 1.9 BILLION

In 2017, TSKB disbursed total loans of USD 1.9 billion including APEX loans to its customers. In the same period, APEX loans extended stood at USD 230 million.

## ASSET QUALITY THAT ENABLES GROWTH TARGETS

TSKB is the embodiment of trust and confidence in the eyes of its stakeholders thanks to its robust capital structure and maintains healthy asset quality. The ratio of the Bank's non-performing loans was at a low 0.2% as of the end of 2017.

## A KEY PLAYER IN DEVELOPMENT AND INVESTMENT BANKING

As of 2017 year-end, TSKB ranked second among development and investment banks in terms of asset size and had a market share of 37% in long-term FX loans.

## SUBORDINATED SUSTAINABLE BOND ISSUANCE

In 2017, TSKB issued its first subordinated bond, which was also a Subordinated Sustainable Bond and was thus crowned as the first of its kind in the world. The bond issuance worth USD 300 million was four times oversubscribed through investor diversification, reflecting the long-term confidence investors had in the Bank's issuance.

## A SUSTAINABLE NET PROFIT INCREASE

TSKB has a sustainable financial performance. The Bank's net profit for 2017 was TL 596 million with an increase of 25% year-on-year. TSKB's return on equity stood at 18.4% as of the end of 2017 while its return on assets was 2.3%.

## SUPPORTING ENVIRONMENTAL AND SOCIAL INFRASTRUCTURE PROJECTS

Sustainability loans attained a weight of 68% within the total loan portfolio of TSKB. In 2017, lending operations predominantly focused on renewable energy projects. The Bank also added two new themes into the type of investments it finances, namely occupational health and safety, and women's employment.

## SHARE OF INVESTMENT LOANS STANDS AT 74%

Throughout the year, TSKB extended not only investment loans but also short-term lending products to respond to the daily working capital needs of its customers. As of 2017 year-end, investment loans, working capital loans and APEX loans constituted 74%, 18% and 8% of the total loan portfolio, respectively.

A total of 90% of the loan portfolio is comprised of FX loans, with 49% being in USD and 41% in EUR. The share of TL loans within the total loan portfolio rose from last year's 7% to 10% as of the end of 2017.

## MEDIUM AND LONG-TERM LOANS HAVE A SHARE OF 79% IN TSKB'S LOAN PORTFOLIO

TSKB extends medium-term and long-term loans to its customers in line with its vision to be the leading bank in Turkey's sustainable development. As of 2017 year-end, an analysis of TSKB's loan portfolio shows that 21% of the loan portfolio is comprised of loans with a maturity of less than one year and 51% is comprised of loans with a maturity of five years and longer.

On the other hand, 49% of the loans having a maturity of five years and longer is loans with a maturity of more than eight years. At TSKB, the average loan maturity is 5.3 years and the average loan amount is USD 15 million.

## ESSENTIAL EXPERTISE IN PROJECT FINANCE

TSKB has key experience and know-how in project finance and enjoys a market share of 4.5% according to December 2017 data published by the Banks Association of Turkey.

Under 2017 project finance operations, TSKB lent cash loans worth about USD 600 million. Funding for power generation plants received the highest share within the cash loans extended under project finance operations. Similar to the previous year, other sectors getting a share from lending were power distribution zones, privatization finance, purchases, real estate, tourism and utilities sectors.

In addition to long-term investment loans, 2017 operations also included working capital loans on short-term and medium-term maturities to meet the operational needs of project finance customers.

In 2018, it is expected that key items on the the project finance agenda will include the financing of: PPP projects for integrated health campuses; private investments for wind, solar and geothermal power plants and biomass plants; other utilities investments, chiefly in the transportation sector; and corporate mergers and acquisitions.

*TSKB has a strong loan portfolio. The Bank's total loan volume grew 29% on TL basis and 15% in fx-adjusted terms in 2017.*

## RENEWABLE ENERGY SECTOR AND TSKB

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



### A TOTAL INSTALLED CAPACITY OF 5,693 MW FINANCED

Since 2002, TSKB has been supporting the renewable energy projects in our country through long-term funding. The Bank has a market share of 7% in energy loans. The energy projects financed by TSKB range from hydropower plants to solar, wind and geothermal power plants. The total estimated installed capacity for the 245 projects financed stood at 5,693 MW, which represents 15% of Turkey's total installed capacity in renewable energy.

In 2017, renewable energy projects, chiefly geothermal and solar power plants, followed by wind and biomass power plants, were given weight. Between 2015 and 2017, the Bank financed geothermal power plant investments of 264 MW and solar power plant investments of 93.5 MW. An overall analysis of the loan portfolio shows that, at year-end, the total weight of energy sector within TSKB's loan portfolio remained almost the same. In the upcoming period, it is expected that the investments for geothermal, biomass and solar power projects will continue at the same pace and the Bank's funding support to such projects will be increased.

Some 84% of the power plant projects receiving funding from the Bank by 2017 year-end started generating power. The total installed capacity of the commissioned projects was 4,722 MW. While the total investment amount in power plant projects funded between 2003 and 2017 was USD 9.6 billion, the amount of loans TSKB allocated to these projects was around USD 4.1 billion.

### FUNDING SERVICES FOR RESOURCE EFFICIENCY

For the last eight years, TSKB has been supporting efforts to improve resource efficiency in our country's private sector by offering medium-term and long-term funding. The Bank extended funding of approximately USD 900 million for 131 projects on energy and raw material efficiency as well as production processes and waste management.

Energy and resource efficiency projects represented 6% of TSKB's loan portfolio as of 2017 year-end. In a cycle when combating climate change gradually becomes more important, TSKB anticipates that the importance of resource efficiency including energy efficiency will increase further.

### SUPPORT FOR SMES

Since the day it was established, TSKB has supported of SMEs, the heart of Turkish economy. SMEs are evaluated according to the funding criteria of financial institutions. The Bank not only responds to working capital needs of SMEs but also finances the investments of these firms in a variety of fields ranging from technology upgrade investments to capacity development, and from energy efficiency to environmental projects. As of 2017 year-end, the share of SME loans within the total portfolio stood at 19%.

### NEW SOCIAL THEMES

Following a funding agreement it signed with the French Development Agency (AFD) in December 2016, TSKB added two new funding themes to its present portfolio, namely "occupational health and safety" and "women's employment." The said funding was used to support the occupational health and safety investments of firms operating in Turkey in 2017 and finance the investments by firms that observe gender equality in working environment and provide opportunities for women to join the workforce.

### ALWAYS STANDING BY THE REAL ECONOMY

Shaping its operations within a mission to produce effective solutions for long-term funding needs of private sector customers, TSKB makes a high quality contribution to the sustainable growth of the Turkish economy. The Bank extended total direct funding of USD 8.2 billion to the real sector over the last five years in sectors such as renewable energy, energy efficiency, utilities and logistics.

Taking USD 654 million worth of APEX loans lent to SMEs into account, the total funding extended to the real sector reaches USD 8.9 billion.

### STRONG SUPPORT TO TURKEY'S DEVELOPMENT TO CONTINUE IN 2018

In 2018, funding of investments that will support sustainable development goals in a way to prioritize investments by firms supporting women's employment, highlighting environmental and occupational health and safety, transferring human and cash capital to R&D investments, and targeting energy and resource efficiency will continue, and the customer portfolio will be expanded. When renewable energy is concerned, it is considered that the financing of not only unlicensed Solar Power Plant (SPP) investments but also licensed SPP investments will bear potential in 2018. Furthermore, the Bank has plans to increase lending to firms operating in the prioritized sectors of chemicals, textiles, automotive supply industry, machinery and health care.

### A BALANCED NON-CASH LOAN PORTFOLIO

Brokering for letters of guarantee, import and other foreign trade transactions as required by investment and utilities projects, TSKB offered its customers total non-cash loans of USD 590 million in 2017. Throughout the year, the Bank focused on responding to the non-cash loan needs of its customers in the power distribution, power generation, metal and machinery sectors.

### WELL-ESTABLISHED EXPERIENCE IN MONEY AND CAPITAL MARKETS

In 2017, the average asset size of TSKB in TL, excluding affiliates, reached TL 7.1 billion, a 10% year-on-year rise on average. The most significant increase when compared to 2016 was observed in TL loans and TL lending through swap transactions. In the management of TL liabilities, repo transactions continued, and the average repo was worth approximately TL 1.7 billion. Furthermore, a cost advantage was gained through transactions on the swap market. Structured long-term TL borrowing transactions through pledging securities from the Securities Portfolio continued in 2017.

The Bank's cash capital was used to invest in risk-free and high-return securities. Some 61.5% of the Securities Portfolio was comprised of CPI-indexed and other floating-rate securities while 38.5% was comprised of fixed-rate securities. In 2017, the amount of purchases was about as much as redemptions in the TL Securities Portfolio. In order to reduce the duration of the portfolio in an environment of rising interest rates, purchases were concentrated on short-term discount bonds. The average portfolio duration was reduced down to three years, and the high return of the Bank portfolio was maintained in a period of rising interest rates, resulting in a yield of 12.5% which is above the sector average. The share of private sector bond investments which are performed selectively within TL securities declined to 5.5%. There was no significant change in the size of FX Securities Portfolio.

In 2017, the Bank employed an active marketing strategy targeting its customers and outperformed its goals for Derivative Transactions and Treasury Sales income. As was the case in past years, a significant portion of income originated from derivative transactions. In 2017, the number of customers for whom derivative transactions were performed increased by 85% year-on-year.

### AN INDISPENSABLE PLAYER IN CORPORATE FINANCE

Contrary to the downward trend in the Turkish mergers and acquisitions market, the Bank brokered the successful completion of two major M&A transactions in 2017. The first of these transactions was the selling of a leading Turkish company in animal health to a U.S.-based pharmaceutical giant with TSKB acting as the exclusive advisor to the seller. For the second transaction, TSKB provided buyer's advisory services to a chemical company which acquired three companies.

In 2017, new momentum was attained in the field of private sector bond issuances through issuances for non-bank financial institutions. The Bank also brokered five issuances by major companies operating in the factoring and asset management sectors. In 2018, it is expected that five bond issuances will be completed.

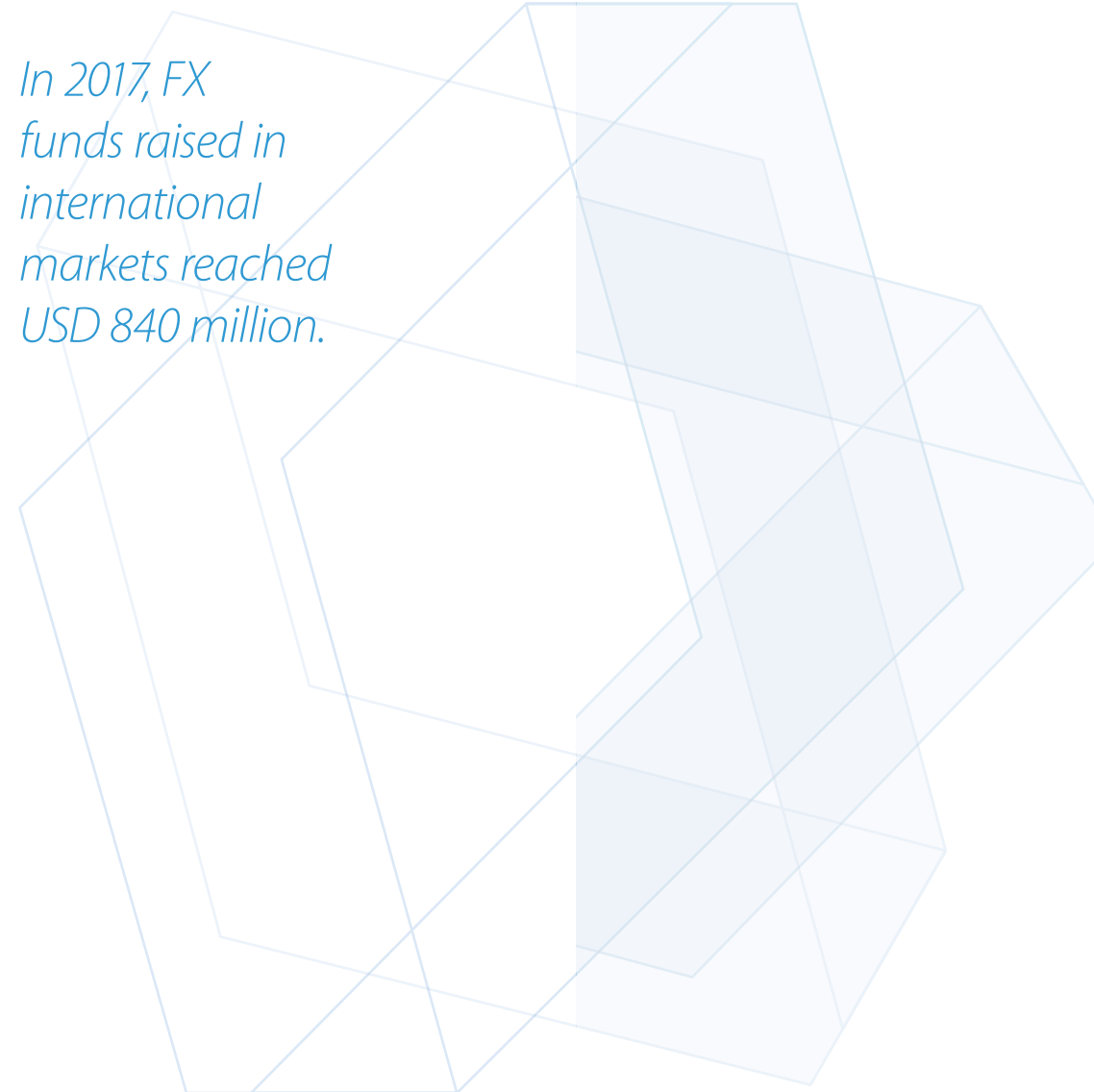
Regarding IPOs, three IPO transactions were completed in 2017, the first of which was successfully carried out in January. In 2017, contacts were made with companies from various sectors in terms of IPO advisory, and assessments were made.

In 2018, it is expected that IPOs will continue in the market depending on the prevailing conditions, and there will be efforts to actively market advisory services to companies having a scale that is suitable for a public offering. There are plans to complete at least one IPO transaction during 2018.

### LONG-TERM AND ESSENTIAL RELATIONS WITH FINANCIAL INSTITUTIONS

TSKB's ability to secure medium-term and long-term funding and stable relations with financial institutions are two major components of its sustainable banking strategy and value creation process. TSKB, which was established with the initiation of the World Bank in 1950, has had continuous and sustainable relations with national and development financial institutions since the day it was founded. Such strong and stable relations and the high quality and long-term funds they provide have a significant place in the Bank's value creation process. TSKB has facilitated access to international high-quality funding, and considers its capacity to provide medium-term and long-term funds as a key component in its sustainable banking strategy. TSKB will continue to improve its relations with development finance institutions further and support Turkey's sustainable development journey.

*In 2017, FX funds raised in international markets reached USD 840 million.*



### LONG-TERM RELATIONS WITH DEVELOPMENT FINANCE INSTITUTIONS

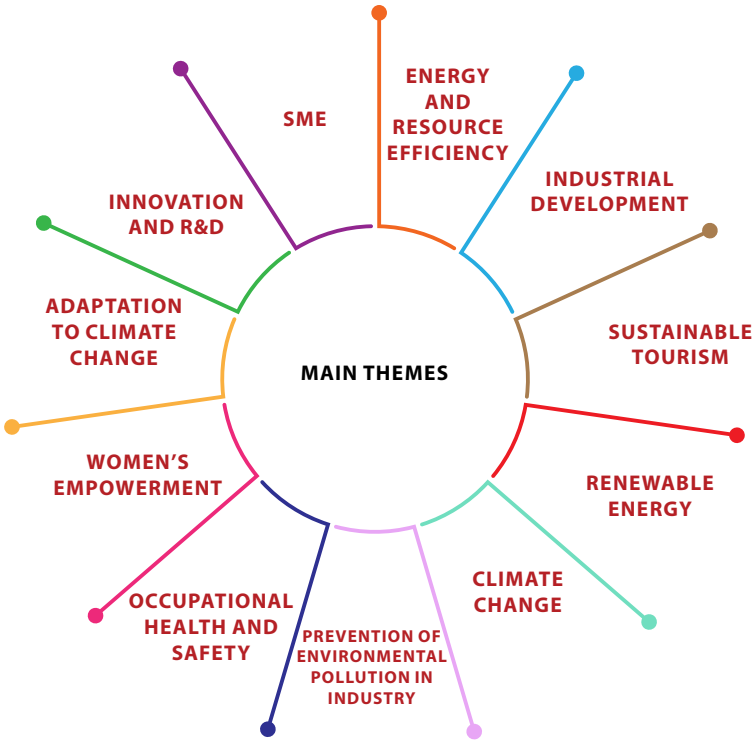


<sup>1</sup> Relations started back in the 1970s when TSKB intermediated IsDB's capital contribution to small and medium-size industrial projects by the Turkish private sector and were formalized at the beginning of 1980.

<sup>2</sup> Relations started when TSKB joined the EIF as a shareholder in 2006 but the first business relationship was established in 2016.



THEME FUNDS OBTAINED FROM DEVELOPMENT FINANCE INSTITUTIONS



Throughout 2017, TSKB successfully continued its efforts to obtain new funds from development finance institutions. The total amount of funding agreements on a specific theme that are signed during the year stood at USD 160 million. Details on the said funds are provided below.

IFC-SUSTAINABLE CLIMATE LOAN

TSKB signed a Sustainable Climate Loan agreement worth USD 75 million on a 7-year maturity with the International Finance Corporation (IFC). The Bank aims to extend the said funds for the financing of investments on renewable energy, energy and resource efficiency, production of recycling and energy/resource efficiency equipment and end-user or intermediate products ensuring energy/resource efficiency, production of renewable energy equipment, green buildings, occupational health and safety, innovation and R&D, and adaptation to climate change.

EBRD-MIDSEFF III (MID-SIZE SUSTAINABLE ENERGY FINANCING FACILITY III) LOAN

In December, the Bank signed a “MidSEFF III Loan” agreement with the European Bank for Reconstruction and Development (EBRD).

This USD 85 million funding on a 7-year maturity will be used to support the financing of mid-size renewable energy and resource efficiency investments around Turkey.

BOND ISSUANCES AND SYNDICATED LOANS

Starting to work with international markets in addition to development finance institutions in the provision of funds, TSKB has been extending syndicated loans since 2005 and issuing bonds since 2014.

SYNDICATED LOAN

On July 4, 2017, TSKB signed a syndicated loan agreement under the coordination of Commerzbank Aktiengesellschaft, Filiale Luxemburg that was participated by a total of 18 banks including Bayerische Landesbank, which also acted as the facility agent. Participated by three new banks, the syndicated loan worth USD 300 million was extended on a 367-day maturity and comprised of two different tranches, one in EUR and the other in USD. The loan was renewed at a renewal rate of 108%.

FIRST SUBORDINATED SUSTAINABLE BOND ISSUANCE IN THE WORLD

In March 2017, TSKB issued its first subordinated bond, which was also a Subordinated Sustainable Bond and was thus crowned as the first of its kind in the world. Regarding the issuance, a 2-day roadshow was held in London and Frankfurt with around 20 investors participating in the events. In total, 117 investors participated in the issuance process. An analysis of the regional distribution of investors shows that 68% were from the United Kingdom, 20% from Europe, 7% from Asia, 7% from the USA (off-shore accounts) and 3% from the Middle East. The bond issued was worth USD 300 million on a 10-year maturity in accordance with Regulation S with an option for early redemption at year five. The issuance of the Basel III-compliant subordinated bond was four times oversubscribed.

TSKB's Syndicated Loans

YEAR	LOAN RENEWAL RATE	NUMBER OF PARTICIPATING BANKS	NUMBER OF NEW BANKS PARTICIPATING	TOTAL AMOUNT BORROWED (US DOLLARS)	MATURITY
2013	133%	11	4	133 million	364 days
2014	100%	13	5	134 million	364 days
2015	190%	17	5	256 million	367 days
2016	107%	16	2	274 million	367 days
2017	108%	18	3	296 million	367 days

Bond Issuances by TSKB

ISSUANCES	DATE OF ISSUANCE	MATURITY OF ISSUANCE	END OF MATURITY	AMOUNT OF ISSUANCE (US DOLLARS)
TSKB Eurobond 2019	October 27, 2014	5 years	October 30, 2019	350 million
TSKB Eurobond 2020	April 22, 2015	5 years	April 22, 2020	350 million
TSKB Green/SRI Bond 2021	May 18, 2016	5 years	May 18, 2021	300 million
TSKB Sustainable Tier II 2022	March 28, 2017	10 years	March 29, 2027	300 million

This strengthened the Bank's capital against possible fluctuations in the future. The Bank continues its operations in line with its growth strategy in a sound manner.

DRAFT ISSUANCES AND BILATERAL BORROWING AGREEMENTS

As part of cash flow management, funds totaling about USD 80 million are extended to finance foreign trade throughout the year.

In addition to the funding agreements signed in 2017, the Bank issued a Basel III-compliant Sustainable Tier-II Bond worth USD 300 million, extended a syndicated loan amounting to USD 300 million with a renewal rate of 108% and also issued other borrowing instruments, making the total FX-denominated funding it obtained on international markets USD 840 million.



MAIN INDICATORS FOR TSKB’S APEX LOANS

NAME OF PROGRAM	YEAR	AMOUNT AGREED	(AS OF 2017 YEAR-END) NUMBER OF BENEFICIARY COMPANIES	CURRENT STATUS OF THE PROGRAM
<b>SME and Export Support</b>				
Innovative Access to Finance Project Loan (IA2F)	2014	USD 250 million	223	Ongoing
<b>Export Support</b>				
EFIL IV Supplementary Loan	2011	USD 300 million	137	Completed
EFIL IV	2008	USD 300 million	133	Completed
EFIL III	2005	USD 305 million	168	Completed
EFIL II	2004	USD 303 million	211	Completed
<b>SME</b>				
TSKB FUNDING	2017	EUR 150 million	114	Ongoing
CEB V APEX	2016	EUR 100 million	-	Ongoing
CEB IV APEX	2013	EUR 100 million	416	Completed
CEB III APEX	2010	EUR 100 million*	223	Completed
KfW APEX	2004	EUR 7.7 million	54	Completed
EIB APEX	2005	EUR 150 million	343	Completed

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

LEADERS IN APEX BANKING IN TURKEY

TSKB is the leader of APEX banking in Turkey. In the 2017 operating period, the Bank continued to extend to its customers the international special-theme APEX funding it procured. In addition to its existing cooperation with leasing companies and commercial banks under APEX banking, TSKB has also started to work with participation banks and factoring companies for the first time in Turkey under the “Innovative Access to Finance Project Loan” (IA2F) secured from the World Bank in 2014. Furthermore, in 2016, the Council of Europe Development Bank provided a loan to our Bank and the Development Bank of Turkey (TKB) under the same program with a view to financing the investments of micro, small and medium-sized firms around Turkey to be made in order to create new employment opportunities or maintain current levels of employment. To this end, end users are provided with

co-financing through leasing companies under the cooperation of our Bank and TKB. Moreover, the practice of providing funding to leasing companies started in 2017 by using the proceeds of debt repayments which were secured from funding agencies and granted by TSKB. To date, TSKB has carried out effective business processes in cooperation with 30 brokerage houses under APEX banking.

In 2017, the total of loans extended via APEX banking reached USD 230 million and the share of such loans within the total portfolio stood at 8%.

The preferred business partner in our country for the World Bank under its EFIL (Export Finance Intermediation Loan) program between 2004 and 2011 and under IA2F loan programs in 2014, TSKB extended total loans of USD 1,208 million to 649 firms under four different

EFIL programs it was actively involved in and to 223 firms under the IA2F program which is still underway as of end-2017. EFIL loans aim to not only support operations to boost exports by firms but also create new business areas and increase employment. Under the “Innovative Access to Finance Project Loan (IA2F)” agreement, the working capital and investment expenditures of private sector SMEs and mid-size exporting companies operating around Turkey were financed.

Through other APEX loans it secured from development finance institutions, TSKB works via commercial banks and leasing companies to extend SME loans that contribute to increasing employment. To this end, 1,150 SMEs were provided with total loans of USD 483 million. Moreover, the total number of new employment opportunities created through “SME and Export Support” and “SME” funds amounted to 5,899.

2017 PERFORMANCE OF TSKB STOCKS

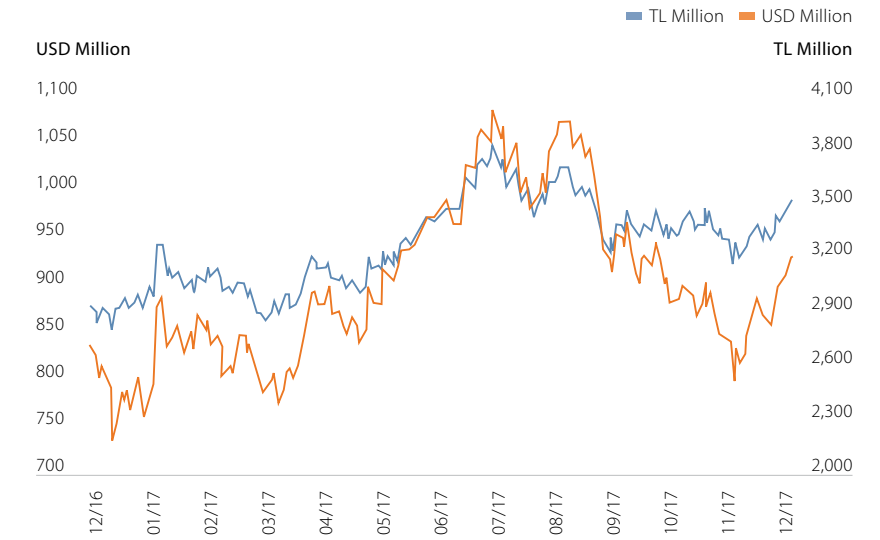
TSKB has made a key contribution to the formation of capital markets in Turkey. The Bank’s shares were publicly offered back in 1986. TSKB shares are traded on BIST Stars under the ticker “TSKB.” Furthermore, TSKB retains its position on the BIST Corporate Governance Index, BIST Sustainability Index and FTSE4Good Emerging Markets Index. The free float ratio for TSKB shares is 39%.

TSKB’s market value stood at TL 2.9 billion (USD 828 million) at 2016 year-end but increased by 23% to stand at TL 3.5 billion (USD 921 million) at 2017 year-end. The daily transaction volume stood at an average of TL 9.7 million over the last 12 months. At year-end, the Bank’s market value/ book value ratio was 1, and the price/earnings ratio was 5.8.

The percentage of free float TSKB shares held by foreign investors is 55.3%. The shareholders list obtained from the Central Securities Depository Institution (CSD) in March 2017 indicates that, among foreign investors holding TSKB shares, American investors hold the lead by 38% of shares, followed by investors from the United Kingdom, Luxembourg and Norway by 15%, 10% and 9%, respectively.

Several domestic and international brokerage houses closely monitor and report on TSKB shares. As of 2017 year-end, the Bank is under the coverage of 17 brokerage houses. All of the said brokerage houses recommended ‘BUY’ on TSKB shares.

TSKB’s Market Capitalization



Source: Finnet

	2015	2016	2017
TSKB Closing Share Price*	1.06	1.17	1.45
Change (%)**	-10.0	10.7	23.8
BIST Banking Index	119,917	129,549	170,352
Change (%)**	-24.6	8.0	31.5
BIST-100 Index	71,727	78,139	114,480
Change (%)**	-16.3	8.9	46.5
Relative to BIST Banking Index (%)	19.3	2.4	-5.8
Relative to BIST-100 Index (%)	7.5	1.6	-15.5

Source: Finnet

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

(\*\*) Year-to-date change.



# Human Capital



# Employee Satisfaction and Loyalty is the Priority

**TSKB BELIEVES THE BEST BUSINESS DEVELOPMENT IS POSSIBLE THROUGH THE OBSERVATIONS AND FINDINGS OF THE PEOPLE** within an organization. To this end, employee satisfaction surveys are conducted periodically. Through such surveys, TSKB regularly measures the satisfaction and engagement levels of its employees, creates a routine platform where they can submit their ideas and suggestions, and takes action in line with improvement goals.

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

In 2016, 307 employees responded to the employee satisfaction survey. The participation rate was 96%.

TSKB's efforts to improve employee engagement was reflected in the survey results. A comparison of 2016 and 2017 surveys indicates the following points:

- Employee engagement improved by 1.3% during last year.
- Previously delivering rather poorly among findings, cooperation and teamwork appeared to be on the rise. Survey questions on cooperation and teamwork are as follows:
  - At TSKB, interdepartmental solidarity and cooperation exist in addition to an efficient teamwork.
  - At TSKB, our managers encourage teamwork.
  - Whenever I need, I can easily ask for and get support from other departments I work with.

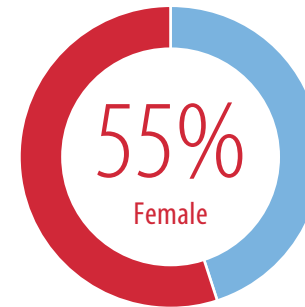
The aim is to continue working on this aspect via interdepartmental field work and team coaching activities.

According to the 2016 survey, there is an increase in employee satisfaction and engagement. Priority development areas for the period following 2018 were determined as career planning, cooperation and teamwork, communication between departments and performance management. An independent HR consultancy company has initiated efforts for this matter. To this end, competences are reviewed, global human resources applications are assessed and revealing the organizational career development plans of the employees is aimed.

**Starting from 2017, the employee engagement dimension was also added digitally to the goals of the management and included in the performance system, an indicator of the importance the Bank attaches to the matter.**

## Gender breakdown of Board Members

### MANAGEMENT STAFF



### BOARD OF DIRECTORS



### COMMITTEE MEMBERS UNDER THE BOARD



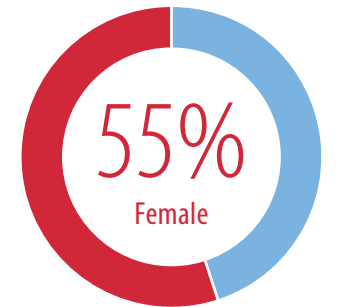
### EXECUTIVE MANAGEMENT



### EXECUTIVE VICE PRESIDENT



### TOTAL EMPLOYEES



## Equal Opportunity

TSKB pursues a human resources policy that is based on diversity and equal opportunities and acts in accordance with technical and personal competence criteria at the recruitment, training and development, performance and career management, compensation and promotion stages. The fact that 55% of banking staff is female is a concrete indicator of the human

resources policy that is based on diversity and equal opportunities. Moreover, with 55% women in management positions, TSKB is distinguished positively. TSKB aims to support decision-making women's attendance to various committees and has voluntarily committed to increasing the rate of female Board members to 25% by the end of 2018.

The Bank has a performance-based promotion system focusing on equal opportunities. Continuous work is underway on the development journeys of employees and on their preparation for senior positions with a priority on performance and success.



# Training Programs

**TSKB AIMS TO DEVELOP HUMAN CAPITAL THROUGH** tailored training programs required for specialized banking. To this end, various training and development activities are carried out to improve both technical and professional knowledge as well as personal skills of employees.

- > Career Workshop programs are run for recent graduates who join the Bank.
- > Orientation and coaching processes are applied to ensure a rapid adaptation of TSKB's new employees to the Bank.
- > During the 2-year Development Workshop program, managers are offered training programs in relation to both personal development and management skills as well as competences.
- > One-on-one coaching as well as a training program abroad are provided to Department Heads under the Management Development Program.

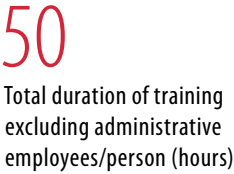
## CAREER WORKSHOP AND MT PROGRAM

TSKB runs meticulous work under its goal to "train its own managers" and holds a Management Trainee (MT) Program each summer to train future experts and managers. The Bank runs tailored training programs to prepare the management

trainees it employs for the positions they will assume at TSKB. Since 2010, a total of eight Career Workshops have been held, 28 courses have been provided to 307 participants and 104 MTs have been trained.

**DEVELOPMENT WORKSHOP** This is a program that aims to prepare TSKB employees for the next stage in their careers. The Development Workshop runs over 2 years and identifies the developmental areas of each participant. From this point on, a training program is

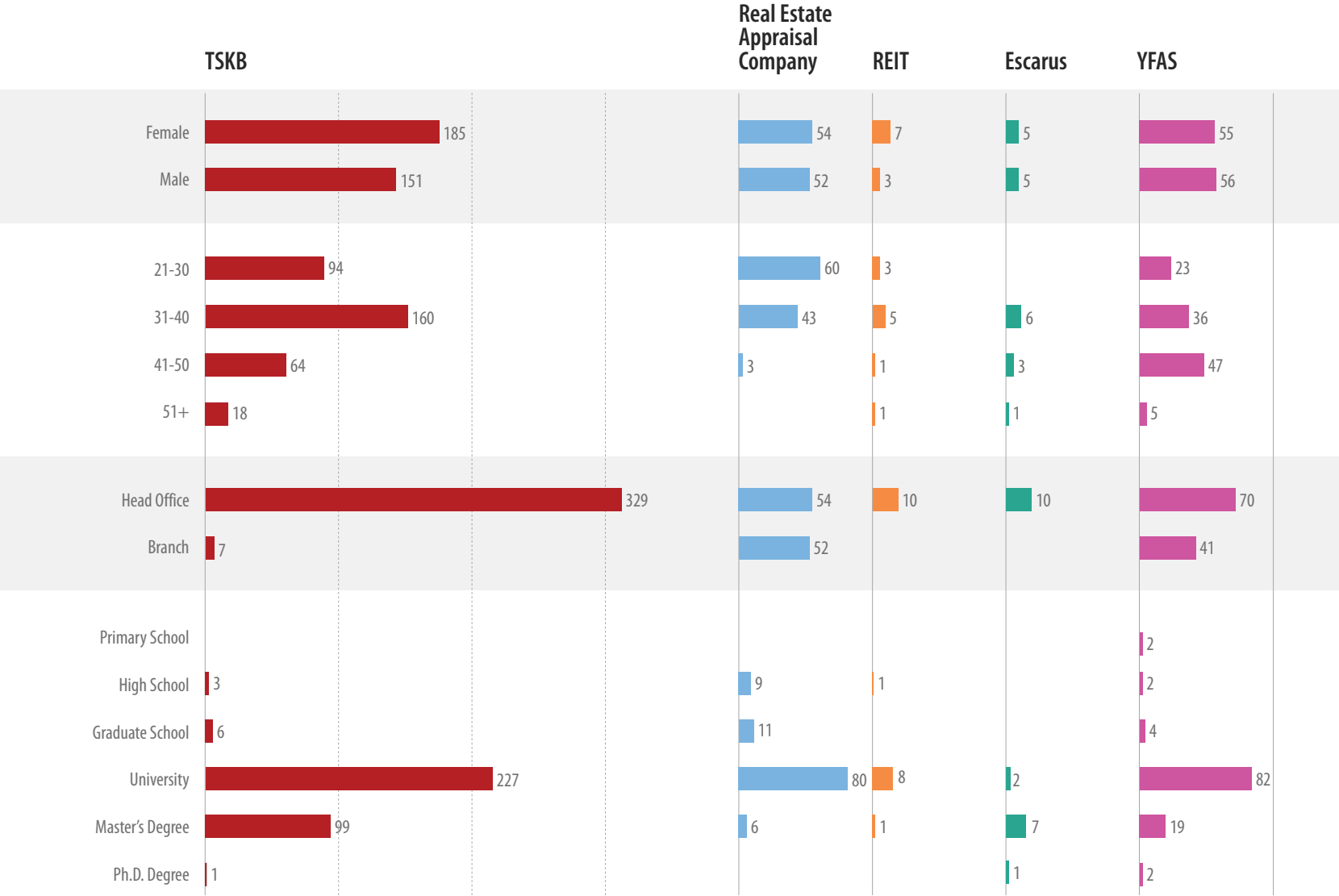
designed based on TSKB competences. The program is made up of five main modules, and focuses on the development of various competences in each module. The second phase of the program started in May 2016 and will complete in May 2018. Some 45 participants in total, comprising 27 women and 18 men, are attending the program. 75 hours of training is planned for each participant. Department managers attended the program to learn with which information the employees are equipped and to speak the same language with them.



# Our Workforce in Numbers

**A QUALIFIED WORKFORCE IS ONE OF THE MOST IMPORTANT ELEMENTS OF TSKB'S BUSINESS MODEL.** TSKB employees, distinguished thanks to their level of education and expertise, ensure the Bank assumes the leading role in a diverse range of fields.

TSKB offers its employees a working environment where human rights are respected, equal opportunities are provided and initiatives are encouraged. The Bank supports this environment through innovative training programs, internal communication work and social benefits.



## Employee Clubs

In addition to supporting the intellectual development of its employees, TSKB actively supports various clubs to contribute to employees' social lives, increase motivation in the working environment and reinforce the synergy within the organization. Furthermore, employees are brought together at various platforms such as "Future Vision" meetings, sustainability talks, managers meeting, foundation cocktail, new year's dinner, and IKSVM Music Festival, which the Bank sponsors every year.

**40%**

**FIT-TSKB**

**Rowing Team**

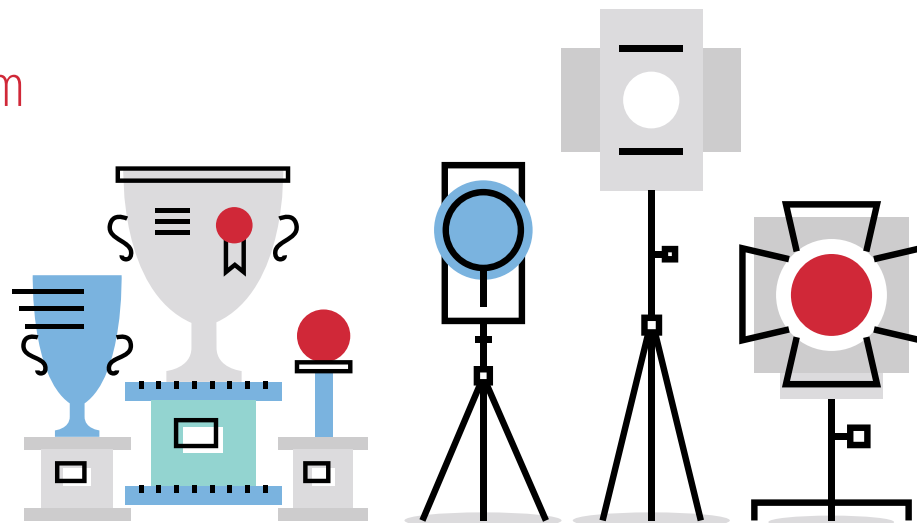
**Table Tennis**

Some 40% of TSKB employees takes part in the table tennis, rowing and marathon teams.

**10%**

### Photography Workshop

The 9-month program consists of technical courses, photography excursions, assessment meetings and seminars. In 2016, the Workshop had its first graduates, the works of whom were displayed at TSKB Art Corridor. Moreover, TSKB's 2017 calendar bears photos taken by workshop participants. Some 10% of TSKB staff participates in the Photography Workshop.



### STEPS TO CHARITY WITH FIT-TSKB

In 2017, TSKB initiated its FIT-TSKB project in order for its employees to adopt a healthier lifestyle and spend quality time with each other. Starting with body measurements, FIT-TSKB continued with healthy life seminars and group runs with trainers. Participants of FIT-TSKB got together and ran on predetermined routes during weekends and after working hours. Participants, who took 6.5 million steps in April and March, covered a distance of approximately 7,000 km for the social responsibility aspect of the project. The total kilometers covered were converted into donations to the Turkish Foundation for Children in Need of Protection - Koruncuk which used the donations to allocate a "Mind Games Room" in Koruncuk Village established by the said foundation in Urla. Thus, with the participation of 25% of TSKB employees, FIT-TSKB earned a corporate volunteer identity that turned steps into benefaction. (For other corporate volunteering activities of TSKB, please see the TSKB Volunteers heading.)

### INTERNAL SEMINARS

TSKB organizes internal seminars in order to share recent developments in development banking with all its employees at every level. To this end, matters such as the latest developments in solar energy, carbon markets and inclusiveness were discussed at Sustainability Meetings in 2017. In addition, seminars on the approach to the housing sector and economic expectations were organized through TSKB's economic and sector expertise. Sustainability Meetings and other internal seminars will continue to be a significant information and meeting place for TSKB employees in the future.

### TSKB-TUBE: THE CHANNEL FOR TSKB FAMILY

TSKB utilizes the power of digital platforms in order to strengthen communication between departments, share the latest developments and raise awareness. Various content from introductory films for departments to educational material, interviews prepared by the employees on recent events and entertaining videos are offered on TSKB-TUBE, a video channel opened on TSKB Intranet web site.

### PERFORMANCE, COMPENSATION, REWARD AND SOCIAL BENEFITS

Sustainability and efficiency are key concepts in TSKB's human resources approach. Therefore, all TSKB employees are assessed objectively via the Performance Management System and supported for their continuous development thanks to

various training programs. Furthermore, TSKB applies an egalitarian Remuneration Policy that is coordinated with the performance assessment system and is sensitive to the market. The Bank conducts all employee assessments free from any kind of difference (gender, mental/physical handicap, age, race, religion, language, sect, faith, cultural or social class) and reflects the same approach in compensation and reward mechanisms.

### PENSION FUNDS / QUALITY HEALTHCARE SERVICES

At TSKB, two pension funds offer different social security options: TSKB Employees Assistance and Pension Foundation established in 1964 and TSKB A.Ş. Employees Supplementary Social Security and Assistance Foundation founded in 1994. TSKB, 52 years ago, founded social security systems that were based on good practices around the world and offered comparative advantages to employees, thus transposing its "sustainability" and "leadership" aspects in investment and development banking into social security. TSKB pension funds deliver all commitments on healthcare and pension to around 1,400 people including members and the dependents of the members. TSKB pension funds serve their members with pension and retirement bonus products as long as they are alive and the dependents if the members pass away.



# Natural Capital

*The importance TSKB attaches to natural capital manifests itself in the operations created by the sustainable banking concept, specifically since the 2000s.*

*TSKB's process and methodology for assessing external impacts provides added value to both the organization and society in the following areas:*

- > Increasing renewable energy investments in the country*
- > Reducing carbon emissions/energy needs through efficiency loans*
- > Raising awareness on behalf of all stakeholders, mainly the clients*
- > Ensuring that the funded projects make positive contributions to the environment and social life and bring about a positive impact for the country and society*
- > Strengthening the sustainable banking image of the Bank*
- > Periodically measuring and decreasing internal impacts*

## SUPPORT TO TRANSITION TO A LOW CARBON ECONOMY WITH SUSTAINABILITY INVESTMENTS

### RENEWABLE ENERGY PROJECTS

Since the mid-2000s, TSKB has been contributing to the structuring of the renewable energy and distribution sectors via the funding and provision of consulting services.

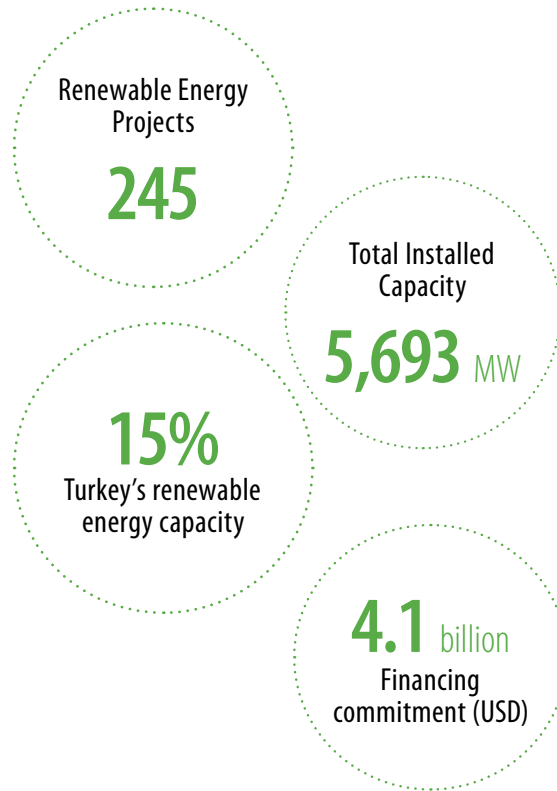
Renewable energy projects which TSKB has been providing substantial funding since 2002 continue to serve the transition of Turkey from the current fossil fuel based power generation systems to clean and renewable energy resources. TSKB is among the Turkish banks that fund the highest number of renewable energy projects in the Turkish banking sector. The Bank has to date funded 245 renewable energy projects, thus contributing to a reduction of approximately 8.6 million tons in the total annual carbon emissions of Turkey.

Clean and renewable energy will continue to be a priority sector for TSKB in 2018 and beyond. In line with a directly proportional increase in the demand for energy with economic growth, TSKB's priority goals include supporting investments based on renewable energy resources in terms of supply security and sustainable development in accessibility.

In 2018, TSKB will continue to support projects combating climate change and leading the way to transition to a low carbon economy.

<sup>(\*)</sup> Projects financed between 01.01.2002 - 31.12.2017.

### TSKB RENEWABLE ENERGY PORTFOLIO IN NUMBERS\*



8.6 million  
Contribution to CO<sub>2</sub> emission reduction (tCO<sub>2</sub>e/year)

34%  
Share of energy generation in loan portfolio

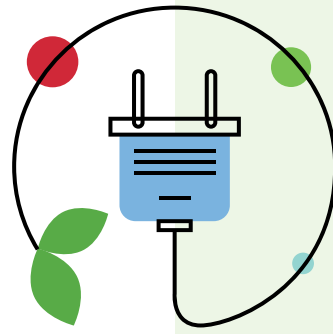
### 2017 TSKB Renewable Energy Projects

90  
Projects

1,919 MW  
Installed Capacity

6 million  
Electricity Generation (MWh)

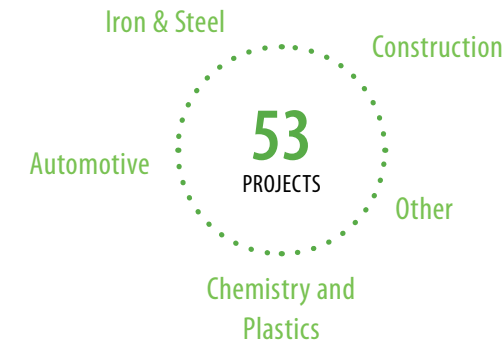
2.6 million  
Contribution to CO<sub>2</sub> emission reduction (tCO<sub>2</sub>e/year)



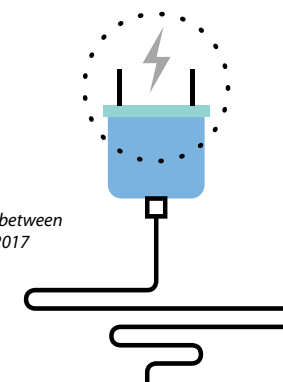
The funding TSKB extends to the energy sector eventually benefits all sectors, the Turkish economy and the environment. Such projects contribute to developing energy/resource saving practices, ensuring energy diversity and reducing emissions. Loans for renewable energy and energy efficiency both contribute to eliminating the bottleneck in energy and support the reduction of the current account deficit and ensure safe energy supply.

TSKB aims to maintain its portfolio weighting in this field with its reputation as a leading bank specialized in energy and resource efficiency.

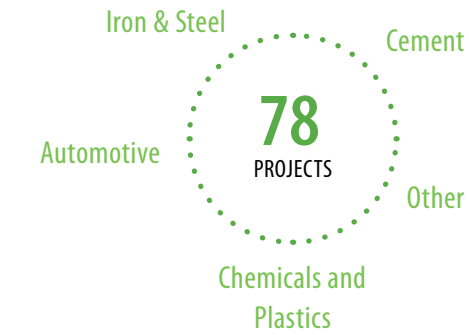
### Resource Efficiency Projects\*



<sup>(\*)</sup> Projects financed between 01.01.2009 - 31.12.2017

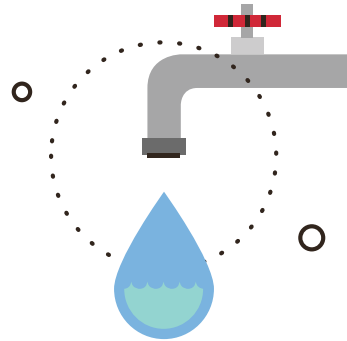


### Energy Efficiency Projects\*



4.6 billion  
Energy Savings (kcal/year)

2.4 million  
Contribution to CO<sub>2</sub> emission reduction (tCO<sub>2</sub>e/year)



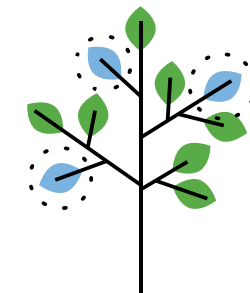
82,900  
Raw Material Savings (ton/year)

1,208,000  
Water Savings (m<sup>3</sup>/year)

12,000  
Waste Savings (ton/year)

1.47 billion  
Energy Savings (kcal/year)

832,700  
Contribution to CO<sub>2</sub> emission reduction (tCO<sub>2</sub>e/year)



# Internal Impacts

TSKB's internal impacts from office activities were structured in 2006 and their performance and consequences have been monitored under an ISO 14001 certificate since 2007 and ISO 14064 certificate since 2012. TSKB reinforces its efforts for sustainability and environmental management through periodic reporting. The Bank supports recycling practices towards reducing internal impacts. To this end, electronic wastes (batteries and fluorescent lamps) are recycled in addition to the collection of paper, plastic and glass wastes for recycling.



2015  
**20,735**

2016  
**24,002**

2017  
**28,910**



2015  
**332**

2016  
**357**

2017  
**375**

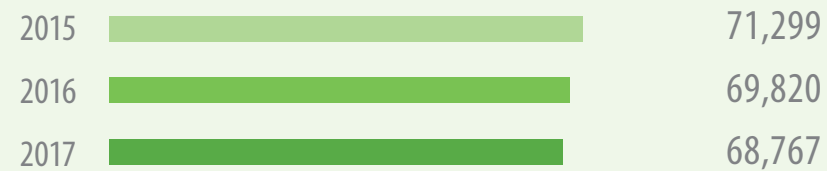
## Electricity Consumption (kWh)

Head Office



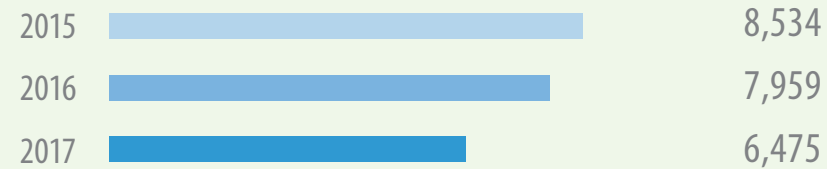
## Natural Gas Consumption (m<sup>3</sup>)

Head Office

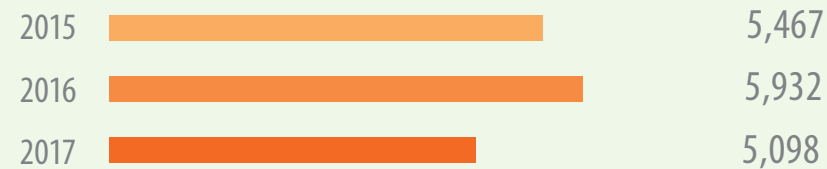


## Water Consumption (m<sup>3</sup>)

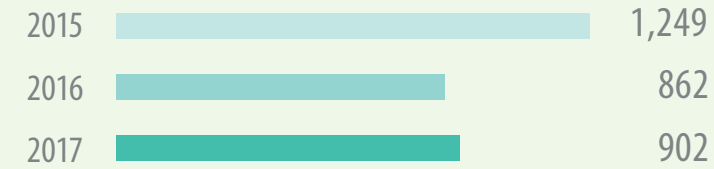
Total



## Paper Consumption (kg)

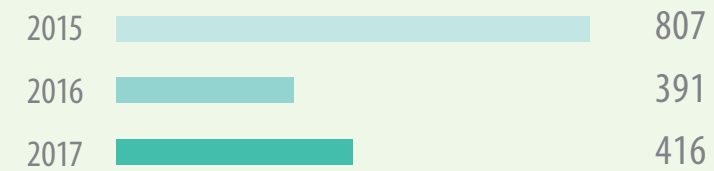


## tCO<sub>2</sub>e Emissions



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

Scope 1



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

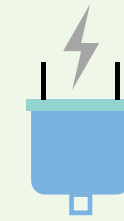
Scope 2

2015, 2016, 2017  
0\*

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

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

Scope 3



## Electricity Consumption (kWh) / m<sup>2</sup>

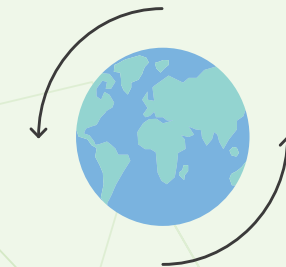


## Water Consumption (m<sup>3</sup>) / Staff



## Recycled Waste (kg)

Glass, Plastic, Paper



2015  
**12,574**

2016  
**12,950**

2017  
**10,530**



### ZERO CARBON BANKING AT TSKB

The increasing importance of climate change stipulates transition to a low carbon economy to ensure a sustainable world. Displaying awareness on the matter, TSKB followed the rising trends around the World to launch the Carbon Neutral - Zero Carbon Banking Project in 2008.

What does being carbon neutral mean when TSKB's perspective is considered?

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

TSKB'S carbon footprint has been measured since 2006. It was reviewed in 2008 by an independent consulting company and the Bank consequently launched its zero-carbon project after the consulting company issued its report.

Strategic mitigation goals covering 2009-2010 were established to reduce consumption in terms of lighting, energy and business trips, which are all sources of emission. As of 2009, the Bank started to procure electric power from renewable energy resources. This project was launched at a time when the threshold for being a free consumer was similar to the level of

consumption by producers in the industry and emphasizes the vision and priorities of TSKB. The Bank aims to transpose its carbon neutral approach within the organization to all social projects it launches, raise public awareness on reducing climate change and minimizing carbon footprint and improve recognition on the matter.

- In addition, TSKB purchased Gold Standard Carbon Certificates for around 4,000 tons over the last four years to offset emissions from banking operations. Such efforts reduce the carbon emissions of the Bank and support the fight against climate change. Resources such as wind power and landfill gas are used in offsetting its carbon footprint.

- In 2016, the offsetting of the carbon footprint of TSKB Career Workshop, TSKB's management trainee recruitment program, started. All carbon footprint - about 20 tons - from transport and accommodation was offset during a 3-day event held at a hotel close to Istanbul and attended by around 50 students from various cities.
- The Bank sponsors a concert every year at IKSVM Music Festival and offsets the carbon footprint of about 21 tons from the transportation of artists and audience. This has enabled TSKB to launch Turkey's first zero carbon concert.



# Intellectual Capital

*TSKB's understanding of development banking, its integrated structure and expert team positively distinguishes the Bank. It has unified financial analysis, technical expertise and economic vision in its business model thanks to its development banking responsibility.*

## **ASSESSMENT AND ANALYSIS POWER**

TSKB's business model dates back to its foundation years. Catering to the priorities of the country through a diverse range of loan themes and the ability to adapt to innovation and change, TSKB has to date undertaken many firsts in the banking sector thanks to the competitive advantage of working in three separate disciplines comprised of the power of engineering, economic research and financial analysis. Separation of credit assessment, marketing and lending operations to establish a balance of power helped create a strong credit assessment and lending culture and a robust loan portfolio.

The active role of the Bank's Economic Research, Financial Analysis and Assessment, Engineering and Technical Consultancy Departments in the assessment process enables the Bank to handle credit assessment processes not only in terms of financial risks but also from a holistic and sustainable project perspective, thereby reinforcing the mission to "stand by those who produce the future by protecting it." In this respect, the Bank prepared assessment reports for over 100 investment loans in 2017.

The ability of the Bank's strong engineering infrastructure to rapidly produce a solution that caters to technical needs, its competence to establish a sector infrastructure and vision through economic research and the amalgamation of all these advantages with a robust financial analysis ability all set the foundations of the Bank's intellectual capacity and integrated model of doing business. The Economic Research, Financial Analysis and Assessment Departments follow developments in the world and Turkey both from a macro- and microeconomic perspective and a Development perspective and conduct analyses for medium- and long-term predictions.

Expert staff gets involved in TSKB's lending processes and also creates value for the Bank and its customers through the consulting services it offers.

## **CHANNELLING SECTOR EXPERIENCE AND PROJECTIONS AS PER NEEDS: FROM ENERGY EFFICIENCY TO RESOURCE EFFICIENCY**

Joining the power of the finance sector to guide the business world and shape loans with its own expertise, TSKB launched energy efficiency funding in 2009. Theme

loans provided to TSKB by international financial institutions played an active role in this launch. TSKB first developed its own capacity and then designed a tailored road map by bringing together international best practices and trainings by international organizations with the energy efficiency perspective of Turkish industry.

Believing through its ability to develop theme loans, sustainability and inclusiveness awareness as well as non-energy resources are also essential for a sustainable world, TSKB transposed this approach to resource efficiency in 2012. In terms of the orientation towards resource efficiency, the Bank's engineering and economic perspective and anticipation were influential. The Bank drafted a resource efficiency survey report on the matter and shared it with its stakeholders on its website.

Funding energy and resource efficiency projects also helps the sustainable development of the country and the world and by extension, supports the Sustainable Development Goals.



## SECTOR, ECONOMY AND CAPITAL MARKET PUBLICATIONS, THEMATIC WORK AND COOPERATION

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

Reports grouped under different topics, namely as “Macro View,” “TSKB Overview,” “TSKB Vision,” “New Month” and “Strategic Sector Assessments” scrutinize the economic outlook and strategic sector advancements through a development perspective. In addition, a macroeconomics and markets bulletin is published daily. Through these activities, the Bank not only offers support for loan, consultancy, treasury, marketing and promotional activities, but also shares information with the sector firm representatives and sector associations. The sector overview publications prepared by the Economic Research, Financial Analysis and Assessment Departments contain evaluations shedding light on the future of various sectors.

Moreover, collaborations are established with universities and policymakers. Regular visits and consultations are organized with public institutions.



## BASEL III COMPLIANT SUSTAINABLE TIER-II BOND

Funding for environment, energy efficiency, renewable energy, social projects and resource efficiency extended since the start of the 2000s has enabled TSKB to establish a strong sustainable finance portfolio. The Bank's sustainable banking vision, which is crowned by international awards as well as the environmental and social methodology it applies, have jointly set a rich infrastructure and intellectual know-how for the Bank.

Thanks to this valuable know-how, TSKB issued the Green/Sustainable Bond in 2016, which is the first of such bonds in Turkey. Following this issuance, the Bank broke more new ground in 2017 and issued the first subordinated sustainable bond in international markets, the yield of which is extended to the funding of environmental and social projects.

The yield obtained from the issuance of bonds will be used in order to reduce greenhouse gas impact by mitigating carbon emissions as part of efforts to combat climate changes, specially via energy efficiency, resource efficiency, wind and solar power plants, biomass, refuse-derived fuel, biogas and clean transportation projects; ensure compliance with climate change, and finance sustainable infrastructure projects.

## KEY HIGHLIGHTS FROM BASEL III COMPLIANT SUBORDINATED SUSTAINABLE BOND:

Date of Issuance  
March 28, 2017

Amount  
USD  
300 million

Maturity  
10-year bond with  
a non-call period  
of 5 years (10NC5)

MS+ Spread  
554 points

World's first Basel III  
compliant  
Subordinated  
Sustainable  
Bond issuance

Second lowest coupon  
rate among the Basel III  
compliant subordinated  
loans issued in Turkey

Breakdown of incoming  
demand  
63% - United Kingdom  
20% - Continental Europe  
7% - U.S. off-shore funds  
10% - Asia and the Middle East

Demand of  
USD 1.1 billion from  
117 institutional investors  
in international markets

Almost four-times  
oversubscribed by investors



### ECONOMICS

- » FOLLOWING THE GLOBAL AND TURKISH ECONOMY
- » SHORT AND MID TERM MACRO-ECONOMIC ESTIMATIONS
- » PRESENTATIONS TO INTERNAL AND EXTERNAL STAKEHOLDERS
- » CREATING MACRO STRATEGY AND ADVISORY

### INDUSTRY RESEARCH

- » INDUSTRY EXPERTISE
- » FOLLOW-UP OF STRATEGIC SECTORS
- » SECTOR-THEME MATCHING WORK
- » STRATEGIC INDUSTRY ADVISORY

### STRUCTURAL RESEARCH

- » RELATIONS WITH DEVELOPMENT INSTITUTIONS, PUBLIC AND NGOS
- » MID-TERM STRUCTURAL PROJECTS
- » THEME WORKS ON SUSTAINABILITY AND INCLUSIVENESS

TSKB IN SUSTAINABILITY INDICES

TSKB is included in the BIST Sustainability Index of Borsa Istanbul, an index of company shares that are publicly traded and which have superior corporate sustainability performances. Corporate sustainability means adapting economic, environmental and social factors to corporate operations and decision-making mechanisms in line with the corporate governance principles and determining the risks that may arise out of these in order to ensure long-term value creation in companies. Borsa Istanbul designates the companies to be listed in the index according to the results of an assessment conducted around their “environmental policy,” “environmental management systems,” “biodiversity policy,” “climate change management,” “board of directors structure,” “anti-bribery policy,” “anti-bribery systems,” “human rights policy,” “human rights systems” and “health and safety systems.”

The BIST Sustainability Index was launched in 2014 with the inclusion of the companies in the BIST-30 index. After such inclusion was extended in a way to cover BIST-50 companies in 2015, TSKB also went through the assessment process and was consequently granted a place in the index following this evaluation. The Bank’s stock has been included in this index since November 2015. TSKB performs improvements in line with index methodology, international regulations and best practices.

Furthermore, in 2016, TSKB attained yet another sustainability landmark and was included in the FTSE4Good Emerging Markets Index established by FTSE, an independent organization created

under joint ownership by the London Stock Exchange and the Financial Times, in December 2016. Aiming to facilitate investments in companies that meet environmental, social and corporate governance criteria by measuring their performance, FTSE4Good Emerging Markets Index is deemed as a key global index.

Joining such indices not only displays TSKB’s approach towards sustainability-related matters but also means the Bank’s operations and decisions on sustainability are acknowledged. In addition, it is a decisive tool for investors that wish to invest in companies which adopt sustainability and corporate social responsibility principles.

DIGITAL COMMUNICATIONS

TSKB offers efficient knowledge flow on banking processes to its stakeholders via mobile and digital banking applications through digital platforms.


As a bank whose shares are publicly traded, TSKB discloses all corporate information and news on social media channels in addition to its website to all its stakeholders.

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

 /TSKB\_Turkey

 /TSKB.Turkiye.Sinai.Kalkinma.Bankasi

 /tskb\_tr

 /TSKB | Türkiye Sınai Kalkınma Bankası

CALCULATING TURKEY’S CARBON EMISSION FACTOR

In order to report renewable energy funding results based on carbon dioxide reduction and performance indicators, TSKB calculated Turkey’s emission factor for its own internal use. Starting from 2009, this emission factor is required to calculate and report carbon reductions in renewable energy and energy efficiency investments. TSKB’s expert staff and intellectual human resources have guided and shaped the calculation of the emission factor.

FIRST INTEGRATED REPORT IN THE TURKISH FINANCE INDUSTRY

TSKB’s experience and intellectual know-how in sustainability enables the Bank to break new ground in various fields. Integrated reporting is just one of these.

TSKB believes that transparently sharing future expectations and risks as well as today’s performance in meeting stakeholder expectations will make a difference and thus published the first integrated report in the finance sector in 2017. Included in the IIRC examples database, TSKB’s Integrated Report is also a guide for other companies and organizations that will publish their first integrated report.

TSKB’s relevant experience enabled the Bank to act as a panelist or trainer during various events which brought together organizations working in the field of integrated reporting. Examples of such events include, among others, Borsa Istanbul Opening Bell Ceremony and Integrated Reporting Experience Exchange Panel, Exclusive Session on Integrated Reporting during the Turkish Capital Markets Summit and the Integrated Reporting Training by IR Turkey Network (ERTA).

ERET results

		2016		2017	
		COMPANY	PROJECT	COMPANY	PROJECT
HIGH RISK	A	6	4	5	2
MIDDLE SENSITIVE RISK	B+	17	11	18	15
MIDDLE RISK	B-	51	61	36	63
LOW RISK	C	26	24	60	39

RESPONSIBLE BANKING WITH ERET

Determining the potential environmental and social risks and impacts that could arise in the implementation of projects bears special importance. According to the result, additional measures for investors as well as monitoring responsibilities specific to the Bank might arise. TSKB, which enjoys a specialized banking culture business model, has undertaken another leading practice on the matter. Developed to neutralize the difference in competence and experience among experts in the environmental and social risk appraisal of a project, ensure the implementation of a consistent and standardized methodology, and conduct performance assessment through cause and effect relations, the ERET Environmental Risk Evaluation Tool was first designed in 2005 and has been implemented gradually since then. Starting from 2007, the model has been applied to all investment projects to be potentially funded by TSKB irrespective of the investment amount and/or credit limit. TSKB adopts it as a principle

to observe sustainability practices and principles which meet the environmental, social and occupational health and safety standards of the development finance institutions in all investment projects it finances. The Bank’s ERET model satisfies such need. Furthermore, it seamlessly overlaps with the criteria in Equator Principles, which have been drafted by the IFC and widely adopted by banks currently operating in developed economies. The model conducts an assessment with 5 x 45 questions and is based on the analysis, within a current and future perspective, of environmental and social impacts as well as possible legal and financial liabilities arising from the investment project evaluated by TSKB for lending and from the other operations of the project owner. In line with the scores for environmental and social risk, how the environmental and social impacts will be mitigated and monitored is structured within the framework of a plan drafted in cooperation with the customer. The environmental rating methodology

for ERET Model is continuously reviewed by TSKB teams, and the weights of high risk issues in the calculation process are increased in line with changing conditions, thus highlighting the risky issues.

Annual evaluation results are publicly reported on the Bank’s website. This model has been a very strong tool that TSKB has used since 2005 for the effective management of environmental and social risks. It allows for inclusion of environmental and social risks in the project evaluation process and enables TSKB to establish deep intellectual capital and know-how on the matter. Environmental and social risk evaluation also helps raise awareness of the funded companies, enabling TSKB to create value for itself and its stakeholders in line with the principle of creating responsible income.

MEETING STAKEHOLDERS’ EXPECTATIONS THROUGH ENVIRONMENTAL AND SOCIAL EVALUATION

TSKB has set a precedent for other organizations as the first bank to implement the environmental evaluation model in lending processes through the sustainable banking approach it has adopted since the beginning of the 2000s. TSKB includes environmental and social risks in lending and decision-making processes and contributes to raising awareness of its clients on sustainability via on-the-job practices and by society via social responsibility projects and innovative efforts such as the Çevreciyiz web portal. Such endeavors have enabled TSKB to enjoy a brand name as Turkey’s leading bank in sustainability.

## POWER OF SUBSIDIARIES WITH DIFFERENT EXPERTISE

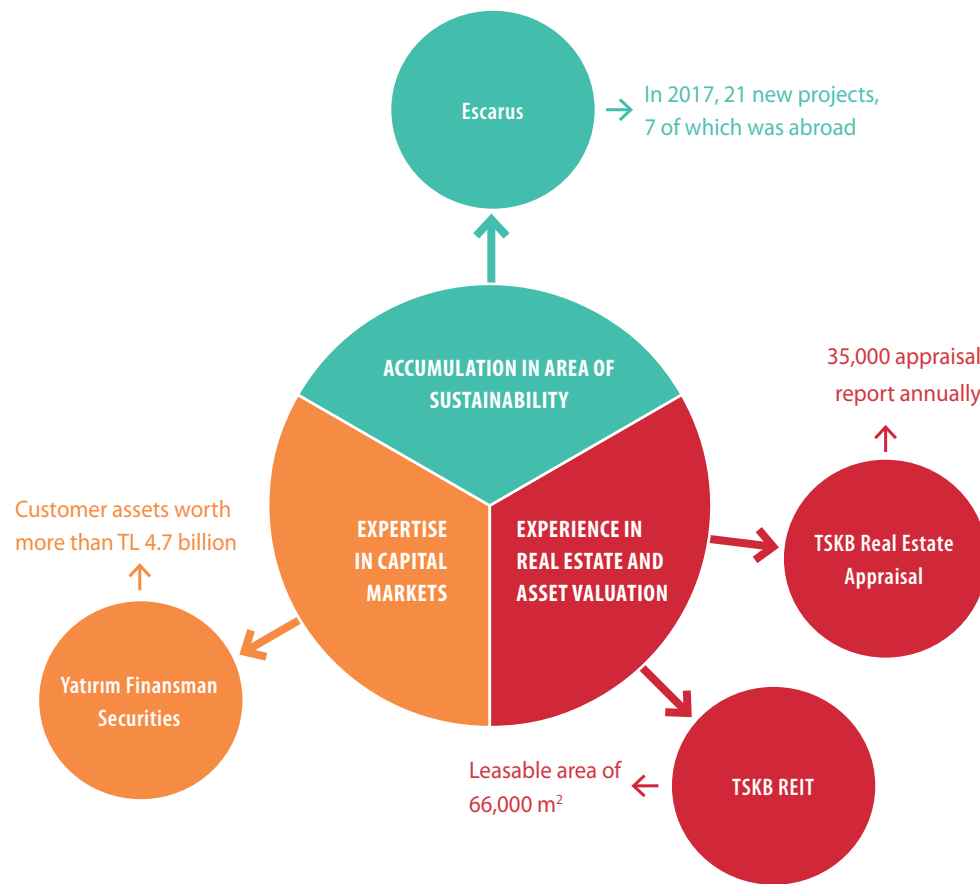
TSKB established affiliates by joining the power of sector and thematic know-how it has accumulated to date with the needs of the Turkish business world and makes a concrete contribution to Turkey's sustainable growth.

Together with its affiliates, TSKB aims to offer a holistic structure to complement and support its operations.

The Bank offers much needed package services to its customers through the power of its affiliates and creates new examples of cooperation via this channel. The synergy created by the affiliates allows TSKB to access and address a wider audience. This has enabled the Bank to use its affiliates to touch customers having differing needs in addition to development banking.

### YATIRIM FINANSMAN MENKUL DEĞERLER A.Ş. (YATIRIM FINANSMAN SECURITIES)

Yatırım Finansman Menkul Değerler A.Ş., Turkey's first brokerage house, was founded on October 15, 1976 by 13 major banks led by İşbank and the Industrial Development Bank of Turkey (TSKB). It offers individual and institutional investors from Turkey and the world high quality, reliable and rapid services to access capital markets through its robust and widespread network of branches around the country, and its online and mobile applications. Yatırım Finansman uses its know-how, experience and specialization distilled from its more than 41 year history as well as its strong capital structure to create added value for its customers.



TSKB holds 95.8% of the shares in Yatırım Finansman, which has 10 service points in major cities of Turkey. Yatırım Finansman also has equity worth TL 83.7 million and total customer assets. Over TL 4.7 billion as of 2017 year-end, making it a leading investment institution and raising the service bar high above.

### TSKB GAYRİMENKUL DEĞERLEME A.Ş. (TSKB REAL ESTATE APPRAISAL)

The company was founded in 2002 to provide real estate appraisal services. The basis of its know-how is TSKB's experience in real estate, machinery and equipment appraisal accumulated over more than half a century.

TSKB Gayrimenkul Değerleme A.Ş. was one of the very first companies to be included in the list of real estate appraisal companies by the Capital Markets Board of Turkey in 2003 and to be entitled to provide services in the field of "Appraisal of Real Estate, Real Estate Projects or Rights and Benefits Related to a Real Estate" in line with Resolution No. 3469 of 17.12.2009 by the Banking Regulation and Supervision Agency. Additionally, the company was awarded the RICS License by the Royal Institute of Chartered Surveyors (RICS), which offers international service assurance, to become one of the leading Turkish companies delivering services with three licenses.

Breaking new ground in Turkey in 2012 and launching "green building" services, a key concept in sustainability, TSKB Gayrimenkul Değerleme A.Ş. offers "Green Building Appraisal" and "Green Value Analysis at the Best and Highest Use" services through its appraisal and valuation experts holding LEED Green Associate certificates.

In 2015, TSKB Gayrimenkul Değerleme A.Ş. was presented with the "Best Real Estate Appraisal Company in Turkey" award in the "Consultancy" category by the UK's Euromoney as a result of a survey and voting widely participated by companies operating in various areas of the real estate sector in Turkey. This award was bestowed upon the company after Euromoney's own research among appraisal, leasing and consultancy firms serving in the real estate sector in Turkey. TSKB Gayrimenkul Değerleme A.Ş. was further awarded by the same entity as the "Best Real Estate Consultant in Turkey" and the "Best Real Estate Appraisal Company in Turkey" in the "Real Estate Consultancy" category in 2008 and 2014 while it was recognized as the "Best Real Estate Consultant in Turkey" in 2005.

In addition to its head office in Istanbul, TSKB Gayrimenkul Değerleme A.Ş. has branches in Ankara, Izmir, Bursa, Adana, Antalya, Diyarbakır and Trabzon, and the number of reports the company prepared was in the region of 35,000 as of 2017 year-end.

### TSKB GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş. (TSKB REIT)

Established in 2006, TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. (TSKB REIT) is driven by the Bank's 66-year corporate know-how and experience. Fueled by the know-how, expertise and corporate approaches of TSKB, its main shareholder, TSKB REIT seeks to provide investors with a solid and reliable real estate portfolio.

TSKB REIT was established with initial capital of TL 10 million. The size of the company's assets reached TL 467 million through the investments it has made. Gross leasable area under its management rose to 66,000 m² as of December 31, 2017.

### TSKB SÜRDÜRÜLEBİLİRLİK DANIŞMANLIĞI A.Ş. - ESCARUS

Escarus was founded in 2011 to offer TSKB's technical infrastructure and expertise in relation to energy, environment, strategy and sustainability in Turkey and abroad. The company operates with a vision to be the leading consultancy firm in Turkey's sustainable development.

The company delivers consultancy services in areas such as strategy, operational efficiency, technical due diligence, energy, climate change and sustainable finance and delivers innovative and leading solutions via its expert staff in its respective sector.

Aiming to expand abroad in 2017, Escarus covered a significant amount of ground toward achieving its goal through projects conducted in Qatar and Africa. Escarus managed 21 new projects on various themes in 2017 and continues to offer its services through seven different projects undertaken abroad.

Under its 2017 consultancy projects, Escarus significantly increased its inclusiveness and brand recognition in terms of consultancy services interacting through consultant or solution partner qualifications with 142 public institutions, 11 universities, 70 companies, 24 international companies, 101 non-governmental organizations and 11 development finance institutions. Reports prepared under 17 separate headings within the project "Due Diligence for Turkey under the Sustainable Development Goals" jointly conducted with the Turkish Ministry of Development provided input for Turkey's 11<sup>th</sup> Development Plan and constituted reference documents pointing out Turkey's position in terms of sustainable development goals.

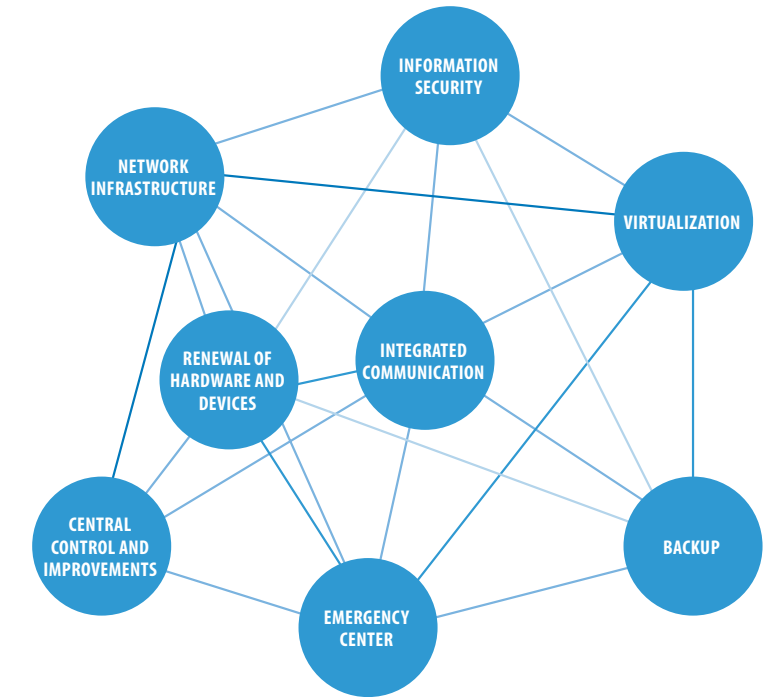


# Manufactured Capital

## STRATEGIC PROJECTS, INFORMATION TECHNOLOGY AND PROCESS IMPROVEMENT EFFORTS

In 2017, our Bank delivered work that introduced improvements in customer satisfaction, service quality, process efficiency and compliance within the framework of the goals stated in the 2017-2019 strategic plan as well as the corporate architecture principles. During the year, projects under the implementation plan for “Project OASIS” in addition to process and infrastructure improvement efforts under “IFRS 9 and IRB Transition” were highlighted. Efforts were made regarding the revision, measurement and evaluation of key performance indicators in order to hierarchically spread strategic goals within the entire organization under the corporate performance management system. In 2017, our Bank ran a survey for the first time in an effort to measure internal customer satisfaction. Action steps to improve the satisfaction level were consequently planned.

Process and infrastructure improvement work was delivered and automated contracting processes were increased in order to render the lending process more effective. A corporate dictionary was formed, and data warehouse and reporting efforts took place. Process and infrastructure arrangements were made together with the Development Bank of Turkey (TKB) regarding APEX cooperation and participation in the Credit Guarantee Fund. Integration efforts with regulatory bodies took place in an effort to ensure compliance with legal obligations. Process and infrastructure arrangements were carried out to improve the efficiency of business continuity management.



A new data center was established for ensuring physical redundancy of critical systems. In the field of security and infrastructure, security solutions were developed to manage the controlled external release of the Bank’s sensitive and confidential information. Efforts to improve the performance of the Bank’s network infrastructure were delivered. Solutions to improve the security level of the infrastructure were applied in order to allow for a safer and more secure message exchange under the SWIFT payment system.

In line with the strategic plan, TSKB will continue to perform significant work on banking processes in addition to the IT

hardware and application infrastructure in 2018. Plans are in place to improve the corporate performance management and reporting systems. Action steps to improve the internal customer satisfaction level will remain an item on the agenda. Reporting and data quality work will continue, and dynamic reporting systems will be developed. Infrastructure update and development efforts will take place in order to maintain the Bank’s business continuity, and the main data storage unit will be renewed to ensure higher performance for the systems at the Emergency Center. In addition to the project initiated in 2017, infrastructure modifications will be made in order to allow for a safer and more secure message exchange under the SWIFT payment system.

## TSKB Campus

With its Head Office in Istanbul and branches in Ankara and Izmir, TSKB does not need an extensive branch network unlike financial institutions offering personal banking.

The compact campus of the Bank in Fındıklı, Istanbul enables it to provide services from a single point in a consolidated and efficient manner. Operating with an approach to provide a service that is integrated and complementary with its affiliates, TSKB shares a building with Yatırım Finansman (Head Office), TSKB Real Estate Appraisal (Head Office), TSKB REIT and Escarus.

Cooperation and synergy are boosted through the logistic opportunities provided to the employees of both the Bank and its affiliates and a contribution is made to the natural capital with resource savings.

While arranging the working environment, TSKB prioritizes the steps that motivate employees, contribute to teamwork culture and increase efficiency. To this end, the Bank realized all of the projects planned for 2017 in terms of boosting the corporate brand perception through architectural applications in the working environment and internalizing the organization's common values.

Some examples of arrangements made in 2017 include:

- > Applications to increase brand visibility outside the building and at its entrance
- > New brand values displayed in different common areas
- > Sustainability corner
- > Brand scent specially designed for TSKB at the entrances of the building
- > Refurbished gym
- > Renewed common area furniture

**The aim of the practices in 2017 is to ensure conformity to the corporate identity, increase the brand visibility of the Bank, internalize corporate values, create a more comfortable and modern working environment for employees and to emphasize priority themes such as sustainability in common areas.**



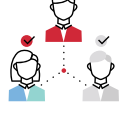


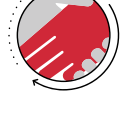




# Social Capital

***TSKB strengthens its vision of being the “pioneer bank in Turkey’s sustainable development” in its relations with stakeholders as well.*** The Bank gives great importance to engage in sustainable dialogue with all stakeholder groups by building different communication platforms. Feedback received from stakeholders shed light on various topics such as identifying TSKB’s strategic priorities, and creating relevant policies, business model and social responsibility projects.



	COMMUNICATION PLATFORM	ACTIONS TAKEN IN 2017*
	<b>Customers</b>	<ul style="list-style-type: none"> <li>• Customer Visits and Meetings</li> <li>• Marketing Communication Meetings</li> <li>• Sector-Specific Meetings</li> <li>• Seminars and Conferences</li> <li>• TSKB Web Site and Social Media Accounts</li> <li>• Online Transactions Platform</li> <li>• Economic and Sector Research Reports</li> </ul> <ul style="list-style-type: none"> <li>• Marketing Communication Meetings where developments and economic expectations in different sectors were discussed with the customers were held.</li> <li>• Current and new customers were visited.</li> <li>• Fairs and conferences in and outside the country were attended.</li> <li>• Organized Industrial Zones were visited.</li> <li>• Resource launch event was organized with the participation of customers.</li> </ul>
	<b>Employees</b>	<ul style="list-style-type: none"> <li>• Department Meetings</li> <li>• Development Workshop</li> <li>• HR Representatives</li> <li>• Career Development Model-Workshops</li> <li>• Internal communication events</li> </ul> <ul style="list-style-type: none"> <li>• Presentations were made regarding the fields of activity for the departments and affiliate companies under the "OASIS Marketing Activities Exchange Meeting."</li> <li>• Two general meetings were held with HR representatives from each department. Requests and suggestions were assessed together.</li> <li>• Managers and employees were encouraged to participate in the workshops during the project initiated for creating a career development model.</li> </ul>
	<b>Shareholders</b>	<ul style="list-style-type: none"> <li>• Public Disclosure Platform announcements, TSKB Web Site and Social Media Accounts</li> <li>• Annual Ordinary General Assembly Meeting</li> <li>• Investor Relations Meetings</li> <li>• Webcast and Video Teleconferences</li> </ul> <ul style="list-style-type: none"> <li>• Public disclosure obligations continued to be fulfilled in line with corporate management principles.</li> <li>• The General Assembly Meeting was held on March 23, 2017.</li> <li>• In 2017, 118 information meetings were held with investors within the country and abroad.</li> <li>• Conferences that were previously held once every six months for investors and analysts following the disclosure of financial results started to be held at the end of each quarter.</li> </ul>
	<b>Financial Institutions</b>	<ul style="list-style-type: none"> <li>• Corporate Meetings</li> <li>• Capacity Building Meetings</li> <li>• Thematic Seminars and Conferences</li> <li>• Attendance at Annual Meetings</li> <li>• Periodic Reporting and Assessments</li> </ul> <ul style="list-style-type: none"> <li>• Connections were maintained and meetings were held with international banks in order to diversify resources and expand the relationship bank network.</li> <li>• Meetings were held with current and potential investors (e.g. funds, asset management companies, banks) in line with our activities in international capital markets.</li> <li>• Domestic and international conferences on the global banking sector, economic developments and capital markets were attended. Sector developments and opportunities were closely monitored and pursued.</li> <li>• Speakers from our Bank attended seminars on green and sustainable finance to share our work in the relevant fields.</li> </ul>
	<b>Regulatory Bodies</b>	<ul style="list-style-type: none"> <li>• Regular monitoring of reporting liabilities and other information flows prescribed in laws and regulations</li> <li>• Reporting activities on the Banking Regulation and Supervision Agency's Sustainable Banking Network system</li> </ul> <ul style="list-style-type: none"> <li>• We continued to fulfill our reporting obligations in line with regulations.</li> <li>• Information requests from regulatory bodies were fully and thoroughly responded to.</li> <li>• The Bank's sustainability practices were reported under the Progress Matrix on the evaluation of sustainability practices in Turkey within the Sustainable Banking Network run by the BRSA.</li> </ul>
	<b>NGOs</b>	<ul style="list-style-type: none"> <li>• Boards of Directors</li> <li>• Working Groups</li> <li>• General Assembly Meetings</li> <li>• Joint Events</li> <li>• cevreciyiz.com</li> </ul> <ul style="list-style-type: none"> <li>• The chair of SKD's Working Group on Women's Employment and Equal Opportunities was assumed. First steps were taken towards the digital platform that would enable the business world to share its experience in terms of equal opportunities.</li> <li>• By assuming the chair of IDFC's Working Group on Equal Opportunities, relations with international financial institutions focusing on equal opportunities were strengthened.</li> <li>• Work on increasing cooperation opportunities and conducting joint projects with all NGOs we are a member of was conducted.</li> <li>• Current news from NGOs working especially in sustainable development and social entrepreneurship were shared with a mass audience through Çevreciyiz.</li> </ul>

(\*) In addition to the platforms mentioned above, TSKB also shares current news and developments regarding its stakeholders through its website and social media channels.

	COMMUNICATION PLATFORM	ACTIONS TAKEN IN 2017*
	<b>Banking Sector</b>	<ul style="list-style-type: none"> <li>• Meetings under Sector Association Memberships</li> </ul> <ul style="list-style-type: none"> <li>• Our representatives also contributed to the work of various working groups during meetings held by the Banks Association of Turkey (TBB).</li> <li>• The amount of green financing (USD 453 million) extended by the Bank in 2016 was reported to the IDFC initiative and this information was published in the IDFC Green Finance Report.</li> <li>• Operations of UNGC and UNEP FI were supported through the responses we provided to their annual surveys.</li> <li>• We also emerged as one of the first signatories of the Declaration of Sustainable Finance by Global Compact Turkey.</li> </ul>
	<b>Affiliates</b>	<ul style="list-style-type: none"> <li>• Board Meetings</li> </ul> <ul style="list-style-type: none"> <li>• Those representatives of our Bank who are Board Members attended the Board Meetings. Information was exchanged regarding items on the meeting agenda.</li> <li>• In order to establish common sense and synergy, we ensured our affiliates were represented at our internal communication activities, information exchange meetings and internal seminars.</li> </ul>
	<b>Media</b>	<ul style="list-style-type: none"> <li>• Press Meetings</li> <li>• Public Disclosure Platform and Bulletin</li> <li>• Columns</li> </ul> <ul style="list-style-type: none"> <li>• Special news content regarding TSKB's priority areas such as low-carbon economy, women's employment and inclusive development was shared.</li> <li>• Matters emphasized by TSKB were specially highlighted through the bulletins prepared following sector events where TSKB participated as a speaker.</li> <li>• Press members were also invited to TSKB's organizations.</li> </ul>
	<b>Universities</b>	<ul style="list-style-type: none"> <li>• Career Workshop</li> <li>• Sustainability Workshop</li> <li>• Thematic Courses</li> </ul> <ul style="list-style-type: none"> <li>• A 3-day Career Workshop was held in Istanbul with the participation of 52 students.</li> <li>• A Sustainability Workshop was organized at Bilkent University with the participation of 30 students.</li> <li>• Special content was prepared for academics in a way to support the curriculum and attendance at the classes was ensured.</li> </ul>
	<b>Suppliers</b>	<ul style="list-style-type: none"> <li>• Corporate Meetings</li> </ul> <ul style="list-style-type: none"> <li>• Corporate meetings were held to enable a better understanding of mutual expectations and increase cooperation.</li> </ul>



# Corporate Social Responsibility

*TSKB mainly runs social responsibility projects to raise awareness on climate change, transition to a low carbon economy and equal opportunities. The Bank engages in fruitful collaborative work with the business world, universities and NGOs in order to boost social responsibility projects with a broader impact.*

## EMPOWER THROUGH EDUCATION

TSKB launched a new corporate social responsibility project in 2017 to focus on the social dimension of sustainable development. In 2017, the Bank not only launched a new loan theme and started to back investments by firms that offer a women-friendly working environment but also transposed this new focus into corporate social responsibility and introduced the scholarship fund called "Empower Through Education." The initiative was in cooperation with the Turkish Education Foundation (TEV) and supports female university students. This project is beyond a traditional scholarship fund and involves steps such as mentoring, training and internship in order to ensure that more women join the workforce each day.

## DIGITAL PLATFORMS

Believing in the importance of digital platforms as the fastest and most efficient means of communication with stakeholders, TSKB put into practice web portals with different themes to increase awareness on sustainability.

Cevreciyiz.com is the pioneer among these channels, becoming live in 2007 and having reached 50,000 followers on social media channels. The website provides reference for many aspects such as sustainability, energy efficiency, environmental-friendly design, and alternative energy sources; and shares innovative news articles from the world such as eco-friendly production and consumption trends and green agriculture. Cevreciyiz.com continues its broadcast with the target of being a channel that will inspire its followers, for a better future.



## "Sustainable" Support to Culture and Arts

### ZERO CARBON CONCERT

TSKB has contributed to the development of culture and arts of the country by supporting the concerts in the Music Festival organized by Istanbul Foundation for Culture and Arts (IKSV) since 1990. As the first zero-carbon bank in Turkey, TSKB has led the way to a new practice since 2014 by offsetting the carbon emissions from the transportation of artists and audience to these concerts by Gold Standard Carbon Credits from an institution investing in clean energy.

In addition, TSKB utilizes opportunities to increase awareness on the fight against climate change. With this perspective, the Bank joins the Earth Hour led by the World Wildlife Fund (WWF), a practice adopted world-wide to raise interest in climate change.

## Zero Carbon in Social Responsibility Projects

- FIRST ZERO CARBON CONCERT OF IKSV MUSIC FESTIVAL
- OFFSETTING THE CARBON FOOTPRINT OF CAREER WORKSHOP, TSKB'S RECRUITMENT PROGRAM
- HOLDING ZERO CARBON CONFERENCES AND ORGANIZATIONS

*Cevreciyiz.com, which covers topics such as sustainability, energy efficiency, energy friendly design, and alternative energy sources, has reached 50,000 followers on social media.*

 /cevreciyiz

 /TSKB.cevreciyiz

 /cevreciyiz

### TSKB SUPPORT FOR EXCAVATIONS AT THE ANCIENT CITY OF PATARA

TSKB supports excavations at the ancient city of Patara, one of the major historical and cultural sites of our country, along with İşbank and Şişe ve Cam Fabrikaları A.Ş. (Bottle and Glass Factories Inc.). Patara was the capital of the Lycian League and Province located near the Kalkan town of Kaş, Antalya and is among the most important historical and cultural sites in Turkey. For about 30 years, excavations at the ancient city of Patara by the Ministry of Culture and Tourism have been led by Prof. Fahri Işık and Prof. Havva Işkan Işık from the Department of Classical Archaeology at Akdeniz University.

### TSKB VOLUNTEERS

In 2017, the Bank took a major step in integrating all TSKB employees into corporate social responsibility projects and launched the TSKB Volunteers program. Employees have started to develop their own volunteering projects under the TSKB Volunteers program and they focus specifically on projects that will create sustainable value within the society.

The first volunteering project launched in 2017 was FIT-TSKB, a project that aims to ensure TSKB employees attain healthier habits in life. Some 6.5 million steps evolved into charity under FIT-TSKB, which comprised healthy living seminars as well as trekking and running activities on weekends and after working hours. The total kilometers covered in the project were converted into donations to the Turkish Foundation for Children in Need of Protection (Koruncuk Foundation), which used the donations to allocate a "Mind Games Room" in Koruncuk Village established by the foundation in Urla.



# Sharing Experience and Cooperation

*TSKB shares its experience on sustainability through its support to numerous organizations via sponsorships, organizations and speakers. These events help the Bank reach a large group-from university students and academics, to sector specialists and decision makers.*

Sustainability Workshops in Six Years...

231

Participants

25

Sector Participants

9

Academics

10

Keynote Speakers  
(Public sector, private sector, development financial institutions)

## FIRST PROGRAM ON SUSTAINABILITY LITERACY: TSKB SUSTAINABILITY WORKSHOP

Attaching great importance to raising widespread social awareness on sustainability, TSKB has been holding Sustainability Workshops since 2012, the first literacy program on sustainability that targets university students - the managers of the future - and offers them an opportunity to develop their first sustainability projects. This project is run in cooperation with Escarus, the Bank's subsidiary offering consultancy services on sustainability, and brings together university students, academics and private sector representatives to perform case analyses as part of a measurement methodology. During workshops, students build teams and come up with different case studies. Each team is led by participants having key private sector experience. The project outcomes are interpreted, and discussions are held in terms of data and methodology.

Measurement, multidimensional point of view and teamwork are just some of the competences the Sustainability Workshops focus on. More than 200 students in addition to sector representatives and academics have attended the workshops to date.

### WORKSHOP 1

#### Carbon Footprint

Boğaziçi and Sabancı Universities, 2012

### WORKSHOP 2

#### Energy Efficiency

Boğaziçi and Sabancı Universities, 2013

### WORKSHOP 3

#### Renewable Energy

METU, 2014

### WORKSHOP 4

#### Energy Efficiency

Bilkent University at the Efficiency Conference by the Republic of Turkey Ministry of Science, Industry and Technology, 2015

### WORKSHOP 5

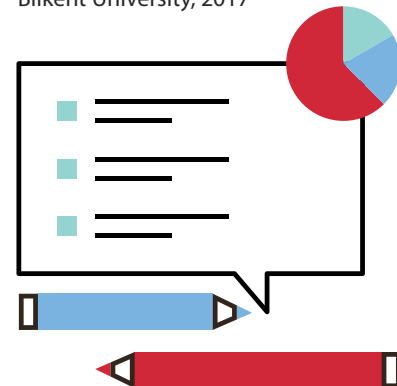
#### Renewable Energy

Koç University, 2016

### WORKSHOP 6

#### Integrated Way of Thinking and Additional Value Created by an Integrated Way of Looking

Bilkent University, 2017



## STRONG EMPLOYER BRAND FOR UNIVERSITIES

A strong employer brand plays an important role in the recruitment of the workforce, TSKB's most valuable asset. In this perspective, through academic cooperation - which holds importance - course content on development and investment banking topics is prepared.

Between 2012 and 2017, a total of 38 courses were delivered in 11 universities and 29 speakers were provided to the courses.

Comprising TSKB MTs, the "TSKB University Ambassadors" team actively gets involved in the Bank's promotional events at university campuses. Furthermore, young talents are sought via Student Clubs, Career Centers at universities, career fairs and talks on the economy.

In line with the cooperation with universities, invitation from the Bilkent University Foreign Advisory Board was received, and participation was carried out for the 2017-2018 Spring Term.

## SHARING EXPERIENCE WITH THE BUSINESS WORLD

Sector organizations are significant in terms of TSKB reaching a vast stakeholder network and sharing its experiences on sustainability. These events enhance TSKB's dialogue with stakeholders and significantly raise the awareness level of participants with respect to sustainability.

In 2017, TSKB sponsored six organizations. TSKB representatives delivered 26 speeches and presentations on various platforms focusing on sustainability, energy efficiency, carbon and integrated reporting as well as Banking sector meetings.

In addition, TSKB gathered with representatives from various sectors in marketing communication meetings held for its customers and delivered presentations focusing on economic and sector expectations.

TSKB's activities on this matter are not only limited to Turkey. TSKB employees share the Bank's expertise in the international arena as speakers at capacity building trainings and global summits. The 23<sup>rd</sup> United Nations Climate Change Conference of Parties (COP23) was closely followed by various managers at our Bank. The managers that were speakers at two different panels shared their experiences in myriad fields from renewable energy investments to green bond issuances in Turkey. Moreover,

TSKB met with IDFC members at the One Planet Summit held in Paris with regard to climate financing, and shared its experiences with a wide audience operating in the field of sustainability financing.

## MARKETING COMMUNICATION MEETINGS

The Marketing Communication Meetings launched in 2017 is a new platform for TSKB where it can meet its customers. Customer needs are received and information regarding TSKB's new products and services are provided, while analyses and presentations prepared by TSKB for different sectors are shared with customers at Marketing Communication Meetings.

## EVENTS SPONSORED AND ORGANIZED IN 2017:

- 8<sup>th</sup> Energy Efficiency Forum and Fair
- 4<sup>th</sup> Istanbul Carbon Summit
- 5<sup>th</sup> Sustainable Finance Forum
- 6<sup>th</sup> Istanbul Finance Summit
- Forum Istanbul
- Launch of SKD - Female Employment and Equal Opportunities Experience Book
- Launch of Female Employment and Occupational Health and Safety Loan
- Marketing Communication Meetings

# Memberships and Working Groups

TSKB attaches importance to sharing its experience through domestic and international memberships that it deems relevant to its operations and goals. The Bank assumes active roles within the initiatives it is a member of. To this end, TSKB has close relations with the Foreign Economic Relations Board (DEİK), Turkish Industry and Business Association (TÜSİAD), Global Compact Turkey, and Business World and Business Council for Sustainable Development – Turkey (SKD) domestically and with the Long-Term Investors Club (LTIC), International Development Finance Club (IDFC) and European Long-Term Investors (ELTI) internationally.

As part of its membership in various institutions, TSKB holds positions such as chair of working group and shares its experience with other players in the sector. To this end, TSKB acts as:

- Chair of IDFC's Working Group on Equal Opportunities,
- Chair of SKD's Working Group on Women's Employment and Equal Opportunities.

Furthermore, TSKB supports its activities at the associations it is a member of through various working groups. Thus, TSKB assumes active roles in the following working groups:

- SKD's Working Groups on Sustainable Finance, Energy, Circular Economy
- Integrated Reporting Network Turkey working group

## INTERNATIONAL INITIATIVES

- CDP - CARBON DISCLOSURE PROJECT
- WDP - WATER DISCLOSURE PROJECT
- UNIVERSAL DECLARATION OF HUMAN RIGHTS BY THE UN
- GRI - GLOBAL REPORTING INITIATIVE
- UNEP FI - UN ENVIRONMENT PROGRAMME FINANCE INITIATIVE
- UN GLOBAL COMPACT
- ADFIMI - ASSOCIATION OF NATIONAL DEVELOPMENT FINANCE INSTITUTIONS IN MEMBER COUNTRIES OF THE ISLAMIC DEVELOPMENT BANK
- IIF - INSTITUTE OF INTERNATIONAL FINANCE
- ICC - INTERNATIONAL CHAMBER OF COMMERCE
- LTIC - LONG-TERM INVESTORS CLUB
- IDFC - INTERNATIONAL DEVELOPMENT FINANCE CLUB
- ELTI - EUROPEAN LONG-TERM INVESTORS ASSOCIATION

- United Nations Global Compact Working Groups on Sustainable Banking and Finance, Women's Employment and Equal Opportunities
- TÜSİAD's Working Groups on Environment and Climate Change, Energy, Industrial Transformation, Sustainable Development, Women's Employment and Equal Opportunities
- Membership on DEİK's Energy Business Council

## NATIONAL INITIATIVES

- TBB - BANKS ASSOCIATION OF TURKEY
- TKYD - CORPORATE GOVERNANCE ASSOCIATION OF TURKEY
- TSPAKB - ASSOCIATION OF CAPITAL MARKET INTERMEDIARY INSTITUTIONS OF TURKEY
- DEİK - FOREIGN ECONOMIC RELATIONS BOARD
- TÜSİAD - TURKISH INDUSTRY AND BUSINESS ASSOCIATION
- GRF - GLOBAL RELATIONS FORUM
- SKD - BUSINESS COUNCIL FOR SUSTAINABLE DEVELOPMENT - TURKEY
- IKSİV - ISTANBUL FOUNDATION FOR CULTURE AND ARTS
- ASSOCIATION OF MONEY MANAGERS
- ASSOCIATION OF RISK MANAGERS
- ERTA - INTEGRATED REPORTING NETWORK TURKEY

TSKB's national and international memberships contribute on two separate dimensions: Work performed under memberships contributes to corporate image and promotion, supports the building of internal capacity and awareness raising, and facilitates access to various stakeholders. TSKB's memberships - specifically those organizations and initiatives to which TSKB is the first member from Turkey - simultaneously promotes Turkey on a wide range of platforms and increases Turkey's awareness in such areas.

## COOPERATION WITH PUBLIC INSTITUTIONS

Through its good relations with policymakers and public institutions and its power to provide independent opinions, TSKB:

- Contributes to the country's economy and development,
- Provides independent opinions from the private to the public sector,
- Serves as a bridge between the private sector and the public sector,
- Creates diversity of funds for economic development,
- Contributes to the development of the market/legislation work,
- Offers an opportunity for reputation, trust and promotion.

## SUSTAINABLE DEVELOPMENT GOALS PROJECT

Using its experience in sustainable development, TSKB was involved in a major project as a stakeholder in 2017. The project called "Due Diligence for Turkey under the UN Sustainable Development Goals," kicked off by the Turkish Ministry of Development in order to establish the current status of SDGs in Turkey, is coordinated by TSKB and Escarus - TSKB Sürdürülebilirlik Danışmanlığı A.Ş., a TSKB subsidiary offering consultancy services on sustainability. The project aims to establish the current status of Sustainable Development Goals and Objectives in our country; identify those goals that overlap with the policies and priorities of Turkey; determine the areas in which our country lacks policies, projects and indicators in consideration of the goals; and develop policy recommendations.

TSKB also actively participated in the Specialization Commissions organized for the preparation of Development Programs.

## LIBRARY

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

# A Holistic Approach to Equal Opportunities

TSKB believes every other woman employed is a significant step taken on the journey to development. The importance it attaches to women's employment has repercussions in a myriad of fields. TSKB creates value for the development of our country through the investment projects it funds, its awareness-raising work on equal opportunities and the percentage of female employees in its own human resources.

## Empowering those that trust in women's power

TSKB offers loans for the investment projects of female-friendly companies through a loan of EUR 100 million extended from the French Development Agency (AFD) at the end of 2016. The female employment rate increased by 15% in companies supported by the first female-themed loan in the world, which is designed jointly by TSKB and AFD. In addition, the relevant development areas improved by 30% in one year according to the results of the measurement tool applied to the loan beneficiary companies.

## Implications of equal opportunities on human resources

The results of TSKB's human resources policy based on diversity and equal opportunities are reflected in the Bank's employee structure. Female employees constitute 55% of all TSKB employees and executive positions.

## Experience sharing that extends equal opportunities

TSKB acts as the chair of IDFC and SKD working groups on equal opportunities and actively participates in the working groups of various NGOs operating in this field.

## Equal opportunities approach approved by FEM

TSKB received the certification for "Equal Opportunities Model" (FEM) pioneered by the Women Entrepreneurs Association of Turkey (KAGİDER) and the World Bank thanks to both its policies and women-friendly practices introduced in working life and it strengthens its commitment to female employment day by day. FEM\* independently evaluates companies in terms of numerous criteria such as the management approach to equal opportunities, recruitment, equal opportunities in training and promotion, feedback mechanisms and communication strategies. Companies successfully going through such evaluation receive the FEM certificate and have their sensitivity and awareness on female participation in business life and gender equality registered and acknowledged.

## International backing for equal opportunities through WEPs

Supporting equal opportunities through its social policies in addition to its employment policy, TSKB is among the first supporters in Turkey of the Women's Empowerment Principles (WEPs), the most important international initiative established as a joint effort of United Nations Entity for Gender Equality and the Empowerment of Women (UN Women) and the United Nations Global Compact (UN Global Compact).

<sup>(\*)</sup> TSKB was audited under FEM in October 2017 and was entitled to receive the FEM certificate in February 2018.

# TSKB in the Future

## Financial Targets

TSKB delivered a strong performance in terms of both growth and profitability. Thanks to its successful operations during the year, the Bank fulfilled all its 2017 targets.

The Bank met its FX-adjusted loan growth target which was revised up from 10-13% to 15% at the end of 2017 third quarter where the former target was already realized. It led to a record high loan to asset ratio with 77%. Moreover, the number of active clients showed an annual surge of 25%, whereas asset quality was kept intact in 2017. The non-performing loans ratio was recorded as 0.2% in line with the management's guidance as of 2017 year-end.

Due to adverse economic and market conditions, two loan contracts were signed with a total amount of USD 160 million, despite targeting contracts of USD 600 million with five development finance institutions. Interviews for the remaining three contracts have been continuing and planned to be completed in 2018.

Operating income exceeded TL 1 billion with 37% surge, while operating expenses have been under control, posting a 15% rise. The Bank realized TL 595.7 million in bottom-line, 25% above its previous year's level.

TSKB recorded an adjusted net interest margin of 3.9%, whereas delivering a return on equity of 18.4% and return on assets of 2.3%.

(%)	2016 YEAR-END PERFORMANCE	2017 YEAR-END EXPECTATIONS	2017 YEAR-END PERFORMANCE	2018 YEAR-END EXPECTATIONS
FX Adjusted Loan Growth	8.2	15	15	12-15
Loan/Assets Ratio	72	70	77	~77
Net Interest Income Growth	23	>12	34	~15
Fees & Commissions Growth	(30)	>20	67	>20
OPEX Growth	14	13	15	~30
Net Interest Margin (adj.)*	3.5	>3.5	3.9	3.6-3.8
Return on Equity	17.6	17-18	18.4	~18
Return on Assets	2.1	~2.0	2.3	~2.2
Cost/Income Ratio	15	15-16	12.5	14-15
Capital Adequacy Ratio	14.3	>14	17.0	>16
NPL Ratio	0.3	<0.5	0.2	<0.5
Leverage Ratio	8.2X	~8X	8,2	~8.5X

(\*) Swap adjusted.

TSKB's FX-adjusted loan growth guidance for 2018 is 12-15%. The Bank plans to accelerate its support in inclusive economic growth with its new loan disbursements mainly in renewable energy, resource efficiency, women equality, occupational health and safety, research and development and innovation. TSKB, which targets to maintain its asset quality, expects to deliver a return on equity of 18% and a net interest margin within the 3.6-3.8% range as of 2018 year-end. In addition, the capital adequacy ratio of the Bank is expected to stay above the 16% levels.



# “A Prospective Glance” Program

TSKB has integrated economic, social and environmental sustainability approaches into its business model at an early phase. The Bank constantly reviews and improves all its business processes in line with the strategic plan and corporate architecture principles.

“A Prospective Glance” was initiated in 2016 in order to extend the Bank’s current success into the upcoming years while preparing TSKB for the future through its changing business models. Through this project, for which a two-year implementation plan was projected, particularly projects offering process improvements and an increase in efficiency as well as efforts to support growth goals, increase customer satisfaction and quality of service were conducted in 2017 and most of these efforts were completed. Efforts to transform corporate performance into employee goals and to measure them and to increase the level of compliance enabled the Bank to improve its internal processes and increase efficiency.

As of end-2017, 64 projects were implemented based on the action plan, consisting of seven main categories and 72 projects. The Bank aims to complete four of the remaining projects in 2018 and the other four by end-2019.

TSKB set a priority goal of making the contributions obtained from these projects sustainable for 2018. The Bank also plans to implement projects on diversifying the products and services offered and on updating the pricing methodology.

As of end-2017,  
**64 projects were implemented** based on the action plan, consisting of seven main categories and **72 projects.** The Bank aims to complete four of the remaining projects in 2018 and the other four by end-2019.

Improvements achieved in 2017 are discussed under the following seven headings:

## STRATEGIC DIRECTION

During strategic direction activities, which constitute one of the most significant steps of the transformation process, we recomposed our mission and vision around the renewed strategy. Priority sectors and themes for the medium-term were determined while the organizational structure was changed to enable efficient use of technical and financial knowledge during consulting activities. The Bank also reshaped its investment banking strategy and took actions towards developing strategic cooperation. Through this restructuring, TSKB aims to extend its technical and intellectual knowledge to current and potential customers in the most effective manner.

## ORGANIZATION AND CORPORATE COMMUNICATION

The Bank assessed the results of the Internal Customer Satisfaction Survey, action meetings and focus group activities, which are planned to be conducted regularly in order to measure employee satisfaction. The Bank also prepared working plans for the specified areas for improvement. In order to establish a corporate memory, TSKB organizes internal experience sharing meetings and marketing communication gatherings for customers and aims to increase effectiveness in internal and external communication.

## FUNDING MANAGEMENT

The Bank assessed current and potential funds and implemented strategic planning based on funding. TSKB formed the Funding Management Committee to diversify funds for different themes, increase the number of long-term funders and enrich relations with current operating institutions. It is expected that funding diversity and depth will be attained as a result of the steps and action taken for strategic planning based on funding.

## CUSTOMER INCLUSION MODEL

TSKB established a Customer Management Committee and Customer Management Department to ensure the integration of all operations, systematize and coordinate customer planning through a holistic perspective, deepen current customers in line with the Bank’s strategies and operation plans, and contribute to expanding the customer pool. This structuring enables the evaluation of the entire product and service portfolio by TSKB and its subsidiaries with a holistic approach on a customer basis. It also paves the way for determining their potential and monitoring the process. In addition to efficiently coordinating the process, increasing TSKB’s customer, product and operational diversity is the main goal. The number of active customers increased by 25% in 2017.

## PERFORMANCE MANAGEMENT

Measurable key performance indicators are set for all employees within the framework of a comprehensive revision in order to accurately evaluate the current performance of employees who will shape the future of TSKB. The new system launched with the start of 2017. It is expected that the current performance measurement system will be upgraded globally and in consideration of stakeholder expectations, and this will enhance employee quality and motivation. Improvement projects on this matter are currently ongoing. Moreover, certain steps were taken towards the efficient use of the talent pool by implementing a systematic rotation program within the Bank.

## LENDING PROCESS

TSKB conducted measurement and improvement activities in order to increase customer satisfaction and rapidly respond to customer expectations, as well as to optimize the use of internal human resources during lending operations, which are among the Bank’s main fields of activity. Certain improvements were attained to utilize the Bank’s technical and intellectual knowledge concerning its fields of expertise in consultancy projects with high added-value and to manage consultancy operations more efficiently.

## IT SYSTEMS

Utilizing new business models for the way of doing business by the Bank in line with the revisions and strategic direction brought about the need for modernization and integration in information technology systems. Some 44 projects were conducted on IT systems in 2017. In addition to the aforementioned need, new practices were introduced to form a corporate memory. The Bank created a corporate glossary and improved its reporting and implementation infrastructures. Some 25% of the reports, particularly strategic and tactical ones, were revised. Improvement activities will continue in the coming years.



# Sustainability Goals

In terms of sustainability, TSKB sets annual or biennial goals and monitors its performance. The following goals were set at the beginning of 2017 and are planned for completion by end-2018.

## 1. FINANCING SUSTAINABILITY

2017-2018 Goals (Biennial)	2017 Assessment	2016 Assessment
> TSKB aims to set the share of its sustainable finance portfolio in the total loan portfolio, except for the finance sector, at 55% minimum by the end of 2018 by considering renewable energy, energy and resource efficiency investments in Turkey, while also taking into account the repayment of previous loans.	> Efforts to increase the share of TSKB's sustainable finance in the total loan portfolio continued in 2017 while also considering economic contribution indicators, and the share of sustainable finance for 2017 stood at 68%.	> Efforts to increase the share of TSKB's sustainable finance in the total loan portfolio continued in 2016 while also considering economic contribution indicators, and the share of sustainable finance stood at 57%.
> In terms of financing renewable energy, TSKB plans to sign a new loan agreement on a solar power plant of at least 50 MW, a wind power plant of 150 MW, a geothermal power plant of 130 MW and a project on biogas/ biomass power of 15 MW by the end of 2018.	> TSKB extended new financing to a wind power plant of 130 MW, a geothermal power plant of 170 MW and a project on biogas/biomass power of 26 MW in 2017.	> TSKB extended new financing to a wind power plant of 279 MW, a geothermal power plant of 59 MW and a project on biogas/biomass power of 11 MW in 2016.
> The Bank aims to continue supporting projects for improving energy and resource (water, raw material and other production inputs) efficiency in Turkey from all aspects, in order to increase efficiency in the industry and ensure effective and the most suitable use of exhaustible resources. To this end, TSKB plans to sign 15 new loan agreements on energy and/or resource efficiency projects by the end of 2018.	> In 2017, loan agreements were signed for a total of nine projects comprising three energy efficiency projects and six resource efficiency projects.	> Twelve energy efficiency investments and seven resource efficiency investments were funded in 2016.

## 2. MANAGEMENT OF THE BANK’S INTERNAL AND EXTERNAL ENVIRONMENTAL-SOCIAL IMPACTS

2017-2018 Goals (Biennial)	2017 Assessment	2016 Assessment
> TSKB is committed to having its carbon footprint periodically measured and delivering banking operations through zero-carbon principles by offsetting its carbon footprint in the coming years.	> In 2017, emissions from our banking operations were calculated to be 902 tons, verified and offset in line with the ISO 14064 standard (including parts 1, 2 and 3).	> In 2016, emissions from our banking operations were calculated to be 862 tons, verified and offset in line with the ISO 14064 standard (including parts 1, 2 and 3).
> By the end of 2021, the Bank aims to reduce its greenhouse emissions by 10% compared to the average of the last 5 years (2012-2016).	> The emissions stood at 902 tons as of the end of 2017, which is 3% below the average of the last five years.	> The emissions stood at 862 tons as of the end of 2016, which is 14% below the average of the last five years (2011-2015).
> In 2017 and 2018, TSKB aims to maintain the reduction rate in paper consumption achieved over the last two years, which is about 10%.	> The Bank consumed 5,098 kg of paper in 2017. This figure is 10% below the average paper consumption of 2015 and 2016 (5,700 kg).	> The Bank consumed 5,932 kg of paper in 2016. This figure is 1% above the average paper consumption of 2014 and 2015 (5,896 kg).
> TSKB will continue to send all paper consumed on its premises to recycling facilities and maintain the practice of 100% recycling of waste paper in the coming years.	> In 2017, all waste paper was separately collected and sent to recycling facilities.	> In 2016, all waste paper was separately collected and sent to recycling facilities.
> In 2017 and 2018, the Bank aims to manage its entire environmental and social impacts as well as its greenhouse emissions within the framework of ISO 14001 and ISO 14064 Standards.	> ISO 14001 and ISO 14064 audits for 2017 were successfully completed in April 2018 by BSI, our consultant.	> ISO 14001 and ISO 14064 audits for 2016 were successfully completed in March 2017 by BSI, our consultant.
> TSKB is committed to measuring the environmental and social risks of all investment loans irrespective of the project price, ensuring the necessary measures are taken proactively based on the determined risk and monitoring the implementation of these measures.	> In 2017, the environmental and social risks concerning investment loans extended in line with the ERET Model were measured through an assessment of 119 investments.	> In 2016, the environmental and social risks concerning investment loans extended in line with the ERET Model were measured through an assessment of 79 investments.

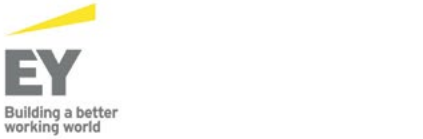


### 3. HUMAN RESOURCES - TRAINING

2017-2018 Goals (Biennial)	2017 Assessment	2016 Assessment
<ul style="list-style-type: none"> <li>&gt; A "Development Workshop" program (comprehensive training series for theory, practice, implementation and experience consisting of classroom training program and project work for 10 full days) was initiated in 2014 for all employees at the Group Manager and Manager level (approximately 80 people) and it was completed in 2016. The second phase of this program was initiated in 2016 for the same target group (45 people). Continuing with the same content, the program is projected to be concluded in 2018.</li> </ul>	<ul style="list-style-type: none"> <li>&gt; The second Development Workshop program initiated in April 2016 is going on with 45 participants. A 2-module training was provided under the workshop in 2017. The workshop is planned to be concluded in May 2018.</li> </ul>	<ul style="list-style-type: none"> <li>&gt; The Development Workshop program was initiated in 2014 and was completed in 2016. The second phase of this program was initiated in 2016 for the participants.</li> </ul>
<ul style="list-style-type: none"> <li>&gt; Every year, TSKB offers all its employees a "Training Catalogue" based on their core competences. Prepared to support competences that leave room for improvement, these trainings are open to all employees and particularly focus on assistant experts, experts and assistant managers. During performance appraisal meetings, employees assess their competences together with their managers and may select training topics they need for their own improvement. Through this activity initiated in 2013, plans for the training process are now in place in a way to enable employees requesting training to attend at least one training per year. These plans will also be applicable in 2017 and 2018.</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Some 135 people participated in 12 catalogue trainings organized under 10 different topics in 2017.</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Some 159 people participated in 15 catalogue trainings organized under nine different topics in 2016.</li> </ul>
<ul style="list-style-type: none"> <li>&gt; TSKB has been organizing the TSKB Career Workshop for "fresh graduates that are management trainees aiming to become a member of TSKB" since 2010 with the aim of "Creating a TSKB family" and "raising our own managers." At the end of this 3-day workshop on enabling university students just starting their careers to explore their personal capabilities and increasing awareness of their potential, TSKB selects its new management trainees. TSKB Career Workshop will also be held in 2018.</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Some 54 university students attended the eighth TSKB Career Workshop, organized between April 13-15, 2017. At the end of this 3-day workshop, 15 new management trainees joined the TSKB family.</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Some 51 university students attended the seventh TSKB Career Workshop organized between April 14-16, 2016. Following this 3-day Workshop, 19 new management trainees joined the TSKB family.</li> </ul>
<ul style="list-style-type: none"> <li>&gt; New management trainees recently selected via the TSKB Career Workshop are inducted into the MT Development program. This is a long-term program structured in a way to allow the development of well-equipped banking staff in the field of Development and Investment Banking and aims to prepare management trainees for the future. To this end, management trainees participate in vocational trainings on banking that are delivered by internal and external trainers. In addition, they receive training on "Basic Occupational Health and Safety," "Sustainability," "Corporate Governance, Ethical Principles, Anti-Corruption and Anti-Bribery," "Business Continuity," "Prevention of Laundering of Proceeds of Crime and of the Financing of Terrorism," "Protection of Personal Data," "Competition Law" and "Information Security and Awareness" during the program.</li> </ul>	<ul style="list-style-type: none"> <li>&gt; These 15 new management trainees that joined us following the eighth Career Workshop program participated in the 45-day MT program delivered by internal and external trainers and their vocational development was supported.</li> </ul>	<ul style="list-style-type: none"> <li>&gt; These 19 new management trainees that joined us following the seventh Career Workshop program participated in the 42-day MT program delivered by internal and external trainers and their vocational development was supported.</li> </ul>
<ul style="list-style-type: none"> <li>&gt; The development program (coaching and international training programs) structured for managers at the Director level will continue in 2017 and 2018.</li> </ul>	<ul style="list-style-type: none"> <li>&gt; International training programs and one-on-one coaching sessions were conducted with regard to "Strategy," "Leadership" and "Negotiation" under the program structured for those at the Manager level in 2017.</li> </ul>	<ul style="list-style-type: none"> <li>&gt; The development program (coaching and international training programs) structured for those at the Manager level was also implemented.</li> </ul>

### 4. CORPORATE SOCIAL RESPONSIBILITY

2017-2018 Goals (Biennial)	2017 Assessment	2016 Assessment
<ul style="list-style-type: none"> <li>&gt; Being the main communication channel of TSKB's social responsibility project, it is the most comprehensive environment and sustainability web portal in Turkey to this day thanks to its robust content, mobile-compatible design and social media pages. The aim is to reach out to an even larger audience by increasing the number of followers for this platform in 2017-2018. To this end, the goal is to maintain the current visitors of the Çevreciyiz website and ensure an increase in the number of social media followers for the platform.</li> </ul>	<ul style="list-style-type: none"> <li>&gt; As of the end of 2017, progress was made regarding these goals. In 2018, efforts to fulfill the above-mentioned goals continue.</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Çevreciyiz reached the targeted number of visitors and social media followers for 2016.</li> </ul>
<ul style="list-style-type: none"> <li>&gt; Since 2011, TSKB has been bringing together university students, i.e. future management trainees, with members of academia in addition to private sector representatives and organizing the "Sustainability Workshop," which is the first literacy program on sustainability, in cooperation with Escarus, the Bank's affiliate. To date, 240 university students have been involved in the case studies under the workshop. TSKB aims to continue the Sustainability Workshop in collaboration with Escarus in 2017-2018 as well and organize at least one workshop every year.</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Similarly, a Sustainability Workshop was held at Bilkent University in 2017.</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Similarly, a Sustainability Workshop was held at Koç University in 2016.</li> </ul>
<ul style="list-style-type: none"> <li>&gt; As Turkey's first carbon neutral bank, TSKB acts responsibly in terms of the carbon footprint of the events it organizes. The Bank continues efforts to become a "Zero Carbon" organization in 2017 and 2018, and plans to measure and offset, by purchasing Gold Standard Carbon Credits, the carbon footprint created by the concerts organized under the IKSİV-Istanbul Music Festival sponsored by TSKB as well as the Career Workshops, Sustainability Workshops and conferences hosted by TSKB. TSKB will continue to support the projects "Empower Through Education" scholarship fund and "Female Stars of Tomorrow" it launched at the end of 2017. In addition, TSKB will sustain its support to excavations at the Ancient City of Patara.</li> </ul>	<ul style="list-style-type: none"> <li>&gt; TSKB offset the carbon footprint caused by all the events it organized in 2017. Some 46 tons of carbon footprint were offset.</li> </ul>	<ul style="list-style-type: none"> <li>&gt; TSKB offset the carbon footprint caused by all the events it organized in 2016. Some 35 tons of carbon footprint were offset.</li> </ul>



Independent Assurance Statement  
To the Board of Directors and Management of Türkiye Sınal Kalkınma Bankası A.Ş., İstanbul, Turkey

This Assurance Statement (hereinafter ‘Statement’) is intended solely for the management of Türkiye Sınal Kalkınma Bankası A.Ş. (hereinafter ‘TSKB’ or ‘the Company’) for the purpose of evaluation of key indicators in its 2017 Integrated Report (hereinafter ‘the Report’) that has been prepared by the Company for the year ended 31 December 2017.

**Subject Matter Information and Applicable Criteria**  
We were engaged by the Company to provide limited assurance on the items listed below which can also be found as the ‘Report Indicator Scope Table’ at the appendix section of the Report.

**The scope of our assurance**  
The scope of our assurance service is limited to 2017 Subject Matter Information in financial, human and natural capital indicators, which are listed below, in TSKB’s Headquarters.

- 1. Rate of sustainability themed loans in loan portfolio.
- 2. Gender ratio of management.
- 3. Average hours of training per employee.
- 4. % participation in employee satisfaction survey.
- 5. Environmental impacts occurred by Bank activities:
  - o Total electricity consumption (kWh)
  - o Total natural gas consumption (m3)
  - o Total water consumption (m3)
  - o Total paper consumption (kg)
  - o Electricity intensity per m2
  - o Water intensity per employee
  - o Recycled waste of glass, plastic and paper (tons)
- 6. Reduction estimation of GHG emissions from projects financed.
- 7. % of Turkey’s renewable energy capacity as at end of 2017.
- 8. Total installed capacity from renewable energy portfolio as at end of 2017

**The Company’s Responsibilities**  
The Company’s management is responsible for ensuring that the documentation provided to the practitioner is complete and accurate. The Company’s management is also responsible for maintaining the internal control system that reasonably ensures that the documentation and information described above is free from material misstatements, whether due to fraud or error.

**Our Responsibilities**  
We conducted our assurance engagement in accordance with International Assurance Standards, particularly International Standard for Assurance Engagements Other than Audits or Reviews of Historical Financial Information ISAE 3000 (revised). These regulations require that we comply with ethical standards and plan and perform our assurance engagement to obtain limited assurance about the Selected Information.

We comply with the independence and other ethical requirements of the IESBA Code of Ethics for Professional Accountants, which establishes the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

We apply International Standard on Quality Control 1 (ISQC 1), and accordingly, we maintain a robust system of quality control, including policies and procedures documenting compliance with relevant ethical and professional standards and requirements in law or regulation.

The assurance engagement performed represents a limited assurance engagement. The nature, timing and extent of procedures performed in a limited assurance engagement is limited compared with what is necessary in a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is lower.

The procedures selected depend on the practitioner’s judgment. The procedures include, in particular, inquiry of the personnel responsible for collecting and reporting on the Selected Information and additional procedures aimed at obtaining evidence about the Selected Information.

In respect of the Selected Information mentioned above the procedures performed include the following procedures:

- I. Interviewed select key senior personnel of the Company to understand the current processes in place for capturing the Selected Information pertaining to the reporting period;
- II. Reviewed Selected Information on site covering TSKB Headquarters;
- III. Undertook substantive testing, on a sample basis, of the Selected Information;
- IV. Used the Company’s internal documentation to evaluate and measure the Selected Information;
- V. Evaluated the design and implementation of key processes and controls over the Selected Information;

- VI. Re-performed, on a sample basis, calculations used to prepare the Selected Information for the reporting period.
- VII. Evaluated the disclosure and presentation of Selected Information in the Report.

**Our conclusion**  
As a result of our procedures, nothing has come to our attention that indicates the Selected Information reviewed for the year ended 31 December 2017 is not prepared in all material respects in accordance with the ‘Report Indicator Scope Table’ that is presented in the appendix section of the Report.

**Our assurance team**  
Our assurance team, comprising of multidisciplinary professionals, has been drawn from our climate change and sustainability network and undertakes similar engagements with a number of significant companies in Turkey and internationally.

We permit this report to be disclosed in Türkiye Sınal Kalkınma Bankası A.Ş.’s Integrated Report for the year ended 31 December 2017, to enable the Directors of Türkiye Sınal Kalkınma Bankası A.Ş. to show they have addressed their governance responsibilities by obtaining an independent assurance report in connection with the Subject Matter Information. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Directors as a body and Türkiye Sınal Kalkınma Bankası A.Ş. for our work or this report except where terms are expressly agreed between us in writing.

for Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A. Ş.  
A member firm of Ernst & Young Global Limited

Zeynep Okuyan, SMMM  
Partner  
İstanbul, 06.07.2018



# Report Indicator Scope Table

Capital	2017 Indicators	Content of the Indicator
Financial	Rate of sustainability themed loans in loan portfolio at the end 2017	<p>“The Bank defines this indicator as the percentage (%) by financial value (in USD) of the Bank’s sustainability-themed loans (excluding loans to financial sector) compared to the Bank’s total loan portfolio as at the end of 2017.</p> <p><b>1) APEX</b></p> <p>The Bank defines APEX loans as the loans provided only to SMEs and exporters through other financial institutions including leasing companies, commercial banks and participation banks</p> <p><b>2) Themed loans</b></p> <p>Categories under sustainable loans are:</p> <ul style="list-style-type: none"><li>- Energy Production (excluding thermic power plants)</li><li>- Energy and Resource Efficiency</li><li>- Environment</li><li>- Sustainable Tourism</li><li>- Electricity and Gas Distribution (not the whole loan but the infrastructure loans within the sub-sector)</li><li>- Health (not the whole loan but the loans that go to Public Private Partnership - PPP projects within the sub-sector only)</li><li>- Agribusiness</li><li>- Small &amp; Medium Enterprises</li><li>- Women Employment</li><li>- Occupational Health and Safety</li></ul> <p><b>3) Loans granted to exporters</b></p> <p>The Turkish private sector export average was 16% in 2017, which means that 16% of all goods and services produced were exported. As a development bank, TSKB sees exports as an important source for sustainable development of the economy and considers loans provided to companies with export rates, of 16% or above, as sustainable-themed loans as it is above the private sector average.”</p>
		<p>“The Bank defines this indicator as the number of total Management level employees of TSKB (excluding subsidiaries) and the breakdown by gender at the reporting period end.</p> <p>Management level employees include the following levels:</p> <ul style="list-style-type: none"><li>- Chief Executive Officer</li><li>- Executive Vice President</li><li>-Department Head</li><li>-Senior Manager</li></ul>
		<p>The Bank defines this indicator as the total number of training hours provided to its Head-office employees (excluding administrative staff) during the reporting period.</p>
		<p>The Bank defines this indicator as the ratio of the total number of employees who responded to the survey divided by the total number of survey participants.</p>
Natural	Intertal impacts 1) Electricity consumption (kWh) from Head Office in 2017 2) Natural gas consumption (m³) from Head Office in 2017 3) Water consumption (m³) from Head Office in 2017 4) Paper consumption (kg) from Head Office in 2017 5) Electricity intensity (Consumption in kWh/m²) in 2017 6) Water intensity (Consumption in m³/Staff) in 2017 7) Recycled Waste of Glass, Plastic and Paper (tons) in 2017	<p>Environmental impacts of the Bank’s operations, defined as from its head-office buildings:</p> <p>Total electricity consumption includes electricity used for heating and other business operations that require electricity.</p> <p>Total natural gas (NG) consumption includes NG used for heating and cooking.</p> <p>Total water consumption (m³) for the report period as measured by on-site flow meter readings.</p> <p>This indicator is defined as the total paper consumption by the Bank (excluding its subsidiaries) for the report period.</p> <p>This indicator is defined as the total water consumption (in m³) divided by the average number of Bank employees (excluding its subsidiaries) in the report period. The average number of employees is calculated based on taking the average of employees at the end of June and December.</p> <p>This indicator is defined as the weight of recycled waste of glass, plastic and paper at the end of reporting period. Waste data is derived from invoices provided by the local municipality.</p>
		<p>This indicator is defined as the estimated total GHG emissions reduction from the renewable energy projects partially or totally financed by the Bank. The assumptions for calculating the reduction for each renewable energy efficiency ratio were based on using the Turkey sector average between the years 2012-2017 for different renewable energy sources.</p>
		<p>This indicator is defined as the total installed renewable energy capacity, in MW, partially or totally financed by the Bank as of the report period end.</p>
		<p>This indicator is defined as the total renewable energy capacity, in MW, financed by the Bank compared against Turkey’s total installed renewable energy capacity as of the report period end.</p>



6<sup>th</sup> Sustainability Workshop



ADFIMI Annual General Meeting



Bonds & Loans Award Ceremony



Future with the Business World - Iron & Steel Sector Meeting



Future with the Business World - Eczacıbaşı Meeting



Future with the Business World - Izmir Meeting



COP23 Presentation of Sustainability Experience in Banking Sector



ERTA Integrated Reporting Awareness Training



FIT-TSKB Belgrad Forest Running



Islamic Development Bank



Istanbul Finance Summit - Development Banks Panel



Istanbul Carbon Summit



FIT-TSKB Koruncuk Picnic



Forum Istanbul-Road Map in Energy Panel



IDFC One Planet Summit



OECD - The Role of Development Banks in Transition to the Low Carbon Economy Meeting



SKD - Equality of Opportunity from the Business Word Book Launch



SKD - Women's Employment and Equality of Opportunity - Working Group Meeting



IDFC Ordinary Working Meeting



IDFC Annual Meeting



İKSV Kandinsky Chagall Concert



Sustainable Finance Forum



TSKB Sustainability Meetings - Solar Energy



TSKB Sustainability Meetings - Carbon Markets



IDFC Sherpa Meeting



IFC Capital Markets Conference



TÜREK - Project Finance Panel



Türkiye Menkul Değerler Kurumu  
Turkey Capital Markets Association  
Conference - Integrated Reporting Panel



TÜSIAD Banking Conference



BIST - Integrated Reporting Experience  
Sharing Conference





Please scan the QR Code or click the **link** to reach the footnotes of the independent auditors' reports.

**TSKB**

MECLİSİ MEBUSAN CAD. 81 FINDIKLI 34427 İSTANBUL/TURKEY

TSKB.COM.TR

TSKB Sustainability Consultancy Company - Escarus has provided consultancy services to TSKB in the preparation of the 2017 Integrated Report.



100% recycled paper is used for the publication of this report.