



**TAKAS**  
**İSTANBUL**



**[2017]**  
**ANNUAL**  
**REPORT**

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## INTRODUCTION

### INFORMATION ON THE STATEMENT PERIOD AND THE BANK'S TRADE NAME, ADDRESS, TELEPHONE AND FAX NUMBERS, AND EMAIL ADDRESSES FOR THE MAIN OFFICE OR HEADQUARTERS

#### CONTACT INFORMATION

**Statement Period:** 2017

**The Bank's Trade Name:** Istanbul Settlement and Custody Bank

**The Bank's Trade Name:** "TAKASBANK" or "TAKAS ISTANBUL."

**Headquarters Address:** Reşitpaşa Mahallesi, Borsa İstanbul Caddesi, No: 4 Sarıyer 34467, İstanbul

**Telephone:** 0 212 315 25 25 (pbx)

**Fax:** 0 212 315 25 26 (pbx)

**Trade Registry No:** 276870

**Mersis No:** 0481002693100015

#### Email Addresses

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**Member Information** [uye@takasbank.com.tr](mailto:uye@takasbank.com.tr)

**Registered Email (KEP) Address** [takasbank.haberlesme@hs03.kep.tr](mailto:takasbank.haberlesme@hs03.kep.tr)



# TAKAS İSTANBUL

## About Takas Istanbul

Takas Istanbul (Takasbank) provides clearing, settlement, custody, central counterparty, and banking services to its members in the Turkish capital markets through its central settlement and clearing and banking licenses.

Takas Istanbul is a central clearing and settlement organization authorized to execute cash and securities settlements for transactions related to equities, debt securities, foreign capital market instruments, derivatives, and precious metals market at the Borsa Istanbul.

Commitments to deliver and receive securities arising from trading by Borsa Istanbul members and payment commitments in return for securities are settled on account by Takas Istanbul.

Takas Istanbul provides a reliable, fast, and low-cost cash transfer service and acts as an intermediary between money and capital markets, as well as provides settlement services online with organized markets in fully automated environment for the markets operating at Borsa Istanbul within the framework of capital market and Borsa Istanbul legislation.

It now offers central counterparty service at the Borsa Istanbul Equity Market.

The trade name "Takas Istanbul" has been added pursuant to an amendment to article 2 of the Articles of Association.

Takas Istanbul increased its profit before tax by 31 percent to 348.64 million TRY.

# SUMMARY OF 2017 OPERATIONS

We continued our multifaceted contributions for the expansion and



## EQUITIES

Equities rose to 1.25 billion TRY.



## SETTLEMENT SYSTEM

Takasbank has been authorized by the Central Bank of the Republic of Turkey as the Securities Settlement System operator pursuant to Law No. 6493 on Payment and Securities Settlement Systems.



## BISTECH

Settlement and clearing, collateral, and risk management services provided to the Borsa Istanbul Futures and Options Market (VIOP) are now offered over BISTECH.



## R&D

"On-site R&D Center" certification obtained with the completion of the R&D Center technical infrastructure.



## SETTLEMENT AND CLEARING LOAN

With initiation of the "Settlement and Clearing Loan" to meet the members' liquidity needs, 1.8 million TRY of placement average reached.



## USE OF PRIVATE TERMINAL

Members begin trading by using their own terminals from the free current U.S. dollar and Euro accounts at Takasbank.



## CAPITAL MARKETS CONGRESS

Main sponsor support for the Capital Markets Congress.



## NO-CORRESPONDENT MODEL

No-correspondent model commences with cash settlement and clearing and collateral management in the Precious Metals Market.



## NATURAL GAS MARKET

The Organized Wholesale Natural Gas Sale Market is planned to get started in the second half of 2018.



## SLM

Securities issued among the credit transactions in the Securities Lending Market (SLM) and securities that can be short-sold were used to be closed to transactions as of the date of being removed from the list. As of November 3, 2017, they will be closed to transaction in the SLM by the end of the settlement and clearing period of the last date they can be short-sold.



## 09.30

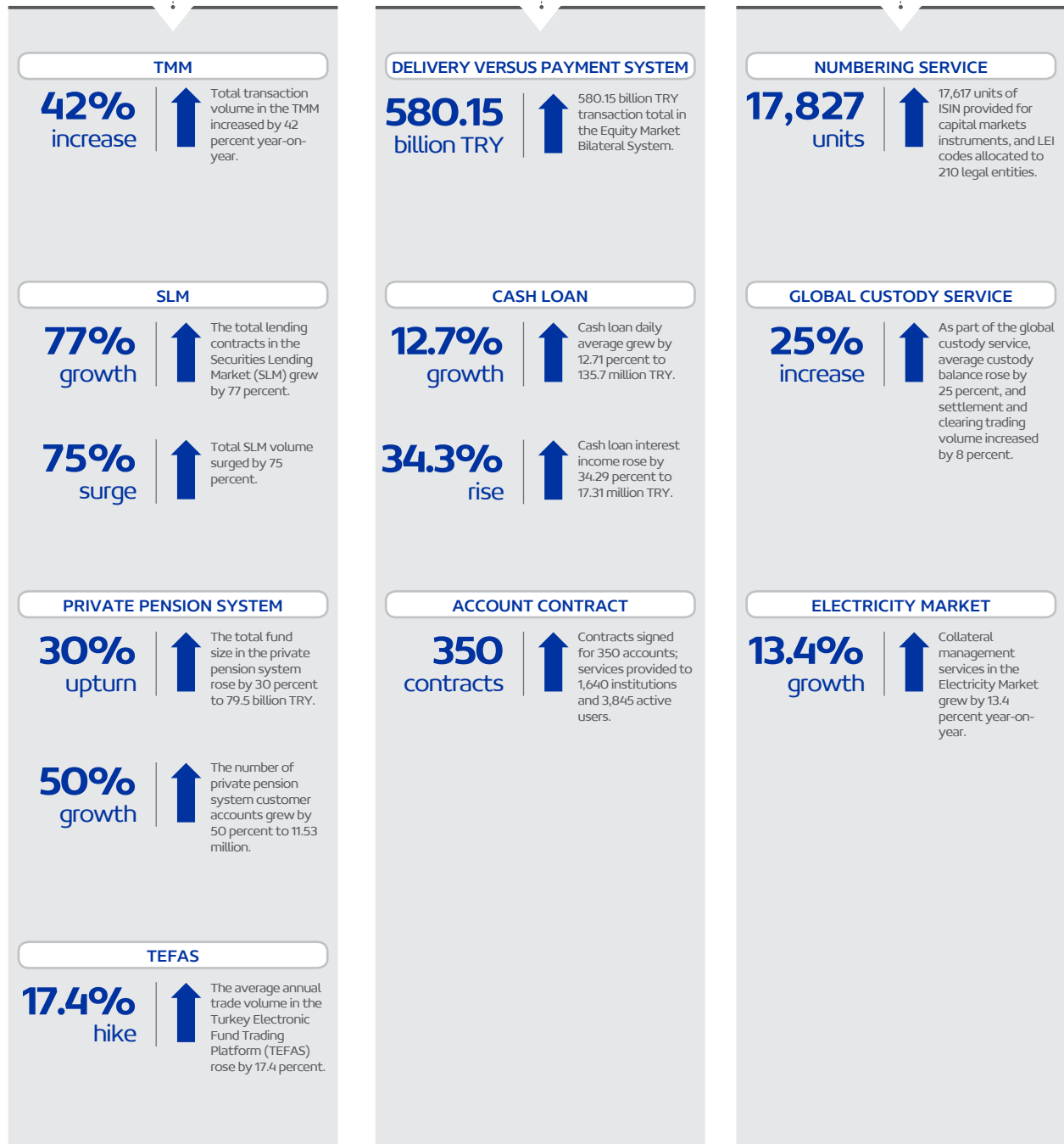
Takasbank Money Market (TMM)'s new session start time is 9:30.



## HIGHEST IN THE PAST 15 YEARS

TMM reached the highest number of trading members in the last 15 years.

## ...development of the capital markets. Lasting value for members.



## ACCOUNTING PERIOD ASSESSMENT AND FUTURE PROJECTIONS BY THE CHAIRMAN AND THE CEO



### MESSAGE FROM THE CHAIRMAN

The Bank pioneered myriad innovations in 2017 and increased its profit before tax by 31 percent.

**Murat ÇETİNKAYA**

Chairman of the Board of Directors

#### ESTEEMED SHAREHOLDERS

In 2017, the world economy continued to grow and our country's growth rate exceeded those of many countries.

At the end of a successful year, Takasbank increased profit before tax by 31 percent to 348.64 million TRY, and shareholders' equity to 1.25 billion TRY.

It now offers central counterparty service at the Borsa Istanbul Equity Market with the onset of a range of newly introduced innovations and developments.

Takasbank has been authorized by the Central Bank of the Republic of Turkey as the Securities Settlement System operator pursuant to Law No. 6493 on Payment and Securities Settlement Systems.

With an amendment to article 2 of the Articles of Association of Takasbank, the trade name of "Takas Istanbul" has been added to Takasbank.

Technical infrastructure development of the R&D center has been completed.

We have designed our website with a new interface and revamped infrastructure to promptly and safely adapt its content to the company's dynamism, offering multi-language support in line with our corporate identity and global objectives.

Takasbank now provides settlement, margin, and risk management services to the Borsa Istanbul Futures and Options Market on the BISTECH system.

The total lending contracts in the Securities Lending Market (SLM) has grown by 77 percent and the business volume by 75 percent.

The Settlement and Clearing Loan has been initiated to meet the members' liquidity needs.

Takasbank received first prize for "Best Change Management Project" from the IDC Turkey's Public Technology Award Ceremony with its "Unallocated Gold Transfer Project" Also, as part of the IDC Finance Summit, Takasbank took first prize with its "BISTECH Technological Transformation of Clearing and Risk Management System" project in the "Financial Inclusion" category in the "Best Finance Technology Projects of the Year" competition.

Our efforts have paid off as the Bank ranked 77th among the top 100 tax payers, rising above 721,524 corporate taxpayers.

In 2018, the efforts to launch the Organized Wholesale Natural Gas Sale Market will continue.

Takasbank will operate in the Specialized Product Exchange of Turkey (TÜBAŞ) once the transaction platform is established.

Gold balance provisions will be held physically at 100 percent at the Borsa Istanbul vaults, and domestic transfers will be done by unallocated transfer on Takasbank systems.

The Gold-Based Digital Asset project aims to create a gold-based digital value, use Blockchain infrastructure to transfer this value and transfer it into unallocated gold, and also allow transfers between people.

Takasbank is determined to pursue greater feats in line with domestic and foreign capital market standards by utilizing its seasoned workforce, sound technological infrastructure, and innovative attitude, and continue creating added value by fulfilling its responsibilities and duties as part of the international markets vision in accordance with our country's 2023 objectives.

On behalf of our board of directors, I thank our stakeholders, members, employees, and executives for the support they provide in achieving the Bank's goals.



**Murat ÇETINKAYA**

Chairman of the Board of Directors

**Takasbank is determined to pursue greater feats in line with domestic and foreign capital market standards by utilizing its seasoned workforce, sound technological infrastructure, and innovative attitude, and to continue creating added value.**

**Takasbank ranked number 77 among 721,524 corporate taxpayers in 2017.**

## ACCOUNTING PERIOD ASSESSMENT AND FUTURE PROJECTIONS BY THE CHAIRMAN AND THE CEO



### MESSAGE FROM THE CEO

Takasbank Equity Market reached its highest level since inception with a 42-percent year-on-year rise in total transaction volume.

**Mahmut KAYACIK**  
CEO and Board Member

#### ESTEEMED SHAREHOLDERS

Upon completion of a successful year, Takasbank continues to provide customer-centric services with an innovative approach to meet the rising expectations of the capital and finance markets while acting as a safe bridge between our country's capital and money markets for over 20 years.

The Bank's total assets rose by 31.95 percent to 10.56 billion TRY, up from 8 billion TRY; shareholders' equity by 19.41 percent to 1.25 billion TRY, up from 1.04 billion TRY; operating profit by 31.39 percent to 348.64 million TRY, up from 265.35 million TRY; and interest and portfolio income by 37.96 percent to 405.70 million TRY, up from 294.06 million TRY, accounting for the highest figures in Takasbank's history.

A summary of Takasbank's 2017 operations:

- The Bank has been found to be fully compliant with the 22 principles with regard to CCP organizations as a result of the assessment by the Committee on Payments and Market Infrastructures and the International Organization of Securities Commissions (CPMI-IOSCO), to prove compliance to principles applicable to financial infrastructure organizations.
- Provided the Capital Markets Congress support through main sponsorship, advisory committee membership, and speakers.
- Initiated the no-correspondent model in cash settlement and clearing and collateral management in the Precious Metals Market.
- Disaster Recovery Operation Center moved to the new Yenibosna campus, which comprises all organizations of the Borsa Istanbul Group.
- Equipment speed, memory, and physical disk area enhanced by improvements at the Disaster Recovery Operation Center.
- Daily work processes instituted -- mainly for project management, service desk, change management, request management, and application development -- to gather information systems processes on a central platform and ensure integration.
- Personal Data Inventory completed with regard to the obligations pursuant to the Law On the Protection of Personal Data.
- Electronic Document Management System developed to keep and archive all incoming and outgoing documents electronically.
- Workload automation set up for systematic, secure, and efficient single-center management of automated day-end and workday practices, and of planned operational applications such as back-up and patch management.
- Provided credit rating and evaluation scores to 274 banks, intermediary institutions, and factoring, leasing, finance, and insurance companies operating in Turkey.
- Complementary pension funds being subject to their own private law and operating on a defined contribution model and Asset Management Companies are added to the list of institutions we provide Takasbank Money Market (TMM) service and also the start hour of session is changed to 9:30 a.m. in this market established by Takasbank.
- TMM reached the highest number of trading members in the last 15 years. Total trading volume reached the highest level since the inception of TMM, with a 42-percent year-on-year increase.
- The average annual trade volume in the Turkey Electronic Fund Trading Platform (TEFAS) rose by 17.38 percent.



- Securities issued among the credit transactions in the Securities Lending Market (SLM) and securities that can be short-sold were used to be closed to transactions as of the date of being removed from the list. As of November 3, 2017, they will be closed to transaction in the SLM by the end of the settlement and clearing period of the last date they can be short-sold.
- Trading volume in the SLM rose by 74.72 percent to 12.9 billion TRY. Total shares used for lending reached 3.4 billion and total lending contracts increased by 76.76 percent to 111,718.
- In 2017, a total of 82 brokerage houses accounted for a trading volume of 1.46 trillion TRY in the Equity Market. After netting, settlement transactions reached 80.35 billion TRY (5.47 percent) in cash exchange and 288.98 billion TRY (19.68 percent) market value in securities exchange.
- The number of active members in the Futures and Options Market rose to 69 while the number of open positions was 1,923,795 with a market value of 7.25 billion TRY by 2017 year-end.
- After multilateral netting, the Debt Securities Market executed a cash settlement of 727.58 billion Turkish lire (15.91 percent of the total stock market trading volume). Total market value of equities settlement was 2.65 trillion TRY (57.98 percent of the total stock market trading volume).
- Takasbank transferred debt securities to our members in the amount of 543.75 billion TRY/nominal. Of this figure, 540.86 billion TRY and 2.89 billion TRY nominal amounts were free of payment and bilateral Takasbank transfer, respectively.
- In the Electricity Market, settlement and clearing collateral management services were provided to 1,145 participants, up by 13.37 percent year-on-year.
- As part of the global custody service, average custody balance rose by 25 percent to 4.90 billion Euros, and settlement and clearing trading volume increased by 8 percent.
- On April 20, 2017, Takasbank became an on-site R&D Center upon approval by the Ministry of Science, Industry and Technology.
- The number of accounts containing private pension funds as part of the voluntary system in private pension companies rose by 373,774 to 8,059,023. The participants' fund size grew to 77.7 billion TRY with an increase of 17.2 billion TRY.
- Nearly 8.9 million private pension fund accounts were opened as part of the Automatic Enrolment System in private pension companies, with a total fund amount of 1.8 billion TRY for the current 3,471,597 active accounts. Opt out rate from the Automatic Enrolment System was at 57 percent.
- The total collateral value of 95,949 accounts out of the 220,910 accounts opened in the Leveraged Trading Transactions is 843 million TRY.
- Transaction amount reached 580.15 billion TRY in the Bilateral System.

**Takasbank continues to achieve new accomplishments each year since its foundation.**

- As a national numbering agency, Takasbank has allocated 17,617 ISIN codes for the capital markets instruments, a 24-percent rise year-on-year. Takasbank has also processed 210 Legal Entity Identifier (LEI) applications.
- Cash loan daily placement average grew by 12.72 percent to 135.7 million TRY, and interest income rose by 34.29 percent to 17.31 million TRY.
- The Bank began offering currency trading services as part of its banking transactions so that members can fulfill their foreign exchange obligations effectively, on time, and at low cost.
- It drew up 350 account contracts and provided services to 1,640 institutions and 3,845 active users.

Takasbank continues to achieve new accomplishments each year since its foundation.

I would like to thank our employees, who have done the lion's share of providing our customers with fast and efficient service, as well as the Borsa Istanbul, Merkezi Kayıt İstanbul-CSD of Turkey and our stakeholders for their support and collaboration in making these achievement possible.



**Mahmut KAYACIK**  
CEO and Board Member

## MILESTONES

**1992**

- IMKB Takas ve Saklama A.Ş. established.

**1995**

- The Capital Markets Board of Turkey authorizes Takasbank as the National Numbering Agency.

**1996**

- ISE Clearing, Settlement and Custody Bank Inc. established by obtaining an investment bank license.
- Takasbank Equity Market service launches.

**1997**

- Takasbank Electronic Transfer System (TETS) commences.
- Eurobond clearing and settlement operations began with the securities account being opened with Euroclear Bank.

**1998**

- Bilateral system established.

**2001**

- Merkezi Kayıt İstanbul-CSD of Turkey (formerly MKK) established under the leadership of Borsa İstanbul and Takasbank.

**2003**

- Takasbank begins providing custody services to the Private Pension System (PPS).

**2005**

- Securities Lending Market launches. VOB derivatives exchange is founded and derivative clearing and collateral management services are started to be provided via Takasbank.

**2006**

- Clearing and settlement services begin for corporate bond transactions.
- Takasbank becomes a member of the European Central Securities Depositories Association (ECSDA).

**2007**

- Bilateral (RTGS DvP) system integrated with SWIFT.

**2008**

- Takasbank becomes a member of the International Institute of Finance (IIF).
- Takasbank becomes a member of the Organization of the Islamic Cooperation (OIC) Member States' Stock Exchanges Forum.

**2011**

- Capital Markets Board of Turkey (CMB) authorizes Takasbank for the Leveraged Transactions (FOREX) as Trade Repository and customer collaterals' safe keeping.
- New agreement signed with TEİAŞ (energy market operator) to conduct Cash Settlement and Collateral Management operations in the Electricity Market by Takasbank as the Central Settlement Bank.
- Turkish Electronic Fund Distribution Platform (TEFAS), established by Takasbank and MKK (CSD of Turkey), begins operations.

**2012**

- Takasbank logo and corporate identity changed to better reflect the Bank's fundamental values of trust and future goals.
- Takasbank commissioned as clearing and settlement service provider by the Istanbul Gold Exchange as part of the project to consolidate all stock exchanges under one roof to provide services under a common electronic clearing and settlement platform. Takasbank starts to provide clearing, settlement, risk and collateral management services to the Borsa İstanbul Futures and Options Market.

### 2013

- Trade name changes to Istanbul Settlement and Custody Bank, Inc.
- Takasbank begins operating as a Central Counterparty (CCP) in the Securities Lending Market after appointment by the Capital Markets Board.
- Authorized as the Local Operating Unit (LOU) for the allocation of Legal Entity Identifier (LEI) Code) with the Capital Markets Board of Turkey sponsorship.
- Electronic Warehouse Receipts (EWR) Clearing and Settlement Service commences in the commodity exchanges upon approval by the Customs and Trade Ministry. Takasbank starts to provide cash settlement and collateral management services to the Istanbul Gold Exchange via a correspondent bank.

### 2016

- Move to the new campus in İstinye.
- Clearing and settlement transactions are settled as CCP at Borsa Istanbul Money Market.
- Application to the European Securities and Markets Authority (ESMA) for recognition as a third country central counterparty (CCP) institution.
- Declared a qualified central counterparty (QCCP) by the Capital Markets Board of Turkey.
- Service to enable for Borsa Istanbul Futures and Options Market investors to monitor collaterals, positions and investor information via our website is launched.

### 2014

- Takasbank begins providing CCP services at Borsa Istanbul Futures and Options Market.
- ISO 27001 Information Security Management System Certificate (ISMS) obtained.
- ISO 22301 Business Continuity Management System Certificate (BCMSS) obtained.
- Portfolio Custody Services commence.

### 2017

- **Takasbank becomes an on-site R&D Center.**
- **Clearing and settlement transactions are settled as CCP at Borsa Istanbul Equity Market.**
- **Takasbank provides settlement, margin, and risk management services to the Borsa Istanbul Futures and Options Market on the BISTECH system.**
- **Asset management companies can become members of the Takasbank Equity Market.**
- **Central cash settlement and collateral management services has started to be provided in the Borsa Istanbul Precious Metals Market without using a correspondent bank.**
- **Customer- and fund-based custody services offered as part of the PPS and Automatic Enrolment System.**

### 2015

- Settlement and clearing and transfer services moved to the BISTECH system from the Borsa Istanbul Equity Market upon completion of equity market infrastructure development efforts.
- TapuTakas (Takasbank Real Estate Title Deed Payment Transfer Service) Project launches
- Fund Information Platform Service commences.
- Leasing, factoring, consumer finance companies, insurance, and private pension companies begin trading on the Takasbank Equity Market via internet access.
- TEFAS begins trading with new implementation principles. Energy Exchange (EXIST) is founded as an operator to energy markets and Takasbank has started to provide cash settlement and collateral management services for Electricity Market of the EXIST.

## SUMMARY FINANCIAL INFORMATION ON OPERATING RESULTS FOR THE ACCOUNTING PERIOD

During the January 1 - December 31, 2017 operating period, Takasbank posted 348.64 million TRY profit before tax, 276.37 million TRY net profits, 405.70 million TRY interest income, 319.72 million TRY net interest income after 85.98 million TRY interest expense, and 28.92 million TRY net non-interest income.

In 2017, Takasbank posted 348.6 million profit before tax and 276.4 million TRY net profits.

## HISTORIC DEVELOPMENT OF THE BANK, AMENDMENTS, AND THE REASONS FOR THE ARTICLES OF ASSOCIATION

Takasbank was founded in 1992 under the name of ISE Settlement and Custody Inc. as a joint stock company, subject to the provisions of the Turkish Commercial Code under the leadership of the Istanbul Stock Exchange (ISE), with the goal of providing clearing, settlement, and custody services in the capital markets. In 1995, the Company acquired bank status by obtaining an investment banking license to provide banking services related to clearing, settlement, and custody. It changed its name to ISE Settlement and Custody Bank Inc. Pursuant to provisional article 8 of the new Capital Markets Law No. 6362, dated December 30, 2012, it earned central clearing and settlement institution status. It changed its name to Istanbul Settlement and Custody Bank Inc. in 2013.

Based on the legal grounds provided by the new Capital Markets Law No. 6362 dated December 30, 2012, Takasbank began providing "Central Counterparty Services (CCP)," first on the Securities Lending Market (SLM) it operates in September 2013, then on the Futures and Options Market (VIOP) at Borsa Istanbul A.Ş. (BIAS) in March 2014, on Borsa Istanbul Money Market in October 2016, and on the Borsa Istanbul Equity Market in June 2017.

Takasbank has been authorized by the Central Bank of the Republic of Turkey as the Securities Settlement System operator pursuant to Law No. 6493 on Payment and Securities Settlement Systems.

The trade name Takas Istanbul was added pursuant to an amendment to article 2 of the Articles of Association.



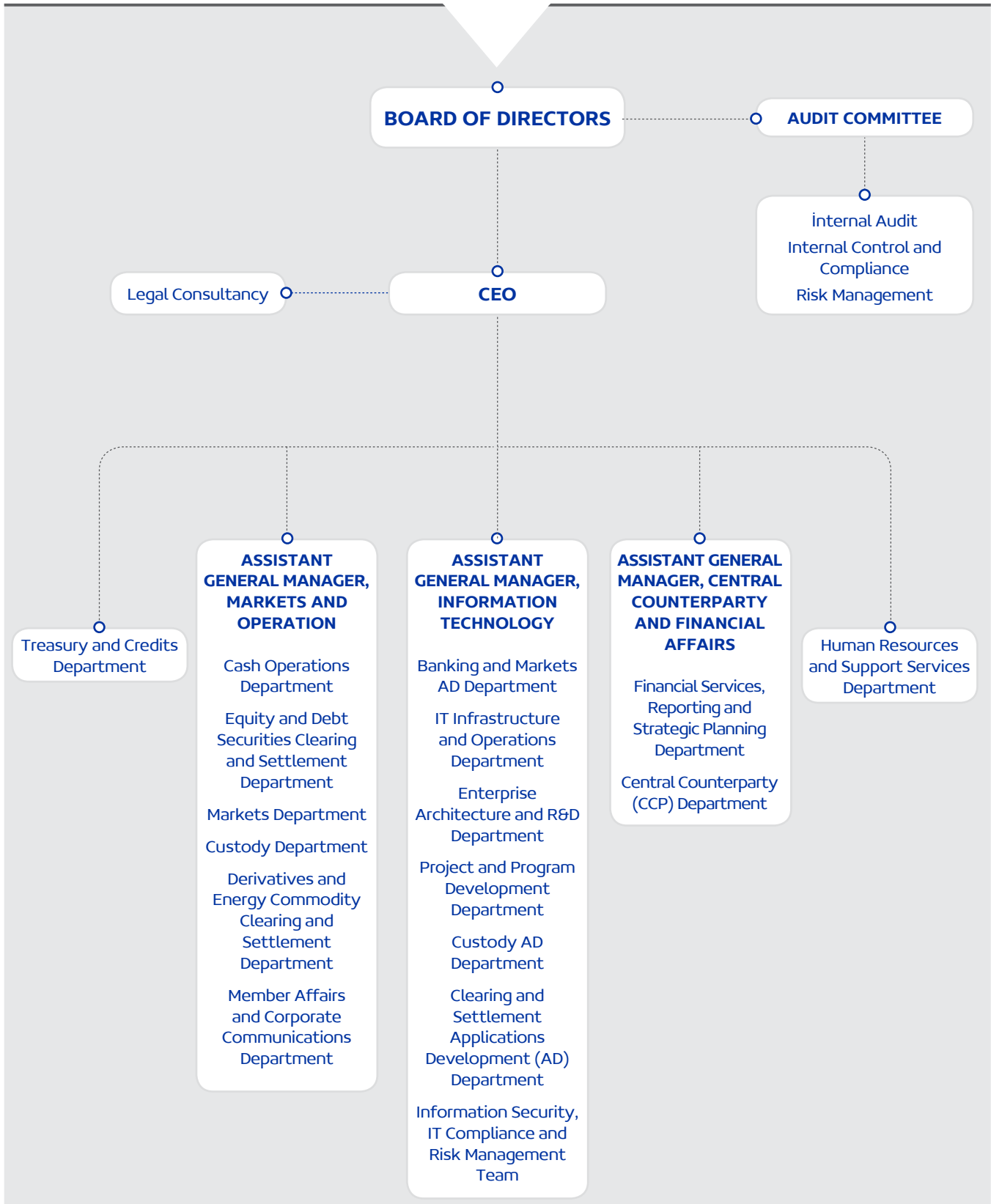


# In Line with Global Objectives

**WE HAVE DESIGNED OUR WEBSITE WITH A NEW INTERFACE AND REVAMPED INFRASTRUCTURE TO QUICKLY AND SAFELY ADAPT ITS CONTENT TO THE COMPANY'S DYNAMISM TO OFFER MULTI-LANGUAGE SUPPORT IN LINE WITH OUR CORPORATE IDENTITY AND GLOBAL OBJECTIVES.**

**CHANGES IN THE BANK’S ORGANIZATION, CAPITAL AND SHAREHOLDER STRUCTURE, AND RELATED MATTERS IN THE ACCOUNTING PERIOD; INFORMATION ON THE TITLES AND SHARES OF REAL OR LEGAL PERSONS HOLDING QUALIFYING SHARES**

**ORGANIZATION CHART**



## THE BANK'S ORGANIZATION, CAPITAL AND SHAREHOLDER STRUCTURE

Borsa İstanbul A.Ş. owns 63.83 percent of Takasbank shares. Originally a public legal entity called Istanbul Stock Exchange, Borsa İstanbul A.Ş. later became a joint stock company with a private legal entity in accordance with Capital Markets Law No. 6362. Established to engage in exchange activities pursuant to article 138 of the Law, Borsa İstanbul A.Ş. incorporated all exchanges in our capital markets under a single roof and received its operation permit by the direct registration and promulgation of its articles of association on April 3<sup>rd</sup>, 2013.

Pursuant to the provisions of the Law and applicable regulations, the primary objective and business line of Borsa İstanbul A.Ş. is to ensure that capital markets instruments, foreign currencies, precious metals and stones, and other contracts, documents, and assets deemed eligible by the Capital Markets Board are traded in a facile and secure manner under free trade conditions in a transparent, efficient, competitive, fair, and stable environment; to match or facilitate the matching of buy and sell orders with these assets in a manner to finalize them; to create, establish, and develop markets, marketplaces, trading platforms, systems, and other organized marketplaces to determine and announce formed prices; to manage and/or operate the aforementioned or other exchanges or markets of other stock exchanges; and to engage in other activities stipulated in its articles of association.

Principal shareholders and capital structure of Takasbank as of December 31, 2017 and December 31, 2016:

Shareholder Name	Current Period			Previous Period		
	Paid-in Capital	%	Number of Pieces	Paid-in Capital	%	Number of Pieces
Borsa İstanbul A.Ş.	382,989	63.83	1	373,515	62.25	1
Tacirler Menkul Değerler A.Ş.	29,016	4.84	1	27,971	4.66	1
Phillip Capital Menkul Değerler A.Ş.	27,923	4.65	1	27,923	4.65	1
Yapı Kredi Yatırım Menkul Değerler A.Ş.	26,280	4.38	1	26,280	4.38	1
Türkiye Garanti Bankası A.Ş.	29,685	4.95	1	26,235	4.37	1
Türkiye İş Bankası A.Ş.	26,235	4.37	1	26,235	4.37	1
Türkiye Vakıflar Bankası T.A.O.	26,235	4.37	1	26,235	4.37	1
Other (Brokerage House)	31,536	5.26	27	37,635	6.28	37
Other (Bank)	20,101	3.35	8	27,971	4.67	10
Total	600,000	100.00	42	600,000	100.00	54

## CHANGES IN THE BANK'S CAPITAL AND SHAREHOLDER STRUCTURE IN THE ACCOUNTING PERIOD

The Bank's capital did not change in the current year. Changes in the shareholding structure:

Transferring Shareholder	Transferred Shareholder	Share Amount (Thousand TRY)	Ratio (%)
Global Menkul Değerler A.Ş.	Borsa İstanbul A.Ş.	4,500	0.7500
Taksim Yatırım A.Ş.	Borsa İstanbul A.Ş.	90	0.0150
Kapital Menkul Değerler A.Ş.	Borsa İstanbul A.Ş.	51	0.0086
UBS Menkul Değerler A.Ş.	Borsa İstanbul A.Ş.	51	0.0086
Pay Menkul Değerler A.Ş.	Borsa İstanbul A.Ş.	18	0.0030
Galata Yatırım Menkul Değerler A.Ş.	Borsa İstanbul A.Ş.	6	0.0011
Alfa Menkul Değerler A.Ş.	Borsa İstanbul A.Ş.	10	0.0017
Güven Menkul Değerler A.Ş.	Tacirler Menkul Değerler A.Ş.	1,000	0.1667
Başkent Menkul Değerler A.Ş.	Tacirler Menkul Değerler A.Ş.	45	0.0075
JP Morgan Menkul Değerler A.Ş.	Borsa İstanbul A.Ş.	309	0.0515
Burgan Bank A.Ş.	Borsa İstanbul A.Ş.	2,624	0.4373
Türkiye Garanti Bankası A.Ş.	Borsa İstanbul A.Ş.	1,797	0.2995
Burgan Yatırım Menkul Değerler A.Ş.	Borsa İstanbul A.Ş.	18	0.0030

## CHANGES IN THE BANK’S ORGANIZATION, CAPITAL AND SHAREHOLDER STRUCTURE, AND RELATED MATTERS IN THE ACCOUNTING PERIOD; INFORMATION ON THE TITLES AND SHARES OF REAL OR LEGAL PERSONS HOLDING QUALIFYING SHARES

### INFORMATION ON THE TITLES AND SHARES OF REAL OR LEGAL PERSONS HOLDING QUALIFYING SHARES

With a nominal paid-in capital of 600 million TRY, all shares to be issued representing Takasbank Class-A and Class-B shares are registered. These shares can be transferred only among the stock exchanges established pursuant to the Capital Markets Law and their members, investment institutions, collective investment schemes, asset management companies, mortgage financing companies, central settlement institutions, central custody institutions, publicly-owned joint stock companies listed in the organized markets, and private pension companies established pursuant to the Private Pension Savings and Investment System Law. Except for Borsa Istanbul A.Ş., shares of any single shareholder cannot directly or indirectly exceed 5 percent of the Bank’s capital.

Class-A shares, with a nominal value of 200 TRY each, held at Takasbank, are exclusively owned by Borsa Istanbul A.Ş. and non-transferable, and no other Class-A shares can be issued in the capital increases. Class-A shares entitle Borsa Istanbul A.Ş. to nominate four seats for the Board of Directors of the Bank.

### TITLES OF REAL OR LEGAL PERSONS HOLDING MORE THAN 10 PERCENT OF THE CAPITAL

Takasbank has 42 shareholders in total as of December 31, 2017. Borsa Istanbul A.Ş. is the only shareholder with more than 10 percent stake in the capital, and it holds 63.83 percent of the total capital with a nominal share value of 382.99 million TRY.

### ACTIVITIES OF CONTROLLING COMPANY AND ITS AFFILIATES

Pursuant to article 199 of the Turkish Commercial Code No. 6102, a report must be issued by the Bank’s Board of Directors in the first quarter of the operating period about the Bank’s relationship with its controlling shareholder, Borsa Istanbul A.Ş., and its affiliate, Merkezi Kayıt İstanbul-CSD of Turkey. A summary of the report must be included in the annual report.

The report’s conclusion by the Board of Directors states: “All transactions executed with the controlling shareholder Borsa Istanbul A.Ş. and the other affiliate CSD of Turkey are in accordance with the capital markets and banking legislation. These transactions are ordinary business activities as set forth in the Bank’s articles of association and the banking legislation.

The Bank ran an assessment of all legal transactions with the controlling shareholder Borsa Istanbul A.Ş. and the other affiliate CSD of Turkey in the 2017 operating period, and all measures that were taken or avoided to be taken in favor of these companies.

In regards to the 2017 operating period, it has been concluded that under the known circumstances and conditions, the Bank did not suffer any loss due to any transactions made with the controlling company or affiliate; a suitable counteraction was taken for each transaction; no measures were taken or avoided with possible losses for the Bank, nor were there any transactions or measures that would have required any benefit and loss reconciliation ”.

## TAKASBANK’S AFFILIATES

Company Name	Share Ratio (%)
Merkezi Kayıt İstanbul-CSD of Turkey	64.90
Sermaye Piyasası Lisanslama Sicil ve Eğitim Kuruluşu A.Ş.	10.50
SASE-Sarajevo Menkul Kıymetler Borsası (EUR)	5.00
Ege Agricultural Products Licensed Warehouse	4.12
SWIFT SCRL (EUR)	0.02
Borsa İstanbul A.Ş.	0.15

### INFORMATION ON THE SHARES HELD BY THE BANK’S CHAIRMAN, BOARD MEMBERS, CEO, AND EXECUTIVE VICE PRESIDENTS

The Bank’s chairman, board members, CEO, and executive vice presidents do not own shares in the Bank.



# Automatic Enrolment System

NEARLY 8.9 MILLION PRIVATE PENSION FUND ACCOUNTS WERE OPENED AS PART OF THE AUTOMATIC ENROLMENT SYSTEM IN PRIVATE PENSION COMPANIES, WITH A TOTAL FUND AMOUNT OF 1.8 BILLION TRY FOR THE CURRENT 3.5 MILLION ACTIVE ACCOUNTS. OPT OUT RATE FROM THE AUTOMATIC ENROLMENT SYSTEM WAS AT 57 PERCENT.



GTMX	0.45	▲	+0.45%
FTR	-0.23	▼	-2.34%
CSCO	-1.01	▼	-1.89%
CHK	0.02	▲	
AAPL	+2		
PRT0			
AMZN			
TSLA			
AVGO			
SIRI	0.65		

## EXPLANATIONS ABOUT THE BANK'S NUMBER OF EMPLOYEES AND BRANCHES, AND THE BANK'S FUNCTIONS AND AREAS OF OPERATION, AND THE ASSESSMENT OF THE BANK IN THE INDUSTRY BASED ON THIS DATA

### NUMBER OF PERSONNEL



# 281

The number of personnel of the Bank is 281.  
Takasbank does not have branches.



### SERVICES BY TAKAS ISTANBUL

#### Fund Management Service

- BIAS Debt Securities Market
- BIAS Precious Metals Market
- BIAS Equity Market
- BIAS Futures and Options Market
- EXIST Electricity Market

#### Cash Credit Service

- Brokerage Houses

#### Market Operation Service

- Securities Lending Market (SLM) Service
- Takasbank Money Market (TMM) Service
- Turkey Electronic Fund Trading Platform (TEFAS) Service

#### Central Counterparty Service

- BIAS Equity Market
- BIAS Futures and Options Market (VIOP)
- Takasbank Securities Lending Market (SLM)





### Custody Service

- Private Pension Fund Shares Information Service
- Private Pension Fund Shares Management Service
- Debt Securities Corporate Action Service
- Debt Securities Custody Service
- Physical Custody Service
- Global Custody Service
- Unallocated Custody Service
- Precious Metals Custody Service
- Shares Corporate Action Service
- Portfolio Custody Service
- Local Custody Service

### Numbering Service

- International Securities Identification (ISIN) Service
- Legal Entity Identifier (LEI) Service

### Central Clearing and Settlement Service

- BIAS Debt Securities Market Clearing and Settlement Service
- BIAS Equity Market Clearing and Settlement Service
- BIAS Precious Metals Clearing and Settlement Service
- BIAS Equity Market Clearing and Settlement Service
- BIAS Futures and Options Market Clearing and Settlement Service
- Electronic Warehouse Receipts (EWR) Clearing and Settlement Service
- EXIST Electricity Market Clearing and Settlement Service

### Collateral Management Service

- Debt Securities Market Collateral Monitoring (BIAS) Service
- Electricity Market Transaction Collateral Management Service
- Leveraged Trading Transactions, Collateral Management, and Reporting to the Capital Markets Board of Turkey
- Precious Metals Market Transaction Collateral Management Service
- Equity Market Transaction and Guarantee Fund Management Service
- VIOP Margin and Guarantee Fund Management Service

### Asset Transfer Service

- Debt Securities Transfer Service
- Exchange-Traded Funds Service
- Equities and Other Equity-like Instruments Transfer Service
- Foreign Currency Payment and Transfer Service
- Local Currency Payment and Transfer Service

### Data Vending Services

- Real-Time Data Transfer to Data Vendors
- Periodic Information Transfer Service to Data Vending Companies

### Other Services

- Brokerage House Collateral Safekeeping Service
- Fund Information Platform Service
- Fund Valuation and Capital Markets Board of Turkey Reporting Service
- Suspended Brokerage Houses Transactions Service
- Merkezi Kayıt İstanbul-CSD of Turkey TRY Cash Correspondence Service
- Merkezi Kayıt İstanbul-CSD of Turkey Cash Correspondence Service
- Repo and Reverse Repo Transactions and Monitoring and Reporting Service
- TapuTakas - Takasbank Real Estate Title Deed Payment Transfer Service
- Collateral Agency Service

## EXPLANATIONS ABOUT THE BANK'S NUMBER OF EMPLOYEES AND BRANCHES, AND THE BANK'S FUNCTIONS AND AREAS OF OPERATION, AND THE ASSESSMENT OF THE BANK IN THE INDUSTRY BASED ON THIS DATA

### INTERNATIONAL MEMBERSHIPS

- European Association of Central Counterparty Clearing Houses (EACH)
- Association of National Numbering Agencies (ANNA)
- Organisation of Islamic Cooperation (OIC) Member States' Stock Exchanges Forum
- International Securities Services Association (ISSA) Membership
- ISO TC68/SC4 Committee Society for Worldwide Interbank Financial Telecommunication (SWIFT)



## VISION, MISSION

### VISION

“To become an internationally preferred, reliable, effective, and innovative organization that offers clearing, settlement, banking, and central risk management services at international quality standards.”

### MISSION

“To contribute to market development by offering reliable and effective post-trade services.”

## VALUES



### TRUST

Adhering to the principle of trustworthiness in Takasbank's relations with its customers, shareholders, stakeholders, and employees, Takasbank executes services in a timely and accurate manner according to providence of clear, accurate, and correct information within the concept of mutual trust.



### STABILITY

As a prominent infrastructure institution of the capital market, Takasbank contributes to financial stability in Turkey by offering effective clearing, settlement, and custody services both to organized and over-the-counter markets.



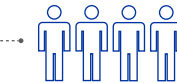
### EFFECTIVENESS

Takasbank embraces an investigative and inquiring approach to developing the most appropriate and accurate solutions for the development of clearing, settlement, custody, and banking services within the scope of market and industry needs by capitalizing on professional expertise and corporate memory at the utmost level.



### ROBUST FINANCIAL STRUCTURE

Takasbank keeps its financial assets at the level necessary to encompass the risks undertaken and to cover its commitments to the markets and settlement members, within the framework of the goal to launch a central counterparty mechanism in the capital markets through effective clearing, settlement, and custody services.



### CUSTOMER-ORIENTATION

Takasbank creates solutions that reinforce the financial system's effectiveness and bolster market growth in clearing, settlement, custody, and related banking services and practices; develops projects within the framework of current and future needs of customers comprising intermediary institutions, exchanges, and other capital market institutions; and operates in an environment of constant collaboration and solidarity with customers and relevant institutions.



### SUSTAINABILITY

Takasbank adopts innovative and creative solutions by observing the efficiency of markets served, and mitigates risks through constant improvement approach.



### TRANSPARENCY

Takasbank discloses necessary notices and announcements to the public and related parties in an accurate and timely manner; it takes responsibility and accepts accountability requirements, and is ready and open to public oversight.

## EXPLANATIONS ABOUT THE BANK'S NUMBER OF EMPLOYEES AND BRANCHES, AND THE BANK'S FUNCTIONS AND AREAS OF OPERATION, AND THE ASSESSMENT OF THE BANK IN THE INDUSTRY BASED ON THIS DATA

### BANK'S ASSESSMENT IN THE INDUSTRY

#### Macroeconomic Outlook, Capital Markets, and Takasbank

Uncertainty in economic policies in the global financial markets diminished in 2017. Contributing factors were the clarity of the Fed's fiscal policy normalization process in terms of balance sheet shrinkage, and the completion of election processes in some EU-member countries and England.

With regard to the fiscal policies of developed countries' central banks, the Fed announced the technical details of the balance sheet shrinkage process at its June, 2017 meeting. It said the process would be gradual and foreseeable until shrinkage reaches a level that does not disrupt effective implementation of fiscal policy. On the other hand, the European Central Bank is expected to maintain its expansionary fiscal policy despite the decrease in the monthly asset purchasing amount from early 2018 in the EU, where concerns such as low bank profits and non-performing receivables persist. Expansionary fiscal policy appears to continue in Japan, where inflation is projected to fall short of midterm target.

In 2017, demand for high-return debt and capital markets instruments remained strong. Leading indicators for the global economic outlook gained strength and the Fed clarified its decision to shrink the balance sheet. New portfolios and risk premiums in emerging countries improved as the result of the global liquidity condition and rising risk appetite.

With a rise in risk appetite in the global economic markets and somewhat decreasing uncertainty, stock exchange indices performed well in 2017, especially in emerging countries and the U S A. Meanwhile, bond returns stayed stable in developing countries but generally decreased in emerging countries due to capital movements.

The rising trend in commodity prices persisted in response to global demand in 2017. Vibrant domestic demand on the economies of emerging countries and China bolstered a rise in the commodity index.

Turkish economy grew by 11.1 percent in the third quarter, despite limited growth in the second quarter as comparison to the first quarter of 2017. Also, in the same period, public consumption dropped year-on-year, and growth was reinforced mainly due to special consumption and construction, machinery and equipment investments, which account for the domestic demand, as well as net exports. Tax breaks, tourism income, and the Credit Guarantee Fund played a role in the rising domestic demand.

Unemployment fell to 10.3 percent in October, a drastic drop compared to the start of 2017. The change came as a result of policies that aimed to strengthen economic activities and increase employment.

**The rising trend in commodity prices persisted in response to global demand in 2017. Vibrant domestic demand on the economies of emerging countries and China bolstered a rise in the commodity index.**

The economy gained momentum was brought about by macro-economic policies and incentives implemented to support economic activity through the financial system. Also, current account balances basically remained the same despite the rise in the GDP in 2017, and a tight fiscal policy was implemented in coordination with financial measures and incentives. On the other hand, CPI was 11.92 percent at the end of the year due to an increase in export prices, mainly in oil and main metals, to adverse effect on the exchange fluctuations.

The average funding interest rate reflects the CBT's insistence of tight fiscal policy. Nevertheless, the supporting measures and incentives in 2017 delayed the effects of the monetary transfer mechanism only slightly. In 2018, fiscal policy is expected to be more effective as loan growth returns to normal.

The exchange basket fluctuated from September 2017 on as a result of geopolitical developments and fiscal policy normalization statements by developed countries throughout 2017. TRY failed to achieve the returns it deserves, standing out from other emerging countries' currencies due to geopolitical developments.

# Fully Compliant with the CPMI- IOSCO Principles

**TAKAS ISTANBUL HAS ACHIEVED FULL COMPLIANCE WITH THE CPMI - IOSCO PRINCIPLES FOR FINANCIAL MARKET INFRASTRUCTURES. ASSESSMENT SHOWED THAT TAKAS ISTANBUL IS FULLY COMPLIANT WITH THE 22 PRINCIPLES REGARDING CCP ORGANIZATIONS.**



## EXPLANATIONS ABOUT THE BANK'S NUMBER OF EMPLOYEES AND BRANCHES, AND THE BANK'S FUNCTIONS AND AREAS OF OPERATION, AND THE ASSESSMENT OF THE BANK IN THE INDUSTRY BASED ON THIS DATA

2018 presents the main fragility elements as the geopolitical risks in the global economy and the financial markets, developed countries' fiscal policy risks, and the political risks in the Eurozone, which is our greatest export market. The Turkish economy is projected to bolster growth through the continuation of balanced fiscal and economy policies this period, as it did in the previous period. Thanks to its sound capital base, consistent asset quality, and sufficient liquidity asset level, the banking industry remains resistant to the global shocks that occurred due to the aforementioned reasons.



### Takasbank in International Markets Relations with International Capital Markets

Globalization is a process that brings a country's financial markets closer to those in other countries and global markets. This means eliminating the barriers that prevent foreign financial institutions from operating in all or some of these countries or provide cross-border financial services. As a result, banking, capital markets, and other financial markets have become interconnected.

A series of clearing, settlement and custody standards, and regulations has been introduced to stimulate participating countries in the global economy to develop their capital markets -- especially clearing, settlement, and custody services -- and achieve compliance with international capital markets.

The best known and most commonly used of these regulations are the European Market Infrastructure Regulation (EMIR) and the CPMI-IOSCO Principles for Financial Market Infrastructures.

Globalization and the ensuing dependency between financial markets necessitate improvement to the productivity, effectiveness, and reliability of the clearing, settlement, and custody systems, which are among of the vital elements of a country's capital market infrastructure, not only in local capital markets, but also in international markets.

Within the framework of harmonizing Turkish capital markets with international capital markets, Takasbank complies with all international standards regarding securities clearing, settlement, and custody systems, particularly in terms of legal framework, operational reliability, operational efficiency and transparency, settlement principles, settlement hours, protection of customer assets, and regulatory-supervisory issues.

In 2017, Takasbank's corporate website published its compliance with CPMI-IOSCO principles for financial market infrastructures with an update to include regulations regarding the Borsa Istanbul Equity Market, for which it began to provide Central Counterparty services. The Bank has been found to be fully compliant with the 22 principles with regard to CCP organizations.

The Capital Markets Board of Turkey also recognized Takasbank as a qualified CCP complying with the CPMI-IOSCO Principles on Financial Market Infrastructures on March 23, 2016. Takasbank subsequently applied to EU regulator ESMA to be recognized as a third country CCP in August 2016.

In 2017, Takasbank continued efforts to earn the place it deserves among international capital market institutions. Accordingly, together with BIAS and CSD of Turkey, it collaborated closely with both international and regional clearing, settlement, and custody institutions. Furthermore, Takasbank organized various training and workshops with aspirations to become a regional finance center and help develop regional capital markets.

Along with these activities, Takasbank began providing CCP services at the Securities Lending Market, which it operates, in September 2013; at the Borsa Istanbul Futures and Options Market in March 2014; at the Istanbul Money Market in October 2016; and the Equity Market in June 2017.



## International Memberships

### **European Association of Central Counterparty Clearing Houses (EACH)**

The European Association of Central Counterparty Clearing Houses (EACH) was founded in 1992 with the goal of representing the common interests of Central Counterparty Clearing House organizations operating in European countries. It has 19 CCP service providers from 15 European countries. Takasbank became an EACH member at the organization's General Assembly on October 7, 2014. EACH membership gives Takasbank the opportunity to become acquainted with studies of CCP practices within the EU and express its views on these issues, as well as foster relationships and cooperation with the CCP member organizations.

### **Association of National Numbering Agencies (ANNA) Membership**

The Association of National Numbering Agencies (ANNA) is an international organization with 95 full members and 25 associate members worldwide. National numbering agencies authorized to assign ISIN codes to securities are eligible for ANNA membership.

As the national numbering agency in Turkey, Takasbank has been an active member of ANNA since 1995 and serves on the Technical Committee of ANNA Service Bureau (ASB), which

The European Association of Central Counterparty Clearing Houses (EACH) was founded in 1992 with the goal of representing the common interests of CCP organizations.

aims to collect ISIN codes and basic securities information on a web-based platform and offer these codes and information as a product to financial institutions. As the world's largest ISIN and CFI database, the ASB database is a valuable resource for international financial markets.

### **Organization of the Islamic Conference (OIC)**

Founded in 2005, the Organization of Islamic Conference (OIC) Member States' Stock Exchanges Forum aims to promote cooperation among stock exchanges operating in OIC countries. In addition to stock exchanges, clearing settlement and custody institutions operating in the capital markets may proactively participate the Forum's activities. The Forum has a total of 57 members consisting of 42 stock exchanges, seven settlement and custody institutions, and eight other institutions and associations.



## EXPLANATIONS ABOUT THE BANK'S NUMBER OF EMPLOYEES AND BRANCHES, AND THE BANK'S FUNCTIONS AND AREAS OF OPERATION, AND THE ASSESSMENT OF THE BANK IN THE INDUSTRY BASED ON THIS DATA

### **Society for Worldwide Interbank Financial Telecommunication (SWIFT) Membership**

SWIFT is a cooperative organization in which transactions related to the financial world are carried out quickly, precisely, and reliably. Its members are its shareholders. More than 10,800 financial institutions in over 200 countries can exchange standardized financial messages via SWIFT. Takasbank joined SWIFT since 1996, immediately after acquiring its investment banking license. Thanks to its SWIFT membership, Takasbank complies with international standards related to communication protocols.

### **Activities regarding the implementation of International Standards in Turkey**

Standards applied in the Turkish financial markets:

- ISIN (ISO 6166) and CFI (ISO 10962) codes for numbering securities, MIC code (ISO 10383) for market identification, ISO 17442 - LEI - Legal Entity Identifier code for the identification of legal entities that are party to financial transactions, BIC code (ISO 9362) used to identify the banks, IBAN code (ISO 13616) for customer's international bank account number, and SWIFT messaging formats (ISO 15022).

Takasbank has been providing National Numbering Agency services since 1995. As a National Numbering Agency, it allocates ISIN - ISO 6166, CFI-ISO 10962, and LEI-ISO 17442 codes.

### **Representation Practices for International Standards**

#### **ISO TC68/SC4 Committee Membership**

Takasbank represents Turkey on behalf of the Turkish Standards Institute (TSE) of the ISO TC68/SC4 Committee of the International Standards Organization (ISO), which develops international standards for securities and related financial instruments.

Within this framework, it serves as the president and vice president of the Working Group for National Market (MTC43 Mirror Committee - Turkey), established to monitor the standardization of work of the ISO TC68/SC4 Committee for securities and other financial instruments, to contribute to the development of these standards and to ensure the application of these standards in Turkey. The Working Group consists of the entire capital market with involvement of the CBT, the Banks Association of Turkey, the Turkish Capital Markets Association, custodian banks, commercial banks, investment banks, and brokerage houses.

Takasbank also takes a proactive role in the work of Working Group 8, which develops codes for company types under ISO TC68/SC4 (Entity Legal Forms-ELF)

We provided perspective and contributed to the Specialization Commission for Improving Financial Services and the FinTech Work Group as part of the 11th Development Plan for 2019-2023, which was planned and initiated by the Ministry of Development.

### **Representation and Presentation**

As in past years, the Bank provided information about its services and corporate developments to relevant parties and the public in 2017 with press bulletins on its website.

### **Borsa Istanbul Group's New Service Buildings Opening Ceremony**

On January 14, 2017 President Recep Tayyip Erdoğan took part in the opening ceremony of the Borsa Istanbul Group's new service buildings.



### **Unallocated Gold Transfer System Briefing Meeting**

The Unallocated Gold Transfer System Briefing Meeting was held on April 20, 2017 with the participation of its members. On this date, Takasbank became an on-site **R&D Center** upon approval by the Ministry of Science, Industry, and Technology. The Bank's CEO and Board Member, Mahmut Kayacık,





presented an award at the Second **Capital Markets Award Ceremony** to the winner in the Highest Custody Balance-Domestic Investor category on April 24, 2017.

On October 25, 2017, **Takasbank FinTech Conferences**, held in collaboration with IDC Turkey, handled the main theme, Digital Transformation in Financial Markets and Blockchain. Following the opening speech by Takasbank CEO Mahmut Kayacak, BT Assistant General Manager Ekrem Arıkan moderated the conference. Guest speakers included Capital Markets Board Executive Vice Chairman Bora Oruç, IDC Chief Analyst Eren Eser, Assoc. Prof. Dr. Mehmet Sabır Kiraz from TÜBİTAK BİLGEM, Asst. Prof. Dr. Cem Çağrı Dönmez from Marmara University, TCCoin Executive Cemil Şinasi Türün, and T2 Software Technical Manager Mustafa Sakalsız.

We contributed as an advisory committee member, a speaker and as the main sponsor, and participated at a senior management level at the **Capital Markets Congress** held by the Turkish Capital Markets Association on November 14-15, 2017 in Istanbul.

Takasbank received first prize in the category of Best Change Management Project for its “Unallocated Gold Transfer Project” at the IDC Turkey’s **Public Technology Award Ceremony**. Held by IDC Turkey on December 11, 2017, this event drew participation from prominent public institutions. Takasbank also took first prize at the Best Finance Technology Projects of the Year competition in the category of “Financial Inclusion” with our BISTECH Technological Transformation of Clearing and Risk Management System project at the **IDC Finance Summit** on November 21, 2017



## INFORMATION TECHNOLOGIES, PROJECT DEVELOPMENT, AND RELATED OPERATIONS

### BUSINESS DEVELOPMENT PROJECTS

#### BISTECH Project (Phase 2/Phase 2+) - (R&D Project)

As the result of ongoing practices conducted within the framework of the strategic partnership agreement between Borsa Istanbul A.Ş. and NASDAQ, signed on January 20, 2014, all Borsa Istanbul markets are expected to provide services on a common transaction platform. Trading System, Data Vendors System, Monitoring System, Index Calculation System, Post-trade and Risk Management Systems, Operational Databases, and Reporting Infrastructure were successfully launched on November 30, 2015, as part of the first phase of the Equity Market of the BISTECH technological transformation program.

Futures and Options Market (VIOP) transactions development and test efforts, which correspond to the first stage of the second phase, continued in the 2016-2017 period, and VIOP practices began on the BISTECH on March 6, 2017. The last phase of the transition to the Debt Securities Market and Precious Metals Market mainly involved development and testing in 2017. Operation rules change and technological differences of the BISTECH systems were explained at member briefing and training sessions; ideas were exchanged with the stakeholders. Go-Live is planned in the second quarter of 2018.

A Knowledge Transfer Program is being conducted regarding the BISTECH Project, as source codes will be obtained along with the software. The Knowledge Transfer Program aims to conduct all future development and testing by Takasbank resources. Accordingly, new and current IT personnel attended training sessions abroad in 2017. Source code implementation also continued.

#### The Project to Offer Cash Settlement and Collateral Management Services at the Borsa Istanbul Precious Metals Market

It was decided with stakeholders to terminate the correspondence agreement with the correspondent bank as of February 4, 2017, which had been used for cash clearing, settlement, and collateral transactions that began on February 4, 2013, on the Precious Metals Market operating within Borsa Istanbul A.Ş. Takasbank was authorized for full service and necessary infrastructure efforts regarding new business principles had been carried out accordingly with Borsa Istanbul and other stakeholders. The Directive and Procedure regarding the service was drafted and shared with the members in January 2017, and member briefing and training sessions about the new business model were held in the same period. Contracts have been renewed with the members according to the non-corresponding bank, and the service began on February 2, 2017.

#### Natural Gas Market Settlement and Collateral Management Service (R&D Project)

The Organized Wholesale Natural Gas Sale Market Directive with regard to the Organized Wholesale Natural Gas Sale Market to be established within Enerji Piyasaları İşletme A.Ş. (EXIST) was published in the Official Gazette No. 30024, dated March 31, 2017. Takasbank is assigned as the "central settlement institution" which is defined in the Directive with the following statement: "An institution from which services are obtained to perform financial transactions between the participants that will be determined by this Directive and which acts as a central clearing and settlement institution

VIOP application developments on BISTECH started in 2017.



A Knowledge Transfer Program is being conducted regarding the BISTECH Project, as source codes will be obtained along with the software.

The Knowledge Transfer Program aims to conduct all future development and testing through Takasbank resources.

pursuant to the Capital Markets Law No. 6362 dated December 6, 2012” Within the scope of the Directive, the “Central Settlement institution Agreement on Cash Clearing and Settlement and Collateral Management Services for the Organized Wholesale Natural Gas Sale Market” was prepared and shared with EXIST regarding the obligations of the parties about collateral management and cash settlement. In the first quarter of 2018, preparation of a Participant Agreement and a Procedure regarding cash settlement and collateral management services, as well as the principles regarding the service on the Organized Wholesale Natural Gas Sale Market is planned to finalized. Takasbank, along with EXIST, began developing the necessary infrastructure to operate the Market and; relevant development and testing are underway.

The Organized Wholesale Natural Gas Sale Market is planned to get started in the second half of 2018.

#### **TEFAS - Specially Defined Periodic Funds Project**

The transaction features of investment fund participation certificates on TEFAS are performed based on the limitations set by the founder/operator members. With regard to these limitations, a certain number of days are set forth per each fund from the transaction date fund for trading and settlement and clearing dates are created. As part of the efforts to develop TEFAS and make it more effective, TEFAS allows the trading of investment funds with participation shares that are different than the daily trading principles. The development was put into place on February 27, 2017.

#### **Credit - Improvement and Simplification Project**

Currently, the Bank sends KRM Notification” to the Banks Association of Turkey Risk Center to provide risk, limit, collateral, and personal record information belonging to corporate members who have a credit or non-cash credit relationship with the Bank. The monthly notification is made by sending to files created automatically in the credit system to the Risk Center.

In 2016, the Risk Center announced a proposal for simplification and improvement in the credit notification system. As part of the initiative, it called for changes both in the requested information and file formats. Member testing began in January 2017 and was completed in November 2017 as planned by the Banks Association of Turkey (BAT) Risk Center.

#### **Specialized Product Exchange Settlement Service Project**

We provided an assessment to the Ministry of Customs and Trade General Directorate of Domestic Trade concerning the effects of the establishment of the Specialized Product Exchange of Turkey (TÜBAŞ) on the Takasbank transactions and other new developments in 2016.

The Regulation of Procedures and Principles on the Establishment, Operation, and Auditing of the Specialized Product Market was published in the Official Gazette on August 10, 2017. The Articles of Association was prepared on November 2017, and the Exchange will be established with 100 million TRY capital. Takasbank obtained a permit from the BRSA for participation in TÜBAŞ.

The Takasbank plans to develop settlement module integrated to the Exchange trading platform following completion of the Exchange establishment.



## INFORMATION TECHNOLOGIES, PROJECT DEVELOPMENT, AND RELATED OPERATIONS

### Dematerialization and Transfer of Physical Gold (LOCO Istanbul) Project (R&D Project)

Gold is regarded as the primary investment and saving tool, and it is critical to keep more gold in our economy. The 2016-2018 Medium-term Development Plan encompasses various mechanisms to draw more gold savings into the system. Accordingly, domestic gold transfers are planned to be performed as unallocated transfers in Takasbank systems.

Currently, bank customers who wish to transfer gold between bank accounts must change it into TRY or receive it as bullion. Such transactions are costly, inconvenient, and time-consuming for customers. Takasbank Gold Transfer System is designed to meet this need, allowing customers to transfer gold between banks as easy as an EFT transaction.

To meet the market's demand for overseas gold transfers, a system has been developed to perform unallocated gold transfer and custody through London Precious Metal Clearing Limited (LPMCL) member gold correspondents on Takasbank systems.

The ease of transferring gold between banks will increase competition, and thus be reflected in prices in favor of investors. Gold investors will be able to transfer gold easily within the financial system at favorable prices.

Gold will become more mobile, and idle investments will be drawn to the financial system .

Currently, the provisions for physical gold balances held in unallocated gold accounts overseas are not clear. The gold balances for which the provisions will be held in 100 percent physical form at Borsa Istanbul's vaults are regarded financially compliant with Islamic finance. Moreover, this gold can be moved at the pace of unallocated gold.

In this sense, the project will also contribute to Istanbul's goal of becoming a financial center. A TEYDEB application has been made with this project. On-site R&D projects were included in our portfolio and entered into the Ministry's portal.

### Gold-based Digital Asset (BiGA) Project (R&D Project)

This was the first project to be built on blockchain infrastructure, and is currently under development. The Gold-based Digital Asset project aims to create a gold-based digital value, use blockchain infrastructure to transfer this value into unallocated gold, and allow transfers on the planned platform. Provisions for each digital gold asset will be held in 100 percent physical form at Borsa Istanbul's vaults. The goal is to provide a digital certificate for physical gold that meets a certain criteria, and have this certificate used as a payment system in a variety of areas.

The project is expected to contribute immensely to Istanbul's aspirations to become a financial center and to blockchain R&D efforts in our country. A TEYDEB application has been made with this project. On-site R&D projects were included in our portfolio and entered into the Ministry's portal.

### IT INFRASTRUCTURE DEVELOPMENT PROJECTS

#### ODVM Firewall Revamping Project

The Bank has built a new physical infrastructure and active cluster form for firewalls in local and DMZ areas at the Disaster Recovery Data Center (ODVM). These improvements increased network communication speed five-fold and boosted memory capacity and physical disk area. The project allows for a more easily-managed infrastructure and creates prompt solutions to issues. It was completed with internal resources. Fiber communication throughout the whole infrastructure has gone into effect, replacing the previous system in which old copper and new fiber backbone switches were combined.

#### Log Management System Restructuring Project

The restructuring of servers, network and security equipment, and the IBM Qradar (a SIEM product that allows logs to be tracked for some application) has been completed. The project achieved faster access by enhancing the products' technological infrastructure. A new reporting interface has been put in place to meet the Bank's needs. Pursuant to the Law on the Protection of Personal Data, a backup design was built for the product's infrastructure.



# The Best Finance Technology Project of the Year

AS PART OF THE IDC FINANCE SUMMIT, TAKASBANK'S "BISTECH TECHNOLOGICAL TRANSFORMATION OF CLEARING AND RISK MANAGEMENT SYSTEM" PROJECT TOOK THE FIRST PRIZE IN THE "BEST FINANCE TECHNOLOGY PROJECTS OF THE YEAR" COMPETITION, AMONG 38 PROJECTS, IN THE CATEGORY OF FINANCIAL INCLUSION AS ASSESSED BY A 40-PERSON JURY MADE UP OF CIOs AND ACADEMICIANS.

## INFORMATION TECHNOLOGIES, PROJECT DEVELOPMENT, AND RELATED OPERATIONS

**Disaster Recovery Operations Center moved to its new campus in 2017.**

### **Yenibosna ODOM Moving Project**

As part of a project launched with Borsa Istanbul in January 2017, the Bank's Disaster Recovery Operation Center (ODOM) in Yenibosna was moved to the new ODOM campus, which encompasses all of the Borsa Istanbul Group's organizations. The ODOM ensures that employees can continue operations in case of an emergency that causes the Bank's headquarters to become non-operational. The newly built ODOM technology infrastructure has strengthened business continuity and eliminated users' PC dependency. In the new structure, employee-based special terminals have been replaced with standard terminals that access the ODVM system for daily operations. Use of the Load Balancer expanded the ODVM virtualization pool and optimized load distribution. It also bolstered employee access to the ODVM system via the internet. Thus, PC dependency in the event of a disaster was minimized. Takasbank has a 63-person work area in a modern, state-of-the-art office space. The project was completed on April 17, 2017. During the two disaster drills held in 2017, ODOM was used actively and tests were run over ODVM. The work area and systems were robustly confirmed to meet the necessary infrastructure and hardware requirements.

### **Advanced Persistent Threats (APT) Prevention Infrastructure Project**

The project aims to take the necessary preventive measures to protect Bank users from cyberattacks and zero-day attacks against its internet and email. Accordingly, purchase transactions for Checkpoint Sandblast, an infrastructure product that works in compliance with our firewall, were completed in 2017. Proof of Concept (PoC) tests have demonstrated that the product monitors email and internet traffic, scanning for harmful email attachments and links and then stopping them before reaching the user. The product also tracks and reports the links' footprint logs. It is projected to become operational in 2018.

### **Database Management Infrastructure Change Project**

Technological advancements, along with dropping costs, allow for higher-performance servers. This requires periodic update and renewal of current database servers on which the critical banking operations run. The Bank's update projects are necessary for maintaining uninterrupted service structure without loss of performance while ensuring growth. Accordingly, the Bank has decided to replace its current servers with cutting-edge Oracle Exadata servers. Upon completion, the Bank's business continuity and ODVM servers will boast the same exact power and performance as the real environment server. The server replacement project began in December 2017 and will be completed following the delivery of all new servers in 2018.

### **Database Oracle 12C Code Transformation Project**

Replacing hardware in the database infrastructure will present an opportunity to transform to the latest Oracle-supported version. Upon configuration of the new servers, functional and performance tests will be performed on the new Oracle versions. Services will continue within the new version's means and capabilities. The project began in December 2017 and it is expected to be completed in 2018.

### **SWIFT System Improvement Project**

At the end of 2016, SWIFT launched the Customer Security Programme (CSP) to increase the security of the SWIFT systems. The SWIFT Customer Security Framework was published, describing the necessary measures to be taken within the banks' internal systems. We reviewed the Bank's SWIFT system end-to-end against these standards and made improvements. Upon completion of the review, the Bank's SWIFT system security was scaled up to meet the security standards defined by SWIFT. SWIFT was informed about the current status.

### **Enterprise Architecture Modeling Project**

A synergistic Enterprise Architecture Modeling Project, conducted in cooperation with Borsa Istanbul, intends to model all of the Bank's information systems applications and its data and infrastructure technology architectures, including the BISTECH systems. The modeling tool and consulting firm have been chosen. By the end of June 2018, pilot modeling systems for BISTECH and the Bank will be completed, along with the meta model and application to support the BISTECH architecture. The project will allow the Borsa Istanbul and the Bank to design their own architectures so as to enable each party to manage only its own systems through user authorizations on a shared platform. Preliminary work on the pre-tool use modeling of the Bank's systems, excluding BISTECH, began without the use of tools. The works are





on the way for business capability model, application and collective task inventory, personal data inventory, and infrastructure system architectures.

#### **Application Performance Monitoring Tool Project**

The Bank conducted compatibility analysis of the main alternatives in the industry to ensure proactive monitoring of performance monitoring for the applications running on the application servers, and completed the purchase by the end of the year. The application is slated become operational by the beginning of 2018. It will also help contribute to the infrastructure service commitments that will allow proactive monitoring with regard to the aimed performance criteria by the information technology infrastructures we utilize to fulfill the Bank's main areas of operation.

#### **Takasbank Application Infrastructure New Framework Development Project**

The member and business applications developed by the Bank thus far need to be updated with new technologies. Analyses, design, and development are in process for a new application development infrastructure framework that will provide the appropriate technological infrastructure for the next five to ten years. The project began in the middle of 2017 and it is slated for completion by the end of June 2018. Upon completion of the project, pilot application development and transformation of the previous application will begin with the planned application infrastructure framework.

#### **Code Quality Analysis Tool Project**

The bank also has open-source software developed by internal resources, suppliers, or partner companies. In the works is an automation infrastructure that allows the review of the codes for these products in terms of compliance to standards, security, code quality, and re-use. Optimal security and performance of the software are regarded as vital criteria for our banking operations. In 2018, a code quality analysis infrastructure will be established to test for compliance to the expected criteria of the software developed to achieve these criteria since the development process.

### **CORPORATE DEVELOPMENT PROJECTS**

#### **Corporate Identification Transformation Project**

This project was developed to identify change requirements regarding corporate identity, which arose when Takasbank's corporate name was changed as Takas Istanbul, submit the requirements to upper management, and then carry out change upon approval.

The scope of the project took into consideration all factors that may affect our company. The project included all changes that may affect our company in the physical and electronic environment. All of our communication channels were required to incorporate these changes. Physical changes were carried out in coordination with the Corporate Communication Team and the Legal Department.

By the conclusion of the project, all documents relating to the outside world were analyzed and revised as needed. Relevant teams continue with constant improvements.

#### **Website Renewal Project**

The Bank's website has been improved and redesigned as part of the Corporate Website Renewal project to enhance our corporate structure.

Our organization strives to move forward as an international settlement and clearing institution with a changing structure, growing dynamism, and the momentum it creates. Our transformed corporate website is a crucial window to the outside world of our organization, and is part of an overall change that encompasses our office areas, mission and vision, on-site R&D operations, technological structure, and name and logo.

As part of the transformation, we designed our website with a new interface and revamped its infrastructure to promptly and safely adapt its contents to the company's dynamism, offering multi-language support in line with our corporate identity and global objectives. We launched the website with a new interface and revamped infrastructure at the start of 2018.

## INFORMATION TECHNOLOGIES, PROJECT DEVELOPMENT, AND RELATED OPERATIONS

### Process Management Project

With the purchase of the Business Process Management Norm (BPMN), processes are now being redesigned to combine and integrate all of the Bank's information systems under a central platform. In the first phase, daily business processes are being designed, starting with project management, service desk, change management, request management, and application development. Project management and service desk were launched by the end of 2017. The project's second phase will commence upon completion of the other processes in the second half of 2018. The second phase will involve designing the processes that report to upper management, such as business continuity, information security, and IT compliance. Once completed, the project aims to remove some of the current applications and achieve the integrated management of information systems on a single application. The second phase will design and integrate the processes of business departments such as human resources, purchasing, and internal audit/control to the system, and allow all bank personnel to work according to the daily task assignment, automatic reporting, and measuring standards.

### Project for Compliance to the Law on the Protection of Personal Data

Law No. 6698 on the Protection of Personal Data, which entered into effect on April 7, 2016, puts important responsibilities on all institutions that process personal data. Sub-regulations to the law were introduced in 2017. During this process, Bank personnel gained information on the rules in practical applications through industry workshops and meetings and relevant training sessions. Launched in September 2017, the project aims to establish the roles and responsibilities needed to meet the legal requirements and ensure continuity of compliance. Planned for completion in April 2018, the main outcomes of the project have been set as "creation of a Personal Data Inventory; establishing the procedures for processing, securing, transferring, and destroying personal data in a way that meets the requirements set forth by the law and sub-regulations; enacting and announcing compliance to the Law on the Protection of Personal Data; and meeting the explicit consent and disclosure responsibilities required by the law." Personal Data Inventory creation was completed by the end of 2017.

 Data creation

 Data processing

 Data security

**Personal Data Inventory was completed in 2017.**

### R&D Center Establishment Project

We have completed the application to become an on-site R&D Center in line with the objective of boosting academic collaborations, promoting internal innovations and innovative ideas, and contributing to the growth of financial markets by offering digital solutions for the industry and the country. The Ministry of Science, Industry, and Technology recognized Istanbul Settlement and Custody Bank as an R&D Center on April 20, 2017. As part of the R&D operations, three R&D projects were conducted and two were proposed to the relevant departments at the Ministry by the end of 2017. Also, two projects were proposed to TEYDEB and pre-applications were made for another two. Technical infrastructure development of the R&D center has been completed.

**Technical infrastructure development of the R&D center has been completed.**

### Electronic Document Management System Project

The Electronic Document Management System (EBYS) was developed to keep and archive all incoming and outgoing documents electronically. Now, all incoming and outgoing documents-- via email, fax, registered electronic mail (KEP), and other environments -- can be accessed on a single system. The project introduced the use of electronic signature at the Bank. The EBYS has been put in motion to deliver electronically signed documents that are created collectively by banking systems, which are integrated with the Bank's systems.



#### **Workload Automation Setup and Expansion Project**

Workload automation set up for systematic, secure, and efficient single-center management of automated day-end and workday practices, and of planned operational applications such as back-up and patch management. At first, new job tasks and files and information were transferred into the new system. Standardization has been completed for transfer of the test, live and back-up systems of the current collective job tasks so that each can function with the settings of their environments. In the first half of 2018, 68 collective job tasks are planned to be gradually transferred to the workload automation system. In the second half of 2018, the job tasks in the current Day-end Automation Software, with 144 collective job tasks, are planned to be transferred simultaneously. Upon completion, the collective job tasks at the Bank will have been managed and monitored with high business continuity and coded according to standard on two actively-working Istanbul BVMs, one passive back-up Istanbul BVM, and one passive back-up Ankara ODVM servers.

#### **Takasbank Request Management Operations**

The Integrated Management System is regarded as the application on which requests are defined within the scope of the Continual Improvement Management Procedure. Root cause analyses are performed, necessary actions are created, action owners are determined, and business planning is done. This allows a single-point monitoring of improvements regarding all the defined processes throughout the Bank. According to the data from this system, 558 requests were initiated in the Bank in 2017 and 506 of these were completed within the request year. Also, 137 of the requests initiated prior to 2017 were completed in 2017.

Information Technology Committee meetings were held in 2017 to provide senior management with information regarding request management efforts and the statistics for each team. In light of the information received, bank processes were once again assessed and improved, achieving a flawless, effective, and superior service approach in 2017.

#### **Information Security, IT Compliance, and Risk Management Operations**

We successfully completed the ISO 27001 certificate renewal audit, establishing that the Information Security Management System runs smoothly throughout the organization.

An independent penetration test was performed in 2017 within the scope of the BRSA legislation.

## INFORMATION TECHNOLOGIES, PROJECT DEVELOPMENT, AND RELATED OPERATIONS

The ISO 27001 internal audit and various works were completed. Various posters were put up at several locations in the company to increase awareness of information security.

An information systems audit was completed successfully within the scope of the BRSA regulations. An analysis of compliance to the Communique on Information Systems Management, published by the Capital Markets Board of Turkey, showed that all requirements were met. New personnel at the Bank were provided with information security awareness training.

### Takasbank Business Continuity Operations

As in previous years, Takasbank maintained intensive efforts to put in place an increasingly effective Business Continuity Management System.

The Bank conducted an evacuation drill on September 28, 2017; two emergency drill at BISTECH on July 1, 2017 and August 5, 2017; and a joint emergency drill with all Borsa Istanbul Group stakeholders that encompassed all critical services on October 14, 2017. During the drills, we succeeded in staying below the minimum rescue times for all of the

critical targets, from the start of the service outage and the transition from primary to secondary systems to the opening of the services for use.

As part of a project launched in cooperation with the Borsa Istanbul in January 2017, the Bank's Disaster Recovery Operation Center (ODOM) in Yenibosna was moved to the new ODOM campus, which encompasses all of the Borsa Istanbul Group's organizations. The ODOM ensures that employees can continue operations in case of an emergency that can cause the Bank's headquarters to become non-operational. During the two state of emergency drills held in 2017, ODOM location was used actively. The work area and systems were robustly confirmed to meet the necessary infrastructure and hardware requirements.

In order to confirm the effectiveness of the ISYS operations, compliance to international standards, and the validity of the 2014 ISO 22301 Business Continuity Certificate, an independent auditor audited the Bank for address change in April 2017. A second independent auditor audited it for certificate renewal in December of the same year. The audit concluded that the ISYS is effectively maintained at the Bank, and the certificate was renewed.

As in previous years, Takasbank maintained intensive efforts to put in place an increasingly effective Business Continuity Management System.

### BUSINESS CONTINUITY AWARENESS PROGRAM ACTIVITIES HELD IN 2017

- Takasbank personnel received ISYS and BGYS awareness training online.
- The training sessions included Updated First Aid Certificate, Basic First Aid, Basic Fire Fighting, Search-Rescue and Evacuation, Basic Occupational Health and Safety, and Emergency.
- In 2017, 92 percent of the initiated improvements were implemented.
- Average usability rate of the Bank's critical job services during the year was 99.92 percent, higher than the target of 99.85 percent.



# Unallocated Gold Transfer Project

A JURY OF EXECUTIVES AND ACADEMICIANS FROM PUBLIC INSTITUTIONS JUDGED THE IDC TURKEY 2017 PUBLIC TECHNOLOGY AWARDS, WITH MANY TECHNOLOGY PROJECTS FROM COMPETING PUBLIC INSTITUTIONS. TAKASBANK TOOK THE FIRST PRIZE WITH ITS UNALLOCATED GOLD TRANSFER SYSTEM PROJECT IN THE CATEGORY OF "BEST CHANGE MANAGEMENT PROJECT" AT THE IDC TURKEY PUBLIC CIO SUMMIT 2017.

## 2017 DEVELOPMENTS

### CENTRAL COUNTERPARTY

Takasbank designed the Central Counterparty (CCP) service based on legal grounds provided by Capital Markets Law No. 6362, taking international best practices and regulations into consideration. The Bank began providing the CCP service at the Securities Lending Market (SLM), which it operates, on September 2, 2013, and at the Futures and Options Market (VIOP), run by the Borsa Istanbul A.Ş. (Borsa Istanbul), on March 3, 2014. Equity Market operating on Borsa Istanbul was added to these markets on October 14, 2016, offering CCP service with the launch of the market.

As part of a strategic partnership between Borsa Istanbul and NASDAQ, intensive design and test practices for BISTECH continued in 2017. Preparations were completed to provide CCP services for Borsa Istanbul Equity Market. The service began on June 19, 2017. Also, CCP design and testing of the operation of the Borsa Istanbul Futures and Options Market on the BISTECH platform were completed and put in service. Upon transition to the BISTECH, design works have been completed to run the CCP services at the Borsa Istanbul Debt Securities Market with testing reaching the last phase.

Takasbank continues to provide CCP services as a Qualified CCP, certified on March 23, 2016 by the Capital Markets Board for compliance with the 2012 CPMI-IOSCO Financial Infrastructure Institutions Principles.

Accordingly, transactions between Turkish-based banks and Takasbank are regarded as “qualified transactions” pursuant to the Banking Regulation and Supervision Agency legislation. The risks to which banks are exposed in this context are assessed with a lower risk weight in accordance with Appendix No. 4 of the Regulation on Measurement and Assessment of Banks’ Capital Adequacy.

Subsequent to the following announcement as a qualified CCP for the Futures and Options Market in Borsa Istanbul, at which CCP service is provided, application procedures to European Securities and Markets Authority (ESMA) have been completed to be recognized as a third country CCP, and on August 15, 2016, recognition application was made and necessary documents were submitted. On a letter dated August 22, 2016, ESMA confirmed that it received the application documents and initiated the assessment process for recognition. The recognition process regarding Takasbank’s CCP role within the scope of EU legislation was still in the works at the end of 2017.

The Risk Advisory Committee, a crucial aspect of CCP, met in March and September of 2017 to discuss the CCP services provided by Takasbank.



**The CCP service was launched on the Equity Market in June 2017.**



**In a letter dated August 22, 2016, ESMA confirmed that it received the application documents and initiated the assessment process for recognition**

The recognition process regarding Takasbank’s CCP role within the scope of EU legislation was in the works by the end of 2017.

Also, with participation from the members, the second default management test was held in December for the default management, designed in line with international best practices and regulations, and set for application at least twice once a year

### Financial Analysis

Financial analysis, intelligence and practices regarding current or prospective institutions that are in a membership and/or credit relationship are carried out within the scope of the Financial Analysis Service in accordance with central counterparty as well as banking transactions and other capital market activities. Credit and placement limits, market risk limits, guarantee and collateral limits, and custody limits set by our Board of Directors are managed, monitored for risks, and reported.

The Takasbank Internal Credit Rating and Assessment System also falls under the responsibility of this service.

Ratings that range between TBD-A and TBD-E, from the highest to the lowest, are used to express credit worthiness of the banks, brokerage houses, and other financial institutions that are subject to Takasbank Internal Credit Rating and Assessment System, and total upper limits are determined for allocation by Takasbank in favor of each institution for various markets and transactions.

Credit ratings and assessment ratings are used to identify the membership types in the markets to which we provide CCP service. Principles for external credit ratings have also been established. The general principles of the credit rating and assessment system used by Takasbank are explained in the Bank's corporate website.

In 2017, credit rating and assessment scores were allocated to 274 banks, brokerage houses, and factoring, leasing, financing, and insurance companies operating in Turkey. These ratings were also used to establish the maximum limits that can be allocated within the scope of banking, central counterparty, and other capital market activities.

### Securities Lending Market (SLM)

In 2017, the Bank continued to strive to improve service quality, effectiveness, and wider use of the SLM by taking members' requests into consideration. A new order type (special order) is in the works to allow SLM operations run easier. Lenders and borrowers would strike a deal before coming to the SLM and then process their transactions in the Market, provided that they stay within SLM collateral and limit boundaries. The project aims to draw over-the-counter market lending transactions to the SLM and increase transaction volume.

- We are still working on a plan to allow expired SLM contracts to roll over. Upon initiation of the roll over plan, the number of defaults is projected to decrease, thus

making more effective use of the SLM. The SLM roll over is set to be available for use by our members in the first quarter of 2018. As such, defaults on low-volume stocks may be lowered somewhat.

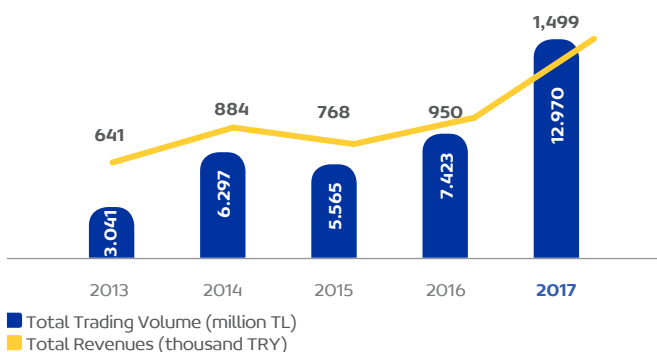
- In the SLM practice, the securities that are removed from the securities that could be used for credit and short-sale transactions were used to be removed from the lent securities by the removal date, and thus could not be lent. Subsequently, when the clearing and settlement of the short-sales made prior to the prohibition start date coincided with the post-prohibition dates, the short-selling institution was not able to borrow from the SLM, resulting in defaults in the clearing and settlement of the Borsa Istanbul Equity Market and in fulfilling SLM obligations of which maturity would be extended by re-borrowing. The shares and exchange traded funds (ETF) that were closed to short-selling and lending, a frequently occurring case in the SLM, due to defaults. As of November 3, 2017, they began to be closed to transaction in the SLM by the end of the settlement and clearing period of the last date they could be short-sold. As a result, there has been a significant drop in the SM defaults.
- A Lending Market Workshop was held at the TCMA with a great majority of members participating. The meetings dealt with issues about the Securities Lending Market operations and requests to resolve them.
- Member visits were held to bring in new customers to the SLM. Also, we pursued promotional efforts through social media such as Facebook, Twitter, and so on.
- The commission tariff adjustment, which began in 2016, continued in 2017. Accordingly, 25 percent discounts was applied to commissions on transactions with a maximum one-week maturity and 50 percent discount to those with a maturity of one week or longer.
- Transaction volumes for both the Borsa Istanbul Markets and the SLM rose in parallel with each other between 2013 and 2017. As evident in the following chart, trading volume in the SLM is on a rising trend. By 2017, it grew by more than threefold in comparison to 2013.

Summary information on 2017 figures for the SLM:

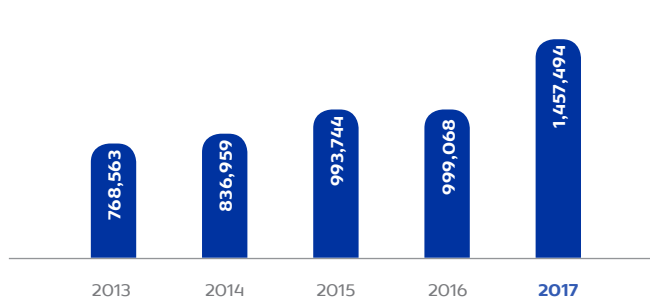
- As of 2017 year-end, there are 53 brokerage houses with transaction authorization and 264 representatives in the SLM. In 2017, 53 brokerage houses performed transactions from 6,649 customer accounts, 33 mutual fund and partnership accounts, and 90 brokerage house portfolio accounts.
- As a result of the transactions, lending contracts rose by 76.76 percent to 111,718 units year-on-year.

## 2017 DEVELOPMENTS

### SECURITIES LENDING MARKET TRADING VOLUME AND TOTAL REVENUES (2013-2017)



### BORSA ISTANBUL MAIN, EMERGING, STARS AND COLLECTIVE INVESTMENT PRODUCTS MARKET TRADING VOLUME (2013-2017, MILLION TL)



- In the Securities Lending Market, trading volume grew by 74.72 percent to 12.9 billion TRY year-on-year in 2017. The number of shares used in lending increased by 92.60 percent to 3.4 billion.
- In 2017, mutual funds and partnerships accounted for 0.47 percent of lending transactions. For brokerage houses, 98.53 percent of lending transactions were made from customer accounts and 1 percent from their portfolios.
- From the perspective of borrowers, 96.67 percent of borrowing transactions in 2017 were those obtained by brokerage houses on behalf of their customers. 2.86 percent of total borrowing transactions were borrowed for brokerage house portfolio accounts and 0.48 percent for mutual funds and partnerships.

- In 2017, 300 securities were processed in the SLM and the monthly average number of securities being traded was 173.
- The year-on-year daily average of processed SLM securities contracts rose by 75.40 percent to 442 in 2017. The daily average of orders received by the Market rose by 77.04 percent to 1,211.
- Of the total SLM trading volume in 2017, 77.11 percent were BIST-30 shares, 16.83 percent were BIST 100-30 shares, and the remaining 6.06 percent were non-BIST-100 A and B group shares.

Securities Lending Market trading volume soared to 12.9 billion Turkish lira with a 74.72-percent rise in 2017.

### 2016 AND 2017 FIGURES FOR THE SECURITIES LENDING MARKET

	2016	2017
Number of Orders	171,693	306,507
Number of Contracts	63,203	111,718
Number of Transactions	1,772,093,150	3,413,092,487
Trading Volume (TRY)	7,423,155,790	12,969,642,341

### SLM MEMBERS AND SUB-MEMBERS (2017)

	Number of Borrowers	Number of Lenders	SLM Member Distribution
<b>Brokerage House</b>	50	43	51
	<b>Number of Borrowing Sub-members</b>	<b>Number of Lending Sub-members</b>	<b>Number of Sub-members</b>
PORTFOLIO	72	47	90
CUSTOMER	2,436	4,616	6,649
MUTUAL FUND/MUTUAL TRUST	12	22	33
TOTAL	2,520	4,685	6,772



**BREAKDOWN OF THE TOTAL TRADING VOLUMES OF THE SECURITIES LENDING MARKET ACCORDING TO THE INDEX (2017, TL)**

BIST 30	BIST 100 (30 DIŐI)	BIST-100 DIŐI
10,000,704,307.03	2,183,197,357.63	785,740,676.57

**NUMBER OF TRADED SECURITIES AND MONTHLY CONTRACTS ON THE SLM (2017)**

Month	Number of Traded Securities	Number of Monthly Contracts
January	174	6,685
February	174	9,181
March	167	10,585
April	156	9,390
May	183	9,677
June	182	7,795
July	188	9,787
August	169	12,399
September	173	7,842
October	182	9,052
November	164	8,390
December	166	10,935

**Takasbank Money Market (TMM)**

Improvements were introduced in 2017 to keep up with financial market changes and developments, meet the demands of the current and future TMM-member financial market participants, and enhance quality of service.

The Bank took into consideration the requests and updated the "Member" definition and the "Member conditions" in the TMM Regulation and Procedure with aspirations to expand the variety of institutions it offers services at the TMM. Accordingly, "complementary pension funds that operate in accordance with their own law and on a defined contribution model" in August 2017 and "asset management companies that operate in accordance with the Banking Law No. 5411" in December 2017 are added in the list of TMM-members which are brokerage houses, banks, financial institutions, and insurance, life, and pension companies, as well as the institutions designated within the scope of General Communique for Public Treasurership.

The TMM's current session start time of 10:00 AM was changed to 9:30 AM in February 2017, in line with the capital and money markets and to offer services to its members for a longer period. After introduction of the new time period, orders received in the TMM system between 9:30-10:00 AM accounted for 5.83 percent of the total orders received.

Also, a new field was added to the member screens for the operational convenience of the TMM participants and to help with more effective tracking of the market orders and transactions. The new field allows for the creation of track logs for orders entered by the institution during the order sending phase by logging in free. TPP Web services, which are interactive with the revision made, have been updated.

As of December 15, 2017, system notifications and warning email transmissions started so that TMM members can better manage the operational process of the transactions on the TMM and minimize the risk of encountering issues during this process. As such, information emails on various subjects are sent to the email addresses saved by members into the TMM system, and the list of subjects are currently being expanded.

On September 25, 2017, the Maximum Net Debt Amount (MNBT) was increased to 450 million TRY, up from 400 million TRY. The MNBT states the highest net clearing and settlement debt that can occur on the value and maturity dates for each member at the TMM.

Member screens now feature a Letter of Guarantee Tracking Report and a Representative Report. The first makes it convenient to track and report things such as the issuing bank, branch, collateral amount, and maturity of the collateral letters in the TMM collateral. The second one allows for tracking of the persons authorized to conduct the TMM transactions.

In 2017, as part of the monitoring operations conducted by the CBT, plans began for providing information to the CBT regarding the data requested from the TMM and offering a web service with which to provide the information.

Surveys and member meetings explained the market demands and made recommendations for improving the TMM service. Additionally TMM data and updated information were also provided through the Bank's social media accounts such as Facebook, Twitter, and so on.

## 2017 DEVELOPMENTS

Summary information on 2017 figures for the Takasbank Equity Market:

- In 2017, the TMM reached the highest number of trading members in the past 15 years: transactions were performed by 129 institutions comprising 52 brokerage houses, 12 deposit banks, 8 development and investment banks, 53 financial institutions, and 4 insurance and pension companies.
- Total trading volume rose by 42 percent year-on-year, the highest level since its inception, to 608.95 billion TRY. Average trading size increase by 32.15 percent to 2.8 million TRY.
- Daily trading volume average swelled by 41.44 percent to 2.41 billion TRY. The total number of transactions grew by 7.68 percent to 215,835, and average daily transactions increased by 7 percent to 855 year-on-year.
- In 2017, of the total trading volume, shares of 551 mutual funds and partnerships trading in the TMM grew by 33.3 to 399 billion TRY year-on-year.
- In 2017, sales transactions in the TMM were executed for the following: mutual funds and trusts, 66 percent; brokerage house portfolios, 19 percent; brokerage house customers, 9 percent; and the remaining 6 percent for institutions defined within the scope of General Communique for Public Treasurership. Of the total transactions, buying parties were 43 percent for brokerage house portfolios and 55 percent for financial institutions

### TAKASBANK MONEY MARKET DAILY TRANSACTION AVERAGES

Month	Average Trading Volume (TRY)	Average Number of Transactions
January	2,148,327,318	856
February	1,810,347,850	850
March	2,046,422,696	854
April	1,943,261,900	744
May	1,944,523,714	793
June	2,446,854,550	856
July	2,791,575,571	929
August	2,756,159,349	900
September	2,869,794,158	880
October	2,832,612,773	869
November	2,627,831,364	844
December	2,725,674,238	878

### DAILY O/N AVERAGE WEIGHTED INTEREST RATES AND BENCHMARK BOND (%)

Month	TMM	Repo/Reverse Repo Market	2-Year Benchmark Bond
January	9.69	8.73	10.96
February	11.04	10.16	10.99
March	11.51	10.65	11.22
April	11.77	11.26	11.14
May	12.41	11.73	11.08
June	12.91	11.82	10.80
July	13.01	11.83	11.16
August	12.82	11.80	11.49
September	12.81	11.79	11.71
October	12.67	11.76	12.00
November	12.41	11.75	13.37
December	12.74	11.95	13.04

### TAKASBANK MONEY MARKET TRADING VOLUME DISTRIBUTION (%)

Members	Total Shares
Brokerage Houses	61
Development and Investment Banks	3
Deposit Banks	6
Insurance and Pension Companies	2
Financial Institutions	28

Total transaction volume increased by 42 percent year-on-year in 2017.

### Turkey Electronic Fund Trading Platform (TEFAS)

The Turkey Electronic Fund Trading Platform (TEFAS) platform contributes greatly to our fund industry to grow in a transparent, effective, and competitive environment. In 2017, the platform continued to grow with an increased trading volume.

In 2017, 76 total institutions consisting of 35 brokerage houses, 22 banks, and 19 portfolio management companies, performed transactions; 272 funds were traded at the TEFAS. Total trading volume and average trading volume in TEFAS were 25.53 billion TRY and 100.91 million TRY, respectively. Annual average trading volume rose by 17.38 percent. In 2017, brokerage houses accounted for 13.73 percent of the total trading volume, banks for 79.10 percent, and portfolio management companies for 7.17 percent.

As part of efforts to improve the effectiveness of the member requests and the TEFAS system in 2017,

- technical infrastructure was created and implemented to allow the trading of the mutual funds of which the participation shares are different than the daily trading principles.
- When opting not to perform clearing and settlement on half-business days, the fund will be kept open for sending an order, thus increasing the number of days funds remain open throughout the year.

- Members' cash TEFAS dues can now be sent to their stated Bank accounts by creating an automatic EFT order without having to enter a new EFT order for each transfer to their free accounts.
  - In setting limits, an investment choice option was added for funds in which the amounts collected from the investors are invested in no-interest investment instruments in return for share purchases. Accordingly, we now offer brokerage services for investment in no-interest funds for interested institutions.
  - Work has been largely completed to build a systematic infrastructure that will allow the use of relevant foreign exchange in mutual fund participation share buying-selling orders on TEFAS; and permission is awaited from the Capital Markets Board of Turkey to commence operations
  - Groundwork has been completed to allow the use of Takasbank accounts directly for participation certificate transactions of mutual funds for which mutual fund participation shares are traded in the fund portfolio; operations commence pending permission from the Capital Markets Board of Turkey.
  - With automation of the fund liquidation transaction, project analysis for the performance of fund repurchases on TEFAS in integration with the CSD is in the works
- Demands from the investors to be able to use the portal more effectively were met with the development of the Fund Information Platform ([www.tefas.gov.tr](http://www.tefas.gov.tr) and [www.fonturkey.com.tr](http://www.fonturkey.com.tr)) operated by Takasbank.

2017	Trading Volume (TRY)			Number of Trading Institutions						
	Brokerage Houses	Banks	Asset Management Companies	Total	Average	Brokerage Houses	Banks	Asset Management Companies	Total	
January	341,850,189	2,013,408,322	178,876,821	2,534,135,332	115,187,970	24	20	13	57	
February	312,433,197	1,970,188,007	125,180,998	2,407,802,203	120,390,110	26	19	12	57	
March	347,283,566	1,853,760,050	195,450,545	2,396,494,160	104,195,398	27	19	13	59	
April	369,336,584	1,723,283,280	140,249,833	2,232,869,697	111,643,485	26	20	14	60	
May	398,656,916	1,748,435,547	117,964,851	2,265,057,313	107,859,872	27	20	14	61	
June	327,294,986	1,434,515,380	134,514,710	1,896,325,076	94,816,254	28	19	14	61	
July	270,162,669	1,408,810,069	126,201,173	1,805,173,911	85,960,662	25	20	15	60	
August	330,558,273	1,534,469,275	104,682,624	1,969,710,172	89,532,281	27	19	14	60	
September	255,188,101	1,234,551,857	139,847,586	1,629,587,544	85,767,765	26	20	14	60	
October	162,551,079	1,675,432,464	209,113,640	2,047,097,183	93,049,872	27	19	13	59	
November	225,689,895	1,977,551,693	192,774,290	2,396,015,878	108,909,813	26	19	12	57	
December	163,575,609	1,618,986,439	167,444,851	1,950,006,899	92,857,471	26	20	15	61	
TOTAL	3,504,581,064	20,193,392,382	1,832,301,922	25,530,275,368	100,910,179	35	22	19	76	

## 2017 DEVELOPMENTS

### TRADING VOLUME DISTRIBUTION BASED ON FUND TYPE (2017)

Fund Type	Trading Volume (TRY)	Ratio (%)
Debt Securities Umbrella Fund	9,021,996,324,16	35.34
Variable Umbrella Fund	7,290,825,553,02	28.56
Stock Umbrella Fund	3,123,330,832,56	12.23
Fund Basket Umbrella Fund	2,113,157,536,69	8.28
Debt Securities Umbrella Fund (Short-term)	1,758,212,663,78	6.89
Participation Umbrella Fund	981,750,483,88	3.85
Precious Metals Umbrella Fund	633,814,104,91	2.48
Money Market Umbrella Fund	438,662,986,36	1.72
Mixed Umbrella Fund	167,006,562,48	0.65
Participation Umbrella Fund (Short-term)	1,518,319,92	0.01
TOTAL	25,530,275,367,76	100.00

### Equity Market Clearing, Settlement and Collateral Management

Clearing and settlement transactions of the trades executed on Borsa Istanbul Equity Market are conducted on the second business day (T+2) following the day of transaction by netting unallocated sales and purchase records within the scope of "Delivery vs. Payment - DVP" principle.

As of the end of 2017, the market value of Equity Market transaction collateral managed by Takasbank was 321.89 million TRY, and the market value of guarantee fund participation shares was 47.85 million TRY.

In 2017, a total of 82 brokerage houses accounted for a trading volume of 1.46 trillion TRY in the Equity Market. After net, settlement transactions reached 80.35 billion TRY (5.47 percent) in cash exchange and 288.97 billion TRY (19.68 percent) market value in securities exchange.

In 2017, gross clearing and settlement was applied to the shares of 28 companies in the Gross Clearing and Settlement System, created for the shares for which netting was removed upon request by the Capital Markets Board of Turkey. In the system that can be applied per investor, gross clearing and settlement was applied to 174 investors.

Trading volume in the Equity Market reached 1.46 billion TRY in 2017.

### Futures and Options Market Clearing, Settlement and Collateral Management

Since March 3, 2014, Takasbank has begun providing CCP services for transactions executed on the Borsa Istanbul Futures and Options Market (VIOP), at which the Bank provides clearing, settlement, risk management, and collateral management services. Accordingly, it acts as a seller to the buyer and the other way around, using transaction collateral and members' guarantee fund contributions as well as the Bank's capital in profit/loss distribution and in performing liabilities in the event of default.

### EQUITY MARKET DAILY AVERAGE TRADING VOLUMES (million TRY)

Month	Stock Market Volume	Cash Settlement Amount	Net Securities Clearing and Settlement Amount	BIST 100 Index Value <sup>(*)</sup>
January	111,190.54	6,523.15	20,682.28	86,296
February	99,686.40	6,726.82	21,944.89	87,478
March	104,396.52	6,493.79	22,307.82	88,947
April	94,089.82	5,594.26	19,085.71	94,655
May	126,121.76	6,936.07	25,081.03	97,542
June	102,567.55	6,160.03	22,983.04	100,440
July	119,891.96	6,457.50	24,984.64	107,531
August	136,944.33	6,275.51	26,198.15	110,010
September	117,490.22	6,081.77	22,776.87	102,908
October	140,841.31	6,238.77	25,776.91	110,143
November	177,209.47	8,517.21	30,518.35	103,984
December	137,878.61	7,233.31	25,521.98	115,333

<sup>(\*)</sup> Month-end index closing value

The service encompasses opening accounts to execute transactions on VIOP, managing margin and guarantee fund contribution amounts, accruing interest on cash margin, post-trade real-time risk management via BISTECH Margin Management, pre-order risk management for risky accounts, position creation, profit/loss calculation, executing margin calls, settlement of physically delivered contracts, including default management.

The total number of active members in the VIOP was 69 by 2017 year-end. In the same period, the number of open

positions in VIOP reached 1,923,795 with a market value of 7.25 billion TRY. As of year-end, trading volume was 4.15 billion TRY with 146,215 active accounts.

As part of the Margin Management Service provided to the derivatives market, real-time risk management is conducted by the BISTECH Margin Method, an internationally proven and widely-recognized portfolio-based calculation algorithm, at the Borsa Istanbul Futures and Options Market (VIOP). As of the end of 2017, market value of the VIOP margin total is 3.24 billion TRY; of this amount, TRY cash margin makes up 2.97 billion TRY.

#### FIGURES OF THE CLEARING AND SETTLEMENT SERVICE FOR BORSA İSTANBUL FUTURES AND OPTIONS MARKET

	2013	2014	2015	2016	2017
Trading Collateral Value (million TRY) <sup>(*)</sup>	1,797	1,819	2,197	2,641	3,237
Guarantee Fund Collateral Value (million TRY)*	124	165	192	204	201
Trading Volume (million TRY)	143,096	430,091	561,587	593,450	842,410
Profit/Loss (million TRY)	2,643	6,663	8,280	8,899	12,507

<sup>(\*)</sup>By the last business day of the year

#### Futures and Options Market Guarantee Fund Management

At Futures and Options Market, Takasbank provides the service for management of the guarantee fund. By 2017, the total guarantee fund contribution of VIOP clearing members was 201 million TRY. 123 million TRY out of total fund accounted for cash contributions.

In the same year, guarantee fund contribution of VIOP settlement and clearing members totalled 201 million TRY.



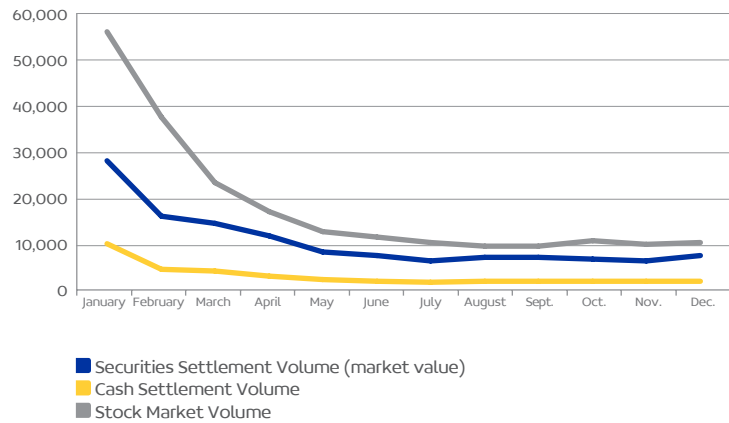
## 2017 DEVELOPMENTS

### Debt Securities Market Clearing and Settlement

In 2017, trading in Borsa Istanbul Debt Securities Outright Purchases and Sales and in Repo-Reverse Repo Markets reached 4.57 trillion TRY. Outright Purchases and Sales Market corporate bonds transactions accounted for 29.32 billion TRY of this amount.

After multilateral netting, the Debt Securities Market posted a cash settlement of 727.58 billion TRY (15.91 percent of the total stock market trading volume) and an equities settlement of 2.65 trillion TRY in total market value (57.98 percent of the total stock market trading volume).

### TRADING VOLUMES (2017)



### BORSA ISTANBUL DEBT SECURITY MARKET MONTHLY AVERAGE TRADING VOLUME (million TRY)

Month	Securities Settlement Volume (market value)	Cash Settlement Volume	Stock Market Volume
January	28,448.39	10,205.21	56,294.23
February	16,148.57	4,333.85	37,396.76
March	14,457.36	3,941.94	23,144.65
April	11,652.34	2,859.35	16,620.76
May	8,130.87	2,071.40	12,328.82
June	7,054.39	1,586.09	11,197.37
July	6,134.24	1,333.93	9,864.71
August	6,718.29	1,574.27	9,300.71
September	6,775.23	1,485.56	9,044.23
October	6,286.84	1,445.48	10,203.11
November	5,920.26	1,606.19	9,535.11
December	7,197.07	1,646.31	10,112.89

### Borsa Istanbul Money Market Settlement

As part of action plan No. 80, titled "Corporate Investors will be Provided with Incentives in the Capital Markets," set forth in the 64th Government Action Plan, and with the goal of helping the organized money markets grow, issuing variable interest rate debt instruments in TRY and establishing generally-accepted TRY reference interest rates for long-term (1-3 months), Borsa Istanbul A.Ş. was founded under the auspices of the Treasury and the CBT, and the "Borsa Istanbul Money Market" was established and put in operation under Borsa Istanbul A.Ş. on October 14, 2016, within the scope of the principles established with participation by officials from Takasbank. Takasbank serves as the Central Counterparty to execute clearing and settlement transactions on the Borsa Istanbul Money Market



### Electricity Market Settlement and Collateral Management

Takasbank, acting as a central settlement bank for transactions on the Electricity Market has continued to provide cash settlement and collateral management services to 1,145 participants. Trading volume increased with a 13.37 percent increase year-on-year in 2017 and relevant information is provided in tables below.

As of December 31, 2017, total market value of the collateral held at Takasbank for Electricity Market transactions was 1.09 billion TRY, comprising of 390.56 million TRY, €255,744,

and \$381,497, and government debt securities with a market value of 280,356 TRY. Trading information for 2017 is provided below:

In 2017, we carried on our analysis and development to provide settlement and collateral services also in organized natural gas markets to expand the range of services we provide to the energy markets.

### ELECTRICITY MARKET ADVANCE TRANSACTIONS - NUMBER OF MONTHLY PARTICIPANTS AND TRADING VOLUME (2017)

Month	Number of Participants	Day-Ahead and Intra-Day Markets (TRY)	Advance Cash Settlement (TRY)	Net Cash Settlement (%)
January	1,015	1,978,638,310.80	1,746,929,860.21	88.29
February	1,017	1,641,881,177.30	1,391,537,794.69	84.75
March	1,027	1,471,507,359.09	1,243,110,276.58	84.48
April	1,038	1,422,618,436.94	1,246,781,396.64	87.64
May	1,051	1,746,188,648.57	1,541,838,665.28	88.30
June	1,094	1,468,147,877.98	1,332,097,260.76	90.73
July	1,059	1,933,001,966.38	1,724,134,410.06	89.19
August	1,109	1,998,160,304.25	1,728,331,401.96	86.50
September	1,112	1,960,461,643.55	1,638,116,939.62	83.56
October	1,125	1,773,918,027.89	1,525,268,874.59	85.98
November	1,138	1,888,889,228.07	1,630,730,963.45	86.33
December	1,145	1,690,270,488.20	1,439,118,278.87	85.14

### ELECTRICITY MARKET INVOICE TRANSACTIONS - MONTHLY TRADING VOLUME (2017)

Month	Balancing Power Market (TRY)	Invoice Cash Settlement Amount (TRY)	Net Cash Settlement (%)
January	2,531,667,972.73	1,392,775,241.03	55.01
February	2,024,114,244.22	1,086,364,909.01	53.67
March	2,331,956,764.99	1,253,093,100.59	53.74
April	2,550,508,035.25	1,326,656,925.34	52.02
May	2,729,378,970.66	1,338,546,969.35	49.04
June	2,175,808,907.04	1,176,505,344.36	54.07
July	2,303,705,722.95	1,158,157,815.67	50.27
August	2,148,637,092.60	1,045,512,124.19	48.66
September	1,652,841,664.42	804,005,526.18	48.64
October	1,831,526,932.07	984,141,970.34	53.73
November	1,882,316,333.86	1,081,777,235.08	57.47
December	2,351,920,694.65	1,342,103,804.34	57.06

## 2017 DEVELOPMENTS

### Electronic Warehouse Receipts (EWR) Clearing and Settlement Service:

Throughout 2012, Izmir Commodity Exchange, Ege Agricultural Products Licensed Warehouse, Central Registry Agency, and Takasbank worked together towards the creation of Electronic Warehouse Receipts (EWR) as well as its trading and clearing and settlement processes. In the first stage, cotton-based EWRs were created to be traded and clearing and settlement processes were developed. In 2013, EWR trading transactions began on the Izmir Commodity Exchange and Takasbank executed the clearing and settlement of these transactions. Clearing and settlement transactions protocol was signed with the Commodity Exchanges of Izmir, Ankara, Konya, and Polatlı in 2013; with the Commodity Exchanges of Bandırma and Gaziantep in 2014; and with the Commodity Exchange of Lüleburgaz in 2015 and these exchanges became a member of Takasbank.

Takasbank uses the RTGS delivery versus payment (DvP) method for settlement of EWRs traded on the electronic trading platforms within Commodity Exchanges. Registration fee, compensation fund and warehouse fees are collected from the cash-receiving member at the time of RTGS DvP

Takasbank uses the RTGS delivery versus payment (DvP) method for clearing and settlement of EWRs traded on the electronic trading platforms within Commodity Exchanges.

transfer. Registration fee and compensation fund amounts are transferred to the commodity exchanges, and the warehouse fee to the licensed warehouse accounts.

2017 trading volumes at the Ankara, Konya, Lüleburgaz, Polatlı, Gaziantep, and Bandırma commodity exchanges are provided in the following table:

Month	Number of Transactions	Number	Trading Volume (TRY)
January	238	40,929,140.00	33,349,116.27
February	216	47,463,880.00	37,575,079.84
March	223	29,264,009.00	25,660,288.01
April	889	97,784,240.00	83,622,202.58
May	792	90,054,080.00	79,907,863.02
June	99	12,927,900.00	11,807,136.36
July	5,604	135,815,430.00	128,666,225.72
August	5,915	182,296,693.00	171,109,716.59
September	3,382	143,062,047.00	118,752,589.63
October	2,759	137,962,602.00	132,139,145.75
November	3,012	234,181,693.00	217,367,708.04
December	1,634	188,598,231.00	172,398,168.58
GENERAL TOTAL	24,763	1,340,339,945	1,212,355,240.39





### Precious Metals Market Settlement and Collateral Management

Borsa İstanbul A.Ş. Takasbank provides cash settlement and collateral management service on the Borsa İstanbul Precious Metals Market, and as of February 4, 2013, these transactions were conducted via accounts opened at the designated correspondent bank, Kuveyt Türk Katılım Bankası A.Ş.

At the Board of Directors meeting No. 307, dated July 28, 2016, it was decided that starting from February 4, 2017, Takasbank would perform the cash settlement and collateral management on the Precious Metals Market without the use of a corresponding bank. On August 1, 2016, a Termination Protocol was signed with Kuwait Turk Participation Bank for the termination of the Correspondence Services Protocol as of February 4, 2017.

Currently, other than the non-active Precious Stones Market, services are provided to the Precious Metals Market and the Precious Metals Lending Market. Precious Metals Market runs on end-to-end automation with the developments of infrastructure made by Takasbank which was put into use on February 4, 2017.

In 2017, the total trading volume was 69.17 billion TRY, where 86.35 percent was executed in U.S. dollars, 13.59 percent in TRY, and 0.06 percent in Euros. 98.85 percent of the transactions were gold-based. Highest TRY and U.S. dollar gold trading volume information is provided below.

#### PRECIOUS METALS MARKET - TRY GOLD TRADING VOLUME (2017)

Month	Precious Metals Trading Volume (Kg)	Trading Volume-Net (TRY)	Cash Settlement Amount (TRY)	Net Cash Settlement (%)
January	3,354.07	488,071,602.39	344,061,487.81	70.49
February	4,189.42	605,164,055	211,021,985.73	34.87
March	6,036.28	874,577,210.28	430,748,158.95	49.25
April	6,085.11	902,306,952.09	395,395,758.55	43.82
May	5,356.13	763,438,308.36	152,099,662.10	19.92
June	5,421.58	772,405,246.15	57,547,889.63	7.45
July	6,539.31	921,911,363.05	174,270,450.49	18.90
August	3,523.50	507,283,573.84	56,199,808.90	11.08
September	5,058.29	739,042,754.01	73,481,762.91	9.94
October	4,615.21	693,647,676.50	75,138,668.65	10.83
November	4,081.27	651,691,737.66	161,129,444.31	24.72
December	4,745.27	745,645,223.44	221,013,784.23	29.64
Total	59,005.43	8,665,185,702.52	2,352,108,862.26	27.14

#### PRECIOUS METALS MARKET - USD GOLD TRADING VOLUME (2017)

Month	Precious Metals Trading Volume (Kg)	Trading Volume-Net (USD)	Cash Settlement Amount (USD)	Net Cash Settlement (%)
January	13,154.69	504,319,728.67	165,117,586.75	32.74
February	20,091.09	797,744,772.91	301,534,972.97	37.80
March	23,455.71	928,172,615.95	344,564,169.61	37.12
April	23,613.15	963,169,606.14	388,562,830.56	40.34
May	65,085.40	2,606,663,704.53	882,057,296.92	33.84
June	49,520.47	2,006,980,937.94	856,876,344.33	42.69
July	63,311.08	2,512,888,596.47	1,174,333,859.96	46.73
August	32,205.98	1,324,154,623.86	644,902,746.02	48.70
September	28,007.39	1,183,568,922.24	614,827,452.43	51.95
October	19,669.50	811,234,212.02	428,081,482.73	52.77
November	17,717.85	731,866,029.64	405,102,646.84	55.35
December	42,136.71	1,714,681,627.01	1,376,017,531.84	80.25
Total	397,969.02	16,085,445,377.38	7,585,978,920.96	47.14

## 2017 DEVELOPMENTS



### Debt Securities Custody

Takasbank provides custody services for government domestic debt securities (GDS) to banks, brokerage houses,

mutual funds, private pension funds, mutual trusts, real estate mutual trusts, insurance and private pension companies, and asset management companies.

### GDS CUSTODY BALANCES PER YEAR (2006-2017)

	(million TRY)		(million USD)
	Average Nominal	Average Market Value	Average Market Value
2006	39,725.88	33,188.07	23,486.00
2007	36,796.28	32,217.53	27,661.66
2008	38,908.52	34,173.06	22,596.75
2009	42,795.09	39,459.17	26,206.53
2010	41,072.65	40,126.52	25,955.06
2011	48,650.41	48,541.25	25,460.93
2012	49,818.44	50,686.38	28,433.96
2013	50,605.89	52,728.55	24,705.31
2014	55,900.75	57,009.04	24,584.52
2015	56,740.06	57,315.55	19,712.32
2016	51,852.37	52,462.48	14,854.32
2017	51,001.24	51,317.90	13,467.85

Private sector debt instrument (PSDI) balances belonging to mutual and private pension funds, mutual trusts, real estate mutual trusts, and insurance and private pension companies

are safe-kept in Takasbank accounts held with MKK. PSDI custody balances of the Bank by years:

### PSDI CUSTODY BALANCES PER YEAR (2006-2017)

	PSDI (Daily average nominal, million TRY)	Change (%)
2010	244.11	2,550.49
2011	3,538.99	1,349.75
2012	7,086.38	100.24
2013	12,228.42	72.56
2014	16,457.88	34.58
2015	21,722.45	31.99
2016	26,180.74	20.52
2017	31,255.68	19.38

### Physical Securities Transactions

As of December 31, 2017, our fungible custody had 4,346,149 certificates, comprising of stocks with a nominal value of 220.73 million TRY; non-fungible custody had 1,918,270 certificates, comprising of stocks with a nominal value of 11.62 million TRY.

### Global Custody

Global Custody Service covers clearing, settlement, custody, corporate actions, and related money transfer transactions for capital market instruments traded in international capital markets. Since 1997, Takasbank has been providing Global Custody Service to a total of 286 members -- including banks, brokerage houses, pension and mutual funds, and other financial institutions -- with end-to-end STP operational flow through the account network it established at international central securities depositories ICSDs (Euroclear ve Clearstream) and global custodians (Citibank). Takasbank Global Custody Service enable Clients to access to more than 65 markets throughout the world. Average market value of capital market instruments held under global custody in 2017 spiked steadily and reached €4.9 billion as of December 31, 2017. In the same year, the average custody balance increased by 25 percent in comparison to the average balance of the previous year (2016).

Since 1997, Takasbank has been providing Global Custody Service to 286 members with uninterrupted STP operational flow through the account network it established at international central securities depositories- ICSDs (Euroclear and Clearstream) and global custodians.

### NUMBER OF GLOBAL CUSTODY ACCOUNTS

Global Custody Members (2017)	Number of Accounts
Investment Funds	149
Private Pension Funds	86
Banks	22
Brokerage Houses	21
Investment Trusts	4
Other	4
Total	286

### Average Global Custody Balances (million €)

January	4.34
February	4.61
March	4.83
April	5.09
May	5.22
June	5.42
July	5.24
August	4.81
September	4.77
October	4.81
November	4.83
December	4.78
Average	4.90



## 2017 DEVELOPMENTS

### GLOBAL SETTLEMENT AND CUSTODY VOLUME (2017, million €)

January	735
February	1.246
March	1.372
April	794
May	917
June	1.384
July	942
August	1.368
September	604
October	1.238
November	852
December	1.221
Total	12.674

In 2017, a total of 35,523 transactions were executed and the transaction number increased by 52 percent compared with the previous year. 44 percent of the transactions are related to the settlement services, 23 percent and 33 percent of the transactions are related to the Corporate Action services and the Money transfers, respectively, which are a result of settlement and corporate action services.

### NUMBER OF GLOBAL CUSTODY TRANSACTIONS (2017)

January	2,776
February	3,103
March	3,134
April	3,052
May	3,128
June	2,896
July	2,429
August	2,619
September	2,107
October	3,608
November	3,233
December	3,438
Total	35,523

### Central Custody for Foreign Assets Held in Private Pension Funds and Mutual Fund Portfolios

Pursuant to the Regulation on the Principles of Establishment and Activities of Private Pension Funds, published in the Official Gazette No. 28586, dated March 13, 2013, and the Communiqué on the Principles of Portfolio Custody Service and the Institutions Rendering the Service, No. III-56.1, dated July 2, 2013, Takasbank has been officially authorized to provide custody services for assets held in mutual and private pension funds' portfolios.

Accordingly, it currently provides central custody service to 86 private pension funds and 149 mutual funds in international markets.

The volume of settlement transactions within the scope of global custody service rose by eight percent to €12.8 billion year-on-year.

### Unallocated Custody

Dematerialized securities owned by collective investment institutions are safe-kept at central custody institutions as Takasbank sub-accounts. As of December 31, 2017, shares with the market value of approximately 14.9 billion TRY are safe-kept at CSD of Turkey in unallocated form.

### Precious Metal Custody

Precious metals in the portfolio of collective investment institutions are safe-kept at Takasbank. Custody takes place at the accounts opened as a sub-account of Takasbank in the name of the relevant collective investment institution at Borsa Istanbul A.Ş., which provides physical custody service for precious metals. As of December 31, 2017, Collective Investment Institutions had 23,235 kg. of gold custody balance with a market value of nearly 3.82 billion TRY.

### Portfolio Custody

Pursuant to the Communiqué on the Principles of Asset Custody Service and the Institutions Rendering the Service, No III-56.1m dated July 2, 2013, Takasbank continued in 2017 to provide the portfolio custody service, which it launched on December 22, 2014, to the collective investment institutions established in accordance with the new legislation. As of December 31, 2017, it has a portfolio custody contract with 13 asset management companies, of which two are real estate management companies, and seven mutual trusts. Currently, 107 collective investment institutions are receiving portfolio custody services.

### Local Custody

Takasbank offers clearing, settlement, and local custody services to international institutions. With this service, foreign institutions use clearing and settlement services, including money transfer, corporate actions and reporting regarding the securities in the settlement accounts opened with Takasbank.

### Shares Corporate Action

Takasbank handles corporate actions such as capital increase and dividend distribution for unallocated shares in collective investment institutions' accounts

In 2017, 17 issuers increased capital through rights issues, 37 issuers completed capital increases through bonus issues, and 122 issuers distributed dividends

### Exercise of Debt Securities Rights

Takasbank also executes corporate action transactions for Government Debt Securities (GDS) and Private Sector Debt Instruments (PSDI), to which it provides custody services. Redemption/coupon payment transactions:

	GDS (million TRY)	PSDI (million TRY)
Redemption	8,238	72,399
Coupon	3,917	973

### Private Pension Fund Shares Information Service

In 2017, 44,771 participants accessed the e-Turkey Takasbank Integration Platform, launched in 2013, for individual pension system participants. Requests were as follows: 3,361 participants requested daily activity SMSs, 3,418 participants requested daily activity emails, 4,058 participants requested monthly balance emails, and 3,591 participants requested monthly activity emails.

### Private Pension Funds Management

Takasbank has been providing custody services as a custodian to private pension companies since 2003, pursuant to article 17 of the Private Pension Savings and Investment System Law and articles 28, 29, and 31 of the Regulation on the Principles of Establishment and Activities of Private Pension Funds.

As of December 31, 2017, the number of accounts that contain private pension funds through the voluntary system in private pension companies rose by 373,774 to 8,059,023. Participants' fund size grew to 77.7 billion TRY with an increase of 17.2 billion TRY.

Law No. 6740 on the Amendment of the Private Pension Savings and Investment System Law, regulating the automatic enrollment in the Private Pension System (PPS),

was adopted on August 10, 2016. As of January 1, 2017, the effective date of the law, the following people were entered in the PPS automatically as part of the gradual transition: individuals who have not turned 45; private sector employees who work for an employer that has 1,000 or more employees, between 250 and 999 employees, or between 100 and 249 employees; and public employees who are subject to Law No. 5018.

In 2017, nearly 8.9 million private pension fund accounts were opened as part of the Automatic Enrolment System in private pension companies, with a total fund amount of 1.8 billion TRY for 3,471,597 active accounts as of December 31, 2017. Opt out rate from the Automatic Enrolment System was at 57 percent.

As part of the gradual transition to the Automatic Enrolment System, private sector employees who work for an employer that has between 10 and 99 employees will be entered in the system in 2018, as will those who work for local administrations and public economic enterprises.

System development efforts required for the Private Pension Automatic Enrolment System continued in 2017. Accordingly, the Bank formed the State Contribution Commitment and Initial State Contribution Sub-accounts to allow exclusive tracking under the participation accounts in the Bank's system for the state contribution amounts that will be committed as part of the Private Pension Automatic Enrolment System and for the initial state contribution amounts that will be committed for one time by the participants that waive the right of withdrawal. The participants can track these state contribution commitment amounts on the private pension and e-state applications on the Takasbank website.

### Debt Securities Collateral Monitoring (BİAŞ)

Takasbank applies Borsa Istanbul Debt Securities Market transaction limit provisions and International Bond Market Collateral. As of December 31, 2017, the collateral amounts of the Transaction Limit Provision and International Bond Market were \$5.28 million TRY and \$2.4 million, respectively. Distribution based on the collateral type:

### DISTRIBUTION PER TRANSACTION LIMIT PROVISIONS (2017, TRY)

Collateral Type	Nominal/Amount	Market Value
Cash	139,099,638.38	627,003,102.38
Letters of Guarantee	760,670,298.25	1,260,780,978.25
Government Bonds	3,091,271,193.00	3,397,374,299.28
Total	3,991,041,129.63	5,285,158,379.91

### INTERNATIONAL BOND MARKET COLLATERALS (2017)

Collateral Type	Foreign Exchange Code	Nominal/Amount	Market Value TRY	Market Value USD
Letters of Guarantee Total	USD	100,000.00	381,040.00	100,000.00
Government Bonds	TL	9,393,550.00	9,138,346.81	2,398,264.35
Total		9,493,550.00	9,519,386.81	2,498,264.35

## 2017 DEVELOPMENTS

### TapuTakas (Takasbank Real Estate Title Deed Payment Transfer Service) Transactions

The TapuTakas service was developed and launched on April 17, 2015, by Takasbank within the scope of the protocol signed with the General Directorate of Land Registry and Cadastre (TKGM) with the goal of preventing issues encountered by the buyer and the seller during the handover of ownership right and the purchase and sale value to allow simultaneous exchange of the cash received for the sale of the property. With this service, it was aimed to eliminate the parties' trust issue, risk of carrying cash and create time, labor and cost advantage for all parties by providing a modern, safe and technological infrastructure through fast transfer at low cost.

The protocol was signed by Takasbank and TKGM for the integration and information exchange needed for service based on the duties and authorizations set forth for the TKGM in Law No. 6083 on the Organization and Duties of the General Directorate of Land Registry and Cadastre and within the scope of the authorization bestowed on them by their own constitution in the administrative law.

Since April 17, 2015, a total of 18 transactions totaling 8.52 million TRY were executed on TapuTakas system in Trabzon, Ankara, Kırklareli, Erzurum, İzmir, Manisa, Antalya, Sakarya, Kocaeli, and Eskişehir. In 2017, a total of 12 transactions were executed amounting to 5.14 million TRY.

### Leveraged Trading Transactions, Collateral Safe Keeping, and Reporting to Capital Markets Board of Turkey

In the aftermath of the global financial crisis, regulations were put into place to execute over-the-counter derivatives transactions on organized platforms, launch a central clearing and settlement practice to eliminate counterparty risk, and provide reporting to repository institutions. In parallel with international market practices, the Capital Markets Board of Turkey (CMB) introduced a regulation for the first time on leveraged trading transactions, which make up an important part of over-the-counter market. The "Communiqué on Principles of Leveraged Trading Transactions (LTT) and Organizations Allowed to Perform Them" went into effect on August 31, 2011.

The regulation makes it mandatory to report all leveraged transactions in customer accounts; asset transfers; final profits or losses derived from closed positions; potential profits or losses with regard to open positions; all commissions, fees, and taxes accrued on accounts, and collateral status information on the accounts to Takasbank as the CMB-authorized trade repository institution for leveraged trading transactions.

Collateral amount of 95,949 out of the 220,910 open accounts in the LTT, for which 44 institutions are members, reached 843 million TRY as of year-end 2017.

### ANNUAL LTT DATA

	2012/12	2013/12	2014/12	2015/12	2016/12	2017/12
Number of Members	23	33	39	42	46	44
Number of Accounts - Last Business Day	1,667	43,194	78,755	148,078	214,835	22,091
Number of Accounts with Collateral - Last Business Day	11,543	29,709	51,377	94,305	130,689	95,949
Collateral Amount - Last Business Day (million TRY)	139	281	449	615	1,075	843
Open Position Value - Last Business Day (million TRY)	2,851	5,326	8,557	12,682	21,848	7,436
Total Trading Volume (million TRY)	1,102,364	2,953,148	4,569,464	9,809,280	11,879,389	4,624,630
Daily Average Trading Volume (million TRY)	4,224	11,813	18,205	39,237	47,328	18,279

### Debt Securities Transfers

In 2017, the Bank transferred debt securities to members worth 543.75 billion TRY/nominal. Of this amount, Takasbank transfers were 540.86 billion TRY/nominal and 2.89 billion TRY were free and bilateral, respectively

Type	Quantity	Nominal (million TRY)
RTGS DvP	2,027.00	2,886.33
Free Transfer	143,565.00	540,858.57
Total	145,592.00	543,744.90

### Exchange-Traded Funds

In 2017, creation and redemption totaling 366.60 million TRY took place in exchange-traded funds based on share certificates, precious metals, government debt securities, and foreign securities.

### Shares and Derivatives Transfer

In 2017, 580.15 billion TRY in transactions were processed in the RTGS DvP, which allows simultaneous securities and cash transfer. Of this amount, 80 percent were full transactions and 93 percent were on-exchange transactions. Also, free of payment transfers worth 54.63 billion TRY were executed by the collective investment institutions.

The integration of RTGS DvP System's integration with the SWIFT system allows member organizations to send RTGS DvP orders via SWIFT. These orders are automatically accepted to the Takasbank RTGS DvP System. In 2017, SWIFT was used for 62.83 percent of the collateral received in the RTGS DvP System.

RTGS DvP System also allows organizations to execute pre-matching electronically. The ratio of the orders of RTGS DvP transfers with forward value date entered in the system for pre-matching via Takasbank screens or SWIFT in the transaction date, was recorded as 77.48 percent in the same period.

### TRANSFER TRANSACTIONS (2017, billion TRY)

	Free Transfer	RTGS DvP	Total Transfer
January	4.34	41.12	45.46
February	4.26	45.97	50.23
March	4.72	44.45	49.16
April	3.95	36.92	40.87
May	5.18	52.97	58.14
June	3.56	48.99	52.55
July	5.12	46.03	51.15
August	5.25	45.63	50.88
September	3.83	54.1	57.93
October	4.61	52.83	57.44
November	5.52	63.53	69.04
December	4.3	47.62	51.92
Total	54.63	580.15	634.78

## 2017 DEVELOPMENTS

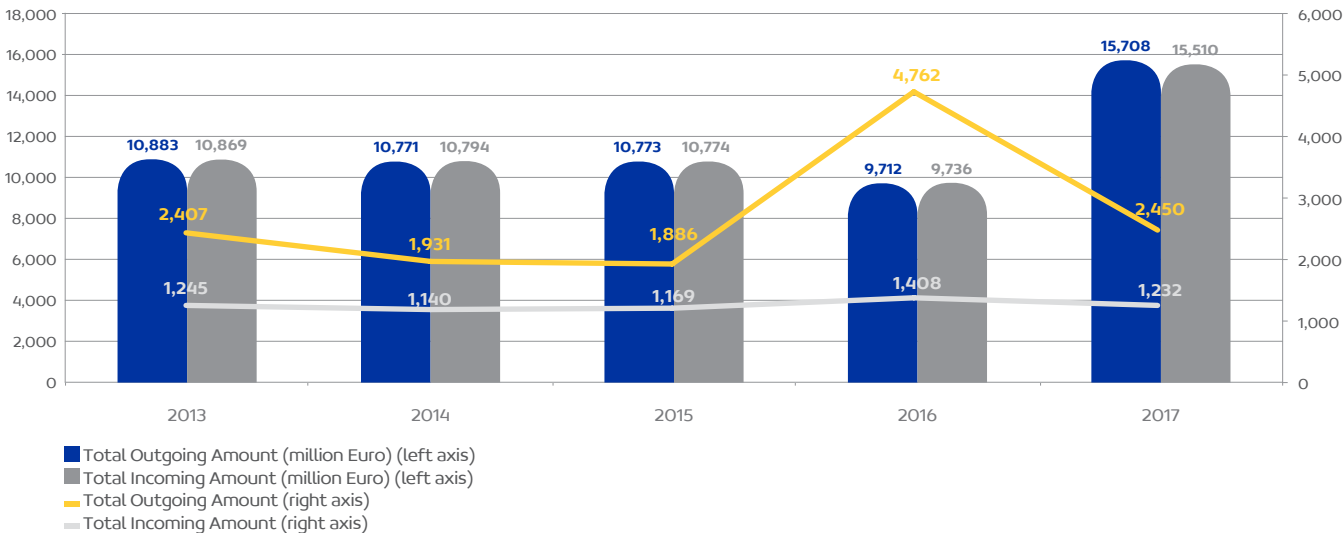
### Foreign Currency Payment and Transfer

Takasbank members can use USD or EUR amounts in their accounts, which they transfer to Takasbank correspondent bank accounts, for their collateral, clearing and settlement transactions. Moreover, they can use the SWIFT system to transfer the amounts from their current accounts held with Takasbank to another member's account at Takasbank or to another bank account.

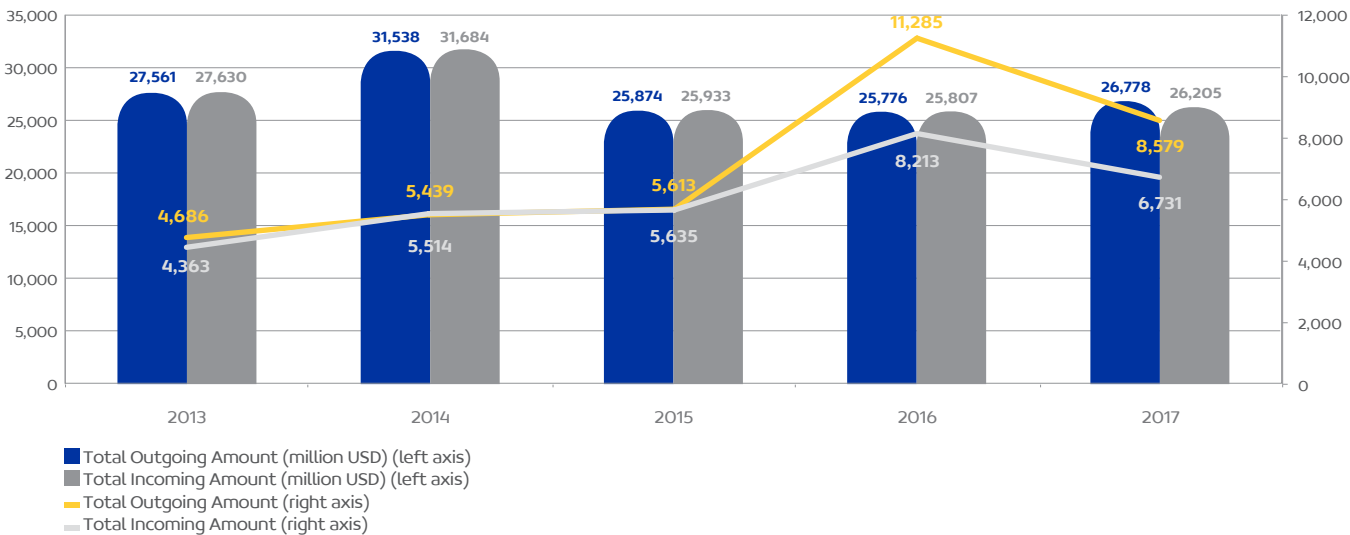
Moreover, as of January 6, 2017, members are able to execute foreign exchange transactions in return for TRY by using their USD and EUR in their Takasbank current accounts for up to \$50,000/€50,000 based on the current exchange rate provided by the Bank.

Brokerage houses can transfer USD or EUR amounts held in their Takasbank accounts to other domestic and foreign bank accounts by using their own terminals or upon written instruction via SWIFT system.

### TOTAL NUMBER AND AMOUNTS OF THE INCOMING/OUTGOING CASH MESSAGES IN EURO (2013-2017)



### TOTAL NUMBER AND AMOUNTS OF THE INCOMING/OUTGOING CASH MESSAGES IN DOLLAR (2013-2017)





### Local Currency Payments and Transfers

Within the scope of local currency payment and transfer services, Takasbank provides its members to use services given via CBRT Payment Systems (EFT, EST, RPS, -TENDER SERVICES), and it also uses these systems for the services it provides.

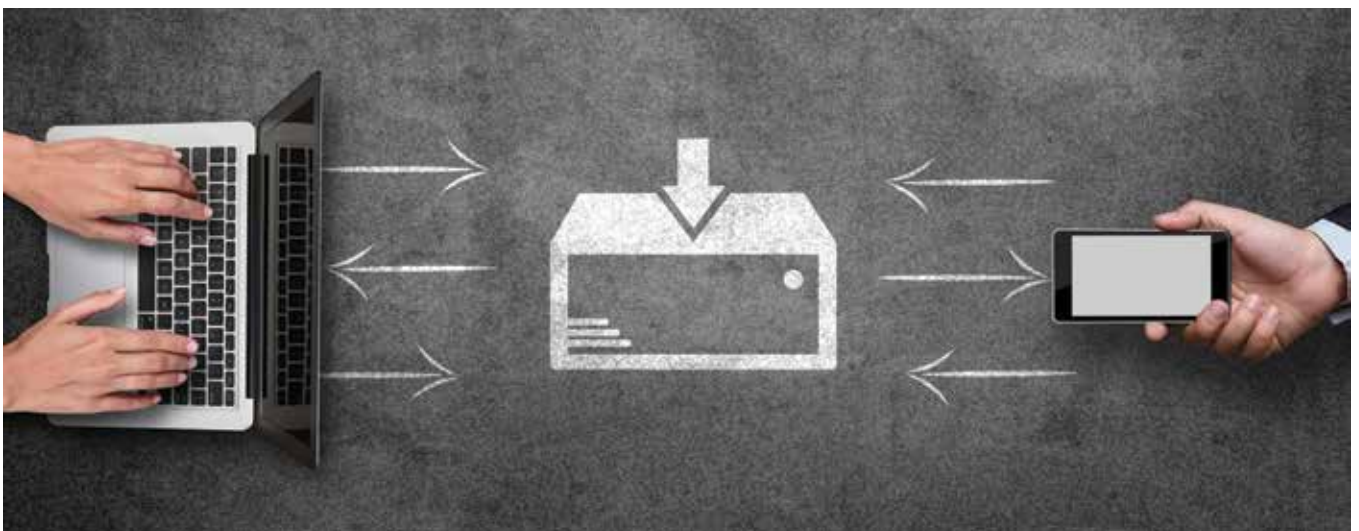
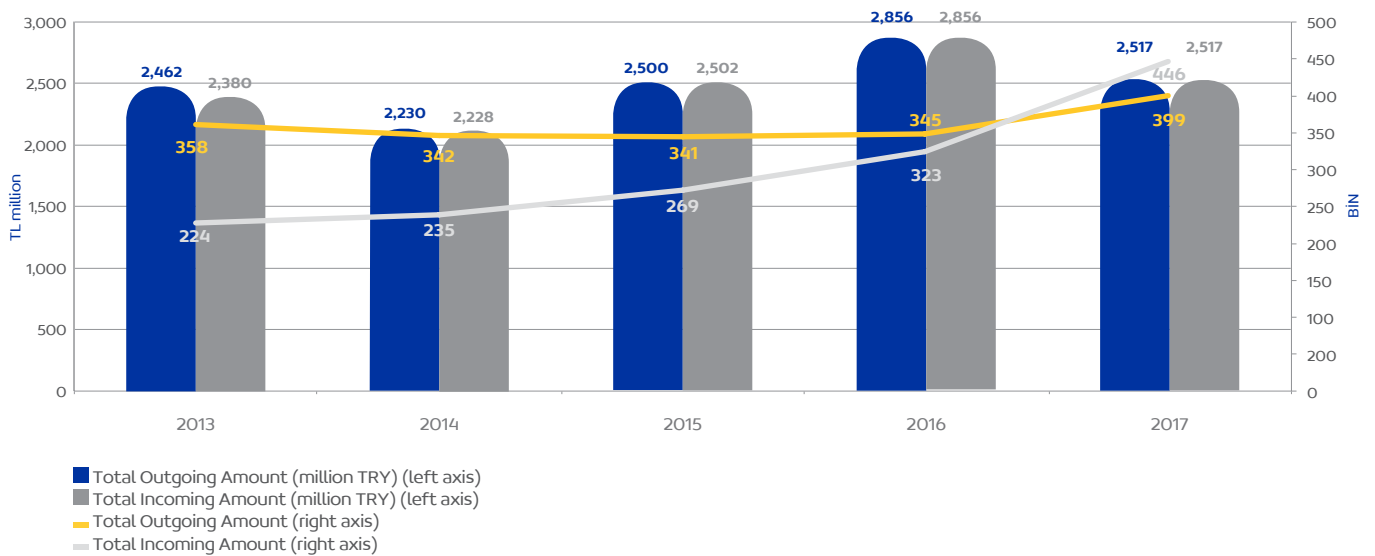
Takasbank, by providing access to EFT and EST systems to brokerage houses via Takasbank Electronic Transfer System (TETS), plays a crucial role in the EFT system with its other services and the synergy created by TETS.

In order to continuously improve the quality of the services provided by Takasbank and in the direction of requests from our members, a new initiative was launched on August 18, 2017, which allows automatic EFT transactions by defining an order on the Electronic Fund Transfer (EFT) menu via

Takasbank member screens. The practice allows the creation of automatic EFT transactions without having to use any other interface from accounts of institutions for which transactions are conducted as proxy once in a day and within a parametric time. Due to the intensity of cash flow volume and the high number of procedures that requires to be followed up, brokerage houses and banks are kept out of the scope of this service and can perform the transactions only for the institutions that they act as proxy.

Moreover, a file transfer module infrastructure was completed and put in operation on December 4, 2017. The module allows for the transfer of cash from Automatic Enrolment System accounts into free (11) accounts for fast, on-time, uninterrupted transactions in the Private Pension Automatic Enrolment System that aims to contribute to long-term economic growth through a regular increase of domestic savings.

### TOTAL NUMBER AND AMOUNTS OF THE INCOMING/OUTGOING CASH MESSAGES IN TL (2013-2017)



## 2017 DEVELOPMENTS

### Legal Entity Identification

At the 2009 Pittsburgh summit, Turkey and the G-20 countries resolved to take measures to improve risk management in the financial markets and reduce operational risks, thus facilitating the execution of financial transactions in a transparent environment to prevent financial crises or mitigate their effects. One of these measures was a central-system monitoring of market transactions by market players who are a party to financial transactions. Accordingly, Global LEI Foundation (GLEIF), established in 2014, began building a central system.

In addition to securities numbering services, Takasbank also obtained the prefix (7890) required by the Financial Stability Board (FSB) to allocate legal entity identifier (LEI), which it has provided since July 31, 2013. Upon ROC approval as an authorized local operating unit in 2013, Takasbank demonstrated that it has the technical and legal infrastructure to offer LEI to financial institutions in Turkey and throughout the world. Takasbank allocates all LEI codes according to the ISO 17442, making it possible to use them for international reporting and audit report.

Domestic and foreign legal entities can request LEI code to Takasbank and execute other transactions, such as updating information and paying annual maintenance fee, on the Bank's web portal at <https://www.leiturkey.com>. Takasbank allocated LEI codes to 210 legal entities in 2017.

### International Securities Identification (ISIN) Service

Takasbank was authorized as "National Numbering Agency of Turkey" in 1995 by the Capital Markets Board and since then Takasbank has been allocating international securities identification codes (ISIN - ISO 6166) and financial institution classification codes (CFI - ISO 10962) to securities and other financial instruments issued in the local market.

### ALLOCATED ISIN CODES (2017)

Type of Securities	Quantity
VIOP Option	10,401
Domestic Warrants	2,031
Foreign Warrants	1,926
Electronic Warehouse Receipts	897
Commercial Papers	806
Structured Debt Instruments	499
VIOP Futures	341
Corporate Bonds	160
Pension Funds	143
Government Debt Instruments	130
Investment Funds	83
Sukuk	70
Sukuk Undersecretariat of the Treasury	48
Asset-Backed Securities	42
Stock Rights	26
Stocks and Other Instruments	14
Total	17,617

### Fund Management

In 2017, as in previous years, Takasbank aimed to achieve maximum possible yield by taking a reasonable level of risk, and to maintain core operations and financial strength within the given market conditions and legislative framework.

Accordingly, contributions of interest revenues to the financial structure rose by 38 percent year-on-year with the help of a general increase in interest rates. Within the scope of collateral management, the funds of the Banks and its customers were invested in the markets within the most suitable time period and in the best interests of owners.

	Total Revenues (thousand TRY)	Gross Fund Management Revenues (thousand TRY)	Share of Fund Management Revenues (%)
2011	105,247	43,814	42
2012	147,235	89,523	61
2013	194,704	123,670	64
2014	264,542	179,323	68
2015	338,744	224,527	66
2016	427,455	281,177	66
2017	571,886	388,308	68

### Cash Credit

As part of the limit allocation and notification service, nominal-based credit limits were updated for 136 organizations including 61 brokerage houses, 27 banks, 33 factoring companies, five leasing, five financing companies, and four asset management companies in 2016.

Takasbank's cash credit daily average grew by 12.71 percent to 135.7 million TRY in 2017, up from 120.4 million TRY in 2016.

Cash credit interest income rose by 34.29 percent to 17.31 million TRY in 2017, up from 12.89 million TRY in 2016. Credit maturity is generally overnight.

The number of brokerage house customers agreeing to enable the transfer of securities to cash credit collateral increased to 884, up from 829.

Also, Takasbank began offering central counterparty service on the BIAS Equity Market. The Settlement and Clearing Credit service began in July 2017 to facilitate members' short-term funding and liquidity needs for accounts that fall below the required collateral level and are in deficit. Subsequently, we issued clearing and settlement credit limits to 58 members. From July-December 2017, 1.8 million TRY of average placement took place in clearing and settlement credit transactions, generating an interest income of 89,000 TRY.

### CASH CREDIT PLACEMENT AVERAGE AND INTEREST INCOME (2017)

	Placement Average (TRY)	Interest Income (TRY)
January	99,928,355	876,282
February	56,296,857	498,647
March	96,182,871	975,928
April	42,836,400	446,183
May	55,721,484	615,389
June	62,815,167	682,268
July	103,397,452	1,166,816
August	344,023,161	3,763,973
September	340,786,300	3,619,339
October	219,227,581	2,433,225
November	94,589,067	1,030,953
December	104,875,097	1,202,071
Total	135,701,797	17,311,076

In the 2017 operating period, the Bank intensified efforts to provide membership and account opening operations for financial organizations that receive services within the scope of capital market transactions and relevant markets.

### Member Information Management

In the 2017 operating period, the Bank intensified efforts to provide membership and account opening operations for financial organizations that receive services within the scope of capital market transactions and relevant markets. During the year, 350 accounts were opened subsequent to contract signing.

Throughout the operating period, 1,640 institutions and 3,845 active users received services. Member transaction and information services resulted in 19,214 phone calls, 33,563 email notifications and directives, 607 representative designations according to the institutions' signature circular, and definition of 6,385 securities traded in the markets.

In the same period, 78 institutions canceled their account relationships with Takasbank.

## 2017 DEVELOPMENTS

### ACCOUNTS (as of December 31, 2017)

Type	Number
Brokerage Houses	66
Banks	39
Exchange-Traded Funds	3
Electricity Market Participants	1,100
Private Pension Funds	423
Private Pension Companies	18
Factoring Companies	48
Leasing Companies	14
Financing Companies	8
Real Estate Investment Funds	12
Real Estate Investment Trusts	31
Venture Capital Funds	9
Venture Capital Trusts	14
Participation Banks	6
Precious Metals Brokerage Houses	76
Corporate Investors	16
Asset Management Companies	50
Insurance Companies	7
Mercantile Exchanges and Licensed Warehouses	46
Asset Finance Funds	10
Investment Trusts	10
Investment Funds	438
Total	1,640

### Periodic Data Transfer to Data Vendors

As part of the Periodic Information Transfer Service to Data Vending Companies, the consolidated securities balances of the mutual trusts, pension funds and mutual funds as well as fund portfolio breakdown information, fund company information, fund analyses and information about the funds traded in the Turkey Electronic Trading Platform were furnished to the data vendors in 2017. By the 2017 year-end, information was provided to four receivers and five sub-receivers.

### Suspended Brokerage Houses Transactions

Ongoing processes regarding brokerage houses whose activities were suspended in accordance with the legislation and the Capital Markets Board of Turkey directives continued throughout 2017.

### Collateral Agency Services to Mortgage Financing Firms

For funding mortgage loans granted by Şeker Mortgage Finansman A.Ş., Takasbank provided collateral and account management services for Şeker Finans to use the loan within the scope of the credit contract signed between Şeker Mortgage Finansman A.Ş. and Overseas Private Investment Corporation (OPIC).

In 2017, the Bank continued to receive, check, and deposit mortgage loan documents submitted by the mortgage financing companies to which it provides services, as per the 2011 contract. During the same time, it received a total of 211 files consisting of 188 loan files and 23 restructuring files. The number of files reached 5,451 by December 31, 2016. Average file amount was 104,900 TRY.

### Repo and Reverse Repo Transactions and Monitoring and Reporting

Repo and reverse repo operations and transactions by brokerage houses and banks outside Borsa Istanbul must be reported to Takasbank, as are transactions with a default on maturity. Securities subject to such transactions must also be deposited at Takasbank. Monthly breakdown of securities deposited at Takasbank as repo blockage by brokerage houses and banks in 2017.

2017	Nominal (million)
January	57.755.68
February	53.299.30
March	75.105.99
April	50.232.35
May	57.364.52
June	54.710.63
July	53.304.18
August	59.236.18
September	53.566.62
October	55.144.08
November	53.888.27
December	57.127.56

### Brokerage House Collateral Safekeeping

By December 31, 2017, Takasbank processed 5.8 million TRY worth of collateral on behalf of the Capital Markets Board of Turkey. Collateral breakdown based on the type:

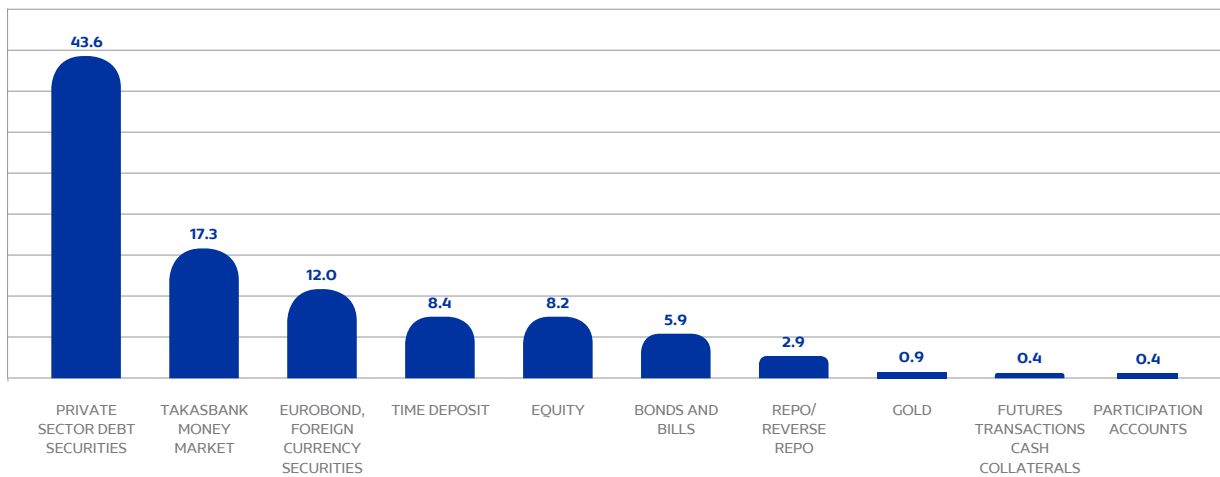
Collateral Type	Market Value
TRY	2,084,569.88
Government Bonds	1,556,879.72
Letters of Guarantee	2,213,687.00
Total	5,855,136.60

### Fund Valuation and Reporting to Capital Markets Board of Turkey

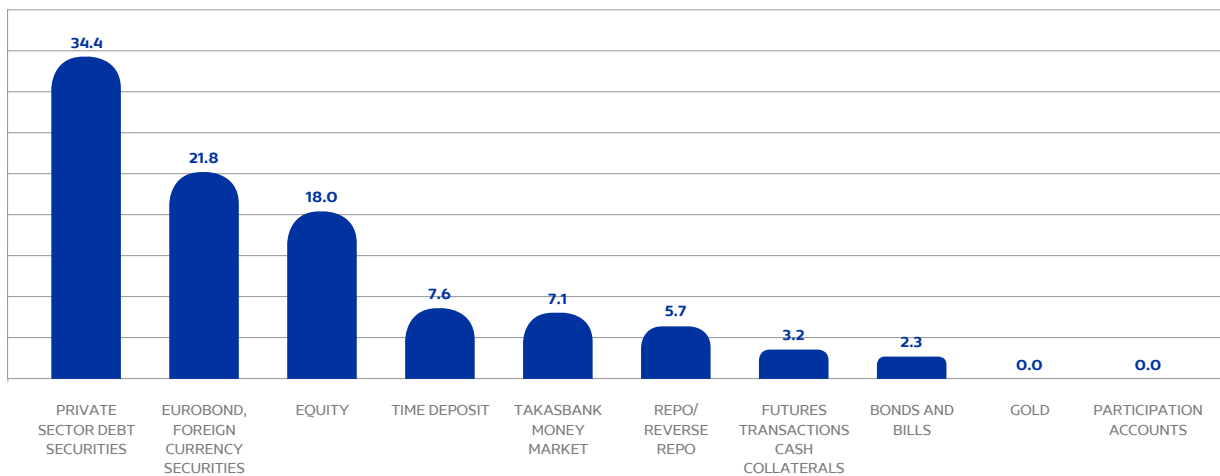
In 2017, pursuant to Capital Markets Board of Turkey authorization and in accordance with the relevant regulation, Takasbank continued to provide custody services to collective investment institutions and provided the necessary infrastructure to report the safekeeping of assets outside Takasbank's custody. Furthermore, reconciliation of

information regarding the unit share values, number of shares in circulation, fund portfolio and net asset values as well as daily transaction details of these institutions had continued to be monitored. In case there seemed the need of correction on those fields, unreconciled parts were overviewed attentively for necessary rectifications. Eventually, for the remaining unreconciled fields, we had reported those inconsistencies to the Capital Markets Board on a daily basis

### INVESTMENT FUNDS PORTFOLIO DISTRIBUTION (2017, %)

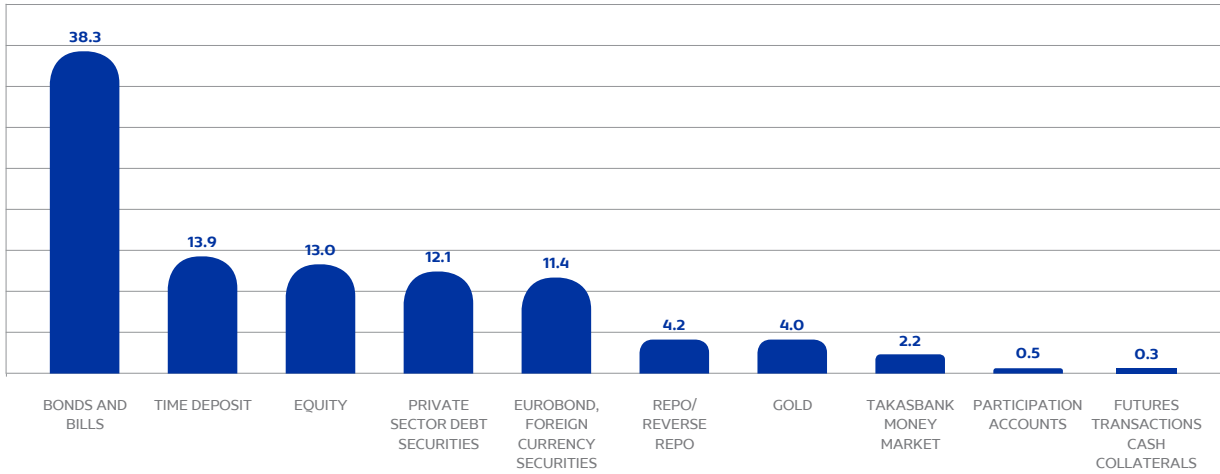


### SECURITIES MUTUAL TRUST PORTFOLIO BREAKDOWN (2017, %)

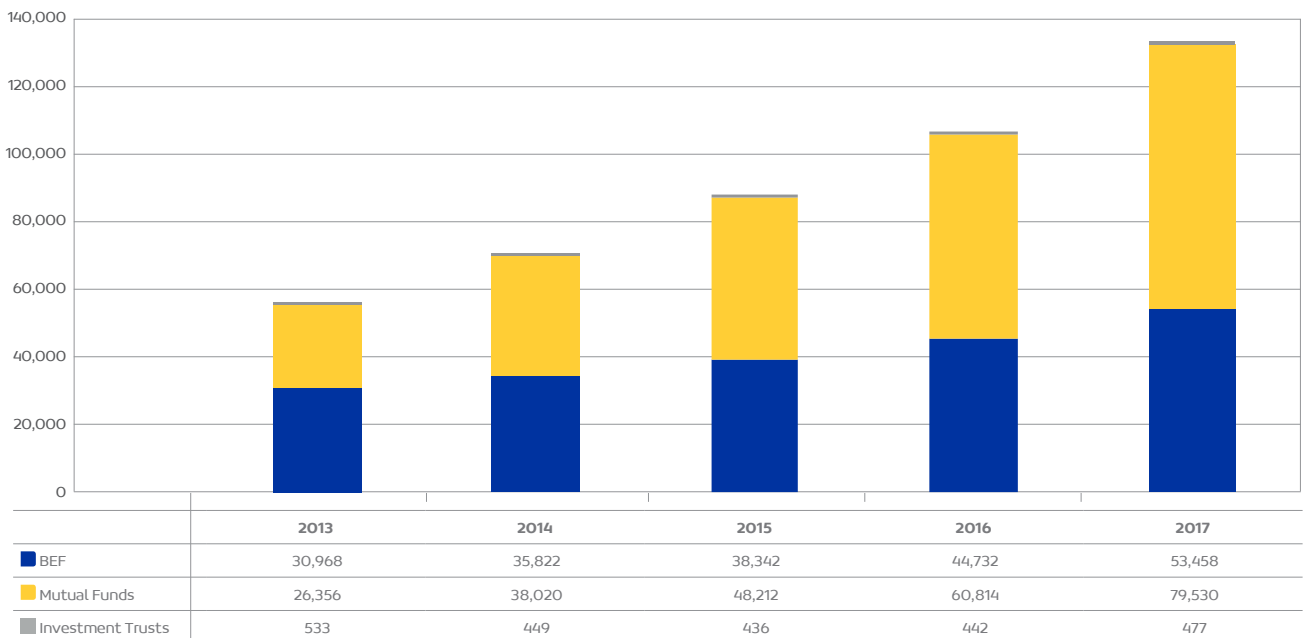


## 2017 DEVELOPMENTS

## PRIVATE PENSION FUND PORTFOLIO BREAKDOWN (2017, %)



## COLLECTIVE INVESTMENT INSTITUTION SIZE (2013-2017, million TL)



# We Rank Among the Top 100 Corporate Tax Payers

**TAKASBANK RANKED NUMBER 77 IN THE TOP 100 TAX PAYERS LIST,  
RISING ABOVE 721,524 CORPORATE TAX PAYERS, BASED ON 2016 DATA  
FROM THE REVENUE ADMINISTRATION OF THE MINISTRY OF FINANCE.**



**NAME AND LAST NAME, TERM OF OFFICE, AREAS OF RESPONSIBILITY, EDUCATION, PROFESSIONAL EXPERIENCE, AND MEETING PARTICIPATION INFORMATION ON THE CHAIRMAN AND BOARD MEMBERS, AUDIT COMMITTEE MEMBERS, THE CEO AND EXECUTIVE VICE PRESIDENTS, AND INTERNAL SYSTEM DEPARTMENT MANAGERS; AND INFORMATION ON THE EXTRAORDINARY GENERAL ASSEMBLY**

**1.1. BOARD OF DIRECTORS**

Name and Last Name	Board of Directors Duty	Area of Responsibility	Education	University	Faculty	Department
Murat Çetinkaya	Chairman	Board of Directors	Bachelor's Degree	METU	Engineering	Metallurgy
			Master's Degree	Marmara	Banking and Insurance Institute	Banking
Adnan Ertürk	Member	Vice Chairman	Bachelor's Degree	Ankara	Political Science	Public Administration
Seyit Ahmet Işkın	Member	Audit Committee Member	Bachelor's Degree	İstanbul Marmara	Political Science	Economy
			Master's Degree		Banking and Insurance Institute	Banking
Gülseren Topuz	Member	Corporate Governance Committee Chairman Credit Committee Substitute Member	Bachelor's Degree	Anadolu Marmara İstanbul	Economics	Economics
			Master's Degree		Institute of Social Sciences	Statistics
			PhD		Institute of Social Sciences	Money and Banking
Münevver Çetin	Member	Credit Committee Member	Bachelor's Degree	Ankara Ankara İstanbul	Faculty of Educational Sciences	Economy Administration
			Master's Degree		Institute of Social Sciences	Education Administration and Planning
			PhD		Institute of Social Sciences	Administration Organization
Mustafa İleri	Member	Credit Committee Substitute Member	Bachelor's Degree	İstanbul İstanbul	Business Administration	Business Finance
			Master's Degree		Business Administration	Business Finance
Güzide Meltem Kökden	Member	Credit Committee Member	Bachelor's Degree	Ankara Ankara	Political Science	International Relations
		Corporate Governance Committee Member	Master's Degree		Institute of Social Sciences	Europe Community Law
Ersin Özoğuz	Member	Audit Committee Chairman	Bachelor's Degree	Dokuz Eylül	Economics and Administrative Sciences	Economy
Mahmut Kayacık	Member	CEO and Credit Committee Permanent Member	Bachelor's Degree	Boğaziçi Marmara	Economics and Administrative Sciences	Social Sciences and International Relations
			Master's Degree		Social Sciences	International Economics



## BOARD OF DIRECTORS



### **Murat Çetinkaya** **Chairman of the Board of Directors**

Murat Çetinkaya was born in Ankara in 1970. He graduated from TED Ankara College in 1988, and earned his BS degree from the Middle East Technical University, Department of Metallurgical and Materials Engineering in 1992. He completed T C. Ziraat Bankası A.Ş. Banking School in 1993 and earned an MA degree from Marmara University Banking and Insurance Institute, Banking Department in 2001. He started his career with T C. Ziraat Bankası A.Ş. Fund Management Department, and continued as Treasury Department Assistant Manager at Tekstilbank A.Ş. and Treasury Manager at Diler Yatırım Bankası A.Ş. Çetinkaya was appointed as the CEO of Halk Yatırım Menkul Değerler A.Ş. in August 2010 and was a Board member of Halk Portföy Yönetimi A.Ş. (portfolio management company) from its establishment until April 2013. He was a Board member of Halk Yatırım Menkul Değerler A.Ş. from this date until June 2017. With regard to sector representation, he was Deputy Chairman of the Union of Chambers and Commodity Exchanges of Turkey (TOBB) Capital Markets Sector Assembly between 2013 and 2016, and Member and Chairman of Borsa İstanbul Disciplinary Committee between 2014 and 2016. Çetinkaya was the Chairman of the Capital Markets Professionals Association (EFFAS Türkiye) between 2013 and June 2017, and Board Member of the Turkish Capital Markets Association between May 2016 and June 2017. He was appointed as Borsa İstanbul A.Ş. CEO and Chairman of Takasbank A.Ş. on June 8, 2017.

## BOARD OF DIRECTORS


**Adnan Ertürk**  
**Vice Chairman**

He was born in 1968. He completed his primary and secondary school education in Ankara, and went on to receive his Bachelor's Degree in Public Administration from the Faculty of Political Sciences at Ankara University in 1989. He then received his Master's Degree in Finance from the University of Illinois in the USA in 2002. In 1990, he began working as Assistant Auditor at the Court of Accounts. He served as Assistant Finance Auditor between 1991 and 1995, as Chief Finance Auditor between 1995 and 2001, and as Chief Finance Auditor between 2001 and 2003. In August 2003, he was appointed as Head of Department at the General Directorate of Revenues. Following the foundation of the Revenue Administration, he maintained the same position as Group President of Revenue Administration. He was appointed as Department Head of Revenue Administration in January 2006, as Chief of the Financial Crimes Investigation Board on December 8, 2007, as Vice President of Revenue Administration on September 2, 2009, as President of the Ministry of Finance Tax Inspection Board on August 4, 2011, and as President of Revenue Administration on May 5, 2014. He currently holds this position. He speaks English. He is married with three children.


**Seyit Ahmet Işkın**  
**Board Member**

Seyit Ahmet Işkın was born in Sivas in 1973. He received his Bachelor's Degree from the Faculty of Political Sciences at Istanbul University. He then received his Master's Degree in Banking from Marmara University, Institute of Banking and Insurance. He is currently getting his PhD in Business Administration from Haliç University, Institute of Political Sciences. He worked as the Assistant Secretary General at an NGO between 1996 and 1999. He served at the inspection and audit departments of various banking, leasing, and capital markets organizations between 1999 and 2007 before performing his duties as the Chairman of the Inspection Board and Vice President at the Istanbul Gold Exchange, respectively, between 2008 and 2013. He played a role in combining the three exchanges – Istanbul Stock Exchange, Istanbul Gold Exchange, and Izmir Futures and Options Exchange – and served as a board member of Borsa Istanbul A.Ş. between 2013 and 2017. During this time, he performed his duties as the Borsa Istanbul A.Ş. Audit Committee Chairman. He also served as a board member at Ege Lisanslı Depoculuk A.Ş. and Istanbul Altın Rafinerisi A.Ş. between 2013 and 2014, and at Merkezi Kayıt Istanbul-CSD of Turkey between 2014 and 2016. He was appointed as the Executive Assistant to the Prime Minister to serve between 2014 and 2016. On June 9, 2017, he was elected to the Takasbank A.Ş. Board of Directors. He also serves as an Audit Committee member at the Bank. He is married with three children.

**Gülseren Topuz**  
**Board Member**

She was born in Istanbul in 1957. After graduating from the Behçet Kemal Çağlar High School, she received her Bachelor's Degree from Ankara University, Faculty of Economics. She received her Master's Degree in Statistics at Marmara University and in Human Resources Management at Istanbul University before earning her PhD in Money and Banking at Istanbul University. She worked as Research Assistant at Istanbul University 's Institute of Ataturk's Principles and History of Turkish Revolution; Lecturer at the Department of Economics, Faculty of Economics and Administrative Sciences; head of the Economic History Department and Vice Chairman of the Department of Economics at Kocaeli University; consultant at Istanbul Metropolitan Municipality; board member at Merkezi Kayıt Istanbul-CSD of Turkey; and member of Parliament from Istanbul on the 22nd term. She is married with two children.

**Münevver Çetin**  
**Board Member**

She was born in Istanbul in 1960. She received her Bachelor's Degree from Ankara University in 1982; her Master's Degree from Ankara University, Institute of Social Sciences in 1985; and her PhD from Istanbul University Institute of Social Sciences in 1988. She has been working at Marmara University since 1985. Çetin became Associate Professor in 1998 and Professor in 2006. She served as advisor to the Chairman at the Disaster and Emergency Management Authority between 2014 and 2016. She was appointed as a board member at the June 9, 2017 General Assembly.



## BOARD OF DIRECTORS


**Mustafa İleri**  
**Board Member**

He was born in Kumanova in 1953. He received his Bachelor's Degree in Business Administration in 1977 and his Master's Degree in 1979 at Istanbul University. He served as Accounting Manager at Meban Menkul Değerler A.Ş. between 1980 and 1983 and at Transtürk Holding A.Ş. between 1983 and 1984. From 1984 and 1995, he was the Financial Affairs Department Manager at Pamukbank T A.Ş. Currently, he is the CEO and a board member of Tacirler Yatırım Menkul Değerler A.Ş., where he has performed various duties since April 1995.


**Güzide Meltem Kökden**  
**Board Member**

She was born in Taşköprü, Kastamonu in 1969. She received her Bachelor's Degree in International Relations from the Faculty of Political Sciences, Ankara University in 1990. She then received her Master's Degree in European Law from the Institute of Social Sciences at the same university before embarking on her business career at T. İş Bankası A.Ş. in 1991. She held various posts at the bank -- Investment Specialist, Assistant Manager, Group Manager, and Capital Markets Department Manager, respectively. She currently serves as President of Türkiye İş Bankası A.Ş. Members' Complementary Social Security and Charity Fund and Chair of İş Portföy Yönetimi A.Ş.

### **Ersin Özoğuz** **Board Member**

He was born in Izmir in 1972. He studied at the Maliye Vocational High School from 1986 to 1989 before receiving his Bachelor's Degree in Public Finance from Dokuz Eylül University in 1993. He worked as Assistant Auditor and Auditor between 1996 and 1999, Manager and Regional Manager between 2000 and 2009, and Commercial Banking Director, Cash Management Director, and Audit Board Chairman between 2011 and 2017. He was appointed as Assistant General Manager of Vakıfbank on July 20, 2017. He has been a Takasbank board member since August 2017.



### **Mahmut Kayacık** **CEO and Board Member**

Mahmut Kayacık was born in Muğla in 1976. He graduated from Kartal Anatolian Imam Hatip High School with high honors. He received his Bachelor's Degree in Political Science and International Relations at Boğaziçi University in 1999. He then earned his Master's Degree in International Economics from the Faculty of Social Sciences at Marmara University with a thesis on "The Options Market and its Use for Hedging" in 2002. He embarked on a career in the capital markets as a Financial Analyst at Taç Yatırım Ortaklığı A.Ş. from 1999 to 2002. He became a Fund and Asset Manager and Corporate Financing Department Manager at Yıldız Holding in 2003. Afterwards, he led significant public offering, merger, and acquisition transactions. He served as Coordinator and General Manager at real estate investment trusts and various business companies. Kayacık was appointed as Takasbank CEO and board member in April 2016. Mahmut Kayacık also serves as board member of Ege Agricultural Products Licensed Warehouse (ELİDAŞ), Turkey's first-ever licensed warehouse for cotton. He is married with three children.



## EXECUTIVE MANAGEMENT



**Mahmut KAYACIK**  
CEO and Board Member

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**Gökhan ELİBOL**  
Executive Vice President

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**Ekrem ARIKAN**  
Executive Vice President

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Name and Last Name	Duty	Area of Responsibility	Education	University	Faculty	Department	Professional Experience		
							Year	Institution	Duty
Mahmut Kayacık	CEO and Board Member		Bachelor's Degree	Boğaziçi	Economics and Administrative Sciences	Social Sciences and International Relations	1999-2002	Taç Yatırım Ortaklığı A.Ş.	Financial Analyst
			Master's Degree	Marmara	Social Sciences	International Economics	2003-2008	Bizim Menkul Değerler A.Ş.	Fund and Asset Management and Corporate Financing Manager
							2008-2016	Yıldız Holding-Gayrimenkul ve Marina Şirketleri İstanbul	Coordinator and General Manager
							2016-Present	İstanbul Settlement and Custody Bank	CEO and Board Member
Gökhan Elibol	Executive Vice President	Markets and Operation	Bachelor's Degree	Ankara	Political Science	Economy	2006-2006	Ministry of Finance	Tax Inspector
			Bachelor's Degree	Beykent	Law	Law	2006-2016	BRSA	Assistant Sworn-in Bank Auditor, Sworn-in Bank Auditor
							2016-Present	İstanbul Settlement and Custody Bank	Executive Vice President
Ekrem Ankan	Executive Vice President	Information Technology	Bachelor's Degree	Boğaziçi	Engineering	Computer	1998-2006	Microsoft Windows International Product Group	Program Director
			Master's Degree	Yeditepe	Business Administration	Business Administration	2007-2014	Ziraat Teknoloji (Fintek Finansal Teknoloji Hizmetleri) A.Ş.	IT Architecture Manager, Project Management Office Manager, Information Technology Security Manager, Corporate Development Director
							2014-2015	Ziraat Hayat ve Emeklilik A.Ş.	Corporate Development and Information Technology Group Manager
							2015-2016	Enerji Piyasaları İşletme A.Ş.	Strategy Development Director
							2016-Present	İstanbul Settlement and Custody Bank	Executive Vice President

## MANAGERS



**Ali Osman İNAL**  
Project and Program Management Department

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**Beyhan ARASAN**  
Equity and Debt Securities Clearing and Settlement  
Department

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**Elvan ALTİKULAÇ**  
Internal Audit Department

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**Hasan DEMİRCAN**  
Clearing and Settlement Applications Development (AD)  
Department

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**İlker KUŞCU**  
Custody AD Department

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**Kerim ARICAN**  
Enterprise Architecture and R&D Department

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**Metin KÜLÜNK**  
Member Affairs and Corporate Communications  
Department

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**Muhterem ÇELİK**  
Custody Department

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## MANAGERS



**Murat GÖRGÜN**  
Financial Services, Reporting and Strategic Planning  
Department

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**Naim ŞAHİN**  
Banking and Markets AD Department

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**Necla KÜÇÜKÇOLAK**  
Derivatives and Energy Commodity Clearing and  
Settlement Department

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**Nesrin ÖZKURT**  
Cash Operations Department (By Proxy)

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**Niyazi Burak AKAN**  
Central Counterparty (CCP) Department

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**Semanur CERRAHOĞLU**  
Treasury and Credits Department

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**Serkan AÇIKGÖZ**  
Human Resources and Support Services Department

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**Taşkın ÖKER**  
IT Infrastructure and Operations Department

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## INTERNAL SYSTEMS-RELATED NOTIFICATIONS

Name and Last Name	Duty	Area of Responsibility	Education	University	Faculty	Department	Professional Experience		
							Year	Institution	Duty
Elvan Altıkulaç	Manager	Internal Audit Department	Bachelor's Degree	Ankara	Political Science	Public Administration	1999-2001	Yaşarbank A.Ş.	Assistant Auditor
			Master's Degree	Marmara	Institute of Banking and Insurance	Banking	2001-Present	İstanbul Settlement and Custody Bank	Assistant Auditor, Auditor, Chief Auditor, Assistant Manager, Manager
			PhD	Marmara	Institute of Banking and Insurance	Banking (continued)			
Mustafa Mert Özdiler	Department Manager	Risk Management Department	Bachelor's Degree	Gazi	Science-Literature	Statistics	2008-2014	T.C. Ziraat Bankası A.Ş.	Assistant Specialist, Specialist
			Master's Degree	Gazi	Institute of Science	Statistics	2014-Present	İstanbul Settlement and Custody Bank	Specialist, Senior Specialist, Department Head
Can Polat <sup>(*)</sup>	Department Manager	Internal Control and Compliance	Bachelor's Degree	Dokuz Eylül	Economics and Administrative Sciences	Economics	-	-	-

<sup>(\*)</sup>Left the Bank in December 2017.

## STRUCTURE AND FORMATION OF THE BOARD OF DIRECTORS

### OPERATING PRINCIPLES OF THE BOARD OF DIRECTORS

The Board of Directors convenes at least once a month. It may convene more if deemed necessary. The Chair, or Vice Chair in the absence of the Chair, is authorized to convene the board of directors and determine its agenda. However, each board member is entitled to request from the chair to convene the board of directors or suggest agenda items for a meeting. The Board of Directors convenes by absolute majority, and resolutions are taken by majority vote of those attending directors. The Bank's articles of association stipulates the activities of the Board of Directors and meeting procedures and principles.

### INFORMATION ON BOARD MEMBERS' PARTICIPATION IN MEETINGS DURING THE ACCOUNTING PERIOD

The Board of Directors convenes at least once a month pursuant to the Bank's articles of association. In 2017, it convened 22 times, and the ordinary general assembly was not held.

### NUMBER, STRUCTURE, AND INDEPENDENCE OF COMMITTEES FORMED UNDER THE BOARD OF DIRECTORS

Takasbank's Board of Directors formed an Audit Committee, Credit Committee, and Corporate Governance Committee to assist in its businesses and operations in accordance with its legislative responsibilities.

### FINANCIAL RIGHTS GRANTED TO BOARD MEMBERS AND EXECUTIVE MANAGERS; ALLOWANCES, TRAVEL, ACCOMMODATION, AND REPRESENTATION EXPENSES; AND TOTAL IN-CASH AND IN-KIND RESOURCES, INSURANCES, AND SIMILAR COLLATERAL

The General Assembly determines the financial rights provided to Board members, such as remuneration and dividend bonus, pursuant to the provisions of the Turkish Commercial Code. Rights such as remuneration and bonuses granted

to the executive management are determined within the scope of the Bank's Personnel Regulation, whereas general remuneration increases are put into effect upon approval by the Board of Directors.

Other rights such as vehicle allowance, insurance, etc. granted to the Board of Directors and executive management are determined within the scope of the Personnel Regulation and related procedures. Meanwhile, travel allowances and expenses are determined according to the Bank's Travel Expense Regulation.

No borrowing/lending or guarantor and security relationships were created with any Board Member or executive management in 2017.

### TRANSACTIONS AND OPERATIONS CONDUCTED WITH THE BANK BY BODY MEMBERS, IN THEIR OWN NAME OR ON BEHALF OF ANOTHER PERSON, PURSUANT TO THE PERMISSION GIVEN BY THE BANK'S GENERAL ASSEMBLY WITHIN THE SCOPE OF NON-COMPETITION

No transactions or operations were conducted with the Bank by executive body members in their own name or on behalf of another person, pursuant to the permission given by the Bank's General Assembly within the scope of non-competition.

### EXPLANATIONS REGARDING ADMINISTRATIVE OR LEGAL ACTIONS AGAINST THE COMPANY OR EXECUTIVE BODY MEMBERS DUE TO PRACTICES AGAINST LEGISLATIVE PROVISIONS

There were no administrative or legal actions against the company or executive body members due to practices against legislative provisions.

## EXPLANATIONS REGARDING PRIVATE AUDIT AND PUBLIC AUDIT CONDUCTED IN THE ACCOUNTING PERIOD

In the 2017 fiscal year, KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. conducted an independent audit of Takasbank.

The CBT conducted an audit of Takasbank during the fiscal year; however, the BRSA and the CMB did not.

## **INFORMATION ON THE CREDIT COMMITTEE; ON THE OPERATIONS OF THE COMMITTEES THAT REPORT TO THE BOARD OF DIRECTORS OR THAT WERE CREATED TO ASSIST THE BOARD OF DIRECTORS IN ACCORDANCE WITH THE RISK MANAGEMENT SYSTEMS PURSUANT TO THE REGULATION ON THE BANK'S INTERNAL SYSTEMS; ON THE COMMITTEE MEMBERS' PARTICIPATION IN MEETINGS HELD IN THE ACCOUNTING PERIOD; AND ON THE NAME, LAST NAME, AND FUNDAMENTAL DUTIES OF THE CHAIRMAN AND MEMBERS OF THESE COMMITTEES**

### **CREDIT COMMITTEE**

#### **Duties and Responsibilities**

Grant credit limits as per Banking Law and related regulations under the authority of the Board of Directors.

#### **Members**

Münevver Çetin, Chair (Board Member);  
Mahmut Kayacık, (CEO and Board Member)  
Güzide Meltem Kökden (Board Member)

#### **Meeting Frequency**

The Board of Directors finalizes the credit limits set by the Bank.

#### **Meeting Participation Information**

In 2017, the Audit Committee did not convene, and all cash and non-cash credit limits were set by the Board of Directors.

### **AUDIT COMMITTEE**

#### **Duties, Authorities, and Responsibilities**

The Audit Committee is liable to execute the duties, authorities and responsibilities set forth by the Banking Law No. 5411 and by the "Regulation on Internal Systems and Internal Capital Adequacy Assessment Process of Banks" by the BRSA.

#### **Members**

Ersin Özoğuz (Board Member-Audit Committee Chairman, as of August 8, 2017)  
Seyit Ahmet Işkın (Board Member-Audit Committee Member, as of June 12, 2017)

#### **Meeting Frequency**

At least once a month.

#### **Meeting Participation Information**

In 2017, the Audit Committee held 23 meetings with the full participation of the Chairman and Members.

### **CORPORATE GOVERNANCE COMMITTEE**

#### **Duties and Responsibilities**

Assist the Board of Directors in establishing the mission and vision of the Bank and oversees operations in compliance with the Bank's mission and vision.

Identify conflicts of interest arising from failure to provide full compliance to corporate governance principles, and put into place policies necessary for overseeing such conflicts of interest.

Supervise the processes for developing and keeping up to date the standards, policies, instructions, and implementation procedures regarding the Bank's operations and transactions.

Take social responsibility projects into consideration. Review critical complaints and requests concerning the corporate governance practices, and offer comments and suggestions to the Board of Directors.

#### **Members**

Gülseren Topuz - Corporate Governance Committee Chairman (Board Member)  
Güzide Meltem Kökden - Corporate Governance Committee Member (Board Member)

#### **Meeting Frequency**

Twice a year

#### **Meeting Participation Information**

In 2017, the Corporate Governance Committee held two meetings with the full participation of the Chairman and Members.

### **STRATEGIC COORDINATION COMMITTEE**

#### **Duties and Responsibilities**

Assess and approve strategic targets and the initiatives by which to achieve them, in line with the Bank's objectives based on its mission, vision, and fundamental values; monitor growth periodically; and recommend changes as necessary.

As part of the Continuous Service Improvement Process, evaluate and approve the feasibility of corporate improvement action analyses. Evaluate the progress of corporate improvement actions in the portfolio and make decisions to intervene when necessary.

#### **Members**

Mahmut Kayacık (CEO and Board Member)  
Executive Vice Presidents  
Strategic Planning Team Manager and Personnel

#### **Meeting Frequency**

Twice a year.

#### **Meeting Participation Information**

The Strategic Coordination Committee held two meetings in 2017.

## ASSETS AND LIABILITIES COMMITTEE

### Duties and Responsibilities

Discuss and evaluate the Bank's balance sheet, revenue/expense balance, budget and fund management strategy, as well as the implications of local and global developments in money and capital markets for the Bank.

The committee designs prospective policies for the Bank based on the current data.

### Members

CEO  
Executive Vice Presidents  
Treasury and Credits Department Manager, Financial Services,  
Reporting and Strategic Planning Department Manager  
Central Counterparty Department Manager  
Equity and Debt Securities Clearing and Settlement  
Department Manager  
Markets Department Manager, Risk Management Department  
Executive  
Custody Manager, Member Relations Department Manager,  
Derivatives and Energy Commodity Clearing and Settlement  
Department Manager

### Meeting Frequency

The Assets and Liabilities Committee convenes monthly.

### Meeting Participation Information

Member participation in meetings held in 2017:

Month	January	February	March	April	May	June
Number of Participating Members	13	11	12	10	11	11
Month	July	August	September	October	November	December
Number of Participating Members	12	11	13	12	12	12

## INFORMATION TECHNOLOGY COMMITTEE

### Duties and Responsibilities

- Ensures prioritization of benefit-cost analysis of the project portfolio in line with the information technology strategic plan made in accordance with the Bank's strategic plan.
- Ensure efficiency and productivity in the use of the Bank's information systems and human resources by assessing the status of the projects.

### Members

Chairman  
Executive Vice Presidents  
IT Managers  
Information Security, IT Compliance, and Risk Management  
Team Manager

### Meeting Frequency

The Information Technology Committee convenes periodically in quarterly intervals.

### Meeting Participation Information

The committee convened four times in 2017.

## SUMMARY BOARD REPORT PRESENTED TO THE GENERAL ASSEMBLY

Esteemed Shareholders,

Welcome to the 23<sup>rd</sup> Ordinary General Assembly of Takasbank.

We respectfully greet you, esteemed shareholders, as we present for your review and approval our Annual Report, which includes a Balance Sheet and Profit/Loss statements regarding the operating results in the 2017 fiscal year.

In 2017, risk appetite in global financial markets spiked due to the momentum in global growth and uncertainty in central banks' fiscal policies around the world. Though Turkey's country risk premium rose somewhat higher than other emerging countries as a result of geopolitical developments from mid-September to the second half of November, it still received a large share of international portfolio investments throughout the year. Overall, in 2017, the Credit Guarantee Fund played a decisive role in our country's economic growth. Meanwhile, commercial loans lost a little steam as the limits drew near by the middle of the year; however, driven by the positive outlook in economic activity, the Bank's desire to issue loans continued in the last quarter of the year. In parallel with global and local developments, the core economic activity trend remained strong, leading to an impressive growth rate of 11.1 percent in the third quarter.

The outlook on inflation was frail due to the loss of momentum in the country's economic activity, geopolitical developments, decreasing value of the TRY against the basket of currencies, cost-driven pressures arising from commodities, and rising food prices all put together. In 2017, consumer inflation climbed to 11.92 percent despite the CBT tight fiscal policy.

Shouldering a critical mission in restructuring Turkish capital markets and developing its infrastructure, Takasbank is referred to as the "Central Clearing and Settlement Institution" of Turkey. As such, it continued to thrive in 2017 in accordance with its mission to offer effective, uninterrupted, and reliable settlement services in international standards, as this service is one of the fundamental functions in advancing competition in our country's financial markets.

We installed more clearing and settlement software in 2017 as part of the deal that the Bank's controlling shareholder, Borsa Istanbul, entered into with NASDAQ OMX, one of the world's most prominent stock exchanges. Futures and Options Market BISTECH transition, the second phase following Borsa Istanbul Equity Market transactions, was completed in March 2017. We are still working to move the Debt Securities Market and the Precious Metals Market to the BISTECH Systems.

Confirmed as a central counterparty (CCP) by the Capital Markets Board of Turkey, Takasbank began providing the CCP service on the Equity Market on June 19, 2017, after being

offered on the Securities Lending Market, the Futures and Options Market, and the Borsa Istanbul Money Market. The Bank strives to improve the CCP service while enhancing and diversifying its the other services in line with the industry's demands. Accordingly, the Settlement and Clearing Loan initiative was launched in 2017 to meet the members' short-term funding and liquidity requirements.

2017 was a successful year of growth and profitability for Takasbank, which performs its core operations in an uninterrupted manner and a member- and customer-focused scheme. Profit before tax rose by 31 percent to 348.6 million TRY, while asset size grew to 10.6 billion TRY year-on-year.

Takasbank plays a significant role in the growth of Turkish capital markets. With another successful year behind us, we are determined to maintain our achievements in the coming year thanks to the support of our esteemed shareholders.

Dear Shareholders,  
As we present this Annual Report, which includes the Balance Sheet and Profit/Loss statements for the 2017 operating year, we would like to extend our particular respect to the esteemed capital markets executives and our personnel for their support, as well as to our valued shareholders and their representatives for putting their trust in Takasbank and honoring our General Assembly with their presence.

Yours faithfully,

Istanbul Settlement and Custody Bank  
On behalf of the Board of Directors



**Murat ÇETİNKAYA**

Chairman of the Board of  
Directors



**Mahmut KAYACIK**

CEO and Board Member



## INFORMATION ON HUMAN RESOURCES PRACTICES

Efforts to maintain a modern corporate culture focused on sustainable growth and enhanced personnel motivational practices continued in 2017.

In parallel with gradually diversified and intensified operations of Takasbank, the number of employees increased to 281 by year-end 2017: 166 men and 115 women. The management team consisted of 41 people including a Service Manager, Manager, Executive Vice President, and the CEO. The Board of Directors is made up of nine members including the CEO.

As in previous years, Takasbank also recognized efficient performance in 2017, and maintained efforts to keep personnel motivation high through initiatives such as increasing salaries and other financial benefits above the inflation rate and offering bonuses for successfully completed projects. During the year, various events were organized to improve relations between employees. Such activities will continue in the future.

Takasbank considers its workforce its most important asset according to its sustainable growth vision. As such, it aspires to achieve personnel development and effective communication and satisfaction through human resources strategies, in line with its mission and objectives.

It continued to apply objective assessment criteria to meet labor force requirements. Individuals employed during the year to work in operational units received orientation training to familiarize them with the organization.

Training activities continued to supplement other human resources practices, consistent with corporate objectives. With a view for technical, professional, and personal development training, each employee received an average of 25 hours of training. Employees pursuing Master's and PhD studies were allowed to continue their training leave. Employees hold the following degrees: PhD and Master's Degrees (23 percent), Bachelor's Degrees (72 percent), high school or primary school (5 percent).

The Human Resources Department meets the liabilities arising from Law No. 6331 on Occupational Health and Safety. Legal compliance requirements were satisfied by involving employees in the creation of an occupational health and safety culture. An Employee Satisfaction Survey was conducted in January 2017, providing feedback on working life, processes, and operations. Reviews launched practices to improve work environment and motivation and developed actions to enhance corporate culture.

## INFORMATION RELATED TO TRANSACTIONS THE BANK PERFORMS WITH ITS RISK GROUP

The independent audit report shows information related to transactions that the Bank performs with its risk group.

Bank's Risk Group	Subsidiaries, Affiliates, and Jointly-managed Partnerships (Business Partnerships)		Bank's Direct and Indirect Partners		Other Real and Legal Persons in the Risk Group	
	Cash	Non-cash	Cash	Non-cash	Cash	Non-cash
Loans and Other Receivables						
Opening Balance	-	-	98,945	2,783,755	70,038	-
Closing Balance	-	-	144,797	2,666,698	100,108	-
Received Interest and Commission Income	2,112	-	32,855	19,511	14,456	3,537

## INFORMATION ON THE AREAS OF ACTIVITY IN WHICH SUPPORT SERVICE IS RECEIVED AND THE PERSONS AND ENTITIES FROM WHOM SUCH SERVICE IS RECEIVED, PURSUANT TO THE REGULATION ON THE BANK'S PROCUREMENT OF SUPPORT SERVICES AND THE AUTHORIZATION OF SUCH SERVICE PROVIDERS

In 2017, as per the Regulation on the Bank's Procurement of Support Service, Takasbank received the following services: Back-up data center hardware hosting and support service from Türk Telekomünikasyon A.Ş.; Infrastructure, connection, maintenance, and 24/7 email and telephone support service from Fineksus Bilişim Çözümleri Tic.; and server hosting service for Exchange Data Center from Borsa İstanbul A.Ş.

## CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE STATEMENT

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## **PART I - CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE STATEMENT**

Article 36 of Capital Markets Law number 6362 (Law) stipulates that article 17/1 and 2 of the Law regarding corporate governance shall apply to capital markets institutions by analogy. Pursuant to Provisional Article 8 of the Law, İstanbul Settlement and Custody Bank (the Bank) is a central clearing agency; in accordance with Article 35 of the Law, central clearing institutions are considered capital market institutions. Therefore, this Corporate Governance Principles Compliance Statement was prepared based on the report format attached to the Corporate Governance Communique No. II-17.1 of the Capital Markets Board of Turkey.

The Bank maintains that good governance is the key element of sustainability. As such, it has adopted the four principles of corporate governance based on transparency, fairness,

responsibility, and accountability. Accordingly, it established a Corporate Governance Committee so as to devise and implement its corporate structure, processes, and policies in line with this principle, and put into force the Regulation on Takasbank Corporate Governance Principles.

As mentioned above, it is stipulated that capital market institutions shall comply by analogy to the Communique published by the Capital Markets Board of Turkey to include publicly traded companies or those that are deemed as such. The Bank resolved that it shall comply with the principles set forth in the Regulation on Takasbank Corporate Governance Principles until the Capital Markets Board of Turkey determines which of the principles in the Communique these institutions must comply with.

Yours faithfully,



**Gülseren TOPUZ**

Corporate Governance Committee Chairman



**Güzide Meltem KÖKDEN**

Corporate Governance Committee Member

## CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE STATEMENT

### PART II - SHAREHOLDERS

#### 2.1. Investor Relations Department

The Bank management has adopted the principle of treating all shareholders equally by entering into transparent and responsible relationship with the investors. An investor relations department was not established within the Bank. Instead, the Human Resources, Support Services, Financial Services, Reporting, and Strategic Planning departments serve to manage and strengthen investor relations within the Bank. Executives in charge of these departments are in constant contact with the Committee.

With regard to investor relations, relevant departments conducted the following operations during the period:

- 1) Keep accurate, secure, and up-to-date records on investors;
- 2) Respond to information requests from investors about partnership shares, with the exception of confidential information and commercial secrets that are not disclosed to the public;
- 3) Hold the General Assembly in accordance with applicable legislation, articles of association, and other internal regulations of the Bank;
- 4) Draw up the Annual Report for the last financial year for use by shareholders at the General Assembly;
- 5) Take record of voting results at the General Assembly and provide investors with the reports on the results;
- 6) Pursue and monitor all public disclosure matters as per the legislation and the Bank's disclosure policy;
- 7) Announce bank-related developments and financial data for the related period to investors in a timely manner, and keep the investor relations section on the Bank's corporate website up to date;
- 8) Strive to improve the Bank's corporate governance practices and submit related work to the Committee for review.

In 2017, related departments answered shareholders' information requests regarding their shares in the Bank.

#### 2.2. Exercising Shareholders' Right to Information

The Bank attaches importance to ensuring that shareholders are given the right to information as stipulated in the provisions of the TCC and the Banking Law (related legislation). Accordingly, it drew up and entered into effect a Regulation on Disclosure Policy at the Bank. As per the Regulation, there is no discrimination among the shareholders with respect to exercising the right to information. The Bank keeps the necessary communication channels open in order to answer the shareholders' information requests.

The Committee plays an active role in protecting and facilitating the use of rights arising from share ownership, including the right to information and review. It is the responsibility of the Committee to present shareholders with information and disclosures that may affect exercising of these rights.

General letters concerning Bank-related developments, financial information, and news are regularly published on Takasbank's corporate website at [www.takasbank.com.tr](http://www.takasbank.com.tr). Also, Information Society Services section accessible on the website provides up-to-date content, as required by article 1524 of the TCC.

Articles of association do not designate the appointment of a special auditor as a right. The Bank management avoids any acts that could complicate a special audit. Pursuant to the TCC No. 6102 and mandatory provisions of the Regulation on Takasbank Corporate Governance Principles, shareholders may request a special audit of some events, provided that the right information and inspection is exercised in advance. Shareholders are allowed to individually exercise this right individually, even if it is not included in the General Assembly agenda. No requests for the appointment of any special auditors were communicated to our organization during this period.

#### 2.3. General Assembly Meetings

The procedures and summons of the General Assembly attendance are publicly disclosed in the Internal Directive on the Working Principles and Procedures of the General Meeting document, included in the Legal Framework section of the Bank's corporate website.

The Bank's General Assembly meetings are held pursuant to the provisions of the relevant regulation. The General Assembly was set to be held on May 13, 2017 to assess 2017 results; however, it was postponed due to lack of quorum under the observation of the Ministry's representative. The postponed General Assembly Meeting was held on June 9, 2017 with a 97.78 percent quorum.

The General Assembly was held at Borsa Istanbul A.Ş. Conference Hall, Sarıyer, Istanbul in order to prevent inequality among the shareholders, and at minimum possible cost to them.

In order to ensure shareholder participation in the General Assembly, the invitation and agenda, including the venue and date of the meeting and other information and documents for shareholders to the General Assembly, were sent in a timely manner and published in the Turkish Trade Registry Gazette No. 9332 dated May 24, 2017, in the Hürses newspaper dated May 19, 2017, and on the Bank's website.

The Bank's 2017 Annual Report containing the Balance Sheet and Income Statement for the January 1, 2016 - December 31, 2016 fiscal year; the Independent Audit Report, which was prepared for the Ordinary General Assembly; and the General Assembly Briefing Document were provided to shareholders and published on the corporate website within the legal period.

The Financial Services, Reporting and Strategic Planning Department answered shareholders' questions following the General Assembly date announcement.

The matters presented in the agenda were communicated impartially and in-depth in a straightforward and understandable manner. Shareholders were given equal opportunity to express their opinions and ask questions during the General Assembly.

Shareholders forwarded their agenda-related requests to the Meeting Chair during the meeting via motions. The General Assembly voted on and approved four motions made by the shareholders regarding articles 1, 2, 3, 4, 6, 7, and 8 on the General Assembly agenda.

Open voting was done by a show of hands at the General Assembly.

The General Assembly minutes were sent to the shareholders upon request by fax and/or e-mail. Subsequently, they were posted on the corporate website and published in the Trade Registry Gazette.

In attendance at the General Assembly were shareholders, board members, audit committee members, officers responsible for preparation of the financial statements, an authorized officer of the independent audit firm, and other related people. Media organizations did not attend.

#### **2.4. Voting Rights and Minority Rights**

The Bank's shareholders comprise of Borsa İstanbul A.Ş. and banks and brokerage houses.

Shareholders exercise voting rights in proportion to the total nominal value of their shares. Each share has one voting right. No voting privileges are granted to any share group.

Except for Borsa İstanbul A.Ş., no shareholder can directly or indirectly own more than five percent of the Bank's capital. As of 2017 year-end, 63.83 percent of the Bank's capital belonged to Borsa İstanbul A.Ş., 17.04 percent to 11 banks, and 19.13 percent to 30 brokerage houses.

The Bank's Articles of Association do not include any special provisions regarding the execution of minority rights or cumulative voting.

Pursuant to Article 195 of the TCC on controlling and affiliated companies, Borsa İstanbul A.Ş. is currently the controlling company in the group of companies, and Takasbank and the Central Registry Agency are considered as affiliates. Although Takasbank holds a nominal share of 634,851 TRY in the capital of Borsa İstanbul A.Ş., it is not entitled to vote at its General Assembly pursuant to article 389 of the TCC.

#### **2.5. Dividend Rights**

The Bank pays dividends in accordance with the General Assembly resolutions. Proposals are prepared in accordance with the Board of Directors' Dividend Policy, and are then submitted to the general assembly agenda. The Dividend Policy is not published on the corporate website.

No privileges are specified in the distribution of dividends among shareholders. Each shareholder is entitled to receive a pro-rata dividend.

In 2016, 75 million TRY was paid to shareholders as dividend.

#### **2.6. Transfer of Shares**

Provided that the shares are not against the capital markets legislation as per the Bank's articles of association, and pursuant to Article 493 of the TCC, shares can be transferred only between stock exchanges that are established as per the CML and their members, investment institutions, collective investment schemes, asset management companies, mortgage financing companies, central settlement institutions, central custody institutions, publicly-owned joint stock companies listed in the organized markets, and private pension companies that are established pursuant to the Private Pension Savings and Investment System Law.

Except for Borsa İstanbul A.Ş., the share of each associate may not directly or indirectly exceed five percent of the Bank's capital.

The shares representing Group A belong exclusively to Borsa İstanbul A.Ş. New shares of Group A may not be created by capital increase.

## CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE STATEMENT

### PART III - PUBLIC DISCLOSURE AND TRANSPARENCY

#### 3.1. Corporate Website and its Contents

The Bank's active corporate website, [www.takasbank.com.tr](http://www.takasbank.com.tr), is designed both in Turkish and English and provides current and historic information. The Bank initiated efforts to build a new website in line with its technological infrastructure. The new site is set to be launched in the first weeks of 2018.

The Bank's website aims to comply as quickly as possible with the matters stated in the Corporate Governance Principles.

The corporate website features general information about the Bank as well as information about its articles of association, general assembly meetings, regulations, unconsolidated financial statements and reports, and interim reports. Furthermore, the website's Information Society Services section includes all information and documents as per mandatory provisions in the Regulation on Websites to be Created by Capital Companies, published by the Ministry of Customs and Trade in the Official Gazette on May 31, 2013.

#### 3.2. Annual Report

Takasbank's Annual Report is prepared in detail to allow public access to accurate and complete information about the Bank's activities. It complies with the Regulation on Procedures and Principles Regarding Preparation and Publication of Annual Reports by Banks, published by the BRSA, and with the Regulation on Determining the Minimum Annual Report Content of Companies, published by the Ministry of Customs and Trade.

The Annual Report contains the Corporate Governance Principles Compliance Statement, prepared in the format determined by the Capital Markets Board of Turkey in accordance with Article 8 of the Corporate Governance Communique No. II-17.1 of the Capital Markets Board of Turkey.

### PART IV - STAKEHOLDERS

#### 4.1. Disclosure of Information to Stakeholders

Stakeholders have access to Bank-related information through meetings and presentations, print and visual news media, and the corporate website. There is also an intranet service available solely for employees to receive information and communicate.

The Bank uses emails, the intranet, and internal bulletins to notify personnel about its general operations and practices.

#### 4.2. Stakeholders' Participation in Management

The Bank is in constant contact with the stakeholders, and it evaluates the requests submitted by them to the Bank and develops solution suggestions.

It receives personnel suggestions by means of periodic meetings and questionnaires and by assessing notifications made through the Bank's intranet.

The Bank created a Procedure for Notification of any Irregularities, Problems, or Suspicious Matters within the Bank. The policy is posted on the intranet for access by all personnel, establishing a communication channel through which employees can alert relevant management offices and departments about problems and suspicious or questionable matters.

The Bank conducts periodic service satisfaction surveys and customer visits to assess requests and suggestions from its members and customers.

The satisfaction of customers, members, and market players is considered the utmost priority in all Bank services. The Bank measures customer satisfaction through methods such as surveys and meetings, and takes all requests into consideration.

In 2017, in addition to customer visits, the Bank conducted a Takasbank Service Satisfaction Survey. The survey comprises four main sections containing service- and system-related assessments, training needs, opinions, criticisms, and requests. A total of 214 organizations, including brokerage houses, banks, pension companies, leasing companies, factoring companies, mutual trusts, asset management companies, electricity companies, precious metals brokerage houses, and banks, participated in the survey. Results showed a 90 percent general satisfaction with Takasbank services. Executive Management evaluates the survey results together

with customer opinions and suggestions, and takes necessary action on every reasonable suggestion, particularly in response to reported problems and requests for improvement and training.

The Bank has adopted a mission of continuous improvement and development of services through the Continuous Service Improvement Program.

The Bank evaluates complaints, suggestions, and requests sent by the public via the email address provided on the corporate website.

### 4.3. Human Resources Policy

The Bank's Human Resources policy is public and available on the [www.takasbank.com.tr](http://www.takasbank.com.tr) website.

Implementation of Human Resources policies is primarily the responsibility of the Human Resources and Support Services Department Manager, and ultimately, the CEO.

In brief, the Bank's Human Resources policy is to recruit personnel, our most valuable resource, and place them in the most suitable positions. The Bank selects those who are most suited to its culture so as to provide effective, uninterrupted, and reliable clearing and settlement, banking, and central risk and management services at international standards. To achieve employee satisfaction, the Bank strives to establish work environments that allow personnel to maximize their potential and demonstrate creativity and dynamic enthusiasm for work. The Bank supports constant personal and professional development, and implements fair and transparent reward policies.

The required education level of prospective personnel is determined in accordance with the Personnel Directive, and the qualifications for recruitment are identified according to the scope of work and job description as determined by the related department.

The Bank maintains research and development for a competency-based performance system for each position. It also maintains industry performance assessment systems to maximize the potential and measure the performance of personnel. It focuses on in-depth work with regard to the 360-Degree performance evaluation system used by many institutions.

We regularly conduct an Employee Satisfaction Survey that aims to collect feedback on employee opinions and requests. We also perform assessments to develop actions for improving corporate culture by implementing practices that help advance the work environment and increase motivation. No discrimination complaints were filed.

Our Human Resources policy is based on fundamental values including quality, customer orientation, an analytical approach, team spirit, continuous development, dedication to work, reliability, impartiality, work ethic, and confidentiality.

The Human Resource and Support Services Department meets the effort to address liabilities arising from the Occupational Health and Safety Law. Legal compliance requirements were met and employees were included in the process by creating an occupational health and safety culture.

### 4.4. Code of Conduct and Social Responsibility

The Bank pay utmost attention to reflect its corporate social responsibility approach on its business methods and social projects. It develops and supports projects that draw attention to social problems, particularly in education, and that contribute to the social development of society.

In 2017, as part of our Social Responsibility program, we donated 275,000 TRY to the Istanbul Provincial Directorate of Police to purchase vehicles and 35,000 TRY to a middle school to meet its needs.

Within a corporate structure and with the help of socially-aware employees, the Bank conducts social responsibility projects with the cooperation of the people and organizations it works with.

It adopts Banking Ethics Principles in its internal regulation for banking operations, and it informs the relevant parties promptly about the changes. Published by the Banks Association of Turkey, these principles lay out the rules for all business and transactions between banks and their customers, stakeholders, and employees, and between other organizations.

## CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE STATEMENT

### PART V - BOARD OF DIRECTORS

#### 5.1. Structure and Formation of the Board of Directors

Pursuant to the provisions of the Bank's articles of association, the General Assembly selects the Board Members: 4 (four) Members nominated by Borsa Istanbul A.Ş., a Group-A Shareholder; 2 (two) Members nominated by the banks, Class-B shareholders; and 2 (two) Members nominated by brokerage houses, Class-B shareholders. As per Banking Law, the CEO is a regular member of the Board of Directors.

Three Board members, elected from among the candidates nominated by Group-A shareholders, must be independent Board Members. At least two of the independent nominees must have no direct or indirect employment relationship with the Group-A shareholder.

The preconditions for the Bank's Board members are determined within the framework of the provisions of the relevant regulation.

Board Members are elected to serve a three-year term. Board Members can be re-elected.

There are nine Board Members as per the provisions of the Bank's articles of association. Members' names and last names are as follows: Adnan Ertürk, Münevver Çetin, Gülseren Topuz, and Seyit Ahmet Işkın are independent Board Members. Up-to-date member profiles are published in the Information Society Services section of the corporate website as well as in the Bank's Annual Report.

Murat Çetinkaya	Chairman
Adnan Ertürk	Vice Chairman
Seyit Ahmet Işkın	Board Member, Audit Committee Member
Gülseren Topuz	Board Member - Corporate Governance Committee Chair, Substitute Credit Committee Member
Münevver Çetin	Board Member - Credit Committee Chair
Mustafa İleri	Board Member - Substitute Credit Committee Member
Güzide Meltem Kökden	Board Member - Credit Committee Member, Corporate Governance Committee Member
Ersin Özoğuz	Board Member - Audit Committee Chairman
Mahmut Kayacak	CEO and Board Member - Credit Committee Member

#### 5.2. Operating Principles of the Board of Directors

The Board of Directors convenes at least once a month or more, if deemed necessary. The Chair, or in the absence of the chair, the Vice Chair, is authorized to convene the board of directors and determine its agenda. However, each board member is entitled to request from the chair to convene the board of directors or suggest agenda items for a meeting. The Board of Directors convenes by absolute majority, and resolutions are taken by majority vote of those attending. The Bank's articles of association stipulates the activities of the Board of Directors and meeting procedures and principles. The Board of Directors convenes at least once a month pursuant to the Bank's articles of association. In 2017, it convened 22 times.

#### 5.3. Number, Structure and Independence of Committees Formed Under the Board of Directors

Takasbank's Board of Directors formed an Audit Committee, Credit Committee, and Corporate Governance Committee to assist in its businesses and operations in accordance with its legislative responsibilities.

The Credit Committee is comprised of two members that are elected among the members with the qualifications specified by the applicable legislation, as well as the CEO or his/her deputy, to perform the tasks set forth by the Banking Law. The Audit Committee is comprised of two members that are elected among the board members with the qualifications specified by the applicable legislation to assist the Board of Directors in its audit and supervision tasks, and perform the duties set forth by the Banking Law, as well as the duties assigned to it by the Capital Markets Board.

The Corporate Governance Committee is comprised of two members that are elected among the board members. The Committee has been established to coordinate the Bank's relationship with the shareholders, stakeholders, regulatory and supervisory authorities, and with its executives and employees based on the principles of honesty, reliability, impartiality, confidentiality and equality, and to fulfill the Bank's environmental and social responsibilities.

The Bank's articles of association sets forth the procedures and principles regarding committee members' election, tasks and operations.



#### 5.4. Internal Audit, Risk Management and Internal Control Mechanism

The Bank put in place a sufficient and effective risk management and internal control mechanism that is compliant with the scope and formation of its operations so as to identify, measure, report, monitor or control the risks exposed.

These mechanisms are managed by the Internal Control and Compliance and Risk Management departments, which are structured by the Audit Committee to be independent of each other administratively and to report to the Board of Directors in accordance with the provisions of the Regulation on the Banks' Internal Systems and Internal Capital Adequacy Assessment Process (ICAAP).

Risk management involves a triple-defense approach that is made up of activity branch management, central risk management function, and independent audit. Accordingly,

- Activity branch management encompasses taking appropriate action after determining the risks that arise from the products and services offered by each department of the bank as well as from the processes, human resources and systems used.
- The central risk management function is fulfilled by separating the duties and responsibilities and by conducting the process and function supervision by the Risk Management and Internal Control and Compliance departments and not by the departments that perform them.
- The Internal Audit Department performs an independent review that is a comprehensive assessment of the risk management and internal control framework.

The procedures and principles on the function and efficiency of the Bank's risk management and internal control mechanism, and on effectiveness of its monitoring are put forth by the Regulation on Internal Systems and Internal Capital Adequacy Assessment Process of Banks, best practice guides published by the BRSA, and the Bank's internal regulation for relevant departments.

The principle of proportionality is applied in establishment and implementation of the ICAAP at the Bank. Risk Management Department manages and coordinates the operations that involve identifying, measuring, assessing, monitoring and reporting the risks the Bank is exposed to, in accordance with the banking regulation under supervision of the Audit Committee and in compliance with the internal regulations approved by the Board of Directors. The Bank's risk management activities focus on the pillar 1 risks (credit, market, counterparty credit risk, and operational risk) and

the pillar 2 risks (liquidity risk, interest rate risk arising from banking accounts, and general business risk regarding central counterparty business) as defined within the scope of banking regulation.

Risk Management Department performs and reports to the Audit Committee these tasks: Conduct risk assessment on new products and services the Bank plans to offer, as well as on information technology risks, payment and securities reconciliation systems, and portfolio custody services; develop risk analysis reports and risk management programs for support services; monitor and review risk appetite, risk limits and signal values; conduct internal risk measurements and assessments, and stress tests and scenario analyses; assess the operational risk database and operational risk loss database results; review re-structuring plan; monitor and review the amounts that are subject to legal risk, and the legal capital adequacy ratio; calculate the internal capital requirement ratio within the scope of ICAAP; create the legal forms regarding the credit rating agencies that are used in risk reports for credit risk and capital adequacy calculations; and draft public statements about the second-level risk management activities. Accordingly, the Risk Management Department prepared 40 reports and submitted to the Audit Committee in 2017.

Pursuant to the Regulation on Internal Systems and Internal Capital Adequacy Assessment Process of Banks, entered into effect after being published on the Official Gazette 29057 dated July 11, 2014, and the best practice guides published by the BRSA, and in order to ensure that the Bank can continue its operations under the most dire conditions, capital and liquidity planning was made with a prospective perspective by conducting partial and universal stress tests within the scope of the pillar 1 and pillar 2 risks the Bank is exposed to. The December 31, 2016 Stress Test Report by the Risk Management Department and the December 31, 2016 ICAAP Report and its attachments were approved at the Board of Directors meeting No. 324 dated March 28, 2017 and then submitted to the BRSA.

Objectives of the internal control system include protection of the Bank's assets and execution of its activities effectively and efficiently in accordance with the Banking Law (Law), other relevant legislation, the Bank's internal policies, and banking practices; achieving reliability and integrity in the accounting and financial reporting system, and timely information availability. Furthermore, the Internal Audit and Compliance Department conducts these operations at the Bank. Internal control operations are executed in accordance with the Internal Control List, which is prepared by the relevant department. In 2017, 70 discrete services/processes pertaining to the Bank as specified by the Internal Control List

## CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE STATEMENT

were audited and examined. The criteria for the controlled operations involve having a relatively low automation ratio in relevant sub-processes, keeping manual intervention as an option in operations, having an effect on the accuracy and reliability of financial statements; and preventing any legal sanctions against the Bank. The Audit Committee quarterly submits control operations to the Board of Directors. Also, Internal Control and Compliance Department monitors and announces regulation changes that are related to the Bank and reviews regulation compliance for new products and services. In 2017, four reports were prepared and submitted to the Audit Committee: Four quarterly Internal Control Activity Reports, and one Validation Report on internal validation of the risk measurement methodology based on internal models that are used to measure internal capital adequacy ratio, which the Bank calculates within the scope of ICAAP. In 2017, 13 reports were prepared: Monthly and quarterly Internal Control Activity Reports, one Validation Report on internal validation of the risk measurement methodology based on internal models that are used to measure internal capital adequacy ratio, which the Bank calculates within the scope of ICAAP, and the Report on Regulation Compliance of the Unallocated Gold Transfer System. The Audit Committee submitted the quarterly reports to the Board of Directors each quarter and the monthly reports to the executive management monthly.

The internal audit system aims to provide the executive management assurance that the Bank's operations are conducted in accordance with the Law and other relevant regulations, and the Bank's strategies, policies, principles and goals, and that internal control and risk management systems are effective and adequate. Accordingly, the Internal Audit Department, reporting to the Board of Directors via the Audit Committee, executes periodic and risk-based assessment and audit of the Bank's operations, and uncovers errors and misconduct. Reported to the Board of Directors and executive management, the scope of the assurance generally involves factors such as effectiveness and efficiency of operations, protection of assets, reliability and soundness of the reporting processes, the framework of risk management and internal control, operation units and their functions, infrastructure, asset management, as well as information technology.

The Internal Audit Department executes audit operations within the scope of the annual audit plan, which is developed based on the risk assessments that are conducted in accordance with the provisions of the "Regulation on Internal Systems and Internal Capital Adequacy Assessment Process of Banks," as well as approved upon approval by the Board of Directors. Internal audit operations include confirming consistency of the securities stated in the Bank's financial statements with the records; assisting in identifying misconduct; inspection of financial calculations, and records and documents; conduct testing on the effectiveness of the control by identifying the risks and control points in business processes, and finalize control tests on the information systems and processes on which financial and administrative data are used.

The Internal Audit Department also checks for accuracy of the data, which is prepared by the Risk Management Department and used in the ICAAP Report, and for adequacy of systems and processes, as well as whether they allow accurate information and analysis; examines the validation process executed by the Internal Control and Compliance Department; when requested, provides consulting on the new products and services planned by the Bank, or on policy and implementation methods; and conducts central counterparty member audits so as to monitor continuity of the internal control, risk management and internal audit mechanisms, which the central counterparty membership requires within the scope of the "Istanbul Settlement and Custody Bank Central Counterparty Regulation."

Within the scope of the Bank's Governance Statement, the Internal Control and Compliance Department and the Internal Audit Department jointly conducted practices for efficiency, adequacy and compliance of the controls that are established with regard to banking processes. Meanwhile, independent of the framework, standard or methodology that they are based on, controls regarding information systems processes were performed by the Internal Audit Department in accordance with COBIT 4.1 by taking into consideration the provisions in the BRSA regulations on the principles to follow in information systems management at banks. The audit of Information Technology constituted both the IT audit executed by the Internal Audit Department, as well as the Information Systems Processes portion of the Governance Statement practices. Banking Processes Audit report prepared with regards to the aforementioned practices and the Information Technology Management Processes internal audit reports will be submitted to the Board of Directors at the January meeting, and then delivered to the independent audit company that is auditing the Bank's information systems and banking processes.

In 2017, the Internal Audit Department issued 27 reports, of which 4 were CCP member organizations', and submitted them to the Audit Committee.

### 5.5. Strategic Objectives of the Company

The Bank's vision, mission, corporate values and strategic objectives are generated by the Board of Directors, and they are disclosed to the public via the corporate website.

The Bank's vision is to "Become an internationally preferred, reliable, effective and innovative organization that offers settlement, banking and central risk management services according to international quality standards.

Its mission is to "Contribute to market development by offering reliable and effective after-sales services". Its corporate values are "Trust," "Stability," "Customer orientation," "Effectiveness," "Robust Financial Structure," "Transparency" and "Sustainability."

Strategic objectives and the related initiatives are outlined in the quarterly Strategic Plans. The Strategic Coordination Committee evaluates the activities executed in order to reach the established objectives, and the Board of Directors oversees progress on the Strategic Plan through the annually prepared reports.

The Bank's 2017 strategic objectives were grouped under four main headings: "Financial," "Customer," "Process," and "Organization/HR."

The target of the "Financial" group is to "Increase the Bank's financial strength and shareholder value."

On the "Customer" side, the bank aims to "Improve financing efficiency and liquidity of capital market instruments," "Position Takasbank as a regional clearing and settlement center/leader," "Expand new products and services both in the current and new markets," and "Achieve sustainable customer satisfaction."

"Process" group objectives involve "Providing effective, uninterrupted and reliable service at international standards" and "Reinforcing the technological infrastructure." In terms of the organization/HR," it strives maintain a high level of human resources competency, education and performance.

The Board of Directors will be presented the "2017 Strategic Plan Progress Report" consisting of the work performed by the Bank. It has been concluded that progress was made in 2017 in line with the roadmap within the appropriate infrastructure, task distribution and legislative regulations so as to achieve the strategic objectives and initiatives set for the Bank for 2015-2017.

As the Bank's 2015-2017 Strategic Plan period expired by the year-end, a new one developed for the 2018-2023 period was approved at the Board Meeting No. 342 dated December 28, 2017.

The new Strategic Plan set forth nine main goals under the titles of "Financial," "Market Efficiency," "Operational Excellence," and "Organizational Effectiveness" and put in place initiatives to achieve these goals. The Strategic Plan aims to protect the partners' interests with the goals under the "financial" title, contribute to our country's economy and the industry's growth with the goals under the "market efficiency" title, provide constant high-quality and uninterrupted service to the members/customers with the goals under the "operational excellence" title, and improve employee satisfaction and competencies with the goals under the "operational efficiency" title.

#### **5.6. Remuneration**

The General Assembly determines the financial rights provided to Board members, such as remuneration and dividend bonus, pursuant to the provisions of the Turkish Commercial Code. Rights such as remuneration, bonus, etc., granted to the executive management are determined within the scope of the Bank's Personnel Regulation, whereas general remuneration increases are put into effect upon approval by the Board of Directors.

Other rights such as vehicle allowance, insurance, etc. granted to the Board of Directors and executive management are determined within the scope of the Personnel Regulation and related procedures. Meanwhile, travel allowances and expenses are determined according to the Bank's Travel Expense Regulation.

No borrowing/lending or guarantor and security relationships were created with any Board Member or executive management in 2017.

## INFORMATION ON THE AUDIT COMMITTEE'S ASSESSMENT OF THE INTERNAL CONTROL, INTERNAL AUDIT AND RISK MANAGEMENT SYSTEM, AND ON THEIR OPERATIONS IN THE ACCOUNTING PERIOD

### Audit Committee Report

**Issue: 2018/DK/03**  
**Istanbul, January 10, 2018**

The Board of Directors, Senior Management, personnel at all levels, and the Departments of Internal Auditing, Internal Control and Compliance, and Risk Management performed internal audit, internal control and compliance, and risk management operations for Istanbul Settlement and Custody Bank (Takasbank) in accordance with the relevant legislation and regulations of Takasbank.

The Internal Auditing Department performed periodic and risk-based audits of the Bank's operations as part of the 2017 Internal Audit Plan and assured Senior Management that the operations were conducted pursuant to the relevant legislation and the Bank's internal strategies, policies, principles, and goals, and that internal control and risk management systems are effective and sufficient.

The Departments of Internal Audit, Internal Control and Compliance, and Risk Management, which are administratively independent and report to the Board of Directors through the Audit Committee in accordance with the provisions of the Regulation on Internal Systems and Internal Capital Adequacy Assessment Process of Banks, held meetings to assess the risk evaluations, legal and internal risk measurements, partial and complete stress tests, risk monitoring and review operations, internal audit planning, internal audit reports, operating reports of internal system departments, internal control program and support services risk management programs, risk analysis reports, technical adequacy reports, and other related documents; and provided information to the Board of Directors and the CEO by submitting Committee resolution reports to the Board of Directors in 2017. At its meetings, the Committee also assessed the reports that were prepared as a result of on-site audits in the presence of the Internal Auditing Department's central counterparty members to ensure the continuity of internal control, risk management, and internal audit mechanisms as required by central counterparty membership within the scope of the Istanbul Settlement and Custody Bank Central Counterparty Regulation.

Istanbul Settlement and Custody Bank The Board of Directors was also provided with the Central Counterparty Stress Test Results, prepared pursuant to Article 40 of the Central Counterparty Regulation, entitled Stress Tests, and with the Central Counterparty Retrospective Test Results Reports prepared pursuant to Article 36 of the Takasbank Central

Counterparty Risk Management Principles Regulation. The overall risk level of Takasbank operations is a particular concern not only for people and organizations that operate nationally, but also for international investors of the portfolios of our capital markets and for the intermediary and custody organizations that broker these transactions. This fact resulted in the need to offer Takasbank services at international standards with the mission of creating and implementing effective internal audit, internal control, and risk management mechanisms to achieve this goal.

The Bank's overall risk policy is to maintain the Bank's operations by taking reasonable risks at a manageable and controllable level so as to establish an income-expense balance. The Bank's risk capacity is determined in accordance with the capital adequacy policy. The bank manages its risks by ensuring that they stay above/below the minimum/maximum general and risk type-based risk limits and signal values based on stated in-all-applicable legal regulations below the risk appetites approved by the Board of Directors. The results of activities related to risk management are taken into account in the Bank's strategic decision-making processes. For risks that must be taken, an optimum balance is aimed between potential losses or damages and the costs incurred in order to limit, decrease, and control these risks.

Risk management involves a triple-defense approach that is made up of activity branch management, central risk management function, and independent audit. Accordingly,

- Activity branch management involves identifying the risks that arise from each Bank department's products and services as well as processes, personnel, and systems used, and then notifying the Executive Management to take appropriate action.
- The central risk management function is fulfilled by separating duties and responsibilities and by conducting the process and function supervision by the Risk Management and Internal Control and Compliance departments and not by the departments that perform them.
- The Internal Audit Department performs an independent review that is a comprehensive assessment of the risk management and internal control framework.

The Risk Management Department handles operations such as risk assessments on the Bank's planned new products, services and information technologies; payment and securities settlement systems; and portfolio custody services. It creates risk analysis reports and risk management programs for support services and conducts internal risk measurements and assessments as well as stress tests and scenario analyses. It evaluates operational risk database and operational risk loss database results, reviews restructuring plans, monitors and checks the amount that is subject to legal risk and the legal capital adequacy ratio, and calculates the internal capital requirement ratio as part of ICAAP. In 2017, the Board of Directors was provided with the reports that the Committee received based on these measures.

At Takasbank, internal control processes are considered an integral part of operation processes. As such, reporting modules that allow effective monitoring and control of operations, which are conducted almost entirely electronically, are integrated with the application software in use. Moreover, necessary controls are performed during the execution of transactions by applying control techniques such as the separation of entry and approval authorizations in critical transactions, putting in place approval-authorization mechanisms during the execution of operations, carrying out limit suitability reviews electronically, and other enforcing control techniques, inquiries, and reconciliation operations for material elements. In addition to the control functions performed by the relevant management personnel within Takasbank's hierarchical management structure, department operations were audited and controlled by the Internal Audit Department, which regularly conducts inquiries and audits on behalf of the Board of Directors, and by the Internal Control and Compliance Department at certain periods.

In addition, the Internal Control and Compliance Department supervised and announced legislative changes relevant to the Bank and assessed legislative compliance for new products and services. Meanwhile, the Risk Management Department performed risk assessments for new products and services and handled risk analysis reports and the risk management program for support services.

Pursuant to the Regulation on Internal Systems and Internal Capital Adequacy Assessment Process of Banks and the best practice guides published by the BRSA, and in order to ensure that the Bank can continue its operations under the most dire conditions, capital and liquidity planning was made with a prospective perspective by conducting partial and universal stress tests within the scope of the pillar 1 and pillar 2 risks to which the Bank is exposed. We were presented with the Stress Test Report and the Internal Capital Adequacy Assessment Process (ICAAP) Report, prepared for 2016 with coordination from the Risk Management Department, and with its attachment, the Validation Report by the Internal Control and Compliance Department, as well as with the ICAAP Assessment Report by the Internal Audit Department. The report was submitted to BRSA upon approval at Board of Directors meeting No. 324, dated March 28, 2017.

The Internal Audit Department and the Internal Control and Compliance Department, within the Audit Committee-approved program, jointly conducted the operations that form the basis of the Governance Statement. The Bank's settlement, custody, credit, market operations, accounting, financial reporting, treasury/securities and fund management, payment systems, collateral management, and financial analysis services and processes were conducted under the banking processes audit. Meanwhile, the Bank's information systems processes were audited in accordance with the Communique on the Principles to Follow in Information Systems Management at Banks and the COBIT. The findings of the process audits were submitted to the relevant departments and management personnel for appropriate action and planning.

Takasbank operations are conducted in accordance with the provisions of all relevant legislation and the Bank's general policies and internal legislation. The departments of Internal Auditing, Internal Control and Compliance, and Risk Management provide vital added value in line with Takasbank's fundamental goals and policies while performing operations in a structure that complies with all provisions of the Regulation on Internal Systems and Internal Capital Adequacy Assessment Process of Banks.

## ISTANBUL SETTLEMENT AND CUSTODY BANK INC. AUDIT COMMITTEE

### Members

**Ersin ÖZOĞUZ**

Audit Committee Chairman - Board Member

**Seyit Ahmet İŞKİN**

Board Member, Audit Committee Member

## INDEPENDENT AUDITOR'S REPORT ON THE BOARD OF DIRECTORS' ANNUAL REPORT

To the Board of Directors of Istanbul Settlement and Custody Bank:

### 1) Opinion

We have audited the Annual Report of Istanbul Settlement and Custody Bank (the "Bank") for the January 1 - December 31, 2017 fiscal year.

Based on our opinion, the financial information in the annual report of the Board of Directors and its assessment of the Bank's financial position are consistent with the fully audited financial statements and the information obtained during the independent audit, and they are presented fairly, in all material respect.

### 2) Basis for Opinion

Our independent audit was conducted in accordance with the Regulation on Independent Audit of Banks published in the Official Gazette No. 29314, and the Independent Auditing Standards that are part of Turkish Standards on Auditing, published by the Public Oversight Accounting and Auditing Standards Authority (POA). Our responsibilities as per the standards are explained in detail in the Independent Auditor's Responsibilities section regarding the Independent Audit of the Annual Report. We declare that we are independent of the Bank in accordance with the Ethical Rules for Independent Auditors (Ethical Rules) published by the POA, and the ethical provisions set forth in the legislation on independent audit. Also, we have fulfilled our other responsibilities on ethics within the scope of the Ethical Rules and legislation. We believe that the audit evidence we have obtained during our independent audit is sufficient and appropriate to provide a basis for our audit opinion.

### 3) Other Matter

A separate independent auditor audited the Bank's Annual Report for the January 1 - December 31, 2016 fiscal year and approved the compliance of the independent report on February 20, 2017.

### 4) Our Opinion on the Full Financial Statements

In our February 26, 2018, audit report, we approved the Bank's full financial statements for the January 1 - December 31, 2017 fiscal year.

5) The Board of Directors' Responsibility Regarding the Annual Report - The Bank management has the following responsibilities regarding the Annual Report in accordance with provisions 514 and 516 of the Turkish Commercial Code (TCC) No. 6102 and the provisions of the Regulation on the Procedures and Principles Regarding Preparation and Publication of the Annual Report by Banks (Regulation), published in the Official Gazette No. 26333, dated November 1, 2006.

a) Prepare the Annual Report within three months of the balance sheet date and submit to the general assembly,  
b) Prepare the Annual Report so as to reflect the Bank's operations and full financial position for the year accurately, fully, straightforwardly, realistically, and honestly. In this report, the Bank's financial position is assessed based on the financial statements. The report also clearly points to the Bank's growth and the likely risks. An assessment of the Board of Directors is also provided in the report.

c) The Annual Report contains the following as well:

- Important developments that take place at the Bank after completion of the fiscal year,
- The Bank's research and development operations,
- Financial benefits, including remuneration, premiums, or bonuses; expenses related to allowances, travel, accommodation, and representation; in-kind and in-cash benefits; insurance; and similar collateral paid to and for Board Members and Senior Management.

### 6) Independent Auditor's Responsibilities Regarding the Independent Audit of the Annual Report

Our goal was to provide an opinion and prepare a report based on whether the financial information given in the Annual Report in line with the TCC provisions and the Legislation, and the assessments made by the Board of Directors regarding the financial standing of the Bank are accurate and consistent with the Bank's audited financial statements and the information we gathered during the independent audit.

Our independent audit was conducted in accordance with the Regulation on Independent Audit of Banks, published on the Official Gazette No. 29314, and the Independent Auditing Standards. The reports require that ethical provisions are met and that the independent audit is planned and carried out to obtain reasonable assurance that the financial information in the Annual Report and the Board of Director's assessment of the Bank's financial position are fairly presented and consistent with the financial statements and information gathered during the independent audit.

KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi  
A member firm of KPMG International Cooperative

Alper Güvenç, Independent Accountant and Financial Advisor  
Auditor-in-Charge

February 26, 2018  
Istanbul, Turkey

## EVALUATION OF THE FINANCIAL STATUS, PROFITABILITY, AND SOLVENCY ASSESSMENT

As of December 31, 2017, Takasbank's assets rose by 31.9 percent to 10.56 billion TRY.

In the current period, in line with previous period data, bank deposits constituted a significant portion of the Bank's assets. The Bank's asset breakdown consisted of banks with 96 percent (10.16 billion TRY), loans with 2 percent (198.85 million TRY), and held-to-maturity investments until the maturity of the government debt securities in the portfolio with 0.03 percent (3.94 million TRY).

As of the end of 2017, Takasbank borrowed 3.18 billion TRY in domestic loans, amounting to 30 percent of the liabilities on the balance sheet. It did not use loans from abroad as of

the balance sheet date. Other debts, which mainly consist of member cash collateral, accounted for 57 percent of the liabilities. The Bank's paid-up capital is 600 million TRY. By 2017 year-end, its shareholders' equity reached 1.25 billion TRY.

Bank profitability has maintained its upward trend in recent years. The Bank increased its profit before tax by 31 percent to 348.64 million TRY year-on-year. In order to manage liquidity risk, the Bank acts with the principle of having a high amount of liquid assets against its balance sheet obligations.

The Bank has reached the strategic targets set in the past periods and it has fulfilled the General Assembly resolutions.

## INFORMATION REGARDING RISK MANAGEMENT POLICIES BASED ON RISK TYPE

### Management of the Pillar I Risks

Takasbank Risk Management Regulation approved by the Board of Directors has established the procedures and principles regarding the Bank's risk management processes, policies and implementation procedures, risk management activities together with the organizational structure and duties, authorities and responsibilities of the Risk Management Department.

The Bank's overall risk policy is to maintain the Bank's operations by taking reasonable risks at a manageable and controllable level so as to establish an income-expense balance. The Bank's risk capacity is determined in accordance with the capital adequacy policy.

The Bank manages its risks by ensuring that they stay above/below the minimum/maximum limits stated in all applicable legal regulations, and below the risk appetites approved by the Board of Directors. The results of activities related to risk management are taken into account in the Bank's strategic decision-making processes. Prior to offering new products and services, the Bank, along with all relevant departments, performs a risk assessment under the coordination of the Risk Management Department, taking into account all the risks to which it is exposed.

The principle of proportionality was observed in accordance with the legislative regulations and best practices in establishing and implementing the Bank's risk management system and the internal capital adequacy assessment process (ICAAP).

The 2017 Stress Test Report and the ICAAP Report, prepared in coordination with the Risk Management Department; its attachment, the Validation Report by the Internal Control and Compliance Department; and the ICAAP Assessment Report by the Internal Audit Department were submitted to BRSA upon approval at the Board of Directors meeting No. 324, dated March 28, 2017.

The Bank's risk appetite structure is reviewed at least once a year, and general risk and risk-type based risk limits and signal values are evaluated according to changes in market conditions and Bank strategies. If the risk appetites, risk limits, and signal values are exceeded, the relevant authorities are notified.

The Risk Management Department manages and coordinates operations involved with identifying, measuring, assessing, monitoring, and reporting the risks the Bank is exposed to, in accordance with the banking regulation, under the supervision of the Audit Committee and within the scope of the regulations approved by the Board of Directors.

## INFORMATION REGARDING RISK MANAGEMENT POLICIES BASED ON RISK TYPE

### Credit Risk Management

Credit transactions involve the possibility that the members or guarantors who use the credit cannot fulfill their obligations in time according to the prior written commitments and agreements; in other words, it involves the credit risk. The counterparty credit risk is assessed within the credit risk.

The cash credit transactions of Takasbank consist of the credits extended to intermediary institutions. The Bank acts as a guarantor for the parties' responsibilities against each other in the Takasbank Money Market (TMM); as such, these transactions are considered non-cash credit in accordance with the banking legislation. Takasbank provides Central Counterparty service to the Securities Lending Market (SLM), Futures and Options Market (VIOP), Borsa Istanbul Equity Market, and Borsa Istanbul Money Market. The obligations arising from such transactions are also considered non-cash credits.

Credit limits are updated according to changes in members' financial status. Implementation of limit, risk and guarantee controls in an electronic environment continuously and based on transaction minimizes operational errors.

Internal credit rating scores are used when identifying the membership type for members who will perform transactions in the market or capital market instruments that receive central counterparty services with the credit or position limits allocated to the members, and these limits are entered into force after approval by the Board of Directors. Credit risk is managed through an effective and sound collateral mechanism and appropriated limit allocations.

The Bank manages the credit risk to which it is exposed by taking into consideration the credit risk appetite, established credit risk limits, signal values determined by the early warning system, and the legal and internal capital requirements.

According to the regulations published by the Banking Regulation and Supervision Agency, credit risk amount is calculated according to the standard approach at the end of each month, and the results are reported to BRSA. Also, risk reports prepared by the Risk Management Department are submitted to BRSA quarterly.

### Market Risk Management

Market risk is defined as the probability of the Bank's exposure to on- and off-balance sheet positions due to foreign exchange rate and interest rate risks arising from market price movements.

The Bank's fund management operations are carried out mainly with state banks and banks determined by the Board of Directors. The Bank does not take securities other than Government Debt Securities into its securities portfolio; it may

use derivative products for protection purposes. The Fund Management Team and Senior Management constantly monitor Takasbank's portfolio distribution in terms of maturity and instruments, and revise fund management strategy according to market developments.

The Bank manages the market risk to which it is exposed by taking into consideration risk appetite, established market risk limits, signal values determined within the early warning system, and the legal and internal capital requirements.

The Bank calculates the amount that is subject to market risk, according to the regulation published by the Banking Regulation and Supervision Agency by using the standard method, and it is reported to the BRSA monthly. However, the market risk is measured daily by using the internal model. In this context, the amount that is subject to market risk and economic capital requirement are calculated, and back tests, stress tests and scenario analysis are performed.

The prepared reports are periodically reported to the Senior Management and the Senior Management.

### Operational Risk Management

Operational risk is defined as the likelihood of loss arising from insufficient or unsuccessful internal processes, people, and systems, or external events, including legal risk.

While Takasbank considers employees its most important resource, it adopts the principle of carrying out activities focused on systems and processes rather than people in order to ensure the institutional structure.

At Takasbank, operational risks arising from information systems are managed effectively, thanks to measures such as keeping software, hardware, and backups ready for use at any time; copying data onto different media simultaneously; keeping communication, energy, and Human Resources data backups ready at hand; and establishing practices such as business continuity and state of emergency planning.

At Takasbank, powers and responsibilities concerning critical transactions are separated. Approval authorization mechanisms allow administrative controls during transaction execution. In addition to the control activities performed by the management ranks hierarchically, operations are reviewed by the Internal Control and Compliance Department, which carries out the control function by reporting to the Board of Directors in accordance with the Internal Control Program approved by the Audit Committee, and audited periodically by the Internal Audit Department.

Operational, reputational and strategic risks the Bank is exposed to, information technology risks which are also operational risks, and losses arising from legal risks are tracked with the Operational Risk Losses Database. The Bank's



processes and secondary process risks regarding all businesses and information technologies are monitored under the Operational Risk Database, and the records for this database constitute input for Management Notification of BRSA.

In Operational Risk Database risks that are equal to or over the operational risk appetite approved by the Board of Directors, the Internal Control and Compliance Department monitors recommended actions and key risk indicators in the Operational Risk Database. Senior Management takes the necessary actions. However, business impact analysis and interruptions that may occur assesses the potential risks that may arise in the course of these activities and their potential impact.

The Bank conducts self-assessment with the goal of developing a common operational risk culture among personnel, instilling risk management practices throughout the Bank, enabling inter-departmental communication, and meeting the revision and update needs of the databases in order for the senior management to take swift action.

In order to ensure continuity of services provided by the support service organization, the Bank evaluates the risks that may arise from service procurement. The operational risks to which Takasbank is exposed or may be exposed are largely collateralized by the insurance policies that are purchased.

The Bank manages the operational risk to which it is exposed by taking into consideration the risk appetite, established operational risk limits, signal values determined within the early warning system, and the legal and internal capital requirements.

As per the regulations published by the Banking Regulation and Supervision Agency, the amount subject to annual operational risk is calculated with the basic indicator method, and the results are reported to the BRSA.

### **Management of Pillar II Risks**

The Bank's Pillar II risks involve liquidity risk, interest rate risk in the banking book, and central counterparty general business risk.

Guarantee funds and transaction guarantee provisions in various payables or temporary liability accounts due to Takasbank operations are available as active liquid values. When Takasbank's assets, credit quality and credit collateralized are assessed together with the depth of source structure and securities market, there is a low possibility of experiencing liquidity problem in meeting obligations.

Liquidity planning is made by taking into consideration Takasbank's existing and under-stress liquidity needs, along with its capacity. Liquidity planning is designed to prevent Takasbank from falling below the legal rates even under stress conditions. Takasbank manages the liquidity risk it is exposed to by taking into consideration the interest rate risk arising from banking calculations, implementation limitations stipulated in all legal regulations, risk appetite, established credit risk limits, signal values determined within the early warning system, and internal capital requirements.

The Risk Management Department regularly monitors distribution of the Bank's assets and liabilities based on certain currencies and maturities/repricing periods, liquidity shortage/excess, resources that can be created in the event of a possible liquidity crisis, and available shareholders' equity regularly. Takasbank also keeps track of local and global changes in macroeconomic variables, money and capital markets, the banking industry, and settlement and custody matters within the scope of country risk.

It conducts remaining maturity and liquidity gap analyses with regard to liquidity risk, and duration and repricing gap analyses with regard to the interest rate risk in the banking book. Also, monthly and annual partial stress tests are conducted to calculate possible losses arising from the liquidity risk in Takasbank's certain statistical confidence level, and the results are reported to Takasbank Senior Management. Meanwhile, stress tests that determine the interest rate risk in the banking book and the central counterparty general business risk are handled within ICAAP.

### **Early Detection of Risk and Governance Committee Work**

The Bank did not establish a Committee on Early Detection and Management of Risks.

### **Future Risks on Sales, Efficiency, Revenue Generation, Profitability, Debt/Shareholders' Equity, and similar matters**

Operations by the Committee on Early Detection and Management of Future Risks on Sales, Efficiency, Revenue Generation, Profitability, Debt/Shareholders' Equity, and similar matters are conducted within the scope of the BRSA's Regulation on Internal Systems and the Internal Capital Adequacy Assessment Process of Banks. Internal capital adequacy ratio is calculated based on the budget approved by the Board of Directors and the strategic plan and financial model for the next three-year period for pillar one and two risks to which the Bank is exposed. Efforts are made to conduct operations by taking into account both the legal and internal capital adequacy ratios.

## TAKASBANK'S RATINGS BY INTERNATIONAL CREDIT RATING AGENCIES

The Bank's international ratings were provided by Fitch Ratings as summarized below:

Fitch Ratings	
Foreign Exchange Long Term	BB+
Outlook	Stable
Foreign Exchange Short Term	B
TRY Long Term	BBB-
Outlook	Stable
TRY Short Term	F3
National Long Term	AAA (tur)
Outlook	Stable
Support	3
Support Rating Base	BB+
Financial Capacity Rating	bb+

## FIVE-YEAR SUMMARY FINANCIAL INFORMATION, INCLUDING THE STATEMENT PERIOD

(Thousand TRY)	2017	2016	2015	2014	2013
Total Assets	10,564,429	8,006,348	7,092,438	5,495,623	5,596,026
Shareholders' Equity	1,246,262	1,043,686	911,026	800,244	590,396
Paid-in Capital	600,000	600,000	600,000	600,000	420,000
Operating Profit	348,648	265,357	216,418	150,547	10,122
Interest and Portfolio Income	405,708	294,068	233,635	179,323	12,367
Net Profit	276,371	211,565	174,728	121,492	81,809

(Thousand U.S. Dollars)*	2017	2016	2015	2014	2013
Total Assets	2,800,824	2,275,048	2,439,276	2,369,927	2,621,949
Shareholders' Equity	330,407	296,569	313,326	345,096	276,623
Paid-in Capital	159,071	170,493	206,356	258,743	196,786
Operating Profit	92,433	75,403	74,432	64,922	47,425
Interest and Portfolio Income	107,561	83,561	80,353	77,331	57,944
Net Profit	73,271	60,117	60,094	52,392	38,331
CBT's U.S. Dollar Exchange Rates Used in Assessment	3.7719	3.5192	2.9076	2.3189	2.1343

\*U.S. Dollar figures are calculated based on the foreign exchange rate announced by the CBT on the last day of the year.

Financial Ratios (%)	2017	2016	2015	2014	2013
Operating Profit/Total Assets	3.30	3.31	3.05	2.74	1.81
Shareholders' Equity/Total Assets	11.80	13.04	12.90	14.56	10.55
Operating Profit/Shareholders' Equity	27.98	25.42	23.70	18.81	17.14
Asset Growth	31.95	12.89	29.06	-1.79	52.41

Number of Personnel	2017	2016	2015	2014	2013
	281	261	284	257	238

## **DIVIDEND DISTRIBUTION POLICY**

The Bank pays dividends in accordance with the General Assembly resolutions. Proposals are prepared in accordance with the Board of Directors' Dividend Policy, and then they are submitted to the General Assembly agenda. The Dividend Policy is not published on the corporate website. No privileges are specified in the distribution of dividends among shareholders. Each shareholder is entitled to receive a pro-rata dividend. In 2017, 75,000,000 TRY of dividends were paid to the shareholders from 2016 profits.

## **EXPLANATION REGARDING BANK'S OWN SHARES ACQUIRED BY ITSELF**

There are no shares the Bank acquired by itself.

## **EXPLANATION REGARDING LAWSUITS AGAINST THE COMPANY WITH A POSSIBLE EFFECT ON ITS FINANCIAL STATUS AND OPERATIONS, AND THEIR POSSIBLE OUTCOMES**

There is no lawsuits against the company with a possible effect on its financial status.

## **INFORMATION ON EXPENSES FOR DONATIONS, CHARITIES, AND SOCIAL RESPONSIBILITY PROJECTS**

The Bank gave 315,145 TRY of donations and charities to associations established for the public's benefit: 275,000 TRY to the Istanbul Provincial Directorate of Police to purchase vehicles and 35,000 TRY to a middle school to meet its needs.

## **INFORMATION RELATED TO FINANCIAL POSITION**

In general, the audit report provides in-depth information regarding the financial position.

# İstanbul Takas ve Saklama Bankası Anonim Şirketi

**UNCONSOLIDATED FINANCIAL  
STATEMENTS AND INDEPENDENT  
AUDITOR'S REPORT FOR THE  
DECEMBER 31, 2017 ACCOUNTING  
PERIOD**

## INDEPENDENT AUDITOR'S REPORT



**KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.**  
İş Kuleleri Kule 3 Kat: 2-9  
Levent 34330 İstanbul  
Tel +90 (212) 316 6000  
Fax +90 (212) 316 6060  
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To the Board of Directors of İstanbul Takas ve Saklama Bankası A.Ş.;

### A) Audit of Unconsolidated Financial Statements

#### *Opinion*

We have audited the accompanying unconsolidated financial statements of İstanbul Takas ve Saklama Bankası A.Ş. (“the Bank”) which comprise the unconsolidated balance sheet as at 31 December 2017 and the unconsolidated statements of income, income and expense items recognized under shareholders’ equity, changes in shareholders’ equity, cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the unconsolidated financial statements present fairly, in all material respects, the unconsolidated financial position of the Bank as at 31 December 2017, and its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with the “Banking Regulation and Supervision Agency (“BRSA”) Accounting and Reporting Legislation” which includes the “Regulation on Accounting Applications for Banks and Safeguarding of Documents” published in the Official Gazette No. 26333 dated 1 November 2006, and other regulations on accounting records of banks published by Banking Regulation and Supervision Board and circulars and interpretations published by BRSA and requirements of Turkish Accounting Standards for the matters not regulated by the aforementioned legislations.

#### *Basis for Opinion*

We conducted our audit in accordance with the “Regulation on Independent Audit of the Banks” (“BRSA Auditing Regulation”) published in the Official Gazette No.29314 dated 2 April 2015 by BRSA and Standards on Auditing which is a component of the Turkish Auditing Standards issued by the Public Oversight Accounting and Auditing Standards Authority (“POA”) (“Standards on Auditing issued by POA”). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Unconsolidated Financial Statements section of our report. We declare that we are independent of the Bank in accordance with the Code of Ethics for Auditors issued by POA (POA’s Code of Ethics) and the ethical requirements in the regulations issued by POA that are relevant to audit of unconsolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with the POA’s Code of Ethics and regulations. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Other Matter*

The unconsolidated financial statements of the Bank as at and for the year ended 31 December 2016 was audited by another auditor who expressed an unmodified opinion on those statements on 20 February 2017.

#### Responsibilities of Management and Those Charged with Governance for the Unconsolidated Financial Statements

Management is responsible for the preparation and fair presentation of these unconsolidated financial statements in accordance with the BRSA Accounting and Reporting Legislation, and for such internal control as management determines is necessary to enable the preparation of unconsolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the unconsolidated financial statements, management is responsible for assessing the Bank’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank’s financial reporting process.

## INDEPENDENT AUDITOR'S REPORT

### *Auditors' Responsibilities for the Audit of the Unconsolidated Financial Statements*

Responsibilities of auditors in an audit are as follows:

Our objectives are to obtain reasonable assurance about whether the unconsolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with BRSA Auditing Regulation and Standards on Auditing issued by POA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these unconsolidated financial statements.

As part of an audit in accordance with BRSA Auditing Regulation and Standards on Auditing issued by POA we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the unconsolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the unconsolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern. Evaluate the overall presentation, structure and content of the unconsolidated financial statements, including the disclosures, and whether the unconsolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

### **B) Other Legal and Regulatory Requirements**

- 1) Pursuant to the fourth paragraph of Article 402 of the Turkish Commercial Code ("TCC") No. 6102; no significant matter has come to our attention that causes us to believe that the Bank's bookkeeping activities for the period 1 January - 31 December 2017 are not in compliance with TCC and provisions of the Bank's articles of association in relation to financial reporting.
- 2) Pursuant to the fourth paragraph of Article 402 of the TCC; the Board of Directors provided us the necessary explanations and required documents in connection with the audit.

KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi  
A member firm of KPMG International Cooperative

Alper Güvenç, SMMM  
Partner



26 February 2018  
Istanbul, Turkey

### **Additional paragraph for convenience translation to English:**

The accounting principles summarized in Section Three, differ from the accounting principles generally accepted in countries in which the accompanying unconsolidated financial statements are to be distributed and International Financial Reporting Standards ("IFRS"). Accordingly, the accompanying financial statements are not intended to present the financial position and results of operations in accordance with accounting principles generally accepted in such countries of users of IFRS.

## CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE NOTE I OF SECTION THREE THE YEAR END UNCONSOLIDATED FINANCIAL REPORT OF İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş. AS OF 31 DECEMBER 2017

Address of the Bank's Headquarters : Takasbank Genel Müdürlüğü Reşitpaşa Mahallesi, Borsa İstanbul Caddesi  
No: 4, Emirgan Sarıyer, İstanbul  
Telephone of the Bank : (0 212) 315 25 25  
Fax of the Bank : (0 212) 315 25 26  
Web site of the Bank : www.takasbank.com.tr  
E-mail for correspondence : rap@takasbank.com.tr

The unconsolidated year end financial report includes the following sections in accordance with the Communiqué on Financial Statements and Related Explanations and Notes that will be Publicly Announced as sanctioned by the Banking Regulation and Supervision Agency.

- GENERAL INFORMATION ABOUT THE BANK
- UNCONSOLIDATED FINANCIAL STATEMENTS OF THE BANK
- EXPLANATIONS ON THE ACCOUNTING POLICIES APPLIED IN THE RELATED PERIOD
- INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT OF THE BANK
- DISCLOSURES AND FOOTNOTES ON UNCONSOLIDATED FINANCIAL STATEMENTS
- OTHER EXPLANATIONS AND NOTES
- INDEPENDENT AUDITOR'S REPORT

The accompanying year end unconsolidated financial statements and notes to these financial statements which are expressed, unless otherwise stated, in thousands of Turkish Lira ("TL"), have been prepared and presented based on the accounting books of the Bank in accordance with the Regulation on Accounting Applications for Banks and Safeguarding of Documents, Turkish Accounting Standards, Turkish Financial Reporting Standards, and related appendices and interpretations of these, and have been audited.



Murat Çetinkaya  
Chairman of the Management Board



Ersin Özoğuz  
Chairman of Audit Committee



Seyit Ahmet Işkın  
Member of Audit Committee



Mahmut Kayacık  
CEO/Member of the Board



Gökhan Elibol  
Executive Vice President



Murat Görgün  
Manager

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

Name-Surname/Title : Zülal Tarı/Senior Specialist  
Telephone Number : (0 212) 315 23 15  
Fax Number : (0 212) 315 22 34

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CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS

**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.**  
**UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)**  
**AT 31 DECEMBER 2017**

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

**SECTION ONE****GENERAL INFORMATION****I. Bank's establishment date, start-up statute, history about the changes in this mentioned statute**

The Bank was originally set up as a department of the Borsa İstanbul A.Ş. ("BİAŞ") (formerly "İstanbul Menkul Kıymetler Borsası") and reorganized under a separate company named İMKB Takas ve Saklama A.Ş. (ISE Settlement and Custody Company Inc.) on 12 July 1991, was transformed into a non-deposit taking bank on 8 August 1995 with the name İMKB Takas ve Saklama Bankası A.Ş. (ISE Settlement and Custody Bank Inc.), as published in the Official Gazette dated 23 March 1995 with the decision of the Council of Ministers No. 95/6551. According to the decision made in 18th Ordinary Meeting of the Bank General Assembly dated 29 March 2013, title of the Bank has been changed into İstanbul Takas ve Saklama Bankası A.Ş. (Here in after referred to as "Takasbank" or the "Bank") and this title change was approved in 11 April 2013.

**II. Explanation about the Bank's capital structure, shareholders who directly or indirectly, solely or jointly undertake the management and control of the Bank, any changes in the period, and information on the Bank's risk group:**

As of 31 December 2017 and 31 December 2016, the shareholders' structure and their respective ownerships are summarized as follows

No	Name of Shareholders	Current Period			Prior Period		
		Paid in Capital	(%)	Number	Paid in Capital	(%)	Number
1	Borsa İstanbul A.Ş.	382,989	63.83	1	373,515	62.25	1
2	Türkiye Garanti Bankası A.Ş.	29,685	4.95	1	26,235	4.37	1
3	Tacirler Menkul Değerler A.Ş.	29,016	4.84	1	27,971	4.66	1
4	Phillip Capital Menkul Değerler A.Ş.	27,923	4.65	1	27,923	4.65	1
5	Yapı Kredi Yatırım Menkul Değerler A.Ş.	26,280	4.38	1	26,280	4.38	1
6	Türkiye İş Bankası A.Ş.	26,235	4.37	1	26,235	4.37	1
7	Türkiye Vakıflar Bankası T.A.O.	26,235	4.37	1	26,235	4.37	1
8	Other (Other Institution)	31,536	5.26	27	37,635	6.28	37
9	Other (Bank)	20,101	3.35	8	27,971	4.67	10
<b>Total</b>		<b>600,000</b>	<b>100.00</b>	<b>42</b>	<b>600,000</b>	<b>100.00</b>	<b>54</b>

63.83% of the Bank's share belongs to BİAŞ. BİAŞ was established on the date of the entry into force of the Law to carry out stock market activities in accordance with Article 138 of the Capital Markets Law No. 6362, which was published in the Official Gazette on 30 December 2012 and entered into force. BİAŞ shall ensure that capital market instruments, foreign exchange and precious metals and precious stones and other contracts, documents and valuables deemed appropriate by the Capital Markets Board can be bought and sold in a transparent, effective, competitive, honest and stable environment easily and safely under the conditions of free competition markets, platforms and systems and other organized market places to facilitate the gathering of these orders and to determine and announce the prices that are formed and to establish and establish and maintain these and other stock exchanges or other market places is an institution with private legal entity established on the basis of the Capital Markets Law No. 6362 to manage and/or operate the markets of the stock exchanges.

The changes in the shareholding structure during the current period are shown below:

Old Shareholder	New Shareholder	Cost of Share (TL)	Ratio (%)	Description
Global Menkul Değerler A.Ş.	Borsa İstanbul A.Ş.	4,500	0.7500	Transfer
Burgan Bank A.Ş.	Borsa İstanbul A.Ş.	2,624	0.4373	Transfer
Türkiye Garanti Bankası A.Ş.	Borsa İstanbul A.Ş.	1,797	0.2995	Transfer
Güven Menkul Değerler A.Ş.	Tacirler Menkul Değerler A.Ş.	1,000	0.1667	Transfer
JP Morgan Menkul Değerler A.Ş.	Borsa İstanbul A.Ş.	309	0.0515	Transfer
Taksim Yatırım A.Ş.	Borsa İstanbul A.Ş.	90	0.0150	Transfer
Kapital Menkul Değerler A.Ş.	Borsa İstanbul A.Ş.	51	0.0086	Transfer
UBS Menkul Değerler A.Ş.	Borsa İstanbul A.Ş.	51	0.0086	Transfer
Başkent Menkul Değerler A.Ş.	Tacirler Menkul Değerler A.Ş.	45	0.0075	Transfer
Pay Menkul Değerler A.Ş.	Borsa İstanbul A.Ş.	18	0.0030	Transfer
Burgan Yatırım Menkul Değerler A.Ş.	Borsa İstanbul A.Ş.	18	0.0030	Transfer
Alfa Menkul Değerler A.Ş.	Borsa İstanbul A.Ş.	10	0.0017	Transfer
Galata Yatırım Menkul Değerler A.Ş.	Borsa İstanbul A.Ş.	6	0.0011	Transfer

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS

**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.**  
**UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)**  
**AT 31 DECEMBER 2017 (Continued)**

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

**SECTION ONE (Continued)****GENERAL INFORMATION (Continued)****II. Explanation about the Bank’s capital structure, shareholders of the Bank who are in charge of the management and/or auditing of the Bank directly or indirectly, changes in these matters (if any) and the group the Bank belongs to (continued):***Dividend payment:*

TL 75,000 dividend distribution has been made to shareholders in accordance with the resolution taken in the Bank’s Ordinary General Assembly meeting held on 9 June 2017.

**III. Explanation on the Board of Directors, members of the audit committee, president and executive vice presidents, changes in these matters and shares of the Bank they possess:****Chairman and Members of the Board of Directors**

<b>Name Surname</b>	<b>Area of Responsibility</b>	<b>Education Status</b>
Murat Çetinkaya	President	Middle East University//Faculty of Engineering/ Metallurgical Engineering/Undergraduate Marmara University/Banking/Graduate
Adnan Ertürk	Member of Board (Vice President)	Ankara University/Faculty of Political Science/Public Administration/Undergraduate
Mahmut Kayacık	General Manager and Member of Board- President of Credit Committee	Boğaziçi University/Faculty of Economics and Administrative Sciences/Political Science and International Relations/Undergraduate Marmara University/Institute of Social Sciences/ International Economics/Graduate
Seyit Ahmet Işkın <sup>(1)</sup>	Member (Member of Audit Committee)	Istanbul University/Faculty of Political Science/Public Finance/Undergraduate Marmara University/Institute of Banking and Insurance/ Graduate
Ersin Özoğuz <sup>(2)</sup>	Member (President of Audit Committee)	Dokuz Eylül University/Faculty of Economics and Administrative Science/Public Finance/Undergraduate
Güzide Meltem Kökden	Member (Credit Committee Member, Corporate Management Committee Member)	Ankara University/Faculty of Political Science/International Relations/Undergraduate Ankara University/Institute of Social Sciences/European Communities Law/Graduate
Mustafa İleri	Member (Credit Committee Associate Member)	Istanbul University/Faculty of Management/Management Finance/Undergraduate Istanbul University/Faculty of Management/Management Finance/Graduate
Münevver Çetin <sup>(1)</sup>	Member (President of Credit Committee)	Ankara University/Department of Economics Management/ Undergraduate Ankara University/Institute of Social Sciences/Educational Administration and Planning/Graduate Istanbul University/Institute of Social Sciences/Money and Monetary Policy/Postgraduate
Gülseren Topuz <sup>(1)</sup>	Member (President of Corporate Governance Committee Credit Committee Associate Member)	Anadolu University/Faculty of Economics/Economics/ Undergraduate Marmara University/Institute of Social Sciences/Statistics/ Graduate Istanbul University/Institute of Social Sciences/Money and Monetary Policy/Postgraduate

(1) Osman Saraç, Feridun Bilgin, Selim Ince, Ekrem Kerem Korur resigned from their position and Murat Çetinkaya, Münevver Çetin, Seyit Ahmet Işkın, Gülseren Topuz have been assigned instead of them at the General Assembly meeting held on 9 June 2017.

(2) On 8 August, 2017, President of Audit Committee Serdar Satoğlu left his current position and Ersin Özoğuz was appointed instead.

Cengiz Özübek resigned from the Board of Director and CEO Adviser position on 14 July 2017.

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS

**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.****UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)****AT 31 DECEMBER 2017 (Continued)**

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

**SECTION ONE (Continued)****GENERAL INFORMATION (Continued)****III. Explanation on the Board of Directors, members of the audit committee, president and executive vice presidents, changes in these matters (if any) and shares of the Bank they possess: (Continued)****General Manager and Assistant General Managers**

<b>Name Surname</b>	<b>Area of Responsibility</b>	<b>Education Status</b>
Mahmut Kayacak	General Manager and Board Member – Member of Credit Committee	Boğaziçi University/Faculty of Economics and Administrative Sciences/Political Science and International Relations/Undergraduate Marmara University/Institute of Social Sciences/International Economics/Graduate
Gökhan Elibol	Markets and Operations Department	Ankara University/Faculty of Political Science/Public Administration/Undergraduate
Ekrem Arıkan	IT Department	Boğaziçi University/Faculty of Engineering/Computer Engineering/Undergraduate Yeditepe University/Management/Graduate

On 28 August 2017 Abdullah Onan Keleş was appointed as Executive Vice President in charge of Banking, Support and Financial Transactions. Abdullah Onan Keleş resigned from his present post on 13 September 2017.

**IV. Information on the Bank's Qualified Shareholders**

Shareholding in the Bank's shares, except BİAŞ, does not exceed 5% as stated in the Articles of Association of the Bank.

63.83% of the Bank belongs to BİAŞ. The Bank has nominal TL 200 preferred shares as of 31 December 2017 (31 December 2016: TL 200) (full TL). The preferred shares belonging to BİAŞ, provides the shareholder to be represented with more members in the Board of Directors.

<b>Name Surname/Business Name</b>	<b>Share Amount</b>	<b>Share Proportions</b>	<b>Paid-in Shares</b>	<b>Unpaid Shares</b>
BİAŞ	382,989	63.83	382,989	-

**V. Information on the Bank's function and areas of activity:**

The main purpose of the Bank is to increase our country's market competitiveness by providing settlement and custody services, providing financial services, and performing all types of economic activities within the scope of the relevant legislation.

The Bank was announced as the Research and Development Center by the Ministry of Science, Industry and Technology as of 20 April 2017.

The areas of activity that are specified in the Bank's Articles of Association, in general, are as follows:

- Providing all financial services, and primarily central bartering services and central counterparty services, activity of settlement and custody, market management, establishing and making payments, transfer and reconciliation systems, and banking activities;
- Financial services related to international markets including all kinds of payments, transfers, settlements, custody, and reconciliation services;
- Performing judiciary activities and signing all agreements related to its subject, signing written contracts, notes, and miscellaneous notes, acquiring all kinds of rights and receivables and binding debts;
- Purchasing, manufacturing, constructing, acquiring in other ways, renting, partially or completely, selling when necessary, transferring and leasing, and establishing all kinds of real rights on moveable and immovable goods or removing all kinds of moveable and immovable goods as well as all kinds of rights associated with them;
- All kinds of loaning and borrowing required by its activities, in line with corporate management principles as determined by banking and capital market legislation, as well as providing and obtaining personal in cash or in kind guarantees such as sureties, pledges, mortgages, and enterprise pledges in its favour or in favour of others, and transferring or cancelling these;
- Establish partnerships with domestic and foreign organizations and join existing partnerships.

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS

**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.**

**UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)**

**AT 31 DECEMBER 2017 (Continued)**

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

**SECTION ONE (Continued)**

**GENERAL INFORMATION (Continued)**

**VI. A short explanation of the differences between the “Communiqué on Preparation Of Consolidated Financial Statements Of Banks” and consolidation transactions made in line with Turkish Accounting Standards, and on establishments that are subjected to full or proportional consolidation, deducted from equity or establishments that are not subjected to these three methods:**

None.

**VII. Current or likely actual or legal barriers to immediate transfer of equity or repayment of debts between parent bank and its subsidiaries:**

None.

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS

**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.**  
**UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)**  
**AT 31 DECEMBER 2017**

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

**SECTION TWO****UNCONSOLIDATED BALANCE SHEET****I. ASSETS**

	Note	Audited			Audited		
		Current Period			Prior Period		
		31 December 2017		Total	31 December 2016		Total
		TL	FC	TL	FC	TL	
<b>I. CASH AND BALANCES WITH CENTRAL BANK</b>	I-(1)	<b>480</b>	-	<b>480</b>	<b>85</b>	-	<b>85</b>
<b>II. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT/LOSS (Net)</b>	I-(2)	-	-	-	<b>1,158</b>	-	<b>1,158</b>
2.1 Financial Assets held for trading		-	-	-	1,158	-	1,158
2.1.1 Government Debt Securities		-	-	-	1,158	-	1,158
2.1.2 Share Certificates		-	-	-	-	-	-
2.1.3 Trading Derivative Financial Assets		-	-	-	-	-	-
2.1.4 Other Marketable Securities		-	-	-	-	-	-
2.2 Financial Assets Designated at Fair Value through Profit/Loss		-	-	-	-	-	-
2.2.1 Government Debt Securities		-	-	-	-	-	-
2.2.2 Share Certificates		-	-	-	-	-	-
2.2.3 Loans		-	-	-	-	-	-
2.2.4 Other Marketable Securities		-	-	-	-	-	-
<b>III. BANKS</b>	I-(3)	<b>5,717,172</b>	<b>4,446,312</b>	<b>10,163,484</b>	<b>4,388,589</b>	<b>3,327,336</b>	<b>7,715,925</b>
<b>IV. RECEIVABLES FROM MONEY MARKETS</b>	I-(3)	<b>20,833</b>	-	<b>20,833</b>	<b>21,168</b>	-	<b>21,168</b>
4.1 Receivables from Interbank Money Market		-	-	-	-	-	-
4.2 Receivables from Istanbul Stock Exchange Money Market		-	-	-	-	-	-
4.3 Receivables from Reverse Repurchase Agreements		20,833	-	20,833	21,168	-	21,168
<b>V. AVAILABLE-FOR-SALE FINANCIAL ASSETS (Net)</b>	I-(4)	<b>1,171</b>	<b>661</b>	<b>1,832</b>	<b>1,171</b>	<b>543</b>	<b>1,714</b>
5.1 Share Certificates		1,171	661	1,832	1,171	543	1,714
5.2 Government Debt Securities		-	-	-	-	-	-
5.3 Other Marketable Securities		-	-	-	-	-	-
<b>VI. LOANS AND RECEIVABLES</b>	I-(5)	<b>198,856</b>	-	<b>198,856</b>	<b>98,945</b>	-	<b>98,945</b>
6.1 Loans		198,856	-	198,856	98,945	-	98,945
6.1.1 Loans Extended to the Risk Group of the Bank		144,797	-	144,797	98,945	-	98,945
6.1.2 Government debt securities		-	-	-	-	-	-
6.1.3 Other		54,059	-	54,059	-	-	-
6.2 Loans under follow-up		1,574	-	1,574	1,574	-	1,574
6.3 Specific Provisions (-)		1,574	-	1,574	1,574	-	1,574
<b>VII. FACTORING RECEIVABLES</b>		-	-	-	-	-	-
<b>VIII. HELD-TO-MATURITY SECURITIES (Net)</b>	I-(6)	<b>36,947</b>	-	<b>36,947</b>	<b>45,943</b>	-	<b>45,943</b>
8.1 Government Debt Securities		36,947	-	36,947	45,943	-	45,943
8.2 Other Marketable Securities		-	-	-	-	-	-
<b>IX. INVESTMENTS IN ASSOCIATES (Net)</b>	I-(7)	-	-	-	-	-	-
9.1 Consolidated Based on Equity Method		-	-	-	-	-	-
9.2 Unconsolidated		-	-	-	-	-	-
9.2.1 Financial Investments in Associates		-	-	-	-	-	-
9.2.2 Non-financial Investments in Associates		-	-	-	-	-	-
<b>X. SUBSIDIARIES (Net)</b>	I-(8)	<b>4,825</b>	-	<b>4,825</b>	<b>4,825</b>	-	<b>4,825</b>
10.1 Unconsolidated Financial Subsidiaries		4,825	-	4,825	4,825	-	4,825
10.2 Unconsolidated Non-Financial Subsidiaries		-	-	-	-	-	-
<b>XI. ENTITIES UNDER COMMON CONTROL (JOINT VENTURES) (Net)</b>	I-(9)	-	-	-	-	-	-
11.1 Consolidated Based on Equity Method		-	-	-	-	-	-
11.2 Unconsolidated		-	-	-	-	-	-
11.2.1 Financial Joint Ventures		-	-	-	-	-	-
11.2.2 Non-financial Joint Ventures		-	-	-	-	-	-
<b>XII. LEASE RECEIVABLES</b>	I-(10)	-	-	-	-	-	-
12.1 Financial Lease Receivables		-	-	-	-	-	-
12.2 Operational Lease Receivables		-	-	-	-	-	-
12.3 Other		-	-	-	-	-	-
12.4 Unearned Income (-)		-	-	-	-	-	-
<b>XIII. DERIVATIVE FINANCIAL ASSETS FOR HEDGING PURPOSES</b>	I-(11)	-	-	-	-	-	-
13.1 Fair Value Hedge		-	-	-	-	-	-
13.2 Cash Flow Hedge		-	-	-	-	-	-
13.3 Foreign Net Investment Hedge		-	-	-	-	-	-
<b>XIV. PROPERTY AND EQUIPMENT (Net)</b>	I-(12)	<b>7,437</b>	-	<b>7,437</b>	<b>15,535</b>	-	<b>15,535</b>
<b>XV. INTANGIBLE ASSETS (Net)</b>	I-(13)	<b>98,095</b>	-	<b>98,095</b>	<b>85,005</b>	-	<b>85,005</b>
15.1 Goodwill		-	-	-	-	-	-
15.2 Other		98,095	-	98,095	85,005	-	85,005
<b>XVI. INVESTMENT PROPERTY (Net)</b>	I-(14)	<b>9,495</b>	-	<b>9,495</b>	-	-	-
<b>XVII. TAX ASSET</b>	I-(15)	-	-	-	<b>1,179</b>	-	<b>1,179</b>
17.1 Current Tax Asset		-	-	-	-	-	-
17.2 Deferred Tax Asset		-	-	-	1,179	-	1,179
<b>XVIII. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (Net)</b>	I-(16)	-	-	-	-	-	-
18.1 Held for Sale		-	-	-	-	-	-
18.2 Discontinued Operations		-	-	-	-	-	-
<b>XIX. OTHER ASSETS</b>	I-(17)	<b>21,337</b>	<b>808</b>	<b>22,145</b>	<b>14,690</b>	<b>176</b>	<b>14,866</b>
<b>TOTAL ASSETS</b>		<b>6,116,648</b>	<b>4,447,781</b>	<b>10,564,429</b>	<b>4,678,293</b>	<b>3,328,055</b>	<b>8,006,348</b>

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

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS

## İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.

### UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)

#### AT 31 DECEMBER 2017

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

#### SECTION TWO (Continued)

#### UNCONSOLIDATED BALANCE SHEET (Continued)

#### I. LIABILITIES

	Note	Audited			Audited		
		Current Period			Prior Period		
		31 December 2017			31 December 2016		
		TL	FC	Total	TL	FC	Total
<b>I. DEPOSITS</b>	II-(1)	-	-	-	-	-	-
1.1 Deposits of Bank's Risk Group		-	-	-	-	-	-
1.2 Other		-	-	-	-	-	-
<b>II. DERIVATIVE FINANCIAL LIABILITIES HELD FOR TRADING</b>	II-(2)	-	-	-	-	-	-
<b>III. FUNDS BORROWED</b>	II-(3)	771,313	2,372,955	3,144,268	530,691	1,869,739	2,400,430
<b>IV. MONEY MARKETS</b>	II-(3)	34,737	-	34,737	43,800	-	43,800
4.1 Funds from Interbank Money Market		34,737	-	34,737	43,800	-	43,800
4.2 Funds from Istanbul Stock Exchange Money Market		-	-	-	-	-	-
4.3 Funds Provided Under Repurchase Agreements		-	-	-	-	-	-
<b>V. MARKETABLE SECURITIES ISSUED (Net)</b>		-	-	-	-	-	-
5.1 Bills		-	-	-	-	-	-
5.2 Asset Backed Securities		-	-	-	-	-	-
5.3 Bonds		-	-	-	-	-	-
<b>VI. FUNDS</b>		-	-	-	-	-	-
6.1 Borrower Funds		-	-	-	-	-	-
6.2 Other		-	-	-	-	-	-
<b>VII. MISCELLANEOUS PAYABLES</b>	II-(4)	3,905,878	2,064,740	5,970,618	2,927,971	1,448,423	4,376,394
<b>VIII. OTHER LIABILITIES</b>	II-(4)	60,316	-	60,316	68,763	17	68,780
<b>IX. FACTORING PAYABLES</b>		-	-	-	-	-	-
<b>X. LEASE PAYABLES</b>	II-(5)	-	-	-	-	-	-
10.1 Financial Lease Payables		-	-	-	-	-	-
10.2 Operational Lease Payables		-	-	-	-	-	-
10.3 Other		-	-	-	-	-	-
10.4 Deferred Financial Lease Expenses (-)		-	-	-	-	-	-
<b>XI. HEDGING DERIVATIVE FINANCIAL LIABILITIES</b>	II-(6)	-	-	-	-	-	-
11.1 Fair Value Hedge		-	-	-	-	-	-
11.2 Cash Flow Hedge		-	-	-	-	-	-
11.3 Foreign Net Investment Hedge		-	-	-	-	-	-
<b>XII. PROVISIONS</b>	II-(8)	82,062	-	82,062	55,340	-	55,340
12.1 General Loan Loss Provision	II-(8)	48,139	-	48,139	31,208	-	31,208
12.2 Restructuring Provisions		-	-	-	-	-	-
12.3 Employee Benefits Provisions		12,645	-	12,645	12,248	-	12,248
12.4 Insurance Technical Provisions (Net)		-	-	-	-	-	-
12.5 Other Provisions		21,278	-	21,278	11,884	-	11,884
<b>XIII. TAX LIABILITY</b>	II-(10)	26,166	-	26,166	17,918	-	17,918
13.1 Current Tax Liability		25,121	-	25,121	17,918	-	17,918
13.2 Deferred Tax Liability		1,045	-	1,045	-	-	-
<b>XIV. PAYABLES FOR ASSET HELD FOR SALE AND DISCONTINUED OPERATIONS</b>	II-(11)	-	-	-	-	-	-
14.1 Held for Sale		-	-	-	-	-	-
14.2 Discontinued Operations		-	-	-	-	-	-
<b>XV. SUBORDINATED LOANS</b>	II-(12)	-	-	-	-	-	-
<b>XVI. SHAREHOLDERS' EQUITY</b>	II-(13)	1,246,262	-	1,246,262	1,043,686	-	1,043,686
16.1 Paid-in Capital		600,000	-	600,000	600,000	-	600,000
16.2 Capital Reserves		37,107	-	37,107	37,107	-	37,107
16.2.1 Share Premium		33,019	-	33,019	33,019	-	33,019
16.2.2 Share Cancellation Profits		-	-	-	-	-	-
16.2.3 Marketable Securities Valuation Differences		-	-	-	-	-	-
16.2.4 Tangible Assets Revaluation Differences		-	-	-	-	-	-
16.2.5 Intangible Assets Revaluation Differences		-	-	-	-	-	-
16.2.6 Investment Property Revaluation Differences		-	-	-	-	-	-
16.2.7 Securities		-	-	-	-	-	-
16.2.8 Hedging Reserves (Effective portion)		-	-	-	-	-	-
16.2.9 Value Differences of Assets Held for Sale and Discontinued Operations		-	-	-	-	-	-
16.2.10 Other Capital Reserves		4,088	-	4,088	4,088	-	4,088
16.3 Profit Reserves		329,374	-	329,374	191,604	-	191,604
16.3.1 Legal Reserves	II-(13)	66,122	-	66,122	51,044	-	51,044
16.3.2 Status Reserves		-	-	-	-	-	-
16.3.3 Extraordinary Reserves	II-(13)	260,606	-	260,606	139,119	-	139,119
16.3.4 Other Profit Reserves		2,646	-	2,646	1,441	-	1,441
16.4 Income or Loss		279,781	-	279,781	214,975	-	214,975
16.4.1 Prior Years' Income/Loss		3,410	-	3,410	3,410	-	3,410
16.4.2 Current Year Income/Loss		276,371	-	276,371	211,565	-	211,565
16.5 Minority Shares	II-(15)	-	-	-	-	-	-
<b>TOTAL LIABILITIES</b>		<b>6,126,734</b>	<b>4,437,695</b>	<b>10,564,429</b>	<b>4,688,169</b>	<b>3,318,179</b>	<b>8,006,348</b>

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

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS

**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.**  
**UNCONSOLIDATED OFF-BALANCE SHEET COMMITMENTS**  
**AS OF 31 DECEMBER 2017**

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

**SECTION TWO (Continued)****UNCONSOLIDATED BALANCE SHEET (Continued)****II. OFF-BALANCE SHEET**

	Note	Audited			Audited		
		Current Period			Prior Period		
		TL	FC	Total	TL	FC	Total
<b>A. OFF-BALANCE SHEET COMMITMENTS (I+II+III)</b>		<b>17,937,202</b>	<b>-</b>	<b>17,937,202</b>	<b>11,078,283</b>	<b>633</b>	<b>11,078,916</b>
<b>I. GUARANTEES AND WARRANTIES</b>	III-(1)	<b>17,639,591</b>	<b>-</b>	<b>17,639,591</b>	<b>10,768,604</b>	<b>-</b>	<b>10,768,604</b>
1.1. Letters of Guarantee		-	-	-	-	-	-
1.1.1. Guarantees Subject to State Tender Law		-	-	-	-	-	-
1.1.2. Guarantees Given for Foreign Trade Operations		-	-	-	-	-	-
1.1.3. Other Letters of Guarantee		-	-	-	-	-	-
1.2. Bank Acceptances		-	-	-	-	-	-
1.2.1. Import Letter of Acceptance		-	-	-	-	-	-
1.2.2. Other Bank Acceptances		-	-	-	-	-	-
1.3. Letters of Credit		-	-	-	-	-	-
1.3.1. Documentary Letters of Credit		-	-	-	-	-	-
1.3.2. Other Letters of Credit		-	-	-	-	-	-
1.4. Prefinancing Given as Guarantee		-	-	-	-	-	-
1.5. Endorsements		-	-	-	-	-	-
Endorsements to the Central Bank of the Republic of							
1.5.1. Turkey		-	-	-	-	-	-
1.5.2. Other Endorsements		-	-	-	-	-	-
1.6. Securities Issue Purchase Guarantees		-	-	-	-	-	-
1.7. Factoring Guarantees		-	-	-	-	-	-
1.8. Other Guarantees		17,639,591	-	17,639,591	10,768,604	-	10,768,604
1.9. Other Collaterals		-	-	-	-	-	-
<b>II. COMMITMENTS</b>	III-(1)	<b>297,611</b>	<b>-</b>	<b>297,611</b>	<b>309,679</b>	<b>633</b>	<b>310,312</b>
2.1. Irrevocable Commitments		297,611	-	297,611	309,679	-	309,679
2.1.1. Asset Purchase and Sales Commitments		-	-	-	-	-	-
2.1.2. Deposit Purchase and Sales Commitments		-	-	-	-	-	-
Share Capital Commitments to Associates and							
2.1.3. Subsidiaries		-	-	-	-	-	-
2.1.4. Commitments for Loan Limits		-	-	-	-	-	-
2.1.5. Securities Issue Brokerage Commitments		-	-	-	-	-	-
2.1.6. Commitments for Reserve Deposit Requirements		-	-	-	-	-	-
2.1.7. Commitments for Cheques		-	-	-	-	-	-
2.1.8. Tax and Fund Liabilities from Export Commitments		-	-	-	-	-	-
2.1.9. Commitments for Credit Card Limits		-	-	-	-	-	-
Promotion Commitments for Credit Cards and Banking							
2.1.10. Services		-	-	-	-	-	-
Receivables from Short Sale Commitments of							
2.1.11. Marketable Securities		-	-	-	-	-	-
Payables for Short Sale Commitments of Marketable							
2.1.12. Securities		-	-	-	-	-	-
2.1.13. Other Irrevocable Commitments		297,611	-	297,611	309,679	-	309,679
2.2. Revocable Commitments		-	-	-	-	633	633
2.2.1. Revocable Commitments for Loan Limits		-	-	-	-	-	-
2.2.2. Other Revocable Commitments		-	-	-	-	633	633
<b>III. DERIVATIVE FINANCIAL INSTRUMENTS</b>							
3.1. Hedging Derivative Financial Instruments		-	-	-	-	-	-
3.1.1. Transactions for Fair Value Hedge		-	-	-	-	-	-
3.1.2. Transactions for Cash Flow Hedge		-	-	-	-	-	-
3.1.3. Transactions for Foreign Net Investment Hedge		-	-	-	-	-	-

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



CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS

## İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.

### UNCONSOLIDATED OFF-BALANCE SHEET COMMITMENTS

#### AS OF 31 DECEMBER 2017

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

#### SECTION TWO (Continued)

#### UNCONSOLIDATED BALANCE SHEET (Continued)

#### II. OFF-BALANCE SHEET (Continued)

	Note	Audited			Audited		
		Current Period			Prior Period		
		31 December 2017			31 December 2016		
		TL	FC	Total	TL	FC	Total
3.2	Trading Transactions	-	-	-	-	-	-
3.2.1	Forward Foreign Currency Buy/Sell Transactions	-	-	-	-	-	-
3.2.1.1	Forward Foreign Currency Transactions-Buy	-	-	-	-	-	-
3.2.1.2	Forward Foreign Currency Transactions-Sell	-	-	-	-	-	-
3.2.2	Swap Transactions Related to Foreign Currency and Interest Rates	-	-	-	-	-	-
3.2.2.1	Foreign Currency Swap-Buy	-	-	-	-	-	-
3.2.2.2	Foreign Currency Swap-Sell	-	-	-	-	-	-
3.2.2.3	Interest Rate Swap-Buy	-	-	-	-	-	-
3.2.2.4	Interest Rate Swap-Sell	-	-	-	-	-	-
3.2.3	Foreign Currency, Interest rate and Securities Options	-	-	-	-	-	-
3.2.3.1	Foreign currency call options	-	-	-	-	-	-
3.2.3.2	Foreign currency put options	-	-	-	-	-	-
3.2.3.3	Interest Rate Options-Buy	-	-	-	-	-	-
3.2.3.4	Interest Rate Options-Sell	-	-	-	-	-	-
3.2.3.5	Securities Options-Buy	-	-	-	-	-	-
3.2.3.6	Securities Options-Sell	-	-	-	-	-	-
3.2.4	Foreign Currency Futures	-	-	-	-	-	-
3.2.4.1	Foreign Currency Futures-Buy	-	-	-	-	-	-
3.2.4.2	Foreign Currency Futures-Sell	-	-	-	-	-	-
3.2.5	Interest Rate Futures	-	-	-	-	-	-
3.2.5.1	Interest Rate Futures-Buy	-	-	-	-	-	-
3.2.5.2	Interest Rate Futures-Sell	-	-	-	-	-	-
3.2.6	Other	-	-	-	-	-	-
<b>B.</b>	<b>CUSTODY AND PLEDGES RECEIVED (IV+V+VI)</b>						
		<b>3,097,517,450</b>	<b>1,182,811</b>	<b>3,098,700,261</b>	<b>2,460,037,449</b>	<b>1,117,821</b>	<b>2,461,155,270</b>
<b>IV.</b>	<b>ITEMS HELD IN CUSTODY</b>	<b>3,072,127,521</b>	<b>-</b>	<b>3,072,127,521</b>	<b>2,441,013,247</b>	<b>-</b>	<b>2,441,013,247</b>
4.1.	Customer Fund and Portfolio Balances	1,420	-	1,420	8	-	8
4.2.	Investment Securities Held in Custody	III-(1) 3,072,124,601	-	3,072,124,601	2,441,011,739	-	2,441,011,739
4.3.	Cheques Received for Collection	-	-	-	-	-	-
4.4.	Commercial Notes Received for Collection	-	-	-	-	-	-
4.5.	Other Assets Received for Collection	-	-	-	-	-	-
4.6.	Assets Received for Public Offering	-	-	-	-	-	-
4.7.	Other Items Under Custody	1,500	-	1,500	1,500	-	1,500
4.8.	Custodians	-	-	-	-	-	-
<b>V.</b>	<b>PLEDGES RECEIVED</b>	<b>25,389,929</b>	<b>1,182,811</b>	<b>26,572,740</b>	<b>19,024,202</b>	<b>1,117,821</b>	<b>20,142,023</b>
5.1.	Marketable Securities	6,750,409	1,182,811	7,933,220	7,240,590	1,117,821	8,358,411
5.2.	Guarantee Notes	-	-	-	-	-	-
5.3.	Commodity	-	-	-	-	-	-
5.4.	Warranty	-	-	-	-	-	-
5.5.	Real Estate	-	-	-	-	-	-
5.6.	Other Pledged Items	18,639,520	-	18,639,520	11,783,612	-	11,783,612
5.7.	Pledged Items-Depository	-	-	-	-	-	-
<b>VI.</b>	<b>ACCEPTED INDEPENDENT GUARANTEES AND WARRANTIES</b>						
	<b>TOTAL OFF-BALANCE SHEET COMMITMENTS (A+B)</b>	<b>3,115,454,652</b>	<b>1,182,811</b>	<b>3,116,637,463</b>	<b>2,471,115,732</b>	<b>1,118,454</b>	<b>2,472,234,186</b>

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

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS

**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.**  
**UNCONSOLIDATED INCOME STATEMENT**  
**AS OF 31 DECEMBER 2017**

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

**SECTION TWO (Continued)****UNCONSOLIDATED BALANCE SHEET (Continued)****III. INCOME STATEMENT**

	Note	Audited	Audited
		Current Period	Prior Period
		1 January - 31 December 2017	1 January - 31 December 2016
<b>I. INTEREST INCOME</b>	IV-(1)	<b>405,708</b>	<b>294,068</b>
1.1 Interest Received from Loans		17,400	12,891
1.2 Interest Received from Reserve Requirements		-	-
1.3 Interest Received from Banks		377,804	274,498
1.4 Interest Received from Money Market Transactions		-	-
1.5 Interest Received from Marketable Securities Portfolio		10,141	6,345
1.5.1 Financial Assets Held for Trading		-	-
1.5.2 Financial Assets at Fair Value through Profit or Loss		-	-
1.5.3 Available-for-sale Financial Assets		-	-
1.5.4 Investments Held-to-maturity		10,141	6,345
1.6 Financial Lease Income		-	-
1.7 Other Interest Income		363	334
<b>II. INTEREST EXPENSE</b>	IV-(2)	<b>85,988</b>	<b>50,674</b>
2.1 Interest on Deposits		-	-
2.2 Interest on Funds Borrowed		78,261	50,653
2.3 Interest on Money Market Borrowings		7,727	21
2.4 Interest on Securities Issued		-	-
2.5 Other Interest Expenses		-	-
<b>III. NET INTEREST INCOME/EXPENSE (I - II)</b>		<b>319,720</b>	<b>243,394</b>
<b>IV. NET FEES AND COMMISSIONS INCOME/EXPENSE</b>		<b>149,602</b>	<b>110,332</b>
4.1 Fees and Commissions Received		165,257	120,743
4.1.1 Non-cash Loans		39,027	25,739
4.1.2 Other	IV-(11)	126,230	95,004
4.2 Fees and Commissions Paid	IV-(12)	15,655	10,411
4.2.1 Non-cash Loans		-	-
4.2.2 Other		15,655	10,411
<b>V. DIVIDEND INCOME</b>	IV-(3)	<b>30</b>	<b>6,217</b>
<b>VI. TRADING INCOME/(LOSS) (Net)</b>	IV-(4)	<b>562</b>	<b>1,795</b>
6.1 Securities trading Gains/Losses		-	-
6.2 Securities Trading Gains/Losses on Derivative Financial Instruments		-	-
6.3 Foreign Exchange Gains/Losses		562	1,795
<b>VII. OTHER OPERATING INCOME</b>	IV-(5)	<b>329</b>	<b>4,632</b>
<b>VIII. TOTAL OPERATING INCOME (III+IV+V+VI+VII)</b>		<b>470,243</b>	<b>366,370</b>
<b>IX. PROVISION FOR LOAN LOSSES AND OTHER RECEIVABLES (-)</b>	IV-(6)	<b>16,931</b>	<b>13,983</b>
<b>X. OTHER OPERATING EXPENSES (-)</b>	IV-(7)	<b>104,664</b>	<b>87,030</b>
<b>XI. NET OPERATING INCOME/(LOSS) (VIII-IX-X)</b>		<b>348,648</b>	<b>265,357</b>
<b>XII. EXCESS AMOUNT RECORDED AS INCOME AFTER MERGER</b>		-	-
<b>OTHER OPERATING EXPENSES</b>		-	-
<b>INCOME/(LOSS) FROM INVESTMENTS IN SUBSIDIARIES CONSOLIDATED BASED ON EQUITY METHOD</b>		-	-
<b>XIII. INCOME/(LOSS) ON NET MONETARY POSITION</b>		-	-
<b>XV. INCOME/(LOSS) FROM CONTINUING OPERATIONS BEFORE TAX (XI+...+XIV)</b>		<b>348,648</b>	<b>265,357</b>
<b>XVI. TAX PROVISION FOR CONTINUING OPERATIONS (±)</b>	IV-(8)	<b>(72,277)</b>	<b>(53,792)</b>
16.1 Current Tax Provision		(70,354)	(52,312)
16.2 Deferred Tax Provision		(1,923)	(1,480)
<b>XVII. NET INCOME/(LOSS) FROM CONTINUING OPERATIONS (XV-XVI)</b>	IV-(9)	<b>276,371</b>	<b>211,565</b>
<b>XVIII. INCOME FROM DISCONTINUED OPERATIONS</b>		-	-
18.1 Income from Non-Current Assets Held for Sale		-	-
18.2 Sale Income from Associates, Subsidiaries and Joint Ventures		-	-
18.3 Other Income from Discontinued Operations		-	-
<b>XIX. EXPENSES FROM DISCONTINUED OPERATIONS (-)</b>		-	-
19.1 Expense from Non-Current Assets Held for Sale		-	-
19.2 Sale Losses from Associates, Subsidiaries and Joint Ventures		-	-
19.3 Other Expenses from Discontinued Operations		-	-
<b>XX. INCOME/(LOSS) FROM DISCONTINUED OPERATIONS BEFORE TAX (XVIII-XIX)</b>		-	-
<b>XXI. TAX PROVISION FOR DISCONTINUED OPERATIONS (±)</b>		-	-
21.1 Current tax provision		-	-
21.2 Deferred tax provision		-	-
<b>XXII. NET INCOME/(LOSS) FROM DISCONTINUED OPERATIONS (XX±XXI)</b>		-	-
<b>XXIII. NET INCOME/(LOSS) (XVII+XXII)</b>	IV-(9)	<b>276,371</b>	<b>211,565</b>
Earnings per share		<b>0.46062</b>	<b>0.35261</b>

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

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS

**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.**  
**UNCONSOLIDATED STATEMENT OF INCOME AND EXPENSE ITEMS ACCOUNTED**  
**IN EQUITY AS OF 31 DECEMBER 2017**

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

**SECTION TWO (Continued)**
**UNCONSOLIDATED BALANCE SHEET (Continued)**
**IV. STATEMENT OF INCOME AND EXPENSE ITEMS ACCOUNTED IN EQUITY**

	Audited	Audited
	Current Period	Prior Period
	1 January- 31 December 2017	1 January- 31 December 2016
<b>INCOME AND EXPENSE ITEMS ACCOUNTED IN EQUITY</b>		
<b>ADDITIONS TO THE MARKETABLE SECURITIES VALUATION RESERVE</b>		
I. FROM THE AVAILABLE FOR SALE FINANCIAL ASSETS	-	-
II. REVALUATION DIFFERENCES OF TANGIBLE ASSETS	-	-
III. REVALUATION DIFFERENCES OF INTANGIBLE ASSETS	-	-
IV. FOREIGN EXCHANGE TRANSLATION DIFFERENCES FOR FOREIGN CURRENCY TRANSACTIONS	-	-
V. INCOME/LOSS ON CASH FLOW HEDGE DERIVATIVE FINANCIAL ASSETS (Effective Part of Fair Value Changes)	-	-
VI. PROFIT/LOSS FROM FOREIGN INVESTMENT HEDGE DERIVATIVE FINANCIAL ASSETS (Effective Part of Fair Value Changes)	-	-
VII. EFFECTS OF CHANGES IN ACCOUNTING POLICY AND ERROR	-	-
VIII. OTHER INCOME AND EXPENSE ITEMS ACCOUNTED IN EQUITY ACCORDING TO TAS	1,506	(146)
IX. DEFERRED TAX ON VALUATION DIFFERENCES	(301)	30
X. NET INCOME/LOSS ACCOUNTED DIRECTLY IN EQUITY (I+II+...+IX)	1,205	(116)
XI. CURRENT PERIOD INCOME/LOSS	276,371	211,565
1.1 Net Change in Fair Value of Marketable Securities (Transfer to Income Statement)	-	-
1.2 Portion of Cash Flow Hedge Derivative Financial Assets Reclassified and Presented on the Income Statement	-	-
1.3 Portion of Foreign Investment Hedge Derivative Financial Assets Reclassified and Presented on the Income Statement	-	-
1.4 Other	276,371	211,565
<b>XII. TOTAL INCOME/LOSS RELATED TO THE CURRENT PERIOD (X±XI)</b>	<b>277,576</b>	<b>211,449</b>

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS

**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.****UNCONSOLIDATED STATEMENT OF CHANGES IN THE SHAREHOLDERS' EQUITY  
AS OF 31 DECEMBER 2017**

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

**SECTION TWO (Continued)****UNCONSOLIDATED BALANCE SHEET (Continued)****V. STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

	Note	Paid-in Capital	Adjustment to Share Capital	Share Premium	Share Cancellation Profits	Legal Reserves	Statutory Reserves
<b>1 January 2016 – 31 December 2016</b>							
I.	<b>Beginning Balance</b>	<b>600,000</b>	<b>4,088</b>	<b>33,019</b>	<b>-</b>	<b>37,338</b>	<b>-</b>
	<b>Changes in period</b>						
II.	<b>Increase/Decrease related to merger</b>	-	-	-	-	-	-
III.	<b>Marketable securities valuation differences</b>	-	-	-	-	-	-
IV.	<b>Hedging Funds (Effective Portion)</b>	-	-	-	-	-	-
4.1	Cash-flow hedge	-	-	-	-	-	-
4.2	Hedge of net investment in foreign operations	-	-	-	-	-	-
V.	<b>Tangible assets revaluation differences</b>	-	-	-	-	-	-
VI.	<b>Intangible assets revaluation differences</b>	-	-	-	-	-	-
VII.	<b>Bonus shares obtained from associates, subsidiaries and jointly controlled entities (Joint vent.)</b>	-	-	-	-	-	-
VIII.	<b>Foreign exchange differences</b>	-	-	-	-	-	-
IX.	<b>The disposal of assets</b>	-	-	-	-	-	-
X.	<b>The reclassification of assets</b>	-	-	-	-	-	-
XI.	<b>The effect of change in associate's equity</b>	-	-	-	-	-	-
XII.	<b>Capital increase</b>	-	-	-	-	-	-
12.1	Cash	-	-	-	-	-	-
12.2	Internal sources	-	-	-	-	-	-
XIII.	<b>Share premium</b>	-	-	-	-	-	-
XIV.	<b>Share cancellation profits</b>	-	-	-	-	-	-
XV.	<b>Inflation adjustment to paid-in capital</b>	-	-	-	-	-	-
XVI.	<b>Other</b>	-	-	-	-	-	-
XVII.	<b>Period net income/(loss)</b>	-	-	-	-	-	-
XVIII.	<b>Profit distribution</b>	-	-	-	-	<b>13,706</b>	-
18.1	Dividends distributed <sup>(1)</sup>	-	-	-	-	-	-
18.2	Transfers to reserves	-	-	-	-	13,706	-
18.3	Other	-	-	-	-	-	-
	<b>Closing Balance</b>	<b>600,000</b>	<b>4,088</b>	<b>33,019</b>	<b>-</b>	<b>51,044</b>	<b>-</b>
<b>1 January – 31 December 2017</b>							
I.	<b>Prior Period End Balance</b>	<b>600,000</b>	<b>4,088</b>	<b>33,019</b>	<b>-</b>	<b>51,044</b>	<b>-</b>
	<b>Changes in the Period</b>						
II.	<b>Increase/Decrease due to the Merger</b>	-	-	-	-	-	-
III.	<b>Marketable Securities Valuation Differences</b>	-	-	-	-	-	-
IV.	<b>Hedging Reserves (Effective Portion)</b>	-	-	-	-	-	-
4.1	Cash Flow Hedge	-	-	-	-	-	-
4.2	Foreign Investment Hedge	-	-	-	-	-	-
V.	<b>Revaluation Differences of Tangible Assets</b>	-	-	-	-	-	-
VI.	<b>Revaluation Differences of Intangible Assets</b>	-	-	-	-	-	-
VII.	<b>Bonus Shares Obtained from Investments in Associates, Subsidiaries and Joint Ventures</b>	-	-	-	-	-	-
VIII.	<b>Foreign Exchange Difference</b>	-	-	-	-	-	-
IX.	<b>Changes due to the Disposal of Assets</b>	-	-	-	-	-	-
X.	<b>Changes due to the Reclassification of the Assets</b>	-	-	-	-	-	-
XI.	<b>Effects of Changes in Equity of Investments in Associates</b>	-	-	-	-	-	-
XII.	<b>Capital Increase</b>	-	-	-	-	-	-
12.1	Cash	-	-	-	-	-	-
12.2	Internal Resources	-	-	-	-	-	-
XIII.	<b>Share Premium</b>	-	-	-	-	-	-
XIV.	<b>Share Cancellation Profits</b>	-	-	-	-	-	-
XV.	<b>Adjustment to Share Capital</b>	-	-	-	-	-	-
XVI.	<b>Other</b>	-	-	-	-	-	-
XVII.	<b>Current Year Income or Loss</b>	-	-	-	-	-	-
XVIII.	<b>Profit Distribution</b>	-	-	-	-	<b>15,078</b>	-
18.1	Dividend Paid	-	-	-	-	-	-
18.2	Transfers to Reserves	-	-	-	-	15,078	-
18.3	Other	-	-	-	-	-	-
	<b>Period End Balance</b>	<b>600,000</b>	<b>4,088</b>	<b>33,019</b>	<b>-</b>	<b>66,122</b>	<b>-</b>

<sup>(1)</sup> In accordance with the decision taken by the Bank's Ordinary General Assembly Meeting; the remaining tax provision from the taxation of the dividend to be distributed to the personnel is removed from the provision and added to the extraordinary reserves.



CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS

**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.**  
**UNCONSOLIDATED STATEMENT OF CASH FLOWS**  
**AS OF 31 DECEMBER 2017**

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

**SECTION TWO (Continued)****UNCONSOLIDATED BALANCE SHEET (Continued)****VI. STATEMENT OF CASH FLOWS**

	Note	Audited	Audited
		Current Period 31 December 2017	Prior Period 31 December 2016
<b>A. CASH FLOWS FROM BANKING OPERATIONS</b>			
1.1		154,175	231,827
1.1.1		404,065	301,200
1.1.2		(85,629)	(50,674)
1.1.3		30	6,217
1.1.4		165,257	120,743
1.1.5		329	4,632
1.1.6		-	-
1.1.7		(49,407)	(47,313)
1.1.8		(67,587)	(49,449)
1.1.9	VI-(1)	(212,883)	(53,529)
1.2		2,205,931	1,376,871
1.2.1		1,154	3,200
1.2.2		-	-
1.2.3		(11,914)	395,129
1.2.4		(99,749)	80,507
1.2.5	VI-(1)	(7,278)	(2,744)
1.2.6		-	-
1.2.7		-	-
1.2.8		734,416	119,553
1.2.9		-	-
1.2.10	VI-(1)	1,589,302	781,226
<b>I.</b>		<b>2,360,106</b>	<b>1,608,698</b>
<b>B. CASH FLOWS FROM INVESTING ACTIVITIES</b>			
<b>II.</b>		<b>(11,069)</b>	<b>125,564</b>
2.1		-	-
2.2		-	-
2.3		(4,115)	(8,500)
2.4		-	-
2.5		(47)	(78)
2.6		-	-
2.7		(80,862)	(45,943)
2.8		89,858	180,085
2.9		(15,903)	-
<b>C. CASH FLOWS FROM FINANCING ACTIVITIES</b>			
<b>III.</b>		<b>(73,494)</b>	<b>(79,703)</b>
3.1		-	-
3.2		-	-
3.3		-	-
3.4	V-(12)	(75,000)	(79,703)
3.5		-	-
3.6		1,506	-
<b>IV.</b>	VI-(1)	<b>160,163</b>	<b>(533,759)</b>
<b>V.</b>		<b>2,435,706</b>	<b>1,120,800</b>
<b>VI.</b>	VI-(2)	<b>7,723,918</b>	<b>6,603,118</b>
<b>VII.</b>	VI-(2)	<b>10,159,624</b>	<b>7,723,918</b>

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

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS

## İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.

### UNCONSOLIDATED STATEMENT OF PROFIT DISTRIBUTION AS OF 31 DECEMBER 2017

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

#### SECTION TWO (Continued)

#### UNCONSOLIDATED BALANCE SHEET (Continued)

#### VII. PROFIT DISTRIBUTION

	Audited	Audited
	Current Period	Prior Period
	31 December 2017	31 December 2016
<b>I. DISTRIBUTION OF THE CURRENT YEAR INCOME</b>		
1.1 CURRENT YEAR INCOME	348,648	265,357
1.2 TAXES AND DUTIES PAYABLE (-)	(72,277)	(53,792)
1.2.1 Corporate Tax (Income Tax)	(70,354)	(52,312)
1.2.2 Income withholding tax	-	-
1.2.3 Other taxes and duties	(1,923)	(1,480)
<b>A. NET INCOME FOR THE YEAR (1.1-1.2)</b>	<b>276,371</b>	<b>211,565</b>
1.3 PRIOR YEAR LOSSES (-)	-	-
1.4 FIRST LEGAL RESERVES (-)	-	-
1.5 OTHER STATUTORY RESERVES (-)	-	-
<b>B. NET INCOME AVAILABLE FOR DISTRIBUTION [(A)-(1.3+1.4+1.5)]</b>	<b>276,371</b>	<b>211,565</b>
1.6 FIRST DIVIDEND TO SHAREHOLDERS (-)	-	-
1.6.1 To Owners of Ordinary Shares	-	-
1.6.2 To Owners of Privileged Shares	-	-
1.6.3 To Owners of Preferred Shares	-	-
1.6.4 To Profit Sharing Bonds	-	-
1.6.5 To Holders of Profit and Loss Sharing Certificates	-	-
1.7 DIVIDENDS TO PERSONNEL (-)	-	-
1.8 DIVIDENDS TO BOARD OF DIRECTORS (-)	-	-
1.9 SECOND DIVIDEND TO SHAREHOLDERS (-) <sup>(1)</sup>	-	(75,000)
1.9.1 To Owners of Ordinary Shares	-	-
1.9.2 To Owners of Privileged Shares	-	-
1.9.3 To Owners of Preferred Shares	-	-
1.9.4 To Profit Sharing Bonds	-	-
1.9.5 To Holders of Profit and Loss Sharing Certificates	-	-
1.10 SECOND LEGAL RESERVES (-)	-	(15,078)
1.11 STATUTORY RESERVES (-)	-	-
1.12 EXTRAORDINARY RESERVES	-	(121,487)
1.13 OTHER RESERVES	-	-
1.14 SPECIAL FUNDS	-	-
<b>II. DISTRIBUTION OF RESERVES</b>	-	-
2.1 DISTRIBUTED RESERVES	-	-
2.2 SECOND LEGAL RESERVES (-)	-	-
2.3 DIVIDENDS TO SHAREHOLDERS (-)	-	-
2.3.1 To Owners of Ordinary Shares	-	-
2.3.2 To Owners of Privileged Shares	-	-
2.3.3 To Owners of Preferred Shares	-	-
2.3.4 To Profit Sharing Bonds	-	-
2.3.5 To Holders of Profit and Loss Sharing Certificates	-	-
2.4 DIVIDENDS TO PERSONNEL (-)	-	-
2.5 DIVIDENDS TO BOARD OF DIRECTORS (-)	-	-
<b>III. EARNINGS PER SHARE</b>	-	-
3.1 TO OWNERS OF ORDINARY SHARES	0.4606	0.3526
3.2 TO OWNERS OF ORDINARY SHARES (%)	46.06	35.26
3.3 TO OWNERS OF PRIVILEGED SHARES	-	-
3.4 TO OWNERS OF PRIVILEGED SHARES (%)	-	-
<b>IV. DIVIDEND PER SHARE</b>	-	-
4.1 TO OWNERS OF ORDINARY SHARES	-	-
4.2 TO OWNERS OF ORDINARY SHARES (%)	-	-
4.3 TO OWNERS OF PRIVILEGED SHARES	-	-
4.4 TO OWNERS OF PRIVILEGED SHARES (%)	-	-

<sup>(1)</sup> The Bank transferred TL 15,078 to legal reserves and TL 121,487 to extraordinary reserves from its distributable net profit for the year 2016 of TL 211,565. In accordance with the decision taken at the Ordinary General Assembly meeting held on 9 June 2017, a dividend of 75,000 TL was paid to the shareholders on the date.

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS

## **İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.**

### **UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)**

**AT 31 DECEMBER 2017**

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

#### **SECTION THREE**

##### **EXPLANATIONS ON ACCOUNTING POLICIES**

###### **I. Basis of Presentation**

Presentation of financial statements

The unconsolidated financial statements are prepared within the scope of the "Regulation on Accounting Applications for Banks and Safeguarding of Documents" related with Banking Law numbered 5411 published in the Official Gazette no.26333 dated 1 November 2006 and other regulations related to reporting principles on accounting records of Banks published by Banking Regulation and Supervision Agency and circulars and interpretations published by Banking Regulation and Supervision Authority (together referred as BRSA Accounting and Reporting Legislation) and in case where a specific regulation is not made by BRSA, Turkish Accounting Standards ("TAS") and Turkish Financial Reporting Standards ("TFRS") related appendices and interpretations (referred as "Turkish Accounting Standards" or "TAS") put into effect by Public Oversight Accounting and Auditing Standards Authority ("POA") ("all referred as BRSA Principles").

The format and content of the publicly announced unconsolidated financial statements and notes to these statements have been prepared in accordance with the "Communiqué on Publicly Announced Financial Statements, Explanations and Notes to These Financial Statements", published in Official Gazette no. 28337, dated 28 June 2012, and "Communiqué Pertaining to Public Disclosure of Risk Management in Banks" amendments to these Communiqués. The Bank maintains its books in Turkish Lira in accordance with the Banking Law, Turkish Commercial Code and Turkish Tax Legislation.

Current period financial statements are presented comparatively with independently audited balances as of 31 December 2017 and audited balances as of 31 December 2016.

The preparation of financial statements in conformity with TAS requires the use of certain critical accounting estimates by the Bank management to exercise its judgment on the assets and liabilities of the balance sheet and contingent issues as of the balance sheet date. These estimates are being reviewed regularly and, when necessary, suitable corrections are made and the effects of these corrections are reflected to the income statement.

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

2017 version of TFRS 9 standard has been published by the POA in the Official Gazette dated 19 January 2017 and numbered 29953 for the fiscal periods starting after 1 January 2018. The TFRS 9 standard introduces new provisions relating to the classification and measurement of financial assets and liabilities, impairment and hedge accounting. In addition, the provisions of "Regulation on Procedures and Principles for the Classification of Loans and Provisions to be submitted (Provisions Regulation)" published by the BRSA in the Official Gazette dated 22 June 2016 and numbered 29750 and the provisions to be set aside according to the qualifications of the credits of the banks are under TFRS 9.

The accounting policies and valuation principles applied in the preparation of these financial statements and valuation principles

The accounting policies and valuation principles applied in the preparation of these financial statements and valuation principles are defined and applied in accordance with TAS. Those accounting policies and valuation principles are explained in Notes II to XXV below.

###### **II. Explanations on Usage Strategy of Financial Assets and Foreign Currency Transactions**

The Bank has placed its funds in domestic and foreign banks, in interbank money markets, and treasury bills and government bonds. These instruments are assumed to have higher yields compared to other financial instruments and bear lower risk. For the purposes of maintaining sufficient liquidity to meet all claims that might fall due, the Bank makes overnight or weekly placements in money markets. The most significant financing resources are guarantees of the members, short term placements and the shareholders' equity of the Bank. In making long-term placements, the high yield principle is considered, and accordingly, the Bank invests in government bonds and treasury bills.

The Bank has no area of operations for which a return is achieved above the average rate of return.

The Bank carries transactions in securities and money markets. Accordingly, exchange rate and interest rate volatility are managed by matching its assets and liabilities. The Bank does not engage in derivative or structured products defined as off-balance sheet to provide balance sheet management or to make profit. Related to the transactions in securities and money markets, transaction limits are established as risk limits.



CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS

**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.**  
**UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)**  
**AT 31 DECEMBER 2017 (Continued)**

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

**SECTION THREE (Continued)**

**EXPLANATIONS ON ACCOUNTING POLICIES (Continued)**

**II. Explanations on Usage Strategy of Financial Assets and Foreign Currency Transactions (Continued)**

Income and expenses which arise from foreign currency translation are accounted for at the period when transaction takes place. The Bank has EUR 75,215 (full amount) (SASE) share in Sarajevo Stock Exchange and EUR (full amount) 71,214 share in S.W.I.F.T.SCR.L. At period ends, balances of foreign currency asset and liability accounts are translated into TL by using period end CBRT Foreign exchange purchase rates. Exchange rate differences are accounted for as foreign currency gains and losses.

The Bank has available for sale instruments in foreign currencies amounting to TL 661 (31 December 2016: TL 543).

The Bank does not have any transactions that cause liability or affect the net asset position negatively in other foreign currency transactions.

**III. Explanations on Investments in Associates, Subsidiaries and Joint Ventures**

As it is explained on the 8 footnote of the third part of third section, the Bank doesn't have the control or significant efficiency of Merkezi Kayıt Kuruluşu A.Ş., although the Bank owns 65% of it. Since the fair value can not be determined reliably, the related subsidiary is measured with historical cost after the deduction of impairment provision.

**IV. Explanations on Forward and Option Contracts and Derivative Instruments**

The Bank has no derivative instruments used for hedging purposes as of the balance sheet date.

**V. Explanations on Interest Income and Expenses**

Interest income and expenses are recognized at fair value and accounted for on accrual basis by effective interest rate method (the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or liability) by taking into account principle amount.

In accordance with the related regulation, realized and unrealized interest accruals of the non-performing loans are reversed and interest income related to these loans are recorded as interest income only when collected.

**VI. Explanations on Fees and Commission Income and Expenses**

The Bank performs custody and settlement services for marketable securities, precious metals and other securities arising from purchases and sales of those assets.

Additionally, the Bank opens custody accounts for its customers, corporate investors and companies quoted on the BİST and on other stock exchange markets, performs transfers, settlements and offsets between the accounts of securities intermediary companies and investors; performs procedures related to obtaining of bonus shares, use of preemptive rights, timely collection of dividends, principal and interest, exchange of certificates representing marketable and other securities and additional financial services. On these operations, the Bank receives custody and service commission income from its customers. These fees and commissions are accrued on a monthly basis under other operating income.

**VII. Explanations and Disclosures on Financial Assets**

Financial instruments comprise financial assets and financial liabilities. Financial instruments constitute the basis of Bank's trading activities and operations. The risks related to these instruments comprise a major part of the total risk taken by the Bank. Financial instruments affect liquidity, market and credit risks on the Bank's balance sheet in all respects.

All regular way purchases and sales of financial assets are recognized on the settlement date i.e. the date that the asset is delivered to or by the Bank. Settlement date accounting requires (a) accounting of the asset when acquired by the institution, and (b) disposing of the asset out of the balance sheet on the date settled by the institution; and accounting of gain or loss on disposal. In case of application of settlement date accounting, the institution accounts for the changes that occur in the fair value of the asset in the period between commercial trade date and settlement date as in the assets that the institution settles.

Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Changes in fair value of assets to be received during the period between the trade date and the settlement date are accounted for in the same way as the acquired assets.

Fair value differences are not accounted for assets carried at cost or amortized cost; gain or loss of financial assets at fair value through profit and loss are reflected in the statement of income; gain or loss of available for sale assets are accounted for under the shareholders' equity.

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS

## **İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.**

### **UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION) AT 31 DECEMBER 2017 (Continued)**

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

#### **SECTION THREE (Continued)**

##### **EXPLANATIONS ON ACCOUNTING POLICIES (Continued)**

##### **VII. Explanations and Disclosures on Financial Assets (Continued)**

The methods and assumptions used in determining the reasonable estimated values of all of the financial instruments are mentioned below.

###### *Cash, Banks, and Other Financial Institutions*

Cash and cash equivalents comprise cash on hand, demand deposits, and highly liquid short-term investments with maturity of 3 months or less following the purchase date, not bearing risk of significant value change, and that are readily convertible to a known amount of cash. The carrying values of these assets approximate their fair values.

###### *Financial Assets at Fair Value through Profit and Loss*

These transactions are classified in two categories. (i) Trading securities for the purposes of short term profit taking through sale and buying back in a near future. (ii) The financial assets which are classified as financial assets at fair value through profit or loss by the Bank at inception. The Bank uses such classification above when permitted or for the purposes of providing a more proper disclosure.

In this group, trading securities are initially recognized at cost and measured at fair value on the financial statements. Fair values of debt securities that are traded in an active market are determined based on quoted prices. Securities that are not traded in organized markets and whose fair value can not be determined reliably are reflected in the financial statements after the provision for impairment losses is deducted.

The difference between initial cost and fair value of financial assets at fair value through profit and loss is reflected to interest income or diminution in value of marketable securities accounts. As explained in detail in Section Six: "Other Explanations and Notes", the realized gains and losses and related interest income/expense accruals of these securities are recorded in related income statement accounts, unless the securities belong to problematic securities intermediary members.

###### *Held to Maturity Investments*

Investments held to maturity include securities with fixed or determinable payments and fixed maturity where there is an intention of holding till maturity and the relevant conditions for fulfilment of such intention, including the funding ability. This portfolio excludes loans and receivables. After initial recognition held to maturity investments are measured at amortized cost by using effective interest rate less impairment losses, if any.

Interest income gained from held to maturity investments are accounted for as interest income in income statement.

###### *Available for Sale Financial Assets*

Available for sale financial assets comprise from all of the securities except originated loans and receivables, held to maturity investments and trading assets. These assets are initially recognized at cost including the transaction costs. The interest income related to securities with fixed and variable interest under available for sale financial assets are recorded in interest income.

After the initial recognition, available for sale securities are measured at fair value and the unrealized gain/loss originating from the difference between the amortized cost and the fair value is recorded in "Marketable Securities Value Increase Fund" under the equity. At the disposal of available for sale financial assets, value increase/decrease that are recorded in the securities value increase fund under equity are transferred to income statement.

Available-for-sale equity securities that have a quoted market price in an active market and whose fair values can be reliably measured are carried at fair value. Available-for-sale equity securities that do not have a quoted market price in an active market and whose fair values cannot be reliably measured are carried at cost, less provision for impairment.

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS

**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.**  
**UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)**  
**AT 31 DECEMBER 2017 (Continued)**

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

**SECTION THREE (Continued)**

**EXPLANATIONS ON ACCOUNTING POLICIES (Continued)**

**VII. Explanations and Disclosures on Financial Assets (Continued)**

*Loans and Specific Provisions*

Loans are financial assets which have fixed payment terms and are not traded in an active market.

Loans are initially recognized at cost and measured at amortized cost by using effective interest rate. The duties, charges and other expenses paid for the collaterals obtained against loans are accepted as transaction costs and reflected to customers.

In case of the evidences regarding the uncollectibility of the loans given, the Bank classifies these and allocates provision in accordance with the regulations and accounts them in the related period’s profit/loss accounts. The collections made related to loans for which provision is made in the current period are offset in “Provision for Loans and Other Receivables” and “Interest Received from Non-performing Loans” account. As per the Bank management’s evaluation of the loan book, there is a provision set for the loans and other receivables that may be doubtful or uncollectible in accordance with the related regulations.

**VIII. Explanations on Impairment of Financial Assets**

At each balance sheet date, the Bank evaluates the carrying amounts of its financial asset or a group of financial assets to determine whether there is an objective indication that those assets have suffered an impairment loss. If any such indication exists, the Bank determines the related impairment.

A financial asset or a financial asset group incurs impairment loss only if there is an objective indicator related to the occurrence of one or more than one event (“loss event”) after the initial recognition of that asset; and such loss event (or events) causes, an impairment as a result of the effect on the reliable estimate of the expected future cash flows of the related financial asset and asset group. Irrespective of high probability the expected losses for future events are not recognized. The explanations on impairment of loans and receivables have been disclosed in Section three, footnote no. VIII.

**IX. Explanations on Offsetting of Financial Assets and Liabilities**

Financial assets and liabilities are offset when the Bank has a legally enforceable right to set off, and when the Bank has the intention of collecting or paying the net amount of related assets and liabilities or when the Bank has the right to offset the assets and liabilities simultaneously. Otherwise, no offsetting is made with respect to financial assets and liabilities.

**X. Explanations on Sales and Repurchase Agreements and Lending of Securities**

Repurchase agreements are classified as their purposes on the securities portfolio and evaluated by the principals of the portfolio which they belong to. The Bank has no repurchase transaction as of the balance sheet date.

Receivables from reverse repurchase agreements are accounted for under “Receivables from Reverse Repurchase Agreements” account in the balance sheet. The difference between purchase and sale price determined by these agreements is accrued over the life of agreements according to effective interest rate method.

**XI. Explanations on Assets Held for Sale and Discontinued Operations**

Assets which satisfy to be classified as held for sale are measured by the lower of carrying value and fair value less costs to sell and these assets are not amortized; and are separately presented in the financial statements. For an asset (or else the group of assets) to be classified as held for sale; the asset should be ready for immediate sale in frequently seen and accustomed terms and the probability of sale should be high. For the probability of sale to be high, appropriate level of management should have made a plan for the sale of the asset (or else the group of assets) and a program should have been initiated in order to determine buyers as well as complete the plan. Also the asset (or else the group of assets) shall be actively marketed in conformity with its fair value. On the other hand, the sale is expected to be journalized as a completed sale within one year after the classification date; and the necessary transactions and procedures to complete the plan should demonstrate the fact that the possibility of making significant changes or cancelling the plan is low. Certain events and conditions may extend the duration of completion of sale to more than one year.

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#### AT 31 DECEMBER 2017 (Continued)

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

#### SECTION THREE (Continued)

##### EXPLANATIONS ON ACCOUNTING POLICIES (Continued)

##### XI. Explanations on Assets Held for Sale and Discontinued Operations (Continued)

If such delay arises from any events and conditions beyond the control of the entity and if there is sufficient evidence that the entity has an ongoing disposal plan for these assets, such assets (or else group of assets) are continued to be classified as assets held for sale (or else group of assets). A discontinued operation is a division of a bank that is either disposed or held for sale. Results of discontinued operations are included in the income statement separately.

The Bank has no assets held for sale as of the balance sheet date. The Bank has no discontinued operations during the period.

##### XII. Explanations on Goodwill and Other Intangible Assets

As of the balance sheet date, there is no goodwill in the accompanying non-consolidated financial statements of the Bank.

The intangible assets which have been bought before 1 January 2005 are amortized based on historical cost which has been revised according to inflation effects dated 31 December 2004 and the items which have been bought in the following dates are amortized based on purchase cost with the allocation of accumulated depreciation and impairments. The intangible assets are amortized based on straight line amortization regarding useful life periods. The amortization method and period are revised periodically every year.

Intangible assets of the Bank are basically software license costs. There is no criteria applied for determination of amortization period of those assets, but Turkish Tax Legislations have been taken into consideration. Economic useful life of assets acquired before 2004 is determined as 5 years, and the assets acquired in 2004 and in the following periods is determined as 3 years. Economic useful lives determined are in accordance with the criteria stated in the Turkish Accounting Standards-TAS 38-Intangible Assets. Computer programs widely used in the Bank are generated within the Bank by the personnel of the Bank, and the expenses related to those assets are not capitalized. Computer software is only purchased in case of urgent need and special projects.

Within the scope of the agreement made between Borsa İstanbul and NASDAQ, new BISTECH technology, which was developed under Borsa İstanbul's processing system; data distribution; index calculation; market surveillance; reporting systems; and also the Bank's swap and risk management systems were put into effect on 30 November 2015. BISTECH technology was first carried into effect in the Borsa İstanbul Equity Market. In the following phases of the project, the Derivatives Market, Debt Securities Market, Precious Metals and Diamonds Markets, E-Warehouse Receipt, and OTC processing systems will be carried into effect. In the evaluation conducted with Borsa İstanbul, it was determined that NASDAQ software has a useful life of 20 years. Since the project's second of three phases was completed, depreciation is allocated over a 20 year period for two-third of the software's price.

##### XIII. Explanations on Tangible Assets

Tangible fixed assets are initially recognized at acquisition cost and any other cost incurred so as to get the fixed asset ready for use.

Tangible fixed assets are depreciated with straight-line method. Tangible fixed assets are depreciated with the rates determined by the Ministry of Finance based on useful lives. These useful lives are in line with the criteria stated in "TAS 16 - Tangible Assets" released by Turkish Accounting Standards Board. Depreciation Rates for Tangible Fixed Assets are as following:

	Estimated Useful Life (Year)	Depreciation Rate
Buildings	50	2%
Furniture, Fixture and Office Equipment	4-15	6.67% - 25%
Other Tangible Fixed Assets	2-16	6.67% - 50%

Tangible fixed assets are accounted for at cost less accumulated depreciation and impairment, if any. Along with the statement of the property and equipment, the effects of any revaluation according to related regulations are eliminated.

Gain or loss resulting from disposals of the tangible fixed assets is reflected to the income statement as the difference between the net proceeds and net book value.

Maintenance costs of tangible fixed assets are capitalized if they extend the economic useful life of related assets. Other maintenance costs are expensed. There are no pledges, mortgages or other restrictions on the tangible fixed assets.

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**AT 31 DECEMBER 2017 (Continued)**

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

**SECTION THREE (Continued)**

**EXPLANATIONS ON ACCOUNTING POLICIES (Continued)**

**XIV. Explanations on Leasing Transactions**

The Bank as Lessor:

The Bank does not have any leasing transactions as lessor.

The Bank as Lessee:

The Bank does not have any assets which are acquired by financial leasing as of the balance sheet date. Transactions related to the operating lease are accounted according to related contractual provisions and accrual basis.

**XV. Explanations on Provisions and Contingent Liabilities**

Provisions are recognized when there is a present obligation due to a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made on the amount of the obligation. Provisions are determined by using the Bank’s best expectation of expenses in fulfilling the obligation, and discounted to present value if material.

**XVI. Explanations on Liabilities Regarding Employee Benefits**

Defined Benefit Plans

In accordance with existing social legislation in Turkey, the Bank is required to make lump-sum termination indemnities over a 30 day salary to each employee who has completed over one year of service, whose employment is terminated due to retirement or for reasons other than resignation or misconduct, and due to marriage, female employees terminating their employments within a year as of the date of marriage, or male employees terminating their employments due to their military service. The Bank is also required to make a payment for the period of notice calculated over each service year of the employee whose employment is terminated for reasons other than resignation or misconduct. Total benefit is calculated in accordance with TAS No: 19 “Turkish Accounting Standard on Employee Benefits”.

Such benefit plans are unfunded since there is no funding requirement in Turkey. The cost of providing benefits to the employees for the services rendered by them under the defined benefit plan is determined by independent actuaries annually using the projected unit credit method.

In calculating the related liability to be recorded in the financial statements for these defined benefit plans, the Group uses independent actuaries and also makes assumptions and estimation relating to the discount rate to be used, turnover of employees, future change in salaries/limits, etc. These estimations are audited annually. The carrying value of provision for employee termination benefits as of 31 December 2017 is TL 5,900 (31 December 2016: TL 7,384).

Communiqué on “Turkish Accounting Standard (TAS19) about Benefits for Employee (No: 9)” published in Official Gazette by Public Oversight Accounting and Auditing Standards Authority (POA) on 12 March 2013 numbered 28585, was entered into force for the account periods starting after 31 December 2013 on accounting treatment of actuarial profit and loss resulting from changes in actuarial assumptions or differences between actual and actuarial assumptions. For the period of 1 January – 31 December 2017, actuarial gain after deferred tax effect amounting to TL 1,205 (31 December 2016: TL 116 actuarial loss) was classified as “Other Capital Reserves”.

**Explanations on Taxation**

Income tax expense represents the sum of the current tax payable and deferred tax.

The current tax payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Bank’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit at enacted tax rates, and it is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

The carrying amount of a deferred tax asset shall be reviewed at the end of the reporting period. The carrying amount of a deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

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#### **AT 31 DECEMBER 2017 (Continued)**

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

#### **SECTION THREE (Continued)**

#### **EXPLANATIONS ON ACCOUNTING POLICIES (Continued)**

#### **XVI. Explanations on Liabilities Regarding Employee Benefits (Continued)**

##### **Explanations on Taxation (Continued)**

Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled is recognized in income statement as income or expense. Deferred tax that relates to items that are recognized directly in equity, in the same or a different period, is recognized directly in equity. Deferred tax assets and liabilities are netted off.

The current taxes payable and advance taxes are offset since they relate to each other.

The Bank has adjusted its statutory financial statements with inflation accounting as of 1 January 2004 in accordance with Law No. 298.

Some modifications have been made in the tax legislation with Law 4842 published in the Official Gazette number 25088 on 24 April 2003. Under these modifications, investment and development banks, which are not allowed to accept deposit, are allowed to deduct loan loss provisions from the tax base in accordance with item 2 of the article 20 of Banking Law and the amendment introduced by the article 35 of the Law numbered 4842.

##### *Current Tax*

The corporate tax rate of 20% implementation on the Corporate Tax Law No. 5520 was taken into effect on 1 January 2006 after being published in the Official Gazette dated 21 June 2006 numbered 26205, will be applied as 22% for corporation earnings for three years from 1 January 2018 with the regulation dated 28 November 2017 numbered 7061. Furthermore, council of ministers has the authority to decrease this ratio to 20% from 22%. The bank applies new regulations to its current and deferred tax responsibilities. The corporate tax rate is calculated on the total income of the Bank after adjusting for certain disallowable expenses, exempt income (like affiliate gains) and other allowances. If there is no dividend distribution, no further tax charges are made.

Dividends paid to non-resident corporations, which have a place of business or permanent attorney in Turkey or to resident corporations are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 15%. An increase in capital via issuing bonus shares is not considered as profit distribution and no withholding tax incurs in such a case.

Corporations are required to pay advance corporate tax quarterly at a rate of 22% on their corporate income. Advance tax is declared by the 14th and paid by the 17th day of the second month following each calendar quarter end. Advance tax paid by corporations for the current period is credited against the annual corporation tax calculated on the annual corporate income in the following year. Despite the offset, if there is temporary prepaid tax remaining, this balance can be refunded or used to offset any other financial liabilities to the government.

According to 5.1.e. article of Corporation Tax Law which is important tax exemption that is applied by banks, corporations' 50% of revenues that occur from selling of their real estates, are in assets, that belong to the corporations at least two years (730 days), 75% of revenues that occur from selling their founding bonds that are belong to the corporations as long as time of participation stocks, redeemed shares and option to call are exempted from Corporation Tax. (It was changed with 89th article of code 7061 that entries into force in 5 December 2017. According to dated 23 December 2017 3rd article of Corporation Tax Code (CTC) 14 annunciation this exemption will apply as ratio of 75% for selling that made till the 5 December 2017, after this date it will apply as ratio of 50%).

This exemption applies to the period the sale is made and the part of return on sales that benefits from the exemption is held in a special fund in the liabilities account until the end of the fifth year started from the following year sale is made. However, the sales payment must be collected until the end of the second calendar year following the year in which the sale is made. Taxes which are not realized in time due to the exemption that hits uncollected sales payment are considered tax loss.

Taxes which does not accrue on time because the applying exemption for the transfer of the exempted part of revenue to the other accounts with other ways out of capitalizing in five years or withdrawn from company or transferring from limited taxpayer corporations to the headquarters, are considered as tax loss. This is also be applicable in the condition of liquidation of business (Except transfers and divisions that make according to this code).

Moreover, according to 5.1.f. article of Corporation Tax Law; corporations which have been fallen to legal proceedings because of owe to the bank or Savings Deposit Insurance Funds, and their warranters' real estates, participation stocks, founding bonds, redeemed shares, options to call of mortgagors' revenues that used for against debts or transferring to SDIF, 75% of real estates, and 50% others are exempted from Corporation tax (It was changed with 89th article of code 7061 that entries into force in 5 December 2017. According to dated 23 December 2017 3rd article of Corporation Tax Code (CTC) 14 annunciation this exemption will apply as ratio of 75% for selling that made till the 5 December 2017, after this date it will apply as ratio of 50%).

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**SECTION THREE (Continued)**

**EXPLANATIONS ON ACCOUNTING POLICIES (Continued)**

**XVII. Explanations on Liabilities Regarding Employee Benefits (Continued)**

**Explanations on Taxation (Continued)**

Under the Turkish Corporate Tax Law, losses can be carried forward to offset against future taxable income for up to five years. Losses cannot be carried back to offset profits from previous periods.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments with tax authorities. Tax returns are required to be filled and delivered to the related tax office until the evening of the 25th of the fourth month following the balance sheet date and the accrued tax is paid until the end of the same month. Tax returns are open for 5 years from the beginning of the year following the balance sheet date and during this period the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

Deferred tax is calculated on the tax rates applicable in the period when assets are made or liabilities are fulfilled or on those which are almost certain to be effective; and it is recorded as income or expense in the income statement. Moreover, deferred tax is recognised directly on equity accounts if it is related to the assets directly associated with the equity in the same or another period. Corporate Tax Law has been amended with Article 91 of the Law, No. 7061 effective upon promulgation in the Official Gazette, No. 30261, dated 5 December 2017; and the corporate tax levied on the corporate income has been increased from 20% to 22% to be applied for the income belonging to 2018, 2019 and 2020. The Bank calculates deferred tax at the relevant rates considering the periods in which deferred tax assets and liabilities will be fulfilled.

**XVIII. Additional Explanations on Funds Borrowed**

The Bank has not issued any convertible bonds.

The Bank has not also issued any borrowing instruments.

*Cash Warrants Received:*

BİAŞ Guarantee Fund, BİAŞ Loan and Share Market, Takasbank Money Market, Loan Share Market, Derivatives Exchange Market, Electricity Market, Leveraged call-put transactions and Warrant Deputy (OPIC) cash warrant amounts are tracked in asset side under banks account, in liability side under various liabilities account. These funds provide creditor members not to be affected in case debtor members may undergo cash default. Cash warrant mechanisms are created in order to provide continuous cash flow in the market by tracking payments to be made in time and in full amounts.

**XIX. Explanations on Issuance of Equity Securities**

The Bank does not have any shares issued in the current period.

**XX. Explanations on Acceptances**

The Bank performs acceptances with its customers simultaneously and follows them in off balance sheet liabilities.

The Bank has no acceptances that have been included as a liability against an asset.

**XXI. Explanations on Government Incentives**

There are no government incentives utilized by the Bank as of the balance sheet date.

**EXPLANATIONS ON ACCOUNTING POLICIES (Continued)**

**XXII. Explanations on Segment Reporting**

Operational segment is distinguishable section of the Bank that has different characteristics from other operational segments per earning and conducts the presentation of service group, associated bank products or a unique product. Reporting on operating segments is disclosed in Note XI in Section Four.

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

#### **SECTION THREE (Continued)**

#### **EXPLANATIONS ON ACCOUNTING POLICIES (Continued)**

##### **XXIII. Related Parties**

For the purpose of these financial statements, key management personnel and board members are referred to as related parties in accordance with "Turkish Accounting Standard for Related Parties" in the Article 49 of the Banking Act No: 5411. The transactions with related parties are disclosed in detail in Note V of Section Five.

##### **XXIV. Cash and Cash Equivalents**

For the purposes of the preparation of statement of cash flows, "Cash" includes cash, effectives, and cash in transit, purchased cheques and demand deposits including balances with the Central Bank; and "Cash equivalents" include interbank money market placements and time deposits at banks with original maturity periods of less than three months.

##### **XXV. Reclassifications**

In order to comply with the current period presentation of the financial statements, comparative figures have been reclassified to conform to changes in presentation in the current period, when necessary.

##### **XXVI. Explanations on Other Matters**

##### **TFRS 9 Financial Instruments**

The last version of TFRS 9 "Financial Instruments" Standard published in January 2017 by POA, has changed the existing guidance on TAS 39 "Financial Instruments: Recognition and Measurement" and moved the implementations about accounting, classification, measurement and off balance sheet of financial instruments to TFRS 9. The latest version of TFRS 9 includes guidance issued in previous versions of TFRS 9, including the new application of the expected credit loss model for the calculation of impairment in financial assets, as well as updated applications for new general hedge accounting requirements. TFRS 9 is put into force on 1 January 2018. In this context, banks have become obliged to apply TFRS 9 as of 1 January 2018 with the "Regulation on Procedures and Principles for Classification of Loans and Provisions to be Issued" of the BRSA published in the Official Gazette dated 22 June 2016 and numbered 29750:

##### **Classification and measurement of financial instruments**

##### **Financial assets:**

TFRS 9 contains a new approach regarding the classification and measurement of financial assets that reflects the business model in which the assets are managed and their cash flow characteristics. TFRS 9 contains three main categories of classification for financial assets: valued at amortized cost, valued at fair value with changes in other comprehensive income, and valued at fair value through profit or loss.

It is anticipated that the financial assets valued at fair value through profit or loss will continue to be measured at fair value. On the other hand, there might be classifications among the financial assets classified as financial assets valued at amortized cost or valued at fair value with changes in other comprehensive income depending on the characteristics of their business models.

Loans and receivables are held to collect contractual cash flows and such cash flows consist of principal and interest collections. The Bank analysed contractual cash flow characteristics of these financial instruments and decided to classify such instruments as financial assets valued at amortised cost. Accordingly, it shall not be possible to classify these financial instruments into a different category.

Based on the analysis carried out up until today, the Bank considers that the new classification requirements under TFRS 9 will not have a significant impact on the balance sheet of the Bank.



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#### SECTION THREE (Continued)

##### EXPLANATIONS ON ACCOUNTING POLICIES (Continued)

##### XXVI. Explanations on Other Matters (Continued)

###### Financial Liabilities:

TFRS 9 maintains the requirements in TAS 39 for the classification of financial liabilities except for allowing accounting of the fair value changes occurred as a result of changes in a financial liability’s own credit risk under other comprehensive income for the liabilities designated for fair value option (applicable for instances not affecting the accounting mismatch at large extent). Based on the evaluation of the Bank, it is not anticipated a significant impact regarding accounting of financial liabilities based on the scope of TFRS 9.

A significant impact is not expected within the scope of TFRS 9 financial liabilities.

###### Impairment

TFRS 9 replaces the “incurred losses” model in TAS 39 with a model of “expected credit loss”. The new standard establishes three stages impairment model (general model) based on the change in credit quality subsequent to initial recognition.

Stage 1: Includes financial assets not having significant increase in their credit risk from initial recognition till the following reporting date or financial assets having low credit risk at the reporting date. It is recognized 12-month expected credit losses for such financial assets.

Stage 2: Includes financial assets having significant increase in their credit risk subsequent to the initial recognition, but not having objective evidence about impairment. It is recognized life time expected credit losses for such financial assets.

Stage 3: Includes financial assets having objective evidence about impairment at the reporting date. It is recognized life time expected credit losses for such financial assets.

The matters which have the most significant impact on TFRS 9 implementation and may change impairment calculations considerably are presented below:

- Assessment of under which conditions there may be significant increase in credit risk
- Macroeconomic factors, forward looking information and multiple scenarios
- Maximum contractual period over which it is exposed to credit risk to be considered during measurement of expected credit losses
- Definition of default

On 5 January 2018, the Bank was exempted from the part of the TFRS 9 standard for impairment with the approval of 32521522-101.02.01 [15] -E.226 from the BRSA. In the following periods, whether the Bank will use this exemption that it has received will be assessed by senior management.

###### Rectification of hedge accounting

TFRS 9 also includes new hedge accounting rules regarding alignment of the risk management strategies with hedge accounting. During selection of the accounting policies, TFRS 9 gives option of continuing with TAS 39 Hedge accounting principles and deferring hedge accounting rules in accordance with TFRS 9.

#### SECTION FOUR

##### INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT

###### I. Explanations Related to Components of Shareholders’ Equity

The method used for risk measurement in determining capital adequacy standard ratio; Capital Adequacy Standard Ratio is calculated in accordance with the Communiqué on “Measurement and Assessment of Capital Adequacy of Banks”.

The Bank’s current period equity capital is TL 1,191,401 (31 December 2016 TL 985,064), capital adequacy standard ratio is 15.23% (31 December 2016: 22.81%). Bank’s capital adequacy standard ratio is above the minimum rate defined by legislation.

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**SECTION FOUR (Continued)****INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)****I. Explanations Related to Components of Shareholders' Equity (Continued)****Summary information related to the capital shareholders' equity:**

	Current Period	Amount related to treatment before 1/1/2014 <sup>(1)</sup>
<b>Common Equity Tier 1 Capital</b>		
Paid-in Capital to be Entitled for Compensation after All Creditors	600,000	
Share Premium	33,019	
Reserves	333,462	
Gains Recognized in Equity as per TAS	-	
Profit	279,781	
Current Period Profit	276,371	
Prior Period Profit	3,410	
Bonus Shares from Associates, Subsidiaries and Joint-Ventures not Accounted in Current Period's Profit	-	
<b>Common Equity Tier 1 Capital Before Deductions</b>	<b>1,246,262</b>	
<b>Deductions from Common Equity Tier 1 Capital</b>		
Valuation adjustments calculated as per the (i) item of first paragraph of Article 9 of the Regulation on Bank Capital	-	
Current and Prior Periods' Losses not Covered by Reserves, and Losses Accounted under Equity according to TAS (-)	-	
Leasehold Improvements on Operational Leases	80	
Goodwill netted off deferred tax liability	-	
Other intangible assets netted off deferred tax liabilities except mortgage servicing rights	78,476	98,095
Deferred tax assets that rely on future profitability excluding those arising from temporary differences net of related tax liability	-	
Differences are not recognized at the fair value of assets and liabilities subject to hedge of cash flow risk Communiqué Related to Principles of the amount credit risk calculated with the Internal Ratings Based Approach, total expected loss amount exceeds the total provision	-	
Gains arising from securitization transactions	-	
Unrealized gains and losses due to changes in own credit risk on fair value of Bank's liabilities	-	
Net amount of defined-benefit plan assets	-	
Direct and indirect investments of the Bank in its own Tier 1 Capital	-	
Excess amount expressed in the law Article 56 4th paragraph	-	
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible long positions, where the bank does not own more than 10% of the issued share capital amount above 10% threshold	-	
Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible long positions amount above 10% threshold of Tier 1 Capital	-	
Mortgage servicing rights amount above 10% threshold of Tier 1 Capital	-	
Deferred tax assets arising from temporary differences amount above 10% threshold, net of related tax liability	-	
Amounts exceeding 15% of Tier 1 Capital according to Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks 2nd article temporary second paragraph	-	
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible long positions, where the bank does not own more than 10% of the issued common share capital of the entity amount above 10% threshold	-	
Amounts related to mortgage servicing rights	-	
Excess amount of deferred tax assets from temporary differences	-	
Other Items Determined by BRSA	3,860	
Deductions to be made from common equity due to insufficient Additional Tier I Capital or Tier II Capital	-	
<b>Total Deductions from Common Equity Tier 1 Capital</b>	<b>82,416</b>	
<b>Total Common Equity Tier 1 Capital</b>	<b>1,163,846</b>	

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**SECTION FOUR (Continued)**
**INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)**
**I. Explanations Related to Components of Shareholders’ Equity (Continued)**

	Current Period	Amount related to treatment before 1/1/2014 <sup>(1)</sup>
<b>Additional Tier 1 Capital</b>	-	
Preferred Stock not Included in Common Equity and the Related Share Premiums	-	
Debt instruments and premiums approved by BRSA	-	
Debt instruments and premiums approved by BRSA (Temporary Article 4)	-	
<b>Additional Tier 1 Capital before deductions</b>	-	
<b>Deductions from Additional Tier 1 Capital</b>	-	
Bank’s direct or indirect investment on its own Tier 1 Capital	-	
Investments in equity instruments issued by banks or financial institutions invested in Bank’s additional Tier I Capital which are compatible with the article 7 of the regulation	-	
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of Common Equity Tier 1 Capital	-	
The Total of Net Long Position of the Direct or Indirect Investments in Additional Tier 1 Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital	-	
Other Items Determined by BRSA	-	
<b>Items to be deducted from Tier I Capital during the Transition Period</b>	-	
Goodwill and other intangible assets and related deferred tax liabilities which will not deducted from Common Equity Tier 1 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Bank Capital (-)	19,619	
Net deferred tax asset/liability which is not deducted from Common Equity Tier 1 capital for the purposes of the sub-paragraph of the Provisional Article 2 of the Regulation on Bank Capital (-)	-	
The amount to be deducted from Additional Tier 1 Capital (-)	-	
<b>Total Deductions from Additional Tier 1 Capital</b>	<b>19,619</b>	
<b>Total Additional Tier 1 Capital</b>	<b>19,619</b>	
<b>Total Tier 1 Capital (Tier 1 Capital=Common Equity+Additional Tier 1 Capital)</b>	<b>1,144,227</b>	
<b>Tier 2 Capital</b>	-	
Debt instruments and premiums approved by BRSA	-	
Debt instruments and premiums approved by BRSA (Temporary Article 4)	-	
Provisions (Amounts stated in the first paragraph of the article 8 of the Regulation on the Bank Capital)	48,139	
<b>Tier 2 Capital Before Deductions</b>	<b>48,139</b>	
<b>Deductions From Tier 2 Capital</b>	-	
Bank’s direct or indirect investment on its own Tier 2 Capital (-)	-	
Investments in equity instruments issued by banks and financial institutions invested in Bank’s Tier II Capital which are compatible with Article 8 of the regulation	-	
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of Common Equity Tier 1 Capital (-)	-	
The Total of Net Long Position of the Direct or Indirect Investments in Additional Core Capital and Tier 2 Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital Exceeding the 10% Threshold of Tier 1 Capital	-	
Other Items Determined by BRSA (-)	965	
<b>Total Deductions From Tier 2 Capital</b>	<b>965</b>	
<b>Total Tier 2 Capital</b>	<b>47,174</b>	

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS

**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.****UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)  
AT 31 DECEMBER 2017 (Continued)**

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

**SECTION FOUR (Continued)****INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)****I. Explanations Related to Components of Shareholders' Equity (Continued)**

	Current Period	Amount related to treatment before 1/1/2014 <sup>(1)</sup>
<b>Total Capital (The sum of Tier 1 and Tier 2 Capital)</b>	<b>1,191,401</b>	
<b>The sum of Tier 1 Capital and Tier 2 Capital (Total Capital)</b>	<b>1,191,401</b>	
Loan granted to Customer against the Articles 50 and 51 of the Banking Law	-	
Net Book Values of Immovables Exceeding 50% of the Equity and of Assets Acquired against Overdue Receivables and Held for Sale as per the Article 57 of the Banking Law but Retained More Than Five Years	-	
Other items to be defined by the BRSA	-	
<b>Items to be deducted from the sum of Tier I and Tier II Capital ("Capital") during the Transition Period</b>	<b>-</b>	
Portion of the total of net long positions of investments made in Common Equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or less of the issued common share capital exceeding 10% of Common Equity of the Bank not to be deducted from the Common Equity, Additional Tier 1 Capital, Tier 2 Capital as per the 1st clause of the Provisional Article 2 of the Regulation on the Equity of Banks	-	
Portion of the total of net long positions of direct or indirect investments made in Additional Tier 1 and Tier 2 Capital items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital exceeding 10% of Common Equity of the Bank not to be deducted from the Additional Tier 1 Capital and Tier 2 Capital as per the 1st clause of the Provisional Article 2 of the Regulation on the Equity of Banks	-	
Portion of the total of net long positions of investments made in Common Equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital, deferred tax assets based on temporary differences and mortgage servicing rights not deducted from Common Equity as per the 1st and 2nd Paragraph of the 2nd clause of the Provisional Article 2 of the Regulation on the Equity of Banks	-	
<b>Total Capital</b>	<b>1,191,401</b>	
Total Capital (Sum of Tier 1 and Additional Tier1)	<b>1,191,401</b>	
Total Risk Weighted Assets	7,825,093	
<b>Capital Adequacy Ratios</b>	<b>-</b>	
Common Equity Tier 1 Capital Adequacy Ratio (%)	14.87	
Tier 1 Capital Adequacy Ratio (%)	14.62	
Capital Adequacy Ratio (%)	15.23	
<b>Buffers</b>	<b>-</b>	
Total buffer requirement (a+b+c)	1.250	
a) Capital conservation buffer requirement (%)	1.250	
b) Bank specific counter-cyclical buffer requirement (%)	-	
c) Systemically important banks buffer ratio (%)	-	
The ratio of Additional Common Equity Tier 1 capital to Risk Weighted Assets calculated based on the first paragraph of the Article 4 of Regulation on Capital Conservation and Countercyclical Capital buffers (%)	-	
<b>Amounts below the Excess Limits as per the Deduction Principles</b>	<b>-</b>	
Amounts arising from the net long positions of investments made in Total Capital items of banks and financial institutions where the Bank owns 10% or less of the issued common share capital	-	
Amounts arising from the net long positions of investments made in Tier 1 Capital items of banks and financial institutions where the Bank owns 10% or more of the issued common share capital	-	
Mortgage servicing rights	-	
Deferred tax assets arising from temporary differences (net of related tax liability)	-	
<b>Limits related to provisions considered in Tier 2 Calculation</b>	<b>-</b>	
General provisions for standard based receivables (before ten thousand twenty five limitation)	48,139	
Up to 1.25% of total risk-weighted amount of general reserves for receivables where the standard approach used	48,139	
Excess amount of total provision amount to credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation	-	
Excess amount of total provision amount to 0.6% of risk weighted receivables of credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation	-	
<b>Debt instruments subjected to Article 4 (to be implemented between 1 January 2018 and 1 January 2022)</b>	<b>-</b>	
Upper limit for Additional Tier 1 Capital subjected to temporary Article 4	-	
Amounts Excess the Limits of Additional Tier 1 Capital subjected to temporary Article 4	-	
Upper limit for Additional Tier 2 Capital subjected to temporary Article 4	-	
Amounts Excess the Limits of Additional Tier 2 Capital subjected to temporary Article 4	-	

<sup>(1)</sup> The amounts to be taken into account at the end of the transition period are shown for the items subject to the transition provisions under the Provisional Articles of the "Regulation on Shareholders' Equity of Banks".

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS

## İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.

### UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)

#### AT 31 DECEMBER 2017 (Continued)

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

#### SECTION FOUR (Continued)

#### INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

#### I. Explanations Related to Components of Shareholders' Equity (Continued)

	Prior Period	Amount related to treatment before 1/1/2014 <sup>(1)</sup>
<b>Common Equity Tier 1 Capital</b>		
Paid-in Capital to be Entitled for Compensation after All Creditors	600,000	
Share Premium	33,019	
Reserves	196,069	
Gains Recognized in Equity as per TAS	-	
Profit	214,975	
Current Period Profit	211,565	
Prior Period Profit	3,410	
Bonus Shares from Associates, Subsidiaries and Joint-Ventures not Accounted in Current Period's Profit	-	
<b>Common Equity Tier 1 Capital Before Deductions</b>	<b>1,044,063</b>	
<b>Deductions from Common Equity Tier 1 Capital</b>	<b>-</b>	
Valuation adjustments calculated as per the (i) item of first paragraph of Article 9 of the Regulation on Bank Capital	-	
Current and Prior Periods' Losses not Covered by Reserves, and Losses Accounted under Equity according to TAS (-)	377	
Leasehold Improvements on Operational Leases	-	
Goodwill netted off deferred tax liability	-	
Other intangible assets netted off deferred tax liabilities except mortgage servicing rights	51,003	82,447
Deferred tax assets that rely on future profitability excluding those arising from temporary differences net of related tax liability	-	
Differences are not recognized at the fair value of assets and liabilities subject to hedge of cash flow risk	-	
Communiqué Related to Principles of the amount credit risk calculated with the Internal Ratings Based Approach, total expected loss amount exceeds the total provision	-	
Gains arising from securitization transactions	-	
Unrealized gains and losses due to changes in own credit risk on fair value of Bank's liabilities	-	
Net amount of defined-benefit plan assets	-	
Direct and indirect investments of the Bank in its own Tier 1 Capital	-	
Excess amount expressed in the law Article 56 4th paragraph	-	
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible long positions, where the bank does not own more than 10% of the issued share capital amount above 10% threshold	-	
Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible long positions amount above 10% threshold of Tier 1 Capital	-	
Mortgage servicing rights amount above 10% threshold of Tier 1 Capital	-	
Deferred tax assets arising from temporary differences amount above 10% threshold, net of related tax liability	-	
Amounts exceeding 15% of Tier 1 Capital according to Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks 2nd article temporary second paragraph	-	
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible long positions, where the bank does not own more than 10% of the issued common share capital of the entity amount above 10% threshold	-	
Amounts related to mortgage servicing rights	-	
Excess amount of deferred tax assets from temporary differences	-	
Other Items Determined by BRSA	2,895	
Deductions to be made from common equity due to insufficient Additional Tier I Capital or Tier II Capital	-	
<b>Total Deductions from Common Equity Tier 1 Capital</b>	<b>54,275</b>	
<b>Total Common Equity Tier 1 Capital</b>	<b>989,788</b>	

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS

**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.****UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)  
AT 31 DECEMBER 2017 (Continued)**

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

**SECTION FOUR (Continued)****INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)****I. Explanations Related to Components of Shareholders' Equity (Continued)**

	Prior Period	Amount related to treatment before 1/1/2014 <sup>(1)</sup>
<b>Additional Tier 1 Capital</b>	-	
Preferred Stock not included in Common Equity and the Related Share Premiums	-	
Debt instruments and premiums approved by BRSA	-	
Debt instruments and premiums approved by BRSA (Temporary Article 4)	-	
<b>Additional Tier 1 Capital before deductions</b>	-	
<b>Deductions from Additional Tier 1 Capital</b>	-	
Bank's direct or indirect investment on its own Tier 1 Capital	-	
Investments in equity instruments issued by banks or financial institutions invested in Bank's additional Tier I Capital which are compatible with the article 7 of the regulation	-	
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of Common Equity Tier 1 Capital	-	
The Total of Net Long Position of the Direct or Indirect Investments in Additional Tier 1 Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital	-	
Other Items Determined by BRSA	-	
<b>Items to be deducted from Tier I Capital during the Transition Period</b>	-	
Goodwill and other intangible assets and related deferred tax liabilities which will not deducted from Common Equity Tier 1 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Bank Capital (-)	34,002	
Net deferred tax asset/liability which is not deducted from Common Equity Tier 1 capital for the purposes of the sub-paragraph of the Provisional Article 2 of the Regulation on Bank Capital (-)	-	
The amount to be deducted from Additional Tier 1 Capital (-)	-	
<b>Total Deductions from Additional Tier 1 Capital</b>	<b>34,002</b>	
<b>Total Additional Tier 1 Capital</b>	<b>34,002</b>	
<b>Total Tier 1 Capital (Tier 1 Capital=Common Equity+Additional Tier 1 Capital)</b>	<b>955,786</b>	
<b>Tier 2 Capital</b>	-	
Debt instruments and premiums approved by BRSA	-	
Debt instruments and premiums approved by BRSA (Temporary Article 4)	-	
Provisions (Amounts stated in the first paragraph of the article 8 of the Regulation on the Bank Capital)	31,208	
<b>Tier 2 Capital Before Deductions</b>	<b>31,208</b>	
<b>Deductions From Tier 2 Capital</b>	-	
Bank's direct or indirect investment on its own Tier 2 Capital (-)	-	
Investments in equity instruments issued by banks and financial institutions invested in Bank's Tier II Capital which are compatible with Article 8 of the regulation	-	
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of Common Equity Tier 1 Capital (-)	-	
The Total of Net Long Position of the Direct or Indirect Investments in Additional Core Capital and Tier 2 Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital Exceeding the 10% Threshold of Tier 1 Capital	-	
Other Items Determined by BRSA (-)	1,930	
<b>Total Deductions From Tier 2 Capital</b>	<b>1,930</b>	
<b>Total Tier 2 Capital</b>	<b>29,278</b>	

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS

## İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.

### UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)

#### AT 31 DECEMBER 2017 (Continued)

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

#### SECTION FOUR (Continued)

#### INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

#### I. Explanations Related to Components of Shareholders' Equity (Continued)

	Prior Period	Amount Related to treatment before 1/1/2014 <sup>(1)</sup>
<b>Total Capital (The sum of Tier I Capital and Tier II Capital)</b>	<b>985,064</b>	
<b>The sum of Tier I Capital and Tier II Capital (Total Capital)</b>	985,064	
Deductions from Capital Loans granted contrary to the 50th and 51st Article of the Law	-	
Net Book Values of Movables and Immovables Exceeding the Limit Defined in the Article 57, Clause 1 of the Banking Law and the Assets Acquired against Overdue Receivables and Held for Sale but Retained more than Five Years	-	
Other items to be defined by the BRSA (-)	-	
In transition from Total Core Capital and Supplementary Capital (the capital) to Continue to Download Components	-	
Portion of the total of net long positions of investments made in Common Equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or less of the issued common share capital exceeding 10% of Common Equity of the Bank not to be deducted from the Common Equity, Additional Tier 1 Capital, Tier 2 Capital as per the 1st clause of the Provisional Article 2 of the Regulation on the Equity of Banks	-	
Portion of the total of net long positions of direct or indirect investments made in Additional Tier 1 and Tier 2 Capital items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital exceeding 10% of Common Equity of the Bank not to be deducted from the Additional Tier 1 Capital and Tier 2 Capital as per the 1st clause of the Provisional Article 2 of the Regulation on the Equity of Banks	-	
Portion of the total of net long positions of investments made in Common Equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital, deferred tax assets based on temporary differences and mortgage servicing rights not deducted from Common Equity as per the 1st and 2nd Paragraph of the 2nd clause of the Provisional Article 2 of the Regulation on the Equity of Banks	-	
<b>TOTAL CAPITAL</b>	<b>985,064</b>	
Total Capital (The sum of Tier I Capital and Tier II Capital)	985,064	
Total risk weighted amounts	4,319,284	
<b>CAPITAL ADEQUACY RATIOS</b>		
Core Capital Adequacy Ratio (%)	22.92	
Tier 1 Capital Adequacy Ratio (%)	22.13	
Capital Adequacy Ratio (%)	22.81	
<b>BUFFERS</b>		
Total buffer requirement (a+b+c)	-	
a) Capital conservation buffer requirement (%)	0.625	
b) Bank specific counter-cyclical buffer requirement (%)	0.625	
c) Systemically important banks buffer ratio (%)	-	
The ratio of Additional Common Equity Tier 1 capital to Risk Weighted Assets calculated based on the first paragraph of the Article 4 of Regulation on Capital Conservation and Countercyclical Capital buffers (%)	-	
Amounts below the Excess Limits as per the Deduction Principles	-	
Amounts arising from the net long positions of investments made in Total Capital items of banks and financial institutions where the Bank owns 10% or less of the issued common share capital	-	
Amounts arising from the net long positions of investments made in Tier 1 Capital items of banks and financial institutions where the Bank owns 10% or more of the issued common share capital	-	
Mortgage servicing rights	-	
Deferred tax assets arising from temporary differences (net of related tax liability)	-	
Limits related to provisions considered in Tier II calculation	-	
General provisions for standard based receivables (before limit of one hundred and twenty five per ten thousand)	31,208	
Up to 1.25% of total risk-weighted amount of general reserves for receivables where the standard approach used	390	
Excess amount of total provision amount to credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation	-	
Excess amount of total provision amount to 0.6% of risk weighted receivables of credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation	-	
<b>Debt instruments subjected to Article 4 (to be implemented between 1 January 2018 and 1 January 2022)</b>	-	
Upper limit for Additional Tier I Capital subjected to temporary Article 4	-	
Amounts Excess the Limits of Additional Tier I Capital subjected to temporary Article 4	-	
Upper limit for Additional Tier II Capital subjected to temporary Article 4	-	
Amounts Excess the Limits of Additional Tier II Capital subjected to temporary Article 4	-	

<sup>(1)</sup> The amounts to be taken into account at the end of the transition period are shown for the items subject to the transition provisions under the Provisional Articles of the "Regulation on Shareholders' Equity of Banks".

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS

## **İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.**

### **UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION) AT 31 DECEMBER 2017 (Continued)**

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

#### **SECTION FOUR (Continued)**

##### **INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)**

###### **I. Explanations Related to Components of Shareholders' Equity (Continued)**

###### **Informations on addition debt instruments to shareholders' equity calculating:**

None.

###### **Explanations on reconciliation of balance sheet items with equity items:**

The main difference between the amount of "Equity" given in the equity table and the amount of "Equities" in non-consolidated balance sheet arises from general provisions. The portion of the general provisions up to 1.25% of the amount subject to credit risk is considered as Additional Capital in the calculation of the "Equity" amount given in the equity table. Operating lease development costs, intangible assets and related deferred tax liabilities that are accounted for under Property, Plant and Equipment are considered in the calculation as "Assets Deducted from Capital" in the calculation of "Equity" amount.

###### **Information on applied approaches in order to evaluate internal capital adequacy within the scope of internal capital adequacy evaluation of internal capital requirement in terms of future and current activities:**

The evaluation period for internal capital adequacy in the Bank has been designed within in accordance with the principle of proportionality and is consistent with the Guidelines on ISEDES Report and Guidelines on Stress Tests To Be Used By Banks For Capital and Liquidity Planning which is published by the Banking Regulation and Supervision Agency, and with the Regulation on Internal Systems of Banks and Internal Capital Adequacy Assessment Process (ISEDES) which entered into effect upon being published in Official Gazette No. 29057 dated 11 July 2014. The Bank is in compliance with the said regulation and good practice guidelines in line with its small-scale structure, task environment, and requirements. In accordance with ISEDES, it is aimed for the Bank to internally determine a level of capital which covers the risks it has faced or is likely to face and to continue its operations with capital above that level. Maximum attention is paid to the ISEDES processes so that they are implemented with a long-term view and are risk focused, internalized within the Bank and that its consequences are used in the decision-making process.

Evaluations of the Bank's capital and liquidity adequacy are done from a risk-based perspective, considering the strategic plan, three-year budget projections, bank policies on capital adequacy, liquidity and funding, risk measurement outcomes for risks that the company is exposed to, ISEDES and stress test reports. Within this scope, activities performed and services provided by the Bank are considered. The Bank determines its capital level in such a way that it is above the minimum level and legal ratios required by the legal regulations of the Banking Regulation and Supervision Agency, and so that it is able to continue all its operations. Also, scenario analyses, and particular, plenary, and reverse-stress tests are done in order to measure the effects of parameters that affect the financial power of the Bank at the capital level. In addition, via sensitivity analyses, primary and secondary structural block risks that the Bank is exposed to are determined within the scope of the proportionality principle.

The Bank takes stress tests, scenario analyses, risk appetites, the capital plan, the strategic plan and budget, the emergency and unexpected situation action plan for various risks, and other issues deemed necessary into consideration, and calculates and establishes a capital planning buffer, which is designed to prevent the capital adequacy level from becoming lower than the internal and legal minimum capital adequacy over the next three years as a result of possible negative situations and losses. The capital planning buffer is determined by considering worst case scenarios. Whether the current capital adequacy rates of the Bank are above the internal capital adequacy rate calculated in the scope of the stress test and described as the target ratio is evaluated and the internal capital buffer is calculated.

According to the "Regulation on Internal Systems and the Internal Capital Adequacy Assessment Process of Banks", the ISEDES report and the Stress Test report are prepared annually with the participation of all relevant units of the Bank and the coordination of the Risk Management Unit. These reports are approved by the Board of Management or the Bank after being examined.

The senior management of the Bank and members of the Board of Management are jointly responsible for designing ISEDES and its implementation within the Bank. All units of the Bank execute their duties, authorities, and responsibilities which are within the scope of ISEDES in accordance with their own regulations. The inspection report regarding the data, systems, and processes is prepared by the Internal Audit Unit, and the validation report regarding the models and/or methods that are used for risk measurement within the scope of the internal capital adequacy calculation is prepared by the Internal Control and Compliance Unit.



CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS

## İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.

### UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)

#### AT 31 DECEMBER 2017 (Continued)

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

#### SECTION FOUR (Continued)

#### INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

##### II. Explanations Related to Credit Risk

The Board of Management is responsible for Bank operations performed within the scope of credit risk management and these operations are performed in compliance with the “Regulation on Internal Systems and the Internal Capital Adequacy Assessment Process of Banks” and the “Regulation on Measuring and Reviewing Capital Adequacy of Banks”. When calculating capital adequacy rates, the amount which is taken as a basis for credit risk and which is calculated via a standard method is considered.

The Bank also calculates counterparty credit risk for banking accounts due to reverse-repo transactions, and these amounts are taken into consideration in the amount used as a basis for credit risk.

The debtors of the cash and non-cash loans extended by the Bank are financial sector companies.

Credit limits are categorised according to the Bank’s credit types. The assigned credit limits are determined for cash and non-cash by taking the credit types into consideration. Loans provided are further classified as having (1-12) month, (12-24) month, or (24+) month maturity. In addition, the maturity of the cash loans provided are maximum six months and there are frequent financial futures between 30-40 days. Loans provided by the Bank provides efficiency and convenience in capital market transactions, helps intermediary institutions benefit from barter debts through timely/early clearing of debts, and helps markets gains more depth. Since payments and collections are secured by the Bank in the Takasbank money market, which is similar to an interbank money market, these transactions are followed under non-cash loan items.

The Bank operates as a central counterparty in the Securities Lending Market, the Futures and Options Market and Borsa Istanbul Money Market and the liabilities in the related markets are also non-cash loans in terms of the Bank as of 19 June 2017.

Credit transactions bear credit risk. This risk can be defined as the possibility that the members and guarantors who use the credit do not fulfil the liabilities defined in agreements and that they have undertaken beforehand in written form.

The risk limits and allocations determined for daily transactions and concentrations related to off-balance sheet risks are monitored daily.

The credit worthiness of borrowers is monitored regularly in accordance with the related legislation. Independently audited financial statements of the borrowers prepared as per the regulation of Capital Markets Board are examined for the loans extended. The credit limits are amended according to the financial positions of the companies and collaterals against loans are taken in accordance with the application principles for lending operations. After the financial analysis, investigation and other examinations performed on the companies applying for loans, loan limits are proposed to the Board of Directors for approval. Loan limits become effective after approved by the Board of Directors. Limit change requests are revised on a six monthly basis unless substantive changes occur in the financial positions of customers.

The Bank has not been exposed to credit risk since the risk is minimized by receiving collaterals and determining loan limits according to the financial strength of the companies. Therefore, in the short term, there is no specific need to enter into any transaction to decrease or terminate its credit exposure.

The Bank has no liquidated non-cash loans, restructured loans or long-term commitments.

The Bank has no lending and banking transactions in foreign countries.

The Bank calculates general provisions for credit risk and receives cash and/or cash equivalent collaterals.

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS

**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.****UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)  
AT 31 DECEMBER 2017 (Continued)**

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

**SECTION FOUR (Continued)****INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)****II. Explanations Related to Credit Risk (Continued)**

As of the balance sheet date;

Number of Customers – Cash Loan	10	Loans
Number of Customers – Non-Cash Loan	152	Loans
General Loan Loss Reserves (TL)	48,139	TL
Specific Provision for Non Performing Loans (TL)	1,574	TL

Credits, collection of principal or interest payments which are deferred for more than thirty days after their maturity date or payment date for various reasons, but which do not fulfil the delay time condition necessary for classification as Third Class as specified in "Regulation on Principles and Procedures in Respect of Qualifying Loans and Other Receivables by Banks and Equivalents to Be Allocated for the Same" are qualified as "non-performing loans" in the accounting application, and all receivables under third, fourth and fifth groups in the same Regulation are accepted as "depreciated loans" in the application of this Regulation. They are accepted as such regardless of whether accrued interests and quasi-profit liabilities of the borrower are added to the capital or refinanced.

The Bank allocates equivalents for group III, IV and V credits pursuant to "Regulation on Principles and Procedures in Respect of Qualifying Loans and Other Receivables by Banks and Equivalents to Be Allocated for the same."

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS

**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.****UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)****AT 31 DECEMBER 2017 (Continued)**

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

**SECTION FOUR (Continued)****INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)****II. Explanations Related to Credit Risk (Continued)**

Total amount of incurred risks after offsetting transactions (before credit risk reduction), regardless of the credit risk reduction (deducting from provisions), and average amount of risks separated according to different risk classes and types for the related period:

<b>Exposure classifications</b>	<b>Current Period Risk Amount</b>	<b>Average Risk Amount</b>
Conditional and unconditional receivables from central governments or central banks	884,463	437,634
Conditional and unconditional receivables from regional or local governments	-	-
Conditional and unconditional receivables from administrative units and noncommercial enterprises	-	-
Conditional and unconditional receivables from multilateral development banks	-	-
Conditional and unconditional receivables from international organizations	-	-
Conditional and unconditional receivables from banks and brokerage houses	19,191,056	17,822,788
Conditional and unconditional corporate receivables	7,987,461	5,421,299
Conditional and unconditional retail receivables	-	-
Conditional and unconditional secured mortgage receivables	-	-
Past due receivables	-	-
Receivables defined in high risk category by BRSA	-	-
Securities collateralised by mortgages	-	-
Securitisation positions	-	-
Short-term receivables from banks, stockbrokers and corporate investments of natured collective investment enterprise	-	-
Other receivables	386,334	356,092

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS

**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.****31 ARALIK 2017 TARİHİ İTİBARIYLA KONSOLİDE OLMAYAN  
FİNANSAL TABLOLARA İLİŞKİN AÇIKLAMA VE DİPNOTLAR (Continued)**

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

**SECTION FOUR (Continued)****INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)****II. Explanations Related to Credit Risk (Continued)****Profile of significant exposures in major regions:**

Current Period	Conditional and unconditional exposures to central governments or central banks	Conditional and unconditional exposures to regional governments or local authorities	Conditional and unconditional receivables from administrative units and non-commercial enterprises	Conditional and unconditional exposures to multilateral development banks	Conditional and unconditional exposures to international organisations	Conditional and unconditional exposures to banks and brokerage houses	Conditional and unconditional exposures to corporates
<b>1. Domestic</b>	884,463	-	-	-	-	19,121,613	7,987,461
<b>2. European Union Countries</b>	-	-	-	-	-	68,458	-
<b>3. OECD Countries</b>	-	-	-	-	-	-	-
<b>4. Off-Shore Banking Regions</b>	-	-	-	-	-	-	-
<b>5. USA, Canada</b>	-	-	-	-	-	985	-
<b>6. Other Countries <sup>(1)</sup></b>	-	-	-	-	-	-	-
<b>7. Associates, Subsidiaries and Joint-Ventures</b>	-	-	-	-	-	-	-
<b>8. Unallocated Assets/Liabilities <sup>(2)</sup></b>	-	-	-	-	-	-	-
<b>9. Total</b>	<b>884,463</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>19,191,056</b>	<b>7,987,461</b>

<sup>(1)</sup> Includes OECD countries other than EU countries, USA and Canada.<sup>(2)</sup> Includes assets and liability items that can not be allocated on a consistent basis.**Risk profile by Sectors or Counterparties:**

Sectors/Counterparties	Conditional and unconditional exposures to central governments or central banks	Conditional and unconditional exposures to regional governments or local authorities	Conditional and unconditional receivables from administrative units and non-commercial enterprise	Conditional and unconditional exposures to multilateral development banks	Conditional and unconditional exposures to International organisations	Conditional and unconditional exposures to banks and brokerage houses	Conditional and unconditional exposures to corporates
<b>Agriculture</b>	-	-	-	-	-	-	-
Farming and Stockbreeding	-	-	-	-	-	-	-
Forestry	-	-	-	-	-	-	-
Fishery	-	-	-	-	-	-	-
Industry	-	-	-	-	-	-	-
Mining and Quarry	-	-	-	-	-	-	-
Manufacturing	-	-	-	-	-	-	-
Electricity, Gas and Water	-	-	-	-	-	-	-
<b>Construction</b>	-	-	-	-	-	-	-
<b>Services</b>	-	-	-	-	-	19,191,056	7,987,461
Wholesale and Retail Trade	-	-	-	-	-	-	-
Accommodation and Dining	-	-	-	-	-	-	-
Transportation and Telecom	-	-	-	-	-	-	-
Financial Institutions	-	-	-	-	-	19,191,056	7,987,461
Real Estate and Rental Services	-	-	-	-	-	-	-
Professional Services	-	-	-	-	-	-	-
Educational Services	-	-	-	-	-	-	-
Health and Social Services	-	-	-	-	-	-	-
<b>Other</b>	<b>884,463</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>884,463</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>19,191,056</b>	<b>7,987,461</b>

Conditional and unconditional retail exposures	Conditional and unconditional exposures secured by real estate property	Past due receivables	Receivables defined in high risk category by BRSA	Exposures in the form of bonds secured by mortgages	Securitization Positions	Short term exposures to banks, brokerage houses and corporates	Exposures in the form of collective investment undertakings	Other Receivables	Total
-	-	-	-	-	-	-	-	386,334	28,379,871
-	-	-	-	-	-	-	-	-	68,458
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	985
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	386,334	28,449,314

Conditional and unconditional retail exposures	Conditional and unconditional exposures secured by real estate property	Past due receivables	Receivables defined in high risk category by BRSA	Exposures in the form of bonds secured by mortgages	Investments similar to collective investment fund	Other receivables	TL	FC	Total
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	22,730,736	4,447,781	27,178,517
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	22,730,736	4,447,781	27,178,517
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	386,334	1,270,797	-	1,270,797
-	-	-	-	-	-	386,334	24,001,533	4,447,781	28,449,314

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS

**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.****UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)  
AT 31 DECEMBER 2017 (Continued)**

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

**SECTION FOUR (Continued)****INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)****II. Explanations Related to Credit Risk (Continued)****Analysis of maturity-bearing exposures according to remaining maturities:**

Exposure Classifications	Term to Maturity				
	1 Month	1-3 Months	3-6 Months	6-12 Months	Over 1 year
1 Conditional and unconditional exposures to central governments or central banks	847,516	-	13,566	23,381	-
2 Conditional and unconditional exposures to regional governments or local authorities	-	-	-	-	-
3 Conditional and unconditional receivables from administrative units and noncommercial enterprises	-	-	-	-	-
4 Conditional and unconditional exposures to multilateral development banks	-	-	-	-	-
5 Conditional and unconditional exposures to international organisations	-	-	-	-	-
6 Conditional and unconditional exposures to banks and brokerage houses	16,753,835	2,384,491	49,678	3,052	-
7 Conditional and unconditional exposures to corporates	6,060,654	943,097	983,710	-	-
8 Conditional and unconditional retail exposures	-	-	-	-	-
9 Conditional and unconditional exposures secured by real estate property	-	-	-	-	-
10 Past due receivables	-	-	-	-	-
11 Receivables defined in high risk category by BRSA	-	-	-	-	-
12 Exposures in the form of bonds secured by mortgages	-	-	-	-	-
13 Securitization Positions	-	-	-	-	-
14 Short term exposures and corporate exposures from banks and brokerage houses	-	-	-	-	-
15 Exposures in the form of collective investment undertakings	-	-	-	-	-
16 Other receivables	386,334	-	-	-	-
<b>Total</b>	<b>24,048,339</b>	<b>3,327,588</b>	<b>1,046,954</b>	<b>26,433</b>	<b>-</b>

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS

**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.****UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)****AT 31 DECEMBER 2017 (Continued)**

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

**SECTION FOUR (Continued)****INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)****II. Explanations Related to Credit Risk (Continued)****Information about the risk exposure categories:**

The credit rating of banks and intermediary institutions are inspected via the Takasbank Internal Credit Evaluation System and credit or position limits based on the maximum nominal limits or value at risk limits, which can be assigned within the scope of banking or central counterparty actions are determined. The membership types of banks and intermediary institutions which will perform the transaction in the market, or the capital market instruments that are provided by the central counterparty service, are also determined by this system.

There are no financial assets, the maturity or contract conditions of which are revised again (31 December 2016: None).

Details on the Bank’s overdue depreciated financial assets are provided in the fifth chapter, first part, and footnote Note 5 of the report.

**Exposures by risk weights:**

<b>Risk Weights</b>	<b>0%</b>	<b>10%</b>	<b>20%</b>	<b>50%</b>	<b>75%</b>	<b>100%</b>	<b>150%</b>	<b>Deductions from Equity</b>
Exposures before credit risk mitigation	37,427	-	22,317,417	5,708,173	-	386,297	-	-
Exposures after credit risk mitigation	2,153,311	-	20,208,860	5,700,846	-	386,297	-	-

**Informations in terms of major sectors and type of counterparties:**

None.

**Information about Value Adjustment and Change in Provisions:**

	<b>Opening Balance</b>	<b>Charge for Period</b>	<b>Provision Reversals</b>	<b>Other Adjustments</b>	<b>Closing Balance</b>
Specific Provisions	1,574	-	-	-	1,574
General Provisions	31,208	24,768	7,837	-	48,139

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS

**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.****UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)****AT 31 DECEMBER 2017 (Continued)**

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

**SECTION FOUR (Continued)****INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)****III. Explanations Related to Market Risk**

The Bank's market risk management operations are conducted in compliance with the "Regulation on Internal Systems and the Internal Capital Adequacy Assessment Process of Banks" and the "Regulation on Measuring and Reviewing Capital Adequacy of Banks" and within the scope of the responsibility of the Board of Directors.

In the in-balance sheet and off-balance sheet accounts, interest and currency risks that arise from the fluctuations of the positions held by the Bank in financial markets are measured. When calculating capital adequacy rates, the amount which is taken as a basis for market risk, which is calculated using the standard method shown in the table below, is taken into consideration.

**Information Related to Market Risk:**

	<b>Current Period</b>	<b>Prior Period</b>
(I) Capital Requirement against General Market Risk - Standard Method	-	8
(II) Capital Requirement against Specific Risks - Standard Method	-	-
Capital requirement against Specific Risks of Securitisation Positions- Standard Method	-	-
(III) Capital Requirement against Currency Exchange Risk - Standard Method	807	790
(IV) Capital Requirement against Commodity Risks - Standard Method	-	-
(V) Capital Requirement against Exchange Risks - Standard Method	-	-
(VI) Capital Requirement against Market Risks of Options - Standard Method	-	-
(VII) Capital requirement against Counterparty Credit Risks - Standard Method	-	-
(VIII) Capital Requirement against Market Risks of Banks applying Risk Measurement Model	-	-
(IX) Total Capital Requirement against Market Risk (I+II+III+IV+V+VI+VII)	807	798
(X) Amount Subject to Market Risk (12,5 x VIII) or (12,5 x IX)	10,088	9,975

**Average market risk table calculated at month ends during the period:**

	<b>Current Period</b>			<b>Prior Period</b>		
	<b>Average</b>	<b>Maximum</b>	<b>Minimum</b>	<b>Average</b>	<b>Maximum</b>	<b>Minimum</b>
Interest Rate Risk	4	8	-	13	7	1
Stock Risk	-	-	-	-	-	-
Currency Risk	933	1,516	463	922	1,560	540
Commodity Risk	-	-	-	-	-	-
Settlement Risk	-	-	-	-	-	-
Option Risk	-	-	-	-	-	-
Counterparty Credit Risk	-	-	-	-	-	-
<b>Total Value Subject to Risk</b>	<b>937</b>	<b>1,524</b>	<b>463</b>	<b>935</b>	<b>1,587</b>	<b>541</b>

**Information on Counterparty Credit Risk:**

Bank has no counterparty credit risk for purchase and sell accounts as of 31 December 2017 (31 December 2016: None).



CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS

## İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.

### UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)

#### AT 31 DECEMBER 2017 (Continued)

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

#### SECTION FOUR (Continued)

#### INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

#### IV. Explanations Related to Operational Risk

The Bank’s market operational risk management activities are conducted in compliance with the “Regulation on Internal Systems and the Internal Capital Adequacy Assessment Process of Banks” and the “Regulation on Measuring and Reviewing the Capital Adequacy of Banks” and within the scope of the responsibility of the Board of Directors. When calculating the capital adequacy rates, the amount which is taken as a basis for operational risk is calculated using the basic indicator approach method. Balance subject to operational risk is calculated by considering gross income of prior three fiscal years 2017, 2016 and 2015. The amount subject to Operational Risk for the current period is TL 697,363 (31 December 2016: TL 536,513).

a) Operational risk amount is measured by basic indicator approach on a yearly basis.

b) In case of basic indicator approach is used, information in below table should be used:

<b>Current Period</b>	<b>2 Prior Period Amount</b>	<b>1 Prior Period Amount</b>	<b>31.12.2017</b>	<b>Total/Number of Positive GI years</b>	<b>Rate (%)</b>	<b>Total</b>
Gross Income	285,373	360,185	470,222	391,927	15	55,789
Amount subject to Operational Risk (Total*12.5)						697,363

<b>Prior Period</b>	<b>2 Prior Period Amount</b>	<b>1 Prior Period Amount</b>	<b>31.12.2016</b>	<b>Total/Number of Positive GI years</b>	<b>Rate (%)</b>	<b>Total</b>
Gross Income	212,862	285,373	360,185	286,140	15	42,921
Amount subject to Operational Risk (Total*12.5)						536,513

c) The Bank is not using standard method.

d) The Bank is not using alternative execution in standard method.

e) The Bank is not using advanced measurement method.

#### V. Explanations Related to Currency Risk

The Bank is subject to the reserve requirements in relation to the foreign currency guarantees received for the Stock Exchange Money Market, Derivatives Market, collaterals obtained for cash loans and non-cash loans and foreign currency amounts deposited in the Bank’s accounts as guarantee and the foreign currency amounts left in the unrestricted accounts of customers consisting of banks and brokerage firms except the foreign settlement transaction commissions and foreign currency amounts kept for its own transactions in accordance with the agreements made in foreign currencies. Therefore, the Bank performs its obligations in two-weekly periods in ratios designated in blocked accounts of the Central Bank of Turkey. The foreign currency amounts, kept due to the reserve requirements, are creating an excess amount of assets with regard to the ratio of assets to liabilities.

The Bank calculated foreign exchange capital liability of TL 10,086 (31 December 2016: TL 9,876) for the net position between assets and liabilities in foreign currency, and recognised it in the amount basis to market risk.

Recognizing FX transactions of the Bank, the risk management policy that is also regarded in TL transactions is used and asset liability is managed so as not to be exposed to foreign exchange risk in transactions that affect FX assets and liabilities.

The Bank’s foreign CBRT exchange bid rates as of the date of the financial statements and five working days prior to that date:

<b>Current Period</b>	<b>1 USD</b>	<b>1 EUR</b>	<b>1 GBP</b>	<b>100 JPY</b>
29 December 2017	3.7719	4.5155	5.0803	3.3421
28 December 2017	3.8104	4.5478	5.1142	3.3694
27 December 2017	3.8197	4.5385	5.1091	3.3659
26 December 2017	3.8029	4.5116	5.0747	3.3482
25 December 2017	3.8087	4.5205	5.0877	3.3546
Simple arithmetic averages for last 30 days	<b>3.8397</b>	<b>4.5453</b>	<b>5.1384</b>	<b>3.3917</b>

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS

**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.****UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)  
AT 31 DECEMBER 2017 (Continued)**

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

**SECTION FOUR (Continued)****INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)****V. Explanations Related to Currency Risk (Continued)****Information on the foreign currency risk of the Bank:**

<b>Current Period</b>	<b>EUR</b>	<b>USD</b>	<b>Other</b>	<b>Total</b>
<b>Assets</b>				
Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Cheques Purchased, Precious Metals) and Balances with the Central Bank of Turkey	-	-	-	-
Due From Other Banks	1,969,149	2,468,907	8,256	4,446,312
Financial Assets at Fair Value Through Profit and Loss	-	-	-	-
Money Market Placements	-	-	-	-
Available-For-Sale Financial Assets	661	-	-	661
Loans	-	-	-	-
Subsidiaries, Associates and Entities Under Common Control	-	-	-	-
Held-To-Maturity Investments	-	-	-	-
Derivative Financial Assets for Hedging Purposes	-	-	-	-
Tangible Assets	-	-	-	-
Intangible Assets	-	-	-	-
Other Assets	222	571	15	808
<b>Total Assets</b>	<b>1,970,032</b>	<b>2,469,478</b>	<b>8,271</b>	<b>4,447,781</b>
<b>Liabilities</b>				
Bank Deposits	-	-	-	-
Foreign Currency Deposits	-	-	-	-
Money Market Borrowings	-	-	-	-
Funds Provided From Other Financial Institutions	1,061,600	1,311,355	-	2,372,955
Securities Issued	-	-	-	-
Sundry Creditors	906,657	1,150,335	7,748	2,064,740
Derivative Financial Liabilities for Hedging Purposes	-	-	-	-
Other Liabilities	-	-	-	-
<b>Total Liabilities</b>	<b>1,968,257</b>	<b>2,461,690</b>	<b>7,748</b>	<b>4,437,695</b>
<b>Net Balance Sheet Position</b>	<b>1,775</b>	<b>7,788</b>	<b>523</b>	<b>10,086</b>
Net Off-Balance Sheet Position	-	-	-	-
Financial Derivative Assets	-	-	-	-
Financial Derivative Liabilities	-	-	-	-
Non-Cash Loans	-	-	-	-
<b>Prior Period</b>				
Total Assets	983,118	2,342,388	2,549	3,328,055
Total Liabilities	980,200	2,335,608	2,371	3,318,179
<b>Net Balance Sheet Position</b>	<b>2,918</b>	<b>6,780</b>	<b>178</b>	<b>9,876</b>
<b>Net Off-Balance Sheet Position</b>				
Financial Derivative Assets	-	-	-	-
Financial Derivative Liabilities	-	-	-	-
Non-Cash Loans	-	-	-	-

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS

**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.****UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)****AT 31 DECEMBER 2017 (Continued)**

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

**SECTION FOUR (Continued)****INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)****V. Explanations Related to Currency Risk (Continued)****Exposure to currency rate risk**

The Bank is mainly exposed to currency risk in EUR, USD and other currencies. The following table shows the Bank’s sensitivity to the 10% increase and decrease in the related currencies. The relevant rate indicates the possible change in the exchange rate of the Bank’s management.

This analysis is based on the assumption that all other variables, especially interest rates, remain stable.

	31 December 2017			31 December 2016		
	EUR	USD	Other FC	EUR	USD	Other FC
Change in net asset value when the TL depreciated by 10% against the related FX	178	779	52	292	678	18
Change in net asset value when the TL gains 10% against the related FX	(178)	(779)	(52)	(292)	(678)	(18)

**VI. Explanations Related to Interest Rate Risk**

Interest rate sensitivity of the assets, liabilities and off-balance sheet items are measured by the Bank.

Forecast results which have been formed using estimation-simulation reports are prepared and then the effects of fluctuations in interest rates are evaluated with sensitivity and scenario analyses. Cash requirement for every maturity period are determined based on maturity distribution analysis (Gap). In addition, a positive spread between the yield on assets and the cost of liabilities is kept while determining interest rates.

To evaluate its funding resources, the Bank enters into foreign currency and TL depot transactions, repurchase agreements, time and demand deposit transactions and foreign exchange transactions with the Central Bank of Turkey or other banks. The related transactions undertaken by the Fund Management Department are made with the banks having transaction limits designated by the Board of Directors under the regulations set out in “Treasury Transaction Limits”.

Other than securities guaranteed or issued by the Turkish Treasury, the Bank does not include any debt instruments in its portfolio during the year 2017. The Bank does not undertake any liability due to using derivative financial instruments attributable to its transactions in evaluating its funding resources.

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS

**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.****UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)****AT 31 DECEMBER 2017 (Continued)**

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

**SECTION FOUR (Continued)****INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)****VI. Explanations Related to Interest Rate Risk (Continued)****Information related to the interest rate sensitivity of assets, liabilities and off-balance sheet items (based on repricing dates):**

<b>Closing Balances of Current Period</b>	<b>Up to 1 Month</b>	<b>1-3 Month</b>	<b>3-12 Month</b>	<b>1-5 Year</b>	<b>5 Year and over</b>	<b>Non-Interest Bearing</b>	<b>Total</b>
<b>Assets</b>							
Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Cheques Purchased, Precious Metals) and Balances with the Central Bank of Turkey	-	-	-	-	-	480	480
Due From Other Banks	9,159,396	933,919	-	-	-	70,169	10,163,484
Financial Assets at Fair Value Through Profit and Loss	-	-	-	-	-	-	-
Money Market Placements	20,833	-	-	-	-	-	20,833
Financial Assets Available-For-Sale	-	-	-	-	-	1,832	1,832
Loans	198,856	-	-	-	-	-	198,856
Held-To-Maturity Investments	-	-	36,947	-	-	-	36,947
Other Assets <sup>(1)</sup>	1	-	-	-	-	141,996	141,997
<b>Total Assets</b>	<b>9,379,086</b>	<b>933,919</b>	<b>36,947</b>	<b>-</b>	<b>-</b>	<b>214,477</b>	<b>10,564,429</b>
<b>Liabilities</b>							
Bank Deposits	-	-	-	-	-	-	-
Other Deposits	-	-	-	-	-	-	-
Money Market Borrowings	34,737	-	-	-	-	-	34,737
Sundry Creditors	3,090,414	-	-	-	-	2,880,204	5,970,618
Securities Issued	-	-	-	-	-	-	-
Funds Provided From Other Financial Institutions	3,185,696	-	-	-	-	18,888	3,204,584
Other Liabilities <sup>(1)</sup>	-	-	-	-	-	1,354,490	1,354,490
<b>Total Liabilities</b>	<b>6,310,847</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,253,582</b>	<b>10,564,429</b>
Balance Sheet Long Term Position	3,068,239	933,919	36,947	-	-	-	4,039,105
Balance Sheet Short Term Position	-	-	-	-	-	(4,039,105)	(4,039,105)
Off-Balance Sheet Long Term Position	-	-	-	-	-	-	-
Off-Balance Sheet Short Term Position	-	-	-	-	-	-	-
<b>Total Position</b>	<b>3,068,239</b>	<b>933,919</b>	<b>36,947</b>	<b>-</b>	<b>-</b>	<b>(4,039,105)</b>	<b>-</b>

<sup>(1)</sup> Other assets and liabilities in non-interest bearing column are presented below.

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS

**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.**  
**UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)**  
**AT 31 DECEMBER 2017 (Continued)**

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

**SECTION FOUR (Continued)**
**INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)**
**VI. Explanations Related to Interest Rate Risk (Continued)**

Closing Balances of Prior Period	Up to 1 Month	1-3 Month	3-12 Month	1-5 Year	5 Year ve Over	Non-Interest Bearing	Total
<b>Assets</b>							
Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Cheques Purchased, Precious Metals) and Balances with the Central Bank of Turkey	-	-	-	-	-	85	85
Banks	6,775,747	845,867	-	-	-	94,311	7,715,925
Financial Assets at Fair Value Through Profit and Loss	-	-	1,158	-	-	-	1,158
Money Market Placements	21,168	-	-	-	-	-	21,168
Financial Assets Available-For-Sale	-	-	-	-	-	1,714	1,714
Loans	98,945	-	-	-	-	-	98,945
Held-To-Maturity Investments	-	-	45,943	-	-	-	45,943
Other Assets <sup>(1)</sup>	-	-	-	-	-	121,410	121,410
<b>Total Assets</b>	<b>6,895,860</b>	<b>845,867</b>	<b>47,101</b>	-	-	<b>217,520</b>	<b>8,006,348</b>
<b>Liabilities</b>							
Bank Deposits	-	-	-	-	-	-	-
Other Deposits	-	-	-	-	-	-	-
Money Market Borrowings	43,800	-	-	-	-	-	43,800
Sundry Creditors	2,256,735	-	-	-	-	2,119,659	4,376,394
Securities Issued	-	-	-	-	-	-	-
Funds Provided From Other Financial Institutions	2,433,181	-	-	-	-	36,029	2,469,210
Other Liabilities <sup>(1)</sup>	-	-	-	-	-	1,116,944	1,116,944
<b>Total Liabilities</b>	<b>4,733,716</b>	-	-	-	-	<b>3,272,632</b>	<b>8,006,348</b>
Balance Sheet Long Term Position	2,162,144	845,867	47,101	-	-	-	3,055,112
Balance Sheet Short Term Position	-	-	-	-	-	(3,055,112)	(3,055,112)
Off-Balance Sheet Long Term Position	-	-	-	-	-	-	-
Off-Balance Sheet Short Term Position	-	-	-	-	-	-	-
<b>Total Position</b>	<b>2,162,144</b>	<b>845,867</b>	<b>47,101</b>	-	-	<b>(3,055,112)</b>	-

<sup>(1)</sup> Other assets and liabilities in non-interest bearing column are presented below.

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**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.****UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)****AT 31 DECEMBER 2017 (Continued)**

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

**SECTION FOUR (Continued)****INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)****VI. Explanations Related to Interest Rate Risk (Continued)**

<b>Other Assets</b>	<b>Current Year Balance</b>
Intangible assets	98,095
Custody services commission rediscount	9,906
Investment properties	9,495
Temporary accounts	8,305
Tangible assets	7,437
Subsidiaries	4,825
Sundry assets	3,881
Stationary supplies	53
<b>Total</b>	<b>141,997</b>
<b>Other Liabilities</b>	<b>Current Year Balance</b>
Shareholder's equity	1,246,262
Provisions	82,062
Current tax liability	26,166
<b>Total</b>	<b>1,354,490</b>
<b>Other Assets</b>	<b>Prior Period Balance</b>
Intangible assets	85,005
Tangible assets	15,535
Custody services commission rediscount	8,553
Subsidiaries	4,825
Temporary accounts	3,822
Sundry assets	2,453
Deferred tax assets	1,179
Stationary supplies	38
<b>Total</b>	<b>121,410</b>
<b>Other Liabilities</b>	<b>Prior Period Balance</b>
Shareholder's equity	1,043,686
Provisions	55,340
Current tax liability	17,918
<b>Total</b>	<b>1,116,944</b>

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**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.**  
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**AT 31 DECEMBER 2017 (Continued)**

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

**SECTION FOUR (Continued)**
**INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)**
**VI. Explanations Related to Interest Rate Risk (Continued)**
**Average interest rates applied to monetary financial instruments (%):**

<b>Current Period End Balance</b>	<b>EUR</b>	<b>USD</b>	<b>JPY</b>	<b>TL</b>
<b>Assets</b>				
Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Cheques Purchased) and Balances with the Central Bank of Turkey				
Due From Other Banks	2.47	4.42	-	13.22
Financial Assets at Fair Value Through Profit and Loss	-	-	-	-
Money Market Placements	-	-	-	10.43
Financial Assets Available-For-Sale	-	-	-	-
Loans	-	-	-	13.17
Held-To-Maturity Investments	-	-	-	11.63
<b>Liabilities</b>				
Bank Deposits	-	-	-	-
Other Deposits	-	-	-	-
Money Market Borrowings	-	-	-	12.75
Other Creditors	-	-	-	12.27
Securities Issued	-	-	-	-
Funds Provided From Other Financial Institutions	0.03	1.66	-	11.82
<b>Prior Period End Balance</b>				
<b>Assets</b>				
Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Cheques Purchased) and Balances with the Central Bank of Turkey	-	-	-	-
Due From Other Banks	2.02	3.36	-	9.29
Financial Assets At Fair Value Through Profit And Loss	-	-	-	9.60
Money Market Placements	-	-	-	7.04
Financial Assets Available-For-Sale	-	-	-	-
Loans	-	-	-	10.26
Held-To-Maturity Investments	-	-	-	9.97
<b>Liabilities</b>				
Bank Deposits	-	-	-	-
Other Deposits	-	-	-	-
Money Market Borrowings	-	-	-	8.50
Other Creditors	-	-	-	8.67
Securities Issued	-	-	-	-
Funds Provided From Other Financial Institutions	0.05	0.90	-	8.47

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**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.****UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)  
AT 31 DECEMBER 2017 (Continued)**

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

**SECTION FOUR (Continued)****INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)****VI. Explanations Related to Interest Rate Risk (Continued)****Interest rate risk on banking accounts:**

<b>Type of Currency</b>	<b>Shock Applied (+/- x basis point)</b>	<b>Gains/(Losses)</b>	<b>Gains/Equity (Losses)/Equity</b>
TL	(+) 500 bp	7,578	0.61
TL	(-) 400 bp	(14,862)	(1.19)
EURO	(+) 200 bp	30	0.00
EURO	(-) 200 bp	(30)	(0.00)
USD	(+) 200 bp	473	0.04
USD	(-) 200 bp	(473)	(0.04)
<b>Total (of negative shocks)</b>		<b>(15,365)</b>	<b>(1.23)</b>
<b>Total (of positive shocks)</b>		<b>8,081</b>	<b>0.65</b>

**Equity share position risk in banking accounts**

As of 31 December 2017, the Bank has no equity share position risk arising from the equity share and banking accounts (31 December 2016: None).

**VII. Explanations Related to Liquidity Risk**

The Bank pays attention to work under guarantees and committed to keeping most of its TL funds in liquid to meet the risks arising from transactions with Takasbank Money Market, Futures and Options Market, Securities Lending Market, BIST Money Market and other transactions.

The Bank's main liquidity management strategy is effectively handling of all Money Market Instruments and this instruments' potential risks have influence upon the Bank's balance sheet. Even in the most uncertain market conditions, the Bank maintains risk minimization through reducing risks of market instruments, diversifying instruments, matching of maturities, and obtaining optimum liquidity level. For this reason, the Bank is significantly liquid and is a fund provider in the Over-the-Counter Money Market and CB Interbank markets. Turkish Lira and foreign currency sales transactions with banks are done within the limits determined by the Board of Directors and periodical inspections of the compliance of these transactions with limit conditions are carried out by the Internal Audit Unit and the control activities are carried out by the Internal Control and Legal Compliance Unit.

The interest rates of payments, assets and liabilities are matched. Since there is no mismatch, there is no need for the measurement of the effect on profitability.

The Bank's short and long-term liquidity needs are met by internal and external resources.



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**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.****UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)****AT 31 DECEMBER 2017 (Continued)**

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

**SECTION FOUR (Continued)****INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)****VII. Explanations Related to Liquidity Risk (Continued)**

Cash warrants that are received for cash flows of the Bank, amounts that are kept in its equities and members’ free accounts, BİAŞ Guarantee Fund, BİAŞ Loan and Share Market, Takasbank Money Market, Loan Share Market, Derivatives Exchange Market, Electricity Market, Borsa Istanbul Money Market, Leveraged call-put transactions, Warrant Deputy (OPIC) are made use of in Over-the-Counter Market with other banks via overnight repo in order to manage liquidity risk.

The Bank manages its liquidity risk by having enough cash and cash equivalent resources in order to meet present and probable debt obligations, by being able to close short positions and by being able to fund loan requirements.

Liquidity position is assessed and managed considering the market-wide and Bank-specific factors. The most important scenario among these scenarios is to maintain the ratio of net liquid assets/payables to clients in limits.

According to the fourth paragraph of Article 4 of the Regulation on the Calculation of Liquidity Coverage Rate of Banks, consolidated and unconsolidated total liquidity coverage ratio cannot be lower than 100 percent and consolidated and unconsolidated total liquidity coverage ratio in foreign currency can not be lower than 80 percent and in accordance with Provisional Article I of the Regulation, the total and foreign currency liquidity coverage rates to be applied until 1 January 2019 are governed by the Board of Directors, with the appropriate opinion of the Central Bank of the Republic of Turkey.

According to the Decree of the Banking Regulation and Supervision Board dated 24 December 2015 and numbered 6613, for development and investment banks, it has been decided to apply the total and foreign currency liquidity adequacy ratios related to the first and second maturity brackets according to the first paragraph of Article 13 of the Regulation Regarding the Measurement and Evaluation of Banking Liquidity Adequacy and to continue to report to the Authority.

According to the fifth section of Article 4 of the Regulation on the Calculation of Liquidity Cover Ratio of Banks, it was decided that the ratio of consolidated and unconsolidated total and foreign currency liquidity coverage ratios shall be zero percent.

Ratios throughout the period are as below:

	<b>Current Period (%)</b>	<b>Prior Period (%)</b>
Period Average	172	144
Highest	200	182
Lowest	108	126

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS

**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.****UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)****AT 31 DECEMBER 2017 (Continued)**

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

**SECTION FOUR (Continued)****INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)****VII. Explanations Related to Liquidity Risk (Continued)****Presentation of assets and liabilities according to their remaining maturities:**

<b>Current Period</b>	<b>Demand</b>	<b>Up to 1 Month</b>	<b>1-3 Month</b>	<b>3-12 Month</b>	<b>1-5 Year</b>	<b>5 Year ve Over</b>	<b>Undistributed <sup>(1)</sup></b>	<b>Total</b>
<b>Assets</b>								
Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Cheques Purchased) and Balances with the Central Bank of Turkey	480	-	-	-	-	-	-	480
Banks	70,169	9,159,396	933,919	-	-	-	-	10,163,484
Financial Assets at Fair Value Through Profit and Loss	-	-	-	-	-	-	-	-
Money Market Placements	-	20,833	-	-	-	-	-	20,833
Financial Assets Available- For-Sale	1,832	-	-	-	-	-	-	1,832
Loans	-	198,856	-	-	-	-	-	198,856
Held-To-Maturity Investments	-	-	-	36,947	-	-	-	36,947
Other Assets <sup>(1)</sup>	-	1	-	-	-	-	141,996	141,997
<b>Total Assets</b>	<b>72,481</b>	<b>9,379,086</b>	<b>933,919</b>	<b>36,947</b>	<b>-</b>	<b>-</b>	<b>141,996</b>	<b>10,564,429</b>
<b>Liabilities</b>								
Bank Deposits	-	-	-	-	-	-	-	-
Other Deposits	-	-	-	-	-	-	-	-
Funds Provided From Other Financial Institutions	-	3,185,696	-	-	-	-	18,888	3,204,584
Money Market Borrowings	-	34,737	-	-	-	-	-	34,737
Securities Issued	-	-	-	-	-	-	-	-
Sundry Creditors	2,880,204	3,090,414	-	-	-	-	-	5,970,618
Other Liabilities	-	6,965	-	32,315	-	-	1,315,210	1,354,490
<b>Total Liabilities</b>	<b>2,880,204</b>	<b>6,317,812</b>	<b>-</b>	<b>32,315</b>	<b>-</b>	<b>-</b>	<b>1,334,098</b>	<b>10,564,429</b>
<b>Current Period Liquidity (Gap)/surplus</b>								
<b>(Gap)/surplus</b>	<b>(2,807,723)</b>	<b>3,061,274</b>	<b>933,919</b>	<b>4,632</b>	<b>-</b>	<b>-</b>	<b>(1,192,102)</b>	<b>-</b>
<b>Prior Period</b>								
Total Assets	96,110	6,895,860	845,867	47,101	-	-	121,410	8,006,348
Total Liabilities	2,119,659	4,739,211	-	25,291	-	-	1,122,187	8,006,348
<b>Liquidity Gap</b>	<b>(2,023,549)</b>	<b>2,156,649</b>	<b>845,867</b>	<b>21,810</b>	<b>-</b>	<b>-</b>	<b>(1,000,777)</b>	<b>-</b>

<sup>(1)</sup> Accounts that constitute the balance sheet assets such as fixed assets, participation and subsidiaries, prepaid expenses, receivables for follow up those are required to maintain banking operations and are not convertible to cash in short term period are recorded into this account.

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**SECTION FOUR (Continued)**
**INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)**
**VII. Explanations Related to Liquidity Risk (Continued)**
**Analysis of financial assets and liabilities by remaining contractual maturities:**

	Book Value	Gross Nominal Amounts	Demand	Up to 1 Month	1-3 Month	3-12 Month	1-5 Year	5 Year and Over
<b>31 December 2017</b>								
Funds borrowed	3,144,268	3,145,542	-	3,145,542	-	-	-	-
Money Market Borrowings	34,737	34,761	-	34,761	-	-	-	-
Other liabilities	60,316	60,316	-	60,316	-	-	-	-
<b>Total</b>	<b>3,239,321</b>	<b>3,240,619</b>	<b>-</b>	<b>3,240,619</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>31 December 2016</b>								
Funds borrowed	2,400,430	2,401,160	-	2,401,160	-	-	-	-
Money Market Borrowings	43,800	43,821	-	43,821	-	-	-	-
Other liabilities	68,780	68,780	-	68,780	-	-	-	-
<b>Total</b>	<b>2,513,010</b>	<b>2,513,761</b>	<b>-</b>	<b>2,513,761</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

**Securitisation positions:**

The Bank does not apply securitisation as of 31 December 2017 (31 December 2016: None).

Explanations Related to Leverage Ratio:

**a) Information on issues that cause differences between current period and previous period leverage ratios:**

The leverage ratio calculated by the Bank in accordance with the "Regulation on Measurement and Assessment of Leverage of Banks" is 4.15% (31 December 2016: 5.00%). This ratio is above the minimum ratio and the regulation stipulates the minimum leverage ratio as 3%. The increase in the off-balance sheet transactions is the main reason for the change in the leverage ratio compared to the previous period.

**b) Leverage ratio:**

	Current Period <sup>(1)</sup>	Prior Period <sup>(1)</sup>
<b>Assets on the Balance Sheet</b>		
Assets on the Balance Sheet (Excluding Derivative Financial Instruments and Loan Derivatives, Including Collaterals)	10,535,093	8,000,334
(Assets Deducted from Core Capital)	(95,501)	(87,089)
Total Risk Amount for Assets on the Balance Sheet	10,439,592	7,913,245
<b>Derivative Financial Instruments and Credit Derivatives</b>		
Renewal Cost of Derivative Financial Instruments and Loan Derivatives	-	-
Potential Credit Risk Amount of Derivative Financial Instruments and Loan Derivatives	-	-
Total Risk Amount of Derivative Financial Instruments and Loan Derivatives	-	-
<b>Financing Transactions With Securities Or Goods Warranties</b>		
Risk Amount of Financial Transactions with Securities or Goods Warranties (Excluding Those in the Balance Sheet)	-	-
Risk Amount Arising from Intermediated Transactions	-	-
Total Risk Amount of Financing Transactions with Securities or Goods Warranties	-	-
<b>Off-the-Balance Sheet Transactions</b>		
Gross Nominal Amount of the Off-Balance Sheet Transactions	16,786,035	10,891,794
(Adjustment Amount Arising from Multiplying by the Credit Conversion Rate)	-	-
Total Risk Amount for Off-Balance Sheet Transactions	16,786,035	10,891,794
<b>Capital and Total Risk</b>		
Tier 1 Capital	1,129,776	939,831
Total Risk Amount	27,225,627	18,979,217
<b>Leverage Ratio</b>		
Leverage Ratio	4.15%	5.00%

<sup>(1)</sup> The amounts in the table are calculated by using the quarterly average amounts.

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## **İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.**

### **UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION) AT 31 DECEMBER 2017 (Continued)**

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

#### **SECTION FOUR (Continued)**

#### **INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)**

#### **VII. Explanations Related to Liquidity Risk (Continued)**

##### **Credit Risk Mitigation Techniques:**

The Bank does not perform in-and off-balance sheet netting. The Bank's cash credit transactions consist of loans extended to intermediary firms. Equity securities, treasury bills, government bonds, a letter of guarantee, investment fund participation certificates and cash blockage collateral may be obtained for extended cash credits. Takasbank Money Market (TMM) and Borsa Istanbul Money Market transactions are regarded as non-cash credits because of our guarantorship in TPP.

Cash, a letter of guarantee, treasury bills, government bonds, investment fund participation certificates, equity securities and Euro bonds are accepted as guarantee in TMM.

Government borrowing securities, share certificates in BIST 30 index, investment fund participation certificate, cash (TL, USD, EUR) for guarantee fund contribution, government domestic borrowing note, share certificate, investment fund participation certificate are taken as collateral in Derivatives Exchange. In the Borsa Istanbul Market, cash TL, convertible foreign exchange (USD, EUR), government debt securities and T.C. Treasury Asset Lease Inc. Lease Certificates are considered as collateral.

Regarding guarantees taken for TMM and cash credit transactions, equity securities are valued according to their weighted average price in the last session on the day of valuation, or, if the transaction is not realised, according to the arithmetic average of best purchase and best sales orders in the last session; Government Bonds and Treasury Bills are valued according to "Current Bond Rates" determined at BiAŞ (Debt Instruments Market) on the day of valuation; FC cash amounts and FC letters of guarantee are valued according to the currency buying rate announced by Central Bank of the Republic of Turkey for the day following the day of valuation; Investment Fund Participation Certificates are valued according to the prices announced on the day of valuation; and Euro Bonds are valued according to day published. In consequence of guarantee valuation carried out every day, in the event that the depreciation of the guarantees exceeds the limits determined by the Bank, a margin call is made to ensure that the guarantees are brought to the level of the initial guarantee.

The Bank performs valuation of collateral and risk at the end of each day. On the other hand, shares and exchange traded funds are also subject to valuation during the day. The method used for day-end and intra-day collateral valuation is as follows:

- a) Shares and Exchange traded funds are valued by taking into account the weighted average price emerging in the last session of the BiAŞ share market on the day of the valuation for day-end valuations, while the weighted average prices of the first session are taken into account for intra-day valuation. If no transaction has been performed in the stock exchange, the arithmetic average of the best purchase and sale orders in the last session is used. If no best purchase or best sale order exists then the weighted average price of the last session in which a transaction was performed is used
- b) Government bonds and treasury bonds are valued based on "current bond rates" defined within the BiAŞ, Debt Instruments Market on the day of valuation. If these prices cannot be obtained, then the daily values of government debt securities determined by the CRBT are used as indicators.
- c) Cash amounts in foreign currency are valued based on the foreign exchange buying rate determined by the CRBT for the day after the valuation

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**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.**  
**UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)**  
**AT 31 DECEMBER 2017 (Continued)**

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

**SECTION FOUR (Continued)**
**INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)**
**VII. Explanations Related to Liquidity Risk (Continued)**
**Collaterals in terms of Risk Categories:**

Exposure classifications	Amount	Financial Collaterals	Other/Physical Collaterals	Guarantees and Credit Derivatives
Conditional and unconditional receivables from central governments or central banks	884,463	-	-	-
Conditional and unconditional receivables from regional or local governments	-	-	-	-
Conditional and unconditional receivables from administrative units and non-commercial enterprises	-	-	-	-
Conditional and unconditional receivables from multilateral development banks	-	-	-	-
Conditional and unconditional receivables from international organizations	-	-	-	-
Conditional and unconditional receivables from banks and brokerage houses	19,191,056	2,115,884	-	-
Conditional and unconditional corporate receivables	7,987,461	-	-	-
Conditional and unconditional retail receivables	-	-	-	-
Conditional and unconditional secured mortgage receivables	-	-	-	-
Past due receivables	-	-	-	-
Receivables in high risk category defined by BRSA	-	-	-	-
Securities collateralised by mortgages	-	-	-	-
Securitisation positions	-	-	-	-
Short-term receivables from banks, stockbrokers and corporates	-	-	-	-
Investments of natured collective investment enterprise	-	-	-	-
Other receivables	386,334	-	-	-
<b>Total</b>	<b>28,449,314</b>	<b>2,115,884</b>	<b>-</b>	<b>-</b>

**VIII. Risk management objectives and policies**

The purpose of the risk management system is to define, measure, track, and report the risks, through policies, implementing procedures, and limitations identified to track, control, and, when necessary, change the risk-gain structure of future cash flows of the Bank and therefore the nature and level of its activities.

The purpose of the internal capital adequacy assessment process (ISEDES) is to internally determine the capital level which is adequate to compensate for the risks that the Bank is or is likely to be exposed to, and to enable the Bank to continue its operations with capital above this level.

When establishing and implementing the Risk Management System and ISEDES, the proportionality principle is considered, in accordance with BRSA legislation and good practice guidelines.

The general risk policy of the Bank is to perform its activities taking manageable, controllable, and reasonable risks, which maintain the balance between income and expenses. The Bank manages its risks in such a way that they stay above the minimum and below the maximum levels stated in the regulations published by the BRSA, and below the risk appetite confirmed by the Board of Directors.

The risk capacity of the Bank is decided in accordance with its capital adequacy policy. When doing capital and liquidity planning, the current and under-stress liquidity requirements of the Bank, as well as its risk appetite and capacity, are considered together.

The fund management strategy of the Bank is designed to avoid any liquidity problems, to sustain optimization of the risk-income balance, and to obtain maximum benefits from resources while taking a reasonable level of risk.

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS

## **İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.**

### **UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION) AT 31 DECEMBER 2017 (Continued)**

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

#### **SECTION FOUR (Continued)**

#### **INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)**

#### **VIII. Risk management objectives and policies (Continued)**

The footnotes and related explanations prepared in accordance with the Communiqué on "Public Disclosures related with Banks' Risk Management Regulations" published in Official Gazette No. 29511 on 23 October 2015 and entered into force as of 30 September 2016 are given in this section. The following tables, which should be given in quarterly periods in accordance with the related communiqué, have not been presented as of 31 December 2017 as the standard approach is used in the calculation of Bank's capital adequacy.

- The Change Table of Risk Weighted Assets (RWA) under the Internal Grading Based (IGB) approach
- RWA changes for Counterparty Credit Risk under the Internal Capital Method
- The market risk RWA change table, according to the internal model approach

#### **1. Risk management approach and risk weighted amounts**

##### **1.1. Bank's risk management approach**

#### **a) How the business model determines and interacts with the overall risk profile (e.g. the key risks related to the business model and how each of these risks is reflected and described in the risk disclosures) and how the risk profile of the bank interacts with the risk tolerance approved by the board.**

The Bank's activities basically consist of settlement, custody, collateral management, banking, central counterparty services (CCP), treasury operations and other transactions executed at the markets operated by the Bank. The risks exposed due to these activities are credit risk, market risk, operational risk, liquidity risk and interest rate risk in the banking book. Risks arising from information technologies and business continuity are evaluated in the operational risk framework. Capital is also allocated by the Bank to the covered risks under central counterparty general business risk with respect to CCP.

With respect to information technologies risks, development of indicators such as business disruptions, compliance to service level agreements of support service providers etc. are monitored by Risk Management Department, and reported to Executive Management. However, actions suggested for risks that are aligned with or above the operational risk appetite, and their key risk indicators are monitored by Internal Control and Compliance Department, and reported to Executive Management by the Risk Management Department.

Specific significance is attributed to business continuity risks as a possible disruption in services provided by the Bank align with its structure and operations, may be to the extent of affecting entire capital markets. Effectiveness and its compliance with international standards of the Bank's business continuity management system and information security management system operations have been registered within this scope ISO 22301- Business Continuity Management System Certificate and ISO 27001- Information Security Management System Certificate were received by the Bank.

In determining the risk profile, the risk factors and relationship between them that the Bank may be sensitive due to its structure and operations, are taken into account.

Risk appetites have been set by the Bank Board of Directors for the entire risk exposure, and risk limits and signal values have been established based on general and critical risk types to control the current risk profile, which is in turn to prevent exceeding overall risk appetite and risk appetites based on risk types determined by the Board of Directors. The development of the risk limits and signal values are monitored regularly by the Risk Management Department and reported to Executive Management.

The Bank's risk appetite is reviewed according to results of internal capital adequacy assessment process (ICAAP) at least once a year, risk limits and signal values determined in terms of general and risk types are reviewed according to the changes in market conditions and Bank's strategies. The review process is conducted to determine if the limits are significant and sufficient with respect to risks and the Bank's risk appetite. The primary responsibility for the review of limits, and overseeing that the risks assumed by the Bank are within the risk limits and monitored by the Executive Management lies with the Board of Directors.

Signal value overflows are reported via e-mail by the Risk Management Department to the Audit Committee, Senior Management and unit managers who perform the respective process at the management of the business line. If the overflows occur in the allocated risk appetites and risk limits, written information is provided to the Audit Committee by the Risk Management Department to notify the Senior Management and Board of Directors ensuring that the necessary measures to be taken.

In the markets, where the Bank provides CCP service, there are trade limits allocated to members in order to limit risks of the members against the Bank. The maximum risk limits are determined using the shareholder's equity and/or ratings issued by the internal rating and assessment system of the Bank. Risk limits can be set over nominal open position amounts or another indicator (e.g. value at risk) that measures member risks, such as initial margin. Along with this, there are also liquidity risk, credit risk and concentration risk limits based on markets, where CCP service is provided.

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### SECTION FOUR (Continued)

#### INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

##### VIII. Risk management objectives and policies (Continued)

Credit risk exposure of the Bank by the reason of the CCP service is monitored by comparing existing (deposited) margin with the required margin. Concentration risk is monitored to based on the ratio of required margin level for each member to total margin requirement in the respective market, and the limit is monitored on daily basis by the Central Counterparty Department of the Bank. However, if in any market the ratio of the risks belonging to members outside the top 3, to total risk doesn't exceed a certain rate (if the market does not have enough depth) and/or, if there are members that use less than a certain ratio of the allocated limit in the respective market, the limit cannot be applied.

If concentration limits are exceeded by any member, the member may be prevented from taking an additional position, the member may be demanded for additional trade margin, and its trade limits may be reduced until the end of a period to be set with the approval of the General Manager of the Bank and if required with the decision of Board of Directors.

It is essential that the ratio of the sum of liquid trade margins of the top 2 members with highest risk at each market, where the Bank is CCP, liquid assets in the respective market's guarantee fund and the highly liquid assets that the Bank allocates and commits from its own capital, to the risk amount of these members is not below a certain limit.

**b) The risk governance structure: responsibilities attributed throughout the bank (e.g. oversight and delegation of authority; breakdown of responsibilities by type of risk, business unit etc.); relationships between the structures involved in risk management processes (e.g. board of directors, executive management, separate risk committee, risk management structure, compliance function, internal audit function).**

Duties, authorities and responsibilities within the scope of risk management system are performed by Executive Management in accordance with the legislation and by all the units of the Bank as part of the framework of communiqués, procedures and directives. It is mandatory to ensure that risk management policy and implementing procedures adapt to the changing conditions. The Board of Directors assesses regularly the sufficiency of such policy and implementing procedures and makes the necessary changes. Bank Senior Management is jointly and Board Members are severally responsible for the design and its application within the Bank of ICAAP. ICAAP Report and Stress Test Report are prepared in coordination with Risk Management Department with the participation of all respective units, and the results of the reports are used in the Bank's decision-making processes.

Three line of defence approach that comprising of business line management, central risk management function and independent review, is employed in risk management. Accordingly;

- Under the management of the business line, risks arising from product and services provided by each unit of the Bank, employed process, human resource and systems are determined, process and sub-process based risks and controls are defined, and Senior Management is informed ensuring that appropriate actions are taken.
- Central risk management function is facilitated by establishing risk and control systems within the Bank, segregation of duties and responsibilities and review of process and functions by Risk Management Department, Internal Control and Compliance Department besides operational units performing such functions. Internal Control and Compliance Department perform activities involving controlling that the banking and capital markets activities offered by the Bank are compliant with respective legal regulations, internal regulations and if necessary international practices in an effective and adequate manner at first line, as "secondary phase protection" element. Such activities and their control periods are determined annually in Internal Control Program. Furthermore, Internal Control and Compliance Department and Internal Audit Department conduct tasks related to the Management Statement.
- Independent review process involves assessment of risk management and internal control framework from all aspects. Internal Audit Department provides extensive assurance for Board of Directors and Senior Management, as an element capable of acting in an independent and impartial manner within the organization. During audit activities, first of all, compliance of Bank activities with the regulation, internal strategies, policies, principles and targets are analysed. In addition, reports are submitted to Board of Directors and Senior Management on whether first and second line of defence have reached risk management and risk control targets or not, and on effectiveness and efficiency of risk management and designed controls. Elements such as effectiveness and efficiency of Bank operations, protection of assets, reliability and soundness of reporting processes, risk management and internal control framework, operation units and their functions, infrastructure, asset management and information technology are included into the scope of assurance reported to Board of Directors and Senior Management.

The assumed risks due to CCP activities are managed within a comprehensive risk management framework. The framework of this risk management has been determined within the scope of Istanbul Settlement and Custody Bank Incorporation Central Counterparty Regulation. The respective regulation regulates a detailed risk management framework such as membership types and trade limits, margining and guarantee fund, stress tests, risk management practices, model security and back tests, the position of internal system units activities in CCP risk management framework, risk mitigation methods and crisis management tools. Such activities are performed by the Central Counterparty Department within the Bank's organization structure.

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#### **SECTION FOUR (Continued)**

#### **INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)**

##### **VIII. Risk management objectives and policies (Continued)**

The Bank has established a CCP Risk Advisory Committee designated to submit opinion to Board of Directors on CCP regulations and management of CCP risks and relevant matters. The Committee consists of CCP member representatives, representatives CCP members' legal entity clients and independent members of Takasbank Board of Directors and chaired by one of the independent member of Board of Directors. At Risk Advisory Committee, matters that may affect CCP's risk management such as change in risk models used in CCP risk management, default procedures, membership admission criteria, settlement of new type of capital market instruments or usage of insurance or external resource use in the transactions are discussed.

The Bank allocates capital for covered risk exposed due to CCP services in order to prevent systemic risk and also determines the committed capital from the remaining capital. In stress tests conducted as part of CCP application, it is assessed whether the available margins, guarantee funds and resources consisting of allocated and committed capital at markets where the Bank is CCP are large enough to meet the fund requirements of default of 2 members with the highest risk under extreme market conditions. At the same time, models used to calculate initial margin at CCP markets and confidence levels are analysed by the Bank via back tests. Stress test and back test results and recommended measures if exist, are reported on quarterly basis through internal system units to the Board of Directors and to the Capital Markets Board by the CCP Department.

##### **c) Channels to communicate, decline and enforce the risk culture within the bank (e.g. code of conduct; manuals containing operating limits or procedures to treat violations or breaches of risk thresholds; procedures to raise and share risk issues between business lines and risk functions).**

At least, in order for creating a Bank-wise risk culture through the framework of operational risk management established by the Bank in accordance with Takasbank Operational Risk Management Procedure; Risk Management Department consult on management of risk exposure by the through mutual negotiations with all the risk and control officer or process owners at workshop studies, training documents are sent to the Bank personnel and if required training is provided and operational risk policy and procedures are announced to the relevant Bank staff.

The Bank's risk and control self-assessment process involves assessment of the impacts, possibilities and controls of risks that Bank processes are exposed to, and appropriate actions for risks aligned with or above the Bank's operational risk appetite.

During self-assessment studies, in coordination with Risk Management Department and Internal Control and Compliance Department, sub-processes risks and controls established against these risks are reviewed and updated by holding mutual negotiations with all units. Risks belonging to all units are also screened by Internal Audit Department and Internal Control and Compliance Department for the usage of audit and control activities.

Procedures and principles have been regulated regarding promptly and adequately execution of activities that shall be carried out pursuant to İstanbul Settlement and Custody Bank Inc. Organization and Duties Communiqué, Banking Law, Capital Markets Law and provisions of other relevant legislations, determination of the organizational structure and role and realm of authority of the units and facilitation of coordination among units.

Pursuant to Takasbank Risk Management Communiqué, signal value overflows are reported to the Audit Committee Senior Management and unit managers whose performing the respective process at the business line management via e-mail by the Risk Management Department. In addition to this, if an overflows occur in the allocated risk appetites and risk limits, written information is provided to the Audit Committee by the Risk Management Department to notify the Senior Management and Board of Directors ensuring that the necessary measures are taken. Also Banking Ethical Principles that was published by the BRSA are adopted by the Bank personnel.

In the Asset Liability Committee meeting held with the participation of Senior Management, relevant unit managers and Risk Management Department Manager on monthly basis, a consultation is held on the Bank's entire operations and it is ensured that necessary action is taken.

Details of ICAAP process established at the Bank and stress test procedure and principles are provided in the Takasbank ICAAP Communiqué and Takasbank Stress Test Program Policy and Implementation Procedures respectively.



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**SECTION FOUR (Continued)**

**INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)**

**VIII. Risk management objectives and policies (Continued)**

**d) The scope and main features of risk measurement systems:**

Systems, which may be applied in a reliable and integrate with the operations, have been built to measure quantifiable risk exposure of the Bank and assess non-quantifiable risks, procedures and principles are provided in the communiqué and procedures which are endorsed by the Board of Directors.

Board of Directors and Senior Management evaluate assumptions underlying the used models and their limitations, data sources used to measure risks and adequacy and suitability of implementation procedures. Accuracy and reliability of risk measurement methodologies, methods or models are determined by using actual results via back tests. To reflect the changing market conditions, methodologies, methods and models used in risk measurement are updated periodically.

In all risk analysis and assessments as part of principle of proportionality first and second pillar risks are taken into account. Credit risk (counterparty credit risk is included), market risk and operational risk which are part of the first pillar risk measured periodically according to standardised approach, standard method and basic indicator approach respectively and reported pursuant to Communiqué on Measurement and Assessment of Banks’ Capital Adequacy and its sub-regulations. Also, credit risk that the Bank is exposed to due to guarantees provided under CCP activities and the transactions causing this risk, are measured under legal credit risk capital requirement. Second pillar risks are assessed within the scope of ICAAP.

Value at market risk and internal market risk capital requirement are calculated on daily basis by using internal method which is determined in the Communiqué on Measurement and Assessment of Banks’ Capital Adequacy and its sub-regulations, and the loss amount that the portfolio may be exposed to is reported to Senior Management via stress tests and scenario analysis.

Legal risk, reputational risk, strategic risk, business continuity risk, information technologies risk and risks arising from critical stakeholders and subsidiaries, which may affect the Bank’s operations and reputation, are considered as operational risk. As part of operational risk, all quantifiable and non-quantifiable risks are addressed in the Operational Risk Database, and losses, which are quantifiable, and reflected to booking records as expenses are addressed in the Operational Risk Loss Database.

Risk assessment is conducted in coordination with Risk Management Department with all the respective units by the Bank in the considering of the entire risk exposure before new product and services are offered. In addition to this, also Risk Analysis Report and Technical Adequacy Report are prepared in accordance with the Communiqué Regarding Banks Receiving Support Service and Takasbank Support Service Purchasing Procedure before support service purchasing contract is signed by the Bank or service contract with the support service provider is renewed and then are submitted for Board of Directors approval annexed to the Audit Committee Assessment Report.

**e) Explanations about the process of risk information reporting provided to the board and senior management, in particular the scope and main content of reporting on risk exposure:**

The Banks establishes extensive reporting systems and prepares reports to be used in the management of risk exposure, processes involving determination of strategies and decision-making. The reports prepared should at the least include information such as;

- Risk analysis results and development,
- Results of stress tests and scenario analysis are intended to respective risk type and the whole of the Bank,
- Whether there was an overflows of risk limits and signal values,
- Assumptions underlying risk assessment process, parameters and constraints regarding the used models and any changes in these,
- Risk mitigation techniques and risk transfer strategies

The Bank ensures that measurement, assessment, monitoring, stress test and scenario analysis studies aligned with operational structure and complexity are carried out with respect to risk management and the respective results are reported regularly. It is ensured that the reports are submitted at regular intervals to the Board of Directors and via Senior Management to the units responsible for occurrence and monitoring of risk.

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#### **SECTION FOUR (Continued)**

#### **INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)**

#### **VIII. Risk management objectives and policies (Continued)**

##### **f) Qualitative information on stress testing (e.g. portfolios subject to stress testing, scenarios adopted and methodologies used, and use of stress testing in risk management):**

A stress test program has been built by the Bank to measure that the risks and fragilities may arise from adverse development pertain to the Bank or come to light in economic and financial environment under stress, the procedures and principles related to the process have been provided in the Takasbank Stress Test Program Policy and Implementation Procedures. Stress tests are designed in coherence with the Bank's risk appetite and strategy and with a forward-looking perspective and include risk mitigating management actions.

Risk concentrations existing in different areas are revealed upon application of partial stress test for certain portfolio and/or critical risk types affecting the bank. Holistic stress tests targeting the entire Bank, employed in capital and liquidity planning, are carried out with the participation of all the relevant units of the Bank and in coordination with Risk Management Department in the context of ICAAP at least once a year, and sent to BRSA following Board of Directors approval with ICAAP report. The Bank takes into account stress tests that carried out under ICAAP, scenario analysis and their results in creating budget, strategic plan, fund management strategy and policies. In the stress tests apply fundamentally scenarios such as the increase in interest rates and downgrade of sovereign rating are tackled.

In the stress tests conducted under CCP application, it is evaluated whether the resources consisting of margins available in case of default for the Bank's use at CCP markets, guarantee fund and portions of allocated and committed capital are large enough to meet the fund requirement that shall arise in case of default of 2 members with the highest risks under extreme market conditions. In addition to this, the models used in calculation of initial margin at CCP markets, and sufficiency of confidence levels are analysed by the Bank with back tests. Stress test and back test results and if exist, recommended measures are reported on quarterly basis through internal system units to the Board of Directors and by the CCP department to the Capital Markets Board.

In reverse stress tests conducted on quarterly basis by the CCP department, it is analysed as to how many CCP member defaults shall be met by total default resources under extreme market conditions, where the defaulted CCP members have not fulfilled their additional contribution share obligations, or have not been able to do so. Reverse stress tests are conducted to identify the number of CCP member default that shall be met with total default management resources under extreme market condition defined in stress test, and the analysis of market conditions that equal total default resources to fund requirements that may arise in case of default of 2 members with highest risk.

##### **g) The strategies and processes to manage, hedge and mitigate risks that arise from the bank's business model and the processes for monitoring the continuing effectiveness of hedges and mitigants:**

Bank operations basically consist of settlement, custody, collateral management, banking, central counterparty services and treasury operations and other transactions executed at the markets operated by the Bank. The risk exposure due to these operations are credit risk, market risk, operational risk, liquidity risk and interest rate risk in the banking book. Information technologies risks and business continuity risks are considered as operational risk. Capital is also allocated by the Bank to covered risks under central counterparty general business risk with respect to CCP.

The Bank manages its risks ensuring that they remain over/under the minimum/maximum limits in all the governing legal regulations and below the risk appetites endorsed by the Board of Directors based on overall risk and risk types. The Bank has determined signal values under risk limits based on overall risk and risk type, and early warning systems in the name of controlling current risk profile to avoid overflows of overall risk appetite and risk appetites based on risk types endorsed by the Board of Directors and such values are monitored regularly by the Risk Management Department.

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**SECTION FOUR (Continued)**

**INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)**

**VIII. Risk management objectives and policies (Continued)**

Within the scope of Takasbank Restructuring Plan endorsed by the Bank’s Board of Directors, required actions are taken by Executive Management to reduce the risk levels that the Bank is exposed to, aforesaid plan is reviewed at least once a year in coordination with Risk Management Department with participation of all related units of the Bank.

In reducing credit risk level, the Bank may take into account besides risk mitigant effect of collaterals, risk mitigation techniques such as insurance or derivative products for hedging risks. In addition to this, while using margins, guarantee fund contribution shares, and Takasbank resources that may be resorted to in the default event of CCP members pursuant to Article 36 of Istanbul Settlement and Custody Bank Incorporation Central Counterparty Regulation, the following priority order should be followed:

- Collaterals in the accounts of the defaulted CCP member itself or in the customer accounts under itself where a deficit of collateral occurs,
- The deposited guarantee fund contribution share of the defaulted CCP member
- Compensations to be made from insurance policies, if any
- Allocated capital of Takasbank for covered risks
- Deposited guarantee fund contributions of the other CCP members,
- Additional guarantee fund contributions which may be requested from the CCP members,
- Commitment made from the remaining capital of Takasbank

In article 46 and 73 of 6362 no Capital Markets Law, it is legislated that clearing and custody agencies may request collateral from investment institutions and investors under investment services and activities, assets in guarantee fund, established with collaterals kept with clearing agencies to overcome clearing risks, cannot be seized or pledged even for public claims, cannot be included into bankruptcy estate and precautionary measure cannot be exercised over them. This situation legally leaves collaterals provided to the Bank by the members out of bankruptcy and acts as a credit mitigant on the credit risk that the Bank may be exposed to.

The Bank’s fund management strategy has been created to avoid any liquidity problem, ensure optimization of risk-return balance, invest resources at the utmost efficiency rates by taking reasonable level of risk and in line with this strategy treasury operations are executed with banks to whom limit has been allocated by the Board of Directors. Only Government Debt Securities are issued by the Republic of Turkey Prime Ministry Under secretariat of Treasury may be purchased for the Bank’s securities portfolio. In addition to this derivate instruments may also be used for hedging purposes.

Actions suggested for risks aligned with or above operational risk appetite and key risk indicators are monitored by Internal Control and Compliance Department and reported by Risk Management Department to Executive Management. Moreover, operational risk losses, process and sub-process risks and unit based key performance indicators established for Operational Risk Database and Operational Risk Loss Database are monitored periodically. The operational risks that the Bank is/may be exposed to covered to a large extent by purchasing insurance policies.

It is assessed by the Senior Management whether risks shall be accepted or not for risks aligned with or above the Bank’s operational risk appetite, for uncontrollable risks and risks that cannot be mitigated, and whether the level of activity in such line of business shall be reduced or not or entirely terminated or not and submitted to the approval of Board of Directors.

Distribution of the Bank’s asset and liability items are based on certain currencies and maturity/repricing period, liquidity deficit/surplus, resources that may be generated during possible liquidity crisis situations and free shareholders’ equity level are monitored regularly.

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**SECTION FOUR (Continued)****INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)****VIII. Risk management objectives and policies (Continued)****1.2. Overview of Risk Weighted Amounts**

	Risk Weighted Amounts		Minimum Capital
	Current Period	Prior Period	Current Period
Credit Risk (excluding counterparty credit risk)	7,278,486	3,904,417	582,279
Standardised approach	7,278,486	3,904,417	582,279
Internal rating-based approach	-	-	-
Counterparty credit risk	6	3	-
Standardised approach for counterparty credit risk	6	3	-
Internal model method	-	-	-
Basic risk weight approach to internal models equity position in the banking account	-	-	-
Investments made in collective investment companies-look through approach	-	-	-
Investments made in collective investment companies-mandate-based approach	-	-	-
Investments made in collective investment companies-1250% weighted risk approach	-	-	-
Settlement risk	-	-	-
Securitization exposures in banking book	-	-	-
IRB ratings-based approach	-	-	-
IRB Supervisory Formula approach	-	-	-
SA/simplified supervisory formula approach	-	-	-
Market risk	10,088	9,975	807
Standardised approach	10,088	9,975	807
Internal model approaches	-	-	-
Operational risk	536,513	404,889	42,921
Basic Indicator approach	536,513	404,889	42,921
Standard approach	-	-	-
Advanced measurement approach	-	-	-
The amount of the discount threshold under the equity (subject to a 250% risk weight)	-	-	-
Floor adjustments	-	-	-
<b>Total</b>	<b>7,825,093</b>	<b>4,319,284</b>	<b>626,007</b>

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#### INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

#### VIII. Risk management objectives and policies (Continued)

#### 2. Linkages between financial statements and regulatory exposures

#### 2.1 Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

	Carrying values of items in accordance with TAS				
	Carrying values under scope of regulatory consolidation	Subject of credit risk framework	Subject to counterparty credit risk framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
<b>Assets</b>					
Cash and balances at central bank	480	-	-	-	-
Financial assets held for trading	-	-	-	-	-
Financial assets designated at fair value through profit or loss	-	-	-	-	-
Banks	10,163,484	-	-	4,446,312	-
Receivables from money markets	20,833	-	20,833	-	-
Available for sale financial assets (net)	1,832	-	-	661	-
Loans and receivables	198,856	-	-	-	-
Factoring receivables	-	-	-	-	-
Held to maturity investments (net)	36,947	-	-	-	-
Investments in associates (net)	-	-	-	-	-
Investments in subsidiaries (net)	4,825	-	-	-	4,825
Investments in joint ventures (net)	-	-	-	-	-
Leasing receivables	-	-	-	-	-
Derivative financial assets held for hedges	-	-	-	-	-
Tangible assets (net)	7,437	-	-	-	80
Intangible assets (net)	98,095	-	-	-	98,095
Investment properties (net)	9,495	-	-	-	-
Tax assets	-	-	-	-	-
Non-current assets and disposal groups classified as held for sale (net)	-	-	-	-	-
Other assets	22,145	-	-	808	-
<b>Total assets</b>	<b>10,564,429</b>	<b>-</b>	<b>20,833</b>	<b>4,447,781</b>	<b>103,000</b>
<b>Liabilities</b>					
Deposits	-	-	-	-	-
Derivative financial liabilities held for trading	-	-	-	-	-
Loans	3,144,268	-	-	2,372,955	-
Debt to money markets	34,737	-	-	-	-
Debt securities in issue	-	-	-	-	-
Funds	-	-	-	-	-
Various debts	5,970,618	-	-	2,064,740	-
Other liabilities	60,316	-	-	-	-
Factoring debts	-	-	-	-	-
Debts from leasing transactions	-	-	-	-	-
Derivative financial liabilities held for hedges	-	-	-	-	-
Provisions	82,062	-	-	-	-
Tax liability	26,166	-	-	-	-
Liabilities included in disposal groups classified as held for sale (net)	-	-	-	-	-
Subordinated loans	-	-	-	-	-
Equity	1,246,262	-	-	-	-
<b>Total liabilities</b>	<b>10,564,429</b>	<b>-</b>	<b>-</b>	<b>4,437,695</b>	<b>-</b>

<sup>(1)</sup> Refers to the Bank's non-consolidated financial statements.

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**SECTION FOUR (Continued)****INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)****VIII. Risk management objectives and policies (Continued)****2. Linkages between financial statements and regulatory exposures (Continued)****2.2 Main sources of differences between regulatory exposure amounts and carrying values in financial statements**

	Total	Items subject to credit risk framework	Items subject to counterparty credit risk framework	Items subject to market risk framework
<b>Asset carrying value amount under scope of regulatory consolidation</b>	-	-	-	-
Liabilities carrying value amount under regulatory scope of consolidation	-	-	-	-
<b>Total net amount under regulatory scope of consolidation</b>	-	-	-	-
Off-balance sheet amounts	-	17,937,202	-	-
Differences in valuations	-	-	-	-
Differences due to different netting rules (except placed row 2)	-	-	-	-
Differences due to consideration of provisions	-	-	-	-
Differences due to prudential filters	-	-	-	-
<b>Exposure amounts considered for regulatory purposes</b>	-	<b>28,428,509</b>	<b>20,805</b>	<b>10,088</b>

**2.3 Explanations of differences between accounting and regulatory exposure amounts in accordance with TAS:**

- a) Banks explain the origins of any significant differences between the amounts in columns a and b on B1.  
There are no significant differences. As there is no difference according to the explanation of the regulation, the table has been filled by merging with the respective column.
- b) Banks explain the origins of differences between carrying values and amounts considered for regulatory purposes shown in B2.
- c) In accordance with the implementation of the guidance on prudent valuation (Regulation on Measurement and Evaluation of Capital Adequacy of Banks Annex 3) banks must describe systems and controls to ensure that the valuation estimates are prudent and reliable. Disclosure must include: -Valuation methodologies, including an explanation of how far mark-to-market and mark-to-model methodologies are used. - Description of the independent price verification process. -Procedures for valuation adjustments or reserves (including a description of the process and the methodology for valuing trading positions by type of instrument).

**3. Credit Risk Disclosure****3.1 General information about credit risk****3.1.1 General qualitative information about credit risk**

- a) How the business model translates into the components of the bank's credit risk profile:

Our loan transactions bear the possibility of borrower member or guarantors' inability to perform their obligations that they have committed and undertaken in writing and as per the agreements, meaning credit risk.

The Bank's cash loan transactions consist of loans offered to brokerage houses. Additionally, cash loans may also be offered to members, who are unable to perform their cash obligation at Turkey Electronic Fund Trading Platform on effective date, meaning defaulted members. As the Bank acts as a guarantor in the mutual obligations of members at Takasbank Money Market, these transactions are considered as non-cash loan according to banking regulation. The Bank acts as CCP at Security Lending Market, Futures and Options Market and Borsa Istanbul Money Market, obligations in these markets are also of noncash loans.

In addition to this the Bank may also be exposed to credit risk due to treasury transactions executed as part of fund management operations and transactions executed under the Bank's collateral management functions.

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**INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)**

**VIII. Risk management objectives and policies (Continued)**

**3. Credit Risk Disclosure (Continued)**

**3.1 General information about credit risk (Continued)**

**3.1.1 General qualitative information about credit risk (Continued)**

b) Criteria and approach used for defining credit risk management policy and for setting credit risk limits:

Credit risk appetite has been determined by the Bank’s Board of Directors taking into account concentration in cash and noncash loan transactions of the Bank that are subject to credit risk. The Bank’s credit risk appetite is reviewed at least once a year. In addition to this, to control risk in question, limit and signal values have been set by the Board of Directors to avoid overflow of credit risk appetite and these limits are monitored on daily basis by Risk Management Department.

Audit Committee, Senior Management and unit managers performing the respective process at the management of the business lines are notified by the Risk Management Department via email when the signal value is reached. If the allocated credit risk limits and credit risk appetite is exceeded, written information is provided to the Audit Committee by the Risk Management Department to notify Senior Management and Board of Directors ensuring that required measures are taken.

Credit risk limits and signal values are reviewed according to market conditions and changes in the Bank’s strategies, and the review process is handled to determine if limits are significant and sufficient against risks and the Bank’s credit risk appetite. The supervisory responsibility regarding reviewing of credit risk limits and overseeing that risks assumed by the Bank are within risk limits and for monitoring by the Executive Management belongs to the Board of Directors.

The Bank has trade limits that allocated to members at markets, where the Bank acts as CCP, to limit members’ risks against the Bank. In determining maximum risk limits are used with shareholders’ equity and/or ratings issued by the Bank’s internal rating and assessment system are used. Risk limits may be set over nominal open position amounts or another indicator such as initial margin that measures member risks (for instance value at risk). In addition, there is also concentration risk limit determined based on CCP markets and in this regard the ratio of required margin for each member to the total requirement at the market is monitored on daily basis by CCP Department.

**3.2. General information about credit risk**

**3.2.1 General qualitative information about credit risk**

c) Structure and organisation of the credit risk management and control function:

In credit risk management three line of defence consisting of business line management, central risk management function and independent review, is used. Accordingly;

- Under the management of the business line, process and sub-process based risks and controls are defined by Derivatives Clearing and Settlement Team, Debt Securities Clearing and Settlement Team, Treasury and Credits Departments, Markets Department and Central Counterparty Department, and Senior Management is informed ensuring that appropriate actions are taken.
- Central risk management function is facilitated by establishing credit risk and control systems within the Bank, segregation of duties and responsibilities and review of process and functions by Risk Management Department, Internal Control and Compliance Department besides operational units performing such functions. Internal Control and Compliance Department perform activities involving controlling that the banking and capital markets activities offered by the Bank are compliant with respective legal regulations, internal regulations and where necessary compliant with international practices in an effective and adequate manner at first line, as “secondary phase protection” element. Such activities and their control periods are determined annually in Internal Control Program. Furthermore, Internal Control and Compliance Department and Internal Audit Department conduct tasks related to the Management Statement.
- Independent review process involves assessment of risk management and internal control framework from all aspects. Internal Audit Department provides extensive assurance for Board of Directors and Senior Management, as an element capable of acting in an independent and impartial manner within the organization. During audit activities, first of all, compliance of Bank activities with the regulation, internal strategies, policies, principles and targets are analysed. In addition, reports are submitted to Board of Directors and Senior Management on whether first and second line of defence have reached credit risk management and risk control targets or not, and on effectiveness and efficiency of credit risk management and designed controls. Elements such as effectiveness and efficiency of Bank operations, protection of assets, reliability and soundness of reporting processes, credit risk management and internal control framework, operation units and their functions, infrastructure, asset management and information technology are included into the scope of assurance reported to Board of Directors and Senior Management.

Roles, authorities and responsibilities as part of credit risk management are performed by the Executive Management in line with the governing regulation, and by all of the Bank’s units subject to their own communiqué, procedure and directives.

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#### **VIII. Risk information objectives and policies (Continued)**

#### **3. Credit Risk Disclosure (Continued)**

#### **3.1. General information about credit risk (Continued)**

#### **3.2.1 General qualitative information about credit risk (Continued)**

In cases where credit risk limit and signal values are overflowed, and members fail to perform their obligations at markets, where CCP service is provided by the Bank, required actions are put into effect by Executive Management in accordance with Takasbank Restructuring Plan. In particular for CCP activities, liquidity risk is related to credit risk and in this regard in terms of cashing in margins liquidity risk is evaluated specifically and at the same time restructuring tools include actions against liquidity crunch that the Bank may face due to the CCP service it provides. These action are chosen as to minimize financial risk that the Bank faces, and at the same time to have minimal negative impact on the market, and systemic risk is evaluated in terms of providing assurance to the market, and its impacts on member/clients.

An authorized CCP Risk Advisory Committee has been established by the Bank to provide advice to the Board of Directors on CCP risks management related issues, in such committee matters, which may affect CCP's risk management such as changes in risk models used in CCP risk management, default procedures, member admission criteria, settlement of new type of capital market instrument or use of insurance or external resources in transactions, are discussed.

d) Relationships between the credit risk management, risk control, compliance and internal audit functions:

Credit risk related operations are maintained by business lines with a perspective focused on risk. At the first line of defence; credit risk is managed through the existence of an effective and strong collateral mechanism and allocation of appropriate limits. In determining credit or position limits to be allocated to financial institutions and membership types of members, who shall execute trades at CCP markets or CCP- enabled capital market instruments, ratings resulting from internal credit rating and assessment system study and representing credit worthiness of the financial institutions and their strength to serve their existing or future commitments to the Bank, are used after such limits entry into force following Board of Directors approval.

Credit worthiness of the members is monitored by the Bank at regular intervals, and credit limits are updated according to the changes in the members' financial structures. Continuous and transaction basis execution of limits, risk and collateral controls in electronic environment for minimizing operational errors.

Liquid and/or almost liquid collaterals are obtained during credit allocation in accordance with communiqué, procedures, and directives were prepared by Derivatives Clearing and Settlement Team, Debt Securities Clearing and Settlement Team, Credits Team, Markets Department and Central Counterparty Department. The collaterals are valued at the end of each day, and valuation coefficient are used in the calculation of non-cash collateral values to avoid any impairment and liquidity problem while cashing in collaterals whenever required.

In article 46 and 73 of 6362 no Capital Markets Law, it is legislated that clearing and custody agencies may request collateral from investment institutions and investors under investment services and activities, assets in guarantee fund, established with collaterals kept with clearing agencies to overcome clearing risks, cannot be seized or pledged even for public claims, cannot be included into bankruptcy estate and precautionary measure cannot be exercised over them. In this regard, collaterals entrusted to Takasbank are taken under legal protection and this situation creates a risk mitigating effect for the Bank's credit risk exposure.

In all CCP markets ensure that members perform their obligations promptly and in full to Takasbank, it is essential that risks are measured in an effective manner and monitored. In this regard;

- Initial margin level is calculated at regular intervals to include the recently experiences financial volatilities and monitored continuously in considering of market conditions and revised when required.
- Guarantee fund size is created used confidence levels, which describe very strong financial volatilities but of low possibility.
- Trade margin sufficiency should be followed to the extent of intraday price movement and position changes.
- Trade margins, guarantee fund contributions shares, sufficiency of resources allocated and committed from the Bank capital to CCP risks are followed at regular intervals via stress tests.
- Financial strength of members is monitored continuously and their trades are limited via established limits in light of financial strength.

Istanbul Settlement and Custody Bank Incorporation Central Counterparty Regulation regulates a detailed risk management framework such as membership types and trade limits, margining and guarantee fund, stress tests, risk management applications, model security and back test, position of internal system units activities within CCP risk management framework, risk mitigation methods and crisis management tools.



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**VIII. Risk information objectives and policies (Continued)**

**3. Credit Risk Disclosure (Continued)**

**3.2. General information about credit risk (Continued)**

**3.2.1 General qualitative information about credit risk (Continued)**

In the second line of defence; within the scope of Takasbank Risk Management Communiqué the Bank manages credit risk by taking into account credit risk appetite, credit risk limits, signal values that set under early warning system, partial and holistic stress test and scenario analysis and internal capital adequacy assessment process. Measurement, monitoring, limit, stress test and scenario analysis studies are conducted at the bank by Risk Management Department subject to principle of proportionality and in alignment with the volume, nature and complexity of the operations in the three line of defence. It is essential that to reveal the credit risk that the Bank may face, risk measurement and monitoring activities are performed and the results are taken into consideration in the Bank’s strategic decision-making processes. Furthermore, Internal Control and Compliance Department must control transaction of units that may cause credit risk, in line with legal regulations and internal regulation. Such control activities and control periods of the operations are determined annually in the Internal Control Program. In addition to the related studies, Internal Control and Compliance Department and Internal Audit Department perform studies related to the Management Statement.

In the third line of defence, operations of these units are audited periodically by the Internal Audit Department, which inspects and audits on behalf of the Board of Directors. As an element, which has the ability to act independently and impartially within the organization, Internal Audit Department provides extensive assurance to Board of Directors and Senior Management. Audit provides assurance as to whether first and second lines of defence have reached credit risk management and risk control targets or not, on governance, credit risk management and effectiveness and efficiency of the designed controls. Factors such as the general effectiveness and efficiency of activities, the protection of assets, the reliability and robustness of reporting processes, the framework of credit risk management and internal control, operations units and their functions, infrastructure, asset management and information technology are included in the scope of the assurance reported to the Board of Directors and Senior Management. In this regard, the compliance of Bank’s activities with the legislation, internal strategies, policies, principles and targets are examined.

Pursuant to article 46, paragraph 2 of Istanbul Settlement and Custody Bank Incorporation Central Counterparty Regulation is titled “Infrastructure of internal systems and information technologies” the soundness of the Bank’s risk management and information technology infrastructures are audited semi-annually and the final report is sent to Capital Markets Board. In addition to this, subject to article 12 of again the respective regulation is titled “General obligations of CCP members” the task of overseeing and auditing whether CCP members serve their obligation or not, has been assigned to Takasbank, and the members must ensure the continuity of essential internal control, risk management and internal audit mechanisms to be a party to this service at CCP markets or CCP capital market instruments. In this regard on-site CCP member audits are conducted by Internal Audit Department.

e) Scope and main content of the reporting on credit risk exposure and on the credit risk management function to the executive management and to the board of directors:

The report containing credit risk based amount (including counterparty credit risk based amount as well) calculated according to standardised approach on monthly basis pursuant to Communiqué on Measurement and Assessment of Banks’ Capital Adequacy and their sub-regulations, and the progress of credit risk appetite, credit risk limit and signal values and credit risk concentrations, are reported by Risk Management Department on daily basis to the Senior Management, monthly basis to the Audit Committee and Senior Management and on quarterly basis to the Executive Management.

Stress Test Report containing credit risk stress test and scenario analysis results, and ICAAP report are submitted to Executive Management annually by the Risk Management Department, and reported to the BRSA. In addition, adequacy of model employed in calculation of initial margin at CCP markets, and confidence level are analysed with back tests by the Bank. Results of stress tests and back tests performed by CCP Department, and if there are, suggested measures, are reported on quarterly basis via internal system units to the Board of Directors.

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Current Period	Gross carrying values of (according to TAS)		Allowances/ Impairments	Net values
	Defaulted exposures	Non-defaulted exposures		
Loans	1,574	198,856	1,574	198,856
Debt Securities	-	36,947	-	36,947
Off-balance sheet exposures	-	17,937,202	-	17,937,202
<b>Total</b>	<b>1,574</b>	<b>18,173,005</b>	<b>1,574</b>	<b>18,173,005</b>

**3.2.3 Changes in stock of defaulted loans and debt securities**

<b>1 Defaulted loans and debt securities at end of the 31 December 2016</b>	<b>1,574</b>
2 Loans and debt securities that have defaulted since the last reporting period	-
3 Returned to non-defaulted status	-
4 Amounts written off	-
5 Other changes	-
<b>6 Defaulted loans and debt securities at end of 31 December 2017 (1+2-3-4±5)</b>	<b>1,574</b>

**3.2.4 Additional disclosure related to the credit quality**

a) The scope and definitions of "past due" and "impaired" exposures used for accounting purposes and the differences, if any, between the definition of past due and default for accounting and regulatory purposes.

The Bank has no different receivable under the scope and definitions of "non-performing loans" and receivables for which "provisions have been reserved".

b) The extent of past-due exposures (more than 90 days) that are not considered to be impaired and the reasons for this.

None.

c) Description of methods used for determining impairments.

100% provision is reserved against receivables.

d) The bank's own definition of a restructured exposure.

The Bank does not have restructured receivables.

e) Breakdown of exposures by geographical areas, industry and residual maturity;

The Bank has an outstanding claim from Merkez Menkul Kıymetler A.Ş. in the financial sector and this claim has no maturity. The respective amount is classified under non-performing loans.

f) Amounts of impaired exposures (according to the definition used by the bank for accounting purposes) and related allowances and write-offs, broken down by geographical areas and industry;

None.

g) Ageing analysis of accounting past-due exposures;

None.

h) Breakdown of restructured exposures between impaired and not impaired exposures.

There is no restructured receivable.

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#### VIII. Risk information objectives and policies (Continued)

#### 3. Credit Risk Disclosure (Continued)

#### 3.2. General information about credit risk (Continued)

#### 3.2.5 Qualitative disclosure requirements related to credit risk mitigation techniques

a) Core features of policies and processes for, and an indication of the extent to which the bank makes use of, on and off-balance sheet netting. On-balance sheet and off-balance sheet nettings are not applied at the Bank.

b) Core features of policies and processes for collateral evaluation and management. Trade margins and guarantee funds include trade and membership collaterals received at markets where service is provided, guarantee funds and assets kept by the Bank due to collateral agency service and invested by the Bank at best effort. Under the best performance effort criteria framework minimize credit risk, the method involving depositing at the outset The Central Bank of The Republic of Turkey with state banks and large scale banks, are chosen. In determining investment maturities, the collateral or guarantee fund structure of markets, where service is provided, and those markets’ needs to use, are taken into account.

c) Information about market or credit risk concentrations under the credit risk mitigation instruments used (i.e. by guarantor type, collateral and credit derivative providers).

In credit risk mitigation, cash collateral and Government Debt Securities issued by the Republic of Turkey Prime Ministry under secretariat at of Treasury considered as liquid assets are used as collateral.

#### 3.2.2 Credit risk mitigation techniques – overview

	Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees of secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives of secured amount
1 Loans	198,856	-	-	-	-	-	-
2 Debt securities	36,947	-	-	-	-	-	-
<b>3 Total</b>	<b>235,803</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
4 Of which defaulted	1,574	-	-	-	-	-	-

#### 3.3. Credit risk under standardised approach

#### 3.3.1. Disclosures on banks’ use of credit ratings under the standard approach for credit risk

a) Names of the external credit assessment institutions (ECAIs) and export credit agencies (ECAs) used by the bank, and the reasons for any changes over the reporting period;

As of 31 December 2017 in the calculation of the Bank’s credit risk based amount, “Fitch Ratings” and “Japan Credit Rating Agency/(JCR)” and “Islamic International Rating Agency/(IIRA)” ratings are used for determining risk weights for “Receivables from Central Governments or Central Banks” risk class. Export credit agency ratings are not used by the Bank.

b) The asset classes for which each ECAI or ECA is used;

External credit ratings are used by the Bank for “Receivables from Central Governments or Central Banks” risk class. Export credit agency ratings are not used by the Bank.

c) A description of the process used to transfer the issuer to issue credit ratings onto comparable assets in the banking book,

In credit risk based amount calculation of the Bank, external credit ratings are not used except for the “Receivables from Central Governments or Central Banks” risk class.

d) The alignment of the alphanumerical scale of each agency used with risk buckets (except where Agency (BRSA) publishes a standard mapping with which the bank has to comply). External credit rating agency ratings that are not on the organization’s matching table, are not used.

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Asset classes	Exposures before CCF and CRM		Exposures post-CCF and CRM		Risk Weighted Amounts and Risk Weighted Amounts density	
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	Risk Weighted Amounts	Risk Weighted Amounts density
1 Exposures to central governments or central banks	37,390	-	884,463	-	-	-
2 Exposures to regional governments or local authorities	-	-	-	-	-	-
3 Exposures to public sector entities	-	-	-	-	-	-
4 Exposures to multilateral development banks	-	-	-	-	-	-
5 Exposures to international organisations	-	-	-	-	-	-
6 Exposures to institutions	10,385,999	9,652,130	10,385,999	8,805,057	4,923,160	67.6%
7 Exposures to corporates	-	7,987,461	-	7,987,461	1,969,035	27.1%
8 Retail exposures	-	-	-	-	-	-
9 Exposures secured by residential property	-	-	-	-	-	-
10 Exposures secured by commercial real estate	-	-	-	-	-	-
11 Past-due loans	-	-	-	-	-	-
12 Higher-risk categories by the Agency Board	-	-	-	-	-	-
13 Exposures in the form of covered bonds	-	-	-	-	-	-
14 Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
15 Exposures in the form of units or shares in collective investment undertakings (CIUs)	-	-	-	-	-	-
16 Other assets	88,723	297,611	88,723	297,611	386,297	5.3%
17 Investments in equity shares	-	-	-	-	-	-
<b>18 Total</b>	<b>10,512,112</b>	<b>17,937,202</b>	<b>11,359,185</b>	<b>17,090,129</b>	<b>7,278,492</b>	<b>100%</b>

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#### VIII. Risk information objectives and policies (Continued)

#### 3. Credit Risk Disclosure (Continued)

#### 3.3 Credit risk under standardised approach (Continued)

#### 3.3.3. Standardised approach – exposures by asset classes and risk weights

Asset Classes/Risk Weights	0%	10%	20% <sup>(1)</sup>	50% <sup>(1)</sup>	50% (secured by real estate) <sup>(1)</sup>	75%	100% <sup>(1)</sup>	150%	200%	Other risk weights	Total credit risk exposure amount (after CCF and CRM)
1 Exposures to central governments or central banks	884,463	-	-	-	-	-	-	-	-	-	884,463
2 Exposures to regional governments or local authorities	-	-	-	-	-	-	-	-	-	-	-
3 Exposures to public sector entities	-	-	-	-	-	-	-	-	-	-	-
4 Exposures to multilateral development banks	-	-	-	-	-	-	-	-	-	-	-
5 Exposures to international organisations	-	-	-	-	-	-	-	-	-	-	-
6 Exposures to brokerage houses and banks	1,268,811	-	13,459,875	4,462,370	-	-	-	-	-	-	19,191,056
7 Exposures to corporates	-	-	6,748,985	1,238,476	-	-	-	-	-	-	7,987,461
8 Retail exposures	-	-	-	-	-	-	-	-	-	-	-
9 Exposures secured by residential property	-	-	-	-	-	-	-	-	-	-	-
10 Exposures secured by commercial real estate	-	-	-	-	-	-	-	-	-	-	-
11 Past-due loans	-	-	-	-	-	-	-	-	-	-	-
12 Higher-risk categories by the Agency Board	-	-	-	-	-	-	-	-	-	-	-
13 Exposures in the form of covered bonds	-	-	-	-	-	-	-	-	-	-	-
14 Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-
15 Exposures in the form of units or shares in collective investment undertakings (CIUs)	-	-	-	-	-	-	-	-	-	-	-
16 Investments in equity shares	-	-	-	-	-	-	-	-	-	-	-
17 Other assets	37	-	-	-	-	-	386,297	-	-	-	386,334
<b>18 Total</b>	<b>2,153,311</b>	<b>-</b>	<b>20,208,860</b>	<b>5,700,846</b>	<b>-</b>	<b>-</b>	<b>386,297</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>28,449,314</b>

<sup>(1)</sup> Means unrated receivables.

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Transactions subject to counterparty credit risk are considered as credit risk. These transactions consist of reverse repo transactions executed on behalf of closed brokerage houses depending on assignment by Capital Markets Board.

Performance of Bank's operation within the limits of legal and internal capital limits and below the credit risk appetite established by the Board of Directors, constitutes credit risk policy of the Bank.

**4.2. Analysis of counterparty credit risk (CCR) exposure by approach**

	Replacement cost	Potential future exposure	EEPE <sup>(1)</sup>	Alpha used for computing regulatory EAD	EAD post CRM	Risk Weighted Amounts
Standardised Approach-CCR (for derivatives)	-	-		1.4	-	-
Internal Model Method (derivative financial instruments, repo transactions, securities or commodity lending or borrowing transactions, for long time swap transactions with credit securities transactions)			-	-	-	-
Simple Approach for credit risk mitigation (repo transactions, securities or commodity lending or borrowing transactions, for a long time swap transactions with credit securities transactions)					28	5.6
Comprehensive Approach for credit risk mitigation (repo transactions, securities or commodity lending or borrowing transactions, for a long time swap transactions with credit securities transactions)					-	-
Repo transactions, securities or commodity lending or borrowing transactions, long-term transactions of swaps and risk exposure for credit securities transactions					-	-
<b>Total</b>						<b>5.6</b>

<sup>(1)</sup> Effective Expected Positive Exposure

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**4. Counterparty Credit Risk (Continued)**
**4.3 Standardised approach – CCR exposures by risk class and risk weights**

<b>Risk Weight/Regulatory portfolio</b>	<b>0%</b>	<b>10%</b>	<b>20%</b>	<b>35%</b>	<b>50%</b>	<b>75%</b>	<b>100%</b>	<b>150%</b>	<b>Others</b>	<b>Total credit exposure <sup>(1)</sup></b>
Exposures to sovereigns and their central banks	-	-	-	-	-	-	-	-	-	-
Exposures to regional and local government	-	-	-	-	-	-	-	-	-	-
Exposures to administrative bodies and non-commercial entities	-	-	-	-	-	-	-	-	-	-
Exposures to multilateral development banks	-	-	-	-	-	-	-	-	-	-
Exposures to international organizations	-	-	-	-	-	-	-	-	-	-
Exposures to banks and brokerage houses <sup>(3)</sup>	-	-	28	-	-	-	-	-	-	28
Exposures to corporates	-	-	-	-	-	-	-	-	-	-
Retail exposures	-	-	-	-	-	-	-	-	-	-
Exposures secured by residential property	-	-	-	-	-	-	-	-	-	-
Exposures secured by commercial property	-	-	-	-	-	-	-	-	-	-
Past-due items	-	-	-	-	-	-	-	-	-	-
Exposures in high-risk categories	-	-	-	-	-	-	-	-	-	-
Exposures in the form of bonds secured by mortgages	-	-	-	-	-	-	-	-	-	-
Short term exposures to banks, brokerage houses and corporates	-	-	-	-	-	-	-	-	-	-
Exposures in the form of collective investment undertaking	-	-	-	-	-	-	-	-	-	-
Equity share investments	-	-	-	-	-	-	-	-	-	-
Other exposures	-	-	-	-	-	-	-	-	-	-
Other assets <sup>(2)</sup>	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	-	-	<b>28</b>	-	-	-	-	-	-	<b>28</b>

<sup>(1)</sup> Total credit risk: After applying counterparty credit risk measurement techniques, the amount that is associated with capital adequacy calculation.

<sup>(2)</sup> Represents unrated exposures.

<sup>(3)</sup> Other assets: Includes amounts that are not included in the counterparty credit risk which are reported in the Central Counterparty Risks.

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**SECTION FOUR (Continued)****INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)****VIII. Risk management objectives and policies (Continued)****4. Counterparty Credit Risk (Continued)****4.4 Collaterals for counterparty credit risk**

	Collateral for derivative transactions				Collateral for other transactions	
	Collateral received		Collateral given		Collateral received	Collateral given
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash-domestic currency	-	-	-	-	-	-
Cash-foreign currency	-	-	-	-	-	-
Sovereign debts- domestic	-	-	-	-	20,805	-
Sovereign debts -other	-	-	-	-	-	-
Government agency debts	-	-	-	-	-	-
Corporate debts	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20,805</b>	<b>-</b>

**4.5 Credit derivatives**

None.

**4.6 Central Counterparty Risk**

None.

**5. Securitization Disclosures**

Since the Bank does not securitize, the relevant tables and explanations that should be prepared within the scope of "Communiqués on Public Disclosure of Risk Management of Banks" are not given.

**6. Market Risk Disclosures****6.1 Qualitative disclosure requirements related to market risk**

a) Strategies and processes of the bank: this must include an explanation of Bank management's strategic objectives in undertaking trading activities, as well as the processes implemented to identify, measure, monitor and control the bank's market risks, including policies for hedging risk and strategies/processes for monitoring the continuing effectiveness of hedges.

Market risk is defined as the loss that the Bank's on-balance and off-balance sheet positions may be exposed to in the context of FX risk and interest rate risk arising from movements on market prices.

The Bank's fund management strategy has been devised in alignment with the objectives to avoid any liquidity issue, ensure optimization on the risk-return balance and invest resources at highest return rates by taking reasonable level of risk. It is essential that fund management operations remain within legal limits and is executed in light of the Bank's market risk appetite and market risk limits and signal values.

In accordance with the fund management strategy in effect, treasury operations are executed with banks to whom limits have been allocated by the Board of Directors and largely with state owned banks, only highly liquid government debt securities are issued by Republic of Turkey Prime Ministry under secretariat of Treasury are purchased for the Bank's securities portfolio. Nevertheless, derivative products may be used for hedging purposes. In the balance sheet composition, it is shown attention to match of asset and liability by the maturity and currency.

Capital requirement is calculated for FX risk over foreign currency on-balance sheet and off-balance sheet net position amounts. Market risk is measured by the Bank with standard method, subject to the Communiqué on Measurement and Assessment of Banks' Capital Adequacy and the points as per its sub-regulations.



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**SECTION FOUR (Continued)**

**INFORMATION ON FINANCIAL STRUCTURES AND RISK MANAGEMENT (Continued)**

**VIII. Risk management objectives and policies (Continued)**

**6. Market Risk Disclosures (Continued)**

**6.1 Qualitative disclosure requirements related to market risk (Continued)**

Value at market risk and internal capital requirement for market risk are calculated on daily basis to inform Senior Management, using internal method specified in Communiqué on Measurement and Assessment of Banks’ Capital Adequacy and its subregulations. Moreover, with respect to market risk, partial stress tests are conducted on daily and monthly basis, whereas holistic stress tests and scenario analyses are executed on annually basis, and FX net general position/shareholders’ equity standard ratio trend is followed.

Market risk appetite has been determined by the Board of Directors and is reviewed at least once a year. Moreover, to control market risk, market risk limit and signal value have been established by the Board of Directors to avoid overflows of the market risk appetite. Market risk limit is monitored on daily basis by Risk Management Department.

Audit Committee, Senior Management and unit managers performing the respective process at the management of the business lines are notified by the Risk Management Department via email when the signal value is reached. If the allocated market risk limit and market risk appetite is exceeded, written information is provided to the Audit Committee by the Risk Management Department to notify Senior Management and Board of Directors ensuring that required measures are taken.

Details regarding risk management activities and actions performed under market risk, take part in the Takasbank Restructuring Plan endorsed by the Board of Directors.

b) Structure and organisation of the market risk management function: description of the market risk governance structure established to implement the strategies and processes of the bank discussed in row (a) above, and describing the relationships and the communication mechanisms between the different parties involved in market risk management.

In market risk management three-line of defence approach consisting of business line management, central risk management function and independent review is used. Accordingly;

- Under the management of the business line, process and sub-process based risks and controls are defined by Fund Management Team and Cash Operations Department, and Senior Management is informed ensuring that appropriate actions are taken.
- Central risk management function is facilitated by establishing market risk and control systems within the Bank, segregation of duties and responsibilities and review of process and functions by Internal Control and Compliance Department besides operational units performing such functions. Internal Control and Compliance Department perform activities involving controlling that the banking and capital markets activities offered by the Bank are compliant with respective legal regulations, internal regulations and where necessary compliant with international practices in an effective and adequate manner at first line, as “secondary phase protection” element. Such activities and their control periods are determined annually in the Internal Control Program. Furthermore, Internal Control and Compliance Department and Internal Audit Department conduct tasks related to the Management Statement.
- Independent review process involves assessment of risk management and internal control framework from all aspects. Internal Audit Department provides extensive assurance for Board of Directors and Senior Management, as an element capable of acting independently and impartially within the organization. During audit activities, primarily compliance of the Bank activities with the regulations, internal strategies, policies, principles and targets are analysed. In addition, reports are submitted to Board of Directors and Senior Management on whether first and second line of defence have reached market risk management and risk control targets or not, and on effectiveness and efficiency of market risk management and designed controls. Elements such as effectiveness and efficiency of Bank operations, protection of assets, reliability and soundness of reporting processes, market risk management and internal control framework, operation units and their functions, infrastructure, asset management and

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#### **SECTION FOUR (Continued)**

#### **INFORMATION ON FINANCIAL STRUCTURES AND RISK MANAGEMENT (Continued)**

#### **VIII. Risk management objectives and policies (Continued)**

#### **6. Market Risk Disclosures (Continued)**

#### **6.1 Qualitative disclosure requirements related to market risk (Continued)**

Market risk related operations are maintained by business lines with a perspective focused on risk. At the first line of defence; distribution of the Bank portfolio based on maturity and instrument and market developments are monitored constantly by Fund Management Team and Executive Management, the strategy in question is reviewed at least once a year in light of the Bank's business and trade volume and area of activity. Segregation of duties principle is applied at authority and responsibility level in front office and back office practices.

To be able to manage effectively market risk exposure arising from CCP operations, in determining collateral valuation coefficients at the outset market risk and the risk exposure that shall be faced during conversion of collateral to cash are taken into account, variation margins are calculated on daily basis and settlement prices are set in a healthy manner. Position and margins are valued at intraday and end of day market prices, thus margin-risk balance is monitored by CCP Department close to real-time.

At the second line of defence; within the Takasbank Risk Management Communiqué framework, the Bank manages market risk by taking into account market risk appetite, established market risk limit, signal value determined within the scope of early warning system and internal capital requirement. Moreover, on daily basis the portfolio's value at risk is calculated; the amount of loss that the portfolio may face in the utmost adverse market conditions is calculated using partial and holistic stress tests and scenario analyses monitored by internal capital requirement calculation, and results are reported on daily and monthly basis to Senior Management, quarterly and annually basis to Executive Management.

In addition to the controls performed in the first line of defence, operations of the respective units are also controlled based on risk during certain periods by Internal Control and Compliance Department in second line of defence in terms of compliance with legal regulations and internal regulations. And in third line of defence operations of these units are audited periodically by Internal Audit Department inspecting and auditing on behalf of the Board of Directors. As an element, which is capable of acting independently and impartially within the organization, Internal Audit Department provides extensive assurance to the Board of Directors and Senior Management. The audit provides assurance as to whether the first and second lines of defences have reached market risk management and risk control targets or not, and on governance, market risk management and effectiveness/efficiency of designed controls. Usually elements such as effectiveness and efficiency of operations, protection of assets, reliability and soundness of reporting processed, market risk management and internal control framework, operational units and their functions, infrastructure, asset management and information technology are included into the scope of assurance reported to Board of Directors and Senior Management. In this regard relevance of Bank operations to the regulations, internal strategies, policies, principles and targets, is reviewed.

c) Scope and nature of risk reporting and/or measurement systems.

Market risk is measured on monthly basis according to standard method in accordance with Communiqué on Measurement and Assessment of Banks' Capital Adequacy and its sub-regulations, and reported to the BRSA. In addition to this market risk based amount, internal market risk capital requirement and market risk limit are calculated on daily basis to inform the Senior Management, by using the internal method as per the respective Communiqué and its sub-regulations, and the results are reported by the Risk Management Department to Senior Management, and the respective unit managers.

Reports containing information regarding the Bank's market risk based amount, market risk appetite and market risk limit and signal value conformity levels, treasury operations, FX net general position/shareholders' equity standard ratio trend and market risk internal model outcomes are reported by the Risk Management Department on monthly basis to the Audit Committee and Senior Management, and on quarterly basis to the Executive Management. Back tests are conducted to establish that conceptual soundness of the employed internal model and all critical risks are embodied in the model, and the results are reported to the Executive Management. Moreover, partial stress tests performed by Risk Management Department with respect to market risk are reported on daily basis to the Senior Management, and operational unit managers in charge of risk, and on monthly basis to the Executive Management.

Furthermore, Stress Test Report containing market risk holistic stress test and scenario analyses results and ICAAP report are submitted annually to the Executive Management by the Risk Management Department, and following approval by the Board of Directors, reported to the BRSA.

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**INFORMATION ON FINANCIAL STRUCTURES AND RISK MANAGEMENT (Continued)**
**VIII. Risk management objectives and policies (Continued)**
**6. Market Risk Disclosures (Continued)**
**6.2 Standardised Approach**

	<b>Risk Weighted Amounts</b>
Outright products	
1 Interest rate risk (general and specific)	-
2 Equity risk (general and specific)	-
3 Foreign exchange risk	10,088
4 Commodity risk	-
Options	
5 Simplified approach	-
6 Delta-plus method	-
7 Scenario approach	-
8 Securitisation	-
<b>9 Total</b>	<b>10,088</b>

**IX. Explanations Related to Presentation of Financial Assets and Liabilities at Fair Value**

Current period marketable securities for investment purposes are comprised of interest-bearing assets held-to-maturity and interest-bearing assets available-for-sale. The fair value of the held to maturity assets is determined by market prices or quoted market prices of other marketable securities which are subject to redemption with same characteristics in terms of interest, maturity and other similar conditions when market prices cannot be determined.

The estimated fair value of funds provided from other financial institutions with fixed interest rate is calculated by determining their cash flows discounted by the current interest rates used for other liabilities with similar characteristics and maturity structure. The fair value of loans is calculated by determining the cash flows discounted by the current interest rates used for receivables with similar characteristics and maturity structure. The book value of the banks, money market placements, and funds borrowed from other financial institutions and sundry creditors reflect their fair values since they are short-term.

The table below shows the book value and the fair value of the financial assets and liabilities.

	<b>Book Value</b>		<b>Fair Value</b>	
	<b>31 December 2017</b>	<b>31 December 2016</b>	<b>31 December 2017</b>	<b>31 December 2016</b>
<b>Financial Assets</b>	<b>10,421,952</b>	<b>7,884,853</b>	<b>10,422,275</b>	<b>7,886,012</b>
Financial Assets at Fair Value Through Profit/Loss	-	1,158	-	1,158
Money Market Placements	20,833	21,168	20,833	21,168
Banks	10,163,484	7,715,925	10,163,484	7,715,925
Available-For-Sale Financial Assets	1,832	1,714	1,832	1,714
Held-To-Maturity Investments	36,947	45,943	37,270	47,102
Loans	198,856	98,945	198,856	98,945
<b>Financial Liabilities</b>	<b>9,209,939</b>	<b>6,889,404</b>	<b>9,209,939</b>	<b>6,889,404</b>
Bank Deposits	-	-	-	-
Other Deposits	-	-	-	-
Payables to Money Market	34,737	43,800	34,737	43,800
Funds Borrowed From Other Financial Institutions	3,204,584	2,469,210	3,204,584	2,469,210
Securities Issued	-	-	-	-
Sundry Creditors	5,970,618	4,376,394	5,970,618	4,376,394

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**SECTION FOUR (Continued)****INFORMATION ON FINANCIAL STRUCTURES AND RISK MANAGEMENT (Continued)****IX. Explanations Related to Presentation of Financial Assets and Liabilities at Fair Value (Continued)**

Fair value classifications is as follows:

Level 1: Registered in active markets price for identical assets or liabilities (unadjusted)

Level 2: Other than published prices included within Level 1, either directly (by price) or indirectly (derived from price) observable data in terms of assets or liabilities

Level 3: Not based on observable market data in relation to assets or liabilities

<b>Current Period</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial Assets</b>	-	-	-	-
Government Bonds	-	-	-	-
Available-For-Sale Financial Assets	-	-	-	-
Held-to-Maturity Investments	-	-	-	-
<b>Financial Liabilities</b>	-	-	-	-
Financial Derivative Liabilities Held for Cash	-	-	-	-
Flow Hedges	-	-	-	-
Financial Derivative Liabilities for Trading	-	-	-	-
<b>Prior Period</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial Assets</b>	<b>1,158</b>	-	-	<b>1,158</b>
Government Bonds	1,158	-	-	1,158
Available-For-Sale Financial Assets	-	-	-	-
Financial Derivative Assets for Trading	-	-	-	-
<b>Financial Liabilities</b>	-	-	-	-
Hedging Derivative Financial Liabilities	-	-	-	-
Trading Derivative Financial Liabilities	-	-	-	-

**X. Explanations Related to Transactions Made on Behalf of Others and Fiduciary Transactions**

The Bank carries out trading, custody, management and advisory services on others' behalf and account.

Off balance sheet contingencies and commitments table, TL 1,420 (31 December 2016: TL 8) consists of sales and securities which are traded on BİAŞ. Under the fiduciary transactions agreement, there are no transactions carried out with other financial institutions and there are no financial services rendered directly in this context.

According to the Articles of Association of the Bank, the services and operations of the Bank are performing the custody of the securities, precious metals and other securities and the clearing and settlement of cash and security commitments arising from the purchases and sales on stock exchanges. The Bank also provides settlement and custody services for Derivatives Exchange Market, Electricity Market and Leveraged Trading Operations. Related to above mentioned transactions, the total amount of guarantees obtained from Bank's customers comprising treasury bills, government bonds, letter of guarantees and stocks are listed below.

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**SECTION FOUR (Continued)**
**INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)**
**XI. Explanations on Segment Reporting:**

The Bank operates mainly in clearing-operation, custody, loans and treasury.

<b>Current Period</b>	<b>Custody, Clearing and Operation</b>	<b>Loans and MM</b>	<b>Treasury Transactions</b>	<b>Undistributed</b>	<b>Total</b>
Cash and Balances with Central Bank	-	-	480	-	480
Financial Assets At Fair Value Through Profit/Loss (Net)	-	-	-	-	-
Banks	-	-	10,163,484	-	10,163,484
Money Markets	-	-	-	20,833	20,833
Available-For-Sale Financial Assets (Net)	-	-	1,832	-	1,832
Loans	-	198,856	-	-	198,856
Held-to-Maturity Securities (Net)	-	-	36,947	-	36,947
Subsidiaries	-	-	-	-	-
Joint Ventures (Net)	-	-	4,825	-	4,825
Property and Equipment (Net)	-	-	-	7,437	7,437
Intangible Assets (Net)	-	-	-	98,095	98,095
Investment Properties (Net)	-	-	-	9,495	9,495
Tax Asset	-	-	-	-	-
Other Assets	9,906	-	-	12,239	22,145
<b>Total Assets</b>	<b>9,906</b>	<b>198,856</b>	<b>10,207,568</b>	<b>148,099</b>	<b>10,564,429</b>
Funds Borrowed	-	-	3,144,268	-	3,144,268
Other Miscellaneous Liabilities	-	-	34,737	-	34,737
Miscellaneous Payables	5,717,171	125,846	-	127,601	5,970,618
Other Liabilities	60,316	-	-	-	60,316
Provisions	-	48,139	-	33,923	82,062
Tax Liability	-	-	-	26,166	26,166
Shareholder’s Equity	-	-	-	1,246,262	1,246,262
<b>Total Liabilities</b>	<b>5,777,487</b>	<b>173,985</b>	<b>3,179,005</b>	<b>1,433,952</b>	<b>10,564,429</b>

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**SECTION FOUR (Continued)****INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)****XI. Explanations on Segment Reporting (Continued)**

<b>Prior Period</b>	<b>Custody, Clearing and Operation</b>	<b>Loans and MM</b>	<b>Treasury Transactions</b>	<b>Undistributed</b>	<b>Total</b>
Cash and Balances with Central Bank	-	-	85	-	85
Financial Assets At Fair Value Through Profit/Loss (Net)	-	-	-	1,158	1,158
Banks	-	-	7,715,925	-	7,715,925
Money Markets	-	-	-	21,168	21,168
Available-For-Sale Financial Assets (Net)	-	-	1,714	-	1,714
Loans	-	98,945	-	-	98,945
Held-to-Maturity Securities (Net)	-	-	45,943	-	45,943
Subsidiaries	-	-	-	-	-
Joint Ventures (Net)	-	-	4,825	-	4,825
Property and Equipment (Net)	-	-	-	15,535	15,535
Intangible Assets (Net)	-	-	-	85,005	85,005
Tax Asset	-	-	-	1,179	1,179
Other Assets	8,553	-	-	6,313	14,866
<b>Total Assets</b>	<b>8,553</b>	<b>98,945</b>	<b>7,768,492</b>	<b>130,358</b>	<b>8,006,348</b>
Funds Borrowed	-	-	2,400,430	-	2,400,430
Other Miscellaneous Liabilities	-	-	43,800	-	43,800
Miscellaneous Payables	4,293,400	58,976	-	24,018	4,376,394
Other Liabilities	68,780	-	-	-	68,780
Provisions	-	31,208	-	24,132	55,340
Tax Liability	-	-	-	17,918	17,918
Shareholder's Equity	-	-	-	1,043,686	1,043,686
<b>Total Liabilities</b>	<b>4,362,180</b>	<b>90,184</b>	<b>2,444,230</b>	<b>1,109,754</b>	<b>8,006,348</b>

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**SECTION FOUR (Continued)**
**INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)**
**XI. Explanations on Segment Reporting (Continued)**

The Bank operates mainly in clearing-operation, custody, loans and treasury

<b>Current Period</b>	<b>Custody, Clearing and Operation</b>	<b>Loans and MM</b>	<b>Treasury Transactions</b>	<b>Others</b>	<b>Total</b>
Net interest income	-	17,763	301,957	-	319,720
Net fees and commission income and other operating income	110,576	39,026	-	-	149,602
Dividend income	-	-	30	-	30
Net trading income/loss	-	-	562	-	562
Other operating income	-	-	-	329	329
Provision for loan losses and other receivables (-)	-	16,931	-	-	16,931
Other operating expenses	-	-	-	104,664	104,664
<b>Profit before tax</b>	<b>110,576</b>	<b>39,858</b>	<b>302,549</b>	<b>(104,335)</b>	<b>348,648</b>
Tax provision	-	-	-	(72,277)	(72,277)
<b>Net Profit</b>	<b>110,576</b>	<b>39,858</b>	<b>302,549</b>	<b>(176,612)</b>	<b>276,371</b>

<b>Prior Period</b>	<b>Custody, Clearing and Operation</b>	<b>Loans and MM</b>	<b>Treasury Transactions</b>	<b>Others</b>	<b>Total</b>
Net interest income	-	13,225	230,169	-	243,394
Net fees and commission income and other operating income	84,592	25,740	-	-	110,332
Dividend income	-	-	6,217	-	6,217
Net trading income/loss	-	-	1,795	-	1,795
Other operating income	-	-	-	4,632	4,632
Provision for loan losses and other receivables (-)	-	13,983	-	-	13,983
Other operating expenses	-	-	-	87,030	87,030
<b>Profit before tax</b>	<b>84,592</b>	<b>24,982</b>	<b>238,181</b>	<b>(82,398)</b>	<b>265,357</b>
Tax provision	-	-	-	(53,792)	(53,792)
<b>Net Profit</b>	<b>84,592</b>	<b>24,982</b>	<b>238,181</b>	<b>(136,190)</b>	<b>211,565</b>

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**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.****UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)****AT 31 DECEMBER 2017 (Continued)**

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**SECTION FIVE****EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS****I. Explanations Related to the Assets****1. Information on Cash and Balances with the Central Bank of Turkey:****1.a) Information on cash and balances with the Central Bank of Turkey:**

	Current Period		Prior Period	
	TL	FC	TL	FC
Balances with the Central Bank of Turkey	443	-	71	-
Cash in TL/Foreign Currency	37	-	14	-
Other	-	-	-	-
<b>Total</b>	<b>480</b>	<b>-</b>	<b>85</b>	<b>-</b>

**1.b) Information related to the account of the Central Bank of Turkey:**

	Current Period		Prior Period	
	TL	FC	TL	FC
Unrestricted demand deposit	443	-	71	-
Unrestricted time deposit	-	-	-	-
Restricted time deposit	-	-	-	-
<b>Total</b>	<b>443</b>	<b>-</b>	<b>71</b>	<b>-</b>

**1.c) Information on required reserves:**

In accordance with the Official Statement numbered 2013/15 about Required Reserves, liabilities that are subject to required reserves have been changed. Required reserves are not kept in the Central Bank of Turkey as the liabilities stated in the newly announced Official Statement are lacked in the Bank.

**2. Information on financial assets at fair value through profit and loss (net):**

**2.a) i.** Information on financial assets at fair value through profit and loss given as collateral or blocked: None (31 December 2016: None).

**2.a) ii.** Financial assets at fair value through profit and loss subject to repurchase agreements: None (31 December 2016: None).

**2.b)** Positive differences related to derivative financial assets held-for-trading: None (31 December 2016: None).



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**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.**  
**UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)**  
**AT 31 DECEMBER 2017 (Continued)**

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

**SECTION FIVE (Continued)**
**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)**
**I. Explanations Related to the Assets (Continued)**
**3. Information on Banks**
**3.a) Information on Banks:**

	Current Period		Prior Period	
	TL	FC	TL	FC
Banks				
Domestic	5,717,172	4,376,869	4,388,589	3,233,612
Foreign	-	69,443	-	93,724
Branches and overseas head office	-	-	-	-
<b>Total</b>	<b>5,717,172</b>	<b>4,446,312</b>	<b>4,388,589</b>	<b>3,327,336</b>

**3.b) Information on foreign bank accounts:**

	Unrestricted Amount		Restricted Amount	
	Current Period	Prior Period	Current Period	Prior Period
EU Countries	68,458	82,161	-	-
USA and Canada	985	11,563	-	-
OECD Countries <sup>(1)</sup>	-	-	-	-
Off-shore banking regions	-	-	-	-
Other	-	-	-	-
<b>Total</b>	<b>69,443</b>	<b>93,724</b>	<b>-</b>	<b>-</b>

<sup>(1)</sup> OECD Countries outside U.S., Canada and European Union Countries

**3.c) Information on receivables from money markets**

The details about the receivables from Money Markets are as below:

	Current Period	Prior Period
Reverse Repo belongs to closed member cash balance	20,833	21,168
<b>Total</b>	<b>20,833</b>	<b>21,168</b>

**4. Information on financial assets available-for-sale:**
**4.a) i. Information on financial assets available-for-sale given as collateral or blocked:**

None (31 December 2016: None).

**4.a) ii. Information on financial assets available-for-sale subject to repurchase agreements:**

None (31 December 2016: None).

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**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.****UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)  
AT 31 DECEMBER 2017 (Continued)**

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

**SECTION FIVE (Continued)****EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)****I. Explanations Related to the Assets (Continued)****4. Information on financial assets available-for-sale: (Continued)****4.b) Information on available for sale assets:**

Name	Acquired On	Current Period		Prior Period	
		Amount	Ratio (%)	Amount	Ratio (%)
Ege Tarım Ürünleri Lisanslı Depoculuk AŞ	03 January 2011	637	4.12	637	4.12
S.W.I.F.T SCRL	24 April 2009	339	0.55	279	0.55
Borsa İstanbul A.Ş. (VOBAŞ Transfer Hisseleri)	31 May 2013	324	0.15	324	0.15
SASE-Sarajevo Menkul Kıymetler Borsası	18 May 2011	322	5.00	264	5.00
Sermaye Piyasası Lisanslama Sicil ve Eğitim Kuruluşu AŞ	29 July 2011	210	10.50	210	10.50
<b>Total</b>		<b>1,832</b>		<b>1,714</b>	

	Current Period	Prior Period
<b>Debt Securities</b>	1,832	1,714
Quoted on a stock exchange	1,832	1,714
Not quoted on a stock exchange	-	-
Provision for Impairment (-)	-	-
<b>Share certificates</b>	-	-
Quoted on a stock exchange	-	-
Not quoted on a stock exchange <sup>(1)</sup>	-	-
Impairment provision (-)	-	-
<b>Total</b>	<b>1,832</b>	<b>1,714</b>

<sup>(1)</sup> All unquoted available for sale financial investments of the Bank are accounted for at cost.**5. Information on loans:****a) Information on all types of loans and advances given to shareholders and employees of the Bank:**

	Current Period		Prior Period	
	Cash	Non-Cash	Cash	Non-Cash
Direct loans granted to shareholders	<b>144,797</b>	<b>2,312,973</b>	<b>98,945</b>	<b>2,382,963</b>
Corporate shareholders	144,797	2,312,973	98,945	2,382,963
Real person shareholders	-	-	-	-
Indirect loans granted to shareholders	-	-	-	-
Loans granted to employees	-	-	-	-
<b>Total</b>	<b>144,797</b>	<b>2,312,973</b>	<b>98,945</b>	<b>2,382,963</b>

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**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.**  
**UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)**  
**AT 31 DECEMBER 2017 (Continued)**

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

**SECTION FIVE (Continued)**
**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)**
**I. Explanations Related to the Assets (Continued)**
**5. Information on loans: (Continued)**
**b) Information on the first and second group loans and other receivables including restructured or rescheduled loans:**

	Standard Loans and Other Receivables			Loans and Other Receivables Under Close Monitoring		
	Loans and Other Receivables (Total)	Loans and other receivables with revised contract terms		Loans and Other Receivables (Total)	Loans and other receivables with revised contract terms	
		Restructured or Rescheduled	Other		Restructured or Rescheduled	Other
<b>Cash Loans</b>						
<b>Non-specialized loans</b>	<b>198,856</b>	-	-	-	-	-
Working capital loans	-	-	-	-	-	-
Export loans	-	-	-	-	-	-
Import loans	-	-	-	-	-	-
Loans given to financial sector	198,856	-	-	-	-	-
Foreign loans	-	-	-	-	-	-
Consumer loans	-	-	-	-	-	-
Credit cards	-	-	-	-	-	-
Precious metal credit	-	-	-	-	-	-
Other	-	-	-	-	-	-
<b>Specialized loans</b>	-	-	-	-	-	-
<b>Other receivables</b>	-	-	-	-	-	-
<b>Total</b>	<b>198,856</b>	-	-	-	-	-

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS

**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.****UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)  
AT 31 DECEMBER 2017 (Continued)**

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

**SECTION FIVE (Continued)****EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)****I. Explanations Related to the Assets (Continued)****5. Information on loans: (Continued)****c) Loans according to their maturity structure:**

	Standard Loans and Other Receivables		Loans and Other Receivables Under Close Monitoring	
	Loans and Other Receivables	Restructured or Rescheduled	Loans and Other Receivables	Restructured or Rescheduled
<b>Short-term loans and other receivables</b>	<b>198,856</b>	-	-	-
Non-specialized loans	198,856	-	-	-
Specialized loans	-	-	-	-
Other Receivables	-	-	-	-
<b>Medium and long-term loans and other receivables</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Non-specialized loans	-	-	-	-
Specialized loans	-	-	-	-
Other Receivables	-	-	-	-
<b>Total</b>	<b>198,856</b>	<b>-</b>	<b>-</b>	<b>-</b>

**d) Information on consumer loans, individual credit cards, personnel loans and personnel credit cards:**

None (31 December 2016: None).

**e) Information on commercial loans with instalments and corporate credit cards:**

None (31 December 2016: None).

**f) Loans according to borrowers:**

	Current Period	Prior Period
Public	198,856	98,945
Private	-	-
<b>Total</b>	<b>198,856</b>	<b>98,945</b>

**g) Domestic and foreign loans:**

	Current Period	Prior Period
Domestic loans	198,856	98,945
Foreign loans	-	-
<b>Total</b>	<b>198,856</b>	<b>98,945</b>

**h) Loans granted to subsidiaries and associates: None (31 December 2016: None).****i) Specific provisions provided against loans:**

	Current Period	Prior Period
Uncollectable loans and receivables	1,574	1,574
Loans and receivables with limited collectability	-	-
Loans and receivables with doubtful collectability	-	-
<b>Total</b>	<b>1,574</b>	<b>1,574</b>

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS

**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.****UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)****AT 31 DECEMBER 2017 (Continued)**

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

**SECTION FIVE (Continued)****EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)****I. Explanations Related to the Assets (Continued)****5. Information on loans: (Continued)**

j) Information on non-performing loans (Net):

**j.1)** Information on loans and other receivables included in non-performing loans which are restructured or rescheduled: None (31 December 2016: None).**j.2)** Information on movement of non-performing loans:

	<b>Group III</b>	<b>Group IV</b>	<b>Group V</b>
	<b>Loans and</b>	<b>Loans and Receivables</b>	<b>Uncollectible</b>
	<b>Receivables With</b>	<b>With Doubtful</b>	<b>Loans and</b>
	<b>Limited Collectability</b>	<b>Collectability</b>	<b>Receivables</b>
Prior period end balance	-	-	1,574
Additions during the period (+)	-	-	-
Transfers from other categories of non-performing loans (+)	-	-	-
Transfers to other categories of non-performing loans (-)	-	-	-
Collections during the period (-)	-	-	-
Write-offs (-)	-	-	-
Corporate and commercial loans	-	-	-
Retail loans	-	-	-
Credit cards	-	-	-
Other	-	-	-
Current period end balance	-	-	1,574
Specific provision (-)	-	-	1,574
<b>Net Balances on Balance Sheet</b>	<b>-</b>	<b>-</b>	<b>-</b>

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS

**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.****UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)  
AT 31 DECEMBER 2017 (Continued)**

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

**SECTION FIVE (Continued)****EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)****I. Explanations Related to the Assets (Continued)****5. Information on loans: (Continued)****j.3)** Information on foreign currency non-performing loans and other receivables: None (31 December 2016: None).**j.4)** Information regarding gross and net amounts of non-performing loans with respect to user groups:

	<b>Group III</b>	<b>Group IV</b>	<b>Group V</b>
	<b>Loans and Receivables With Doubtful Collectability</b>	<b>Loans and Receivables With Doubtful Collectability</b>	<b>Uncollectable Loans and Receivables</b>
<b>Current Period (Net)</b>	-	-	-
Loans to Real Persons and Legal Entities (Gross)	-	-	1,574
Specific Provision Amount (-)	-	-	1,574
<b>Loans to Real Persons and Legal Entities (Net)</b>	-	-	-
Banks (Gross)	-	-	-
Specific Provision Amount (-)	-	-	-
<b>Banks (Net)</b>	-	-	-
Other Loans and Receivables (Gross)	-	-	-
Specific Provision Amount (-)	-	-	-
<b>Other Loans and Receivables (Net)</b>	-	-	-
<b>Prior Period (Net)</b>	-	-	-
Loans to Real Persons and Legal Entities (Gross)	-	-	1,574
Specific Provision Amount (-)	-	-	1,574
<b>Loans to Real Persons and Legal Entities (Net)</b>	-	-	-
Banks (Gross)	-	-	-
Specific Provision Amount (-)	-	-	-
<b>Banks (Net)</b>	-	-	-
Other Loans and Receivables (Gross)	-	-	-
Specific Provision Amount (-)	-	-	-
<b>Other Loans and Receivables (Net)</b>	-	-	-

**k)** Main principles of liquidation policy for uncollectible loans and receivables: The Bank has no uncollectible loans and receivables as of the balance sheet date (31 December 2016: None).**l)** Explanations about the policy for the asset's write-off: The general policy for the receivables write-off under follow-up is to write-off the receivables from asset which cannot be collected in process of a legal enforcement.**m)** Other explanations and disclosures: Collaterals and credit enhancement obtained during the year: The details of the collaterals obtained for cash loans as of 31 December 2017 and 2016 are as follows:

	<b>Current Period</b>	<b>Prior Period</b>
Equity Shares (quoted)	102,153	17,055
Letters of Guarantee	169,086	98,750
<b>Total</b>	<b>271,239</b>	<b>115,805</b>

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**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.**  
**UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)**  
**AT 31 DECEMBER 2017 (Continued)**

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

**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)**
**I. Explanations Related to the Assets (Continued)**
**6. Investments held to maturity:**
**6.a) i.** Information on held-to-maturity investments given as collateral or blocked:

None (31 December 2016: None).

**6.a) ii.** Held-to-maturity investments subject to repurchase agreements: None (31 December 2016: None).

**6.b)** Information on held-to-maturity public sector debt instruments:

	Current Period	Prior Period
Government Bonds	36,947	45,943
Treasury Bills	-	-
Other Public Sector Debt Instruments	-	-
<b>Total</b>	<b>36,947</b>	<b>45,943</b>

**6.c)** Information on held-to-maturity investments:

	Current Period	Prior Period
Debt securities	36,947	45,943
<i>Quoted on a stock exchange</i>	36,947	45,943
<i>Not quoted on a stock exchange</i>	-	-
Impairment provision (-)	-	-
<b>Total</b>	<b>36,947</b>	<b>45,943</b>

**6.d)** Movement of held-to-maturity investments:

	Current Period	Prior Period
Beginning balance	45,943	180,085
Foreign currency differences on monetary assets	-	-
Purchases during year	80,862	45,943
Disposals through sales and redemptions	(91,343)	(180,085)
Impairment provision (-)	-	-
Effect of valuation	1,485	-
<b>Closing Balance</b>	<b>36,947</b>	<b>45,943</b>

**7. Information on associates (Net):**
**7.a)** Information on consolidated associates according to Communiqué on Preparing Banks’ Consolidated Financial Statements and related Turkish Accounting Standard: None (31 December 2016: None).

**7.b)** Information on the unconsolidated associates: None (31 December 2016: None).

**7.c)** Explanations of consolidated associates: None (31 December 2016: None).

**7.d)** Information on sector information on consolidated associates: None (31 December 2016: None).

**7.e)** Consolidated associates which are quoted on the stock exchange: None (31 December 2016: None).

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS

**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.****UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)  
AT 31 DECEMBER 2017 (Continued)**

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

**SECTION FIVE (Continued)****EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)****I. Explanations Related to the Assets (Continued)****8. Information on subsidiaries (Net):****8.a) Information on the unconsolidated subsidiaries:**

Description	Address (City/Country)	Bank's share percentage- If different voting percentage (%)	Bank risk group's share percentage (%)
Merkezi Kayıt Kuruluşu A.Ş.	İstanbul/Türkiye	28.57	65

The Bank's share in Merkezi Kayıt Kuruluşu A.Ş. ("MKK") is 65% and the Bank's voting right is 28.57% (2/7) according to its Articles of Association. Although the Bank possesses more than 20% of the voting rights of MKK. The Bank does not have significant influence over the company. Therefore, the associate is not consolidated. This subsidiary is carried at cost amounting to TL 4,825 thousand in the financial statements.

Total Assets <sup>(1)</sup>	Shareholder's Equity	Total Fixed Assets	Interest Income	Income from Marketable Securities Portfolio	Current Period Profit/ Loss	Prior Period Profits/ Losses	Fair Value
131,256	108,633	31,822	9,956	-	28,039	15,619	-

<sup>(1)</sup> Audited financial statements, prepared as of 31 December 2017, in accordance with the Turkish Accounting Standards have not been prepared yet.

	31 December 2017	31 December 2016
Paid-in capital	36,000	36,000
Legal reserves	14,223	13,442
Other reserves	32,742	17,904
Profit/loss	26,248	17,858
<i>Prior periods profit/loss</i>	<i>(1,791)</i>	<i>1,791</i>
<i>Current period net profit/loss</i>	<i>28,039</i>	<i>16,067</i>
Intangible Assets (-)	(20,695)	(24,626)
Total Core Capital	88,518	60,578
Supplementary Capital	-	-
Capital	88,518	60,578
<b>Net Usable Equity</b>	<b>88,518</b>	<b>60,578</b>

There is no assessment of subsidiaries' internal capital adequacy.

Paid capital is indicated in the main agreement of the Bank as Turkish Liras and registered in the trade registry.

Legal reserves are the reserve funds which are indicated in the Turkish Trade Act's (numbered 6762) 466. dam's first paragraph and second paragraph's third subparagraph, and 467.dam and accounted from related year's profit.

**8.b) Information on the consolidated subsidiaries:**

- Information on the consolidated subsidiaries: None (31 December 2016: None).
- Information on movement of consolidated subsidiaries: None (31 December 2016: None).
- Sectorial information on the consolidated subsidiaries: None (31 December 2016: None).
- Consolidated subsidiaries quoted on the stock exchange: None (31 December 2016: None).



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**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.**  
**UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)**  
**AT 31 DECEMBER 2017 (Continued)**

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

**SECTION FIVE (Continued)**
**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)**
**I. Explanations Related to the Assets (Continued)**
**9. Information on entities under common control (joint ventures):** None (31 December 2016: None).

**10. Information on finance lease receivables (Net):** None (31 December 2016: None).

**11. Information on derivative financial assets for hedging purposes:** None (31 December 2016: None).

**12. Information on tangible assets:**

	Prior Year's Closing Balance				Closing Year Balance
	31 December 2016	Additions	Disposals	Transfers	31 December 2017
Cost:					
Land and buildings	14,376	-	-	(14,376)	-
Vehicles	305	-	(68)	-	237
Other	14,966	4,115	(206)	-	18,875
<b>Total Cost</b>	<b>29,647</b>	<b>4,115</b>	<b>(274)</b>	<b>(14,376)</b>	<b>19,112</b>
	Prior Year's Closing Balance	Charge for the Year	Disposals		Closing Year Balance
	31 December 2016				31 December 2017
Accumulated Depreciation:					
Land and buildings	(4,575)	(307)	-	(4,882)	-
Vehicles	(199)	(51)	16	-	(234)
Other	(9,338)	(2,274)	171	-	(11,441)
<b>Total Accumulated Depreciation</b>	<b>(14,112)</b>	<b>(2,632)</b>	<b>188</b>	<b>(4,882)</b>	<b>(11,675)</b>
<b>Net Book Value</b>	<b>15,535</b>	<b>1,483</b>	<b>(86)</b>		<b>7,437</b>
	Prior Year's Closing Balance				Closing Year Balance
	31 December 2015	Additions	Disposals	Transfers	31 December 2016
Cost:					
Land and buildings	14,376	-	-	-	14,376
Leased tangible assets	-	-	-	-	-
Vehicles	1,046	68	(809)	-	305
Other	12,584	2,450	(68)	-	14,966
<b>Total Cost</b>	<b>28,006</b>	<b>2,518</b>	<b>(877)</b>	<b>-</b>	<b>29,647</b>
	Prior Year's Closing Balance	Charge for the Year	Disposals		Closing Year Balance
	31 December 2015				31 December 2016
Accumulated Depreciation:					
Land and buildings	(4,267)	(308)	-	-	(4,575)
Leased tangible assets	-	-	-	-	-
Vehicles	(340)	(121)	262	-	(199)
Other	(7,316)	(2,064)	42	-	(9,338)
<b>Total Accumulated Depreciation</b>	<b>(11,923)</b>	<b>(2,493)</b>	<b>304</b>	<b>-</b>	<b>(14,112)</b>
<b>Net Book Value</b>	<b>16,083</b>	<b>25</b>	<b>(573)</b>	<b>-</b>	<b>15,535</b>

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS

**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.****UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)  
AT 31 DECEMBER 2017 (Continued)**

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

**SECTION FIVE (Continued)****EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)****I. Explanations Related to the Assets (Continued)****12.a)** If impairment amount on individual asset booked or reversed in the current period is material for the overall financial statements:**i.** Reason and conditions for booking or reversing impairment: The details for reason and conditions for booking or reversing impairment are given in note (12.b) of the report.**ii.** Amount of impairment booked or reversed in the financial statements: The details for amount recorded or reversed impairment in the financial statements are given in part (12.b) of the Report.**12.b)** The impairment provision set or cancelled in the current period according to the asset groups not individually significant but materially affecting the overall financial statements, and the reason and conditions for this: There is no material impairment provision set or cancelled in the current period (31 December 2016: None).

There is no impairment accounted related to property and equipment in the current period.

**12.c)** Pledges, mortgages and other restrictions on the tangible fixed assets, expenses arising from the construction for tangible fixed assets, commitments given for the purchases of tangible fixed assets: None (31 December 2016: None).**13. Information on intangible assets:**

	Prior Year's			Closing Year Balance
	Closing Balance	Additions	Disposals	31 December 2017
	31 December 2016			
Cost:				
Leasehold improvements	-	-	-	-
Other intangible assets	93,172	17,403		110,575
<b>Total Cost</b>	<b>93,172</b>	<b>17,403</b>	<b>-</b>	<b>110,575</b>
Accumulated Amortization:				
Leasehold improvements	-	-	-	-
Other intangible assets	(8,167)	(4,313)		(12,480)
<b>Total Accumulated Amortization</b>	<b>(8,167)</b>	<b>(4,313)</b>	<b>-</b>	<b>(12,480)</b>
<b>Net Book Value</b>	<b>85,005</b>	<b>13,090</b>	<b>-</b>	<b>98,095</b>

	Prior Year's			Closing Year Balance
	Closing Balance	Additions	Disposals	31 December 2016
	31 December 2015			
Cost:				
Leasehold improvements	-	-	-	-
Other intangible assets	87,190	5,982		93,172
<b>Total Cost</b>	<b>87,190</b>	<b>5,982</b>	<b>-</b>	<b>93,172</b>
Accumulated Amortization:				
Leasehold improvements	-	-	-	-
Other intangible assets	(6,295)	(1,872)		(8,167)
<b>Total Accumulated Amortization</b>	<b>(6,295)</b>	<b>(1,872)</b>	<b>-</b>	<b>(8,167)</b>
<b>Net Book Value</b>	<b>80,895</b>	<b>4,110</b>	<b>-</b>	<b>85,005</b>

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**SECTION FIVE (Continued)**
**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)**
**I. Explanations Related to the Assets (Continued)**
**13. Information on intangible assets (Continued)**

- a) Disclosures for book value, description and remaining useful life for a specific intangible fixed asset that is material to the financial statements: None (31 December 2016: None).
- b) Disclosure for intangible fixed assets acquired through government grants and accounted for at fair value at initial recognition: None (31 December 2016: None).
- c) The method of subsequent measurement for intangible fixed assets that are acquired through government incentives and recorded at fair value at the initial recognition: None (31 December 2016: None).
- d) The book value of intangible fixed assets that are pledged or restricted for use: None (31 December 2016: None).
- e) Amount of purchase commitments for intangible fixed assets: None (31 December 2016: None).
- f) Information on revalued intangible assets according to their types: None (31 December 2016: None).
- g) Amount of total research and development expenses recorded in income statement within the period if any: None (31 December 2016: None).
- h) Positive or negative consolidation goodwill on entity basis: None (31 December 2016: None).
- i) Information on goodwill: None (31 December 2016: None).
- j) Movements on goodwill in the current period: None (31 December 2016: None).

**14. Information on investment property:**

	Current Period	Prior Period
<b>Cost</b>		
Value at the Beginning of the Period	-	-
Movements During the Period	-	-
Acquisition	-	-
Disposals (-)	-	-
Transfer <sup>(1)</sup>	14,376	-
Period End Value	14,376	-
<b>Accumulated Depreciation</b>		
Value at the Beginning of the Period	-	-
Movements During the Period	-	-
Amortization Cost	-	-
Disposals	-	-
Transfer <sup>(1)</sup>	(4,881)	-
Period End Value	(4,881)	-
<b>Net Book Value</b>	<b>9,495</b>	<b>-</b>

<sup>(1)</sup> As of 31 December 2017, the Şişli Service Building, which is not in use by the Bank and is being held for the purpose of obtaining rent income, is classified under investment property under tangible assets. The related real estate is followed with historical cost value on the financial statements dated 31 December 2017, in the appraisal report prepared by the licensed appraisal company, the real value of the real estate was determined as TL 36,355 according to the “market approach method” as of 31 December 2017, the Bank does not have any rental income from investment property.

The Bank does not have any rental income from investment property as of 31 December 2017.

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**SECTION FIVE (Continued)****EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)****I. Explanations Related to the Assets (Continued)****15. Explanations on deferred tax asset:**

Deferred tax assets and liabilities are offset and deferred tax liabilities are recognized in the liability, and the explanations for deferred tax assets/liabilities for the current and prior period are presented in Section Five footnote No. XIII.

**16. Information on assets held for sale and discontinued operations:**

None (31 December 2016: None).

**17. Information on other assets:**

Other assets exceed 10% of the balance sheet total (excluding off balance sheet commitments). The details of other assets are presented below.

Breakdown of other assets:

	Current Period	Prior Period
Commission, Receivables From Members	9,906	8,553
Prepaid Expenses	8,186	3,755
Custody Accruals	2,826	2,169
Cash Guarantees Given	84	10
Seller Advances	53	38
Other	1,090	341
<b>Total</b>	<b>22,145</b>	<b>14,866</b>

**II. Explanations and Notes Related to Liabilities****1. Explanations related to deposits:**

a) Information on maturity structure of deposits:

The Bank is not authorized to accept deposits.

b) Information on saving deposits under the guarantee of saving deposit insurance:

The Bank is not authorized to accept deposits.

c) Information on the saving deposits of the bank with head office abroad, if the saving deposits in the branches of the bank located in Turkey are under the guarantee of saving deposit insurance in that country abroad:

The Bank's head office is in Turkey.

d) Saving deposits not guaranteed by insurance:

The Bank is not authorized to accept deposits.

**2. Information on derivative financial liabilities held-for-trading:**

None (31 December 2016: None).

**3. Information on funds borrowed:**

a) Information on banks and other financial institutions:

	Current Period		Prior Period	
	TL	FC	TL	FC
Loans from Central Bank of Turkey	34,737	-	43,800	-
From Domestic Banks and Institutions	771,313	2,372,955	530,691	1,869,739
From Foreign Banks, Institutions and Funds	-	-	-	-
<b>Total</b>	<b>806,050</b>	<b>2,372,955</b>	<b>574,491</b>	<b>1,869,739</b>

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**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.**  
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**SECTION FIVE (Continued)**
**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)**
**II. Explanations and Notes Related to the Liabilities (Continued)**

b) Maturity analysis of Funds borrowed:

	Current Period		Prior Period	
	TL	FC	TL	FC
Short-term	806,050	2,372,955	574,491	1,869,739
Medium and long-term	-	-	-	-
<b>Total</b>	<b>806,050</b>	<b>2,372,955</b>	<b>574,491</b>	<b>1,869,739</b>

c) Additional explanation related to the concentrations of the Bank’s major liabilities:

The liabilities of the Bank consist of tax payables and manual payments, cash collaterals and current accounts of the members. The Bank also has liabilities for the regarding amounts held due to managing the guarantee funds established for common stock, electricity, government bond and Treasury bill markets on the BİST and managing the guarantee funds and guarantees of transactions in Turkish Derivative Exchange.

**Information on funds provided from repurchase agreement transactions:**

None (31 December 2016: None).

**4. Other liabilities which exceed 10% of the balance sheet total excluding off-balance sheet commitments and the breakdown of these which constitute at least 20% of grand total:**

The breakdown of other liabilities is as below:

	Current Period	Prior Period
Cash Pool Electricity	26,206	16,524
Reverse Repo Accretion Pool Account	15,108	16,230
Contracts and Guarantees	11,800	739
BES Government Contribution Account	862	685
BİAŞ Guarantee Fund – Borrowing Instruments	507	333
BİAŞ Guarantee Fund – Share Certificates	-	1,092
IVP Profit and Loss Cash Pool	-	31,253
Other	5,833	1,924
<b>Total</b>	<b>60,316</b>	<b>68,780</b>

The breakdown of miscellaneous payables which is the main liabilities of the Bank is as below:

	Current Period		Prior Period	
	TL	FC	TL	FC
Cash Guarantees	3,787,374	1,849,178	2,818,424	1,288,493
Members’ Receivables	116,990	215,562	108,927	159,930
Expense Accruals	1,514	-	620	-
<b>Total</b>	<b>3,905,878</b>	<b>2,064,740</b>	<b>2,927,971</b>	<b>1,448,423</b>

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**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.****UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)  
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**SECTION FIVE (Continued)****EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)****II. Explanations and Notes Related to the Liabilities (Continued)****5. Explanations on financial lease obligations (net):**

- a) The general explanations on criteria used in determining instalments of financial lease agreements, renewal and purchasing options and restrictions in the agreements that create significant obligations to the Bank: None (31 December 2016: None).
- b) The explanation on modifications in agreements and new obligations resulting from such modifications: None (31 December 2016: None).
- c) Explanation on finance lease payables: None (31 December 2016: None).
- d) Explanations regarding operational leases: None (31 December 2016: None).
- e) Explanations on the lessor and lessee in sale and lease back transactions, agreement conditions, and major agreement terms: None (31 December 2016: None).

**6. Information on derivative financial liabilities for hedging purposes:**

None (31 December 2016: None).

**7. Information on provisions:**

- a) Information on general loan loss provisions:

	Current Period	Prior Period
General Provisions		
Provisions for First Group Loans and Receivables	2,963	2,088
Provisions for Second Group Loans and Receivables	-	-
Provisions for Non-cash Loans	45,176	29,120
Other	-	-
<b>Total</b>	<b>48,139</b>	<b>31,208</b>

- b) Foreign exchange losses on the foreign currency indexed loans and finance lease receivables: None (31 December 2016: None).
- c) The specific provisions provided for indemnified non cash loans: None (31 December 2016: None).
- d) Information on employee termination benefits and unused vacation accrual:

Under Turkish Labour Law, the Bank is required to pay employment termination benefits to each employee who has qualified. Also, employees are required to be paid their retirement pay provisions who retired by gaining right to receive retirement pay provisions according to current 506 numbered Social Insurance Law's 6 March 1981 dated, 2422 numbered, 25 August 1999 dated and 4447 numbered with 60th article that has been changed. Some transition provisions related to the pre-retirement service term was excluded from the law since the related law was changed as of 23 May 2002. As the maximum liability is revised semi annually, the maximum amount of TL 4,732.18 (31 December 2016: TL 4,426.16) (full TL) effective from 31 December 2017 has been taken into consideration in calculation of provision for employment termination benefits.

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**SECTION FIVE (Continued)**
**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)**
**II. Explanations and Notes Related to the Liabilities (Continued)**
**7. Information on provisions: (Continued)**

The liability is not funded, as there is no funding requirement. The provision has been calculated by estimating the present value of the future probable obligation of the Bank arising from the retirement of employees. TAS 19 requires actuarial valuation methods to be developed to estimate the enterprise’s obligation under defined benefit plans. Accordingly, the following actuarial assumptions were used in the calculation of the total liability:

The main assumption is that the maximum liability for each year of service will increase parallel with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the accompanying financial statements as of 31 December 2017, the provision has been calculated by estimating the present value of the future probable obligation of the Bank arising from the retirement of the employees. The provisions at the balance sheet date have been calculated assuming an annual inflation rate of 7% and interest rate 11% and a discount rate of 3.74% (31 December 2016: 6.50% inflation rate, 3.29% discount rate). The estimated rate of severance pay amount which is not paid and to be held in the bank as a result of optional leavings are also considered.

	Current Period	Prior Period
Total liabilities of employee terminations (Undiscounted)	9,533	9,152
Provision for employee termination (Presented in financial statements)	5,900	7,384
The ratio of provision to undiscounted total liabilities (%)	61.89	80.68

As of 31 December 2017, the Bank provided a reserve of TL 6,745 (31 December 2016: TL 4,864) for the unused vacation which classified under Reserve for Employee Benefits in the financial statements.

**d.1) Movement of employee termination benefits**

	Current Period	Prior Period
As of January 1	7,384	8,830
Paid during the year	(1,407)	(2,900)
Actuarial (gain)/loss	(1,506)	146
Charge for the year	1,429	1,308
Service charge	601	570
Interest charge	828	738
<b>Total</b>	<b>5,900</b>	<b>7,384</b>

**d.2) The reserve for employee benefits**

	Current Period	Prior Period
Unused vacation provision	6,745	4,864
<b>Total</b>	<b>6,745</b>	<b>4,864</b>

**e) Information on other provisions:**

**e.1) Information on provisions for possible losses:** None (31 December 2016: None).

**e.2) Breakdown of the subsidiary accounts if other provisions exceed 10% of the grand total of provisions:**

	Current Period	Prior Period
Provisions for Capital Market Board’s Share Fee <sup>(1)</sup>	11,352	9,984
Provision for Legal Claims <sup>(2)</sup>	9,926	1,900
<b>Total</b>	<b>21,278</b>	<b>11,884</b>

(1) Capital Market Board’s Share Fee consists of commission fee which will be paid to the CMB in 2017 accordance with the CMB’s regulation.

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**SECTION FIVE (Continued)****EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)****II. Explanations and Notes Related to the Liabilities (Continued)****7. Information on provisions: (Continued)**

	Current Period	Prior Period
Provisions for Cases Beginning Balance	1,900	342
Additions	8,086	1,588
Payments	-	(30)
Cancellations	60	-
<b>Provisions for Cases Year End</b>	<b>9,926</b>	<b>1,900</b>

**f)** Liabilities Resulting from Retirement Benefits: None (31 December 2016: None).**f.1)** Liabilities for pension funds established in accordance with "Social Security Institution": None (31 December 2016: None).**f.2)** Liabilities resulting from all kinds of pension funds, foundations, which provide post-retirement benefits for the employees: None (31 December 2016: None).**8. Explanations on taxes payable:****a)** Information on current tax liability:**a.1)** Corporate tax:

	Current Period	Prior Period
Provision for Corporate Taxes	70,354	52,312
Advance Taxes (-)	50,684	39,269
<b>Corporate Income Tax Payable</b>	<b>19,670</b>	<b>13,043</b>

**a.2)** Information on taxes payable:

	Current Period	Prior Period
Corporate Taxes Payable	19,670	13,043
Banking Insurance Transaction Tax (BITT)	1,856	1,468
Taxation on Securities	626	502
Value Added Tax Payable	149	55
Other	1,692	1,970
<b>Total</b>	<b>23,993</b>	<b>17,038</b>

**a.3)** Information on premiums:

	Current Period	Prior Period
Social Security Premiums-Employer	508	382
Social Security Premiums-Employee	512	416
Unemployment Insurance-Employer	72	55
Unemployment Insurance-Employee	36	27
<b>Total</b>	<b>1,128</b>	<b>880</b>

**b)** Explanations on deferred tax liabilities, if any: As of 31 December 2017, the Bank has deferred tax liability amounting to TL 1,045 (31 December 2016: TL 1,179 deferred tax asset).



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**SECTION FIVE (Continued)**
**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)**
**II. Explanations and Notes Related to the Liabilities (Continued)**
**8. Explanations on taxes payable (Continued)**

Breakdown of deferred tax liability:

	Current Period		Prior Period	
	Accumulated temporary differences	Deferred tax asset/(liability)	Accumulated temporary differences	Deferred tax asset/(liability)
Provisions for Capital Market Board’s Share Fee	11,352	2,271	9,984	1,997
Provision for Employee Termination	5,900	1,180	7,384	1,477
Unused Vacation Provision	6,745	1,349	4,864	973
Provision for Legal Claims	9,926	1,985	1,900	380
Difference between Internal Efficiency and Market Value of Government Debt Securities Held To Maturity	-	-	115	23
Interest Accruals	56	11	-	-
<b>Deferred Tax Asset</b>		<b>6,796</b>		<b>4,850</b>
Difference between Book Value and Tax Value of Fixed Assets	38,805	7,761	18,355	3,671
Difference between Internal Efficiency and Market Value of Government Debt Securities Held To Maturity	402	80	-	-
<b>Deferred Tax Liability</b>		<b>7,841</b>		<b>3,671</b>
<b>Deferred Tax Asset/(Liability), Net</b>		<b>(1,045)</b>		<b>1,179</b>

Deductible temporary difference which is deferred tax asset was not calculated in the prior periods and not reflected to the balance sheet: None (31 December 2016: None).

Provision for impairment of deferred tax and deferred tax asset resulting from the reversal of impairment provision: None (31 December 2016: None).

Deferred tax asset movement table as below:

	Current Period	Prior Period
<b>As of 1 January</b>	<b>1,179</b>	<b>2,629</b>
Effective Tax Rate Changes Impact	-	-
<b>Deferred Tax Loss/(Profit)</b>	<b>(1,923)</b>	<b>(1,480)</b>
Deferred Tax Recognized under the Shareholder’s Equity	(301)	30
<b>Deferred Tax Asset</b>	<b>(1,045)</b>	<b>1,179</b>

**9. Information on liabilities regarding assets held for sale and discontinued operations:**

None (31 December 2016: None).

**10. Explanations on the number of subordinated loans the Bank used maturity, interest rate, institution that the loan was borrowed from, and conversion option, if any:**

None (31 December 2016: None).

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**SECTION FIVE (Continued)****EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)****II. Explanations and Notes Related to the Liabilities (Continued)****11. Information on Shareholders' Equity:****a) Presentation of Paid-in capital:**

	Current Period	Prior Period
Common stock <sup>(1)</sup>	600,000	600,000
Preferred stock	-	-

<sup>(1)</sup>As of 31 December 2017, The Bank has totally 6,000,000,000 issued share certificates. 2,000 of these shares are preferred shares.

**b) Paid-in capital amount, explanation as to whether the registered share capital system is applicable at the Bank if so, and amount of registered share capital ceiling:** Registered share capital system is not applied as of the balance sheet date (31 December 2016: Not applied).

**c) Other information on the share of capital increased through capital contributions performed during the current period and capital funds:** None (31 December 2016: None).

**Information on share capital increases from capital reserves during the current period:** None (31 December 2016: None).

**d) Capital commitments in the last fiscal year and at the end of the following interim period, the general purpose of these commitments and projected resources required to meet these commitments:** None (31 December 2016: None).

**e) Indicators of the Bank's income, profitability and liquidity for the previous periods and possible effects of these future assumptions on the Bank's equity due to the uncertainty of these indicators:**

Due to the Bank's liquid position and good relations with other banks, the Bank has the means to provide low cost financing and place it in domestic market which leads to profits. In parallel with this, if similar circumstances will occur in the future, it can be predicted that profitability will increase and this will improve the equity of the Bank with retained profits.

**g) Information on preferred shares:**

As of 31 December 2017, the Bank has preferred shares with a nominal value of TL 200. According to the article six of the Articles of Association, the shares which represent group shares of the newly issued group A and B shares belong only to BİAŞ and cannot be transferred. Besides, according to the Bank's Articles of Association - article 9/2, four members of the board of directors are chosen by the General Assembly, among the candidates presented by group shareholders.

**h) Information on marketable securities valuation reserve:** None (31 December 2016: None).

**i) Information on extraordinary reserves:**

	Current Period	Prior Period
Reserves appropriated by the General Assembly	260,606	139,119
Retained Earnings	-	-
Accumulated Losses	-	-
Foreign Capital Exchange Difference	-	-
<b>Total</b>	<b>260,606</b>	<b>139,119</b>

**12. Other information on Shareholders' Equity:**

The Bank did not transfer any amount from its capital reserve to the capital amount for the year ended 31 December 2017 (31 December 2016: None).

The Bank has not been added to capital from capital reserve for the year ended 31 December 2017 (31 December 2016: None).

**13. Information on minority shares:**

None (31 December 2016: None).

**14 Information on past year profit distribution:**

The Bank transferred TL 15,078 to legal reserves and TL 121,487 to extraordinary reserves from its distributable net profit for the year 2016 of TL 211,565. In accordance with the decision taken at the Ordinary General Assembly meeting held on 9 June 2017, a dividend of 75,000 TL was paid to the shareholders.

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**SECTION FIVE (Continued)**
**III. Explanations and Notes Related to the Off-Balance Sheet Accounts**
**1. Information on off-balance sheet liabilities:**

a) Nature and amount of irrevocable loan commitments: None (31 December 2016: None).

b) Possible losses and commitments related to off-balance sheet items including items listed below:

**b.1) Non-cash loans including guarantees, acceptances, financial guarantee and other letters of credits:** There are no non-cash loans including guarantees, acceptances, financial guarantee and other letters of credits as of the balance sheet date

	Current Period	Prior Period
Non-cash loans given against achieving cash loans	-	-
With Original Maturity of One Year or Less	-	-
With Original Maturity of More than One Year	-	-
Other non-cash loans <sup>(1)</sup>	17,639,591	10,768,604
<b>Total Non-Cash Loans</b>	<b>17,639,591</b>	<b>10,768,604</b>

<sup>(1)</sup> Guarantees given to Stock Exchange Money Market, Takasbank Money Market, Securities Lending Market, Futures and Options Market and Equity Market for Payables.

Information on sectorial risk breakdown of non-cash loans:

	Current Period				Prior Period			
	TL	(%)	FC	(%)	TL	(%)	FC	(%)
<b>Agricultural</b>								
Farming and Livestock	-	-	-	-	-	-	-	-
Forestry	-	-	-	-	-	-	-	-
Fishery	-	-	-	-	-	-	-	-
Industry	-	-	-	-	-	-	-	-
Mining and Quarry	-	-	-	-	-	-	-	-
Manufacturing Industry	-	-	-	-	-	-	-	-
Electric, Gas and Water	-	-	-	-	-	-	-	-
Construction	-	-	-	-	-	-	-	-
<b>Services</b>	<b>17,639,591</b>	<b>100</b>	-	-	<b>10,768,604</b>	<b>100</b>	-	-
Wholesale and Retail Trade	-	-	-	-	-	-	-	-
Hotel, Food and Beverage Services	-	-	-	-	-	-	-	-
Transportation and Telecommunication	-	-	-	-	-	-	-	-
Financial Institutions	17,639,591	100	-	-	10,768,604	100	-	-
Real Estate and Renting Services	-	-	-	-	-	-	-	-
Self-employment Services	-	-	-	-	-	-	-	-
Education Services	-	-	-	-	-	-	-	-
Health and Social Services	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
<b>Total</b>	<b>17,639,591</b>	<b>100</b>	-	-	<b>10,768,604</b>	<b>100</b>	-	-

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**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.****UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)  
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**SECTION FIVE (Continued)****EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)****III. Explanations and Notes Related to the Off-Balance Sheet Accounts (Continued)****1. Information on off-balance sheet liabilities: (Continued):**

Information on Group I and II non-cash loans:

	Group I		Group II	
	TL	FC	TL	FC
<b>Non-cash loans</b>	<b>17,639,591</b>	-	-	-
Letters of Guarantee	-	-	-	-
Bank Acceptances	-	-	-	-
Letters of Credit	-	-	-	-
Endorsements	-	-	-	-
Purchase Guarantees for Securities Issuance	-	-	-	-
Factoring Commitments	-	-	-	-
Other Commitments and Contingencies	17,639,591	-	-	-

**b.2)** Guarantees, temporary guarantees, collateral and other warranties: None (31 December 2016: None).**b.3)** Explanation of irrevocable commitments:

	Current Period		Prior Period	
	TL	FC	TL	FC
Capital commitment for Derivatives Exchange (Bank is central counterparty services (CCP))	181,543	-	216,775	633
Capital commitment for Central Counterparty Service (Bank is central counterparty services (CCP))	8,928	-	9,290	-
Capital commitment for Loan Share Market (Bank is central counterparty services (CCP))	107,140	-	83,614	-
<b>Total</b>	<b>297,611</b>	<b>-</b>	<b>309,679</b>	<b>633</b>

**c)** Information related to Non-Cash Loans: As the Bank functions as a bridge between seller and buyer in money market operations in which bank has a market maker role and guarantees that the debts will be paid, bank follows the risks which occurred in this market in non-cash loans accounts. The limits are defined for the members and it is required to have continued guarantees. A limit is set for members for Takasbank Money Market, Loan Share Market, and Derivatives Exchange Market and there is a continuing guarantee for these limits. These mentioned guarantees are hold in bank as defined credit limits' multiples according to their liquidity.

**d)** Information related to Market Securities Hedges; the markets securities hedges, TL 3,072,124,601 (31 December 2016: TL 2,441,011,739) of the TL 3,071,892,253 balance of market securities hedges are investment funds as the other TL 232,348 balance consists of share certificate hedges.

**2. Information related to derivative financial instruments:**

The Bank has no derivative financial instruments as of 31 December 2017 and 31 December 2016.

**Breakdown of the Bank's foreign currency forward and swap transactions as of the balance sheet date based on currencies are disclosed below in their TL equivalents:** None (31 December 2016: None).

**Fair Value Hedges:**

**Net profit/(loss) due to hedging instruments of the Bank:** None (31 December 2016: None).

**Net Investment Hedges:**

The periods when cash flows are expected to be realized regarding cash flow hedges and the periods when cash flows are expected to affect profit or loss, as of 31 December 2017: None (31 December 2016: None).

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS

**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.**  
**UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)**  
**AT 31 DECEMBER 2017 (Continued)**

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

**SECTION FIVE (Continued)**
**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)**
**III. Explanations and Notes Related to the Off-Balance Sheet Accounts (Continued)**
**2. Information related to derivative financial instruments: (Continued):**
**Net Investment Hedges at the Foreign Companies:**

None (31 December 2016: None).

**3. Explanations on contingent liabilities and assets:**

**a.1) The Bank’s share in contingent liabilities arising from entities under common control (joint ventures) together with other ventures:** None (31 December 2016: None).

**a.2) Share of entity under common control (joint ventures) in its own contingent liabilities:** None (31 December 2016: None).

**a.3) The Bank’s contingent liabilities resulting from liabilities of other ventures in entities under common control (joint ventures):** None (31 December 2016: None).

**b) Accounting and presentation of contingent assets and liabilities in the financial statements:** None (31 December 2016: None).

**4. Custodian and intermediary services:**

The Bank carries out custody transactions for marketable securities, precious metals and other securities and executes the settlement of commitments and receivables arising from cash and securities purchase and sale in the stock exchanges. Besides, the Bank opens custody accounts for its customers, institutional investors and companies quoted on the BİAŞ and on other stock exchange markets, performs the transfers, settlements and offsets between the accounts of the intermediary companies and the individual investors; performs the procedures related to the obtaining of bonus shares, use of preemptive rights, timely collection of dividends, principal and interest, exchange of certificates representing the marketable and other securities and additional financial services.

**5. The information on the Bank’s rating by the international rating introductions:**

The rating note from the Fitch Ratings of the Bank is explained in Section 6.

**IV. Explanations and Notes Related to the Income Statement**
**1. Information on interest income**
**a) Information on interest on loans:**

	Current Period		Prior Period	
	TL	FC	TL	FC
Short term loans	17,400	-	12,891	-
Medium and long term loans	-	-	-	-
Interest on non-performing loans	-	-	-	-
Premiums received from Resource Utilization Support Fund	-	-	-	-
<b>Total</b>	<b>17,400</b>	<b>-</b>	<b>12,891</b>	<b>-</b>

**b) Information on interest received from banks:**

	Current Period		Prior Period	
	TL	FC	TL	FC
Central Bank of Turkey	-	-	-	-
Domestic banks	243,034	134,770	203,057	71,441
Foreign banks	-	-	-	-
Branches and head office abroad	-	-	-	-
<b>Total</b>	<b>243,034</b>	<b>134,770</b>	<b>203,057</b>	<b>71,441</b>

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS

**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.****UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)  
AT 31 DECEMBER 2017 (Continued)**

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

**SECTION FIVE (Continued)****EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)****IV. Explanations and Notes Related to the Income Statement (Continued)****c) Interest received from marketable securities portfolio:**

	Current Period		Prior Period	
	TL	FC	TL	FC
Trading securities	-	-	-	-
Financial assets at fair value through profit and loss	-	-	-	-
Available-for-sale securities	-	-	-	-
Held-to-maturity securities	10,141	-	6,345	-
<b>Total</b>	<b>10,141</b>	<b>-</b>	<b>6,345</b>	<b>-</b>

**d) Information on interest income received from associates and subsidiaries:**

None (31 December 2016: None).

**e) Other information:**

None (31 December 2016: None).

**2. Information on interest expense****a) Information on interest on funds borrowed:**

	Current Period		Prior Period	
	TL	FC	TL	FC
Banks	85,988	-	50,674	-
The Central Bank of Turkey	7,727	-	21	-
Domestic banks	78,261	-	50,653	-
Foreign banks	-	-	-	-
Branches and head office abroad	-	-	-	-
Other financial institutions	-	-	-	-
<b>Total</b>	<b>85,988</b>	<b>-</b>	<b>50,674</b>	<b>-</b>

**b) Information on interest expense to associates and subsidiaries:**

None (31 December 2016: None).

**c) Information on interest expense to marketable securities issued:**

None (31 December 2016: None).

**d) Distribution of interest expense on deposits based on maturity of deposits:**

None (31 December 2016: None).

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS

**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.**  
**UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)**  
**AT 31 DECEMBER 2017 (Continued)**

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

**SECTION FIVE (Continued)****EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)****IV. Explanations and Notes Related to the Income Statement (Continued)****3. Information on dividend income:**

	Current Period	Prior Period
Trading Securities	-	-
Financial assets at fair value through profit and loss	-	-
Available-for-sale securities	30	52
Other (Investment in subsidiaries)	-	6,165
<b>Total</b>	<b>30</b>	<b>6,217</b>

**4. Information on net trading income:**

	Current Period	Prior Period
<b>Income</b>	<b>2,251</b>	<b>2,720</b>
Gains on capital market operations	-	-
Foreign exchange gains	2,251	2,720
<b>Losses (-)</b>	<b>(1,689)</b>	<b>(925)</b>
Losses on capital market operations	-	-
Foreign exchange losses	(1,689)	(925)
<b>Total (Net)</b>	<b>562</b>	<b>1,795</b>

**5. Information on other operating income:**

Other operating income mainly consists of the income received from selling assets and collection income relating to the previous year's expenses.

	Current Period	Prior Period
Provisions no longer required	242	146
Collection of Prior Year Expenses	60	4,466
Income from sales of the assets	14	17
Other income	13	3
<b>Total</b>	<b>329</b>	<b>4,632</b>

In the fifth section and fourth part Note 10, details of sub-accounts of balances that are grouped under “Others” section that constitute at minimum 20% of the balances under “Other” section are included if the accounted under “Other” section excludes 10% of the total balance of the Income Statement.

Information about the factors that affect the Bank's profit materially and including new developments and the amount and quality of extraordinary accounts: None (31 December 2016: None).

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS

**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.****UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)  
AT 31 DECEMBER 2017 (Continued)**

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

**SECTION FIVE (Continued)****EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)****IV. Explanations and Notes Related to the Income Statement (Continued)****6. Provision expenses of banks for loans and other receivables:**

	Current Period	Prior Period
Specific provisions for loans and other receivables	-	-
Group III Loans and Receivables	-	-
Group IV Loans and Receivables	-	-
Group V Loans and Receivables	-	-
General provision expenses	16,931	13,983
Provision expenses for possible losses	-	-
Marketable securities impairment losses	-	-
Financial assets at fair value through profit and loss	-	-
Investment securities available for sale	-	-
Impairment provision expense	-	-
Associates	-	-
Subsidiaries	-	-
Entities under common control (Joint Ventures)	-	-
Investments held to maturity	-	-
Other	-	-
<b>Total</b>	<b>16,931</b>	<b>13,983</b>

**7. Information on other operating expenses:**

	Current Period	Prior Period
Personnel Expenses	46,098	47,313
CMB Council Portion	11,352	9,984
Litigation Provision Expenses	8,087	1,588
Tax, Duty and Charge Expenses	4,436	3,363
Intangible Amortization Expenses	4,313	1,872
Tangible Amortization Expenses	2,632	2,493
Employee Benefits Provision Expense	1,881	973
Provisions for Termination Indemnities	1,428	1,308
Leasehold improvements Amortization Expenses	14	2
Other Management Expenses	24,423	18,134
-Insurance Expenses	172	1,472
-Communication Expenses	1,865	2,258
-Computer Using Expenses	6,654	5,121
-Other Expenses	15,732	9,283
<b>Total</b>	<b>104,664</b>	<b>87,030</b>



CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS

**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.**  
**UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)**  
**AT 31 DECEMBER 2017 (Continued)**

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

**SECTION FIVE (Continued)**
**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)**
**IV. Explanations and Notes Related to the Income Statement (Continued)**
**8. Information on continued and discontinued operations from tax provisions:**
**a) The Bank presents deferred tax asset and the resulting deferred tax benefit in its financial statements.**

	Current Period	Prior Period
Current income tax charge	(70,354)	(52,312)
Deferred tax charge	(1,923)	(1,480)
<b>Total</b>	<b>(72,277)</b>	<b>(53,792)</b>

**b) Deferred tax on temporary differences:**

	Current Period	Prior Period
Difference between Book Value and Tax Value of Fixed Assets	(4,090)	(1,657)
Employee Benefits Provision Expense	(297)	(289)
Difference between Internal Efficiency and Market Value of Government Debt Securities held to maturity	(103)	(56)
Litigation Provision Expenses	1,605	312
Employee Benefits Provision Expense	376	71
Deferred Tax Expenses recognized in Equity	301	(30)
Provision for Capital Market Board’s Share Fee- Other Provisions	274	169
Interest Accruals	11	-
<b>Total</b>	<b>(1,923)</b>	<b>(1,480)</b>

**c) Tax reconciliation:**

	Current Period	Prior Period
Profit before tax	348,648	265,357
Corporate tax rate	20%	20%
Calculated tax	(69,730)	(53,071)
Additions	21,063	13,713
Deductions	(23,610)	(14,434)
<b>Tax expense</b>	<b>(72,277)</b>	<b>(53,792)</b>

**9. Information on net profit/loss from continued and discontinued operations:**

As of 31 December 2017, net profit after tax of the Bank is TL 276,371 (31 December 2016: TL 211,565).

**10. The explanations on net income/loss for the period:**

**a) The nature and amount of certain income and expense items from ordinary operations is disclosed if the disclosure for nature, amount and repetition rate of such items is required for the complete understanding Bank’s performance for the period:** None (31 December 2016: None).

**b) Effect of changes in accounting estimates on income statement for the current and, if any, for subsequent periods:** There is no effect of changes in accounting estimates on income statement for the current period (31 December 2016: None).

**c) Profit/loss attributable to minority shares:** There is no profit or loss attributable to minority shares as of the balance sheet date (31 December 2016: None).

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS

**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.****UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)  
AT 31 DECEMBER 2017 (Continued)**

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

**SECTION FIVE (Continued)****EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)****IV. Explanations and Notes Related to the Income Statement (Continued)****11. If the other items in the income statement exceed 10% of the income statement total, accounts amounting to at least 20% of these items are shown below:**

	Current Period	Prior Period
<b>Other fees and commissions</b>		
- Commissions on options exchange	30,514	18,939
- Custody commissions	26,035	20,853
- Customer account maintenance commissions	22,866	17,760
- Service commissions	17,855	13,751
- Other	14,226	10,902
- Transfer commissions	9,074	8,370
- Bank transfer transactions	5,660	4,429
<b>Total</b>	<b>126,230</b>	<b>95,004</b>

**12. Information for the fees and commissions given:**

	Current Period	Prior Period
Central Securities depository commissions	6,884	5,947
Electronic fund transfer commissions	1,644	1,378
Other Commissions	7,127	3,086
<b>Fees and commissions expense</b>	<b>15,655</b>	<b>10,411</b>

**a) Nature and amount of changes in accounting estimates, which have a material effect on current period or expected to have a material effect on subsequent periods:**

None (31 December 2016: None).

**V. Explanations and Notes Related to Statement of Shareholders' Equity Movement****a) Decrease resulting from revaluation of financial assets available for sale:** None (2016: None).**b) Increase in cash flow risk hedging items:** None (2016: None).**c) The reconciliation related with foreign exchange amounts in the beginning and end of the period:** None (2016: None).**d) Net investment hedges:** None (2016: None).**e) Dividends declared subsequent to the balance sheet date, but before the announcement of the financial statements:** None.**f) Dividends per share proposed subsequent to the balance sheet date:** Profit appropriation will be resolved in the General Assembly meeting which has not been held as of the date of the accompanying financial statements are authorized for issue.**g) Proposals to the General Assembly for the payment dates of dividends and if it will not be appropriated the reasons for this:** The Board of Directors has not decided for profit appropriation as of the date of the financial statements is authorized for issue.**h) Amounts transferred to legal reserves:** The Bank, from its 2016 distributable net profit of TL 211,565, added to the legal reserve account amounting TL 15,078 and transferred to extraordinary reserve account amounting TL 121,487. As per the decision taken at the Bank's Ordinary General Assembly meeting dated 9 June 2017, a dividend amounting to TL 75,000 was distributed to shareholders.

	Current Period	Prior Period
Amounts transferred to reserves from retained earnings	15,078	13,706

**i) Information on shares issued:** None (31 December 2016: None).

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS

**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.**  
**UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)**  
**AT 31 DECEMBER 2017 (Continued)**

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

**SECTION FIVE (Continued)**
**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)**
**VI. Explanations and Notes Related To Statement of Cash Flows**
**1. The effects of the other items stated in the cash flow statement and the changes in foreign currency Exchange rates on cash and cash equivalents:**

“Other items” amounting to TL 212,883 (31 December 2016: TL 53,529) in “Operating profit before changes in operating assets and liabilities” consist of fees and commissions paid and other expenses other than personnel expenses, leasing expenses, reserve for employee termination benefits, depreciation charges and taxes paid.

“Net increase/decrease in other liabilities” amounting to TL 1,589,302 (31 December 2016: TL 781,226) in “Changes in operating assets and liabilities” consists of changes in sundry creditors and other liabilities. “Net increase/decrease in other assets” with a total amount of TL 7,278 (31 December 2016: TL 2,744) consists of changes in sundry debtors and other assets.

The effect of changes in foreign currencies on cash and cash equivalents is TL 160,163 (31 December 2016: TL 533,759).

**2. Cash and cash equivalents in the beginning and at the end of the period:**

The reconciliation of the components of cash and cash equivalents, accounting policies used to determine these components, the effect of any change made in accounting principle in the current period, the recorded amounts of the cash and cash equivalent assets at the balance sheet and the recorded amounts in the cash flows statement:

	31 December 2016	31 December 2015
<b>Cash</b>	<b>85</b>	<b>55</b>
Cash in TL/Foreign Currency	14	13
Central Bank - Unrestricted amount	71	42
Other	-	-
<b>Cash equivalents</b>	<b>7,737,093</b>	<b>6,617,585</b>
Banks	7,715,925	6,598,704
Money market placements	21,168	18,881
<b>Total Cash and Cash Equivalents</b>	<b>7,737,178</b>	<b>6,617,640</b>
Accruals (-)	(13,260)	(14,522)
<b>Total cash and cash equivalents in cash flow statement</b>	<b>7,723,918</b>	<b>6,603,118</b>
	31 December 2017	31 December 2016
<b>Cash</b>	<b>480</b>	<b>85</b>
Cash in TL/Foreign Currency	37	14
Central Bank - Unrestricted amount	443	71
Other	-	-
<b>Cash equivalents</b>	<b>10,184,317</b>	<b>7,737,093</b>
Banks	10,163,484	7,715,925
Money market placements	20,833	21,168
<b>Total Cash and Cash Equivalents</b>	<b>10,184,797</b>	<b>7,737,178</b>
Accruals (-)	(25,173)	(13,260)
<b>Total cash and cash equivalents in cash flow statement</b>	<b>10,159,624</b>	<b>7,723,918</b>

<sup>(1)</sup> Starting from 1 January 2014, on the instruction of the CMB, share fee is evaluated as a blocked amount and as of 31 December 2017, the related amount is deducted from cash and cash equivalents.

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**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.****UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)  
AT 31 DECEMBER 2017 (Continued)**

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

**SECTION FIVE (Continued)****EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)****VII. Explanations and notes related to Bank's risk group of the Bank****1. Volume of related party transactions, income and expense amounts involved and outstanding loan and deposit balances:**

a) Current Period:

<b>Bank's Risk Group</b>	<b>Subsidiaries, associates and entities under common control (Joint Ventures)</b>		<b>Direct and indirect shareholders of the Bank</b>		<b>Other entities included in the risk group</b>	
	<b>Cash</b>	<b>Non-cash</b>	<b>Cash</b>	<b>Non-cash</b>	<b>Cash</b>	<b>Non-cash</b>
Loans and other receivables						
Balance at beginning of the period	-	-	98,945	2,783,755	70,038	-
Balance at end of the period	-	-	144,797	2,666,698	100,108	-
Interest and commission income	2,112		32,855	19,511	14,456	3,537

b) Prior Period:

<b>Bank's Risk Group</b>	<b>Subsidiaries, associates and entities under common control (Joint Ventures)</b>		<b>Direct and indirect shareholders of the Bank</b>		<b>Other entities included in the risk group</b>	
	<b>Cash</b>	<b>Non-cash</b>	<b>Cash</b>	<b>Non-cash</b>	<b>Cash</b>	<b>Non-cash</b>
Loans and other receivables						
Balance at beginning of the period	-	-	141,553	1,751,219	138,134	-
Balance at end of the period	-	-	98,945	2,783,755	70,038	-
Interest and commission income	236	-	25,723	15,455	2,538	-

c) Information on related party deposits balances: None (31 December 2016: None).

d) Information on forward and option agreements and other similar agreements made with related parties: None (31 December 2016: None).

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**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.****UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)****AT 31 DECEMBER 2017 (Continued)**

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

**SECTION FIVE (Continued)****EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)****VII. Explanations and notes related to Bank’s risk group of the Bank (Continued)****2. Disclosures for the risk group of the bank:**

a) The relations of the bank with the entities controlled by the Bank and its related parties, regardless of whether there are any transactions or not: None (31 December 2016: None).

b) Besides the structure of relationship, nature of the transaction, amount and ratio to the volume of transactions, amount of major items and ratio to all items, pricing policies and other factors: None (31 December 2016: None).

c) In cases whereby separate disclosure is not necessary, the total of similar items in order to present the total impact on the financial statements: None (31 December 2016: None).

d) Transactions accounted for under the equity method: None (31 December 2016: None).

e) Disclosures related to purchase and sale of real estate and other assets, services given/received, agency contracts, leasing contracts, transferring information as a result of research and development, license contracts, financing (including supports in the form of loans, capital in cash and capital in kind), guarantees, and management contracts: None (31 December 2016: None).

**VIII. Explanations and Notes on the Bank’s domestic branches, agencies and branches abroad and off-shore branches****1. Explanations on the Bank’s domestic branches, agencies and branches abroad and off-shore branches:**

	<b>Number</b>	<b>Employees</b>			
Domestic branches	1	281			
			<b>Country</b>		
Rep-offices abroad	-	-	-	<b>Total Asset</b>	<b>Capital</b>
Branches abroad	-	-	-	-	-
Off-shore branches	-	-	-	-	-

**2. Explanations on Branch and Agency Openings or Closings and on Substantial Change in the Organization of the Bank:**

None.

**IX. Explanations and Notes Related To Subsequent Events**

As of 25 January 2018, 90,000 shares of Saxo Capital Markets Menkul Değerler A.Ş. with a nominal value of TL 9,000 purchased by Borsa İstanbul A.Ş.

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS

**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.****UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)****AT 31 DECEMBER 2017 (Continued)**

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

**SECTION SIX****OTHER EXPLANATIONS****I. Other Explanations on the Operations of the Bank**

i) As of 31 December 2017; TL 1,413 in the item of Custody and Pledges Received/Released has been taken with the repayment commitment amounting to TL 20,833 in the item of the bonds and reverse repurchase agreements of the accounts opened by the CMB with permanently closed intermediary institutions, seizure/precautionary measure. These securities are classified under Miscellaneous Payables under Total Liabilities.

ii) The results of the ratings performed by Fitch Ratings are shown below:

<b>Fitch Ratings:</b>	<b>February 2017</b>	<b>August 2016</b>
Foreign currency long term <b>View</b>	<b>BB+</b> <b>Stable</b>	<b>BBB-</b> <b>Negative</b>
Foreign currency short term	B	F3
TL long term <b>View</b>	<b>BBB-</b> <b>Stable</b>	<b>BBB-</b> <b>Negative</b>
TL short term	F3	F3
National long term <b>View</b>	<b>AAA (tur)</b> <b>Stable</b>	<b>AAA (tur)</b> <b>Stable</b>
<b>Support Points</b>	<b>3</b>	<b>2</b>
<b>Support Rating Base</b>	<b>BB+</b>	<b>BBB-</b>
<b>Financial Capacity Rating</b>	<b>bb+</b>	<b>bbb-</b>

**SECTION SEVEN****INDEPENDENT AUDITOR'S REPORT****I. Explanations on the Independent Auditor's Report**

The unconsolidated financial statements of the Bank as of 31 December 2017, have been audited by KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi (The Turkish member firm of KPMG International Cooperative, a Swiss entity) and their independent audit report dated 26 February 2018 is presented at the beginning of this report.

**II. Other Footnotes and Explanations Prepared by Independent Auditor**

None.





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