



**TAKAS**  
İSTANBUL

**Annual Report / 2016**

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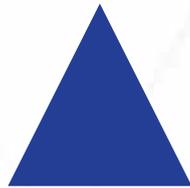
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# Presentation

## Vision, Mission and Values



### ▶ Vision

“Become an internationally preferred, reliable, effective and innovative organization, offering settlement, banking and central risk management services at international quality standards”

### ▶ Mission

“Contribute to market development by offering reliable and effective after-sales 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.

### 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 of intermediary institutions, exchanges and other capital market institutions; and operates in an environment of constant collaboration and solidarity with customers and relevant institutions.

### Effectiveness

Takasbank embraces an investigative and inquiring approach in developing the most appropriate and accurate solutions for the development of clearing, settlement, custody and banking services within the scope of the

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 the commitments given to the markets and settlement members, within the framework of the target to launch central counterparty mechanism at the capital markets through effective clearing, settlement and custody services

### Transparency

Takasbank discloses the necessary notices and announcements to both public and the related parties in an accurate and timely manner; takes the responsibilities and accepts accountability requirements as well as being ready and open to public oversight.

### Sustainability

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

## Message from the Chairman



Dear stakeholders,  
With more than 20 years' experience as well as reliable and consistent policies, we completed another successful year despite uncertainty and fluctuations in financial markets...

At a time with lingering effects of the global crisis, and unresolved economic balance instabilities, unemployment, and social and political unrest issues, Turkey, alongside with India, China and Indonesia, has managed to rank number four in countries that posted economic growth in 2016.

Turkish banking industry was impacted by external factors such as FED interest rate decisions in the markets, developments in the US economy and political turmoil in Syria as well as internal factors such as political fluctuations and interest rate decisions by the CBRT.

According to the IMF data, share of developing economies in the global GDP increased to 58 percent from 43 percent, while their share in the world trade rose to 37 percent from 36 percent. The number of developed economies grew by 11 percent, whereas the number of emerging economies fell by 4 percent. Though the number of developed economies advanced, their share declined to 42 percent from 57 percent in the world's GDP, to 63 percent from 64 percent in the global trade, and to 15 percent from 16 percent in the world's population.

Expectations of higher protection shields in the trade with the USA is projected to have a negative impact on world trade.

Despite the negative effects of terrorism, the treacherous coup attempt and the Russian crisis, our economy is growing above the OECD average by around three percent. In 2016, we lost a significant share and turnover in our tourism revenues.

The loss should be relatively reduced in 2017. Oil prices, on the other hand, may rise in 2017 to around \$55-\$60, up from average price of \$45 in 2016.

The first half of 2017 is set to be difficult, and economic activity is slated to accelerate after the second half. An approximately three-percent growth rate is projected in the year.

Despite unstable global markets and pressure on the country's economy, Takasbank closed another year with success by faring well in operational and financial results due to its robust capital structure and profitability.

In 2016, 85 brokerage houses accounted for a trading volume of 1.01 trillion Turkish lira in the Equity Market. As a result of multilateral netting process, Takasbank executed cash settlement with a value of 72 billion Turkish lira (7.06 percent) and securities settlement with a market value of 206 billion Turkish lira. (20.32 percent)

Average market value of capital market instruments safe-kept under global custody spiked steadily, reaching €4.3 billion by December 31, 2016. In the same year, the average custody balance increased by 22 percent year-to-year.

The volume of settlement transactions executed within the scope of global custody service climbed by 55 percent to €11.8 billion year-to-year.

As of December 31, 2016, the number of accounts that contain private pension funds held with the private pension companies surged by 757,091 to 7,685,249, and the participants' fund size grew to 61 billion Turkish lira with an approximate increase of 13 billion Turkish lira.

At the end of the year, our asset size rose by 13 percent to 8 billion Turkish lira, up from 7.09 billion Turkish lira at 2015 year-end. By the end of 2016, operating profit increased by 23 percent to 265 million Turkish lira.

With a renewed corporate image, Takas Istanbul and Merkezi Kayıt Istanbul-CSD of Turkey will continue to operate in the new service buildings on the Borsa Istanbul campus, to which President of the Republic of Turkey graced at the launching ceremony, in the coming days. These three institutions will gather under the roof of Borsa Istanbul, signifying a momentous step in the realization of organizational and physical integration as the final stage of vertical integration. The move will give us the opportunity to serve all our stakeholders in a considerably swift and efficient manner.

Borsa Istanbul was occupied during the treacherous coup attempt on July 15, 2016, being a symbol of the attempted blow to Turkey's economic stability. The resistance shown at Borsa Istanbul against the coup plotters by the public and security forces deserves utmost recognition. Once again, we wish all of our martyrs' mercy from God and remember the veterans with gratitude.

On behalf of our bank, I would like to extend my sincere thanks to our stakeholders and customers for the trust they put in us, and to our employees for their hard work.

Best regards,  
**Osman SARAC**  
Chairman of the Board of Directors

## Message from the CEO



Dear stakeholders,  
A GDP growth of above three percent is projected for the medium-term plan in the Turkish economy. For 2018 and 2019, the GDP growth rate target is set at five percent, supported with investments in productive areas, financed mostly by domestic savings, and based on growth strategy relying on productivity increase.

Public sector general balance deficit is expected to fall to 0.9 percent by the end of the program period, and there are plans to attract gold savings into the financial system.

In 2016, our Bank began to serve as the Central Counterparty to execute clearing and settlement transactions on Borsa Istanbul Money Market.

With a view to support the capital markets and in accordance with the demand from the Securities Lending Market (SLM) members, we took into consideration high commission rates especially for long maturities. Thus, we improved the Bank's commission tariff with the aim of reducing transaction cost for the members and boost trading volume.

Considering the additional current and future costs on mutual funds, we wanted to contribute to the mutual fund industry. Thus,

we implemented a permanent 50-percent discount, which had been in effect until January 1, 2017 previously, for TEFAŞ transaction commissions. In addition, starting from January 12, 2016, we reduced the fund trading commissions for the funds, which asset management companies execute with regard to their own customers for the funds they created.

On February 24, 2016, we completed the creation of web services, through which members will be able to access the markets using their own systems within their SLM transaction authorizations and limits.

As of March 15, 2016, the Turkish Natural Catastrophe Insurance Pool (DASK) began to execute transactions on the TMM.

At Takasbank Money Market (TMM), total trading volume soared by 66.4 percent to reach 427.97 billion Turkish lira, its highest level since its launch, in 2016 year-to-year.

When compared to 2015, total trading volume of TEFAŞ went up by 58.68 percent to 21.57 billion Turkish lira, and average daily trading volume was recorded as 86 million Turkish lira. In 2016, 85 brokerage houses accounted for a trading volume of 1.01 trillion Turkish lira in the Equity Market.

As a result of multilateral netting process, Takasbank executed cash settlement with a value of 72 billion Turkish lira (7.06 percent) and securities settlement with a market value of 206 billion Turkish lira (20.32 percent).

Total number of active members in the Futures and Options Market (VIOP) is 74 by 2016 year-end. In the same period, the number of open positions in VIOP reached 1,681,137 with a market value of 11.76 billion Turkish lira. On the same date, trading volume recorded as 2.83 billion Turkish lira with total open accounts of 119,160.

The Precious Metals and Diamond Markets accounted for 35.04 billion Turkish lira of cash settlements at Takasbank in 2016.

Average market value of capital market instruments safe-kept under global custody spiked steadily, reaching €4.3 billion by December 31, 2016. In the same year, the average custody balance increased by 22 percent year-to-year.

The volume of settlement transactions executed within the scope of global custody service climbed by 55 percent to €11.8 billion year-to-year.

As of December 31, 2016, Collective Investment Institutions had 13,835 kg of gold

custody balance with a market value of nearly 1.79 trillion Turkish lira.

As of December 31, 2016, the number of accounts that contain private pension funds held with the private pension companies surged by 757,091 to 7,685,249, and the participants' fund size grew to 61 billion Turkish lira with an approximate increase of 13 billion Turkish lira.

As of the year-end, there was 1.07 billion Turkish lira of collateral in 130,689 of the 214,835 accounts opened in the Leveraged Trading Transactions (LTT), in which 46 institutions are authorized to trade. Market value of VIOP transaction collateral managed by Takasbank was 2.64 billion Turkish lira, and of this amount, 2.13 billion collateral was in Turkish lira.

In 2016, our Bank granted a total of 496,010 million TL/Nominal debt securities transfer service. Of this amount, 493,678 million TL/Nominal million TL/Nominal were DvP and 2,333 million/Nominal were bilateral DvP transactions.

In 2016, Takasbank aimed to achieve maximum yield that could be earned with minimum risk by maintaining continuity of the Bank's core operations and financial strength in

market conditions and within the legislative framework. Accordingly, contribution of interest revenues to the financial structure rose by 31.58 percent year-to-year. Cash loan interest income rose by 42 percent to 12,891 thousand Turkish lira in 2016, up from 9,108 thousand Turkish lira in 2015.

Bank profitability has maintained its upward trend in recent years. The Bank's operating profit increased by 22.6 percent and recorded as 265.357 thousand Turkish lira year-to-year.

Takasbank raises the bar higher each year with its new projects, commitment to improving service, quality domestic and foreign collaborations and a high regard for human resources. After a successful year, Takasbank has embarked on a new operating period with a focus on greater aspirations. I am confident that as always, we will reach these objectives with devoted efforts of our employees, and with the confidence and support of our investors and customers.

Best regards,  
**Mahmut Kayacık**  
CEO and Board Member





## **Flags are made of blood, and a piece of land is a homeland if it is died for...**

In the evening of July 15, 2016, our nation was heart-struck with a terrible blow. The traitors who had infiltrated the state attempted a coup against Turkey's progress and stability, and the will of our great nation.

But our nation had something to say.

And defend its own will. We refused to hand over our precious flag. And dove in front of bullets and tanks with a quest to become a martyr or veteran without blinking an eye.

That night, the symbol of Turkey's economic power was also the target of the treacherous coup. The night of the coup, we stood in solidarity with our citizens and heroic police, who weren't hesitating to sacrifice their lives. We protected our land and took it back from the traitors

Fatih Satır and Mehmet Şevket Uzun, two heroes, were killed in the ensuing firefight. We will cherish their memories forever with the martyrs monument built for our heroes.

### **And on July 16, 2016 ...**

The members of the terrorist organization and their defiance of democracy failed against the national will of patriotic Turkish people.

**Our nation protected its President, Prime Minister, and members of parliament - in other words, its motherland and flag.**

**In Memory of the July 15 Martyrs and Veterans...**

# Milestones

» **NASDAQ** Project Phase 1 migration concluded subsequent to the finalization of infrastructure implementation and development for the Equity Market.

» TapuTakas – Real Estate Title Deed Transfer Project was launched.

» Fund Information Platform was launched.

» Leasing, factoring, consumer finance companies, insurance and private pension companies began trading on Takasbank Money Market via internet access.

» **TEFAS** began trading with new implementation principles.

» New title of **“Istanbul Settlement and Custody Bank, Inc.”** went into effect.

» Authorized by the Capital Markets Board as the **“Central Counterparty Institution”**

and started to provide Central Counterparty services primarily to Takasbank Securities Lending Market at first.

» Authorized as the Local Operating Unit (LOC) for the allocation of Legal Entity Identifier (LEI) Code) under the sponsorship of CMB.

## 2016

» Moved to the new campus in Istinye.

» Began to provide clearing and settlement transactions as **CCP** at Borsa Istanbul Money Market.

» Applied to the European Securities and Markets Authority (**ESMA**) to be recognized as a third country central counterparty (CCP) institution.

» Declared as a qualified central counterparty (QCCP) by the **CMB**.

## 2015

## 2014

» **“Central Counterparty”** practice started to be provided to **BIAS** Futures and Options Market (VIOP)

» ISO 27001 Information Security Management System Certificate (**ISMS**) was granted.

» ISO 22301 Business Continuity Management System Certificate (BCMSS) was granted.

» Portfolio Custody Service began to be provided.

## 2013

## 2012

» Takasbank logo and corporate identity changed to best reflect the Bank’s fundamental values of trust and future goals.

» Takasbank was 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.

» The CMB authorized Takasbank as a **FOREX** Trade Repository (TR) institution.

» New agreement signed with **TEİAŞ** (new EPIAŞ-Energy Exchange Istanbul) in order to have Cash Settlement and Collateral Management operations in the Electricity Market to be executed by Takasbank as the Central Settlement Bank.

» Established by Takasbank and MKK (CSD of Turkey), Turkish Electronic Fund Distribution Platform (**TEFAS**) began operations.

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

» The CMB **authorized Takasbank as the** National Numbering Agency.

**2011**

**2005**

» **Takasbank Securities Lending Market** launched.

**2001**

**1996**

» ISE Clearing, Settlement and Custody Bank Inc. established by obtaining an investment bank license.

» **Takasbank Money Market** service launched.

**1995**

**1992**

» **ISE Settlement and Custody Inc.** was established.

## International Memberships



- » European Association of Central Counterparty Clearing Houses (EACH)
- » Association of National Numbering Agencies (ANNA)
- » Organization of the Islamic Conference (OIC) Member States' Stock Exchanges Forum
- » International Securities Services Association (ISSA)
- » ISO TC68/SC4 Committee

## Services



- ▶ **Central Counterparty Service**
- ▶ **Fund Management**
- ▶ **Credit Service**
- ▶ **Market Operation Services**
  - » Takasbank Money Market (TMM) Service
  - » Turkey Electronic Fund Trading Platform (TEFAS)
  - » Securities Lending Market (SLM) Service
- ▶ **Clearing and Settlement Services**
  - » Equities and Equity-like Instruments Clearing and Settlement Service
  - » Electricity Market Clearing and Settlement Service
  - » Derivatives Market Clearing and Settlement Service

- » Precious Metals and Diamond Markets Clearing and Settlement Service
- » Debt Securities Market Clearing and Settlement Service
- » Electronic Warehouse Receipts (EWR) Clearing and Settlement Service

### ▶ **Custody Service**

- » Precious Metals Custody Service
- » Debt Securities Custody Service
- » Debt Securities Corporate Action Service
- » Private Pension Fund Shares Management Service
- » Portfolio Custody Service
- » Private Pension Fund Shares Information Service
- » Physical Custody Service
- » Local Custody Service
- » Global Custody Service
- » Share Certificates Corporate Action Service
- » Book-Entry Custody Service

### ▶ **Collateral Management Service**

- » Electricity Market Collateral Management Service
- » Guarantee Fund Collateral Management Service
- » Leveraged Trading Transactions, Collateral Management, and Reporting to the CMB
- » Debt Securities Collateral Monitoring (BIAS) Service
- » Electricity Market Collateral Management Service

### ▶ **Asset Transfer Service**

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

### ▶ **Data Vending Services**

- » Periodic Information Transfer Service to Data Vendors
- » Instant Information Transfer Service to Data Vendors

### ▶ **Numbering Service**

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

### ▶ **Other Services**

- » Takasbank TapuTakas - Real Estate Title Deed Transfer Service
- » Collateral Agency Service
- » Merkezi Kayıt Istanbul-CSD of Turkey TL Cash Correspondence Service
- » Fund Valuation and CMB Reporting Service
- » Merkezi Kayıt Istanbul-CSD of TurkeyCash Correspondence Service
- » Suspended Brokerage Houses Transactions Service
- » Fund Information Platform Service
- » Repo and Reverse Repo Transactions and Monitoring and Reporting Service
- » Brokerage House Collateral Safekeeping Service

## **Historical Development of the Bank and the Amendments in its Articles of Association, if any, During the Accounting Period and the Reasons**



Takasbank was founded in 1992 under the name of “ISE Settlement and Custody Inc.” as a joint stock company that is subject to the provisions of the Turkish Commercial Code under the leadership of 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 services, and it changed its title to “ISE Settlement and Custody Bank Inc.” Pursuant to the provisional article 8 of the new Capital Markets Law No. 6362 dated December 30, 2012, it earned “central clearing and settlement institution” status, and changed its name to “Istanbul Settlement and Custody Bank Inc.” in 2013.

Based on the legal ground 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 operated on September 2, 2013, and then on the Futures and Options Market (VIOP) at Borsa Istanbul A.Ş. (BIAS).The CCP service will also start in the spot equity and the debt securities markets on BIAS upon

completion of the technological infrastructure transformation in accordance with the strategic partnership agreement between BIAS and NASDAQ. Though not yet offering the CCP service in these two markets, Takasbank has been authorized by the Central Bank of the Republic of Turkey as the Securities Settlement System operator pursuant to the Law No. 6493 on Payment and Securities Settlement Systems.

In 2016, no amendments were made to Takasbank's Articles of Association and the extraordinary general assembly did not convene.

## Changes in the Capital and Shareholding Structure



Takasbank's 62.25 percent of shares belong to Borsa İstanbul A.Ş. Originally a public legal entity called Istanbul Stock Exchange, Borsa İstanbul A.Ş. was later turned into a joint stock company with a private legal entity in accordance with the 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 3rd, 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 matching of the buy and sell orders for these assets in a manner to finalize them; to create, to establish and develop markets, market places, trading platforms, systems and other organized market places to determine and announce formed prices; manage and/or operate the aforementioned or other exchanges or markets of other stock exchanges; and engage in other activities stipulated in its articles of association.

Changes in the shareholding structure during the current period:

| Transferring Shareholder    | Transferred Shareholder               | Share Amount (TL) | Ratio (%) |
|-----------------------------|---------------------------------------|-------------------|-----------|
| Galata Menkul Değerler A.Ş. | Phillip Capital Menkul Değerler A.Ş.  | 173,000           | 0.0288    |
| Galata Menkul Değerler A.Ş. | Tacirler Yatırım Menkul Değerler A.Ş. | 173,000           | 0.0288    |
| Bahar Menkul Değerler A.Ş.  | Tacirler Yatırım Menkul Değerler A.Ş. | 48,000            | 0.0080    |

Principal shareholders and capital structure of Takasbank as of December 31, 2016 and 31 December 2015 are shown in the following table.

| (Thousand TL)<br>Shareholders                     | Current Period  |            | Previous Period |            |
|---|-----------------|------------|-----------------|------------|
|   | Paid-in Capital | %          | Paid-in Capital | %          |
| 1 Borsa İstanbul A.Ş.                             | 373,515         | 62.25      | 373,515         | 62.25      |
| 2 Tacirler Menkul Değerler A.Ş.                   | 27,971          | 4.66       | 27,750          | 4.63       |
| 3 Phillip Capital Menkul Değerler A.Ş.            | 27,923          | 4.65       | 27,750          | 4.63       |
| 4 Yapı Kredi Yatırım Menkul Değerler A.Ş.         | 26,280          | 4.38       | 26,280          | 4.38       |
| 5 Türkiye Garanti Bankası A.Ş.                    | 26,235          | 4.37       | 26,235          | 4.37       |
| 6 Türkiye İş Bankası A.Ş.                         | 26,235          | 4.37       | 26,235          | 4.37       |
| 7 Türkiye Vakıflar Bankası T.A.O.                 | 26,235          | 4.37       | 26,235          | 4.37       |
| 8 Yatırım Finansman Menkul Değerler A.Ş.          | 9,729           | 1.62       | 9,729           | 1.62       |
| 9 36 other brokerage houses (previous period: 36) | 27,906          | 4.67       | 28,300          | 4.72       |
| 10 10 other banks (previous period: 10)           | 27,971          | 4.66       | 27,971          | 4.66       |
| <b>Total</b>                                      | <b>600,000</b>  | <b>100</b> | <b>600,000</b>  | <b>100</b> |

## Contact Information



Bank Headquarters Address:  
Takasbank Genel Müdürlüğü, Reşitpaşa Mahallesi, Borsa Cad. No: 4 Emirgan, Sarıyer, 34467, İstanbul

Bank Website: [www.takasbank.com.tr](http://www.takasbank.com.tr)

Bank Trade Registry Number: 276870

Central Trade Registry System (MERSIS) No:  
0481002693100015

## Affiliates



| Institution                                  | %     |
|--|-------|
| Borsa İstanbul A.Ş.                          | 0.15  |
| Merkezi Kayıt İstanbul (CSD of Turkey)       | 64.90 |
| Ege Tarım Ürünleri Lisanslı Depoculuk A.Ş.   | 4.12  |
| SP* Lisanslama Sicil ve Eğitim Kuruluşu A.Ş. | 10.50 |
| S.W.I.F.T. SCRL                              | 0.02  |
| SASE-Sarajevo Stock Exchange                 | 5.00  |

\*SP (CM): Capital Market

## **Titles of Real or Legal Persons Holding Qualifying Shares**



With a nominal paid-in capital of 600,000,000 Turkish lira, all shares to be issued representing Takasbank Class-A and Class-B shares are registered; and 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 the private pension companies that are established pursuant to the Private Pension Savings and Investment System Law. Except for Borsa Istanbul A.Ş., the 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 TL 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 54 shareholders in total as of 31 December 2015. Borsa Istanbul A.Ş. is the only shareholder with more than 10 percent stake in the capital, and it holds 62.25 percent of the total capital with a nominal share value of 373,514,742 Turkish lira.

## **Explanations regarding the Bank Shares owned, if any, by the Chairman, Board Members, CEO and Executive Vice Presidents**



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

## Explanations regarding Transactions Conducted and Operations by the Executive Body Members in Their or Another's Name with the Bank and Their Activities under the Scope of the Competition Prohibition Pursuant to the Permission Given by the Bank's General Assembly

There are no transactions or operations conducted by the executive body members in their or another's name with the Bank pursuant to the permission given by the Bank's General Assembly within the scope of non-competition.

### Key Indicators

| (Thousand TL)                 | 2015      | 2016      |
|-------------------------------|-----------|-----------|
| Total Assets                  | 7,092,438 | 8,006,348 |
| Shareholders' Equity          | 911,026   | 1,043,686 |
| Paid-in Capital               | 600,000   | 600,000   |
| Operating Profit              | 216,418   | 265,357   |
| Interest and Portfolio Income | 233,635   | 294,068   |
| Net Profit                    | 174,728   | 211,565   |

| (Thousand USD)                                      | 2015      | 2016      |
|---|-----------|-----------|
| Total Assets  | 2,439,276 | 2,275,048 |
| Shareholders' Equity                                | 313,326   | 296,569   |
| Paid-in Capital                                     | 206,356   | 170,493   |
| Operating Profit                                    | 74,432    | 75,403    |
| Interest and Portfolio Income                       | 80,353    | 83,561    |
| Net Profit  | 60,094    | 60,117    |
| CBRT'S USD TL rate taken as basis in the evaluation | 2,9076    | 3,5192    |

| Financial Ratios (%)                  | 2015  | 2016  |
|---------------------------------------|-------|-------|
| Operating Profit/Total Assets         | 3.05  | 3.31  |
| Equity/Total Assets                   | 12.85 | 13.04 |
| Operating Profit/Shareholders' Equity | 23.76 | 25.42 |

## Summary Financial Information



During the operating year, 1 January-31 December 2017, Takasbank achieved a pre-tax profit of 265,357 thousand TL and a net profit of 211,565 thousand TL. A net interest income of 242,394 thousand TL was achieved as a result of 294,068 thousand TL interest income and 50,674 thousand TL interest expense.

## Dividend Policy



The Bank pays dividends pursuant to 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 2016, 75,000,000 Turkish lira of dividends were paid to the shareholders from 2015 profits.

## Explanation regarding Bank's Own Shares Acquired by Itself



There are no shares the Bank acquired by itself.

## Explanations regarding Lawsuits Against the Company with a Possible Effect on Its Financial Status and Operations, and Their Possible Outcomes



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

## Explanations regarding Administrative or Legal Actions Against the Company or Executive Body Members due to Practices Against Legislative Provisions



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

## Activities of Controlling Company and Its Affiliates

Pursuant to article 199 of the Turkish Commercial Code No. 6102, a report has to 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 the other affiliate Merkezi Kayıt Istanbul-CSD of Turkey and the conclusion part of the report had to 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 stipulated 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 2016 operating period, and all measures that were taken or avoided to be taken in favor of these companies.

In regards to the 2016 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 the affiliate; a suitable counter action was taken for each transaction; there were no measures that 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."

## Projects

### Business Development Projects

#### NASDAQ Project (Phase 2/Phase 2+)

As the result of the ongoing practices conducted within the framework of the strategic partnership agreement signed between Borsa Istanbul A.Ş. and NASDAQ on January 20, 2014, all Borsa Istanbul markets are expected to provide services on a common transaction platform.

Within the scope of the first phase that encompasses the Equity Market of the BISTECH technological transformation program, Operation System, Data Vendors System, Monitoring System, Index Calculation System, Post-trade Systems, and Operational Databases and Reporting Infrastructure were entered into effect successfully on November 30, 2015.

As the first step of the second phase of the BISTECH Project, Borsa Istanbul Futures and Options Market (VIOP) is targeted to be migrated to the BISTECH Systems in March 2017. Design and user approval tests for the project were largely completed in 2016, and trial tests for the members began in October 2016. Changes to the VIOP operation rules and technological differences on the BISTECH systems were explained at member briefing and training sessions; ideas were exchanged with the stakeholders. Briefing and training sessions continued until the migration, and briefings were also held with the members' software organizations and data publishers as well.

As the second step of the second phase of the BISTECH Project, Borsa Istanbul Debt Securities Market and the Precious Metals and Diamond Markets are planned to be migrated to the BISTECH Systems. By 2016 year-end, design practices were completed to a great extend in the project, and user approval test will begin in April 2017. Trial tests for the members are scheduled for the second half of 2017. In parallel with the user approval tests, changes to the operation rules and technological differences on the BISTECH systems will be explained at member briefing and training sessions throughout 2017; and ideas will be exchanged with the stakeholders.

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

Subsequent to the coordinated efforts between our Bank and the General Directorate of Land Registry and Cadastre, a “Final Protocol” was signed to start designing a system to ensure simultaneous exchange of the ownership right and the sale amount in in the real estate market trading transactions. According to the Protocol, a web-based system was developed between Takasbank and the General Directorate of Land Registry and Cadastre. The first phase of the project that involves Turkish lira transactions entered into effect on April 17, 2015. Our Bank, being a trustworthy and impartial institution is targeted to execute the cash transactions, resolve the trust issues between the parties by creating a modern, safe and technological infrastructure transaction system, gain time, labor and provide cost advantages for all parties, reduce the number of unregistered transactions, complete transactions based on real figures, and thus contribute to the country’s economy

by cutting down on tax losses.

As part of the plan to develop and expand the service, the following improvement actions were assessed in 2016:

- » perform foreign exchange transactions on the system,
- » use the system for real estate title deed transfer transactions by the foreigners,
- » include credit transactions in the TapuTakas system.

Moreover, there are efforts to publicize the service and boost collaboration with the private sector in 2017.

#### Borsa Istanbul Money Market Project

In May 2016, the Bank launched the practices to provide CCP and collateral management services for the transactions to be executed at “Borsa Istanbul Money Market ” which would be established within Borsa Istanbul A.Ş. to form an indicative and long-term (one month and three months) Turkish lira reference interest rate to be commonly accepted. This project became operational on October 14, 2016.

#### Precious Metals and Diamond Markets Cash Correspondence Service Project

The Board of Directors passed resolution No. 307 on July 28, 2016 to terminate the correspondence agreement with the correspondent bank, which had been used for cash clearing, settlement and collateral transactions that began on February 4, 2013 on the Precious

Metals and Diamond Markets operating within Borsa Istanbul A.Ş., starting from February 4, 2017; and to move to a business model to provide the service without the use of a correspondent bank. Accordingly, at meeting No. 320 dated December 27, 2016, the Board of Directors approved the Protocol that will be signed with Borsa Istanbul. 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. As part of the business model without a correspondent, contract renewals with the market members will be completed by February 4, 2017, the project launch date.

#### Natural Gas Project - Collateral and Invoice Transactions

As per the Energy Market Regulatory Authority (EMRA) resolution No. 4913-11 dated March 13, 2014, it was resolved to add a module to facilitate establishment of a Balancing Gas Market and have "BOTAŞ enter into a non-binding protocol with a central settlement organization" so as to ensure participation in preparation and implementation of the simulation process. The Bank plans to provide clearing, settlement and collateral management services to the projected organized Natural Gas Markets.

As the Balancing Gas Market being a natural gas market, is yet to be established, the practices on the functions that our Bank will carry out could not begin in 2015. On October 6, 2016, EMRA published the "EMRA Natural Gas Outright Purchases and Sales Market Legislation Draft" and on October 26, 2016,

Energy Exchange Istanbul (EXIST) published the "Market Operation Procedures and Principles Draft."

A "Natural Gas Organized Sales Market Cash Clearing, Settlement and Collateral Management Service Preliminary Protocol Draft" was prepared and sent to EXIT, with which it is planned for signing in order to begin developments regarding the service. EXIT set the second half of the year as the approximate transition date for clearing, settlement and collateral management services planned by our Bank.

#### Takasbank Book-entry Gold Custody and Transfer System

The Banks Association of Turkey created an action (action 5) under the gold banking development policy (policy 6) within the scope of article 80 of the 2016-2018 Medium-term Development Plan, which states, "Various mechanisms, particularly gold banking, will be developed to bring gold savings into the system," and as part of the priority transformation program on increasing domestic savings and preventing waste.

Accordingly, Takasbank is working to establish a book-entry transfer and custody system that will facilitate domestic unallocated gold transfers to be made between accounts that will be held with Takasbank on behalf of banks, and unallocated gold transfers abroad to be executed on Takasbank systems through London Precious Metal Clearing Limited (LPMCL) gold correspondents.

In the envisaged business model, banks will participate in Takasbank's gold custody



and transfer system as a member, gold account will be opened at Takasbank for the members, and multiple Takasbank member accounts will be opened at LPMCL foreign gold correspondents, Takasbank participants' transfer orders will be executed on Takasbank systems. Similarly, transaction tracking and balance information will be accessed via Takasbank system.

#### TEFAS – Foreign Exchange Fund Project

Practices has been completed to a great extend to build a systematic infrastructure that will allow the use of related foreign exchange in mutual fund participation shares buying-selling orders on TEFAS. On August 26, 2016, test environment was completed and members were notified. The system will be put in operation based on the transition date decision by the Capital Markets Board.

#### TEFAS – Special Periodic Funds Project

Founder/operator members define limitations in the system for mutual fund participation certificates to be traded at TEFAS. These limitations set the number of trading days per fund, starting from the transaction date, and determine clearing and settlement dates. In 2016, necessary technical infrastructure was put in place to allow mutual fund participation certificates to be traded in a way to allow transactions other than daily

trading operations. The revision was put into effect on February 27, 2017 in accordance with the Capital Markets Board approval for the transition.

#### SLM – Collateral Composition Revision Project

Amendments were made to the SLM collateral composition with a view for continuous improvement of the services offered by the Bank by taking into consideration the demand from market players. The revision changes the minimum cash collateral and maximum stock collateral amounts in the total valued collateral, and stipulates that market value of a single stock to be collateralized cannot exceed a certain rate of the maximum total valued stock amount that was calculated. The revision entered into effect on January 6, 2017.

#### Credit – Improvement and Simplification Project

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

The Risk Center made an announcement last

year for the proposed simplification and improvement in the credit notification system, and published the documents. Amendments are needed both about the information requested and file formats as part of the initiative. It has been reported that member tests will begin by January 2017 and the program will go live by May 2017. Simplification and current notifications will be provided in parallel to each other until a time set by the Banks Association of Turkey (BAT) Risk Center. As of January 2017, necessary changes have been made for the monthly briefing and the created files have been delivered to the Risk Center for tests. Necessary revisions will be made according to the needs revealed during testing.

#### **Automatic Private Pension System (PPS) Compliance Project**

Pursuant to the Law No. 6740, production environment began on January 1, 2017 for the revision that will allow safe-keeping of fund participation certificates that arise from contributions from the newly arranged "Automatic Participation Private Pension Fund Contracts" by opening separate accounts, as opposed to the fund participation certificates arising from contributions from the current voluntary-based contracts. System development efforts that are required regarding the Private Pension Automatic Participation System will continue in 2017.

## **► IT Infrastructure Development Projects**

### **Exchange Data Center (EDC) Migration Project**

Due to the location change of the Bank's premises, the systems used by the staff have been prepared for operation at the new location.

Within the scope of the project, the Network and Cyber Security Team completed the necessary improvements to provide the personnel with secure access via cable and wireless networks and designed the relevant infrastructure, as well as built and put into operation the necessary infrastructure installments so that the personnel can use the internet, email and VPN services. Also, the Central System Management Team has moved all physical and virtual systems in the system room of the previous Headquarters building to the Exchange Data Center.

IT Support and Operation Team coordinated the migration in three phases for all PC and printer software from the previous premises to the new one. Upon completion of the migration, the Bank personnel began using the systems and did not report any issues. Once the project was completed, staff at Bank premises began to utilize the services and took advantage of new improvements. No problems were reported.

### Common Member Exchange Data Center (EDC) Access Project

Since the Bank premises location was physically moved and its data center was closed, we aimed to provide access via different infrastructure systems for members who previously accessed our systems on devices at our premises Data Center.

Accordingly, it was decided to provide Borsa Istanbul associate members access via Borsa Istanbul member access network connections. Subsequent performance tests, primarily on the Borsa Istanbul lines, were followed by design of an appropriate model based on the test results. Then, tests were conducted with the members and the transition was carried out gradually.

Upon completion of the project, Borsa Istanbul began managing the associate members' remote network access operations, and some operational and administrative work executed by the Network and Cyber Security Team was alleviated. Moreover, member access costs went down as a result of the termination of the member access infrastructure provided on leased lines by Takasbank.

### Member Internet Access Project

We intended to provide access via our internet infrastructure for the institutions that access our systems on devices at the Bank's premises and that are Takasbank members only within the scope of the services provided.

The only structure that was designed in the project was the one that will be prepared by determining Takasbank members' average capacity usage. Load Balancer and similar security systems that will be used in the infrastructure was made available to member access. Subsequent to the member tests, access was gradually moved onto the internet. With completion of the project, a more flexible and accessible internet system was put in operation via internet access for Takasbank members. We also reduced the cost of access for the members as a result of cancellation of the member access infrastructure on leased lines and elimination of the BIAS network.

### Establishing an Email Archiving and Supervision Infrastructure

Insufficient email archiving system used currently at the Bank prompted the search for a new product. Email archive structure was put in place at the Exchange Data Center and the Emergency Center both with a business continuity approach on December 2016.

As a result, all email messages that go through the email system began to be archived. The installed structure features singularization technology, reducing the space archived messages take in storage systems, and thus helping to decrease disc costs. In addition, general email security was boosted by including the folders located in user computers in the system.

## Macroeconomic Outlook, Capital Markets and Takasbank



Global financial markets started off 2016 vigorously; however, after the second half of the year, a relatively quite trend set it until the presidential election in the USA.

During this period, the negative perception created in the financial markets as a result of the Brexit referendum in June lasted short as European and Japanese central banks supported global liquidity through monetary expansion programs. Scaling up liquidity measures helped maintain a vibrant risk appetite, giving a boost to emerging countries by way of portfolio investments. Nevertheless, following the November 8 USA election results, global markets deteriorated significantly, bringing about currency devaluation and interest rate rise in the developing economies.

Whereas, in the domestic market, interest rates dropped 250 basis points following the monetary policy simplification program by the CBRT as well as the decline in the inflation rates from March to December. The economy shrunk in the third quarter with the pressure created on economic activity due to the July coup attempt. Still, macroeconomic measures began to offset the slowdown somewhat in the fourth quarter.

In the aftermath of the USA presidential elections, Turkey's risk premium rose along with the fragility in emerging countries, as well as with developments in geopolitical and domestic policy issues. In contrast to 2016, energy prices began 2017 with an upward trend; however, weak domestic demand is expected to ease the

foreign exchange related pressure. In the coming period, the deciding factor on short-term interest rates will be foreign exchange activity and inflation transitivity. Interest rates can hike in a fragile environment, but in a low-growth climate, they may go on a falling trend under the right conditions. Nevertheless, the CBRT's 2017 funding is projected to be tight due to rising global liquidity costs arising from the Fed's interest rate hikes.



## 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 process means elimination of the barriers that stop foreign financial institutions 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 to each other.

A series of clearing, settlement and custody standards and regulations have been introduced to stimulate global economy's participating countries 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 the introduced regulations are the "European Market Infrastructure Regulation (EMIR) and the "CPMI-IOSCO Principles for Financial Market Infrastructures."

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

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

During the course of 2016, Takasbank finalized

the practices related to the constitution of the framework, demonstrating its compliance with the CPMI-IOSCO principles for financial market infrastructures. In April 2016, as a Central Counterparty Institution Takasbank, published on Takasbank website the April 2012 CPMI- IOSCO Assessment on Compliance with Principles on Financial Market Infrastructures, which is set for financial market infrastructure organizations.

Also, on March 23, 2016, the CMB recognized Takasbank as a qualified CCP complying with the CPMI-IOSCO Principles on Financial Market Infrastructures. Subsequently, in August 2016 Takasbank applied to the EU regulator ESMA to be recognized as a third country CCP.

In 2016, Takasbank continued to endeavor to earn the place it deserves among the 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.

In 2016, we corresponded and held discussions on central counterparty as well as clearing and settlement issues with the Capital Markets Board of Pakistan, and provided insight for them in regards to Takasbank's clearing, settlement and central counterparty role, risk and default management, and on other similar subjects, and considered potential areas of collaboration between Takasbank and Pakistani capital market institutions.

As part of its unallocated gold transfer project,

Takasbank entered into an account relationship with the London-based book-entry gold correspondents, adding gold to its global settlement network. The system that is slated for development as a follow up to the project that began in the second half of 2016 aims to boost gold mobilization in our country by allowing the transfer of book-entry gold intra-bank in the country.

There were also practices regarding the establishment of clearing and settlement model of the Islamic Gold Exchange, planned for development to advance gold's functionality in the OIC region.

Along with these activities, the information requests of the international capital institutions for Takasbank's CCP service also continued in 2016 subsequent to the launching of CCP service in September 2013 for the Securities Lending Market operated by Takasbank and in March 2016 for Borsa Istanbul Futures and Options Market. Briefings were held and views were exchanged with the CCP organizations that provide services internationally.

Takasbank maintained training and consultancy services aimed at the countries in the region within the course of 2016.

On August 4, 2016, we made a one-day presentation about the Bank to Bosnia Bank International-BBI representatives and provided training on Strategic Planning, Equity and Debt Securities Market as well as Futures and Options Market clearing and settlement transactions. Also, the presentations used in the training were provided to the Bosnia Bank International-BBI representatives upon their request.

In June 2016, four projects were developed with business administration graduate students from George Washington University on Takasbank's Real-Estate Title Deed Transfer service marketing model, Personnel Performance Assessment System, and Information Security System (phishing emails and threat intelligence platform) development.

The CBRT made a presentation on Takasbank securities settlement systems operation and principles at the Securities Settlement Systems Seminar on August 26-27, 2016 with participants mostly from the Africa and Middle East region.

Sarajevo Stock Exchange participants were given an in-depth presentation on Takasbank clearing, settlement and custody functions during their visit to our Bank on September 26, 2016.

► **International Memberships**

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

EACH was founded in 1992 with the goal of representing common interests of CCP organizations that operate in European countries. It has 20 CCP service providers from 15 different European countries. Takasbank became an EACH member at the organization's General Assembly on October 7, 2014. EACH membership provides Takasbank the opportunity to get familiar with CCP practices within the EU and express its views on these issues as well as foster relationships and cooperation with the CCP Institutions being EACH members.

**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 79 members consisting of 57 stock exchanges and 22 clearing, settlement and custody institutions. Takasbank participated in the Forum's 10th meeting held in Istanbul on October 26-27, 2016.

**International Securities Services Association (ISSA)**

International Securities Services Association (ISSA) was founded in 1979 under the leadership of Citibank, Deutsche Bank, and Union Bank of Switzerland (UBS).ISSA members include banks that provide custody services, settlement institutions, deposit-taking institutions, stock exchanges, and asset management companies. ISSA strives to develop convenient solutions to mitigate risks in the securities services industry as well as to improve efficiency, advance international cooperation in the industry and strengthen communication between service providers and regulatory bodies. To achieve these objectives, it organizes ISSA Symposiums as well as other meetings and conferences, forms working groups and publishes various information materials.

ISSA membership allows Takasbank to keep up to date with developments in the global securities industry.

### ▶ **Presentation of Bank Services via Detailed Question Forms from International Organizations**

As part of the efforts to publicize its services, primarily that of CCP services, within the scope of customer analysis assessments, Takasbank responded to detailed questionnaires sent by international institutions in 2016. In the same year, Takasbank provided in-depth answers on questionnaire forms, particularly regarding the CCP service and the private pension system, and subsequently, held meetings with these institutions' representatives.

### ▶ **Activities regarding 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 a party to financial transactions,
- » BIC code (ISO 9362) for bank identification,
- » (ISO 13616), international customer bank account number standard code

SWIFT messaging formats (ISO 15022), are used in international cash, securities and commodity transfer transactions.

Takasbank has been serving as a National Numbering Agency since 1995, and 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) in 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 standardization work of the ISO TC68/SC4 Committee for securities and other financial instruments, to contribute to the development of standards and to ensure the application of these standards in Turkey. The Working Group comprises 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. In 2016, Takasbank took part in the Permanent CFI Advisory Working Group 6 under ISO TC68/ SC4 (Advisory Group on the long term CFI- AGOLT CFI). It also played a part in the work by the Classification of Financial Instruments Codes (CFI - ISO 10962) Standards Working Group 6 in the second half of 2016.

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

Takasbank took part in the ISO TC68 SC4 meeting held in Frankfurt on April 25, 2016.

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

The Association of National Numbering Agencies (ANNA) is an international organization with 93 full members and 27 associate members worldwide. National numbering agencies authorized to assign ISIN codes to securities become eligible for ANNA membership.

As the national numbering agency in Turkey, Takasbank has been an active member of ANNA since 1995 and serves as the member of the Technical Committee of ANNA Service Bureau (ASB), which 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. The ASB database serves as a valuable resource for international finance markets as the largest ISIN and CFI database in the world. Takasbank participated in the ANNA General Assembly held by the Thailand Stock Exchange in Bangkok between November 30 and December 2, 2016.

## Representation and Presentation



As in past years, the Bank provided relevant parties and the public with information about its services and corporate developments via its website as well as by press bulletins and various events in 2016.

A film shot to publicize TEFAS services was aired on television and radio with TCMA coordination in 2016.

Along with EXIST officers, we gave training to the electricity market members in three big cities.

Real Estate Title Deed Transfer service was introduced to CB Gayrimenkul (Coldwell Banker) employees with training sessions held in Istanbul, Izmir and Antalya.

The Bank took part in the public sector publicity program organized by Selçuk University Faculty of Economics and Administrative Sciences on April 5, 2016.

We attended a workshop in Athens on June 4-6, 2016 as part of the collaboration with George Washington University (GWU - Washington DC) School of Business MBA students.

We contributed as a strategic partner, and executive management participated in the Capital Markets Congress held in Istanbul by the Turkish Capital Markets Association on November 4-5, 2016.

Executive management attended the Standing Committee for Economic and Commercial Cooperation of the Organization of the Islamic Cooperation (COMCEC) 32. meeting held at the Istanbul Congress Center on November 21-24, 2016.

## Human Resources Practices



The Bank maintained its efforts to establish a modern corporate culture focused on sustainable growth and practices to improve employee motivation in 2016.

In parallel with gradually rising operation diversity and intensity of Takasbank, the number of employees increased to 261, 149 men and 112 women, by 2016 year-end. By that time, the management team consisted of 50 people, including Assistant Manager, Manager, Executive Vice President, and the CEO. The Board of Directors is made up of nine members, including the CEO.

As in the previous years, Takasbank rewarded efficient performance also in 2016, and maintained efforts to keep personnel motivation high with 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 the employees, and such activities will continue in the future.

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

It maintained its approach of applying 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.

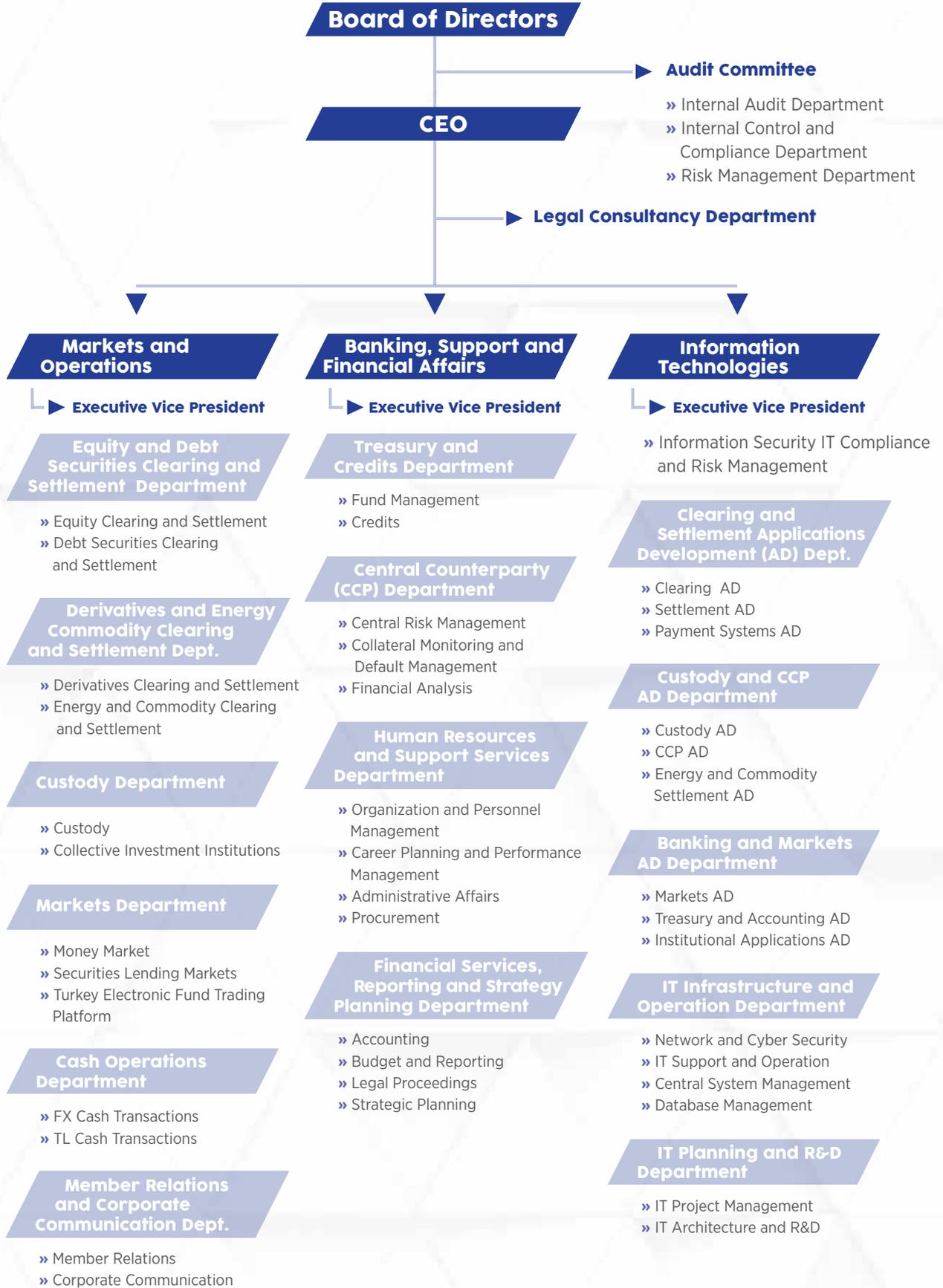
Training activities continued to supplement other human resources practices, consistent with corporate objectives.

With a view for technical, professional and personal development training, each employee received an average of 27 hours' training. Furthermore, contributions were made for the foreign language trainings and employees pursuing Master's/PhD studies allowed to continue their training leave. Employees hold the following degrees: 23 percent: Ph.D and Master's degrees, 70 percent: Bachelor's degree; 7 percent: completed high school or primary school education.

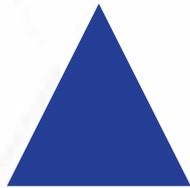
The Human Resources Department fulfills the liabilities arising from the Law No. 6331 on Occupational Health and Safety. Legal compliance requirements were satisfied by involving employees in the process through creation of an occupational health and safety culture.

An Employee Satisfaction Survey was conducted in January 2016, and provided feedback on working life, processes and operations. Reviews began to introduce practices to improve work environment and motivation, and develop actions for corporate culture enhancement.

# Organization Chart



# Developments in 2016



## Central Counterparty



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

As part of the strategic partnership between Borsa Istanbul and NASDAQ, design and test practices for BISTECH continued intensively in 2016. Preparations have been completed to provide CCP services for Borsa Istanbul Equity Market with the service planned to begin in June 2017. Also, CCP design and testing have also been completed regarding operation of the Borsa Istanbul Futures and Options Market

on BISTECH platform. Design stage has been completed and testing is ongoing for the planned use of CCP on BISTECH in the Borsa Istanbul Debt Securities Markets with this migration.

In 2016, not only were the operating markets expanded, but the CCP service compliance with international standards and registration was intensively pursued. Upon registration application for compliance to international regulations, the Capital Markets Board announced on March 23 2016 that Takasbank's CCP operations comply with CPMI-IOSCO Financial Infrastructure Institutions Principles dated 2012, and thus, it is recognized as a "Qualified CCP."

Accordingly, Turkey-originated banks' transactions with Takasbank are regarded as a "qualified transaction" pursuant to the Banking Regulation and Supervision Agency legislation, and the risks that banks are exposed to in this context are assessed with a risk weight less than that that was announced in accordance with Appendix No. 4 of the Regulation on Measurement and Assessment of Banks' Capital Adequacy.

Subsequent to the 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.

In addition to widening CCP markets and making applications for compliance to international standards, significant steps were taken towards expanding the provided services. First of all, the CCP Risk Advisory Committee was established as per the internal legislation provisions and held a meeting for the first time on October 4, 2016, making it possible for members and member customers to take part in risk management activities with regard to offering the CCP service. Also, with participation from the members, the first default management test was held on October 10-13, 2016 0, designed in line with international best practices and regulations, and set for application at least once a year.

## Financial Analysis Service



Financial analysis, intelligence and practices about the current or prospective institutions that are in a membership and/or credit relationship are held 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.

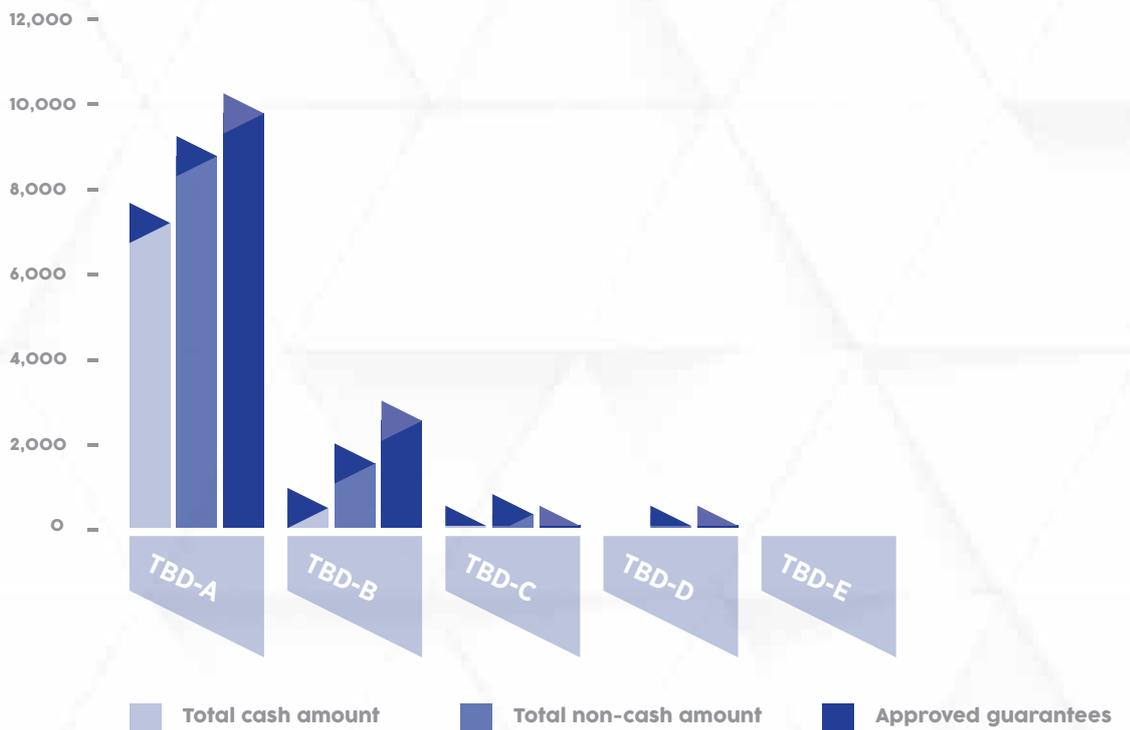
Takasbank Internal Credit Rating and Assessment System also falls under the responsibility of this service.

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 rating and assessment ratings are used to identify the membership types in the markets we provide CCP services. 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 2016, credit rating and assessment score was allocated to 280 banks, brokerage houses, and factoring, leasing, financing as well as insurance companies that operate 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.

**Breakdown of Approved Guarantees with Cash and Non-cash Risks per Internal Credit Rating and Assessment Scores**



## Securities Lending Market (SLM) Service



In 2016, the Bank maintained efforts to constantly improve the quality of its services and completed various enhancements in the Securities Lending Market in accordance with member requests and system changes.

Pursuant to the requests from members that commission rates are high especially for long-term maturities, on the SLM; we improved the Bank's commission tariff with the aim of reducing transaction costs for members and boosting trading volume. As of September 27, 2016, a new commission tariff entered into effect, providing 25 percent discount on Bank commission for transactions with up to one-week maturity and 50 percent discount for those with maturity of one week or longer.

As announced in the General Letter on December 29, 2016, minimum cash collateral amount in the total SLM-assessed collateral was reduced to 30 percent from 60 percent, maximum rate of stock collaterals in total assessed collaterals was increased to 40 percent from 20 percent.

Also, with the new limit determined, it was decided that market value of a single share in the collateral cannot exceed 35 percent of the total calculated stock collateral.

The Bank failed to reach the statistical confidence level on the SLM as targeted in the previous tests regarding CCP practices. This resulted in the need for a change in collateral rates. In order to reach the targeted statistical confidence level, starting from April 1, 2016, initial collateral rate was applied as 120 percent for the stocks that can be subject to lending outside BIST-30 and for exchange-traded fund participation certificates. Collateral rates were not changed for the stocks in BIST-30.

As of April 18, 2016, investors can access the SLM Customer Information Inquiry Reports in the "Information System" to inquire regarding lending transactions by using T.R. identification number or e-Government password after logging into the Bank's website within the scope of the CCP service we provide on the SLM. These reports consist of Collateral Balances, Position Information, Collateral Movements, and Contract Reports.

Similarly, on May 10, 2016, some changes were put into effect regarding wrong-way and concentration risks, market composition limitations, theoretical price calculation method announcement and holding periods in the CLM CCP service and the relevant Procedure.

On February 24, 2016, we completed the creation of web services, via which members will be able to access the markets using their own systems within their SLM transaction authorizations and limits. Subsequently, the infrastructure has been completed with

the target for expansion to allow customers as well as fund and investment partners to personally perform market orders and other transactions.

In an effort to meet the demand from SLM participant brokerage houses with high number of customers, a revision was introduced on December 9, 2016, allowing members to enter and remove cash collaterals one by one or altogether.

Among the security-based limitations of the SLM, account-based ones previously stated that, "Of each share that is subject to lending, the total of open transactions based on a single account cannot exceed three percent of the total free floating share amount ." However, from February 1, 2016, this check is performed based on record, as multiple accounts can be opened at the same or different investment institutions for the same record identified for the investors at the CSD of Turkey.

**Summary information on 2016 figures for the SLM:**

- » By 2016 year-end, the number of authorized brokerage houses trading on the SLM is 51, and the number of representatives is 237. In 2016, 53 brokerage houses executed transactions from portfolio accounts of 4,160 customers, 25 mutual funds and trusts, 110 brokerage houses.
- » With the transactions, total number of lending contracts rose by 52.73 percent to 63,203.
- » In the SLM market, 2016 trading volume increased by 33.40 percent to 7.4 billion Turkish lira, and the number of shares that were lent reached 1.77 billion Turkish lira with 41.86 percent rise compared to 2015.
- » In 2016 lending transactions, the share of mutual funds and trusts was 17.89 percent, brokerage houses' lending transactions from customer accounts and from their portfolios accounted for 41.53 percent and 40.58 percent respectively.

| 2016 Months | SLM Trading Volume (TL) | Number of SLM Transactions | Number of Members |
|-------------|-------------------------|----------------------------|-------------------|
| January     | 236,952,452             | 76,904,138                 | 45                |
| February    | 405,939,107             | 113,447,375                | 48                |
| March       | 752,491,616             | 161,485,928                | 48                |
| April       | 776,257,787             | 168,706,683                | 48                |
| May         | 577,924,392             | 135,563,686                | 46                |
| June        | 622,454,010             | 164,269,035                | 44                |
| July        | 559,879,415             | 129,055,014                | 47                |
| August      | 501,020,494             | 130,642,344                | 48                |
| September   | 605,039,339             | 119,939,215                | 45                |
| October     | 879,774,668             | 177,142,034                | 46                |
| November    | 736,796,024             | 207,729,430                | 44                |
| December    | 768,626,487             | 187,208,268                | 50                |

- » From the perspective of the borrowers in 2016 lending transactions, 74.19 percent of lending transactions were those that brokerage houses obtained on behalf of their customers. Of the total lending transactions, 25.70 percent were for brokerage house portfolio accounts and 0.11 percent was for those obtained for mutual funds and trusts.
- » In 2016, 276 securities were processed on the SLM with a monthly average security type of 137.

- » In the same year, daily average of SLM contracts increased by 53.95 to 252, and the daily average orders received in the market climbed by 65.55 to 684 year-on-year.
- » Of the total SLM trading volume in 2016, 75.62 percent was BIST-100 shares, 19.17 percent BIST 100-30 shares, and the remaining 5.21 percent were non-BIST-100 A and B group shares and exchange traded funds.

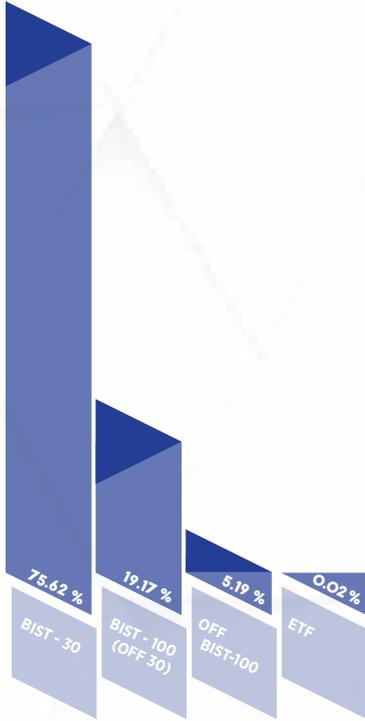
#### SLM 2015 and 2016 Data

|                        | 2015          | 2016          | Change |
|------------------------|---------------|---------------|--------|
| Number of Orders       | 104,536       | 171,693       | 64.24% |
| Number of Contracts    | 41,381        | 63,203        | 52.73% |
| Number of Transactions | 1,249,155,419 | 1,772,093,150 | 41.86% |
| Trading Volume (TL)    | 5,564,613,286 | 7,423,155,790 | 33.40% |

#### SLM Members and Sub Members

| 2016              | Number of Borrowers             | Number of Lenders             |
|-------------------|---------------------------------|-------------------------------|
| Brokerage House   | 52                              | 46                            |
| 2016              | Number of Borrowing Sub Members | Number of Lending Sub Members |
| Portfolio         | 92                              | 49                            |
| Customer          | 1,857                           | 2,536                         |
| Mutual Fund/Trust | 6                               | 19                            |
| Total             | 1,955                           | 2,604                         |

### Index of 2016 SLM Total Trading Volume



### Number of Traded Securities and Number of Monthly Contracts on the SLM in 2016



## Takasbank Money Market (TMM) Service

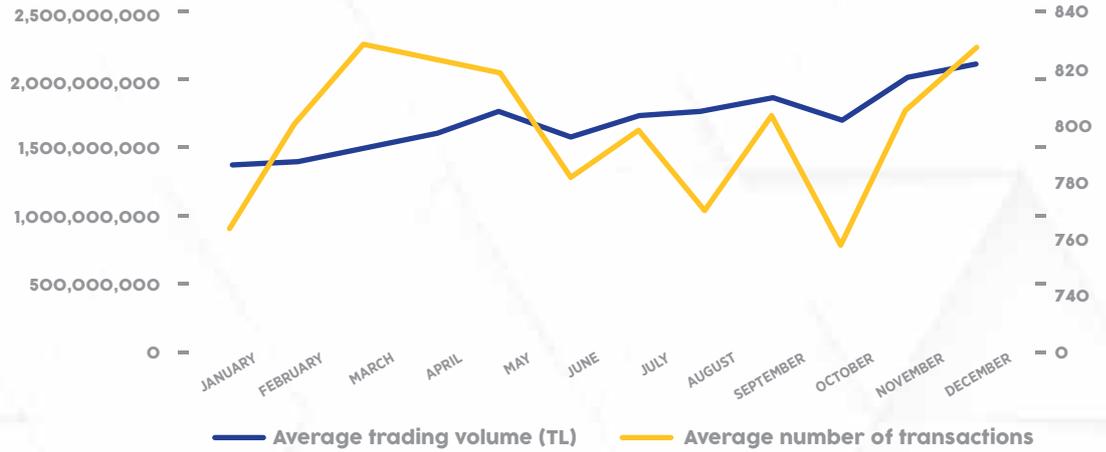
In 2016, various improvements were conducted in the TMM in order to constantly enhance service quality, keep up with developing and changing market conditions, meet member demands, and comply with relevant regulations.

Public Treasury General Communiqué published and entered into effect in November 2015 stipulates that institutions other than the public administrations within the scope of the general budget are responsible to utilize all types of financial resources in their own budgets and disposal. Accordingly, organized money markets were added to the tools they

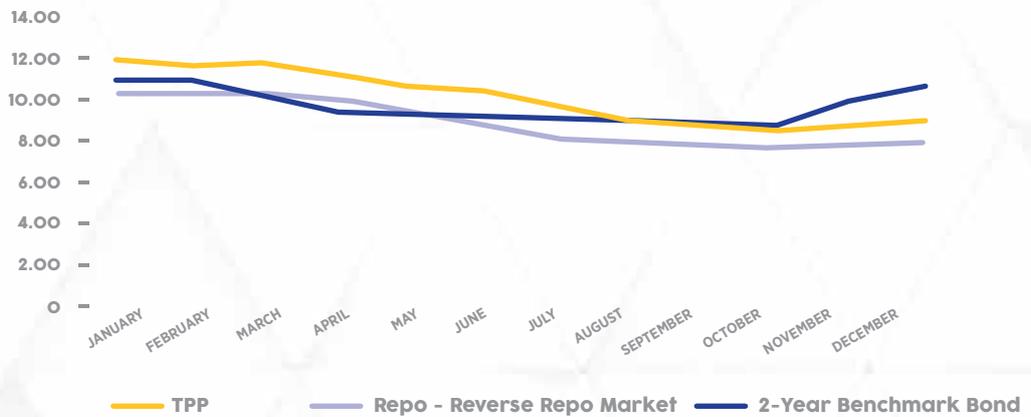
can use for this purpose. Organized Money Market is defined as the money markets that operate within Takasbank and/or as other Turkey-based money markets determined by the Undersecretariat of Treasury. In line with this definition, Turkish lira cash that belongs to the institutions within the scope of the Public Treasury General Communiqué can be valued in the TMM. “Member” definition and “Membership conditions” were revised to allow the institutions defined in the Public Treasury General Communiqué to become participants in the TMM. The Turkish Natural Catastrophe Insurance Pool (DASK) began executing transactions in the TMM on March 15, 2016.

As another change, letters of guarantee, which were previously accepted in the TMM on the condition of not having a maturity, are accepted with a minimum maturity of one year starting from February 17, 2016, as a result of strong demand from our members.

### Average Daily Transaction Volumes in Takasbank Money Market



### Daily Average O/N Weighted Interest Rates and Benchmark Bond (%)



As of February 24, 2016, TMM member screens can be opened as web service. As a result, the infrastructure has been completed to allow customers as well as mutual funds and trusts to personally execute market orders and other transactions, which bring us one step closer to the goal of expanding the transactions throughout the foundation. Owing to the said web service application and on the condition of staying within the given authorizations and limits; members' customers/mutual funds

and trusts that complete their own interface software can access TMM directly.

Web access to TMM member screens, which was provided to financial institutions, and insurance and private pension companies for the first time in 2015, was also given to brokerage houses and banks, which currently conduct TMM operations via extranet, on April 1, 2016.

### Takasbank Money Market Trading Volume Breakdown (%)



Thus, brokerage houses and banks now have access to TMM member screens via the internet as well as via their current extranet connections.

Also, with consideration regarding rising trading volume and the number of orders and contracts over the years, the 30-second required response time by TMM for the received orders was revised as 15 seconds and put into effect on October 3, 2016 to attain a more effective market and satisfy the member

demand in this regard. Summary information on 2016 figures for the Takasbank Money Market:

» A total of 113 institutions: 52 brokerage houses, 13 deposit banks, 6 development and investment banks, 39 financial institutions, and 3 insurance and private pension companies traded on the Takasbank Money Market, reaching the highest number of member transactions in a decade.

» In 2016, total trading volume increased to 66.4 percent year-on-year, reaching 427.97 billion Turkish lira, the highest figure reached since the market's launch.

Average transaction size rose by 22.7 percent, reaching 2.1 million Turkish lira year-on-year.

» In comparison to last year, daily average trading volume swelled by 67.7 percent to 1.71 million Turkish lira, total number of transactions rose by 35.6 percent to 200,449, and daily average number of transactions increased by 36.7 percent to 799.

» In 2016, the share of 489 mutual funds and trusts in the total trading volume climbed by 67.8 to 300 billion Turkish lira year-on-year.

» In 2016, sales transactions in the TMM were executed for the following: mutual funds and trusts; 70 percent, brokerage house portfolios; 17 percent, brokerage house customers; 11 percent, and the remaining two percent; the institutions defined as per the Public Treasury General Communique. Of the total transactions, buying parties were as follows: for brokerage house portfolios; 59 percent, and for financial institutions; 39 percent.

## Turkey Electronic Fund Trading Platform (TEFAS) Service



Founded by Takasbank to enable growth by expanding distribution channels, TEFAS brings a central platform for our fund industry, and starting from the order stage, allows matching, clearing, settlement and custody transactions to be performed effectively and fast in an integrated and fully automated structure.

In 2016, the practices continued to increase effectiveness of TEFAS.

With the goal of completing TEFAS clearing and settlement process at an earlier time than the current practice and transferring settlement receivables to investors' accounts, starting from March 14, 2016, default starting time was changed to 15:00 from 16:00 for full working days, however it was kept the same for half working days.

In addition, the CMB resolved in the mutual fund prospectus standards that fund

management fee shall be paid directly from the fund account. Accordingly, TEFAS system was amended and starting from March 2016, the brokerage commission, which was paid to fund distributors from the founder's account previously, is paid directly from the free accounts of the funds held with our Bank.

Taking into account the additional current and future costs related to mutual funds, we wanted to contribute to the mutual fund industry, and thus implemented a permanent 50-percent discount, which had been in effect until January 1, 2017 previously, for TEFAS transaction commissions. A reduction was made and entered into effect on December 1, 2016 on commissions for the funds, which asset management companies own and for which execute transactions on behalf of their own customers.

In 2016, development efforts continued to make it possible to trade funds on TEFAS for the funds that have different applications other than the current trading principles. Accordingly, the necessary technical infrastructure was built and put into effect in February 2017 upon approval of the CMB regarding the transition date.

|                                       | 2015            | 2016            |
|---------------------------------------|-----------------|-----------------|
| <b>Total Number of Orders</b>         | 1,039,866       | 1,869,754       |
| <b>Total Number of Traded Funds</b>   | 272             | 283             |
| <b>Total Number of Transactions</b>   | 602,310,107,142 | 918,129,340,286 |
| <b>Total Trading Volume (TL)</b>      | 13,599,013,610  | 21,578,394,355  |
| <b>Average Number of Transactions</b> | 2,428,669,787   | 3,657,885,818   |
| <b>Average Trading Volume (TL)</b>    | 54,834,732      | 85,969,699      |

In reference to the CMB statement about “Making fund contributions in foreign exchange,” added to the Mutual Fund Guide, work began to process the funds that are traded in foreign exchange on TEFAS. Two separate meetings were held and views were exchanged in this regard in March and July. In August, system infrastructure building efforts were completed to a great extent, and member development test environment was prepared in August and technical documents were shared with our members. The project is slated for implementation in July 2017 pursuant to the CMB resolution, and within the scope of the said practice amendment, a need arose to make changes to the “Turkey Electronic Fund Distribution Platform Application Principles.” Thus, Turkey Electronic Fund Distribution Platform Application Principles” was revised, and certain regulations and changes were introduced in line with developments to current practices and pursuant to the member demands.

With a view to develop the Fund Information Platform ([www.tefas.gov.tr](http://www.tefas.gov.tr) and [www.fonturkey.com.tr](http://www.fonturkey.com.tr)), mutual funds incoming and outgoing commission information was added to the portal, and transfer times were revised to allow fund prices to be published in the most current state in 2016.

In order to boost investor awareness, a commercial film, which was developed with collaboration from Borsa Istanbul A.Ş. and CSD of Turkey, asset management companies, and the Bank, was aired on the media within the scope of publicity for TEFAS and the Fund Information Platform.

Turkey Electronic Fund Trading Platform 2016 summary information:

» In 2016, 84 institutions executed transactions on TEFAS as follows: 40 brokerage houses, 22 banks, 22 asset management companies. By the end of December, a total of 257 funds were

| Fund Type                                   | Mandatory (Y/N) | Trading Volume (TL)   | Ratio          |
|---|-----------------|-----------------------|----------------|
| Debt Instruments Umbrella Fund              | Y               | 8,687,960,495         | 40.26%         |
| Variable Umbrella Fund                      | Y               | 5.113.407.768         | 23.70%         |
| Debt Instruments Umbrella Fund (Short-term) | N               | 2,825,563,207         | 13.09%         |
| Stock Umbrella Fund                         | Y               | 2,483,813,263         | 11.51%         |
| Money Market Umbrella Fund                  | N               | 814,652,380           | 3.78%          |
| Funds of Funds Umbrella Fund                | Y               | 563,247,044           | 2.61%          |
| Precious Metals Umbrella Fund               | Y               | 524,865,195           | 2.43%          |
| Participation Umbrella Fund                 | Y               | 470,826,798           | 2.18%          |
| Mixed Umbrella Fund                         | Y               | 89,169,983            | 0.41%          |
| Variable Fund                               | Y               | 4,495,569             | 0.02%          |
| Foreign Securities Fund                     | Y               | 392,652               | 0.00%          |
| <b>TOTAL</b>                                |                 | <b>21,578,394,355</b> | <b>100.00%</b> |

## Trading Volume (TL) and Trading

| 2016         | Brokerage House                 |                                   | Bank                            |                                   |
|--------------|---------------------------------|-----------------------------------|---------------------------------|-----------------------------------|
|              | Trading Volume<br>(Thousand TL) | Number of Trading<br>Institutions | Trading Volume<br>(Thousand TL) | Number of<br>Trading Institutions |
| January      | 575,298                         | 33                                | 971,305                         | 19                                |
| February     | 683,336                         | 30                                | 1,223,990                       | 19                                |
| March        | 540,574                         | 27                                | 1,335,378                       | 19                                |
| April        | 515,945                         | 24                                | 1,303,350                       | 19                                |
| May          | 567,612                         | 28                                | 1,340,944                       | 19                                |
| June         | 442,297                         | 28                                | 1,172,559                       | 19                                |
| July         | 370,704                         | 25                                | 1,080,228                       | 20                                |
| August       | 457,678                         | 27                                | 1,066,958                       | 21                                |
| September    | 326,547                         | 27                                | 1,013,650                       | 19                                |
| October      | 451,333                         | 27                                | 1,139,827                       | 20                                |
| November     | 415,848                         | 27                                | 1,454,174                       | 20                                |
| December     | 344,064                         | 26                                | 1,343,317                       | 20                                |
| <b>TOTAL</b> | <b>5,691,237</b>                | <b>40</b>                         | <b>14,445,680</b>               | <b>22</b>                         |

traded. Number of average daily traded funds was 186, a 30.30 percent rise year-on-year.

» In comparison to 2015, total trading volume of TEFAS increased by 58.68 percent to 21,578,394,355 Turkish lira, average daily trading volume reached 85,969,699 Turkish lira.

» In 2016, total trading volume breakdown was as follows: Brokerage houses; 26.37 percent, banks; 66.95 percent, and asset management companies; 6.68 percent.

» In parallel with the rising trading volume, the number of orders increased as well on TEFAS, with trading orders swelling by 79.81 percent to 1.9 million.

» Of the total trading volume on TEFAS in 2016, founding and operator members' transactions in their own funds accounted for 60.69 percent, and member transactions other

than fund founders and operators accounted for 39.31 percent.

» Of the total trading volume on TEFAS in 2016, the funds that are mandatory and optional to be traded on TEFAS accounted for 83.13 percent and 16.87 percent, respectively.

### Number of Institutions

| Asset Management Companies      |                                   | Total                           |                                   | Average                         |
|---------------------------------|-----------------------------------|---------------------------------|-----------------------------------|---------------------------------|
| Trading Volume<br>(Thousand TL) | Number of<br>Trading Institutions | Trading Volume<br>(Thousand TL) | Number of<br>Trading Institutions | Trading Volume<br>(Thousand TL) |
| 101.895                         | 11                                | 1.648.497                       | 63                                | 82.425                          |
| 74.382                          | 13                                | 1.981.709                       | 62                                | 94.367                          |
| 69.806                          | 13                                | 1.945.758                       | 59                                | 84.598                          |
| 112.674                         | 14                                | 1.931.970                       | 57                                | 91.999                          |
| 171.985                         | 14                                | 2.080.542                       | 61                                | 99.073                          |
| 113.874                         | 14                                | 1.728.731                       | 61                                | 78.579                          |
| 110.851                         | 13                                | 1.561.783                       | 58                                | 86.766                          |
| 151.402                         | 14                                | 1.676.038                       | 62                                | 76.184                          |
| 121.746                         | 15                                | 1.461.943                       | 61                                | 81.219                          |
| 92.266                          | 14                                | 1.683.427                       | 61                                | 80.163                          |
| 176.301                         | 13                                | 2.046.322                       | 60                                | 93.015                          |
| 144.295                         | 17                                | 1.831.676                       | 63                                | 83.258                          |
| 1.441.477                       | 22                                | 21.578.394                      | 84                                | 85.970                          |



## Clearing and Settlement Services



### Equities and other Equity-like Instruments Clearing and Settlement Service

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

In 2016, 85 brokerage houses accounted for a trading volume of 1.013,56 billion Turkish lira in the Equity Market. After the netting procedure, Takasbank executed cash settlement of 71.54 billion TL (7,06%) and equities settlement with a total market value of 205.95 billion TL (20,32%).

In the Gross Settlement System established for the shares in which the netting process had been decided to be removed as a result of the CMB request, the gross settlement was applied in 2016 to the shares of 4 companies. In the system which can also be operated on investor basis, gross settlement was not applied to any investor during 2016.

### Equity Market Daily Average Trading Volumes (million TL)

| Months    | Stock Market Transaction Volume | Net Cash Clearing and Settlement Amount | Net Securities Clearing and Settlement Market Value | BIST 100 Index Value (End of month index closing value) |
|-----------|---------------------------------|---|---|---|
| January   | 4,213                           | 289                                     | 756   | 73,481  |
| February  | 4,551                           | 376                                     | 883   | 75,814  |
| March     | 4,703                           | 310                                     | 944   | 83,268  |
| April     | 4,844                           | 314                                     | 963   | 85,328  |
| May       | 4,308                           | 275                                     | 834   | 77,803  |
| June      | 3,418                           | 250                                     | 712   | 76,817  |
| July      | 4,092                           | 360                                     | 901   | 75,406  |
| August    | 3,445                           | 226                                     | 738   | 75,968  |
| September | 3,592                           | 273                                     | 768   | 76,488  |
| October   | 4,033                           | 247                                     | 783   | 78,536  |
| November  | 3,913                           | 297                                     | 832   | 73,995  |
| December  | 3,331                           | 201                                     | 718   | 78,139  |

### ► Derivatives Market Clearing and Settlement Service

On March 3, 2014, Takasbank began providing CCP services for transactions executed on the Borsa Istanbul Futures and Options Market (VIOP), for which the Bank provides clearing, settlement, risk management and collateral management services. In this context, it acts as the buyer against the seller and as the seller against the buyer. Accordingly, transaction collateral and members' guarantee fund contributions, as well as the Bank's capital, are used in profit/loss distribution and in performing liabilities in the event of default in physical deliveries.

The services encompasses opening the accounts to execute transactions on VIOP, managing transaction collaterals and guarantee fund contribution amounts,

accruing interest on cash collateral, post-trade real-time risk management via Standard Portfolio Analysis of Risk (SPAN), pre-order real-time risk management via SPAN for risky accounts, position creation, performing profit/loss calculations, executing margin calls, providing physical delivery for physically settled contracts, physical delivery default and accrual transactions, and collateral default and accrual services.

Total number of active members in the VIOP was 74 by 2016 year-end. In the same period, the number of open positions in VIOP reached 1,681,137, with a market value of 11.2 million Turkish lira. On the same date, trading volume was 2.831 million Turkish lira with 119,160 open accounts.

### Annual Figures for the Borsa Istanbul Futures and Options Market Service

|  | 2013    | 2014    | 2015    | 2016    |
|--|---------|---------|---------|---------|
| <b>Trading Collateral Value</b> (million TL)*          | 1,797   | 1,819   | 2,197   | 2,641   |
| <b>Guarantee Fund Contribution Value</b> (million TL)* | 124     | 165     | 192     | 204     |
| <b>Trading Volume</b> (million TL)                     | 143,096 | 430,091 | 561,587 | 593,450 |
| <b>Profit/Loss</b> (million TL)                        | 2,643   | 6,663   | 8,280   | 8,899   |

(\*) As of the end of the term (annually)

### ► Debt Securities Market Clearing and Settlement Service

In 2016, total trading in Borsa Istanbul Debt Securities Outright Purchases and Sales, and Repo-Reverse Repo Markets reached 11.364,71 billion Turkish lira. Outright Purchases and Sales Market corporate bonds transactions accounted for 17.65 billion Turkish lira of this amount.

After multilateral netting, Takasbank performed cash settlement transactions of 1.34 billion Turkish lira, or 11.80 percent of the stock market's total trading volume, and securities settlement transactions with a market value of 4.30 billion Turkish lira, or 37.90 percent of the total trading volume. After multilateral netting, Takasbank executed cash settlement of 1.341,58 million TL (11,80% of the total stock market trading volume) and equities settlement with a total market value of 4.307,30 billion TL (37,90% of the total stock market trading volume).

### Borsa Istanbul Debt Security Market Monthly Average Trading Volume (million TL)

| Months    | Securities Settlement Volume (Market Value) | Cash Settlement Volume | Stock Market Volume |
|-----------|---|------------------------|---------------------|
| January   | 17,785                                      | 4,879                  | 53,045              |
| February  | 16,578                                      | 4,468                  | 59,425              |
| March     | 14,580                                      | 3,886                  | 55,604              |
| April     | 15,949                                      | 6,080                  | 46,728              |
| May       | 16,879                                      | 5,387                  | 49,688              |
| June      | 16,237                                      | 5,692                  | 49,812              |
| July      | 20,102                                      | 5,684                  | 48,107              |
| August    | 16,518                                      | 5,073                  | 38,956              |
| September | 19,181                                      | 6,742                  | 34,686              |
| October   | 15,900                                      | 5,015                  | 27,862              |
| November  | 16,397                                      | 4,525                  | 32,798              |
| December  | 20,745                                      | 7,027                  | 45,565              |

### ► Borsa Istanbul Money Market Settlement Service

Pursuant to Action No. 80 in the 64.Government Action Plan, which stipulates, “Corporate investors in capital markets shall be incentivized,”, “Borsa Istanbul Money Market” was established on October 14, 2016 and put in operation at Borsa Istanbul A.Ş. in accordance with the principles identified under the leadership of the Undersecretariat of Treasury and the CBRT with the participation of officials at Borsa İstanbul A.Ş. and our Bank with the goal of helping the growth of the organized money markets, issue variable interest rate debt instruments in Turkish

lira, and establish generally-accepted Turkish lira long-term (1-3 months) maturity reference interest rates for to serve as a benchmark for SWAP transactions. The Bank serves as a CCP to conclude the clearing and settlement of transactions executed at Borsa Istanbul Money Market.

### ► Electricity Market Settlement and Collateral Management Service

Authorized in December 2011 as the central settlement bank for the transactions on the Electricity Market after, Takasbank provided 1,010 participants with cash settlement and collateral management services in 2016. Data on trading volume in 2016:

**2016 Electricity Day-Ahead and Intra-Day Markets (Advance)  
Transactions - Number of Monthly Participants and Trading Volume**

| Months       | Number of Participants | Day-Ahead and Intra-Day Markets (million TL) | Advance Cash Settlement Amount (million TL) | Net Cash Settlement (%) |
|--------------|------------------------|--|---|-------------------------|
| January      | 940                    | 1,396  | 1,196                                       | 85.68                   |
| February     | 946                    | 978  | 876   | 89.60                   |
| March        | 955                    | 1,155  | 1,048                                       | 90.74                   |
| April        | 961                    | 1,133  | 982   | 86.69                   |
| May          | 966                    | 1,229  | 1,117                                       | 90.92                   |
| June         | 963                    | 1,465  | 1,360                                       | 92.81                   |
| July         | 968                    | 1,308  | 1,175                                       | 89.85                   |
| August       | 970                    | 1,802  | 1,628                                       | 90.37                   |
| September    | 978                    | 1,291  | 1,151                                       | 89.19                   |
| October      | 998                    | 1,181  | 1,033                                       | 87.42                   |
| November     | 1,002                  | 1,538  | 1,357                                       | 88.25                   |
| December     | 1,010                  | 2,608  | 2,383                                       | 91.38                   |
| <b>Total</b> |                        | <b>17,083</b>                                | <b>15,307</b>                               | <b>89.60</b>            |



**2016 Electricity Balancing Market (Invoice) Transactions -  
Number of Monthly Participants and Trading Volume**

| Months       | Number of Participants | Non-Balancing Market (million TL) | Invoice Cash Settlement Amount (million TL) | Net Cash Settlement Ratio (%) |
|--------------|------------------------|-----------------------------------|---|-------------------------------|
| January      | 940                    | 2,262                             | 1,309                                       | 57.89                         |
| February     | 946                    | 1,946                             | 1,253                                       | 64.36                         |
| March        | 955                    | 2,434                             | 1,524                                       | 62.62                         |
| April        | 961                    | 2,476                             | 1,549                                       | 62.59                         |
| May          | 966                    | 2,617                             | 1,092                                       | 41.73                         |
| June         | 963                    | 2,641                             | 1,046                                       | 39.62                         |
| July         | 968                    | 2,427                             | 935   | 38.52                         |
| August       | 970                    | 2,280                             | 807   | 35.39                         |
| September    | 978                    | 1,817                             | 616   | 33.90                         |
| October      | 998                    | 1,376                             | 680   | 49.40                         |
| November     | 1,002                  | 1,468                             | 771   | 52.56                         |
| December     | 1,010                  | 2,530                             | 1,236                                       | 48.86                         |
| <b>Total</b> |                        | <b>26,272</b>                     | <b>12,819</b>                               | <b>48.79</b>                  |

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

Throughout 2012, Izmir Commodity Exchange, Ege Tarım Ürünleri Lisanslı Depoculuk A.Ş., Central Registry Agency, and Takasbank conducted joint work towards the creation, trading as well as clearing and settlement processes of Electronic Warehouse Receipts (EWR). At the first stage, cotton-based EWRs were created to be traded and clearing, settlement processes were developed. In 2013, EWR trading transactions began on 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 all of these exchanges became a member of Takasbank.

Takasbank uses the RTGS delivery versus payment (DvP) method for clearing and settlement of EWRs traded on the electronic trading platforms within Commodity Exchanges. Registration, compensation and warehouse fees are collected from the cash-receiving member at the time of RTGS DvP transfer, and registration and compensation fee amounts are transferred to the commodity exchanges' and the depository fee to the licensed depository institutions' accounts. The following table provides data regarding trading volume for 2016. Clearing and settlement of EWR transactions were executed for 5,731 barley and wheat-based contracts with a value of 191,110,565 Turkish lira on the Ankara, Konya, Lüleburgaz, Polatlı, and Gaziantep commodity exchanges in 2016.

| Period             | Number of Contracts | Amount             | Value              |
|--------------------|---------------------|--------------------|--------------------|
| January            | 192                 | 21,090,230         | 16,047,135         |
| February           | 244                 | 33,634,450         | 26,099,670         |
| March              | 47                  | 4,911,300          | 3,516,496          |
| April              | 107                 | 11,403,660         | 9,085,214          |
| May                | 95                  | 11,934,040         | 9,043,710          |
| June               | 162                 | 21,991,555         | 17,184,801         |
| July               | 1,258               | 42,413,300         | 35,126,488         |
| August             | 2,960               | 68,590,770         | 59,402,425         |
| September          | 1,836               | 64,059,780         | 47,902,282         |
| October            | 1,687               | 109,138,550        | 76,929,118         |
| November           | 1,649               | 100,295,370        | 72,980,699         |
| December           | 627                 | 45,254,480         | 36,879,327         |
| <b>Grand Total</b> | <b>10,864</b>       | <b>534,717,485</b> | <b>410,197,366</b> |

### ► Precious Metals and Diamond Markets Clearing and Settlement Service

Borsa Istanbul A.Ş. Takasbank executes cash clearing, settlement and collateral management transactions on the Borsa Istanbul Precious Metals and Diamond Markets, and as of February 4, 2013, these transactions are conducted via the accounts opened at designated correspondent bank Kuveyt Türk Katılım Bankası A.Ş.

Cash clearing, settlement and collateral transactions are conducted via Borsa Istanbul

A.Ş. web service connection, allowing 99 market members to have access to Takasbank screens via internet.

In 2016, 253,611 kg of gold and 480,774 kg of silver was traded with a value of 3.339 million Turkish lira and \$9.258 million on the Precious Metals and Diamond Market, and executed cash clearing and settlement reached 1.666 million Turkish lira and \$4.641 billion.

Highest Turkish lira and US dollar gold trading volume information:

#### 2016 Precious Metals Market Turkish lira Gold Trading

| Months       | Precious Metals Trading Volume (Kg) | Transactions Volume-Net (million TL) | Cash Settlement Amount (million TL) | Net Cash Settlement Ratio (%) |
|--------------|-------------------------------------|--------------------------------------|-------------------------------------|-------------------------------|
| January      | 460                                 | 49                                   | 24                                  | 49.52                         |
| February     | 2,102                               | 239                                  | 179                                 | 74.69                         |
| March        | 1,256                               | 145                                  | 81                                  | 55.76                         |
| April        | 1,427                               | 161                                  | 52                                  | 32.20                         |
| May          | 6,717                               | 802                                  | 324                                 | 40.43                         |
| June         | 1,724                               | 204                                  | 109                                 | 53.28                         |
| July         | 2,570                               | 328                                  | 195                                 | 59.44                         |
| August       | 2,069                               | 264                                  | 141                                 | 53.42                         |
| September    | 1,440                               | 182                                  | 79                                  | 43.43                         |
| October      | 1,839                               | 230                                  | 164                                 | 71.03                         |
| November     | 1,618                               | 210                                  | 140                                 | 66.45                         |
| December     | 1,660                               | 214                                  | 179                                 | 83.90                         |
| <b>Total</b> | <b>24,883</b>                       | <b>3,028</b>                         | <b>1,666</b>                        | <b>55.02</b>                  |



### 2016 Precious Metals Market US Dollar Gold Transactions

| Month        | Precious Metals Trading Volume (kg) | Trading Volume-Net (million USD) | Cash Settlement Amount (million USD) | Net Cash Settlement Ratio (%) |
|--------------|-------------------------------------|----------------------------------|--------------------------------------|-------------------------------|
| January      | 8,835                               | 312                              | 195                                  | 62.50                         |
| February     | 22,293                              | 863                              | 720                                  | 83.44                         |
| March        | 19,495                              | 781                              | 575                                  | 73.62                         |
| April        | 11,431                              | 456                              | 173                                  | 37.94                         |
| May          | 21,563                              | 870                              | 363                                  | 41.67                         |
| June         | 22,986                              | 940                              | 371                                  | 39.46                         |
| July         | 8,196                               | 349                              | 120                                  | 34.21                         |
| August       | 14,761                              | 632                              | 277                                  | 43.78                         |
| September    | 12,756                              | 543                              | 224                                  | 41.23                         |
| October      | 29,931                              | 1,216                            | 703                                  | 57.83                         |
| November     | 17,885                              | 707                              | 371                                  | 52.57                         |
| December     | 38,597                              | 1,427                            | 516                                  | 36.13                         |
| <b>Total</b> | <b>228,728</b>                      | <b>9,096</b>                     | <b>4,607</b>                         | <b>50.65</b>                  |

Also, there was \$4.14 million and 1.5 million Turkish lira collateral at correspondent bank Kuveyt Türk Katılım Bankası A.Ş. as of December 31, 2016.

## Custody Services



### Debt Securities Custody Service

Takasbank provides custody services for government domestic debt securities (GDS) to the banks, brokerage houses, mutual funds and private pension funds, mutual trusts, real estate mutual trusts, insurance and private pension companies and asset management companies.

#### GDS Balances per Year

| Years | (million TL)    |                      | (million USD)        |
|-------|-----------------|----------------------|----------------------|
|       | Average Nominal | Average Market Value | Average Market Value |
| 2006  | 39,726          | 33,188               | 23,486               |
| 2007  | 36,796          | 32,218               | 27,662               |
| 2008  | 38,909          | 34,173               | 22,597               |
| 2009  | 42,795          | 39,459               | 26,207               |
| 2010  | 41,073          | 40,127               | 25,955               |
| 2011  | 48,650          | 48,541               | 25,461               |
| 2012  | 49,818          | 50,686               | 28,434               |
| 2013  | 50,606          | 52,729               | 24,705               |
| 2014  | 55,901          | 57,009               | 24,585               |
| 2015  | 56,740          | 57,316               | 19,712               |
| 2016  | 51,852          | 52,462               | 14,854               |

Private sector debt instruments (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

| Years | PSDI (million TL)<br>Daily Average Nominal | Change<br>Ratio |
|-------|--|-----------------|
| 2010  | 244  | 2.550%          |
| 2011  | 3,539                                      | 1.350%          |
| 2012  | 7,086                                      | 100%            |
| 2013  | 12,228                                     | 73%             |
| 2014  | 16,458                                     | 35%             |
| 2015  | 21,722                                     | 32%             |
| 2016  | 26,181                                     | 21%             |

### ► Physical Securities Transactions

As of December 31, 2016 our fungible custody had 4,336,094 certificates, comprising of stocks with a nominal value of 220,769,450 Turkish lira; non-fungible custody had 1,918,281 certificates, comprising of stocks with a nominal value of 11,620,337 Turkish lira.

### ► Global Custody

Global custody service encompasses 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 240 members; which include banks, brokerage houses, pension and mutual funds, and other financial institutions; with uninterrupted STP operational flow through the account network it established at international central securities depositories-ICSDs (Euroclear ve Clearstream) and global custodians (Citibank). Thus, it has access to more than 65 markets world-wide.

### Number of Global Custody Accounts (As of December 31, 2016)

| Global Custody Members | Number of Accounts |
|------------------------|--------------------|
| Mutual Funds           | 125                |
| Private Pension Funds  | 69                 |
| Brokerage Houses       | 22                 |
| Banks                  | 20                 |
| Exchange-Traded Funds  | 1                  |
| Other                  | 3                  |
| <b>Total</b>           | <b>240</b>         |

Average market value of capital market instruments held under global custody spiked steadily, reaching €4.3 billion by December 31, 2016. In the same year, average custody balance increased by 22 percent year-on-year.

### Balance of Global Custody Accounts (As of December 31, 2016)

| Month     | Average Global Custody Balance (million €) |
|-----------|--|
| January   | 3,617                                      |
| February  | 3,663                                      |
| March     | 3,825                                      |
| April     | 3,765                                      |
| May       | 3,563                                      |
| June      | 3,689                                      |
| July      | 4,093                                      |
| August    | 4,201                                      |
| September | 4,261                                      |
| October   | 4,108                                      |
| November  | 4,037                                      |
| December  | 4,116                                      |
| Average   | 3,914                                      |

The volume of settlement transactions within the scope of global custody service climbed by 55 percent to €11.8 billion year-on-year.

### Global Custody Settlement Volume (As of December 31, 2016)

| Month     | Global Custody Settlement Volume Balance (million €) |
|-----------|--|
| January   | 457  |
| February  | 470  |
| March     | 2,005  |
| April     | 591  |
| May       | 645  |
| June      | 1,359  |
| July      | 961  |
| August    | 1,230  |
| September | 752  |
| October   | 1,406  |
| November  | 1,237  |
| December  | 641  |
| Total     | 11,754   |

In 2016, a total of 23,315 transactions executed a 35-percent rise year-on-year. The transactions were comprised of settlement transactions with 44 percent, corporate action transactions with 24 percent, and cash transactions for clearing, settlement and corporate action with 32 percent.

| Month        | Number of Global Transactions |
|--------------|-------------------------------|
| January      | 1,708                         |
| February     | 1,982                         |
| March        | 2,346                         |
| April        | 1,999                         |
| May          | 1,768                         |
| June         | 2,010                         |
| July         | 1,731                         |
| August       | 1,630                         |
| September    | 1,577                         |
| October      | 2,157                         |
| November     | 2,277                         |
| December     | 2,130                         |
| <b>Total</b> | <b>23,315</b>                 |

### ▶ Central Custody Services 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 “Communique 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 the assets held in the mutual and private pension funds’ portfolios.

Accordingly, it currently provides 69 private pension funds and 125 mutual funds central custody service in international markets.

### ▶ Book-Entry Custody Service

Dematerialized securities owned by collective investment institutions are safe-kept at central custody institutions as Takasbank sub-accounts. As of December 31, 2016, share certificates with the market value of approximately 10 billion Turkish lira are safe-kept at CSD of Turkey in book-entry form.

### ▶ Precious Metals Custody Service

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, 2016, Collective Investment Institutions had 13,835 kg of gold custody balance with a market value of nearly 1.79 trillion Turkish lira.

### ▶ Portfolio Custody Service

Capital Markets Law No. 6362 introduced many structural changes to our capital markets, as it did in the area of collective investment institutions. As a result, collective investment institutions, which are vital for the capital markets, were completely revamped in accordance with the EU acquis. The law ensures that mutual funds are established by asset management companies; that there is

a precise line separating the custodian from the administrator; and that the rights, duties and liabilities of each institution are explicitly defined. Pursuant to the “Communique on the Principles of Asset Custody Service and the Institutions Rendering the Service, No III-56.1 dated July 2, 2013,” Takasbank continued in 2016 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, 2016, it has a portfolio custody contract with 14 asset management

companies, of which two are real estate management companies, and eight mutual trusts. Currently, it provides portfolio custody service to 90 collective investment institutions.

### ► Local Custody Service

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.



## Share Certificates Corporate Action Service



Takasbank handles corporate actions such as capital increase and dividend distribution for the book-entry share certificates in collective investment institutions' accounts.

In 2016, seven issuers conducted capital increases through rights issues, 35 issuers conducted capital increases through bonus issues, 158 issuers affected dividend distribution.

## Debt Securities Corporate Action Service



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<br>(million TL) | PSDI<br>(million TL) |
|------------|---------------------|----------------------|
| Redemption | 12,741              | 56,337               |
| Coupon     | 5,554               | 984                  |

## Private Pension Fund Shares Information Service



In 2016, 50,008 participants accessed the e-Turkey Takasbank Integration Platform, launched in 2013 for private pension system participants. Requests were as follows: Daily SMS requested by 2,857 participants, daily activities email requested by 3,465 participants, monthly balance email requested by 4,265 participants, and monthly activities email requested by 3,692 participants.

## Private Pension Fund Shares Management Service



Takasbank has been providing custody services as a custodian to the 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, 2016, the number of accounts that contain private pension fund in private pension companies surged by 757,091 to 7,685,249, and the participants' fund size grew to 60.815 million Turkish lira, an increase of 13 billion Turkish lira.

## Other Services



### Debt Securities Collateral Monitoring (BİAŞ) Service

Takasbank executes Borsa Istanbul Debt Securities Market transaction limit provisions and International Bond Market Collaterals. As of December 31, 2016 “Transaction Limit Provision” and “International Bond Market” collateral amounts were \$6.363 million Turkish lira and \$2.6 million, respectively. Distribution per collateral type:

#### Distribution Per Transaction Limit Provisions

| Collateral Type      | Nominal/Amount       | Market Value TL      |
|----------------------|----------------------|----------------------|
| Cash                 | 2,947,839            | 10,006,627           |
| Letters of Guarantee | 696,894,298          | 1,157,555,308        |
| Government Bonds     | 5,120,171,968        | 5,195,770,178        |
| <b>Total</b>         | <b>5,820,014,105</b> | <b>6,363,332,113</b> |

#### International Bond Market Collaterals

| Collateral Type            | Foreign Exchange | Nominal/Amount   | Market Value TL  | Market Value usd |
|----------------------------|------------------|------------------|------------------|------------------|
| Letters of Guarantee Total | USD              | 150,000          | 529,770          | 150,000          |
| Government Bonds Total     | TL               | 9,018,850        | 8,737,790        | 2,474,033        |
| <b>Total</b>               |                  | <b>9,168,850</b> | <b>9,267,560</b> | <b>2,624,033</b> |

### ► Electricity Market Collateral Management Service

As of December 31, 2016, total market value of the collaterals safe kept at Takasbank accounts for Electricity Market transactions was 439,992,597 Turkish lira. The collaterals safe kept at Takasbank consist of 438,668,041 Turkish lira, €121,920, and \$168,120, and GDS with a market value of 280,429 Turkish lira.

### ► Derivatives Market Guarantee Fund Management Service

Takasbank provides management services of the guarantee fund established for Borsa Istanbul VIOP transactions. By 2016, total guarantee fund contribution of VIOP clearing members was 204 million Turkish lira. Of the total fund, 116 million Turkish lira accounts for cash contributions.

### ► Leveraged Trading Transactions, Collateral Management, and Reporting to CMB

In the aftermath of the global financial crisis, regulations were put in place to execute

over the counter derivatives transactions on organized platforms, launch central clearing and settlement practice to eliminate counterparty risk, and provide reporting to trade repository institutions. In parallel with international market practices, the CMB introduced a regulation for the first time on leveraged F/X transactions, which make up an important part of over-the-counter derivatives market, “Communiqué on Principles of Leveraged Trading Transactions (LTT) and Organizations Allowed to Perform Them” which was effective on August 31, 2011

The regulation makes it mandatory for all leveraged transactions in customer accounts; asset transfers; final profits or losses derived from the closed positions; potential profits or losses with regard to open positions; all commissions, fees and taxes accrued on the accounts as well as collateral status information in the accounts to be reported to Takasbank as the CMB-authorized trade repository institution for the F/X transactions. As of the year-end, there was 1.075 million Turkish lira of collateral in 130,689 of the 214,835 accounts opened in the LTT, for which 46 institutions are authorized.

#### Annual Leveraged Trading Transactions Data

|   | 2012/12   | 2013/12   | 2014/12   | 2015/12   | 2016/12    |
|---|-----------|-----------|-----------|-----------|------------|
| <b>Number of Members</b>                                    | 23        | 33        | 39        | 42        | 46         |
| <b>Number of Accounts-Last Business Day</b>                 | 16,670    | 43,194    | 78,755    | 148,078   | 214,835    |
| <b>Number of Accounts with Collateral-Last Business Day</b> | 11,543    | 29,709    | 51,377    | 94,305    | 130,689    |
| <b>Collateral Amount-Last Business Day (million TL)</b>     | 139       | 281       | 449       | 615       | 1.07       |
| <b>Short Position Value-Last Business Day (million TL)</b>  | 2,851     | 5,326     | 8,557     | 12,682    | 21,848     |
| <b>Trading Volume-Total (Accumulated-million TL)</b>        | 1,102,364 | 2,953,147 | 4,569,463 | 9,809,280 | 11,879,389 |
| <b>Daily Ave.Trading Volume (million TL)</b>                | 4,224     | 11,813    | 18,205    | 39,237    | 49,508     |

### ▶ Derivative Markets Collateral Management Service

Within the scope of this service, real-time risk monitoring of the Borsa Istanbul Futures and Options Market (VIOP) is executed by using SPAN, an internationally recognized and commonly used risk calculation algorithm.

As of the end of 2016, market value of VIOP transaction guarantees managed by Takasbank was 2.641 million Turkish lira, and of this amount, 2.139 million was in Turkish lira guarantees.

### ▶ Debt Securities Transfer Service

In 2016, our Bank transferred debt securities to our members in the amount of 496.010 million Turkish lira/nominal, of this figure, 493.678 million Turkish lira and 2,333 million Turkish lira nominal amounts were free of payment and bilateral Takasbank transfer, respectively.

| Type            | Number         | Nominal<br>(million TL) |
|-----------------|----------------|-------------------------|
| Bilateral       | 2,662          | 2,333                   |
| Free of Payment | 127,996        | 493,678                 |
| <b>Total</b>    | <b>130,658</b> | <b>496,010</b>          |

### ▶ Exchange-Traded Funds Service

In 2016, a total of 8.804 million Turkish lira fund share creation and redemption took place in the exchange-traded funds that are based on share certificates, precious metals, government debt securities and foreign securities.

### ▶ Equities and other Equity-like Instruments Transfer Service

In 2016, transactions worth 453.26 billion Turkish lira were processed in the RTGS DvP, which allows simultaneous securities and cash transfer. Of this amount, 80 percent took place as “full,” and 93 percent were on-exchange transactions. Also, free of payment transfers worth 37.43 billion Turkish lira were executed by the collective investment institutions.

As a result of RTGS DvP System's (Takasbank bilateral transfer system) integration with the SWIFT system, SWIFT member organizations can send RTGS DvP orders via SWIFT, and these orders get automatically accepted in the Takasbank DvP System. Of the orders received by the DvP System, 66.10 percent came via the SWIFT System in 2016.

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 83.47% in the same period.

### 2016 Transfer Transactions (billion TL)

| Month        | Free of Payment | RTGS DVP      | Total Transfer |
|--------------|-----------------|---------------|----------------|
| January      | 3.25            | 31.76         | 35.01          |
| February     | 3.51            | 40.94         | 44.45          |
| March        | 4.45            | 48.58         | 53.03          |
| April        | 4.43            | 43.65         | 48.08          |
| May          | 3.16            | 44.74         | 47.90          |
| June         | 2.71            | 36.22         | 38.93          |
| July         | 2.65            | 40.11         | 42.76          |
| August       | 2.34            | 33.34         | 35.68          |
| September    | 2.00            | 29.77         | 31.77          |
| October      | 2.97            | 32.37         | 35.34          |
| November     | 3.21            | 40.87         | 44.08          |
| December     | 2.77            | 30.91         | 33.67          |
| <b>Total</b> | <b>37.43</b>    | <b>453.26</b> | <b>490.70</b>  |

### ► Foreign Currency Payment and Transfer Service

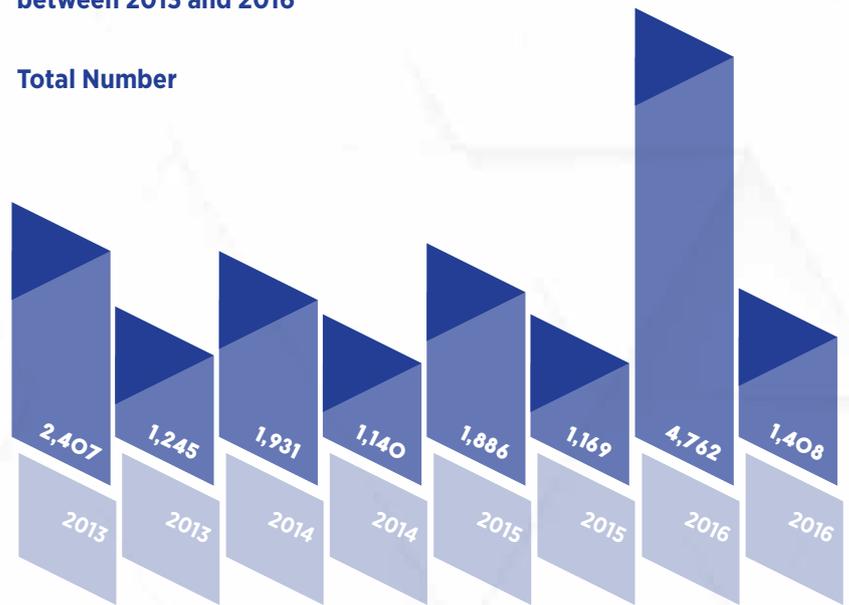
Takasbank members can use USD or EUR cash amounts they transfer to Takasbank cash correspondents for their collateral and clearing transactions. Moreover, they can transfer the amounts in their cash accounts held with Takasbank to any other clearing member's account at Takasbank or they can transfer to any other bank's account via SWIFT system.

Foreign currency payment and transfer services take place as part of the collateral transactions executed by Takasbank.

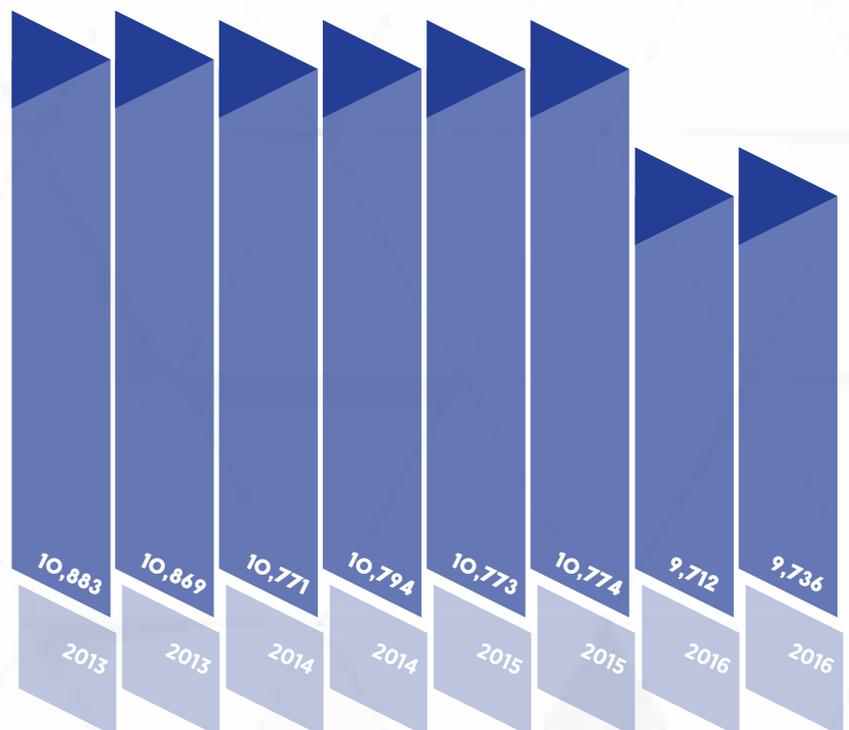
Brokerage houses can transfer USD or EUR amounts held in their Takasbank accounts to other bank accounts via their own terminals or via the SWIFT system upon written instruction. Also, on August 19, 2016, work was completed for a system infrastructure to allow direct transfers from member accounts to individual customer accounts abroad, and for IBAN information algorithm checks on the "Foreign Exchange Payment Order."

### Total Number and Value of Incoming/Outgoing Euro Cash Messages between 2013 and 2016

#### Total Number

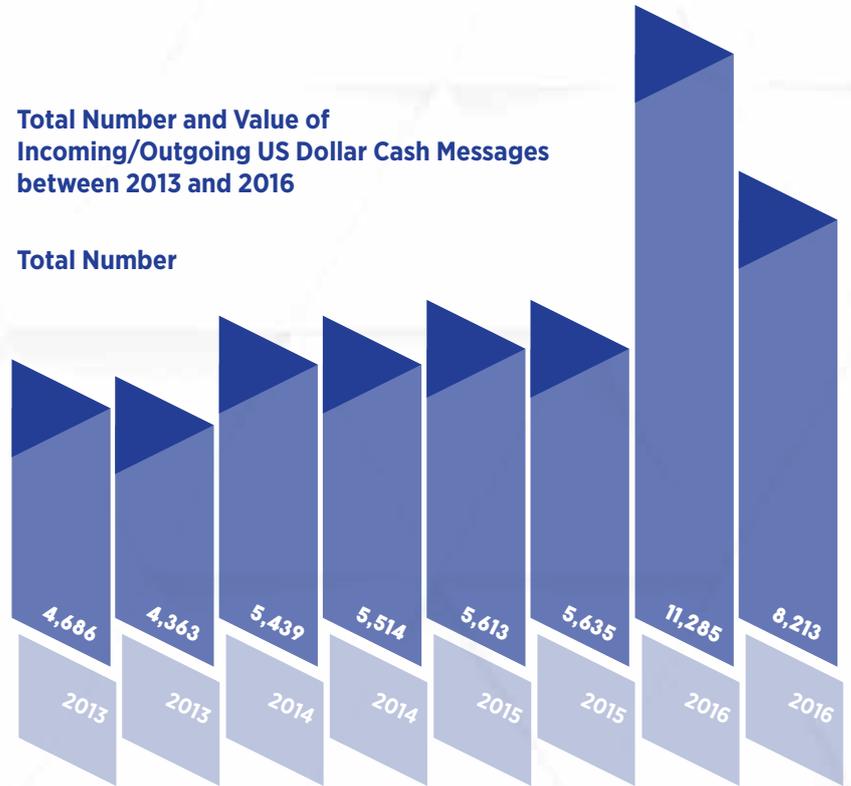


#### Total Value (million EUR)

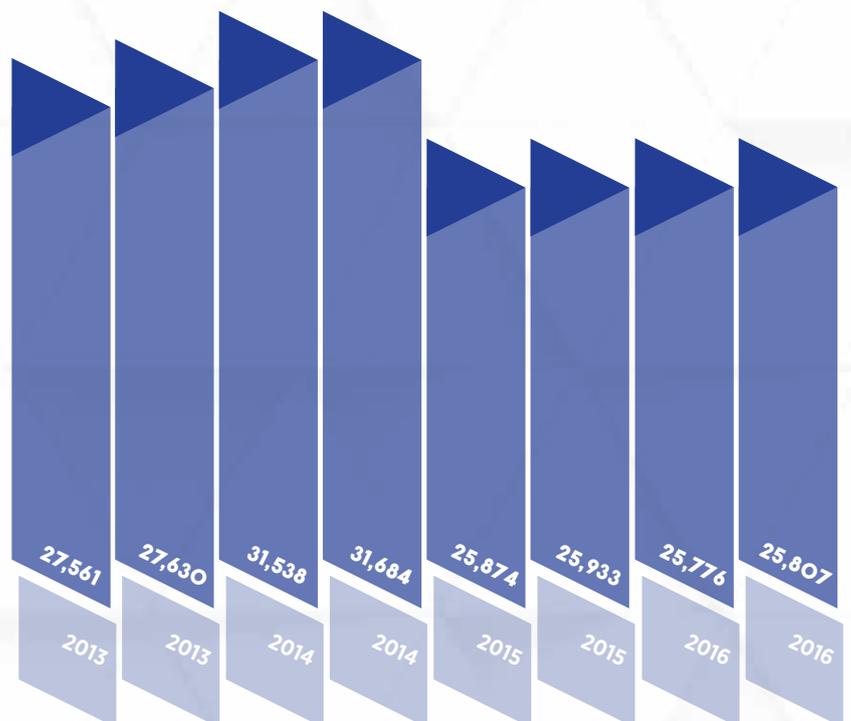


**Total Number and Value of Incoming/Outgoing US Dollar Cash Messages between 2013 and 2016**

**Total Number**



**Total Value (million USD)**



### ▶ **Local Currency Payment and Transfer Service**

Takasbank provides the members with local currency payment and transfer services on CBRT Payment Systems (EFT, EMKT, POS, HIS), and it uses these systems for the services it provides.

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

Launched on February 1, 2016, EFT Web Service allows direct and faster CBRT Retail Payment System (RPS) operations between the members' own system and the Bank on an XML-based messaging structure for member transactions on the Bank's system to meet their operational requirements.

Also, launched on August 15, 2016, Transfer Web Service allows direct and faster transfers between the members' own system and the Bank on an XML-based messaging structure.

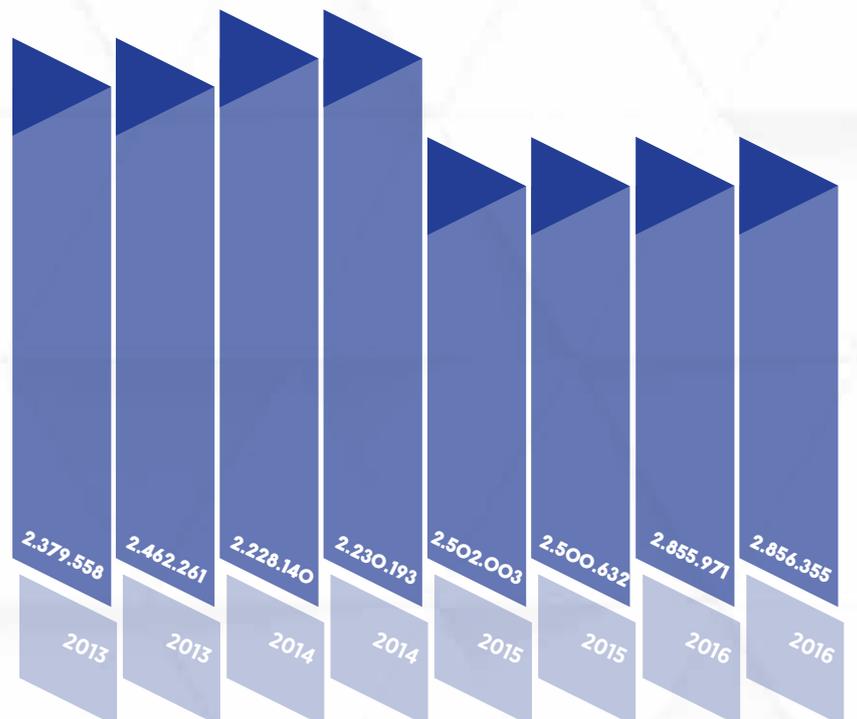
Amendments were made and entered into effect on July 15, 2016 simultaneously with the CBRT to add "Customer Name, Customer TRIN/TaxID, and Customer Account Number" in the Additional Information field, in addition to the "Account Number, Receiver Name, Receiver TRIN" fields in the RPS messages. EFT web screen revisions of these amendments entered into effect on August 31, 2016.

**Total Number and Value of Incoming/Outgoing Cash Messages**

**Total Number**



**Total Value (million USD)**



## ► Legal Entity Identification

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

In addition to numbering services, Takasbank has also obtained the prefix (7890) required from the Financial Stability Board (FSB) with the sponsorship of CMB to allocate the pre-legal entity identifier (pre-LEI), which it has been providing since July 31, 2013. Upon ROC approval as an authorized local operation institution in 2013, it has demonstrated that

it has the technical and legal infrastructure to offer pre-LEI to financial institutions not only in Turkey, but throughout the world. Takasbank allocates all pre-LEI codes according to the "ISO 17442," making it possible for them to be used for international reporting and audit report.

Domestic and foreign legal persons can send LEI code request to Takasbank and execute other transactions such as updating information and paying annual maintenance fee on its web portal at <https://www.leiturkey.com>. In 2016, Takasbank allocated pre-LEI code to 28 legal persons.

In 2016, Takasbank proactively took part in drafting the Master Agreement to be signed between GLEIF and other pre-local operating units. Pre-local operating units qualify for the GLEIF certificate as local operating unit upon signing the agreement and passing the accreditation process.

### ► International Securities Identification (ISIN) Service

Since its appointment in 1995 as the “National Numbering Agency of Turkey” by the CMB, Takasbank has been allocating international securities identification codes (ISIN - ISO 6166) and financial institution classification codes (CFI - ISO 10962) to the securities and other financial instruments issued in the local market.

#### ISIN Codes Allocated in 2016

| Type of Securities                     | Number        |
|--|---------------|
| VIOP Option                            | 8,540         |
| Foreign Warrants                       | 1,966         |
| Domestic Warrants                      | 1,838         |
| EWR                                    | 467           |
| VIOP Options                           | 401           |
| Commercial Papers                      | 338           |
| Bank Bills                             | 301           |
| Other Category ISIN                    | 188           |
| Private Sector Bonds                   | 140           |
| GDS                                    | 82            |
| Mutual Funds                           | 77            |
| Undersecretariat of the Treasury Sukuk | 47            |
| Sukuk                                  | 33            |
| Private Pension Funds                  | 18            |
| Index                                  | 16            |
| Asset-Backed Securities                | 16            |
| Share Certificates and Others          | 24            |
| <b>Total</b>                           | <b>14,492</b> |

### ► Fund Management Service

In 2016, Takasbank aimed to achieve maximum possible yield by taking reasonable level of risk; maintain Bank's core operations and financial strength in given market conditions and legislative framework.

Accordingly, contribution of interest revenues to the financial structure rose by 25 percent year-on-year. Within the scope of collateral management, it is ensured that the funds of the Banks and its customers were invested on a best-effort basis in the markets and with the time periods suitable for their purposes and the interests of their beneficial owners.

| Year | Total Revenues<br>(thousand TL) | Gross Fund Manag.<br>Revenues (thousand TL) | Share of Fund<br>Manag. Revenues (%) |
|------|---------------------------------|---|--------------------------------------|
| 2010 | 77,951                          | 37,969                                      | 48.71                                |
| 2011 | 105,247                         | 43,814                                      | 41.63                                |
| 2012 | 147,237                         | 89,523                                      | 60.80                                |
| 2013 | 194,704                         | 123,670                                     | 63.52                                |
| 2014 | 264,542                         | 179,323                                     | 67.79                                |
| 2015 | 338,744                         | 224,527                                     | 66.28                                |
| 2016 | 427,455                         | 281,177                                     | 65.78                                |

### ► Cash Credit Service

As part of the limit allocation and notification service, credit limits were updated for 140 organizations, including 73 brokerage houses, 29 banks, 21 factoring companies, six leasing, six financing and two insurance companies, as well as three asset management companies, in 2016.

Pursuant to the Istanbul Settlement and Custody Bank Central Counterparty (CCP) Regulation, the Bank began providing CCP services on the Borsa Istanbul Money Market, operating in Borsa Istanbul A.Ş. As a result of the CCP service provided by our Bank, "Borsa Istanbul Money Market" limits were allocated to 61 brokerage houses and 43 banks that operate in the market.

In 2017, the Bank plans to provide CCP service on the Borsa Istanbul Equity Market pursuant to the Istanbul Settlement and Custody Bank Central Counterparty Regulation. As part of the service, the Bank allocated limits to 66 brokerage houses to trade on the Borsa Istanbul Equity Market.

Takasbank cash credit daily average grew by 50.18 percent to 120.4 million Turkish lira in 2016, up from 80.2 million Turkish lira in 2015.

Cash loan interest income rose by 41.54 percent to 12.89 million Turkish lira in 2016, up from 9.10 million Turkish lira in 2015. Credit maturity is generally overnight. The number of brokerage house customers that signed a pledge agreement to enable the transfer of securities to the cash credit collateral increased to 829 from 783.

### 2016 Cash Loan Placement Average and Loan Interest Income

| Month     | Placement Average (TL) | Interest Income (TL) |
|-----------|------------------------|----------------------|
| January   | 114,205,419            | 1,211,296            |
| February  | 114,935,138            | 1,111,991            |
| March     | 92,286,097             | 954,555              |
| April     | 123,083,333            | 1,175,287            |
| May       | 138,476,742            | 1,319,102            |
| June      | 67,355,233             | 624,431              |
| July      | 140,518,613            | 1,267,176            |
| August    | 148,777,290            | 1,230,361            |
| September | 144,341,533            | 1,125,177            |
| October   | 129,047,065            | 1,018,071            |
| November  | 121,117,367            | 948,609              |
| December  | 109,276,000            | 904,504              |

### ► Member Information Management Service

In the 2016 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, 262 accounts were opened subsequent to contract signing.

Throughout the operating period, 1,438 institutions and 4,155 active users received services. Member transaction and information services resulted in 18,370 phone calls, 16,614 email notifications and directives, 870 representative designation according to the institutions' signature circular, and definition of 4,658 securities traded in the markets.

In the same period, the account relationships of 114 institutions with Takasbank were canceled upon their request.

### Member Accounts (As of December 31, 2016)

| Member Type                                 | Number       |
|---|--------------|
| Brokerage Houses                            | 70           |
| Bank  | 41           |
| Electricity Market Participants             | 1,010        |
| Private Pension Companies                   | 19           |
| Factoring Companies                         | 46           |
| Leasing Companies                           | 13           |
| Financing Companies                         | 6            |
| Real Estate Investment Trusts               | 31           |
| Real Estate Asset Management Company        | 4            |
| Venture Capital Trusts                      | 4            |
| Participation Banks                         | 6            |
| Precious Metals Brokerage Houses            | 73           |
| Institutional Investors                     | 17           |
| Asset Management Companies                  | 46           |
| Insurance Companies                         | 7            |
| Commodity Exchanges and Licensed Warehouses | 25           |
| Mutual Trusts                               | 10           |
| <b>Total</b>                                | <b>1,438</b> |

#### ▶ Periodic Information Transfer Service to Data Vending Companies

As part of the Periodical 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 2016. By the 2016 year-end, information was provided to four receivers and five sub-receivers.

#### ▶ Suspended Brokerage Houses Transactions

Throughout 2016, processes continued about the brokerage houses of which activities were suspended in accordance with the legislation and the CMB directives.

#### ▶ Collateral Agency Services to Mortgage Financing Firms

For funding the mortgage loans granted by Şeker Mortgage Finansman A.Ş., Takasbank provided collateral and account management service 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 2016, the Bank continued to receive, check and deposit the mortgage loan documents submitted by the mortgage financing companies it provides services as per the 2011 contract. During the same time, it received a total of 447 loan files, which consisted of 263 loan files and 184 restructuring files. The number of files reached 5,263 by December 31, 2016. Average file amount was 103,500 Turkish lira.

### ► Repo and Reverse Repo Transactions and Monitoring and Reporting Service

Repo and reverse repo operations and transactions by the brokerage houses and banks outside Borsa Istanbul, and transactions with a default on maturity, must be reported to Takasbank. Also, securities subject to such transactions must be deposited at Takasbank. Monthly breakdown of securities that brokerage houses and banks deposited at Takasbank as repo blockage in 2016.

| Months    | Nominal (million TL) |
|-----------|----------------------|
| January   | 52.983               |
| February  | 53.830               |
| March     | 57.049               |
| April     | 54.666               |
| May       | 52.799               |
| June      | 56.726               |
| July      | 44.963               |
| August    | 53.774               |
| September | 40.011               |
| October   | 47.002               |
| November  | 54.112               |
| December  | 59.342               |

### ► Brokerage House Collateral Safekeeping Service

By December 31, 2016, a total collateral of 9.5 million Turkish lira was monitored by Takasbank on behalf of the CMB. Collateral breakdown based on collateral type is as follow:

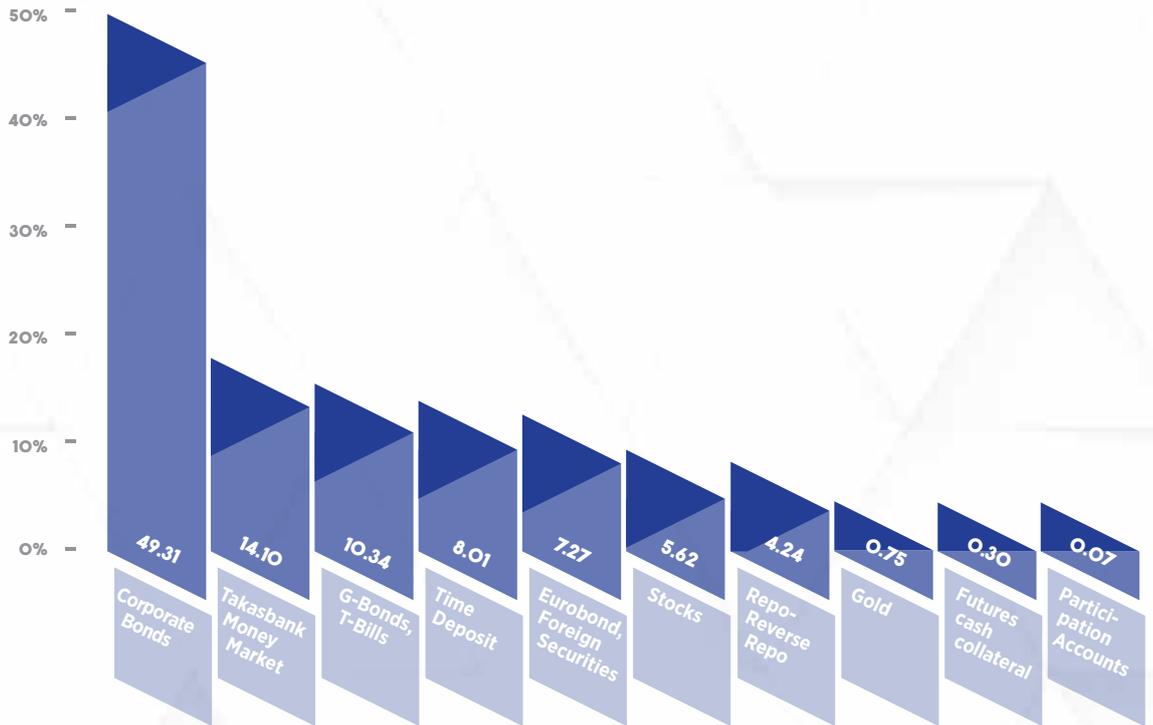
| Collateral Type      | Market Value (TL) |
|----------------------|-------------------|
| TL                   | 4.924.589         |
| Government Bonds     | 1.744.303         |
| Letters of Guarantee | 2.834.687         |
| Total                | 9.503.579         |

### ► Fund Valuation and CMB Reporting Service

In 2016, pursuant to the CMB authorization and in accordance with the relevant regulation, Takasbank continued to provide custody services to collective investment institutions and provide the necessary infrastructure so that assets safe kept under custody outside of Takasbank can be reported.

Furthermore, affecting reconciliation controls of information regarding the unit share values entered into Takasbank system by these institutions and the number of shares in circulation and the fund portfolio values as well as ensuring the correction of unreconciled amounts and reporting such information to the Capital Markets Board were also continued.

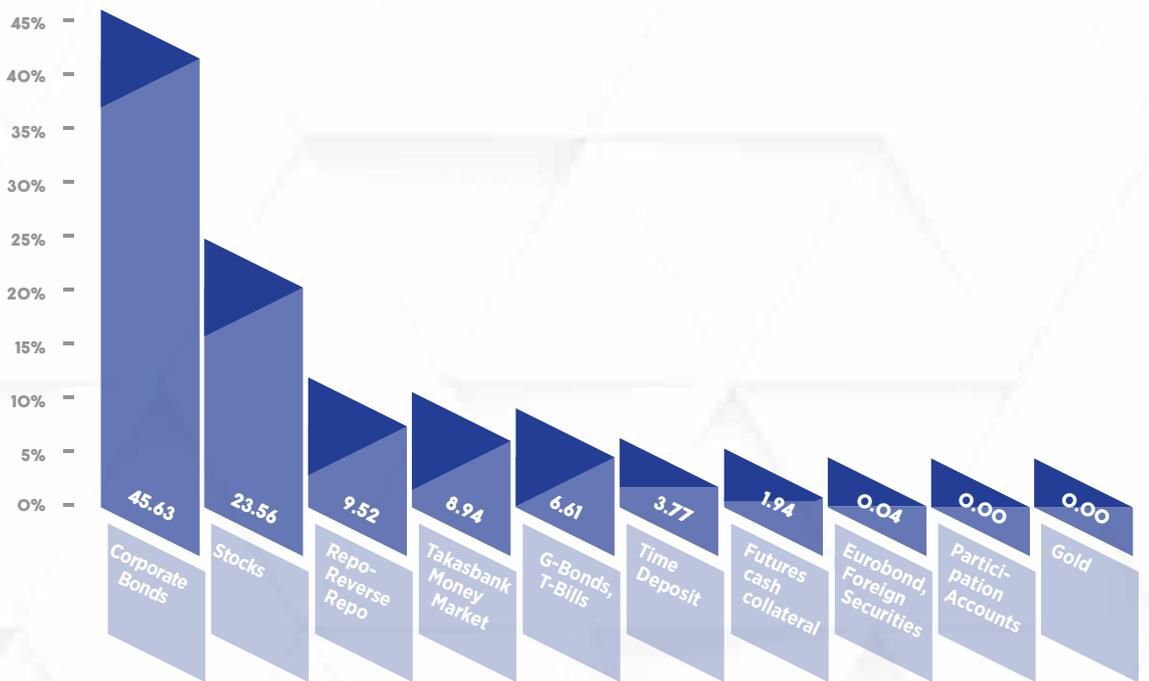
### Mutual Funds Portfolio Breakdown



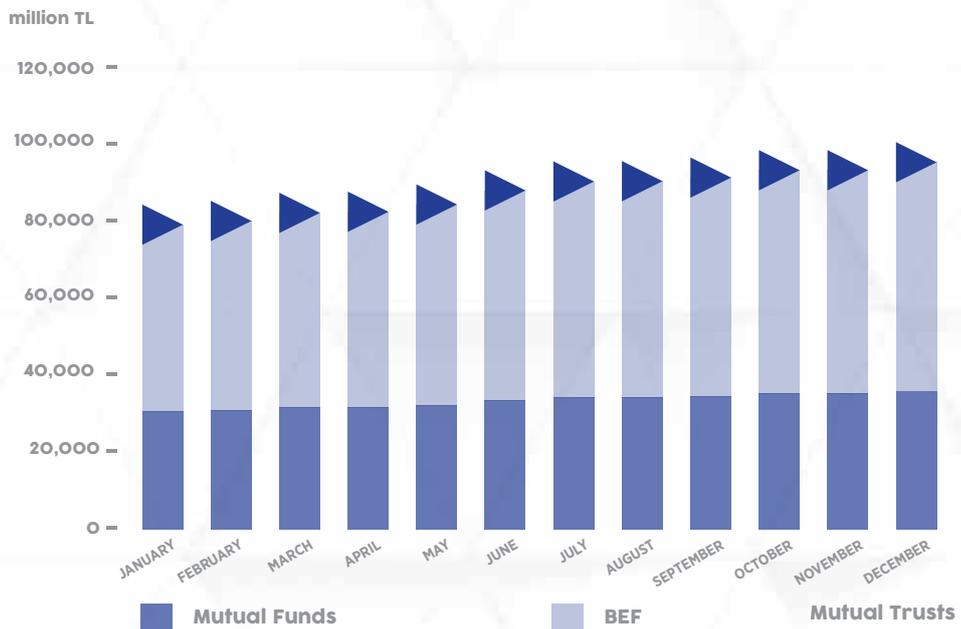
### Private Pension Fund Portfolio Breakdown



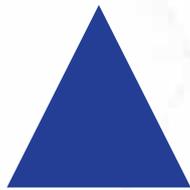
### Securities Mutual Trust Portfolio Breakdown



### Collective Investment Institution Size



# Management and Corporate Governance Practices



# Board of Directors



**Osman Saraç**

Chairman of the Board of Directors

Osman Saraç received his Bachelor's degree in International Relations from the Faculty of Political Sciences at Ankara University, and his Master's degree in Finance from the Social Sciences Institute at Gazi University. He is currently pursuing his Ph.D in Banking at the Banking and Insurance Institute at Marmara University. He worked as a finance auditor between 1998 and 2005, as Vice Chairman of the Istanbul Gold Exchange between 2005 and 2006, as Chairman of the Istanbul Gold Exchange between 2006 and 2013, and as a Certified Public Accountant between 2013 and 2016. He took on the role as Chairman of the Development Bank of Turkey affiliate in 2005, and as council member at the Union of Chambers and Commodity Exchanges of Turkey (TOBB), and then as council member at TOBB Jewelry Industry Council between 2005 and 2013. Osman Sara was elected as a board member at the Borsa Istanbul Ordinary General Assembly on April 1, 2016. He was appointed as Vice Chairman and CEO on the same date.



**Adnan Ertürk**  
Vice Chairman of the Board of Directors



**Serdar Satoğlu**  
Board Member

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 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 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 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 the same position. He speaks English. He is married with two children.

Serdar Satoğlu was born in Ankara in 1972. He received his Bachelor's degree in Finance from the Faculty of Political Sciences at Ankara University in 1994, and his master's degree and Ph.D in Banking at the Banking and Insurance Institute at Marmara University. He embarked on his business career at Türkiye Vakıflar Bankası T.A.O. as assistant auditor and auditor in 1995. He served as Chairman of Inspection Board between 2001 and 2003, and as CEO between 2003 and 2010 at Vakıf Yatırım A.Ş. He has been holding the position of Executive Vice President at Türkiye Vakıflar Bankası T.A.O since 2010.



**Feridun Bilgin**  
Board Member



**Mahmut Kayacık**  
CEO and Board Member

Feridun Bilgin was born in Sivas in 1964. He received his Bachelor's degree from the Faculty of Electric and Electronic Engineering at Istanbul Technical University in 1985, and in 1988 his Master's degree in Electrical Engineering from the Science Institute at Yıldız Technical University. He worked as assistant specialist, specialist and group president at the Undersecretariat of State Planning Organization between 1986 and 1991, and as specialist, branch manager, and department head at the Undersecretariat of Treasury and Foreign Trade and at the Undersecretariat of the Treasury between 1991 and 1996. He served as a financial advisor at the Turkish Embassy in Skopje between 1996 and 1999, as the General Manager of Incentives and Implementation at the Undersecretariat of Treasury between October 15, 2003 and June 29, 2010, as Deputy Undersecretary of Turkish Treasury between June 30, 2010 and April 30, 2014, as the Undersecretary for Ministry of Transportation, Maritime and Communication between May 1, 2014 and March 6, 2015, and as the independent Minister of Transportation, Maritime and Communication pursuant to article 114 of the Constitution of the Republic of Turkey between March 7, 2015 and November 24, 2015. He currently holds the post of Chief Adviser to the Prime Minister. He is married with two children and speaks English.

Mahmut Kayacık was born in Muğla in 1976. He graduated from Kartal Anatolian Imam Hatip High School. He then received his Bachelor's degree in Political Science and International Relations at Boğaziçi University in 1999, and his Master's degree in International Economics from the Faculty of Social Sciences at Marmara University in 2002. He worked as a financial analyst at Taç Yatırım Ortaklığı A.Ş. between 1999 and 2002. He was manager of Fund and Asset Management, and Corporate Financing departments at Bizim Menkul Değerler A.Ş. between 2003 and 2008. Afterwards, he took on the role of Coordinator and General Manager for the real estate and marina companies of Yıldız Holding A.Ş. between 2008 and 2016. Mahmut Kayacık was appointed as Takasbank CEO at the beginning of April 2016.



**Selim İnce**  
Board Member

Selim İnce was born in Berlin, Germany in 1971. He received his Bachelor's degree in Business Administration from the Faculty of Economics and Administrative Sciences at Marmara University in 1994. He then received his Master's degree in Accounting and Finance from the Social Sciences Institute at the same university. He embarked on his career as assistant specialist at the Securities Department of T. Emlak Bankası A.Ş. in 1994. Between 2001 and 2011, he held posts as specialist, supervisor, and department manager in the Treasury Operations Department at Ziraat Bankası A.Ş. He currently serves as head of the Treasury Operations department at the same bank.



**Güzide Meltem Kökden**  
Board Member

Güzide Meltem Kökden was born in Taşköprü, Kastamonu in 1969. She received her Bachelor's degree in International Relations from the Faculty of Political Sciences at Ankara University in 1990. She received her Master's degree in European Law from the Institute of Social Sciences at the same university. She embarked on her career at Türkiye İş Bankası A.Ş. in 1991 and held various positions as assistant investment specialist, investment specialist, assistant manager, group manager, and capital markets department manager. She then moved on to serve as chair of İş Yatırım Ortaklığı A.Ş., and vice chair of İş Yatırım Menkul Değerler A.Ş. She currently serves as President of Türkiye İş Bankası A.Ş. Members' Complementary Social Security and Charity Foundation, and chair of İş Portföy Yönetimi A.Ş.



**Ekrem Kerem Korur**  
Board Member

Ekrem Kerem Korur was born in Istanbul in 1967. He graduated from Galatasaray High School and moved on to receive his Bachelor's degree in Economics from the Faculty of Economics in English at Istanbul University. He is also a graduate of Colorado University. He embarked on his career at Hak Menkul Kıymetler A.Ş. (the title of the company changed to Phillip Capital Menkul Değerler A.Ş. in 2012) as assistant specialist, and then held positions as investment specialist, assistant general manager, and general manager, respectively. He is currently serving as CEO and Vice Chairman of the Board of Directors at Phillip Capital Menkul Değerler A.Ş.



**Mustafa İleri**  
Board Member

Mustafa İleri was born in Kumanovo, Macedonia 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. Between 1984 and 1995, he was the Financial Affairs department manager at Pamukbank T.A.Ş. He has been executive vice president and board member of Tacirler Yatırım Menkul Değerler A.Ş. since 1996. He also served as TCMA Supervisory Board member between 2015 and 2016.

## 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 or more if deemed necessary. Chair, or in the absence of the chair, 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 and suggest agenda items. 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. Bank's articles of association mandates the Board of Directors to convene at least once a month; which held 27 meetings in 2016.

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

Pursuant to the provisions in the legislation, Takasbank Board of Directors formed an Audit Committee, Credit Committee, and Corporate Governance Committee to assist in its businesses and operations.

## **Auditors' Term of Office and Professional Experience, and Explanations regarding Private Audit and Public Audit Conducted in the Accounting Period**



In the 2016 accounting period, Başaran Nas Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (a member of PriceWaterhouse Coopers) conducted independent audit at our Bank.

The BRSA, the CMB and the CBRT did not conduct any audits at our Bank during the accounting period.

## **Information on the Areas of Activity in which the Support Service is Received, and the Persons and Entities from whom such Service is Received Pursuant to the Regulation on Bank's Procurement of Support Services and Authorization of such Service Providers**



In 2016, as per the Regulation on 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 7/24 email and telephone support service from Fineksus Bilişim Çözümleri Tic. and server hosting service for Exchange Data Center from Borsa İstanbul A.Ş.



## Summary Board of Directors Report



Esteemed Shareholders,  
Welcome to the 22nd Ordinary General Assembly of our Bank.

We respectfully greet you, esteemed shareholders, as we present for your review and approval our Annual Report that includes the Balance Sheet and Profit/Loss statements regarding the operating results in the 2016 accounting period.

In 2016, emerging countries' currencies continued to lose value as the trend began in mid-2013 when uncertainty regarding global monetary policies deepened. In the aftermath of the November 2016 presidential election in the USA, skepticism on global economy intensified. Also, Turkish lira lost nearly 11 percent in value against the exchange rate basket with the impact of geopolitical developments. As a result of these developments, developed countries' interest rates rose and US dollar gained value

in the last quarter of the year. These developments lead to a capital flow from emerging countries to developed countries starting from November.

Global market fluctuations as well as geopolitical developments and domestic uncertainties caused volatility in domestic financial markets in the last quarter of 2016, and Turkey was impacted more than other emerging countries in terms of foreign exchange, and market interest rates. During this period, there was an outflow of portfolios from Turkey as in other emerging countries. Inflation rose to 8.53 percent in comparison to the previous quarter as a result of depreciation in Turkish lira, tax adjustments, and partial increase in food prices.

Credit use picked up in the last months of 2016, owing to macro-prudential measures that bolster the financial system, and delayed impact of the CBT's liquidity measures and public incentives. While domestic demand was on a somewhat weak trend, rising demand from EU countries improved exports. It is projected that modest recovery trend in economic activity will uphold throughout 2016 with the impact of supportive incentives and

measures, effect of commodity prices on the current account deficit gradually diminish in the coming days; however, current account balance will continue to improve with recovery in net goods exports.

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 strive in 2016 in accordance with the mission of offering effective, uninterrupted and reliable settlement services in international standards as this service is one of the fundamental functions in advancing competitiveness of our country’s financial markets.

After Takasbank and the CSD of Turkey moved into their new building on the Borsa Istanbul campus, opportunities to create synergy and achieve operational efficiency abound between the three organizations that operate under the Borsa Istanbul Group.

In keeping with the objective of expanding the practice of Central Counterparty (CCP), one of its core services, Takasbank introduced the CCP service on the Money Market that was launched on the Borsa Istanbul.

The Capital Markets Board announced on March 23, 2016 that Takasbank’s CCP operations comply with CPMI-IOSCO Financial Market Infrastructure Principles dated 2012. Thus, it is considered as a “Qualified CCP.” Subsequently, it applied to the EU regulator European Securities and Markets Authority (ESMA) to be recognized as a third country

CCP 2016 was a successful year of growth and profitability for Takasbank, which performs its core operations in an uninterrupted manner and with a member-/customer-focused scheme. Our profit before tax soared by 23 percent to 265 million Turkish lira, while asset size grew to 8 billion Turkish lira 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 due to the support of our esteemed shareholders.

Dear Shareholders,

As we present the Annual Report that includes the Balance Sheet and Profit/Loss statements for the 2016 operating year, we would like to extend our respects, particularly 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 our Bank and honoring our General Assembly with their presence.

Yours faithfully,

Istanbul Settlement and Custody Bank Inc.  
On behalf of the Board of Directors;

**Osman SARAC**  
Chairman of the Board of Directors

**Mahmut KAYACIK**  
CEO and Board Member



**Mahmut KAYACIK**  
CEO and Board Member

**Term of Office:** April 18, 2016 - Present

**Academic Background:**

**Bachelor's Degree:** Boğaziçi University, Faculty of Economics and Administrative Sciences, Department of Political Sciences and International Relations

**Master's Degree:** Marmara University, Social Sciences Institute, International Economics

**Professional Experience:**

1999-2002;

Taç Yatırım Ortaklığı A.Ş.- Financial Analyst

2003-2008;

Bizim Menkul Değerler A.Ş.-

Fund and Portfolio Management, and

Corporate Financing Manager

2008-2016;

Yıldız Holding - Coordinator and CEO at

Real Estate and Marina companies

2016-Present;

Istanbul Settlement and Custody Bank Inc.-

CEO and Board Member



**Ekrem Arıkan**  
Executive Vice President



**Gökhan Elibol**  
Executive Vice President

**Term of Office:** June 23, 2016-Present  
**Area of Responsibility:** Information Technologies (IT Planning and R&D Department, Clearing and Settlement AD Department, Custody and CCP AD (Application Development) Department, Banking and Markets AD Department, IT Infrastructure and Operations Department, Information Security, IT Compliance and Risk Management)

**Academic Background:**

**Bachelor's Degree:** Boğaziçi University, Computer Engineering

**Master's Degree:** Yeditepe University, Business Administration

**Ph.D:** Istanbul Commerce University, Business Administration (Ongoing)

**Professional Experience:**

1998-2006: Microsoft – Windows International Product Group Program Manager

2007-2014: Ziraat Teknoloji (Fintek Finansal Teknoloji Hizmetleri) A.Ş. – IT Architecture Manager, Project Management Office

Manager, Information Technologies Security Manager, Corporate Development Director

2014-2015: Ziraat Hayat ve Emeklilik A.Ş. - Corporate Development and Information Technologies Group Manager

2015-2016: Enerji Piyasaları İşletme A.Ş. - Strategy Development Manager

2016-Present: Istanbul Settlement and Custody Bank – Information Technologies Executive Vice President

**Term of Office:** August 3, 2016-Present  
**Area of Responsibility:** Markets, and Operations. Equity and Debt Securities Clearing and Settlement Department, Derivatives and Energy Commodity Clearing and Settlement Department, Custody and Markets Department, Cash Operations Department Member Affairs Department

**Academic Background:**

**Bachelor's Degree:** Ankara University, Faculty of Political Sciences Finance Department, Beykent University, Faculty of Law-Department of Law

**Professional Experience:**

2006-2006: Ministry of Finance, Tax Auditor

2006-2016: Banking Regulation and Supervision Agency, Assistant Sworn-in

Bank Auditor, Sworn-in Bank Auditor

2016-Present: Istanbul Settlement and

Custody Bank- Executive Vice President

## ► Heads of Internal System Departments

Muhterem ÇELİK

**Term of Office:** August 5, 2016-Present

**Area of Responsibility:** Internal Audit Department

**Academic Background:**

**Bachelor's Degree:** Ankara University, Faculty of Political Sciences, Public Administration

**Professional Experience:**

2004-2011:

Albaraka Türk Katılım Bankası A.Ş.  
Assistant Auditor, Auditor, Senior Auditor  
2011-2014;

Albaraka Türk Katılım Bankası A.Ş.  
Assistant Manager of Risk Monitoring  
2014-2015;

Albaraka Türk Katılım Bankası A.Ş.  
İmes Branch Assistant Manager of Commercial  
Marketing  
2016-2016;

Albaraka Türk Katılım Bankası A.Ş.Florya  
Branch Manager  
2016-Present:

Istanbul Settlement and Custody Bank -  
Internal Audit Department Manager

Can POLAT

**Term of Office:** December 20, 2016-Present

**Area of Responsibility:** Internal Control and Compliance Department

**Academic Background:**

**Bachelor's Degree:** Dokuz Eylül University, Faculty of Economics and Administrative Sciences, Economy Department

**Professional Experience:**

2005-2010: Şekerbank T.A.Ş., Auditor

2010-2011: Türkiye Jokey Kulübü, Auditor

2011-2013: Ziraat Yatırım Menkul Değerler A.Ş.Auditor

2013-Present: Istanbul Settlement and Custody Bank, Senior Auditor, Chief Auditor, Department Head

Elvan ALTIKULAÇ

**Term of Office:** November 1, 2011-Present

**Responsibility:** Risk Management Department

**Academic Background:**

**Bachelor's Degree:** Ankara University, Faculty of Political Sciences, Public Administration Department

**Master's degree:** Marmara University, Institute of Banking and Insurance, Banking

**Ph.D:** Marmara University, Institute of Banking and Insurance, Department of Banking (Ongoing)

**Professional Experience:**

1999-2001: Yaşarbank A.Ş.- Assistant Auditor

2001-Present: Istanbul Settlement and Custody Bank- Assistant Auditor, Auditor, Chief Auditor, Assistant Manager, Manager

## ► Managers

Ali Osman İnal

IT Planning and R&D Department

Beyhan Arasan

Equity and Debt Securities Clearing and Settlement Department

Hasan Demircan

Clearing and Settlement AD Department

Kerim Arıcan

Custody and CCP AD Department

Meltem Altınkaya Uysal

Markets Department

Metin Külünk

Member Relations and Corporate Communication Department

Murat Görgün

Financial Services, Reporting and Strategic Planning Department

Naim Şahin

Banking and Markets AD Department

Necla İter Küçükçolak

Derivatives and Energy Commodity Clearing and Settlement Department

Niyazi Burak Akan

Central Counterparty (CCP) Department

Semanur Cerrahoğlu Treasury and Credits Department

Semra Arar

Acting Manager of Human Resources and Support Services Department

Serpil Can

Cash Operations Department

Taşkın Öker

IT Infrastructure and Operations Department

Zeynep Şahin

Custody Department

## Committees and Attendance to Committee Meetings



### 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

Serdar Satođlu, PhD(Board Member-Audit Committee Chairman)

Selim İnce (Board Member-Audit Committee Member)

#### Meeting Frequency

Once a month

#### Meeting Participation Information

In 2016, the Audit Committee held 22 meetings with the full participation of the Chairman and Members.

### ► Credit Committee

#### Duties, Authorities and Responsibilities

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

### Members

Mahmut Kayacık, Chairman  
(CEO and Board Member)  
Güzide Meltem Kökden (Board Member)  
Ekrem Kerem Korur (Board Member)

### Meeting Frequency

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

### Meeting Participation Information

In 2016, the Audit Committee did not convene, and all cash and non-cash credit limits were set by the Board of Directors.

## ► Corporate Governance Committee

### Duties, Authorities and Responsibilities

Assist the Board of Directors in establishing the mission and vision of the Bank and oversees to make sure its operations are conducted in compliance with its mission and vision.

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

Supervise the process 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

Feridun Bilgin - Corporate Governance Committee Chairman (Board Member)  
Adnan Ertürk - Corporate Governance Committee Member (Vice Chairman of the Board of Directors)

### Meeting Frequency

Once every six months

### Meeting Participation Information

In 2016, two meetings were held with full participation from the committee members.

## ► Strategy Coordination Committee

### Duties, Authorities and Responsibilities

Assess and approve strategic targets and the initiatives to achieve them so as to put in place the Bank's objectives based on its mission, vision and fundamental values, and monitor growth periodically and make decisions on the necessary changes,

As part of the Continuous Service Improvement Process, evaluate and approve applicability of the feasibility of corporate improvement action analyses,

Evaluate the progress steps and take action decisions when necessary regarding the corporate improvement actions in the portfolio.

### Members

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

**Meeting Frequency**

Once every three months

**Meeting Participation Information**

The Strategy Coordination Committee meets periodically in quarterly intervals..  
It convened in March, May and September.

## ▶ **Asset and Liability Committee**

**Duties, Authorities 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 Manager  
Custody Manager, Member Relations and  
Corporate Communication  
Department Manager  
Derivatives and Energy Commodity Clearing  
and Settlement Department Manager

Member participation at the meetings held in 2016:

**Meeting Frequency**

The Assets and Liabilities Committee convenes monthly.

**Meeting Participation Information**

Member participation at the meetings convened in 2016:

## ▶ **Information Technology Committee**

**Duties and Responsibilities**

- » Perform cost/benefit analysis and prioritize the project portfolio in accordance with the information technologies strategic plan created in line 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 project statuses.

**Members**

CEO  
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**

It met four times in 2016.

| Month                                  | JANUARY | FEBRUARY | MARCH | APRIL | MAY | JUNE | JULY | AUGUST | SEPTEMBER | OCTOBER | NOVEMBER | DECEMBER |
|--|---------|----------|-------|-------|-----|------|------|--------|-----------|---------|----------|----------|
| <b>Number of Participating Members</b> | 10      | 12       | 13    | 14    | 12  | 15   | 17   | 17     | 14        | 19      | -        | -        |



## Financial Rights Granted to the Members of the Executive Body and Executives



The General Assembly determines financial rights, such as remuneration and dividend bonuses, provided to the Board Members 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 framework of the Personnel Regulation and related procedures. Meanwhile, travel allowances and expenses to be paid are determined within the scope of the Bank's Travel Expense Regulation.

No borrowing/lending or guarantor and security relationship was created with any Board Member or executive management in 2016.

**Convenience  
Translation  
into English of  
Independent  
Auditor's Report  
on the Board of  
Directors' Annual  
Report Originally  
Issued in Turkish**



**To the Board of Directors of Istanbul  
Settlement and CustodyBank Inc.**

**Auditor's Report on the Board of Directors'  
Annual Report within the Scope of  
Independent Audit Standards**

We have audited the annual report of İstanbul Takas ve Saklama Bankası A.Ş. (the "Bank") for the period ending on December 31, 2016.

**The Board of Directors' Responsibility  
Regarding the Annual Report**

Pursuant to article 514 of the Turkish Commercial Code ("TCC") No. 6102, and the "Regulation on the Procedures and Principles regarding Preparation and Publication of the Annual Report by Banks," published in the Official Gazetted No. 26333 dated 1 November 2006, the Bank management is responsible for the fair preparation of the annual report and its consistency with the financial statements ("financial statements") prepared in accordance with the "Regulation on the Procedures and Principles regarding Accounting Practices of Banks and Safeguarding of Documents," published in the Official Gazette No. 26333 dated 1 November 2006, and with other regulations

published by the Banking Regulation and Supervision Agency (“BRSA”) regarding the banks’ accounting and recording practices, and other circulars and explanations by it, and in matters not regulated by these, with the BRSA Accounting and Financial Reporting Legislation”; and for internal controls it deems necessary for preparation of such an annual report.

#### **Independent Auditor’s Responsibility**

Our responsibility is to express opinion on whether the financial information in this annual report is consistent with the Bank’s financial statements and reflects the truth based on our independent audit of the Bank’s annual report within the scope of “Regulation on Independent Audit of Banks,” published in the Official Gazette No. 29314 dated April 2, 2015, and with article 397 of the TCC.

Our independent audit was conducted in accordance with Independent Auditing Standards that are part of Turkish Standards on Auditing published by the Public Oversight Accounting and Auditing Standards Authority (“POA”). The reports require that ethical provisions are met and that the independent audit is planned and carried out to get reasonable assurance that financial information in the annual report is fairly presented and consistent with the financial statements.

Independent audit involves applying audit procedures to obtain audit evidence on the historical financial information. The procedures

are selected based on the professional judgment of the independent auditor.

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.

#### **Opinion**

Based on our opinion, the financial information in the annual report of the Board of Directors of İstanbul Takas ve Saklama Bankası A.Ş. is consistent with the audited financial statements and presented fairly, in all material respect.

#### **Other Responsibilities Arising from Regulatory Requirements**

Pursuant to article 402/3 of the TCC No. 6102 and within the scope of ISA 570 “Business Continuity,” we have not encountered any significant issues that need to be reported with regard to the inability of İstanbul Takas ve Saklama Bankası A.Ş. to continue its operations in the foreseeable future.

[PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.](#)

[Engin Çubukçu, Independent Accountant and Financial Advisor, Auditor-in-Charge](#)

İstanbul, February 20, 2017

# Corporate Governance Principles Compliance Statement



## Part I - Statement

Article 36 of the 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 the provisional article 8 of the Law, İstanbul Takas ve Saklama Bankası A.Ş. (the Bank) is a central clearing agency, and in accordance with article 35 of the Law, central clearing institutions are considered as 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 CMB.

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 in force the “Regulation on Takasbank Corporate Governance Principles.”

As mentioned above, it is stipulated that capital market institutions shall comply by analogy to the Communiqué, published by the CMB 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 CMB determines which of the principles in the Communiqué these institutions must comply with.

Best regards,

**Adnan ERTÜRK**  
Corporate Governance Committee Member

**Feridun BİLGİN**  
Corporate Governance Committee Chairman

## ▶ **Part II - Shareholders**

### **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, Human Resources, Support Services, Financial Services, Reporting, and Strategic Planning departments serve to manage and strengthen investor relations within the Bank. The Executive Vice President in charge of these departments is in constant contact with the Committee.

With regard to the 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 the 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 to offer to the use of 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 the 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 the related work for the Committee’s review.

In 2016, related departments answered the shareholders’ information requests regarding their shares in the Bank.

### **Exercising Shareholders’ Right to Information**

The Bank attaches importance to ensuring that shareholders are given the rights with regard to exercising shareholders’ 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 the rights arising from share ownership, including the right to information and review. It is the responsibility of the Committee to present to the use of shareholders the information and disclosures that may affect exercising of these rights.

General letters with Bank-related developments, financial information and news are regularly published in our Bank's corporate website on [www.takasbank.com.tr](http://www.takasbank.com.tr). Also, "Information Society Services" section that is accessible on the website provides up-to-date content, which article 1524 of the TCC requires to be published.

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

were communicated during the period to our organization for the appointment of any special auditors.

### 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 held on March 31, 2016 with assessment of the 2016 results. The Ordinary General Assembly quorum was 97.09 percent.

Our General Assembly was held at the Borsa Istanbul A.Ş. Conference Hall, Emirgan, Istanbul address in a manner to prevent inequality among the shareholders, and at minimum possible cost to the shareholders

In order to ensure shareholder participation to the General Assembly, the invitation and agenda, including the venue and date of the meeting and other information and documents for shareholders attendance to the General Assembly were sent timely and published in the Turkish Trade Registry Gazette No. 9010 dated February 12, 2016, in the Hürses newspaper dated February 11, 2016, and on the Bank's website.

The Bank's 2015 Annual Report that contains the Balance Sheet and Income Statement

for the January 1, 2015 -December 31, 2015 accounting period, and the Independent Audit Report, which were prepared for the Ordinary General Assembly, and the “General Assembly Briefing Document,” were provided to the shareholders and published on the corporate website within the legal period.

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

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

Shareholders forwarded their agenda-related requests to the meeting chair via motions at the meeting. The General Assembly voted on and approve the four motions given by the shareholders with regard to articles 1, 4, 6 and 7 on the General Assembly agenda. The shareholder who took to the floor at the General Assembly thank the Bank management and employees, and asked the chair about the future outcome of Takasbank’s building in Şişli and wanted to find out whether Takasbank has a ESMA compliance calendar. And, Takasbank Chairman replied to these questions.

Open voting was executed 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.

The shareholders, board members, audit committee members, officers responsible for preparation of the financial statements, authorized officer of the independent audit firm, and other related people attended the General Assembly; and media organizations did not attend.

#### 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 2016 year-end, the Bank’s capital belong to Borsa İstanbul A.Ş. at a 62.25-percent, to 13 banks at a 17.78-percent and to 40 brokerages at a 19.97-percent. The Bank’s Articles of Association does not include any special provisions regarding execution of the 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 our Bank and the Central Registry Agency are considered as affiliates. Although our Bank

holds a nominal share of 634,851 Turkish lira 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.

#### 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 then they are submitted to the general assembly agenda. The Dividend Policy is not published on the corporate website.

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

In 2016, 75 million Turkish lira were paid to shareholders as dividend.

#### 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 the 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 5 percent of the Bank's capital.

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

### Part III - Public Disclosure and Transparency

#### Corporate website and its contents

The Bank's corporate website at [www.takasbank.com.tr](http://www.takasbank.com.tr) designed both in Turkish and English is used actively; and both current and historical information are published on this website. The Bank's website aims to comply with the matters stated in the Corporate Governance Principles as appropriate as possible.

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

### Annual Report

The Annual Report of our Bank is prepared in detail to allow public access to accurate and complete information about the Bank’s activities in compliance with the “Regulation on the Procedures and Principles regarding Preparation and Publication of the Annual Report 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 basing on the report format that the CMB determines in accordance with article 8 of the Corporate Governance Communique No. II-17.1 of the CMB.

## ► Part IV - Stakeholders

### Disclosure of Information to Stakeholders

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

Emails, the Bank’s intranet site and internal bulletins are used to notify the personnel about the Bank’s general operations and practices.

### Stakeholders’ Participation in Management

The Bank is regularly 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 the assessment of notifications made through the Bank’s intranet.

The Bank created a “Procedure for Notification of any Irregularities, Problems or Suspicious Matters within the Bank” and posted on its intranet for access by all personnel with the goal of establishing communication channels through which the Bank personnel can warn related management offices and departments about any problems encountered and about suspicious or doubtful matters.

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

Satisfaction of the customers, in other words, the members and market players is considered utmost priority in all of the services provided by the Bank. For this purpose, the Bank measures customer satisfaction through methods such as surveys, meetings, and request collection. It takes into consideration all received requests.

In 2016, in addition to customer visits, the Bank conducted a “Takasbank Service Satisfaction Survey,” made up of four main sections that contain service- and system-related assessments, as well as training needs, opinions, criticisms and requests. A total of 223 organizations, including brokerage houses, banks, pension companies, leasing companies, factoring companies, institutional investors, mutual trusts, asset management companies, electricity companies and participation banks, participated in the survey. Results showed a 98-percent general satisfaction from Takasbank services. Executive Management evaluates the survey results together with customer opinions and suggestions; takes the necessary action on every reasonable suggestion, particularly about reported problems, and improvement and training requests.

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

Complaints, suggestions and requests from the public are evaluated once they are sent to the Bank via e-mail provided on the corporate website.

#### Human Resources Policy

The Bank’s Human Resources Policy is publicly available at its corporate website on [www.takasbank.com.tr](http://www.takasbank.com.tr).

Implementation of human resources policies is primarily the responsibility of the Human Resources and Support Services Department

Manager, and the Executive Vice President in charge of Banking Support and Financial Affairs, and finally the CEO.

In brief, the Bank’s Human Resources Policy involves recruiting and placing in the most appropriate position the most qualified personnel in line with the Bank’s culture; treating employees as the most critical resources to provide the highest level of settlement and custody service at home and abroad; ensuring employee satisfaction; creating a work environment to allow them to use their maximum potential and to display creativity and a spirit of dynamic work performance; constantly supporting their personal and professional development; and implementing fair and transparent rewarding policies.

Required education level for the position of the prospective personnel is determined in accordance with the Personnel Directive, and the qualifications for recruitment are identified based on the scope of work and job description to be conducted by the related department.

The Bank identified employees’ competencies based on position and used a competency-based performance evaluation in 2014 and 2015. However, in 2016 it abandoned this method, and instead opted for employee evaluations made by their managers.

Employee Satisfaction Survey results will be presented for the review and assessment of the Bank’s staff in January 2017. They will then be submitted to Senior Management as a report once the time table has been

completed. Reviews continue to introduce practices so as to improve work environment and motivation, and develop actions for corporate culture enhancement.

No discrimination complaints were filed.

Quality and customer orientation, analytic approach, team spirit, continuous development, dedication at work, reliability, impartiality and confidentiality constitute the basis of our human resources policy and represent our fundamental values.

Human Resource and Support Services Department perform the 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 among them.

#### 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 or supports projects that draw attention to social problems, particularly in education, and that help contribute to the social development of society.

The Bank had Takasbank Fine Arts and Sports High School built in Siirt city center, and it provided 12,500 Turkish lira in support toward its needs. As part of this initiative, the Bank responds to assistance requests from schools in different regions. Within the scope of the Prime Ministry Circular No. 2016/18, it donated 500,000 Turkish lira for the “July 15 Martyrs.”

Within a corporate structure and with the help of socially-aware employees, the Bank conducts social responsibility projects in accordance with joint wishes and participation of its personnel and the institutions and organizations it works with.

It adopts the “Banking Ethics Principles” in line with the Bank’s internal regulation to be applied in its businesses, and it informs the relevant parties promptly about the changes. Published by the Banks Association of Turkey, the principles lay out the rules to be applied on all businesses and transactions between the banks themselves and their customers, stakeholders and its employees, and between other organizations.

## ► Part V - Board of Directors

### 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 İstanbul, 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 the Banking Law, the CEO is a regular member of the Board of Directors.

Three board members, who get elected among the candidates nominated by Group-A shareholders, serve as independent board members. At least two of the prospective independent board members are required not to have direct or indirect employment

relationship with the Group-A shareholding stakeholder.

The preconditions for the Bank's Board members are determined within the framework of the provisions of the relevant regulation. The board members get elected to serve for a term of three years. Board members can be re-elected.

There are 9 (nine) board members as per the provisions of the Bank's articles of association. Members' names and last names are as follows: Adnan Ertürk, Feridun Bilgin and Selim İnce are independent board members. Up-to-date member profiles are published on the "Information Society Services" section of the corporate website as well as in the Bank's Annual Report.

Osman Saraç  
Chairman of the Board of Directors  
Adnan Ertürk  
Vice Chairman of the Board of Directors,  
Corporate Governance Committee Member  
Mahmut Kayacık  
CEO and Board Member -  
Credit Committee Chairman  
Serdar Satoğlu, PhD  
Board Member -  
Audit Committee Chairman  
Feridun Bilgin  
Board Member - Corporate Governance  
Committee Chairman  
Ekrem Kerem Korur  
Board Member -  
Permanent Credit Committee Member  
Güzide Meltem Kökden  
Board Member -  
Permanent Credit Committee Member

Selim İnce  
Board Member  
Audit Committee Member  
Mustafa İleri  
Board Member -  
Substitute Credit Committee Member

### 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.

It convenes at least once a month pursuant to the Bank's articles of association; i.e. it held 27 meetings in 2016.

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

In accordance with the responsibilities laid down in the applicable legislation, Takasbank 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.

#### 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 involves identifying the risks arising from the products and services provided by each Bank department and from the human resources and systems used, then notifying the Executive Management to take appropriate action.

» In central risk management function, with separation of duties and responsibilities; processes and functions are reviewed not only by the operational departments that execute them, but also by the Risk Management and Internal Control and Compliance departments.

» Independent audit process involves review of risk management and internal control functions in all aspects by the Internal Audit Department.

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 executes 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 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 39 reports and submitted to the Audit Committee in 2016.

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 the Bank is exposed to. The Stress Test Report dated December 31, 2015 by the Risk Management Department, and the ICAAP Report dated December 31, 2015 and its attachments, were approved at the Board of Directors meetings No. 294 dated January 27, 2016 and No. 296 dated March 24, 2016, respectively. They were 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 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 Program, which is prepared annually by the relevant department and approved by the Board of Directors. 30 discrete services/processes pertaining to the Bank as specified by the Internal Control Program were audited and examined in 2016. 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 2016, five 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.

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 inspection 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," and 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 inspections 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 Takas ve Saklama Bankası A.Ş. 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 Technologies 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 2016, the Internal Audit Department issued 45 reports, of which 15 were Member Audit Reports, and submitted them to the Audit Committee.

### 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 2016 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."

The "Organization/HR" aspect strives to "Achieve a high level of competency, education, satisfaction and performance in the workforce." 2016 Strategic Plan Progress Report" consisting of the work performed by the Bank regarding its objectives in 2016 had been shared with the Board of Directors".

It has been concluded that progress was made in 2016 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.

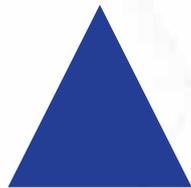
### Remuneration

The General Assembly determines the financial rights such as remuneration and dividend bonus provided to the Board Members 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 to be paid are determined according to the Bank's Travel Expense Regulation.

No borrowing/lending or guarantor and security relationship was created with any Board Member or senior management in 2016.

# **Financial Information and Risk Management**



# Audit Committee Assessment



## Istanbul Settlement and Custody Bank Audit Committee Assessment on the 2016 Operations of the Departments of Internal Audit, Internal Control and Compliance, and Risk Management

Issue: 2017/DK/03

Istanbul, 01/12/2017

The Board of Directors, Senior Management, personnel at all levels, and the departments of Internal Auditing, Internal Control and Compliance, and Risk Management performed Takasbank's internal audit, internal control and compliance, and risk management operations in accordance with the relevant legislation as well as the internal regulations of our bank.

The Internal Auditing Department performed periodic and risk-based audits of the bank's operations as part of the 2016 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 formed independently from one other administratively and which 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 and partial/ plenary stress tests, risk monitoring and to review operations, the internal audit plan, internal audit reports, operating reports of internal system departments, and internal control program and support services risk management programs, risk analysis reports, technical adequacy reports, and other related documents. They then provided information to the Board of Directors and the CEO by submitting Committee resolution reports to the Board of Directors. At its meetings, the Committee also assessed the reports that were prepared as a result of Internal Audit Department on-site audits in the presence of the 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."

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

Central Counterparty Risk Management Principles Regulation. The general risk level of Takasbank operations is a particular concern not only for persons and organizations that operate locally, but also for the international investors who invest in 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 putting in place 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 risk stated in-all-applicable legal regulations and risk type-based risk limits and signal values being 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 made or carried, an optimum balance is aimed between the losses or damages that may arise upon realization of these risks and the costs that will be incurred 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 an 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 execute them.
- » The Internal Audit Department performs an independent review that is a comprehensive assessment of the risk management and internal control framework.

The Internal Audit Department handles operations such as conducting risk assessments on the bank's new planned 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 as well as the legal capital adequacy ratio, and calculates the internal capital requirement ratio as part of ICAAP. In 2016, 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 in an electronic environment, work in integration 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 function that is executed 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 the risk analysis reports and 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 negat conditions, capital and liquidity planning was made with a prospective perspective by conducting partial and plenary stress tests taking into account the pillar 1 and pillar 2 risks the bank is exposed to. We were presented with the Stress Test Report and the Internal Capital Adequacy Assessment Process (ICAAP) Report, prepared 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 Inspection Report by the Internal Audit Department. The reports were submitted to BRSA upon approval at Board of Directors meetings No. 294, dated January 27, 2016, and No. 296, dated March 24, 2016.

The Internal Audit Department and the Internal Control and Compliance Department, within the Audit Committee-approved program, conjointly 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 within 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 COBIT. Findings from the process audits were submitted to relevant department and management personnel for appropriate actions 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 conducting operations in a structure that is compliant with all provisions of the Regulation on Internal Systems and Internal Capital Adequacy Assessment Process of Banks.

#### **Istanbul Settlement and Custody Bank Audit Committee**

**Selim İnce**

**Audit Committee Member, Board Member**

**Serdar Satođlu, PhD**

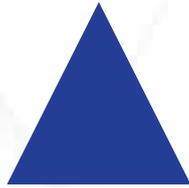
**Audit Committee Chairman, Board Member**



**CONVENIENCE TRANSLATION  
OF PUBLICLY ANNOUNCED  
UNCONSOLIDATED  
FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT,  
ORIGINALLY ISSUED IN TURKISH,  
SEE NOTE I OF SECTION THREE**

**İSTANBUL TAKAS VE SAKLAMA  
BANKASI A.Ş.**

**PUBLICLY ANNOUNCED  
UNCONSOLIDATED  
FINANCIAL STATEMENTS  
TOGETHER WITH INDEPENDENT  
AUDITOR'S REPORT  
AT 31 DECEMBER 2016**



## CONVENIENCE TRANSLATION OF THE INDEPENDENT AUDITOR'S REPORT ORIGINALLY PREPARED AND ISSUED IN TURKISH

To the Board of Directors of İstanbul Takas ve Saklama Bankası A.Ş.

### Report on the Unconsolidated Financial Statements

We have audited the accompanying unconsolidated balance sheet of İstanbul Takas ve Saklama Bankası A.Ş. ("the Bank") as at 31 December 2016 and the related unconsolidated statement of income, unconsolidated income and expense items under shareholders' equity, unconsolidated statement of changes in shareholders' equity, unconsolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

#### *Management's Responsibility for the Unconsolidated Financial Statements*

Bank management is responsible for the preparation and fair presentation of the unconsolidated financial statements in accordance with the "Banking Regulation and Supervision Agency ("BRSA") Accounting and Reporting Legislation" which includes "Regulation on Accounting Applications for Banks and Safeguarding of Documents" published in the Official Gazette no.26333 dated 1 November 2006, other regulations on accounting records of Banks published by BRSA, circulars and interpretations published by BRSA, and Turkish Accounting Standards for the matters not regulated by the aforementioned legislations 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.

#### *Independent Auditor's Responsibility*

Our responsibility is to express an opinion on these unconsolidated financial statements based on our audit. Our audit was conducted in accordance with the "Regulation on Independent Audit of Banks" published by the BRSA on the Official Gazette No.29314 dated 2 April 2015 and Independent Auditing Standards that are part of Turkish Standards on Auditing published by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Those standards require that ethical requirements are complied with and that the audit is planned and performed to obtain reasonable assurance whether the financial statements are free from material misstatement.

An independent audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on independent auditor's professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to error or fraud. In making those risk assessments, the independent auditor considers internal control relevant to the bank's preparation and fair presentation of the financial statements 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. An independent audit includes also evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by bank's management, as well as evaluating the overall presentation of the financial statements.

We believe that the independent audit evidence we have obtained during our audit is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the unconsolidated financial statements present fairly, in all material respects, the financial position of İstanbul Takas ve Saklama Bankası A.Ş. as at 31 December 2016 and its financial performance and its cash flows for the year then ended in accordance with BRSA Accounting and Reporting Legislation.

### **Report on Other Responsibilities Arising From Regulatory Requirements**

In accordance with subparagraph 4 of Article 402 of the Turkish Commercial Code No. 6102 ("TCC"); 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 2016 are not in compliance with TCC and provisions of the Bank's articles of association in relation to financial reporting.

In accordance with subparagraph 4 of Article 402 of the TCC; the Board of Directors submitted to us the necessary explanations and provided required documents within the context of audit.

### **Additional Paragraph for Convenience Translation**

The effects of differences between accounting principles and standards explained in detail in Section Three and accounting principles generally accepted in countries in which the accompanying unconsolidated financial statements are to be distributed and International Financial Reporting Standards ("IFRS") have not been quantified in the accompanying unconsolidated financial statements. Accordingly, the accompanying unconsolidated financial statements are not intended to present the financial position, results of operations and changes in financial position and cash flows in accordance with the accounting principles generally accepted in such countries and IFRS.

PwC Bağımsız Denetim ve  
Serbest Muhasebeci Mali Müşavirlik A.Ş.



Engin Çubukçu, SMMM  
Partner

Istanbul, 20 February 2017

**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 2016**

|                                    |   |
|------------------------------------|---|
| Address of the Bank's Headquarters | : Takasbank Genel Müdürlüğü Reşitpaşa Mahallesi,<br>Tuncay Artun Caddesi, 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.

**Osman Saraç**  
Chairman of the Management Board



**Dr.Serdar Satoğlu**  
Chairman of Audit Committee



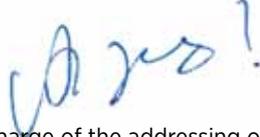
**Selim İnce**  
Member of Audit Committee



**Mahmut Kayacık**  
General Manager



**Aydın Sarı**  
Vice General Manager



**Murat Görgün**  
Manager



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

|                    |                                     |
|--------------------|-------------------------------------|
| Name-Surname/Title | : Arzu Hoplamaz / Assistant Manager |
| Telephone Number   | : (0 212) 315 22 28                 |
| Fax Number         | : (0 212) 315 22 34                 |

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NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2016**

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

**SECTION ONE  
GENERAL INFORMATION**

**I. Bank's foundation 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 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:**

As of 31 December 2016 and 31 December 2015 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.                     | 373.515         | 62,25         | 1      | 373.515         | 62,25         | 1      |
| 2            | Phillip Capital Menkul Değerler A.Ş.    | 27.923          | 4,65          | 1      | 27.750          | 4,63          | 1      |
| 3            | Tacirler Menkul Değerler A.Ş.           | 27.971          | 4,66          | 1      | 27.750          | 4,63          | 1      |
| 4            | Yapı Kredi Yatırım Menkul Değerler A.Ş. | 26.280          | 4,38          | 1      | 26.280          | 4,38          | 1      |
| 5            | T. Garanti Bankası A.Ş.                 | 26.235          | 4,37          | 1      | 26.235          | 4,37          | 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 (Brokerage house)                 | 37.635          | 6,28          | 37     | 38.029          | 6,34          | 37     |
| 9            | Other (Bank)                            | 27.971          | 4,67          | 10     | 27.971          | 4,66          | 10     |
| <b>Total</b> |   | <b>600.000</b>  | <b>100,00</b> |        | <b>600.000</b>  | <b>100,00</b> |        |

62,25% of the Bank's shares are owned by BİAŞ. Capital Markets Board Law no. 6362 went into force after being published in the Official Gazette dated December 30, 2012. Pursuant to article 138 of the Law, Borsa İstanbul A.Ş. was founded on the same date, for the purpose of serving as a securities exchange. In accordance with the provisions of the Law and the related legislation, to ensure that capital markets instruments, foreign currencies, precious metals and gems, and other contracts, documents, and assets approved by the Capital Markets Board of Turkey are traded subject to free trade conditions in a facile and secure manner, in a transparent, efficient, competitive, fair and stable environment; to create, establish and develop markets, sub-markets, platforms, systems and other organized market places for the purpose of matching or facilitating the matching of the buy and sell orders for the above mentioned assets and to determine and announce the discovered prices; to manage and/or operate the aforementioned or other exchanges or markets of other exchanges; and to carry out the other activities listed in its Articles of Association." Established on the basis of Capital Markets Law no. 6362, Borsa İstanbul is an internal entity under private law. BİAŞ is a self-regulatory entity.

The changes in shareholders in the current period are shown below:

| Old Shareholder                    | New Shareholder                       | Cost of Share | Ratio (%) | Description |
|------------------------------------|---------------------------------------|---------------|-----------|-------------|
| Bahar Menkul Değerler Ticaret A.Ş. | Tacirler Yatırım Menkul Değerler A.Ş. | 48            | 0,008     | Transfer    |
| Galata Menkul Değerler A.Ş.        | Tacirler Yatırım Menkul Değerler A.Ş. | 173           | 0,029     | Transfer    |
| Galata Menkul Değerler A.Ş.        | Phillip Capital Menkul Değerler A.Ş.  | 173           | 0,029     | Transfer    |

**Dividend payment:**

In accordance with the Ordinary General Meeting dated 31 March 2016, dividend amounting to TL 75.000 has been paid to shareholders and TL 4.703 to employees at 5 April 2016.

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NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2016  
(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)**

**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:**

**Chairman and Members of the Board of Directors**

| <b>Name Surname</b>  | <b>Area of Responsibility</b>  | <b>Education Status</b>  |
|----------------------|--|--|
| Osman Saraç          | President  | Ankara University / Faculty of Political Science / International Relations / Undergraduate<br>Gazi University / Institute of Social Sciences / Finance / Graduate  |
| Adnan Ertürk         | Member (Vice President and Member of Corporate Management Committee)                 | Ankara University / Faculty of Political Science / Public Administration / Undergraduate   |
| Mahmut Kayacık       | General Manager and Member (President of Credit Committee)                           | Boğaziçi University / Faculty of Economics and Administrative Sciences / Political Science and International Relations / Undergraduate<br>Marmara University / Institute of Social Sciences / International Economics / Graduate   |
| Selim İnce           | Member (Member of Audit Committee)   | Marmara University / Faculty of Economics and Administrative Sciences / Management / Undergraduate<br>Marmara University / Institute of Social Sciences / Accounting and Finance / Graduate  |
| Dr. Serdar Satoğlu   | Member (President of Audit Committee)  | Ankara University / Faculty of Political Science / Public Administration / Undergraduate<br>Marmara University / Institute of Banking and Insurance / Capital and Stock Markets / Graduate<br>Marmara University / Institute of Banking and Insurance / Banking / Postgraduate |
| Güzide Meltem Kökden | Member (Credit Committee Permanent Member)   | Ankara University / Faculty of Political Science / International Relations / Undergraduate<br>Ankara University / Institute of Social Sciences / European Communities Law / Graduate   |
| Mustafa İleri        | Member (Credit Committee Associate Member)   | İstanbul University / Management Faculty / Management Finance / Undergraduate<br>İstanbul University / Management Faculty / Management Finance / Graduate  |
| Feridun Bilgin       | Member (Corporate Management Committee Member and Credit Committee Associate Member) | İstanbul University / Electric-electronic Faculty / Electric Engineering / Undergraduate<br>Yıldız Teknik University / Institute of Science / Graduate   |
| Ekrem Kerem Korur    | Member (Credit Committee Permanent Member)   | İstanbul University / Economics Faculty / Economics in English / Undergraduate   |

**General Manager and Assistant General Managers**

| <b>Name Surname</b> | <b>Area of Responsibility</b>                              | <b>Education Status</b>  |
|---------------------|--|--|
| Mahmut Kayacık      | General Manager and Member (President of Credit Committee) | Boğaziçi University / Faculty of Economics and Administrative Sciences / Political Science and International Relations / Undergraduate<br>Marmara University / Institute of Social Sciences / International Economics / Graduate                         |
| Gökhan Elibol       | Operations Department                                      | Ankara University / Faculty of Political Science / Public Administration / Undergraduate   |
| Aydın Sarı          | Banking, Support and Financial Operation                   | Gazi University / Faculty of Economics and Administrative Sciences / Public Administration / Undergraduate<br>T.C. Türkiye ve Ortadoğu Amme İdaresi Enstitüsü / Faculty of Economics and Administrative Sciences / Public Administration / Undergraduate |
| Ekrem Arıkan        | IT Department  | Boğaziçi University / Engineering Faculty / Computer Engineering<br>Yeditepe University / Management / Graduate  |

Vice general manager of Operational Department Dr. Sezai Bekgöz has resigned from his job on 3 June 2016, and Gökhan Elibol is assigned to Dr. Sezai Bekgöz's position on 3 August 2016.

Vice general manager of IT Department Galip Karagöz has resigned from his job on 3 June 2016, and Ekrem Arıkan is assigned to Galip Karagöz's position on 23 June 2016.

21st Ordinary general meeting held on 31 March 2016 and Board member Birol Aydemir is dismissed from board, Feridun Bilgin is assigned to board as a member.

Board Member Seyit Ahmet Baş, has assigned to Court of Accounts, in accordance with regulations Mr. Baş has resigned on 26 July 2016, Adnan Ertürk has assigned to Ahmet Baş's position on 5 September 2016.

Vice general manager responsible on from Banking, Support and Financial Operations departments, Dr. Cengiz Özübek has resigned from his job at 23 January 2017 and assigned as Board and General Manager Consultant at 10 February 2017. Aydın Sarı has been assigned to Dr. Cengiz Özübek's former position.

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**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.  
NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2016**

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

**GENERAL INFORMATION (Continued)**

**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. 62,25% of the Bank belongs to Istanbul Stock Exchange (ISE). The Bank has nominal TL 200 preferred shares as of 31 December 2016 (31 December 2015: TL 200). The preferred shares belonging to ISE, provides the shareholder to be represented with more members in the Board of Directors.

| <b>Name-Surname/<br/>Business Name</b> | <b>Share Amount</b> | <b>Share Proportions</b> | <b>Paid-in Shares</b> | <b>Unpaid Shares</b> |
|--|---------------------|--------------------------|-----------------------|----------------------|
| BİAŞ                                   | 373.515             | 62,25                    | 373.515               | -                    |

**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 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 immoveable goods or removing all kinds of moveable and immoveable 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;
- Issuing all kinds of capital market instruments within the scope of capital market regulations; and becoming a member of current partnerships.

**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  
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**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.  
UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)  
AT 31 DECEMBER 2016**

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

**SECTION TWO**

**UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)**

**I. BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)**

|  | Note<br>(Section<br>Five) | Current Period<br>31/12/2016 |                  |                  | Prior Period<br>31/12/2015 |                  |                  |
|--|---------------------------|------------------------------|------------------|------------------|----------------------------|------------------|------------------|
|  |                           | TL                           | FC               | Total            | TL                         | FC               | Total            |
| <b>I. CASH AND BALANCES WITH CENTRAL BANK</b>                          | I-(1)                     | 85                           | -                | 85               | 55                         | -                | 55               |
| <b>II. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Net)</b> | I-(2)                     | 1.158                        | -                | 1.158            | 4.396                      | -                | 4.396            |
| 2.1 Financial Assets held for trading                                  |                           | 1.158                        | -                | 1.158            | 4.396                      | -                | 4.396            |
| 2.1.1 Government Debt Securities                                       |                           | 1.158                        | -                | 1.158            | 4.396                      | -                | 4.396            |
| 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 or 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)                     | 4.388.589                    | 3.327.336        | 7.715.925        | 4.012.918                  | 2.585.786        | 6.598.704        |
| <b>IV. MONEY MARKETS</b>   | I-(3)                     | 21.168                       | -                | 21.168           | 18.881                     | -                | 18.881           |
| 4.1 Interbank Money Market Placements                                  |                           | -                            | -                | -                | -                          | -                | -                |
| 4.2 Istanbul Stock Exchange Money Market Placements                    |                           | -                            | -                | -                | -                          | -                | -                |
| 4.3 Receivables from Reverse Repurchase Agreements                     |                           | 21.168                       | -                | 21.168           | 18.881                     | -                | 18.881           |
| <b>V. AVAILABLE-FOR-SALE FINANCIAL ASSETS (Net)</b>                    | I-(4)                     | 1.171                        | 543              | 1.714            | 1.171                      | 465              | 1.636            |
| 5.1 Share Certificates   |                           | 1.171                        | 543              | 1.714            | 1.171                      | 465              | 1.636            |
| 5.2 Government Debt Securities   |                           | -                            | -                | -                | -                          | -                | -                |
| 5.3 Other Marketable Securities  |                           | -                            | -                | -                | -                          | -                | -                |
| <b>VI. LOANS</b>   | I-(5)                     | 98.945                       | -                | 98.945           | 172.112                    | -                | 172.112          |
| 6.1 Loans  |                           | 98.945                       | -                | 98.945           | 172.112                    | -                | 172.112          |
| 6.1.1 Loans to Bank's Risk Group                                       |                           | 98.945                       | -                | 98.945           | 141.553                    | -                | 141.553          |
| 6.1.2 Government Debt Securities                                       |                           | -                            | -                | -                | -                          | -                | -                |
| 6.1.3 Other  |                           | -                            | -                | -                | 30.559                     | -                | 30.559           |
| 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)                     | 45.943                       | -                | 45.943           | 180.085                    | -                | 180.085          |
| 8.1 Government Debt Securities   |                           | 45.943                       | -                | 45.943           | 180.085                    | -                | 180.085          |
| 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)                     | 4.825                        | -                | 4.825            | 4.825                      | -                | 4.825            |
| 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) (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 (Net)</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)                    | 15.535                       | -                | 15.535           | 16.083                     | -                | 16.083           |
| <b>XV. INTANGIBLE ASSETS (Net)</b>                                     | I-(13)                    | 85.005                       | -                | 85.005           | 80.895                     | -                | 80.895           |
| 15.1 Goodwill  |                           | -                            | -                | -                | -                          | -                | -                |
| 15.2 Other   |                           | 85.005                       | -                | 85.005           | 80.895                     | -                | 80.895           |
| <b>XVI. INVESTMENT PROPERTY (Net)</b>                                  | I-(14)                    | -                            | -                | -                | -                          | -                | -                |
| <b>XVII. TAX ASSET</b>   | I-(15)                    | 1.179                        | -                | 1,179            | 2.629                      | -                | 2,629            |
| 17.1 Current Tax Asset   |                           | -                            | -                | -                | -                          | -                | -                |
| 17.2 Deferred Tax Asset  |                           | 1,179                        | -                | 1,179            | 2,629                      | -                | 2,629            |
| <b>XVIII. ASSETS HELD FOR SALE AND DISCONTINUED</b>                    |                           | -                            | -                | -                | -                          | -                | -                |
| <b>OPERATIONS (Net)</b>  | I-(16)                    | -                            | -                | -                | -                          | -                | -                |
| 18.1 Held for Sale   |                           | -                            | -                | -                | -                          | -                | -                |
| 18.2 Discontinued Operations   |                           | -                            | -                | -                | -                          | -                | -                |
| <b>XIX. OTHER ASSETS</b>   | I-(17)                    | 14.690                       | 176              | 14.866           | 11.742                     | 395              | 12.137           |
| <b>TOTAL ASSETS</b>  |                           | <b>4.678.293</b>             | <b>3.328.055</b> | <b>8.006.348</b> | <b>4.505.792</b>           | <b>2.586.646</b> | <b>7.092.438</b> |

The accompanying explanations and notes form an integral part of these financial statements.

**CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED  
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**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.  
UNCONSOLIDATED OFF-BALANCE SHEET COMMITMENTS AT 31 DECEMBER 2016**

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

**I. BALANCE SHEET (STATEMENT OF FINANCIAL POSITION) (Continued)**

|  | Note<br>(Section<br>Five) | Current Period<br>31/12/2016 |                  |                  | Prior Period<br>31/12/2015 |                  |                  |
|--|---------------------------|------------------------------|------------------|------------------|----------------------------|------------------|------------------|
|  |                           | 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)                    | 530.691                      | 1.869.739        | 2.400.430        | 812.393                    | 1.600.930        | 2.413.323        |
| <b>IV. MONEY MARKETS</b>   |                           | 43.800                       | -                | 43.800           | -                          | -                | -                |
| 4.1 Funds from Interbank Money Market  |                           | 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>   | II-(4)                    | -                            | -                | -                | -                          | -                | -                |
| 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-(5)                    | 2.927.971                    | 1.448.423        | 4.376.394        | 2.621.184                  | 982.514          | 3.603.698        |
| <b>VIII. OTHER LIABILITIES</b>   | II-(5)                    | 68.763                       | 17               | 68.780           | 104.778                    | 78               | 104.856          |
| <b>IX. FACTORING PAYABLES</b>  |                           | -                            | -                | -                | -                          | -                | -                |
| <b>X. LEASE PAYABLES (Net)</b>   | II-(6)                    | -                            | -                | -                | -                          | -                | -                |
| 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-(7)                    | -                            | -                | -                | -                          | -                | -                |
| 11.1 Fair Value Hedge  |                           | -                            | -                | -                | -                          | -                | -                |
| 11.2 Cash Flow Hedge   |                           | -                            | -                | -                | -                          | -                | -                |
| 11.3 Foreign Net Investment Hedge  |                           | -                            | -                | -                | -                          | -                | -                |
| <b>XII. PROVISIONS</b>   | II-(8)                    | 55.340                       | -                | 55.340           | 44.510                     | -                | 44.510           |
| 12.1 General Loan Loss Provision   |                           | 31.208                       | -                | 31.208           | 21.686                     | -                | 21.686           |
| 12.2 Restructuring Provisions  |                           | -                            | -                | -                | -                          | -                | -                |
| 12.3 Reserve for Employee Rights   |                           | 12.248                       | -                | 12.248           | 13.342                     | -                | 13.342           |
| 12.4 Insurance Technical Provisions (Net)  |                           | -                            | -                | -                | -                          | -                | -                |
| 12.5 Other Provisions  |                           | 11.884                       | -                | 11.884           | 9.482                      | -                | 9.482            |
| <b>XIII. TAX LIABILITY</b>   | II-(9)                    | 17.918                       | -                | 17.918           | 15.025                     | -                | 15.025           |
| 13.1 Current Tax Liability   |                           | 17.918                       | -                | 17.918           | 15.025                     | -                | 15.025           |
| 13.2 Deferred Tax Liability  |                           | -                            | -                | -                | -                          | -                | -                |
| <b>XIV. PAYABLES FOR ASSET HELD FOR SALE AND DISCONTINUED OPERATIONS</b>                     | II-(10)                   | -                            | -                | -                | -                          | -                | -                |
| 14.1 Held for Sale   |                           | -                            | -                | -                | -                          | -                | -                |
| 14.2 Discontinued Operations   |                           | -                            | -                | -                | -                          | -                | -                |
| <b>XV. SUBORDINATED LOANS</b>  | II-(11)                   | -                            | -                | -                | -                          | -                | -                |
| <b>XVI. SHAREHOLDERS' EQUITY</b>   | II-(12)                   | 1.043.686                    | -                | 1.043.686        | 911.026                    | -                | 911.026          |
| 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 Reserve   |                           | -                            | -                | -                | -                          | -                | -                |
| 16.2.4 Tangible Assets Revaluation Reserve   |                           | -                            | -                | -                | -                          | -                | -                |
| 16.2.5 Intangible Assets Revaluation Reserve   |                           | -                            | -                | -                | -                          | -                | -                |
| 16.2.6 Investment Property Revaluation Reserve   |                           | -                            | -                | -                | -                          | -                | -                |
| 16.2.7 Bonus Shares Obtained from Investments in Associates, Subsidiaries and Joint Ventures |                           | -                            | -                | -                | -                          | -                | -                |
| 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   |                           | 191.604                      | -                | 191.604          | 95.781                     | -                | 95.781           |
| 16.3.1 Legal Reserves  | II-(12)                   | 51.044                       | -                | 51.044           | 37.338                     | -                | 37.338           |
| 16.3.2 Status Reserves   |                           | -                            | -                | -                | -                          | -                | -                |
| 16.3.3 Extraordinary Reserves  | II-(12)                   | 139.119                      | -                | 139.119          | 56.886                     | -                | 56.886           |
| 16.3.4 Other Profit Reserves   | II-(13)                   | 1.441                        | -                | 1.441            | 1.557                      | -                | 1.557            |
| 16.4 Income or (Loss)  |                           | 214.975                      | -                | 214.975          | 178.138                    | -                | 178.138          |
| 16.4.1 Prior Years' Income/ (Loss)   |                           | 3.410                        | -                | 3.410            | 3.410                      | -                | 3.410            |
| 16.4.2 Current Year Income/ (Loss)   |                           | 211.565                      | -                | 211.565          | 174.728                    | -                | 174.728          |
| 16.5 Minority Shares   | II-(14)                   | -                            | -                | -                | -                          | -                | -                |
| <b>TOTAL LIABILITIES AND EQUITY</b>  |                           | <b>4.688.169</b>             | <b>3.318.179</b> | <b>8.006.348</b> | <b>4.508.916</b>           | <b>2.583.522</b> | <b>7.092.438</b> |

The accompanying explanations and notes form an integral part of these financial statements.

**CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED  
UNCONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED  
IN TURKISH, SEE NOTE I OF SECTION THREE**

**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.  
UNCONSOLIDATED INCOME STATEMENT  
FOR THE PERIODS ENDED 31 DECEMBER 2016**

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

**II. OFF-BALANCE SHEET**

|  | Note<br>(Section<br>Five) | Current Period<br>31/12/2016 |                  |                      | Prior Period<br>31/12/2015 |                  |                      |
|--|---------------------------|------------------------------|------------------|----------------------|----------------------------|------------------|----------------------|
|  |                           | TL                           | FC               | TOTAL                | TL                         | FC               | TOTAL                |
| <b>A. OFF-BALANCE SHEET COMMITMENTS (I+II+III)</b>                       |                           | <b>11.078.283</b>            | <b>633</b>       | <b>11.078.916</b>    | <b>5.858.321</b>           | <b>523</b>       | <b>5.858.844</b>     |
| <b>I. GUARANTEES AND WARRANTIES</b>                                      | III-(1)                   | <b>10.768.604</b>            | -                | <b>10.768.604</b>    | <b>5.628.740</b>           | -                | <b>5.628.740</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  |                           | -                            | -                | -                    | -                          | -                | -                    |
| 1.5.1. Endorsements to the Central Bank of the Republic of Turkey        |                           | -                            | -                | -                    | -                          | -                | -                    |
| 1.5.2. Other Endorsements  |                           | -                            | -                | -                    | -                          | -                | -                    |
| 1.6. Securities Issue Purchase Guarantees                                |                           | -                            | -                | -                    | -                          | -                | -                    |
| 1.7. Factoring Guarantees  |                           | -                            | -                | -                    | -                          | -                | -                    |
| 1.8. Other Guarantees  |                           | 10.768.604                   | -                | 10.768.604           | 5.628.740                  | -                | 5.628.740            |
| 1.9. Other Collaterals   |                           | -                            | -                | -                    | -                          | -                | -                    |
| <b>II. COMMITMENTS</b>   |                           | <b>309.679</b>               | <b>633</b>       | <b>310.312</b>       | <b>229.581</b>             | <b>523</b>       | <b>230.104</b>       |
| 2.1. Irrevocable Commitments   |                           | 309.679                      | -                | 309.679              | 229.581                    | -                | 229.581              |
| 2.1.1. Asset Purchase and Sales Commitments                              |                           | -                            | -                | -                    | -                          | -                | -                    |
| 2.1.2. Deposit Purchase and Sales Commitments                            |                           | -                            | -                | -                    | -                          | -                | -                    |
| 2.1.3. Share Capital Commitments to Associates and 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                                |                           | -                            | -                | -                    | -                          | -                | -                    |
| 2.1.10. Promotion Commitments for Credit Cards and Banking Services      |                           | -                            | -                | -                    | -                          | -                | -                    |
| 2.1.11. Receivables from Short Sale Commitments of Marketable Securities |                           | -                            | -                | -                    | -                          | -                | -                    |
| 2.1.12. Payables for Short Sale Commitments of Marketable Securities     |                           | -                            | -                | -                    | -                          | -                | -                    |
| 2.1.13. Other Irrevocable Commitments                                    |                           | 309.679                      | -                | 309.679              | 229.581                    | -                | 229.581              |
| 2.2. Revocable Commitments   |                           | -                            | 633              | 633                  | -                          | 523              | 523                  |
| 2.2.1. Revocable Commitments for Loan Limits                             |                           | -                            | -                | -                    | -                          | -                | -                    |
| 2.2.2. Other Revocable Commitments                                       |                           | -                            | 633              | 633                  | -                          | 523              | 523                  |
| <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                     |                           | -                            | -                | -                    | -                          | -                | -                    |
| 3.2. Trading Derivative Financial Instruments                            |                           | -                            | -                | -                    | -                          | -                | -                    |
| 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   |                           | -                            | -                | -                    | -                          | -                | -                    |
| 3.3. Other   |                           | -                            | -                | -                    | -                          | -                | -                    |
| <b>B. CUSTODY AND PLEDGES RECEIVED (IV+V+VI)</b>                         |                           | <b>2.460.037.449</b>         | <b>1.117.821</b> | <b>2.461.155.270</b> | <b>2.003.719.506</b>       | <b>1.032.736</b> | <b>2.004.752.242</b> |
| <b>IV. ITEMS HELD IN CUSTODY</b>   |                           | <b>2.441.013.247</b>         | -                | <b>2.441.013.247</b> | <b>1.989.411.706</b>       | -                | <b>1.989.411.706</b> |
| 4.1. Customer Fund and Portfolio Balances                                |                           | 8                            | -                | 8                    | 8                          | -                | 8                    |
| 4.2. Investment Securities Held in Custody                               | III-(1)                   | 2.441.011.739                | -                | 2.441.011.739        | 1.989.410.198              | -                | 1.989.410.198        |
| 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. PLEDGES RECEIVED</b>   |                           | <b>19.024.202</b>            | <b>1.117.821</b> | <b>20.142.023</b>    | <b>14.307.800</b>          | <b>1.032.736</b> | <b>15.340.536</b>    |
| 5.1. Marketable Securities   |                           | 7.240.590                    | 1.117.821        | 8.358.411            | 7.561.925                  | 1.032.736        | 8.594.661            |
| 5.2. Guarantee Notes   |                           | -                            | -                | -                    | -                          | -                | -                    |
| 5.3. Commodity   |                           | -                            | -                | -                    | -                          | -                | -                    |
| 5.4. Warranty  |                           | -                            | -                | -                    | -                          | -                | -                    |
| 5.5. Real Estate   |                           | -                            | -                | -                    | -                          | -                | -                    |
| 5.6. Other Pledged Items   |                           | 11.783.612                   | -                | 11.783.612           | 6.745.875                  | -                | 6.745.875            |
| 5.7. Pledged Items-Depository  |                           | -                            | -                | -                    | -                          | -                | -                    |
| <b>VI. ACCEPTED INDEPENDENT GUARANTEES AND WARRANTIES</b>                |                           | -                            | -                | -                    | -                          | -                | -                    |
| <b>TOTAL OFF-BALANCE SHEET COMMITMENTS (A+B)</b>                         |                           | <b>2.471.115.732</b>         | <b>1.118.454</b> | <b>2.472.234.186</b> | <b>2.009.577.827</b>       | <b>1.033.259</b> | <b>2.010.611.086</b> |

The accompanying explanations and notes form an integral part of these financial statements.

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**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.  
UNCONSOLIDATED INCOME STATEMENT  
FOR THE PERIODS ENDED 31 DECEMBER 2016**

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

**III. INCOME STATEMENT**

|   | Note<br>(Section<br>Five) | Current Period<br>01/01-31/12/2016 | Prior Period<br>01/01-31/12/2015 |
|---|---------------------------|------------------------------------|----------------------------------|
| <b>I. INTEREST INCOME</b>   | <b>IV-(1)</b>             | <b>294.068</b>                     | <b>233.635</b>                   |
| 1.1 Interest on Loans   |                           | 12.891                             | 9.108                            |
| 1.2 Interest Received from Reserve Requirements   |                           | -                                  | -                                |
| 1.3 Interest Received from Banks  |                           | 274.498                            | 208.140                          |
| 1.4 Interest Received from Money Market Transactions  |                           | -                                  | -                                |
| 1.5 Interest Received from Marketable Securities Portfolio                                      |                           | 6.345                              | 16.228                           |
| 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  |                           | 6.345                              | 16.228                           |
| 1.6 Financial Lease Income  |                           | -                                  | -                                |
| 1.7 Other Interest Income   |                           | 334                                | 159                              |
| <b>II. INTEREST EXPENSE (-)</b>   | <b>IV-(2)</b>             | <b>50.674</b>                      | <b>39.350</b>                    |
| 2.1 Interest on Deposits (-)  |                           | -                                  | -                                |
| 2.2 Interest on Funds Borrowed (-)  |                           | 50.653                             | 39.350                           |
| 2.3 Interest on Money Market Borrowings (-)   |                           | 21                                 | -                                |
| 2.4 Interest on Securities Issued (-)   |                           | -                                  | -                                |
| 2.5 Other Interest Expenses (-)   |                           | -                                  | -                                |
| <b>III. NET INTEREST INCOME (I - II)</b>  |                           | <b>243.394</b>                     | <b>194.285</b>                   |
| <b>IV. NET FEES AND COMMISSIONS INCOME/EXPENSE</b>  |                           | <b>110.332</b>                     | <b>87.070</b>                    |
| 4.1 Fees and Commissions Received   |                           | 120.743                            | 94.924                           |
| 4.1.1 Non-cash Loans  |                           | 25.739                             | 16.837                           |
| 4.1.2 Other   | IV-(11)                   | 95.004                             | 78.087                           |
| 4.2 Fees and Commissions Paid (-)   | IV-(12)                   | 10.411                             | 7.854                            |
| 4.2.1 Non-cash Loans (-)  |                           | -                                  | -                                |
| 4.2.2 Other (-)   |                           | 10.411                             | 7.854                            |
| <b>V. DIVIDEND INCOME</b>   | <b>IV-(3)</b>             | <b>6.217</b>                       | <b>6.179</b>                     |
| <b>VI. TRADING INCOME/( LOSS) (Net)</b>   | <b>IV-(4)</b>             | <b>1.795</b>                       | <b>1.122</b>                     |
| 6.1 Securities trading gains / losses   |                           | -                                  | 2                                |
| 6.2 Securities Trading Gains/(Losses) on Derivative Financial Instruments                       |                           | -                                  | -                                |
| 6.3 Foreign Exchange Gains/(Losses)   |                           | 1.795                              | 1.120                            |
| <b>VII. OTHER OPERATING INCOME</b>  | <b>IV-(5),(11)</b>        | <b>4.632</b>                       | <b>2.884</b>                     |
| <b>VIII. TOTAL OPERATING INCOME (III+IV+V+VI+VII)</b>   |                           | <b>366.370</b>                     | <b>291.540</b>                   |
| <b>IX. PROVISION FOR LOAN LOSSES AND OTHER RECEIVABLES (-)</b>                                  | <b>IV-(6)</b>             | <b>13.983</b>                      | <b>265</b>                       |
| <b>X. OTHER OPERATING EXPENSES (-)</b>  | <b>IV-(7)</b>             | <b>87.030</b>                      | <b>74.857</b>                    |
| <b>XI. NET OPERATING INCOME/(LOSS) (VIII-IX-X)</b>  |                           | <b>265.357</b>                     | <b>216.418</b>                   |
| <b>XII. EXCESS AMOUNT RECORDED AS INCOME AFTER MERGER</b>                                       |                           | -                                  | -                                |
| <b>XIII. INCOME/(LOSS) FROM INVESTMENTS IN SUBSIDIARIES CONSOLIDATED BASED ON EQUITY METHOD</b> |                           | -                                  | -                                |
| <b>XIV. INCOME/(LOSS) ON NET MONETARY POSITION</b>  |                           | -                                  | -                                |
| <b>XV. INCOME/(LOSS) FROM CONTINUING OPERATIONS BEFORE TAX (XI+...+XIV)</b>                     |                           | <b>265.357</b>                     | <b>216.418</b>                   |
| <b>XVI. TAX PROVISION FOR CONTINUING OPERATIONS (-)</b>   | <b>IV-(8)</b>             | <b>(53.792)</b>                    | <b>(41.690)</b>                  |
| 16.1 Current Tax Provision  |                           | (52.312)                           | (40.241)                         |
| 16.2 Deferred Tax Provision   |                           | (1.480)                            | (1.449)                          |
| <b>XVII. NET INCOME/(LOSS) FROM CONTINUING OPERATIONS (XV-XVI)</b>                              | <b>IV-(9)</b>             | <b>211.565</b>                     | <b>174.728</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>   | <b>IV-(9)</b>             | <b>211.565</b>                     | <b>174.728</b>                   |
| Earnings/(Loss) per share   |                           | <b>0,35261</b>                     | <b>0,29121</b>                   |

The accompanying explanations and notes form an integral part of these financial statements.

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IN TURKISH, SEE NOTE I OF SECTION THREE**

**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.  
UNCONSOLIDATED STATEMENT OF INCOME AND EXPENSE ITEMS ACCOUNTED  
IN EQUITY FOR THE PERIOD ENDED 31 DECEMBER 2016**  
(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

**IV. STATEMENT OF INCOME AND EXPENSE ITEMS ACCOUNTED IN EQUITY**

| INCOME AND EXPENSE ITEMS ACCOUNTED IN EQUITY |  | Current Period<br>01/01-31/12/2016 | Prior Period<br>01/01-31/12/2015 |
|--|--|------------------------------------|----------------------------------|
| I.   | ADDITIONS TO THE MARKETABLE SECURITIES VALUATION RESERVE 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  | (146)                              | (326)                            |
| IX.  | DEFERRED TAX ON VALUATION DIFFERENCES  | 30                                 | 65                               |
| X.   | NET INCOME/LOSS ACCOUNTED DIRECTLY IN EQUITY (I+II+...+IX)   | (116)                              | (261)                            |
| XI.  | CURRENT PERIOD INCOME/LOSS   | 211.565                            | 174.728                          |
| 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  | 211.565                            | 174.728                          |
| XII.   | <b>TOTAL INCOME/LOSS RELATED TO THE CURRENT PERIOD (X±XI)</b>  | <b>211.449</b>                     | <b>174.467</b>                   |

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

V. STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

|       | Note<br>(Section<br>Five) | Paid-in<br>Capital | Adjustment<br>to Share<br>Capital | Share<br>Premium | Share<br>Cancellation<br>Profits | Legal Statutory<br>Reserves | Extra-<br>ordinary<br>Reserves | Other<br>Reserves | Current<br>Period<br>Net<br>Income/<br>(Loss) | Prior<br>Period<br>Net<br>Income/<br>(Loss) | Marketable<br>Securities<br>Value<br>Increase<br>Fund | Tangible<br>and<br>Intangible<br>Assets<br>Revaluation<br>Differences | Bonus<br>Shares<br>Obtained<br>from<br>Associates | Hedging<br>Funds | Valuation<br>Difference<br>of AHS and<br>Discontinued<br>Operations. | Total Equity<br>Before Minority<br>Shares | Minority<br>Shares | Total<br>Equity |
|-------|---------------------------|--------------------|-----------------------------------|------------------|----------------------------------|-----------------------------|--------------------------------|-------------------|---|---|---|---|---|------------------|--|---|--------------------|-----------------|
| I     |                           | 600.000            | 4.088                             | 33.019           | -                                | 27.857                      | 9.531                          | 1.818             | -   | 123.931                                     | -   | -   | -   | -                | -  | 800.244                                   | -                  | 800.244         |
| II    |                           | -                  | -                                 | -                | -                                | -                           | -                              | -                 | -   | -   | -   | -   | -   | -                | -  | -   | -                  | -               |
| 2.1   |                           | -                  | -                                 | -                | -                                | -                           | -                              | -                 | -   | -   | -   | -   | -   | -                | -  | -   | -                  | -               |
| 2.2   |                           | -                  | -                                 | -                | -                                | -                           | -                              | -                 | -   | -   | -   | -   | -   | -                | -  | -   | -                  | -               |
| III   |                           | 600.000            | 4.088                             | 33.019           | -                                | 27.857                      | 9.531                          | 1.818             | -   | 123.931                                     | -   | -   | -   | -                | -  | 800.244                                   | -                  | 800.244         |
| IV    |                           | -                  | -                                 | -                | -                                | -                           | -                              | -                 | -   | -   | -   | -   | -   | -                | -  | -   | -                  | -               |
| V     |                           | -                  | -                                 | -                | -                                | -                           | -                              | -                 | -   | -   | -   | -   | -   | -                | -  | -   | -                  | -               |
| VI    |                           | -                  | -                                 | -                | -                                | -                           | -                              | -                 | -   | -   | -   | -   | -   | -                | -  | -   | -                  | -               |
| 6.1   |                           | -                  | -                                 | -                | -                                | -                           | -                              | -                 | -   | -   | -   | -   | -   | -                | -  | -   | -                  | -               |
| 6.2   |                           | -                  | -                                 | -                | -                                | -                           | -                              | -                 | -   | -   | -   | -   | -   | -                | -  | -   | -                  | -               |
| VII   |                           | -                  | -                                 | -                | -                                | -                           | -                              | -                 | -   | -   | -   | -   | -   | -                | -  | -   | -                  | -               |
| VIII  |                           | -                  | -                                 | -                | -                                | -                           | -                              | -                 | -   | -   | -   | -   | -   | -                | -  | -   | -                  | -               |
| IX    |                           | -                  | -                                 | -                | -                                | -                           | -                              | -                 | -   | -   | -   | -   | -   | -                | -  | -   | -                  | -               |
| X     |                           | -                  | -                                 | -                | -                                | -                           | -                              | -                 | -   | -   | -   | -   | -   | -                | -  | -   | -                  | -               |
| XI    |                           | -                  | -                                 | -                | -                                | -                           | -                              | -                 | -   | -   | -   | -   | -   | -                | -  | -   | -                  | -               |
| XII   |                           | -                  | -                                 | -                | -                                | -                           | -                              | -                 | -   | -   | -   | -   | -   | -                | -  | -   | -                  | -               |
| XIII  |                           | -                  | -                                 | -                | -                                | -                           | -                              | -                 | -   | -   | -   | -   | -   | -                | -  | -   | -                  | -               |
| XIV   |                           | -                  | -                                 | -                | -                                | -                           | -                              | -                 | -   | -   | -   | -   | -   | -                | -  | -   | -                  | -               |
| 14.1  |                           | -                  | -                                 | -                | -                                | -                           | -                              | -                 | -   | -   | -   | -   | -   | -                | -  | -   | -                  | -               |
| 14.2  |                           | -                  | -                                 | -                | -                                | -                           | -                              | -                 | -   | -   | -   | -   | -   | -                | -  | -   | -                  | -               |
| XV    |                           | -                  | -                                 | -                | -                                | -                           | -                              | -                 | -   | -   | -   | -   | -   | -                | -  | -   | -                  | -               |
| XVI   |                           | -                  | -                                 | -                | -                                | -                           | -                              | -                 | -   | -   | -   | -   | -   | -                | -  | -   | -                  | -               |
| XVII  |                           | -                  | -                                 | -                | -                                | -                           | -                              | -                 | -   | -   | -   | -   | -   | -                | -  | -   | -                  | -               |
| XVIII |                           | -                  | -                                 | -                | -                                | -                           | -                              | -                 | -   | -   | -   | -   | -   | -                | -  | -   | -                  | -               |
| XIX   |                           | -                  | -                                 | -                | -                                | -                           | -                              | (261)             | 174.728                                       | -   | -   | -   | -   | -                | -  | (261)                                     | -                  | (261)           |
| XX    | II-(15)                   | -                  | -                                 | -                | -                                | 9.481                       | 47.355                         | -                 | -   | (120.521)                                   | -   | -   | -   | -                | -  | 174.728                                   | -                  | 174.728         |
| 20.1  |                           | -                  | -                                 | -                | -                                | -                           | 864                            | -                 | -   | (64.549)                                    | -   | -   | -   | -                | -  | (63.685)                                  | -                  | (63.685)        |
| 20.2  |                           | -                  | -                                 | -                | -                                | 9.481                       | 46.491                         | -                 | -   | (55.972)                                    | -   | -   | -   | -                | -  | (63.685)                                  | -                  | (63.685)        |
| 20.3  |                           | -                  | -                                 | -                | -                                | -                           | -                              | -                 | -   | -   | -   | -   | -   | -                | -  | -   | -                  | -               |
|       |                           | 600.000            | 4.088                             | 33.019           | -                                | 37.338                      | 56.886                         | 1.557             | 174.728                                       | 3.410                                       | -   | -   | -   | -                | -  | 911.026                                   | -                  | 911.026         |

(\*) According to the Ordinary General Assembly meeting, the Bank decided that tax provision that remains after the taxation of the dividend, which was to be distributed to employees, was extracted from the provision account and added to the extraordinary reserves.

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**UNCONSOLIDATED STATEMENT OF INCOME AND EXPENSE ITEMS ACCOUNTED  
IN EQUITY FOR THE PERIOD ENDED 31 DECEMBER 2016**  
(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

V. STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (Continued)

|                                     | Note<br>(Section<br>Five) | Paid-in<br>Capital | Adjustment<br>to Share<br>Capital | Share<br>Cancellation<br>Premium | Share<br>Profits | Legal<br>Reserves | Status<br>Reserves | Extraordinary<br>Reserves | Other<br>Reserves | Current Period<br>Net Income/<br>(Loss) | Prior<br>Period Net<br>Income/<br>(Loss) | Marketable<br>Securities<br>Valuation<br>Reserve | Tangible and<br>Intangible<br>Assets<br>Revaluation<br>Reserve | Bonus Shares<br>Obtained from<br>Investments | Hedging<br>Reserves | Valuation<br>Difference<br>of AHS and<br>Discontinued<br>Operations | Total<br>Equity<br>Before<br>Minority<br>Shares | Minority<br>Shares | Total<br>Equity |   |
|-------------------------------------|---------------------------|--------------------|-----------------------------------|----------------------------------|------------------|-------------------|--------------------|---------------------------|-------------------|---|--|--|--|--|---------------------|---|---|--------------------|-----------------|---|
| Current Period - 01.01 - 31.12.2016 |                           |                    |                                   |                                  |                  |                   |                    |                           |                   |   |  |  |  |  |                     |   |   |                    |                 |   |
| I.                                  |                           | 600.000            | 4.088                             | 33.019                           | -                | 37.338            | -                  | 56.886                    | 1.557             | 174.728                                 | 3.410                                    | -  | -  | -  | -                   | -   | 911.026   | -                  | 911.026         |   |
|                                     |                           | -                  | -                                 | -                                | -                | -                 | -                  | -                         | -                 | -                                       | -  | -  | -  | -  | -                   | -   | -   | -                  | -               | - |
| II.                                 |                           | -                  | -                                 | -                                | -                | -                 | -                  | -                         | -                 | -                                       | -  | -  | -  | -  | -                   | -   | -   | -                  | -               | - |
| III.                                |                           | -                  | -                                 | -                                | -                | -                 | -                  | -                         | -                 | -                                       | -  | -  | -  | -  | -                   | -   | -   | -                  | -               | - |
| IV.                                 |                           | -                  | -                                 | -                                | -                | -                 | -                  | -                         | -                 | -                                       | -  | -  | -  | -  | -                   | -   | -   | -                  | -               | - |
| 4.1                                 |                           | -                  | -                                 | -                                | -                | -                 | -                  | -                         | -                 | -                                       | -  | -  | -  | -  | -                   | -   | -   | -                  | -               | - |
| 4.2                                 |                           | -                  | -                                 | -                                | -                | -                 | -                  | -                         | -                 | -                                       | -  | -  | -  | -  | -                   | -   | -   | -                  | -               | - |
| V.                                  |                           | -                  | -                                 | -                                | -                | -                 | -                  | -                         | -                 | -                                       | -  | -  | -  | -  | -                   | -   | -   | -                  | -               | - |
| VI.                                 |                           | -                  | -                                 | -                                | -                | -                 | -                  | -                         | -                 | -                                       | -  | -  | -  | -  | -                   | -   | -   | -                  | -               | - |
| VII.                                |                           | -                  | -                                 | -                                | -                | -                 | -                  | -                         | -                 | -                                       | -  | -  | -  | -  | -                   | -   | -   | -                  | -               | - |
| VIII.                               |                           | -                  | -                                 | -                                | -                | -                 | -                  | -                         | -                 | -                                       | -  | -  | -  | -  | -                   | -   | -   | -                  | -               | - |
| IX.                                 |                           | -                  | -                                 | -                                | -                | -                 | -                  | -                         | -                 | -                                       | -  | -  | -  | -  | -                   | -   | -   | -                  | -               | - |
| X.                                  |                           | -                  | -                                 | -                                | -                | -                 | -                  | -                         | -                 | -                                       | -  | -  | -  | -  | -                   | -   | -   | -                  | -               | - |
| XI.                                 |                           | -                  | -                                 | -                                | -                | -                 | -                  | -                         | -                 | -                                       | -  | -  | -  | -  | -                   | -   | -   | -                  | -               | - |
| XII.                                |                           | -                  | -                                 | -                                | -                | -                 | -                  | -                         | -                 | -                                       | -  | -  | -  | -  | -                   | -   | -   | -                  | -               | - |
| 12.1                                |                           | -                  | -                                 | -                                | -                | -                 | -                  | -                         | -                 | -                                       | -  | -  | -  | -  | -                   | -   | -   | -                  | -               | - |
| 12.2                                |                           | -                  | -                                 | -                                | -                | -                 | -                  | -                         | -                 | -                                       | -  | -  | -  | -  | -                   | -   | -   | -                  | -               | - |
| XIII.                               |                           | -                  | -                                 | -                                | -                | -                 | -                  | -                         | -                 | -                                       | -  | -  | -  | -  | -                   | -   | -   | -                  | -               | - |
| XIV.                                |                           | -                  | -                                 | -                                | -                | -                 | -                  | -                         | -                 | -                                       | -  | -  | -  | -  | -                   | -   | -   | -                  | -               | - |
| XV.                                 |                           | -                  | -                                 | -                                | -                | -                 | -                  | -                         | -                 | -                                       | -  | -  | -  | -  | -                   | -   | -   | -                  | -               | - |
| XVI.                                |                           | -                  | -                                 | -                                | -                | -                 | -                  | -                         | -                 | -                                       | -  | -  | -  | -  | -                   | -   | -   | -                  | -               | - |
| XVII.                               |                           | -                  | -                                 | -                                | -                | -                 | -                  | -                         | -                 | 211.565                                 | -  | -  | -  | -  | -                   | -   | (116)   | -                  | (116)           | - |
| XVIII.                              |                           | -                  | -                                 | -                                | -                | -                 | -                  | -                         | -                 | (174.728)                               | -  | -  | -  | -  | -                   | -   | 211.565   | -                  | 211.565         | - |
| 18.1                                |                           | -                  | -                                 | -                                | -                | 13.706            | -                  | 82.233                    | -                 | (79.703)                                | -  | -  | -  | -  | -                   | -   | (78.789)  | -                  | (78.789)        | - |
| 18.2                                |                           | -                  | -                                 | -                                | -                | 13.706            | -                  | 81.319                    | -                 | (95.025)                                | -  | -  | -  | -  | -                   | -   | (78.789)  | -                  | (78.789)        | - |
| 18.3                                |                           | -                  | -                                 | -                                | -                | -                 | -                  | -                         | -                 | -                                       | -  | -  | -  | -  | -                   | -   | -   | -                  | -               | - |
|                                     |                           | 600.000            | 4.088                             | 33.019                           | -                | 51.044            | -                  | 139.119                   | 1.441             | 211.565                                 | 3.410                                    | -  | -  | -  | -                   | -   | 1.043.686                                       | -                  | 1.043.686       |   |
|                                     |                           |                    |                                   |                                  |                  |                   |                    |                           |                   |   |  |  |  |  |                     |   |   |                    |                 |   |

(\* ) According to the Ordinary General Assembly meeting, the Bank decided that tax provision that remains after the taxation of the dividend, which was to be distributed to employees, was extracted from the provision account and added to the extraordinary reserves.

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**İSTANBUL TAKAS VE SAKLAMA BANKASI A.Ş.  
UNCONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE PERIOD ENDED 31 DECEMBER 2016**

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

**VI. STATEMENT OF CASH FLOWS**

|             | Note<br>(Section<br>Five)   | Current Period<br>31/12/2016 | Prior Period<br>31/12/2015 |
|-------------|---|------------------------------|----------------------------|
| <b>A.</b>   | <b>CASH FLOWS FROM BANKING OPERATIONS</b>                                     |                              |                            |
| <b>1.1</b>  | <b>Operating Profit Before Changes in Operating Assets and Liabilities</b>    | <b>231.827</b>               | <b>175.104</b>             |
| 1.1.1       | Interest Received   | 301.200                      | 236.850                    |
| 1.1.2       | Interest Paid   | (50.674)                     | (39.350)                   |
| 1.1.3       | Dividend Received   | 6.217                        | 6.179                      |
| 1.1.4       | Fees and Commissions Received   | 120.743                      | 94.924                     |
| 1.1.5       | Other Income  | 4.632                        | 2.886                      |
| 1.1.6       | Collections from Previously Written-off Loans and Other Receivables           | -                            | 63                         |
| 1.1.7       | Payments to Personnel and Service Suppliers                                   | (47.313)                     | (42.921)                   |
| 1.1.8       | Taxes Paid  | (49.449)                     | (36.665)                   |
| 1.1.9       | Other   | (53.529)                     | (46.862)                   |
| 1.2         | Changes in Operating Assets and Liabilities                                   | <b>1.376.871</b>             | <b>1.942.417</b>           |
| 1.2.1       | Net (Increase)/Decrease in Trading Securities                                 | 3.200                        | (3.113)                    |
| 1.2.2       | Net (Increase)/Decrease in Fair Value Through Profit/Loss Financial Assets    | -                            | -                          |
| 1.2.3       | Net (Increase)/Decrease in Due from Banks                                     | 395.129                      | 305.845                    |
| 1.2.4       | Net (Increase)/Decrease in Loans  | 80.507                       | 6.058                      |
| 1.2.5       | Net (Increase)/Decrease in Other Assets                                       | (2.744)                      | 20.095                     |
| 1.2.6       | Net Increase/(Decrease) in Bank Deposits                                      | -                            | -                          |
| 1.2.7       | Net Increase/(Decrease) in Other Deposits                                     | -                            | -                          |
| 1.2.8       | Net Increase/(Decrease) in Funds Borrowed                                     | 119.553                      | 751.151                    |
| 1.2.9       | Net Increase/(Decrease) in Payables   | -                            | -                          |
| 1.2.10      | Net Increase/(Decrease) in Other Liabilities                                  | 781.226                      | 862.381                    |
| <b>I.</b>   | <b>Net Cash Provided from Banking Operations</b>                              | <b>1.608.698</b>             | <b>2.117.521</b>           |
| <b>B.</b>   | <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                   |                              |                            |
| <b>II.</b>  | <b>Net Cash Provided from Investing Activities</b>                            | <b>125.564</b>               | <b>(85.011)</b>            |
| 2.1         | Cash Paid for Acquisition of Investments, Associates and Subsidiaries         | -                            | -                          |
| 2.2         | Cash Obtained from Disposal of Investments, Associates and Subsidiaries       | -                            | -                          |
| 2.3         | Purchases of Property and Equipment   | (8.500)                      | (82.460)                   |
| 2.4         | Disposals of Property and Equipment   | -                            | 50                         |
| 2.5         | Cash Paid for Purchase of Investments Available-for-Sale                      | (78)                         | (138)                      |
| 2.6         | Cash Obtained from Sale of Investments Available-for-Sale                     | -                            | -                          |
| 2.7         | Cash Paid for Purchase of Investment Securities                               | (45.943)                     | (177.463)                  |
| 2.8         | Cash Obtained from Sale of Investment Securities                              | 180.085                      | 175.000                    |
| 2.9         | Other   | -                            | -                          |
| <b>C.</b>   | <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                   |                              |                            |
| <b>III.</b> | <b>Net Cash Provided from Financing Activities</b>                            | <b>(79.703)</b>              | <b>(64.549)</b>            |
| 3.1         | Cash Obtained from Funds Borrowed and Securities Issued                       | -                            | -                          |
| 3.2         | Cash Used for Repayment of Funds Borrowed and Securities Issued               | -                            | -                          |
| 3.3         | Issued Capital Instruments  | -                            | -                          |
| 3.4         | Dividends Paid  | (79.703)                     | (64.549)                   |
| 3.5         | Payments for Finance Leases   | -                            | -                          |
| 3.6         | Other   | -                            | -                          |
| <b>IV.</b>  | <b>Effect of Change in Foreign Exchange Rate on Cash and Cash Equivalents</b> | <b>(533.759)</b>             | <b>(426.051)</b>           |
| <b>V.</b>   | <b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>                   | <b>1.120.800</b>             | <b>1.541.910</b>           |
| <b>VI.</b>  | <b>Cash and Cash Equivalents at the Beginning of the Period</b>               | <b>6.603.118</b>             | <b>5.061.208</b>           |
| <b>VII.</b> | <b>Cash and Cash Equivalents at the End of the Period</b>                     | <b>7.723.918</b>             | <b>6.603.118</b>           |

The accompanying explanations and notes form an integral part of these financial statements.

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**VII. PROFIT DISTRIBUTION TABLE**

|   | (*)Current Period<br>31/12/2016 | Prior Period<br>31/12/2015 |
|---|---------------------------------|----------------------------|
| <b>I. DISTRIBUTION OF CURRENT YEAR INCOME</b> |                                 |                            |
| 1.1   | 265.357                         | 216.418                    |
| 1.2   | (53.792)                        | (41.690)                   |
| 1.2.1   | (52.312)                        | (40.241)                   |
| 1.2.2   | -                               | -                          |
| 1.2.3   | (1.480)                         | (1.449)                    |
| <b>A.</b>                                     | <b>211.565</b>                  | <b>174.728</b>             |
| 1.3   | -                               | -                          |
| 1.4   | -                               | -                          |
| 1.5   | -                               | -                          |
| <b>B.</b>                                     | <b>211.565</b>                  | <b>174.728</b>             |
| 1.6   | -                               | -                          |
| 1.6.1   | -                               | -                          |
| 1.6.2   | -                               | -                          |
| 1.6.3   | -                               | -                          |
| 1.6.4   | -                               | -                          |
| 1.6.5   | -                               | -                          |
| 1.7   | -                               | 4.703                      |
| 1.8   | -                               | -                          |
| 1.9   | -                               | 75.000                     |
| 1.9.1   | -                               | 75.000                     |
| 1.9.2   | -                               | -                          |
| 1.9.3   | -                               | -                          |
| 1.9.4   | -                               | -                          |
| 1.9.5   | -                               | -                          |
| 1.10  | -                               | 13.706                     |
| 1.11  | -                               | -                          |
| 1.12  | -                               | 81.319                     |
| 1.13  | -                               | -                          |
| 1.14  | -                               | -                          |
| <b>II. DISTRIBUTION OF RESERVES</b>           |                                 |                            |
| 2.1   | -                               | -                          |
| 2.2   | -                               | -                          |
| 2.3   | -                               | -                          |
| 2.3.1   | -                               | -                          |
| 2.3.2   | -                               | -                          |
| 2.3.3   | -                               | -                          |
| 2.3.4   | -                               | -                          |
| 2.3.5   | -                               | -                          |
| 2.4   | -                               | -                          |
| 2.5   | -                               | -                          |
| <b>III. EARNINGS PER SHARE</b>                |                                 |                            |
| 3.1   | 0,3526                          | 0,29121                    |
| 3.2   | 35,26                           | 29,12                      |
| 3.3   | -                               | -                          |
| 3.4   | -                               | -                          |
| <b>IV. DIVIDEND PER SHARE</b>                 |                                 |                            |
| 4.1   | -                               | -                          |
| 4.2   | -                               | -                          |
| 4.3   | -                               | -                          |
| 4.4   | -                               | -                          |

(\*) Ordinary General Assembly has not been held as of the report date, no decision on dividend distribution has been made.

(\*\*) The amount that must be kept on the bank and presented on the mandatory legal funds is deferred tax income of the related period

The accompanying explanations and notes form an integral part of these financial statements.

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**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 2015.

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.

*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.

**Additional paragraph for convenience of translation into English:**

The differences between accounting principles, as described in the preceding paragraphs, and accounting principles generally accepted in countries in which the accompanying unconsolidated financial statements are to be distributed and International Financial Reporting Standards ("IFRS") have not been quantified in the accompanying unconsolidated financial statements. Accordingly, the accompanying unconsolidated financial statements are not intended to present the financial position, results of operations and changes in financial position and cash flows in accordance with the accounting principles generally accepted in such countries and IFRS.

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**EXPLANATIONS ON ACCOUNTING POLICIES (Continued)**

**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. Related to the transactions in securities and money markets, transaction limits are established as risk limits.

Income and expenses which arise from foreign currency translation are accounted for at the period when transaction takes place. The Bank has EUR (full amount) 71.215 (SASE) share in Sarajevo Stock Exchange and EUR (full amount) 75.215 share in S.W.I.F.T.SCRL. At period ends, balances of foreign currency asset and liability accounts are translated into TL by using period end T.R. Central Bank. 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 543 (31 December 2015:TL 465). In order to hedge interest rate risks arising from fixed or floating rate instruments, the Bank prefers short-term transactions.

The Bank hedges exchange rate risk arising from foreign currency denominated transactions by matching foreign currency liabilities with foreign currency assets.

**III. Explanations on Investments in Associates, Subsidiaries and Joint Ventures**

As it is explained on the 8. Footnote of the first part of fifth section, the Bank doesn't have the control or significant efficiency of Central Registration Entity, although the Bank owns 65% of it. Since the fair value measurement has not been properly realized in the financial statements, the related association has been measured with the 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.

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**EXPLANATIONS ON ACCOUNTING POLICIES (Continued)**

**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 ISE 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 the above 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 with 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.

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 book 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 use such classification above when permitted or for the purposes of providing a more proper disclosure.

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**EXPLANATIONS ON ACCOUNTING POLICIES (Continued)**

**VII. Explanations and Disclosures on Financial Assets (Continued)**

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.

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 VI: "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 fulfillment 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.

*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.

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**EXPLANATIONS ON ACCOUNTING POLICIES (Continued)**

**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, VII.

**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. The interest income accrual calculated is disclosed under other liabilities as a liability when reverse repurchase agreements are related to problematic securities intermediary members, as described in detail in Section Six: "Other Explanations and Notes". In the current situation, reverse repo transactions are made with Ziraat Bank on behalf of the accounts and brokerage houses opened by the Bank in accordance with the provisions of the interlocutory and interim measures intervened temporarily or permanently by the CMB. Within this scope, securities subject to reverse repo are located in the accounts of Ziraat Bank.

**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 canceling the plan is low. Certain events and conditions may extend the duration of completion of sale to more than one year.

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 discontinued operations during the period.

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**EXPLANATIONS ON ACCOUNTING POLICIES (Continued)**

**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- that is 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 first of three phases was completed, depreciation is allocated over a 20 year period for one-third of the software's price.

**XIII. Explanations on Tangible Fixed 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:

|   | <b>Estimated Useful Life (Year)</b> | <b>Depreciation Rate</b> |
|---|-------------------------------------|--------------------------|
| 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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**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.

**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 2016 is TL 8.830 (31 December 2015: TL 7.185).

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 2016, actuarial loss after deferred tax effect amounting to TL 116 (31 December 2015: TL 261 actuarial loss) was classified as "Other Capital Reserves".

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**EXPLANATIONS ON ACCOUNTING POLICIES (Continued)**

**XVI. Explanations on Liabilities Regarding Employee Benefits (continued)**

**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.

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 of.

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.

**XVII. 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.

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**EXPLANATIONS ON ACCOUNTING POLICIES (Continued)**

**XVIII. Turkish Derivative Exchange Cash Guarantees**

The Bank does not have any shares issued in the current period.

**XIX. 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.

**XX. Explanations on Government Incentives**

There are no government incentives utilized by the Bank as of the balance sheet date.

**XXI. Explanations on Segment Reporting**

Operational field is distinguishable section of the Bank that has different characteristics from other operational fields per earning and conducts the presentation of service group, associated bank products or a unique product. Operating segments are disclosed in Note VII in Section Four. The Bank operates mainly in clearing-operation, custody, loans and treasury.

**XXII. Explanations on 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.

**XXIII. Explanations on Cash and Cash Equivalents**

For the purposes of the preparation of statement of cash flows, "Cash" includes cash, effectives, 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.

**XXIV. Reclassifications**

Financial statements dated 31 December 2015 can be classified to comply with 31 December 2016 financial statements.

**XXV. Explanations on Other Matters**

None.

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**SECTION FOUR**

**INFORMATION ON FINANCIAL STRUCTURE**

**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".

Bank's current period equity capital is TRY 985.064 and capital adequacy standard ratio is 22,81%. Prior period equity capital is TRY 846.992 and capital adequacy standard ratio is 26,31%. Bank's capital adequacy standard ratio is above the minimum rate defined by legislation.

**Summary information related to the capital shareholders equity:**

|   | <b>Current Period<br/>31.12.2016</b> | <b>Amount related to<br/>treatment before<br/>01.01.2014(*)</b> |
|---|--------------------------------------|---|
| <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>   |                                      |   |
| 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>                       |   |

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**INFORMATION ON FINANCIAL STRUCTURE (Continued)**

**I. Explanations Related to Components of Shareholders' Equity (Continued)**

|   | Amount         | Amount related to<br>treatment before<br>01.01.2014(*) |
|---|----------------|--|
| <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>  |  |

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**INFORMATION ON FINANCIAL STRUCTURE (Continued)**

**I. Explanations Related to Components of Shareholders' Equity (Continued)**

|   | Current Period<br>31.12.2016 | Amount related to<br>treatment before<br>01.01.2014(*) |
|---|------------------------------|--|
| <b>Total Capital (The sum of Tier 1 and Tier 2 Capital)</b>   | <b>985.064</b>               |  |
| <b>The sum of Tier 1 Capital and Tier 2 Capital (Total Capital)</b>   | <b>985.064</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>985.064</b>               |  |
| Total Capital   | 985.064                      |  |
| Total Risk Weighted Assets  | 4.319.284                    |  |
| <b>Capital Adequacy Ratios</b>  | <b>-</b>                     |  |
| Common Equity Tier 1 Capital Adequacy Ratio (%)   | 22,92                        |  |
| Tier 1 Capital Adequacy Ratio (%)   | 22,13                        |  |
| Capital Adequacy Ratio (%)  | 22,81                        |  |
| <b>BUFFERS</b>  | <b>-</b>                     |  |
| Total buffer requirement (%)  | -                            |  |
| Capital conservation buffer requirement (%)   | 0,625                        |  |
| Bank specific counter-cyclical buffer requirement (%)   | -                            |  |
| 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 deduction thresholds</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 tenthousandtwentyfive limitation)   | 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>  | <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   | -                            |  |

(\*) 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".

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**INFORMATION ON FINANCIAL STRUCTURE (Continued)**

**I. Explanations Related to Components of Shareholders' Equity (Continued)**

|   | <b>Prior Period<br/>31 December 2015</b> |
|---|--|
| <b>Common Equity Tier 1 Capital</b>   |  |
| Paid-in Capital to be Entitled for Compensation after All Creditors   | 600.000                                  |
| Share Premium   | 33.019                                   |
| Share Cancellation Profits  | -  |
| Reserves  | 100.130                                  |
| Income recognized under equity in accordance with TAS   | -  |
| Profit  | 178.138                                  |
| Current Period's Profit   | 174.728                                  |
| Prior Period's Profit   | 3.410                                    |
| General Reserves for Possible Losses  | -  |
| 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>911.287</b>                           |
| <b>Deductions from Common Equity Tier 1 Capital</b>   |  |
| Net loss for the prior year losses and uncovered portion of the total reserves and losses that are recognized under equity in accordance with TAS (-)   | 261                                      |
| Leasehold Improvements on Operational Leases (-)  | -  |
| Goodwill and intangible asset and the related deferred tax liability (-)  | 32.358                                   |
| Net Deferred Tax Asset / Liability (-)  | -  |
| Excess amount expressed in the law (Article 56 4th paragraph) (-)   | -  |
| Bank's direct or indirect investments on its own Tier 1 Capital (-)   | -  |
| 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 (-)  | 1.930                                    |
| The amount to be deducted from common equity tier 1 capital (-)   | -  |
| <b>Total Deductions from common equity tier 1 Capital</b>   | <b>34.549</b>                            |
| <b>Total Common Equity Tier 1 Capital</b>   | <b>876.738</b>                           |
| <b>ADDITIONAL TIER 1 CAPITAL</b>  | <b>-</b>                                 |
| Premiums that are not included in Common Equity Tier 1 capital  | -  |
| Bank's borrowing instruments and related issuance premium (issued after 1.1.2014 )  | -  |
| Bank's borrowing instruments and related issuance premium (issued before 1.1.2014 )   | -  |
| <b>Additional Tier 1 Capital before deductions</b>  | <b>-</b>                                 |
| <b>Deductions from Additional Tier 1 Capital</b>  | <b>-</b>                                 |
| Bank's direct or indirect investment in Tier 1 Capital (-)  | -  |
| 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(-)   | -  |
| The amount to be deducted from Additional Tier 1 Capital (-)  | -  |

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**I. Explanations Related to Components of Shareholders' Equity (Continued)**

|   | Prior Period<br>31 December 2015 |
|---|----------------------------------|
| <b>Total Deductions From Additional Tier 1 Capital</b>  | -                                |
| <b>Total Additional Tier 1 Capital</b>  | -                                |
| <b>Deductions From Tier 1 Capital</b>   |                                  |
| Non deducted Common Tier 1 capital part in accordance with deferred tax expense and goodwill impairment and other intangible fixed assets which is in temporary article 2/1 of Regulation of Shareholders' Equity of Banks. (-)   | 48.537                           |
| Non deducted Common Tier 1 capital part in accordance with net deferred tax income/expense which is in temporary article 2/1 of Regulation of Shareholders' Equity of Banks. (-)  | -                                |
| <b>Total Tier 1 Capital</b>   | <b>828.201</b>                   |
| <b>SUPPLEMENTARY CAPITAL</b>  |                                  |
| Debt instruments which is seen appropriate by corporation and premiums in accordance with these instruments (Exported after 1.1.2014)   | -                                |
| Debt instruments which is seen appropriate by corporation and premiums in accordance with these instruments (Exported before 1.1.2014)  | -                                |
| Pledged sources to bank from shareholders which is used for share capital increasing of bank  | -                                |
| General Provisions  | 21.686                           |
| <b>Supplementary Capital Before Deductions</b>  | <b>21.686</b>                    |
| <b>Deductions From Supplementary Capital</b>  | -                                |
| Direct or indirect investments which bank provides for its' own supplementary capital (-)   | -                                |
| 10% exceed part of Common Tier 1 capital of bank from the sum of partnership share on banks and financial institutions that are not consolidated, with a shareholding less than 10% (-)   | -                                |
| 10% exceed part of Common Tier 1 capital of bank from the sum of partnership share on banks and financial institutions that are not consolidated, with a shareholding of 10% and above (-)  | -                                |
| Other items determined by board (-)   | 2.895                            |
| <b>Total Deductions From Supplementary Capital</b>  | <b>2.895</b>                     |
| <b>Total Supplementary Capital</b>  | <b>18.791</b>                    |
| <b>CAPITAL</b>  | <b>846.992</b>                   |
| Loans extended being noncompliant with articles 50 and 51 of the Law (-)  | -                                |
| Net book values of properties owned, exceeding 50% of banks' equity and properties, and trade goods overtaken in exchange for loans and receivables that should be disposed within five years in accordance with article 57 of the Law, but not yet disposed (-)  | -                                |
| Investments to loans extended to banks, financial institutions (domestic and abroad) and qualified shareholders, like secondary subordinated loan and debt instruments purchased from these institutions issued, like primary and secondary subordinated loan (-)   | -                                |
| Deduction from equity in accordance with 2nd article of 20th item in Regularity of Measurement and Valuation of Capital Adequacy of Banks (-)   | -                                |
| Other accounts determined by board (-)  | -                                |
| Non deducted part of comon equity tier1 , additional core and supplementary capital in accordance with temporary article 2/1 of Regulation of Shareholders' Equity of Banks which is 10% exceed part of Common Tier 1 capital of bank from the sum of partnership share on banks and financial institutions that are not consolidated, with a shareholding less than 10% (-)  | -                                |
| Non deducted part of comon equity tier1, additional core and supplementary capital in accordance with temporary article 2/1 of Regulation of Shareholders' Equity of Banks which is 10% exceed part of Common Tier 1 capital of bank from the sum of partnership share on banks and financial institutions that are not consolidated, with a shareholding of 10% or above (-)   | -                                |
| Non deducted part of comon equity tier1 generating from exceed amount generating from investments to Common Tier 1 capitals of partnership share on banks and financial institutions that are not consolidated, with a shareholding of 10% and above, temporary differences of deferred tax income and the right of offering mortgage services explained in the 1st and 2nd paragraphs of temporary article 2 of Regulation of Shareholders' Equity of Banks. (-) | -                                |
| <b>SHAREHOLDERS' EQUITY</b>   | <b>846.992</b>                   |
| <b>Amounts Below Overrun Amounts In Applied Reducing Procedures</b>   | -                                |
| Amount generating from long position of investments to shareholders' equity and partnership share on banks and financial institutions that are not consolidated, with a shareholding less than 10%  | -                                |
| Amount generating from long position of investments to shareholders' equity and partnership share on banks and financial institutions that are not consolidated, with a shareholding of 10% or above.   | -                                |
| Amount generating from right of offering mortgage service   | -                                |
| Amount generating from temporary differences of deferred income tax income  | -                                |

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**INFORMATION ON FINANCIAL STRUCTURE (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.

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**INFORMATION ON FINANCIAL STRUCTURE (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 acts as the central counterparty in the Securities Lending Market and in the Financial Futures and Options Market and Istanbul Stock Exchange, and liabilities in these markets are considered by our Bank to be non-cash credits.

Our credit transactions assume 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.

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**INFORMATION ON FINANCIAL STRUCTURE (Continued)**

**II. Explanations Related to Credit Risk (continued)**

As of the balance sheet date;

|  |        |
|--|--------|
| Number of Customers - Cash Loan                  | 5      |
| Number of Customers - Non-Cash Loan              | 69     |
| General Loan Loss Reserves (TL)                  | 31.208 |
| Specific Provision for Non Performing Loans (TL) | 1.574  |

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 III, IV. and V. group 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."

Total amount of incurred risks after offsetting transactions (before credit risk reduction), regardless of the credit risk reduction, 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                | 103.263                           | 60.539                     |
| 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                          | 15.573.722                        | 13.855.986                 |
| Conditional and unconditional corporate receivables  | 2.977.019                         | 1.965.566                  |
| 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  | 379.540                           | 337.664                    |

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INFORMATION ON FINANCIAL STRUCTURE (Continued)

II. Explanations Related to Credit Risk (continued)

Profile of significant exposures in major regions:

|   | Exposure Categories   |  |   |  |   |   |   |                      |   |   |  | Total    |   |                   |          |          |                   |
|---|---|--|---|--|---|---|---|----------------------|---|---|--|----------|---|-------------------|----------|----------|-------------------|
|   | Conditional and unconditional exposures to central governments or local authorities | Conditional and unconditional exposures 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 brokerages | Conditional and unconditional exposures to corporates | 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 | Short term exposures to banks, brokerages and corporates |          | Exposures in the form of collective investment undertakings | Other receivables |          |          |                   |
| <b>Current Period</b>                       |   |  |   |  |   |   |   |                      |   |   |  |          |   |                   |          |          |                   |
| Domestic                                    | 103.263   | -  | -   | -  | 12.008.029  | 1.488.510   | -   | -                    | -   | -   | -  | -        | 378.907   | -                 | -        | -        | 13.978.709        |
| European Union (EU) Countries               | -   | -  | -   | -  | 93.724  | -   | -   | -                    | -   | -   | -  | -        | -   | -                 | -        | -        | 93.724            |
| OECD Countries*                             | -   | -  | -   | -  | -   | -   | -   | -                    | -   | -   | -  | -        | -   | -                 | -        | -        | -                 |
| Off-Shore Banking Regions                   | -   | -  | -   | -  | -   | -   | -   | -                    | -   | -   | -  | -        | -   | -                 | -        | -        | -                 |
| USD, Canada                                 | -   | -  | -   | -  | 1.739   | -   | -   | -                    | -   | -   | -  | -        | -   | -                 | -        | -        | 1.739             |
| Other Countries                             | -   | -  | -   | -  | -   | -   | -   | -                    | -   | -   | -  | -        | -   | -                 | -        | -        | -                 |
| Associates, Subsidiaries and Joint-Ventures | -   | -  | -   | -  | -   | -   | -   | -                    | -   | -   | -  | -        | -   | -                 | -        | -        | -                 |
| Unallocated Assets/Liabilities**            | -   | -  | -   | -  | -   | -   | -   | -                    | -   | -   | -  | -        | -   | -                 | -        | -        | -                 |
| <b>Total</b>                                | <b>103.263</b>  | <b>-</b>   | <b>-</b>  | <b>-</b>   | <b>12.103.492</b>   | <b>1.488.510</b>                                      | <b>-</b>  | <b>-</b>             | <b>-</b>  | <b>-</b>  | <b>-</b>   | <b>-</b> | <b>378.907</b>  | <b>-</b>          | <b>-</b> | <b>-</b> | <b>14.074.172</b> |

(\*) Includes OECD countries other than EU countries, USA and Canada.

(\*\*) Includes assets and liability items that can not be allocated on a consistent basis.

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INFORMATION ON FINANCIAL STRUCTURE (Continued)

II. Explanations Related to Credit Risk (continued)

Risk profile by Sectors or Counterparties:

|                                 | Conditional and unconditional exposures to central governments or central banks | Conditional and unconditional exposures to regional governments or local authorities | Conditional and unconditional exposures to administrative units and non-commercial enterprises | Conditional and unconditional exposures to multilateral international organisations | Conditional and unconditional exposures to banks | Conditional and unconditional exposures to banks and brokerages | Conditional and unconditional exposures to real estate property | Conditional and unconditional exposures secured by real estate property | Past due receivables | Receivables defined in high risk category by BRSAs | Exposures in the form of bonds secured by mortgages | Other receivables | TL         | FC | Total   |
|---------------------------------|---|--|--|---|--|---|---|---|----------------------|--|---|-------------------|------------|----|---------|
| <b>Agriculture</b>              | -   | -  | -  | -   | -  | -   | -   | -   | -                    | -  | -   | -                 | -          | -  | -       |
| Farming and Stockbreeding       | -   | -  | -  | -   | -  | -   | -   | -   | -                    | -  | -   | -                 | -          | -  | -       |
| Forestry                        | -   | -  | -  | -   | -  | -   | -   | -   | -                    | -  | -   | -                 | -          | -  | -       |
| Fishery                         | -   | -  | -  | -   | -  | -   | -   | -   | -                    | -  | -   | -                 | -          | -  | -       |
| <b>Manufacturing</b>            | -   | -  | -  | -   | -  | -   | -   | -   | -                    | -  | -   | -                 | -          | -  | -       |
| Mining and Quarrying            | -   | -  | -  | -   | -  | -   | -   | -   | -                    | -  | -   | -                 | -          | -  | -       |
| Production                      | -   | -  | -  | -   | -  | -   | -   | -   | -                    | -  | -   | -                 | -          | -  | -       |
| Electricity, Gas and Water      | -   | -  | -  | -   | -  | -   | -   | -   | -                    | -  | -   | -                 | -          | -  | -       |
| <b>Construction</b>             | -   | -  | -  | -   | -  | -   | -   | -   | -                    | -  | -   | -                 | -          | -  | -       |
| Services                        | -   | -  | -  | -   | 12,103.492                                       | 1,488.510   | -   | -   | -                    | -  | 10,263.947  | 3,328.055         | 13,592.002 | -  | -       |
| Wholesale and Retail Trade      | -   | -  | -  | -   | -  | -   | -   | -   | -                    | -  | -   | -                 | -          | -  | -       |
| Accommodation and Dining        | -   | -  | -  | -   | -  | -   | -   | -   | -                    | -  | -   | -                 | -          | -  | -       |
| Transportation and Telecom.     | -   | -  | -  | -   | -  | -   | -   | -   | -                    | -  | -   | -                 | -          | -  | -       |
| Financial Institutions          | -   | -  | -  | -   | 12,103.492                                       | 1,488.510   | -   | -   | -                    | -  | 10,263.947  | 3,328.055         | 13,592.002 | -  | -       |
| Real Estate and Rental Services | -   | -  | -  | -   | -  | -   | -   | -   | -                    | -  | -   | -                 | -          | -  | -       |
| Professional Services           | -   | -  | -  | -   | -  | -   | -   | -   | -                    | -  | -   | -                 | -          | -  | -       |
| Educational Services            | -   | -  | -  | -   | -  | -   | -   | -   | -                    | -  | -   | -                 | -          | -  | -       |
| Health and Social Services      | -   | -  | -  | -   | -  | -   | -   | -   | -                    | -  | -   | -                 | -          | -  | -       |
| Other                           | 103.263   | -  | -  | -   | -  | -   | -   | -   | -                    | -  | -   | 378.907           | 482.170    | -  | 482.170 |
| <b>Total</b>                    | 103.263   | -  | -  | -   | 12,103.492                                       | 1,488.510   | -   | -   | -                    | -  | 10,263.947  | 3,328.055         | 14,074.172 | -  | -       |

## INFORMATION ON FINANCIAL STRUCTURE (Continued)

### II. Explanations Related to Credit Risk (continued)

#### Analysis of maturity-bearing exposures according to remaining maturities:

| Exposure classifications   | Term To Maturity  |                  |            |               |             |
|--|-------------------|------------------|------------|---------------|-------------|
|  | Up to 1Month      | 1-3 Month        | 3-6 Month  | 6-12 Month    | Over 1 year |
| 1 Conditional and unconditional exposures to central governments or central banks                    | 57.319            | -                | -          | 45.944        | -           |
| 2 Conditional and unconditional exposures to regional governments or local authorities               | -                 | -                | -          | -             | -           |
| 3 Conditional and unconditional receivables from administrative units and non-commercial 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                              | 10.753.240        | 1.347.944        | 233        | 2.076         | -           |
| 7 Conditional and unconditional exposures to corporates  | 1.195.202         | 293.308          | -          | -             | -           |
| 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 to banks, brokerage houses and corporates                                    | -                 | -                | -          | -             | -           |
| 15 Exposures in the form of collective investment undertakings                                       | -                 | -                | -          | -             | -           |
| 16 Other receivables   | 378.906           | -                | -          | -             | -           |
| <b>Total</b>   | <b>12.384.667</b> | <b>1.641.252</b> | <b>233</b> | <b>48.020</b> | <b>-</b>    |

#### 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 2015: None).

Details on the Bank's overdue depreciated financial assets are provided in the fifth chapter, first part, footnote Note 5 of the report.

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**INFORMATION ON FINANCIAL STRUCTURE (Continued)**

**II. Explanations Related to Credit Risk (continued)**

**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 | 47.208    | -          | 10.389.651 | 3.245.920  | -          | 391.393     | -           | -                             |
| Exposures after Credit Risk Mitigation  | 975.560   | -          | 9.468.607  | 3.238.612  | -          | 391.393     | -           | -                             |

**Informations in terms of major sectors and type of counterparties:**

None.

**Information about Value Adjustment and Change in Provisions**

|                     | <b>31.12.2015 Balance</b> | <b>Provision for Period</b> | <b>Provision Reversals</b> | <b>Write off from Asset</b> | <b>Other Adjustments</b> | <b>31.12.2016 Balance</b> |
|---------------------|---------------------------|-----------------------------|----------------------------|-----------------------------|--------------------------|---------------------------|
| Specific Provisions | 1.574                     | -                           | -                          | -                           | -                        | 1.574                     |
| General Provisions  | 21.686                    | 13.983                      | (4.461)                    | -                           | -                        | 31.208                    |

**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                     | 18                  |
| (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               | 790                   | 250                 |
| (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)                | 798                   | 268                 |
| (X) Amount Subject to Market Risk (12,5 x VIII) or (12,5 x IX)                           | 9.975                 | 3.350               |

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**INFORMATION ON FINANCIAL STRUCTURE (Continued)**

**III. Explanations Related to Market Risk (Continued)**

**Average market risk table calculated at month ends during the period:**

|                                    | Current Period |              |            | Prior Period |              |            |
|------------------------------------|----------------|--------------|------------|--------------|--------------|------------|
|                                    | Average        | Maximum      | Minimum    | Average      | Maximum      | Minimum    |
| Interest Rate Risk                 | 13             | 27           | 1          | 13           | 25           | 3          |
| Stock Risk                         | -              | -            | -          | -            | -            | -          |
| Currency Risk                      | 922            | 1.560        | 540        | 635          | 1.264        | 250        |
| Commodity Risk                     | -              | -            | -          | -            | -            | -          |
| Settlement Risk                    | -              | -            | -          | -            | -            | -          |
| Option Risk                        | -              | -            | -          | -            | -            | -          |
| Counterparty Credit Risk           | -              | -            | -          | -            | -            | -          |
| <b>Total Value Subject to Risk</b> | <b>935</b>     | <b>1.587</b> | <b>541</b> | <b>648</b>   | <b>1.289</b> | <b>253</b> |

**Information on Counterparty Credit Risk**

Bank has no counterparty credit risk for purchase and sell accounts as of 31 December 2016 (31 December 2015: None).

**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 2015, 2014 and 2013. The amount subject to Operational Risk for the current period is TRY 536.513 (31 December 2015: TL 404.889).

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:

|   | 2 Prior Period Amount | 1 Prior Period Amount | 31.12.2016 | Total/Positive Year | Rate (%) | Total   |
|---|-----------------------|-----------------------|------------|---------------------|----------|---------|
| Gross Income                                    | 212.862               | 285.373               | 360.185    | 286.140             | 15       | 42.921  |
| Amount subject to Operational Risk (Total*12,5) |                       |                       |            |                     |          | 536.513 |

|   | 2 Prior Period Amount | 1 Prior Period Amount | 31.12.2015 | Total/Positive Year | Rate (%) | Total   |
|---|-----------------------|-----------------------|------------|---------------------|----------|---------|
| Gross Income                                    | 150.392               | 212.623               | 284.808    | 215.941             | 15       | 32.391  |
| Amount subject to Operational Risk (Total*12,5) |                       |                       |            |                     |          | 404.889 |

c) Bank is not using standard method.

d) Bank is not using alternative execution in standard method.

e) Bank is not using advanced measurement method.

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**INFORMATION ON FINANCIAL STRUCTURE (Continued)**

**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 TRY 9.876 (31 December 2015: TRY 3.124) for the net position between assets and liabilities in foreign currency, and recognised it in the amount basis to market risk.

In the FX transactions of the Bank, the risk management policy that is also regarded in TRY 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 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> |
|--|---------------|---------------|---------------|----------------|
| 30 December 2016                                   | 3,5192        | 3,7099        | 4,3189        | 3,0025         |
| 29 December 2016                                   | 3,5318        | 3,6939        | 4,3222        | 3,0264         |
| 28 December 2016                                   | 3,5329        | 3,6901        | 4,3231        | 2,9961         |
| 27 December 2016                                   | 3,5135        | 3,6711        | 4,3040        | 2,9883         |
| 26 December 2016                                   | 3,5041        | 3,6639        | 4,2963        | 2,9852         |
| <b>Simple arithmetic averages for last 31 days</b> | <b>3,4936</b> | <b>3,6846</b> | <b>4,3528</b> | <b>3,0026</b>  |

**Foreign currency sensitivity:**

According to TFRS 7, sensitivity of foreign currency assets and liabilities of the Bank to a probable change in exchange rates that might have a substantial effect is analyzed. In the analysis presented below, a 10% change in USD and Euro currencies are anticipated.

|      | <b>Change in<br/>currency rate in %</b> | <b>Effect on profit or loss</b> |                             | <b>Effect on equity</b>     |                             |
|------|---|---------------------------------|-----------------------------|-----------------------------|-----------------------------|
|      |   | <b>31 December<br/>2016</b>     | <b>31 December<br/>2015</b> | <b>31 December<br/>2016</b> | <b>31 December<br/>2015</b> |
| USD  | 10% increase                            | 678                             | 42                          | 678                         | 42                          |
| USD  | 10% decrease                            | (678)                           | (42)                        | (678)                       | (42)                        |
| EURO | 10% increase                            | 292                             | 40                          | 292                         | 40                          |
| EURO | 10% decrease                            | (292)                           | (40)                        | (292)                       | (40)                        |

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**INFORMATION ON FINANCIAL STRUCTURE (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<br>Purchased, Precious Metals) and Balances with the Central Bank of Turkey | -              | -                | -            | -                |
| Due From Other Banks  | 982.511        | 2.342.276        | 2.549        | 3.327.336        |
| Financial Assets at Fair Value Through Profit and Loss  | -              | -                | -            | -                |
| Money Market Placements   | -              | -                | -            | -                |
| Available-For-Sale Financial Assets   | 543            | -                | -            | 543              |
| Loans   | -              | -                | -            | -                |
| Subsidiaries, Associates and Entities Under Common Control  | -              | -                | -            | -                |
| Held-To-Maturity Investments  | -              | -                | -            | -                |
| Derivative Financial Assets for Hedging Purposes  | -              | -                | -            | -                |
| Tangible Assets   | -              | -                | -            | -                |
| Intangible Assets   | -              | -                | -            | -                |
| Other Assets  | 64             | 112              | -            | 176              |
| <b>Total Assets</b>   | <b>983.118</b> | <b>2.342.388</b> | <b>2.549</b> | <b>3.328.055</b> |
| <b>Liabilities</b>  |                |                  |              |                  |
| Bank Deposits   | -              | -                | -            | -                |
| Foreign Currency Deposits   | -              | -                | -            | -                |
| Money Market Borrowings   | -              | -                | -            | -                |
| Funds Provided From Other Financial Institutions  | 854.399        | 1.015.340        | -            | 1.869.739        |
| Securities Issued   | -              | -                | -            | -                |
| Sundry Creditors  | 125.801        | 1.320.268        | 2.354        | 1.448.423        |
| Derivative Financial Liabilities for Hedging Purposes   | -              | -                | -            | -                |
| Other Liabilities   | -              | -                | 17           | 17               |
| <b>Total Liabilities</b>  | <b>980.200</b> | <b>2.335.608</b> | <b>2.371</b> | <b>3.318.179</b> |
| <b>Net Balance Sheet Position</b>   | <b>2.918</b>   | <b>6.780</b>     | <b>178</b>   | <b>9.876</b>     |
| Net Off-Balance Sheet Position  | -              | -                | -            | -                |
| Financial Derivative Assets   | -              | -                | -            | -                |
| Financial Derivative Liabilities  | -              | -                | -            | -                |
| Non-Cash Loans  | -              | -                | -            | -                |
| <b>Prior Period</b>   |                |                  |              |                  |
| Total Assets  | 787.708        | 1.795.454        | 3.484        | 2.586.646        |
| Total Liabilities   | 787.307        | 1.795.039        | 1.176        | 2.583.522        |
| <b>Net Balance Sheet Position</b>   | <b>401</b>     | <b>415</b>       | <b>2.308</b> | <b>3.124</b>     |
| Net Off-Balance Sheet Position  | -              | -                | -            | -                |
| Financial Derivative Assets   | -              | -                | -            | -                |
| Financial Derivative Liabilities  | -              | -                | -            | -                |
| Non-Cash Loans  | -              | -                | -            | -                |

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**INFORMATION ON FINANCIAL STRUCTURE (Continued)**

**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 analyzes. Cash requirement for every maturity period are determined based on maturity distribution analysis (Gap). In addition, a positive spread between the yield on assets and the cost of liabilities is kept while determining interest rates.

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 2016. The Bank does not undertake any liability due to using derivative financial instruments attributable to its transactions in evaluating its funding resources.

**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<br/>Month</b> | <b>1-3<br/>Month</b> | <b>3-12<br/>Month</b> | <b>1-5<br/>Year</b> | <b>5 Year and<br/>over</b> | <b>Non-Interest<br/>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 | -                        | -                    | -                     | -                   | -                          | 85                              | 85               |
| Due From Other 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 (*)   | -                        | -                    | -                     | -                   | -                          | 121.410                         | 121.410          |
| <b>Total Assets</b>  | <b>6.895.860</b>         | <b>845.867</b>       | <b>47.101</b>         | <b>-</b>            | <b>-</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 (*)  | -                        | -                    | -                     | -                   | -                          | 1.116.944                       | 1.116.944        |
| <b>Total Liabilities</b>   | <b>4.733.716</b>         | <b>-</b>             | <b>-</b>              | <b>-</b>            | <b>-</b>                   | <b>3.272.632</b>                | <b>8.006.348</b> |
| Balance Sheet Long Position  | 2.162.144                | 845.867              | 47.101                | -                   | -                          | -                               | 3.055.112        |
| Balance Sheet Short Position   | -                        | -                    | -                     | -                   | -                          | (3.055.112)                     | (3.055.112)      |
| Off-Balance Sheet Long Position  | -                        | -                    | -                     | -                   | -                          | -                               | -                |
| Off-Balance Sheet Short Position   | -                        | -                    | -                     | -                   | -                          | -                               | -                |
| <b>Total Position</b>  | <b>2.162.144</b>         | <b>845.867</b>       | <b>47.101</b>         | <b>-</b>            | <b>-</b>                   | <b>(3.055.112)</b>              | <b>-</b>         |

(\*) Other assets and liabilities in non-interest bearing column are presented below.

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**VI. Explanations Related to Interest Rate Risk (Continued)**

| <b>Closing Balances of Prior Period</b>  | <b>Up to 1<br/>Month</b> | <b>1-3<br/>Month</b> | <b>3-12<br/>Month</b> | <b>1-5<br/>Year</b> | <b>5 Year and<br/>over</b> | <b>Non-Interest<br/>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 | -                        | -                    | -                     | -                   | -                          | 55                              | 55               |
| Due From Other Banks   | 4.774.499                | 1.793.656            | -                     | -                   | -                          | 30.549                          | 6.598.704        |
| Financial Assets at Fair Value Through Profit and Loss   | -                        | -                    | 4.396                 | -                   | -                          | -                               | 4.396            |
| Money Market Placements  | 18.881                   | -                    | -                     | -                   | -                          | -                               | 18.881           |
| Financial Assets Available-For-Sale  | -                        | -                    | -                     | -                   | -                          | 1.636                           | 1.636            |
| Loans  | 172.112                  | -                    | -                     | -                   | -                          | -                               | 172.112          |
| Held-To-Maturity Investments   | 103.805                  | -                    | 76.280                | -                   | -                          | -                               | 180.085          |
| Other Assets (*)   | 1                        | -                    | -                     | -                   | -                          | 116.568                         | 116.569          |
| <b>Total Assets</b>  | <b>5.069.298</b>         | <b>1.793.656</b>     | <b>80.676</b>         | <b>-</b>            | <b>-</b>                   | <b>148.808</b>                  | <b>7.092.438</b> |
| <b>Liabilities</b>   |                          |                      |                       |                     |                            |                                 |                  |
| Bank Deposits  | -                        | -                    | -                     | -                   | -                          | -                               | -                |
| Other Deposits   | -                        | -                    | -                     | -                   | -                          | -                               | -                |
| Money Market Borrowings  | -                        | -                    | -                     | -                   | -                          | -                               | -                |
| Sundry Creditors   | 1.938.714                | -                    | -                     | -                   | -                          | 1.664.984                       | 3.603.698        |
| Securities Issued  | -                        | -                    | -                     | -                   | -                          | -                               | -                |
| Funds Provided From Other Financial Institutions   | 2.459.898                | -                    | -                     | -                   | -                          | 58.281                          | 2.518.179        |
| Other Liabilities (*)  | -                        | -                    | -                     | -                   | -                          | 970.561                         | 970.561          |
| <b>Total Liabilities</b>   | <b>4.398.612</b>         | <b>-</b>             | <b>-</b>              | <b>-</b>            | <b>-</b>                   | <b>2.693.826</b>                | <b>7.092.438</b> |
| Balance Sheet Long Position  | 670.686                  | 1.793.656            | 80.676                | -                   | -                          | -                               | 2.545.018        |
| Balance Sheet Short Position   | -                        | -                    | -                     | -                   | -                          | (2.545.018)                     | (2.545.018)      |
| Off-Balance Sheet Long Position  | -                        | -                    | -                     | -                   | -                          | -                               | -                |
| Off-Balance Sheet Short Position   | -                        | -                    | -                     | -                   | -                          | -                               | -                |
| <b>Total Position</b>  | <b>670.686</b>           | <b>1.793.656</b>     | <b>80.676</b>         | <b>-</b>            | <b>-</b>                   | <b>(2.545.018)</b>              | <b>-</b>         |

(\*) Other assets and liabilities in non-interest bearing column are presented below.

| <b>Other Assets</b>                    | <b>Current Year</b> |
|--|---------------------|
| -Intangible assets                     | 85.005              |
| -Tangible assets                       | 15.535              |
| -Custody services comission rediscount | 8.553               |
| -Sundry assets                         | 2.453               |
| -Subsidiaries                          | 4.825               |
| -Temporary accounts                    | 3.822               |
| -Deferred tax assets                   | 1.179               |
| -Stationary supplies                   | 38                  |
| <b>Total</b>                           | <b>121.410</b>      |
| <b>Other Liabilities</b>               | <b>Current Year</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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**VI. Explanations Related to Interest Rate Risk (Continued)**

| <b>Other Assets</b>                    | <b>Önceki Dönem</b> |
|--|---------------------|
| -Intangible assets                     | 80.895              |
| -Tangible assets                       | 16.083              |
| -Sundry assets                         | 8.072               |
| -Subsidiaries                          | 4.825               |
| -Temporary accounts                    | 4.016               |
| -Deferred tax assets                   | 2.629               |
| -Stationary supplies                   | 48                  |
| -Custody services comission rediscount | 1                   |
| <b>Total</b>                           | <b>116.569</b>      |
| <b>Other Liabilities</b>               | <b>PriorYear</b>    |
| -Shareholder's equity                  | 911.026             |
| -Provisions                            | 44.510              |
| -Current tax liability                 | 15.025              |
| <b>Total</b>                           | <b>970.561</b>      |

**Average interest rates applied to monetary financial instruments (%):**

| <b>Current Period</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  | 2,02       | 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     |
| Investments held to maturity  | -          | -          | -          | 9,97      |
| <b>Liabilities</b>  | <b>-</b>   | <b>-</b>   | <b>-</b>   | <b>-</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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**INFORMATION ON FINANCIAL STRUCTURE (Continued)**

**VI. Explanations Related to Interest Rate Risk (Continued)**

**Average interest rates applied to monetary financial instruments (%):**

| Prior Period  | EUR  | USD  | JPY | TRY   |
|---|------|------|-----|-------|
| <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 And Financial Institutions   | 1,55 | 2,21 | -   | 10,41 |
| Financial Assets At Fair Value Through Profit And Loss  | -    | -    | -   | 9,69  |
| Money Market Placements   | -    | -    | -   | -     |
| Financial Assets Available-For-Sale   | -    | -    | -   | -     |
| Loans   | -    | -    | -   | 13,31 |
| Held-To-Maturity Investments  | -    | -    | -   | -     |
| <b>Liabilities</b>  |      |      |     |       |
| Bank Deposits   | -    | -    | -   | -     |
| Other Deposits  | -    | -    | -   | -     |
| Money Market Borrowings   | -    | -    | -   | -     |
| Other Creditors   | -    | -    | -   | 8,84  |
| Securities Issued   | -    | -    | -   | -     |
| Funds Provided From Other Financial Institutions  | 0,17 | 0,65 | -   | 9,73  |

According to IFRS 7 sensitivity of assets and liabilities of the Bank to a probable change in interest rates that might have a substantial effect is not important as Bank's financial instruments are short term and have fixed interest rate. Thus, presentation of financial information related with interest rate sensitivity is not required.

**Interest rate risk on banking accounts:**

| Type of Currency                  | Shock Applied<br>(+/- x basis point) | Gains/ (Losses) | Gains/Equity- (Losses)/<br>Equity |
|-----------------------------------|--------------------------------------|-----------------|-----------------------------------|
| TRY                               | (+) 500 bp                           | 4.081           | 0,39                              |
| TRY                               | (-) 400 bp                           | (3.271)         | (0,31)                            |
| EURO                              | (+) 200 bp                           | 991             | 0,09                              |
| EURO                              | (-) 200 bp                           | (991)           | (0,09)                            |
| USD                               | (+) 200 bp                           | 1.383           | 0,13                              |
| USD                               | (-) 200 bp                           | (1.383)         | (0,13)                            |
| <b>Total (of negative shocks)</b> |                                      | <b>(5.645)</b>  | <b>(0,54)</b>                     |
| <b>Total (of positive shocks)</b> |                                      | <b>6.455</b>    | <b>0,62</b>                       |

**Equity share position risk in banking accounts**

As of balance sheet date, bank has no equity share position risk (31 December 2015: None).

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**VII. Explanations Related to Liquidity Risk**

The Bank management takes guarantees for Takasbank Money Market, Derivatives Exchange Market, Loan Share Market, Istanbul Stock Exchange Money Market and settlement transactions and places TL funds in short-term in order to remain liquid.

The effective management of the risks arising from money market instruments is the fundamental strategy of the management. 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 its own resources.

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, Istanbul Stock Exchange 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 can not 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 January 1, 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 December 24, 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 until 2017.

**Ratios throughout the period are as below:**

|                | <b>Current Period (%)</b> | <b>Prior Period (%)</b> |
|----------------|---------------------------|-------------------------|
| Period average | 144                       | 144                     |
| Highest        | 182                       | 169                     |
| Lowest         | 126                       | 133                     |

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**INFORMATION ON FINANCIAL STRUCTURE (Continued)**

**VII. Explanations Related to Liquidity Risk**

**Presentation of assets and liabilities according to their remaining maturities:**

| Current Period   | Demand             | Up to 1 Month    | 1-3 Month        | 3-12 Month    | 1-5 Year | 5 Year and Over | Undistributed (*)  | 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  | 94.311             | 6.775.747        | 845.867          | -             | -        | -               | -                  | 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 (*)   | -                  | -                | -                | -             | -        | -               | 121.410            | 121.410          |
| <b>Total Assets</b>  | <b>96.110</b>      | <b>6.895.860</b> | <b>845.867</b>   | <b>47.101</b> | <b>-</b> | <b>-</b>        | <b>121.410</b>     | <b>8.006.348</b> |
| <b>Liabilities</b>   |                    |                  |                  |               |          |                 |                    |                  |
| Bank Deposits  | -                  | -                | -                | -             | -        | -               | -                  | -                |
| Other Deposits   | -                  | -                | -                | -             | -        | -               | -                  | -                |
| Funds Provided From Other Financial Institutions   | -                  | 2.433.181        | -                | -             | -        | -               | 36.029             | 2.469.210        |
| Money Market Borrowings  | -                  | 43.800           | -                | -             | -        | -               | -                  | 43.800           |
| Securities Issued  | -                  | -                | -                | -             | -        | -               | -                  | -                |
| Sundry Creditors   | 2.119.659          | 2.256.735        | -                | -             | -        | -               | -                  | 4.376.394        |
| Other Liabilities  | -                  | 5.495            | -                | 25.291        | -        | -               | 1.086.158          | 1.116.944        |
| <b>Total Liabilities</b>   | <b>2.119.659</b>   | <b>4.739.211</b> | <b>-</b>         | <b>25.291</b> | <b>-</b> | <b>-</b>        | <b>1.122.187</b>   | <b>8.006.348</b> |
| <b>Current Period 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>         |
| <b>Prior Period</b>  |                    |                  |                  |               |          |                 |                    |                  |
| Total Assets   | 32.240             | 5.069.298        | 1.793.656        | 80.676        | -        | -               | 116.568            | 7.092.438        |
| Total Liabilities  | 1.664.984          | 4.403.907        | -                | 23.918        | -        | -               | 999.629            | 7.092.438        |
| <b>Liquidity Gap</b>   | <b>(1.632.744)</b> | <b>665.391</b>   | <b>1.793.656</b> | <b>56.758</b> | <b>-</b> | <b>-</b>        | <b>(883.061)</b>   | <b>-</b>         |

(\*) 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.

**Analysis of financial assets and liabilities by remaining contractual maturities:**

|                         | Demand | Up to one month  | 1-3 Months | 3-12 Months | 1-5 Years | Total            | Adjustments | Total            |
|-------------------------|--------|------------------|------------|-------------|-----------|------------------|-------------|------------------|
| <b>31 December 2016</b> |        |                  |            |             |           |                  |             |                  |
| Placements              | -      | -                | -          | -           | -         | -                | -           | -                |
| Repo                    | -      | -                | -          | -           | -         | -                | -           | -                |
| Funds borrowed          | -      | 2.399.679        | -          | -           | -         | 2.399.679        | 751         | 2.400.430        |
| Other                   | -      | 68.780           | -          | -           | -         | 68.780           | -           | 68.780           |
| <b>Total</b>            |        | <b>2.468.459</b> |            |             |           | <b>2.468.459</b> | <b>751</b>  | <b>2.469.210</b> |
| <b>31 December 2015</b> |        |                  |            |             |           |                  |             |                  |
| Placements              | -      | -                | -          | -           | -         | -                | -           | -                |
| Repo                    | -      | -                | -          | -           | -         | -                | -           | -                |
| Funds Borrowed          | -      | 2.412.697        | -          | -           | -         | 2.412.697        | 626         | 2.413.323        |
| Other                   | -      | 104.856          | -          | -           | -         | 104.856          | -           | 104.856          |
| <b>Total</b>            |        | <b>2.517.553</b> |            |             |           | <b>2.517.553</b> | <b>626</b>  | <b>2.518.179</b> |

**Securitisation positions:**

The Bank does not apply securitisation as of 31 December 2016 (31 December 2015: None).

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**INFORMATION ON FINANCIAL STRUCTURE (Continued)**

**VII. Explanations Related to Liquidity Risk (continued)**

**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 5,00% (31 December 2015: 6,42%). 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:**

|  | <b>Current<br/>Period (*)</b> | <b>Prior Period<br/>(*)</b> |
|--|-------------------------------|-----------------------------|
| <b>Assets on the Balance Sheet</b>   |                               |                             |
| Assets on the Balance Sheet (Excluding Derivative Financial Instruments and Loan Derivatives, Including Collaterals) | 8.000.334                     | 7.309.294                   |
| (Assets Deducted from Core Capital)  | 87.089                        | 81.624                      |
| Total Risk Amount for Assets on the Balance Sheet  | 8.087.423                     | 7.390.918                   |
| <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   | 10.891.794                    | 5.941.930                   |
| (Adjustment Amount Arising from Multiplying by the Credit Conversion Rate)   | -                             | -                           |
| Total Risk Amount for Off-Balance Sheet Transactions   | 10.891.794                    | 5.941.930                   |
| <b>Capital and Total Risk</b>  |                               |                             |
| Tier 1 Capital   | 939.831                       | 816.350                     |
| Total Risk Amount  | 18.979.217                    | 13.332.848                  |
| <b>Leverage Ratio</b>  |                               |                             |
| Leverage Ratio   | 5,00%                         | 6,42%                       |

(\*) The amounts in the table are calculated by using the quarterly average amounts.

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**INFORMATION ON FINANCIAL STRUCTURE (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 Istanbul Stock Exchange 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.

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 BİAŞ (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 Bloomberg Generic Price (BGN) published at 17:00. 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.

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 Istanbul Stock Exchange Market, cash TL, convertible foreign exchange (USD, EUR), government debt securities and T.C. Treasury Asset Lease Inc. Lease Certificates are considered as collateral.

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 BİAŞ 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 BİAŞ, 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 Turkish Central Bank are used as indicators.

c) Cash amounts in foreign currency are valued based on the foreign exchange buying rate determined by the Turkish Central Bank for the day after the valuation.

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**INFORMATION ON FINANCIAL STRUCTURE (Continued)**

**VII. Explanations Related to Liquidity Risk (continued)**

**Collaterals in terms of Risk Categories:**

| <b>Exposure classifications</b>  | <b>Amount</b>     | <b>Financial Collaterals</b> | <b>Other/Physical Collaterals</b> | <b>Guarantees and Credit Derivatives</b> |
|--|-------------------|------------------------------|-----------------------------------|--|
| Conditional and unconditional receivables from central governments or central banks                | 103.263           | -                            | -                                 | -  |
| 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                          | 12.103.492        | 928.352                      | -                                 | -  |
| Conditional and unconditional corporate receivables  | 1.488.510         | -                            | -                                 | -  |
| 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  | 378.907           | -                            | -                                 | -  |
| <b>Total</b>   | <b>14.074.172</b> | <b>928.352</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.

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**INFORMATION ON FINANCIAL STRUCTURE (Continued)**

**VIII. Risk management objectives and policies**

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 30 September 2016 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 (eg 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.

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**INFORMATION ON FINANCIAL STRUCTURE (Continued)**

**VIII. Risk management objectives and policies (Continued)**

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.

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 then 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.

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**INFORMATION ON FINANCIAL STRUCTURE (Continued)**

**VIII. Risk management objectives and policies (Continued)**

**b) The risk governance structure: responsibilities attributed throughout the bank (eg oversight and delegation of authority; breakdown of responsibilities by type of risk, business unit etc); relationships between the structures involved in risk management processes (eg 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 defense 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 analyzed. In addition, reports are submitted to Board of Directors and Senior Management on whether first and second line of defense 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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**INFORMATION ON FINANCIAL STRUCTURE (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 analyzed 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.

**a) Channels to communicate, decline and enforce the risk culture within the bank (eg 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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**INFORMATION ON FINANCIAL STRUCTURE (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) Description of 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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**VIII. Risk management objectives and policies (Continued)**

**f) Qualitative information on stress testing (eg 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 BRSB 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 analyzed 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 analyzed 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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**INFORMATION ON FINANCIAL STRUCTURE (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 Undersecretariat 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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**INFORMATION ON FINANCIAL STRUCTURE (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) (CCR)                   | 3.904.417             | 3.659.381        | 312.353         |
| Of which standardised approach (SA)                                      | 3.904.417             | 3.659.381        | 312.353         |
| Of which internal rating-based (IRB) approach                            | -                     | -                | -               |
| Counterparty credit risk   | 3                     | 3                | -               |
| Of which standardised approach for counterparty credit risk (SA-CCR)     | 3                     | 3                | -               |
| Of which internal model method (IMM)                                     | -                     | -                | -               |
| Equity positions in banking book under market-based approach             | -                     | -                | -               |
| Equity investments in funds – look-through approach                      | -                     | -                | -               |
| Equity investments in funds – mandate-based approach                     | -                     | -                | -               |
| Equity investments in funds – fall-back approach                         | -                     | -                | -               |
| Settlement risk  | -                     | -                | -               |
| Securitisation exposures in banking book                                 | -                     | -                | -               |
| Of which IRB ratings-based approach (RBA)                                | -                     | -                | -               |
| Of which IRB Supervisory Formula Approach (SFA)                          | -                     | -                | -               |
| Of which SA/simplified supervisory formula approach (SSFA)               | -                     | -                | -               |
| Market risk  | 9.975                 | 17.400           | 798             |
| Of which standardised approach (SA)                                      | 9.975                 | 17.400           | 798             |
| Of which internal model approaches (IMM)                                 | -                     | -                | -               |
| Operational risk   | 536.513               | 405.392          | 32.391          |
| Of which Basic Indicator Approach  | 536.513               | 405.392          | 32.391          |
| Of which Standardised Approach   | -                     | -                | -               |
| Of which Advanced Measurement Approach                                   | -                     | -                | -               |
| Amounts below the thresholds for deduction (subject to 250% risk weight) | -                     | -                | -               |
| Floor adjustments  | -                     | -                | -               |
| <b>Total</b>   | <b>4.450.908</b>      | <b>4.082.176</b> | <b>345.543</b>  |

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INFORMATION ON FINANCIAL STRUCTURE (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 under scope of regulatory consolidation | Carrying values of items in accordance with TAS |                                      |  | Subject to capital requirements or subject to deduction from capital |
|---|---|---|--------------------------------------|--|--|
|   |   | Subject to credit risk framework                | Subject to the market risk framework | Not subject to capital requirements or subject to deduction from capital |  |
| Assets  |   |   |                                      |  |  |
| Cash and balances at central bank   | 85  | 85  | -                                    | -  | -  |
| Financial assets held for trading   | 1,158   | -   | 1,158                                | -  | -  |
| Financial assets designated at fair value through profit or loss          | -   | -   | -                                    | 1,158  | -  |
| Banks   | 7,715,925   | 7,715,925                                       | -                                    | 3,327,336  | -  |
| Receivables from money markets  | 2,168   | -   | 2,167                                | -  | -  |
| Available for sale financial assets (net)                                 | 1,714   | 1,714   | -                                    | 543  | -  |
| Loans and receivables   | 98,945  | 98,945  | -                                    | -  | -  |
| Factoring receivables   | -   | -   | -                                    | -  | -  |
| Held to maturity investments (net)  | 45,943  | 45,943  | -                                    | -  | -  |
| 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)   | 15,535  | 15,535  | -                                    | -  | -  |
| Intangible assets (net)   | 85,005  | -   | -                                    | -  | 85,005   |
| Investment properties (net)   | -   | -   | -                                    | -  | -  |
| Tax assets  | 1,179   | 1,179   | -                                    | -  | -  |
| Non-current assets and disposal groups classified as held for sale (net)  | -   | -   | -                                    | -  | -  |
| Other assets  | 14,866  | 54,135  | -                                    | 176  | -  |
| <b>Total assets</b>   | <b>8,006,348</b>  | <b>7,933,461</b>                                | <b>21,167</b>                        | <b>3,329,213</b>   | <b>89,830</b>  |
| Liabilities   |   |   |                                      |  |  |
| Deposits  | -   | -   | -                                    | -  | -  |
| Derivative financial liabilities held for trading                         | -   | -   | -                                    | -  | -  |
| Loans   | 2,400,430   | -   | -                                    | 1,869,739  | -  |
| Debt to money markets   | 43,800  | -   | -                                    | -  | -  |
| Debt securities in issue  | -   | -   | -                                    | -  | -  |
| Funds   | -   | -   | -                                    | -  | -  |
| Various debts   | 4,376,394   | -   | -                                    | 1,448,423  | -  |
| Other liabilities   | 68,780  | -   | -                                    | 17   | -  |
| Factoring debts   | -   | -   | -                                    | -  | -  |
| Debts from leasing transactions   | -   | -   | -                                    | -  | -  |
| Derivative financial liabilities held for hedges                          | -   | -   | -                                    | -  | -  |
| Provisions  | 55,340  | -   | -                                    | -  | -  |
| Tax liability   | 17,918  | -   | -                                    | -  | -  |
| Liabilities included in disposal groups classified as held for sale (net) | -   | -   | -                                    | -  | -  |
| Subordinated loans  | -   | -   | -                                    | -  | -  |
| Equity  | 110,433,686   | -   | -                                    | -  | 377  |
| <b>Total liabilities</b>  | <b>8,006,348</b>  | <b>7,933,461</b>                                | <b>21,167</b>                        | <b>3,318,179</b>   | <b>377</b>   |

(\*) Refers to the Bank's non-consolidated financial statements.

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**INFORMATION ON FINANCIAL STRUCTURE (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  | -     | 6.119.544                              | -   | -                                      |
| Differences in valuations  | -     | -                                      | -   | -                                      |
| Differences due to different netting rules, other than those already included in row 2 | -     | -                                      | -   | -                                      |
| Differences due to consideration of provisions   | -     | -                                      | -   | -                                      |
| Differences due to prudential filters  | -     | -                                      | -   | -                                      |
| <b>Exposure amounts considered for regulatory purposes</b>                             |       | <b>19.012.377</b>                      | <b>21.167</b>                                       | <b>11.034</b>                          |

**2.3. Explanations of differences between accounting and regulatory exposure amounts in accordance with TAS:**

a) Banks must explain the origins of any significant differences between the amounts in columns (a) and (b) in LI1.

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 must explain the origins of differences between carrying values and amounts considered for regulatory purposes shown in LI2.

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).

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**INFORMATION ON FINANCIAL STRUCTURE (Continued)**

**VIII. Risk management objectives and policies (Continued)**

**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 non-cash 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.

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 non-cash 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.

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**INFORMATION ON FINANCIAL STRUCTURE (Continued)**

**VIII. Risk management objectives and policies (Continued)**

c) Structure and organisation of the credit risk management and control function:

In credit risk management three line of defense 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 analyzed. In addition, reports are submitted to Board of Directors and Senior Management on whether first and second line of defense 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.

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.

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**INFORMATION ON FINANCIAL STRUCTURE (Continued)**

**VIII. Risk management objectives and policies (Continued)**

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 defense; 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 management objectives and policies (Continued)**

In the second line of defense; 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 defense. 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 defense, 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 defense 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 analyzed 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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**INFORMATION ON FINANCIAL STRUCTURE (Continued)**

**VIII. Risk management objectives and policies (Continued)**

**3.1.2. Credit quality of assets**

| Current Period                 | Gross carrying values of<br>(according to TAS) |                            | Allowances/<br>impairments | Net values        |
|--------------------------------|--|----------------------------|----------------------------|-------------------|
|                                | Defaulted<br>exposures                         | Non-defaulted<br>exposures |                            |                   |
| Loans                          | 1.574  | 98.945                     | 1.574                      | 98.945            |
| Debt Securities                | -  | 45.943                     | -                          | 45.943            |
| Off-balance sheet<br>exposures | -  | 11.078.283                 | -                          | 11.078.283        |
| <b>Total</b>                   | <b>1.574</b>                                   | <b>11.223.171</b>          | <b>1.574</b>               | <b>11.223.171</b> |

**3.1.3. Changes in stock of defaulted loans and debt securities**

|   |              |
|---|--------------|
| <b>1</b> Defaulted loans and debt securities at end of the 31 December 2015         | <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</b> Defaulted loans and debt securities at end of 31 December 2016 (1+2-3-4±5) | <b>1.574</b> |

**3.1.4. 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".

The Bank has a non-performing loan from Merkez Menkul Kıymetler A.Ş. amounting to TRY 1.574.

b) The extent of past-due exposures (more than 90 days) that are not considered to be impaired and the reasons for this.

100% provision has been reserved for the aforementioned receivable.

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.

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**INFORMATION ON FINANCIAL STRUCTURE (Continued)**

**VIII. Risk management objectives and policies (Continued)**

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.

**3.2 Credit Risk Mitigation**

**3.2.1 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 (ie 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 Undersecretariat of Treasury considered as liquid assets are used as collateral.

**3.2.2. Credit risk mitigation techniques – overview**

|                      | Exposures<br>unsecured:<br>carrying<br>amount | Exposures<br>secured<br>by<br>collateral | Exposures<br>secured by<br>collateral,<br>of which:<br>secured<br>amount | Exposures<br>secured<br>by<br>financial<br>guarantees | Exposures<br>secured by<br>financial<br>guarantees,<br>of which:secured<br>amount | Exposures<br>secured by<br>credit<br>derivatives | Exposures<br>secured by<br>credit derivatives<br>of which:<br>secured<br>amount |
|----------------------|---|--|--|---|---|--|---|
| 1 Loans              | 98.945  | -  | -  | -   | -   | -  | -   |
| 2 Debt securities    | 45.943  | -  | -  | -   | -   | -  | -   |
| <b>3 Total</b>       | <b>144.888</b>                                | -  | -  | -   | -   | -  | -   |
| 4 Of which defaulted | 1.574   | -  | -  | -   | -   | -  | -   |

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**INFORMATION ON FINANCIAL STRUCTURE (Continued)**

**VIII. Risk management objectives and policies (Continued)**

**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 2016 in the calculation of the Bank's credit risk based amount, "Fitch Ratings" and "Japan Credit Rating Agency (JCR)" 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 alphanumeric 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.

**3.3.2 Standardised approach – credit risk exposure and Credit Risk Mitigation (CRM) effects**

| 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                                      | 47.194                       | -                        | 103.263                    | -                        | -   | -                             |
| 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  | 7.838.206                    | 7.791.585                | 7.838.206                  | 4.265.286                | 3.216.325   | %82,4                         |
| 7 Exposures to corporates  | -                            | 2.977.019                | -                          | 1.488.510                | 309.202   | %7,9                          |
| 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  | 69.228                       | 310.312                  | 69.228                     | 309.679                  | 378.893   | %9,7                          |
| 17 Investments in equities   | -                            | -                        | -                          | -                        | -   | -                             |
| <b>18 Total</b>  | <b>7.954.628</b>             | <b>11.078.916</b>        | <b>8.010.697</b>           | <b>6.063.475</b>         | <b>3.904.420</b>  | <b>%100</b>                   |

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INFORMATION ON FINANCIAL STRUCTURE (Continued)

VIII. Risk management objectives and policies (Continued)

3.3.3 Standardised approach – exposures by asset classes and risk weights

| Asset Classes / Risk Weights   | 0%             | 10% (*)  | 20% (*)          | 50% (*)          | 75%      | 100% (*)       | 150%     | 200%     | Other risk weights (**) | Total credit risk exposure amount (after CCF and CRM) |
|--|----------------|----------|------------------|------------------|----------|----------------|----------|----------|-------------------------|---|
| 1 Exposures to central governments or central banks                                      | 103.263        | -        | -                | -                | -        | -              | -        | -        | -                       | 103.263   |
| 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  | 872.283        | -        | 7.997.597        | 3.233.612        | -        | -              | -        | -        | -                       | 12.103.492  |
| 7 Exposures to corporates  | -              | -        | 1.471.010        | 5.000            | -        | 12.500         | -        | -        | -                       | 1.488.510   |
| 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  | -              | -        | -                | -                | -        | -              | -        | -        | -                       | -   |
| 17 Investments in equities   | 14             | -        | -                | -                | -        | 378.893        | -        | -        | -                       | 378.907   |
| <b>18 Total</b>  | <b>975.560</b> | <b>-</b> | <b>9.468.607</b> | <b>3.238.612</b> | <b>-</b> | <b>391.393</b> | <b>-</b> | <b>-</b> | <b>-</b>                | <b>14.074.172</b>                                     |

(\*) Means unrated receivables.

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**INFORMATION ON FINANCIAL STRUCTURE (Continued)**

**VIII. Risk management objectives and policies (Continued)**

**4. Counterparty Credit Risk**

**4.1 Qualitative disclosure related to counterparty credit risk**

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(*) | Alpha used for computing regulatory EAD | EAD post CRM | Risk Weighted Amounts |
|--|------------------|---------------------------|---------|---|--------------|-----------------------|
| SA-CCR (for derivatives)                                     | -                | -                         | -       | 1,4                                     | -            | -                     |
| Internal Model Method (for derivatives and SFTs)             | -                | -                         | -       | -                                       | -            | -                     |
| Simple Approach for credit risk mitigation (for SFTs)        | -                | -                         | -       | -                                       | 14           | 2,8                   |
| Comprehensive Approach for credit risk mitigation (for SFTs) | -                | -                         | -       | -                                       | -            | -                     |
| VaR for SFTs   | -                | -                         | -       | -                                       | -            | -                     |
| <b>Total</b>   |                  |                           |         |   |              | <b>2,8</b>            |

(\*) Effective Expected Positive Exposure

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VIII. Risk management objectives and policies (Continued)

4. Counterparty Credit Risk

4.4 Standardised approach – CCR exposures by regulatory portfolio and risk weights

| Risk Weight/ Regulatory portfolio  | 0% | 10% | 20%       | 35% | 50% | 75% | 100% | 150% | Others | Total credit exposure(*) |
|--|----|-----|-----------|-----|-----|-----|------|------|--------|--------------------------|
| Claims from central governments and central banks  | -  | -   | -         | -   | -   | -   | -    | -    | -      | -                        |
| Claims from regional and local governments   | -  | -   | -         | -   | -   | -   | -    | -    | -      | -                        |
| Claims from administration and non commercial entity   | -  | -   | -         | -   | -   | -   | -    | -    | -      | -                        |
| Claims from multilateral development banks   | -  | -   | -         | -   | -   | -   | -    | -    | -      | -                        |
| Claims from international organizations  | -  | -   | -         | -   | -   | -   | -    | -    | -      | -                        |
| Claims from banks and financial intermediaries(***)  | -  | -   | 14        | -   | -   | -   | -    | -    | -      | 14                       |
| Corporates   | -  | -   | -         | -   | -   | -   | -    | -    | -      | -                        |
| Retail portfolios  | -  | -   | -         | -   | -   | -   | -    | -    | -      | -                        |
| Claims on landed real estate   | -  | -   | -         | -   | -   | -   | -    | -    | -      | -                        |
| Past due loans   | -  | -   | -         | -   | -   | -   | -    | -    | -      | -                        |
| Claims which are determined as high risk by the board of BRSA                                  | -  | -   | -         | -   | -   | -   | -    | -    | -      | -                        |
| Mortgage securities  | -  | -   | -         | -   | -   | -   | -    | -    | -      | -                        |
| Securitization positions   | -  | -   | -         | -   | -   | -   | -    | -    | -      | -                        |
| Claims from corporates, banks and financial intermediaries which have short term credit rating | -  | -   | -         | -   | -   | -   | -    | -    | -      | -                        |
| Investments which are qualified as collective investment institutions                          | -  | -   | -         | -   | -   | -   | -    | -    | -      | -                        |
| Stock investment   | -  | -   | -         | -   | -   | -   | -    | -    | -      | -                        |
| Other claims.  | -  | -   | -         | -   | -   | -   | -    | -    | -      | -                        |
| Other assets(**)   | -  | -   | -         | -   | -   | -   | -    | -    | -      | -                        |
| <b>Total</b>   | -  | -   | <b>14</b> | -   | -   | -   | -    | -    | -      | <b>14</b>                |

(\*) Means unrated receivables.

(\*\*) Total credit exposure: the amount relevant for the capital requirements calculation, having applied CRM techniques.

(\*\*\*) Other assets: the amount excludes exposures to CCPs, which are reported in CCR8.

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**INFORMATION ON FINANCIAL STRUCTURE (Continued)**

**VIII. Risk management objectives and policies (Continued)**

**4.5 Composition of collateral for CCR exposure**

|                          | Collateral used in derivative transactions |              |                                 |              | Collateral used in SFTs           |                                 |
|--------------------------|--|--------------|---------------------------------|--------------|-----------------------------------|---------------------------------|
|                          | Fair value of collateral received          |              | Fair value of posted collateral |              | Fair value of collateral received | Fair value of posted collateral |
|                          | Segregated                                 | Unsegregated | Segregated                      | Unsegregated |                                   |                                 |
| Cash - domestic currency | -  | -            | -                               | -            | -                                 | -                               |
| Cash - other currencies  | -  | -            | -                               | -            | -                                 | -                               |
| Domestic sovereign debt  | -  | -            | -                               | -            | 21.153                            | -                               |
| Other sovereign debt     | -  | -            | -                               | -            | -                                 | -                               |
| Government agency debt   | -  | -            | -                               | -            | -                                 | -                               |
| Corporate bonds          | -  | -            | -                               | -            | -                                 | -                               |
| Equity securities        | -  | -            | -                               | -            | -                                 | -                               |
| Other collateral         | -  | -            | -                               | -            | -                                 | -                               |
| <b>Total</b>             | -  | -            | -                               | -            | <b>21.153</b>                     | -                               |

**4.6 Credit derivatives exposures**

None.

**4.7 Exposures to central counterparties**

None.

**5. Securitisation 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 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.

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**INFORMATION ON FINANCIAL STRUCTURE (Continued)**

**VIII. Risk management objectives and policies (Continued)**

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 Undersecretariat 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 .

Risk-free government debt securities are purchased on behalf of closed brokerage houses (brokerage houses that have gone bankrupt or whose operations have been temporarily or permanently been suspended by the Capital Markets Board, and accounts opened due to sequestration and precautionary injunctions) by the Bank subject to Capital Markets Board instructions, and these securities are included into trading portfolio in on-balance sheet accounts. There resources where the bank has no right over amount of the notional or interest and is obliged to pay upon client's demand are subjected to market risk in regulatory capital adequacy calculations as they are included into the trading book. Additionally, 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.

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 sub-regulations. 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 defense 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.

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**INFORMATION ON FINANCIAL STRUCTURE (Continued)**

**VIII. Risk management objectives and policies (Continued)**

- 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 analyzed. In addition, reports are submitted to Board of Directors and Senior Management on whether first and second line of defense 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 information technology are included into the scope of assurance reported to Board of Directors and Senior Management.

Market risk related operations are maintained by business lines with a perspective focused on risk. At the first line of defense; 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 defense; 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 defense, operations of the respective units are also controlled based on risk during certain periods by Internal Control and Compliance Department in second line of defense in terms of compliance with legal regulations and internal regulations. And in third line of defense 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 defenses 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.

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**INFORMATION ON FINANCIAL STRUCTURE (Continued)**

**VIII. Risk management objectives and policies (Continued)**

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.

**6.1 Standardised Approach**

|                   |   | <b>Risk Ağırlıklı Tutar</b> |
|-------------------|---|-----------------------------|
| Outright products |   |                             |
| 1                 | Interest rate risk (general and specific) | 100                         |
| 2                 | Equity risk (general and specific)        | -                           |
| 3                 | Foreign exchange risk                     | 9.875                       |
| 4                 | Commodity risk                            | -                           |
| Options           |   |                             |
| 5                 | Simplified approach                       | -                           |
| 6                 | Delta-plus method                         | -                           |
| 7                 | Scenario approach                         | -                           |
| 8                 | Securitisation                            | -                           |
| <b>9</b>          | <b>Total</b>                              | <b>9.975</b>                |

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**INFORMATION ON FINANCIAL STRUCTURE (Continued)**

**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.

|  | Book Value       |                  | Fair Value       |                  |
|--|------------------|------------------|------------------|------------------|
|  | Current Period   | Prior Period     | Current Period   | Prior Period     |
| <b>Financial Assets</b>                                | <b>7.884.853</b> | <b>6.975.814</b> | <b>7.886.012</b> | <b>6.980.210</b> |
| Financial Assets at Fair Value Through profit / (Loss) | 1.158            | 4.396            | 1.158            | 4.396            |
| Money Market Placements                                | 21.168           | 18.881           | 21.168           | 18.881           |
| Banks  | 7.715.925        | 6.598.704        | 7.715.925        | 6.598.704        |
| Available-For-Sale Financial Assets                    | 1.714            | 1.636            | 1.714            | 1.636            |
| Held-To-Maturity Investments                           | 45.943           | 180.085          | 47.102           | 184.481          |
| Loans  | 98.945           | 172.112          | 98.945           | 172.112          |
| <b>Financial Liabilities</b>                           | <b>6.889.404</b> | <b>6.121.877</b> | <b>6.889.404</b> | <b>6.121.877</b> |
| Placements on banks                                    | -                | -                | -                | -                |
| Other placements                                       | -                | -                | -                | -                |
| Payables to Money Market                               | 43.800           | -                | 43.800           | -                |
| Funds Borrowed From Other Financial Institutions       | 2.469.210        | 2.518.179        | 2.469.210        | 2.518.179        |
| Securities Issued                                      | -                | -                | -                | -                |
| Sundry Creditors                                       | 4.376.394        | 3.603.698        | 4.376.394        | 3.603.698        |

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**INFORMATION ON FINANCIAL STRUCTURE (Continued)**

**IX. Explanations Related To Presentation of Financial Assets and Liabilities at Fair Value**

IFRS 7, "Financial Instruments: Disclosures" standard, the items presented in the financial statements at their fair value, are classified according to certain levels. These levels are based on observability of data used in the calculation of the fair value. 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 datas 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>                                    | <b>47.101</b>  | <b>1.714</b>   | <b>-</b>       | <b>48.815</b> |
| Government Bonds   | 1.158          | -              | -              | 1.158         |
| Available-For-Sale Financial Assets                        | -              | 1.714          | -              | 1.714         |
| Held-to-Maturity Investments                               | 45.943         | -              | -              | 45.943        |
| Financial Derivative Assets for Trading                    | -              | -              | -              | -             |
| <b>Financial Liabilities</b>                               | <b>-</b>       | <b>-</b>       | <b>-</b>       | <b>-</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>184.481</b> | <b>1.636</b>   | <b>-</b>       | <b>186.117</b> |
| Government Bonds   | 4.396          | -              | -              | 4.396          |
| Available-For-Sale Financial Assets                        | -              | 1.636          | -              | 1.636          |
| Held-to-Maturity Investments                               | 180.085        | -              | -              | 180.085        |
| Financial Derivative Assets for Trading                    | -              | -              | -              | -              |
| <b>Financial Liabilities</b>                               | <b>-</b>       | <b>-</b>       | <b>-</b>       | <b>-</b>       |
| Financial Derivative Liabilities Held for Cash Flow Hedges | -              | -              | -              | -              |
| Financial Derivative Liabilities for Trading               | -              | -              | -              | -              |

**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.

TRY 8 (31 December 2015: TRY 8), in the off balance sheet contingencies and commitments table, 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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**INFORMATION ON FINANCIAL STRUCTURE (Continued),**

**XI. Explanations on Segment Reporting**

The Bank operates mainly in clearing-operation, custody, loans and treasury.

| <b>Current Period</b>                                       | <b>Custody,<br/>Clearing and<br/>Operation</b> | <b>Loans and<br/>Money<br/>Market</b> | <b>Treasury</b> | <b>Others</b> | <b>Total</b> |
|---|--|---------------------------------------|-----------------|---------------|--------------|
| Cash and Balances with Central Bank                         | -  | -                                     | 85              | -             | 85           |
| Financial Assets At Fair Value Through Profit or Loss (Net) | -  | -                                     | -               | 1.158         | 1.158        |
| Banks   | -  | -                                     | 7.715.925       | -             | 7.715.925    |
| Money Markets   | -  | -                                     | -               | 21.168        | 21.168       |
| Aavailable-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       |

**Total Assets** **8.553** **98.945** **7.768.492** **130.358** **8.006.348**

|                                 |           |        |           |           |           |
|---------------------------------|-----------|--------|-----------|-----------|-----------|
| 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 |

**Total Liabilities** **4.362.180** **90.184** **2.444.230** **1.109.754** **8.006.348**

| <b>Prior Period</b>   | <b>Custody,<br/>Clearing and<br/>Operation</b> | <b>Loans and<br/>Money<br/>Market</b> | <b>Treasury</b> | <b>Others</b> | <b>Total</b> |
|---|--|---------------------------------------|-----------------|---------------|--------------|
| Cash and Balances with Central Bank                         | -  | -                                     | 55              | -             | 55           |
| Financial Assets At Fair Value Through Profit or Loss (Net) | -  | -                                     | -               | 4.396         | 4.396        |
| Banks   | -  | -                                     | 6.598.704       | -             | 6.598.704    |
| Money Markets   | -  | -                                     | -               | 18.881        | 18.881       |
| Aavailable-For-Sale Financial Assets (Net)                  | -  | -                                     | 1.636           | -             | 1.636        |
| Loans   | -  | 172.112                               | -               | -             | 172.112      |
| Held-to-Maturity Securities (Net)                           | -  | -                                     | 180.085         | -             | 180.085      |
| Subsidiaries  | -  | -                                     | -               | -             | -            |
| Joint Ventures (Net)  | -  | -                                     | 4.825           | -             | 4.825        |
| Property and Equipment (Net)                                | -  | -                                     | -               | 16.083        | 16.083       |
| Intangible Assets (Net)                                     | -  | -                                     | -               | 80.895        | 80.895       |
| Tax Asset   | -  | -                                     | -               | 2.629         | 2.629        |
| Other Assets  | 7.219  | -                                     | -               | 4.918         | 12.137       |

**Total Assets** **7.219** **172.112** **6.785.305** **127.802** **7.092.438**

|                                 |           |   |           |         |           |
|---------------------------------|-----------|---|-----------|---------|-----------|
| Funds Borrowed                  | -         | - | 2.413.323 | -       | 2.413.323 |
| Other Miscellaneous Liabilities | -         | - | -         | -       | -         |
| Miscellaneous Payables          | 3.576.031 | - | -         | 27.667  | 3.603.698 |
| Other Liabilities               | 104.856   | - | -         | -       | 104.856   |
| Provisions                      | 21.686    | - | -         | 22.824  | 44.510    |
| Tax Liability                   | -         | - | -         | 15.025  | 15.025    |
| Shareholder's Equity            | -         | - | -         | 911.026 | 911.026   |

**Total Liabilities** **3.702.573** **-** **2.413.323** **976.542** **7.092.438**

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**INFORMATION ON FINANCIAL STRUCTURE (Continued)**

**XI. Explanations on Segment Reporting**

| <b>Current Period</b>                                     | <b>Clearing<br/>and<br/>Operation</b> | <b>Loans and<br/>MM</b> | <b>Treasury</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  | -                                     | -                       | 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/Loss 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/Loss</b>                                    | <b>84.592</b>                         | <b>24.982</b>           | <b>238.181</b>  | <b>(136.190)</b> | <b>211.565</b> |

| <b>Prior Period</b>                                       | <b>Clearing<br/>and<br/>Operation</b> | <b>Loans and<br/>MM</b> | <b>Treasury</b> | <b>Others</b>    | <b>Total</b>   |
|---|---------------------------------------|-------------------------|-----------------|------------------|----------------|
| Net interest income                                       | -                                     | 9.267                   | 185.018         | -                | 194.285        |
| Net fees and commission income and other operating income | 70.233                                | 16.837                  | -               | -                | 87.070         |
| Dividend income   | -                                     | -                       | 6.179           | -                | 6.179          |
| Net trading income  | -                                     | -                       | 1.122           | -                | 1.122          |
| Other operating income                                    | -                                     | -                       | -               | 2.884            | 2.884          |
| Provision for loan losses and other receivables           | -                                     | 265                     | -               | -                | 265            |
| Other operating expenses                                  | -                                     | -                       | -               | 74.857           | 74.857         |
| <b>Profit/Loss before tax</b>                             | <b>70.233</b>                         | <b>25.839</b>           | <b>192.319</b>  | <b>(71.973)</b>  | <b>216.418</b> |
| Tax provision   | -                                     | -                       | -               | (41.690)         | (41.690)       |
| <b>Net Profit/Loss</b>                                    | <b>70.233</b>                         | <b>25.839</b>           | <b>192.319</b>  | <b>(113.663)</b> | <b>174.728</b> |

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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       |
| Cash in TL/Foreign Currency              | 14             | -        | 13           | -        |
| Balances with the Central Bank of Turkey | 71             | -        | 42           | -        |
| Other                                    | -              | -        | -            | -        |
| <b>Total</b>                             | <b>85</b>      | <b>-</b> | <b>55</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 | 71             | -        | 42           | -        |
| Unrestricted time deposit   | -              | -        | -            | -        |
| Restricted time deposit     | -              | -        | -            | -        |
| <b>Total</b>                | <b>71</b>      | <b>-</b> | <b>42</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 Takasbank A.Ş.

**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 2015: None).

2.a) ii. Financial assets at fair value through profit and loss subject to repurchase agreements: None (31 December 2015: None).

2.b) Positive differences related to derivative financial assets held-for-trading: None (31 December 2015: None).

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**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                           | 4.388.589        | 3.327.336        | 4.012.918        | 2.585.786        |
| Domestic                        | 4.388.589        | 3.233.612        | 4.012.918        | 2.555.571        |
| Foreign                         | -                | 93.724           | -                | 30.215           |
| Branches and head office abroad | -                | -                | -                | -                |
| <b>Total</b>                    | <b>4.388.589</b> | <b>3.327.336</b> | <b>4.012.918</b> | <b>2.585.786</b> |

3.b) Information on foreign bank accounts:

|                           | Unrestricted Amount |               | Restricted Amount |              |
|---------------------------|---------------------|---------------|-------------------|--------------|
|                           | Current Period      | Prior Period  | Current Period    | Prior Period |
| European Union Countries  | 82.161              | 29.786        | -                 | -            |
| USA and Canada            | 11.563              | 429           | -                 | -            |
| OECD Countries(*)         | -                   | -             | -                 | -            |
| Off-shore banking regions | -                   | -             | -                 | -            |
| Other                     | -                   | -             | -                 | -            |
| <b>Total</b>              | <b>93.724</b>       | <b>30.215</b> | <b>-</b>          | <b>-</b>     |

(\*) 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 | 21.168         | 18.881        |
| <b>Total</b>                                       | <b>21.168</b>  | <b>18.881</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 2015: None).

4.a) ii. Information on financial assets available-for-sale subject to repurchase agreements:

None (31 December 2015: None).

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

**I. Explanations Related to the Assets (continued)**

4.b) Information on available for sale assets:

| Name  | Acquired On    | Current Period |          | Prior Period |          |
|---|----------------|----------------|----------|--------------|----------|
|   |                | Amount         | Ratio(%) | Amount       | Ratio(%) |
| Borsa İstanbul A.Ş. (VOBAŞ Devir Hisseleri)               | 31 May 2013    | 324            | 0,15     | 324          | 0,15     |
| Ege Tarım Ürünleri Lisanslı Depoculuk A.Ş.                | 3 January 2011 | 637            | 4,12     | 637          | 4,12     |
| Sermaye Piyasası Lisanslama Sicil ve Eğitim Kuruluşu A.Ş. | 29 July 2011   | 210            | 10,50    | 210          | 10,50    |
| S.W.I.F.T SCRL  | 24 April 2009  | 279            | 0,024    | 239          | 0,024    |
| SASE-Sarajevo Menkul Kıymetler Borsası                    | 18 May 2011    | 264            | 5,00     | 226          | 5,00     |
| <b>Total</b>  |                | <b>1.714</b>   |          | <b>1.636</b> |          |

|                                   | Current Period | Prior Period |
|-----------------------------------|----------------|--------------|
| <b>Debt securities</b>            |                |              |
| Quoted on a stock exchange        | -              | -            |
| Not quoted on a stock exchange    | -              | -            |
| <b>Share certificates</b>         | <b>1.714</b>   | <b>1.636</b> |
| Quoted on a stock exchange        | -              | -            |
| Not quoted on a stock exchange(*) | 1.714          | 1.636        |
| Impairment provision(-)           | -              | -            |
| <b>Total</b>                      | <b>1.714</b>   | <b>1.636</b> |

(\*) 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>98.945</b>  | <b>2.382.963</b> | <b>141.553</b> | <b>1.598.502</b> |
| Corporate shareholders                 | 98.945         | 2.382.963        | 141.553        | 1.598.502        |
| Real person shareholders               | -              | -                | -              | -                |
| Indirect loans granted to shareholders | -              | -                | -              | -                |
| Loans granted to employees             | -              | -                | -              | -                |
| <b>Total</b>                           | <b>98.945</b>  | <b>2.382.963</b> | <b>141.553</b> | <b>1.598.502</b> |

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

**I. Explanations Related to the Assets (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>Cash Loans</b>                                  |   |       |
| <b>Non-specialized loans</b>    | <b>98.945</b>                        | -   | -     | -  | -   | -     |
| Working capital loans           | -                                    | -   | -     | -  | -   | -     |
| Export loans                    | -                                    | -   | -     | -  | -   | -     |
| Import loans                    | -                                    | -   | -     | -  | -   | -     |
| Loans given to financial Sector |                                      |   |       |  |   |       |
| Foreign loans                   | 98.945                               | -   | -     | -  | -   | -     |
| Consumer loans                  | -                                    | -   | -     | -  | -   | -     |
| Credit cards                    | -                                    | -   | -     | -  | -   | -     |
| Precious metal credit           | -                                    | -   | -     | -  | -   | -     |
| Other                           | -                                    | -   | -     | -  | -   | -     |
| <b>Specialized loans</b>        | -                                    | -   | -     | -  | -   | -     |
| <b>Other receivables</b>        | -                                    | -   | -     | -  | -   | -     |
| <b>Total</b>                    | <b>98.945</b>                        | -   | -     | -  | -   | -     |

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>Cash Loans</b>                                       |                                      |                             |  |                             |
| <b>Short-term loans and other receivables</b>           | <b>98.945</b>                        | -                           | -  | -                           |
| Non-specialized loans                                   | 98.945                               | -                           | -  | -                           |
| Specialized loans                                       | -                                    | -                           | -  | -                           |
| Other Receivables                                       | -                                    | -                           | -  | -                           |
| <b>Medium and long-term loans and other receivables</b> | -                                    | -                           | -  | -                           |
| Non-specialized loans                                   | -                                    | -                           | -  | -                           |
| Non-specialized loans                                   | -                                    | -                           | -  | -                           |
| Other Receivables                                       | -                                    | -                           | -  | -                           |
| <b>Total</b>  | <b>98.945</b>                        | -                           | -  | -                           |

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

**I. Explanations Related to the Assets (continued)**

d) Information on consumer loans, individual credit cards, personnel loans and credit cards given to personnel:  
None (31 December 2015: None).

e) Information on commercial loans with installments and corporate credit cards: None (31 December 2015: None).

f) Loans according to borrowers:

|              | <b>Current Period</b> | <b>Prior Period</b> |
|--------------|-----------------------|---------------------|
| Public       | -                     | -                   |
| Private      | 98.945                | 172.112             |
| <b>Total</b> | <b>98.945</b>         | <b>172.112</b>      |

g) Domestic and foreign loans:

|                | <b>Current Period</b> | <b>Prior Period</b> |
|----------------|-----------------------|---------------------|
| Domestic loans | 98.945                | 172.112             |
| Foreign loans  | -                     | -                   |
| <b>Total</b>   | <b>98.945</b>         | <b>172.112</b>      |

h) Loans granted to subsidiaries and associates: None (31 December 2015: None).

i) Specific provisions provided against loans:

|  | <b>Current Period</b> | <b>Prior Period</b> |
|--|-----------------------|---------------------|
| Loans and receivables with limited collectability  | -                     | -                   |
| Loans and receivables with doubtful collectability | -                     | -                   |
| Uncollectable loans and receivables                | 1.574                 | 1.574               |
| <b>Total</b>                                       | <b>1.574</b>          | <b>1.574</b>        |

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 2015: None).

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**I. Explanations Related to the Assets (Continued)**

j.2) Information on movement of non-performing loans:

|   | III.Group<br>Loans and Receivables<br>With Limited<br>Collectability | IV.Group<br>Loans and<br>Receivables With<br>Doubtful Collectability | V.Group<br>Uncollectible Loans<br>and Receivables |
|---|--|--|---|
| <b>Prior period end balance</b>                             | -  | -  | <b>1.574</b>                                      |
| Additions (+)   | -  | -  | -   |
| Transfers from other categories of non-performing loans (+) | -  | -  | -   |
| Transfers to other categories of non-performing loans (-)   | -  | -  | -   |
| Collections (-)   | -  | -  | -   |
| Corporate and commercial loans                              | -  | -  | -   |
| Retail loans  | -  | -  | -   |
| Credit cards  | -  | -  | -   |
| Other   | -  | -  | -   |
| <b>Current period end balance</b>                           | -  | -  | <b>1.574</b>                                      |
| Specific provision (-)                                      | -  | -  | 1.574   |
| <b>Net Balances on Balance Sheet</b>                        | -  | -  | <b>1.574</b>                                      |

j.3) Information on foreign currency non-performing loans and other receivables: None (31 December 2015: None).

j.4) Information regarding gross and net amounts of non-performing loans with respect to user groups:

|  | III. Group<br>Loans and<br>Receivables<br>With Doubtful<br>Collectability | IV. Group<br>Loans and Receivables<br>With Doubtful<br>Collectability | V. Group<br>Uncollectible Loans<br>and Receivables |
|--|---|---|--|
| <b>Current Period (Net)</b>                      |   |   |  |
| Loans to Real Persons and Legal Entities (Gross) | -   | -   | 1.574  |
| Specific Provision Amount (-)                    | -   | -   | 1.574  |
| Loans to Real Persons and Legal Entities (Net)   | -   | -   | -  |
| Banks (Gross)                                    | -   | -   | -  |
| Specific Provision Amount (-)                    | -   | -   | -  |
| Banks (Net)                                      | -   | -   | -  |
| Other Loans and Receivables (Gross)              | -   | -   | -  |
| Specific Provision Amount (-)                    | -   | -   | -  |
| Other Loans and Receivables (Net)                | -   | -   | -  |
| <b>Prior Period (Net)</b>                        | -   | -   | -  |
| Loans to Real Persons and Legal Entities (Gross) | -   | -   | 1.574  |
| Specific Provision Amount (-)                    | -   | -   | 1.574  |
| Loans to Real Persons and Legal Entities (Net)   | -   | -   | -  |
| Banks (Gross)                                    | -   | -   | -  |
| Specific Provision Amount (-)                    | -   | -   | -  |
| Banks (Net)                                      | -   | -   | -  |
| Other Loans and Receivables (Gross)              | -   | -   | -  |
| Specific Provision Amount (-)                    | -   | -   | -  |
| Other Loans and Receivables (Net)                | -   | -   | -  |

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

**I. Explanations Related to the Assets (continued)**

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 2015: 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 can not 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 2016 and 2015 are as follows:

|                        | <b>Current Period</b> | <b>Prior Period</b> |
|------------------------|-----------------------|---------------------|
| Equity Shares (quoted) | 17.055                | 5.891               |
| Letters of Guarantee   | 98.750                | 372.450             |
| <b>Total</b>           | <b>115.805</b>        | <b>378.341</b>      |

**6. Investments held to maturity:**

6.a) i. Information on held-to-maturity investments given as collateral or blocked:

|   | <b>Current Period</b> | <b>Prior Period</b> |
|---|-----------------------|---------------------|
| Held-to-maturity investments given as collateral or blocked | -                     | -                   |
| Unrealized accrual related to these investments             | -                     | -                   |
| <b>Total</b>  | <b>-</b>              | <b>-</b>            |

6.a) ii. Held-to-maturity investments subject to repurchase agreements: None (31 December 2015: None).

6.b) Information on held-to-maturity public sector debt instruments:

|                                      | <b>Current Period</b> | <b>Prior Period</b> |
|--------------------------------------|-----------------------|---------------------|
| Government Bond                      | 45.943                | 180.085             |
| Treasury Bill                        | -                     | -                   |
| Other Public Sector Debt Instruments | -                     | -                   |
| <b>Total</b>                         | <b>45.943</b>         | <b>180.085</b>      |

6.c) Information on held-to-maturity investments:

|                                | <b>Current Period</b> | <b>Prior Period</b> |
|--------------------------------|-----------------------|---------------------|
| Debt securities                | 45.943                | 180.085             |
| Quoted on a stock exchange     | 45.943                | 180.085             |
| Not quoted on a stock exchange | -                     | -                   |
| Impairment provision (-)       | -                     | -                   |
| <b>Total</b>                   | <b>45.943</b>         | <b>180.085</b>      |

6.d) Movement of held-to-maturity investments

|   | <b>Current Period</b> | <b>Prior Period</b> |
|---|-----------------------|---------------------|
| Beginning balance                               | 180.085               | 168.467             |
| Foreign currency differences on monetary assets | -                     | -                   |
| Purchases during year                           | 45.943                | 177.463             |
| Disposals through sales and redemptions         | (180.085)             | (175.000)           |
| Impairment provision (-)                        | -                     | -                   |
| Effect of unearned coupon income on cost        | -                     | 9.155               |
| <b>Closing Balance</b>                          | <b>45.943</b>         | <b>180.085</b>      |

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

**I. Explanations Related to the Assets (continued)**

**7. Information on associates (net):**

7.a) Information on the unconsolidated associates: The Bank has no unconsolidated associates (31 December 2015: None).

7.b) Information on the unconsolidated associates: None (31 December 2015: None).

7.c) Explanations of consolidated associates: None (31 December 2015: None).

7.d) Information on sector information on consolidated associates: None (31 December 2015: None).

7.e) Consolidated associates which are quoted on the stock exchange: None (31 December 2015: None).

**8. Information on subsidiaries (Net):**

8.a) Information on the unconsolidated subsidiaries:

| Description                 | Address<br>(City/ Country) | Bank's share percentage-<br>If different voting percentage (%) | Bank risk group's share<br>percentage (%) |
|-----------------------------|----------------------------|--|---|
| Merkezi Kayıt Kuruluşu A.Ş. | İstanbul/Turkey            | 28,57  | 65  |

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. For this reason the associate is not consolidated. This subsidiary is carried at cost amounting to TRY 4.825 thousand in the financial statements.

| Total Assets (*) | Shareholder's<br>Equity | Total Fixed<br>Asset | Interest<br>Income | Income from<br>Marketable<br>Securities<br>Portfolio | Current Period<br>Profit/(Loss) | Prior Periods'<br>Profits / (Losses) | Fair Value |
|------------------|-------------------------|----------------------|--------------------|--|---------------------------------|--------------------------------------|------------|
| 103.354          | 80.143                  | 35.099               | 6.249              | -  | 16.067                          | 19.861                               | -          |

(\*) Non-Audited financial statements yet, prepared as of 31 December 2016, in accordance with the Turkish Accounting Standards.

|                                | 31 December 2016 | 31 December 2015 |
|--------------------------------|------------------|------------------|
| Paid-in capital                | 36.000           | 36.000           |
| Legal reserves                 | 13.442           | 18.948           |
| Other reserves                 | 17.904           | -                |
| Profit/loss                    | 17.858           | 20.113           |
| Prior periods profit/loss      | 1.791            | 2.162            |
| Current period net profit/loss | 16.067           | 17.951           |
| Intangible Assets (-)          | (24.626)         | (12.453)         |
| Total Core Capital             | 60.578           | 62.608           |
| Supplementary Capital          | -                | -                |
| Capital                        | 60.578           | 62.608           |
| <b>Net Usable Equity</b>       | <b>60.578</b>    | <b>62.608</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.

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**I. Explanations Related to the Assets (continued)**

**8. Information on subsidiaries (Net):**

8.b) Information on the consolidated subsidiaries:

i) Information on the consolidated subsidiaries: None (31 December 2015: None).

ii) Information on movement of consolidated subsidiaries: None (31 December 2015: None).

iii) Sectoral information on the consolidated subsidiaries and the related carrying amounts: None (31 December 2015: None).

iv) Consolidated subsidiaries quoted on the stock exchange: None (31 December 2015: None).

**9. Information on entities under common control (joint ventures):** None (31 December 2015: None).

**10. Information on finance lease receivables (Net):** None (31 December 2015: None).

**11. Information on derivative financial assets for hedging purposes:** None (31 December 2015: None).

**12. Information on tangible assets:**

|                        | Prior Year's<br>Closing Balance<br>31 December 2015 | Additions    | Disposals    | Closing Year Balance<br>31 December 2016 |
|------------------------|---|--------------|--------------|--|
| <b>Cost:</b>           |   |              |              |  |
| 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>29.647</b>                            |

|   | Prior Year's<br>Closing Balance<br>31 December 2015 | Charge for the<br>Year | Disposals    | Closing Year<br>Balance<br>31 December 2016 |
|---|---|------------------------|--------------|---|
| <b>Accumulated<br/>Depreciation:</b>      |   |                        |              |   |
| 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<br/>Depreciation</b> | <b>(11.923)</b>                                     | <b>(2.493)</b>         | <b>304</b>   | <b>(14.112)</b>                             |
| <b>Net Book Value</b>                     | <b>16.083</b>                                       | <b>25</b>              | <b>(573)</b> | <b>15.535</b>                               |

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

**I. Explanations Related to the Assets (continued)**

|                                       | Prior Year's Closing Balance<br>31 December 2014    | Additions           | Disposals    | Closing Year Balance<br>31 Aralık 2015      |
|---------------------------------------|---|---------------------|--------------|---|
| <b>Cost:</b>                          |   |                     |              |   |
| Land and buildings                    | 14.394  | -                   | (18)         | 14.376                                      |
| Leased tangible assets                | -   | -                   | -            | -   |
| Vehicles                              | 1.046   | -                   | -            | 1.046                                       |
| Other                                 | 11.052  | 1.564               | (32)         | 12.584                                      |
| <b>Total Cost</b>                     | <b>26.492</b>                                       | <b>1.564</b>        | <b>(50)</b>  | <b>28.006</b>                               |
|                                       |   |                     |              |   |
|                                       | Prior Year's<br>Closing Balance<br>31 December 2014 | Charge for the Year | Disposals    | Closing Year<br>Balance<br>31 December 2015 |
| <b>Accumulated Depreciation:</b>      |   |                     |              |   |
| Land and buildings                    | (3.960)   | (307)               | -            | (4.267)                                     |
| Leased tangible assets                | -   | -                   | -            | -   |
| Vehicles                              | (281)   | (59)                | -            | (340)                                       |
| Other                                 | (5.136)   | (2.092)             | (88)         | (7.316)                                     |
| <b>Total Accumulated Depreciation</b> | <b>(9.377)</b>                                      | <b>(2.458)</b>      | <b>(88)</b>  | <b>(11.923)</b>                             |
| <b>Net Book Value</b>                 | <b>17.115</b>                                       | <b>(894)</b>        | <b>(138)</b> | <b>16.083</b>                               |

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 2015: 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 2015: None).

**13. Information on intangible assets:**

|                                       | Prior Year Closing Balance<br>31 December 2015 | Additions      | Disposals | Closing Balance<br>31 December 2016 |
|---------------------------------------|--|----------------|-----------|-------------------------------------|
| <b>Cost:</b>                          |  |                |           |                                     |
| 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>                       |
| <b>Accumulated Amortization:</b>      |  |                |           |                                     |
| 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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**I. Explanations Related to the Assets (continued)**

|                                       | Prior Year Closing<br>Balance<br>31 December 2014 | Additions      | Disposals | Closing Balance<br>31 December 2015 |
|---------------------------------------|---|----------------|-----------|-------------------------------------|
| <b>Cost:</b>                          |   |                |           |                                     |
| Leasehold improvements                | -   | -              | -         | -                                   |
| Other intangible assets               | 6.294   | 80.896         | -         | 87.190                              |
| <b>Total Cost</b>                     | <b>6.294</b>                                      | <b>80.896</b>  | <b>-</b>  | <b>87.190</b>                       |
| <b>Accumulated Amortization:</b>      |   |                |           |                                     |
| Leasehold improvements                | -   | -              | -         | -                                   |
| Other intangible assets               | (4.871)   | (1.424)        | -         | (6.295)                             |
| <b>Total Accumulated Amortization</b> | <b>(4.871)</b>                                    | <b>(1.424)</b> | <b>-</b>  | <b>(6.295)</b>                      |
| <b>Net Book Value</b>                 | <b>1.423</b>                                      | <b>79.472</b>  | <b>-</b>  | <b>80.895</b>                       |

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 2015: None).

b) Disclosure for intangible fixed assets acquired through government grants and accounted for at fair value at initial recognition: None (31 December 2015: 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 2015: None).

d) The book value of intangible fixed assets that are pledged or restricted for use: None (31 December 2015: None).

e) Amount of purchase commitments for intangible fixed assets: None (31 December 2015: None).

f) Information on revalued intangible assets according to their types: None (31 December 2015: None).

g) Amount of total research and development expenses recorded in income statement within the period if any: None (31 December 2015: None).

h) Positive or negative consolidation goodwill on entity basis: None (31 December 2015: None).

i) Information on goodwill: None (31 December 2015: None).

j) Movements on goodwill in the current period: None (31 December 2015: None).

**14. Information on investment property:**

None (31 December 2015: None).

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

**I. Explanations Related to the Assets (continued)**

**15. Explanations on deferred tax asset:**

a) As of 31 December 2016, deferred tax asset is TRY 1.179 (31 December 2015: TRY 2.629).

Distribution of deferred tax asset:

|  | Current Period                   |                                     | Prior Period                     |                                     |
|--|----------------------------------|-------------------------------------|----------------------------------|-------------------------------------|
|  | Cumulative temporary differences | Deferred Tax Assets / (Liabilities) | Cumulative temporary differences | Deferred Tax Assets / (Liabilities) |
| CMB provisions   | 9.985                            | 1.997                               | 9.140                            | 1.828                               |
| Severance provision  | 7.384                            | 1.477                               | 8.830                            | 1.766                               |
| Provision for Employee Termination Benefits                                      | 4.864                            | 973                                 | 4.512                            | 902                                 |
| Litigation Provision   | 1.900                            | 380                                 | 342                              | 68                                  |
| Difference between Internal Efficiency and Market Value of GDDS held to maturity | 115                              | 23                                  | 393                              | 79                                  |
| <b>Deferred Tax Provision</b>  |                                  | <b>4.850</b>                        |                                  | <b>4.643</b>                        |
| Difference between BookValue and Tax Value of Fixed Assets                       | 18.355                           | 3.671                               | 10.071                           | 2.014                               |
| <b>Deferred Tax Liabilities</b>  |                                  | <b>3.671</b>                        |                                  | <b>2.014</b>                        |
| <b>Deferred Tax Assets / (Liabilities), net</b>                                  |                                  | <b>1.179</b>                        |                                  | <b>2.629</b>                        |

b) Temporary differences over which deferred tax asset is not computed and recorded in the balance sheet in prior periods: None (31 December 2015: None).

c) Allowance for deferred tax and deferred tax assets from reversal of allowance: None (31 December 2015: None)

d) Movement of deferred tax asset:

|  | Current Period | Prior Period   |
|--|----------------|----------------|
| January 1                                      | <b>2.629</b>   | <b>4.013</b>   |
| Effect of change in effective tax rate         | -              | -              |
| Deferred tax (charge)/benefit                  | (1.480)        | (1.449)        |
| Deferred tax (charge)/benefit (Net)            | <b>(1.480)</b> | <b>(1.449)</b> |
| Deferred tax accounted in Shareholders' Equity | 30             | 65             |
| <b>Deferred Tax Asset</b>                      | <b>1.179</b>   | <b>2.629</b>   |

**16. Information on assets held for sale and discontinued operations:**

None (31 December 2015: None).

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**I. Explanations Related to the Assets (continued)**

**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:

|                                      | <b>Current Period</b> | <b>Prior Period</b> |
|--------------------------------------|-----------------------|---------------------|
| Commission, receivables from members | 8.553                 | 7.218               |
| Prepaid expenses                     | 3.755                 | 3.935               |
| Custody accruals                     | 2.169                 | 335                 |
| Cash guarantees given                | 38                    | 48                  |
| Seller advances (BİAŞ)               | 10                    | 10                  |
| Other                                | 341                   | 591                 |
| <b>Total</b>                         | <b>14.866</b>         | <b>12.137</b>       |

**II. Explanations and Notes Related to the 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 Istanbul, 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 2015:None).

**3. Information on funds borrowed:**

a) Information on banks and other financial institutions:

|  | <b>Current Period</b> |                  | <b>Prior Period</b> |                  |
|--|-----------------------|------------------|---------------------|------------------|
|  | <b>TL</b>             | <b>FC</b>        | <b>TL</b>           | <b>FC</b>        |
| Loans from Central Bank of Turkey          | 43.800                | -                | -                   | -                |
| From Domestic Banks and Institutions       | 530.691               | 1.869.739        | 812.393             | 1.600.930        |
| From Foreign Banks, Institutions and Funds | -                     | -                | -                   | -                |
| <b>Total</b>                               | <b>574.491</b>        | <b>1.869.739</b> | <b>812.393</b>      | <b>1.600.930</b> |

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**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           | 574.491        | 1.869.739        | 812.393        | 1.600.930        |
| Medium and long-term | -              | -                | -              | -                |
| <b>Total</b>         | <b>574.491</b> | <b>1.869.739</b> | <b>812.393</b> | <b>1.600.930</b> |

c) Additional explanation related to the concentrations of the Bank's major liabilities:

The liabilities of the Bank consist of taxes payable, similar payables and cash collaterals and current accounts of the members. The Bank also has liabilities regarding the amounts held due to managing the guarantee funds established for common stock, government bond and Treasury bill markets on the Istanbul Stock Exchange Warrant Deputy (OPIC) and managing the guarantee funds and guarantees of transactions in Turkish Derivative Exchange.

**4. Information on funds provided from repurchase agreement transactions:**

None (31 December 2015: None).

**5. 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   |
|--|----------------|----------------|
| IVP Profit and Loss Cash Pool            | 31.253         | 56.668         |
| Cash Pool Electricity                    | 16.524         | 33.624         |
| BİAŞ Guarantee Fund - Share Certificates | 1.092          | 1.022          |
| BES Government Contribution Account      | 685            | 578            |
| BİAŞ Guarantee Fund - Bond               | 333            | 172            |
| Other                                    | 18.893         | 12.792         |
| <b>Total</b>                             | <b>68.780</b>  | <b>104.856</b> |

The Breakdown of Miscellaneous Payables which is the majority of the passive total of the balance sheet is as below:

|                       | Current Period   |                  | Prior Period     |                |
|-----------------------|------------------|------------------|------------------|----------------|
|                       | TL               | FC               | TL               | FC             |
| Cash Guarantees       | 2.818.424        | 1.288.493        | 2.357.986        | 859.165        |
| Other Cash Guarantees | 108.927          | 159.930          | 262.354          | 123.349        |
| Expense Accruals      | 620              | -                | 844              | -              |
| <b>Total</b>          | <b>2.927.971</b> | <b>1.448.423</b> | <b>2.621.184</b> | <b>982.514</b> |

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**II. Explanations and Notes Related to the Liabilities (Continued)**

**6. Explanations on financial lease obligations (Net):**

a) The general explanations on criteria used in determining installments of financial lease agreements, renewal and purchasing options and restrictions in the agreements that create significant obligations to the bank: None 31 December 2015: None).

b) The explanation on modifications in agreements and new obligations resulting from such modifications: None (31 December 2015: None).

c) Explanation on finance lease payables: None (31 December 2015: None).

d) Explanations regarding operational leases: None (31 December 2015: None).

e) Explanations on the lesser and lessee in sale and lease back transactions, agreement conditions, and major agreement terms: None (31 December 2015: None).

**7. Information on derivative financial liabilities for hedging purposes:**

None (31 December 2015: None).

**8. Information on provisions**

a) Information on general loan loss provisions:

|   | Current Period | Prior Period  |
|---|----------------|---------------|
| <b>General Provisions</b>                         |                |               |
| Provisions for First Group Loans and Receivables  | 2.088          | 6.548         |
| Provisions for Second Group Loans and Receivables | -              | -             |
| Provisions for Non-cash Loans                     | 29.120         | 15.138        |
| Other   | -              | -             |
| <b>Total</b>                                      | <b>31.208</b>  | <b>21.686</b> |

b) Foreign exchange losses on the foreign currency indexed loans and finance lease receivables: None (31 December 2015: None).

c) The specific provisions provided for unindemnified non cash loans: None (31 December 2015: None).

d) Information on employee termination benefits and unused vacation accrual:

Under Turkish Labor 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 4.426,16 (31 December 2015: TL 4.092,53) effective from 1 January 2016 has been taken into consideration in calculation of provision for employment termination benefits.

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

**II. Explanations and Notes Related to the Liabilities (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 2016, 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 6,50% (31 December 2015: 4,5% ) and interest rate 10,00% and a discount rate of 3,29% (31 December 2015 3,75%). The anticipated rate of forfeitures is considered. The severance pay has been calculated for the personnel who have completed 15 years.

|  | <b>Current<br/>Period</b> | <b>Prior<br/>Period</b> |
|--|---------------------------|-------------------------|
| <b>Total</b>   | <b>16.536</b>             | <b>18.994</b>           |
| The ratio of provision to undiscounted total liabilities               | 9.152                     | 10.164                  |
| Provision for employee termination (Presented in financial statements) | 7.384                     | 8.830                   |
| Total liabilities of employee terminations (Undiscounted)(%)           | 80,68                     | 86,88                   |

As of 31 December 2016, the Bank provided a reserve of TL 4.864 (31 December 2015: TL 4.512) for the unused vacation. This balance is classified under Reserve for Employee Benefits in the financial statements.

d.1) Movement of employee termination benefits

|                       | <b>Current Period</b> | <b>Prior Period</b> |
|-----------------------|-----------------------|---------------------|
| As of January 1       | 8.830                 | 7.185               |
| Paid during the year  | (2.900)               | (261)               |
| Actuarial (gain)/loss | 146                   | 326                 |
| Charge for the year   | 1.308                 | 1.580               |
| Service charge        | 570                   | 696                 |
| Interest charge       | 738                   | 884                 |
| <b>Total</b>          | <b>7.384</b>          | <b>8.830</b>        |

d.2) The reserve for the employee benefits

|                           | <b>Current Period</b> | <b>Prior Period</b> |
|---------------------------|-----------------------|---------------------|
| Unused vacation provision | 4.864                 | 4.512               |
| <b>Total</b>              | <b>4.864</b>          | <b>4.512</b>        |

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

**II. Explanations and Notes Related to the Liabilities (Continued)**

**7. Information on other provisions:**

e.1) Information on provisions for possible losses: None (31 December 2015: None).

e.2) The breakdown of the subsidiary accounts if other provisions exceed 10% of the grand total of provisions:

|  | <b>Current Period</b> | <b>Prior Period</b> |
|--|-----------------------|---------------------|
| Provisions for Capital Market Board's Share Fee(*) | 9.984                 | 9.140               |
| Provision for Legal Claims (**)                    | 1.900                 | 342                 |
| <b>Total</b>                                       | <b>11.884</b>         | <b>9.482</b>        |

(\*) Capital Market Board's Share Fee consists of commission fee which will be paid to the CMB in 2016 accordance with the CMB's regulation.

(\*\*) As of the balance sheet date, there are thirty lawsuits filed against the Bank that are still in progress according to the information received from the legal department of the Bank. Twenty-three of these cases are related to the return of work and the payment of overtime pay. The seventh of these cases is a lawsuit filed by the Investors Protection Fund against the lawsuit filed by the Bank on the demand for determination of the pledge right on the capital market instruments which constitute the guarantees of the credits used by an intermediary institution whose activities are suspended by the CMB and which are determined to be liquidated. The seven lawsuits are lawsuits filed by the brokerage houses of the related CMB case and related with refund of the penalties of the capital market instruments. In accordance with TAS 37, the Bank has reflected these cases in the accompanying financial statements amounting to TL 1.900 (31 December 2015: TL 342).

|  | <b>Current Period</b> | <b>Prior Period</b> |
|--|-----------------------|---------------------|
| Provisions for Cases Beginning Balance | 342                   | 549                 |
| Additions                              | 1.588                 | -                   |
| Payments                               | (30)                  | (207)               |
| <b>Provisions for Cases Year End</b>   | <b>1.900</b>          | <b>342</b>          |

**8. Liabilities Resulting from Retirement Benefits: None (31 December 2015: TL None).**

f.1) Liabilities for pension funds established in accordance with "Social Security Institution": None (31 December 2015: None).

f.2) Liabilities resulting from all kinds of pension funds, foundations, which provide post retirement benefits for the employees: None (31 December 2015: None).

**9. Explanations on taxes payable:**

a) Information on current tax liability:

a.1) Corporate tax:

|                                     | <b>Current Period</b> | <b>Prior Period</b> |
|-------------------------------------|-----------------------|---------------------|
| Provision for Corporate Taxes       | 52.312                | 40.241              |
| Advance Taxes (-)                   | 39.269                | 29.665              |
| <b>Corporate Income Tax Payable</b> | <b>13.043</b>         | <b>10.576</b>       |

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**II. Explanations and Notes Related to the Liabilities (Continued)**

a.2) Information on taxes payable:

|  | Current Period | Prior Period  |
|--|----------------|---------------|
| Corporate Taxes Payable                  | 13.043         | 10.576        |
| Taxation on Securities                   | 1.468          | 1.186         |
| Banking Insurance Transaction Tax (BITT) | 502            | 438           |
| Value Added Tax Payable                  | 55             | 69            |
| Other                                    | 1.970          | 2.028         |
| <b>Total</b>                             | <b>17.038</b>  | <b>14.297</b> |

a.3) Information on premiums:

|                                   | Current Period | Prior Period |
|-----------------------------------|----------------|--------------|
| Social Security Premiums-Employee | 416            | 333          |
| Social Security Premiums-Employer | 382            | 326          |
| Unemployment Insurance-Employee   | 55             | 46           |
| Unemployment Insurance-Employer   | 27             | 23           |
| <b>Total</b>                      | <b>880</b>     | <b>728</b>   |

b) Explanations on deferred tax liabilities, if any: None (31 December 2015: None).

**10. Information on liabilities regarding assets held for sale and discontinued operations:**

None (31 December 2015: None).

**11. 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 2015: None).

**12. Information on Shareholders' Equity:**

**a) Presentation of Paid-in capital:**

|                  | Current Period | Prior Period |
|------------------|----------------|--------------|
| Common stock (*) | 600.000        | 600.000      |
| Preferred stock  | -              | -            |

(\*) As of 31 December 2016 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, amount of registered share capital ceiling:** Registered share capital system is not applied as of the balance sheet date (31 December 2015: 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 2015: None)

**d) Other information on the share of capital increased through capital contributions performed during the current period and capital funds:** None (31 December 2015: None).

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

**II. Explanations and Notes Related to the Liabilities (Continued)**

**e) 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 2015: None).

**f) Indicators of the Bank's income, profitability and liquidity for the previous periods and possible effects of these future assumptions on the Bank's equity due to the uncertainty of these indicators:**

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 2016, 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 A 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 A shareholders.

**h) Information on marketable securities value increase fund:** None (31 December 2015: None).

**i) Information on extraordinary reserves:**

|   | <b>Current Period</b> | <b>Prior Period</b> |
|---|-----------------------|---------------------|
| Reserves appropriated by the General Assembly | 139.119               | 56.886              |
| Retained Earnings                             | -                     | -                   |
| Accumulated Losses                            | -                     | -                   |
| Foreign Capital Exchange Difference           | -                     | -                   |
| <b>Total</b>                                  | <b>139.119</b>        | <b>56.886</b>       |

**13. Other Information on Shareholders' Equity:**

The Bank has not been added to capital from capital reserve ended in 31 December 2016 (31 December 2015: None).

**14. Information on minority shares:**

None (31 December 2015: None).

**15. Information on past year profit distribution:**

The Bank transfers the distributable net period profit of TL 174,728 for the year 2015 and allocates TL 13,706 from the profit for legal reserves and TL 81,139 for extraordinary reserves. Pursuant to the decision taken at the Ordinary General Assembly Meeting held on March 31, 2016, on April 5, 2016, the personnel paid a dividend of TL 4.703 and the shareholders were paid a dividend of TL 75.000.

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**EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS (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 2015: 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 maturity of 1 year or less than 1 year       | -                 | -                |
| With maturity of more than 1 year                 | -                 | -                |
| Other non-cash loans (*)                          | 10.768.604        | 5.628.740        |
| <b>Total</b>                                      | <b>10.768.604</b> | <b>5.628.740</b> |

(\*) Guarantees given to Stock Exchange Money Market for Payables.

Information on sectoral risk breakdown of non-cash loans:

|                                      | Current Period    |               |    |     | Prior Period     |               |    |     |
|--------------------------------------|-------------------|---------------|----|-----|------------------|---------------|----|-----|
|                                      | TL                | (%)           | FC | (%) | TL               | (%)           | FC | (%) |
| <b>Agricultural</b>                  |                   |               |    |     |                  |               |    |     |
| Farming and raising livestock        | -                 | -             | -  | -   | -                | -             | -  | -   |
| Forestry                             | -                 | -             | -  | -   | -                | -             | -  | -   |
| Fishery                              | -                 | -             | -  | -   | -                | -             | -  | -   |
| Manufacturing                        | -                 | -             | -  | -   | -                | -             | -  | -   |
| Mining                               | -                 | -             | -  | -   | -                | -             | -  | -   |
| Production                           | -                 | -             | -  | -   | -                | -             | -  | -   |
| Electric, gas and water              | -                 | -             | -  | -   | -                | -             | -  | -   |
| Construction                         | -                 | -             | -  | -   | -                | -             | -  | -   |
| <b>Services</b>                      | <b>10.768.604</b> | <b>100,00</b> | -  | -   | <b>5.628.740</b> | <b>100,00</b> | -  | -   |
| Wholesale and retail trade           | -                 | -             | -  | -   | -                | -             | -  | -   |
| Hotel, food and beverage services    | -                 | -             | -  | -   | -                | -             | -  | -   |
| Transportation and telecommunication | -                 | -             | -  | -   | -                | -             | -  | -   |
| Financial institutions               | 10.768.604        | 100,00        | -  | -   | 5.628.740        | 100,00        | -  | -   |
| Real estate and renting services     | -                 | -             | -  | -   | -                | -             | -  | -   |
| Self-employment services             | -                 | -             | -  | -   | -                | -             | -  | -   |
| Education services                   | -                 | -             | -  | -   | -                | -             | -  | -   |
| Health and social services           | -                 | -             | -  | -   | -                | -             | -  | -   |
| <b>Other</b>                         | -                 | -             | -  | -   | -                | -             | -  | -   |
| <b>Total</b>                         | <b>10.768.604</b> | <b>100</b>    | -  | -   | <b>5.628.740</b> | <b>100,00</b> | -  | -   |

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

**III. Explanations and Notes Related to the Off-Balance Sheet Accounts (Continued)**

Information on I. and II. Group non-cash loans:

|                                     | I. Group          |    | II. Group        |    |
|-------------------------------------|-------------------|----|------------------|----|
|                                     | TL                | FC | TL               | FC |
| <b>Non-cash loans</b>               | <b>10.768.604</b> | -  | <b>5.628.740</b> | -  |
| Letters of guarantee                | 10.768.604        | -  | 5.628.740        | -  |
| Bank acceptances                    | -                 | -  | -                | -  |
| Letters of credit                   | -                 | -  | -                | -  |
| Endorsements                        | -                 | -  | -                | -  |
| Underwriting commitments            | -                 | -  | -                | -  |
| Factoring commitments               | -                 | -  | -                | -  |
| Other commitments and contingencies | 10.768.604        | -  | 5.628.740        | -  |

b.2) Guarantees, temporary guarantees, collateral and other warranties: None (31 December 2015: 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))         | 216.775        | -  | 212.363        | -  |
| Capital commitment for Central Counterparty Service (Bank is central counterparty services (CCP)) | 9.290          | -  | 17.218         | -  |
| Capital commitment for Loan Share Market (Bank is central counterparty services (CCP))            | 83.614         | -  | -              | -  |
| <b>Total</b>  | <b>309.679</b> | -  | <b>229.581</b> | -  |

c) Information related to Non-Cash Loans:

As 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, 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 2.441.011.739(31 December 2015: TL 1.989.410.198) of the TL 2.440.779.253 balance of market securities hedges are investment funds as the other TL 232.486 balance consists of share certificate hedges.

**2. Information related to derivative financial instruments:**

The Bank has no derivative financial instruments as of 31 December 2016 and 2015.

**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 2015: None).

**Fair Value Hedges**

**Net profit/(loss) due to hedging instruments of the Bank:** None (31 December 2015: None).

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

**III. Explanations and Notes Related to the Off-Balance Sheet Accounts (Continued)**

**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 2016:** None (31 December 2015: None).

**Net Investment Hedges at the Foreign Companies**

None (31 December 2015: 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 2015: None).

**a.2) Share of entity under common control (joint ventures) in its own contingent liabilities:** None (31 December 2015: None).

**a.3) The Bank's contingent liabilities resulting from liabilities of other ventures in entities under common control (joint ventures):** None (31 December 2015: None).

**b) Accounting and presentation of contingent assets and liabilities in the financial statements:** None (31 December 2015: 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 Bank has credit rating from Fitch Ratings International Rating agency.

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

**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 |
| <b>Interest on Loans</b>                                 | <b>12.891</b>  | -  | <b>9.108</b> | -  |
| Short term loans   | 12.891         | -  | 9.108        | -  |
| Medium and long term loans                               | -              | -  | -            | -  |
| Interest on non-performing loans                         | -              | -  | -            | -  |
| Premiums received from Resource Utilization Support Fund | -              | -  | -            | -  |
| <b>Total</b>   | <b>12.891</b>  | -  | <b>9.108</b> | -  |

**b) Information on interest received from banks:**

|                                 | Current Period |               | Prior Period   |               |
|---------------------------------|----------------|---------------|----------------|---------------|
|                                 | TL             | FC            | TL             | FC            |
| Central Bank of Turkey          | -              | -             | -              | -             |
| Domestic banks                  | 203.057        | 71.441        | 157.730        | 50.410        |
| Foreign banks                   | -              | -             | -              | -             |
| Branches and head office abroad | -              | -             | -              | -             |
| <b>Total</b>                    | <b>203.057</b> | <b>71.441</b> | <b>157.730</b> | <b>50.410</b> |

**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                            | 6.345          | -  | 16.228        | -  |
| <b>Total</b>   | <b>6.345</b>   | -  | <b>16.228</b> | -  |

**d) Information on interest income received from associates and subsidiaries:** None (31 December 2015: None).

**e) Other information:** None (31 December 2015: None).

**2. Information on interest expense**

**a) Information on interest on funds borrowed:**

|                                 | Current Period |    | Prior Period  |    |
|---------------------------------|----------------|----|---------------|----|
|                                 | TL             | FC | TL            | FC |
| Banks                           | 50.674         | -  | 39.350        | -  |
| The Central Bank of Turkey      | 21             | -  | -             | -  |
| Domestic banks                  | 50.653         | -  | 39.350        | -  |
| Foreign banks                   | -              | -  | -             | -  |
| Branches and head office abroad | -              | -  | -             | -  |
| Other financial institutions    | -              | -  | -             | -  |
| <b>Total</b>                    | <b>50.674</b>  | -  | <b>39.350</b> | -  |

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**IV. Explanations and Notes Related to the Income Statement (Continued)**

**b) Information on interest expense to associates and subsidiaries:** None (31 December 2015: None).

**c) Information on interest expense to marketable securities issued:** None (31 December 2015: None).

**d) Distribution of interest expense on deposits based on maturity of deposits:** None (31 December 2015: None).

**Information on dividend income:**

|  | <b>Current period</b> | <b>Prior Period</b> |
|--|-----------------------|---------------------|
| Trading Securities                                     | -                     | -                   |
| Financial assets at fair value through profit and loss | -                     | -                   |
| Available-for-sale securities                          | 52                    | 13                  |
| Other (Investment in subsidiaries)                     | 6.165                 | 6.166               |
| <b>Total</b>   | <b>6.217</b>          | <b>6.179</b>        |

**4. Information on net trading income:**

|  | <b>Current period</b> | <b>Prior Period</b> |
|--|-----------------------|---------------------|
| Income                                     | <b>2.720</b>          | <b>1.745</b>        |
| Gains on capital market operations         | -                     | 2                   |
| Gains on derivative financial instruments  | -                     | -                   |
| Foreign exchange gains                     | 2.720                 | 1.743               |
| <b>Losses (-)</b>                          | <b>(925)</b>          | <b>(623)</b>        |
| Losses on capital market operations        | -                     | -                   |
| Losses on derivative financial instruments | -                     | -                   |
| Foreign exchange losses                    | (925)                 | (623)               |
| <b>Total(Net)</b>                          | <b>1.795</b>          | <b>1.122</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.

|                                 | <b>Current Period</b> | <b>Prior Period</b> |
|---------------------------------|-----------------------|---------------------|
| Provisions no longer required   | 4.461                 | 2.666               |
| Income from sales of the assets | 146                   | 144                 |
| Other income                    | 25                    | 74                  |
| <b>Total</b>                    | <b>4.632</b>          | <b>2.884</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.

Including new developments and significant factors affecting the Bank's income and unusual items arising from the information about the nature and amount of income:

The Bank does not have extraordinary income that substantially affects the profit and loss (31 December 2015: None)

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

**IV. Explanations and Notes Related to the Income Statement**

**6. Provision expenses of banks for loans and other receivables:**

|  | Current Period | Prior Period |
|--|----------------|--------------|
| Specific provisions for loans and other receivables      | -              | -            |
| - III. Group Loans and Receivables                       | -              | -            |
| - IV. Group Loans and Receivables                        | -              | -            |
| - V. Group Loans and Receivables                         | -              | -            |
| General provision expenses                               | 13.983         | 265          |
| 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>13.983</b>  | <b>265</b>   |

**7. Information on other operating expenses:**

|  | Current Period | Prior Period  |
|--|----------------|---------------|
| Personnel Expenses                     | 47.313         | 42.921        |
| CMB Council Portion                    | 9.985          | 9.141         |
| Tax, Duty and Charge Expenses          | 3.363          | 2.639         |
| Tangible Amortisation Expenses         | 2.493          | 2.458         |
| Provision Expenses for Employee Rights | 1.872          | 1.424         |
| Intangible Amortisation Expenses       | 1.588          | -             |
| Employee Benefits Provision Expense    | 1.308          | 1.580         |
| Litigation Provision Expenses          | 352            | 783           |
| Other Management Expenses              | 18.756         | 13.912        |
| -Computer Using Expenses               | 5.121          | 3.430         |
| -Communication Expenses                | 2.258          | 1.957         |
| -Insurance Expenses                    | 1.472          | 1.426         |
| -Other                                 | 9.905          | 7.098         |
| <b>Total</b>                           | <b>87.030</b>  | <b>74.857</b> |

**8. Information on profit/ (loss) from continued and discontinued operations before taxes:**

a) Bank presents deferred tax asset and the resulting deferred tax benefit in its financial statements.

|                                       | Current Period  | Prior Period    |
|---------------------------------------|-----------------|-----------------|
| Current income tax benefit / (charge) | (52.312)        | (40.241)        |
| Deferred tax benefit / (charge)       | (1.480)         | (1.449)         |
| <b>Total</b>                          | <b>(53.792)</b> | <b>(41.690)</b> |

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

**IV. Explanations and Notes Related to the Income Statement (Continued)**

b) Deferred tax benefit on temporary differences

|  | Current Period | Prior Period   |
|--|----------------|----------------|
| Difference between Internal Efficiency and Market Value of GDDS held to maturity | (56)           | (57)           |
| Retirement pay provision   | (289)          | 329            |
| CMB Provision  | 169            | 124            |
| Difference between BookValue and Tax Value of Fixed Assets                       | (1.657)        | (1.894)        |
| Employee Benefits Provision Expense  | 71             | 156            |
| Litigation Provision Expenses  | 312            | (42)           |
| Deferred Tax Income recognized in Equity   | (30)           | (65)           |
| <b>Total</b>   | <b>(1.480)</b> | <b>(1.449)</b> |

c) Tax reconciliation:

|                                  | Current Period  | Prior Period    |
|----------------------------------|-----------------|-----------------|
| Profit before tax                | 265.357         | 216.418         |
| Corporate tax rate               | %20             | %20             |
| Calculated tax                   | (53.071)        | (43.284)        |
| Effects of undeductable expenses | 13.713          | 10.071          |
| Other tax exempt income          | (14.434)        | (8.477)         |
| <b>Tax expense</b>               | <b>(53.792)</b> | <b>(41.690)</b> |

**9. Information on net profit/ (loss) from continued and discontinued operations:**

As of 31 December 2016, net profit of the Bank is TRY 211.565 (31 December 2015: TRY 174.728).

**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 2015: 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 2015: None).

c) Profit or loss attributable to minority shares: There is no profit or loss attributable to minority shares as of the balance sheet date (31 December 2015: None).

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**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:**

|  | <b>Current Period</b> | <b>Prior Period</b> |
|--|-----------------------|---------------------|
| <b>Other fees and commissions</b>          | <b>90.575</b>         | <b>74.386</b>       |
| -Service commissions                       | 13.751                | 18.259              |
| -Custody commissions                       | 20.853                | 16.672              |
| -Commissions on options Exchange           | 18.939                | 15.795              |
| -Customer account maintenance commissions  | 17.760                | 12.973              |
| -Bank transfer transactions                | 8.370                 | 6.791               |
| -Transfer commissions                      | 4.429                 | 3.896               |
| -Other                                     | 10.902                | 3.701               |
| <b>Total Banking Service Income</b>        | <b>95.004</b>         | <b>78.087</b>       |
| <b>Provisions No Longer Required</b>       | <b>4.466</b>          | <b>2.666</b>        |
| Collection due to previous year's expenses | 146                   | 144                 |
| Income on sales of assets                  | 17                    | 1                   |
| Other income                               | 3                     | 73                  |
| <b>Total Non-Interest Income</b>           | <b>4.632</b>          | <b>2.884</b>        |

**12. Information for the fees and commissions given:**

|   | <b>Current Period</b> | <b>Prior Period</b> |
|---|-----------------------|---------------------|
| Central Securities depository commissions | 5.947                 | 4.556               |
| Electronic fund transfer commissions      | 1.378                 | 1.189               |
| Other Commissions                         | 3.086                 | 2.109               |
| <b>Fees and commissions expense</b>       | <b>10.411</b>         | <b>7.854</b>        |

**b) 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 2015: None).

**V. Explanations and Notes Related to Statement of Shareholders' Equity Movement**

**a) Decrease resulting from revaluation of financial assets available for sale:** None (31 December 2015: None).

**b) Increase in cash flow risk hedging items:** None (2015: None).

**b.1) Reconciliation of beginning and ending balances:** None (2015: None).

**b.2) Amount recorded in the current period if a gain or loss from a cash flow hedging derivative or non-derivative financial asset is accounted for under shareholders' equity:** None (2015: None).

**c) The reconciliation related with foreign exchange amounts in the beginning and end of the period:** None (2015: None).

**d) Net investment hedges:** None (2015: None).

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

**V. Explanations and Notes Related to Statement of Shareholders' Equity Movement (Continued)**

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:**

Bank, 2015 distributable net profit of TL 174.728, added to the legal reserve account amounting TL 13.706 and transferred to extraordinary reserve account amounting TL 81.319. As per the decision taken at the Bank's Ordinary General Assembly meeting dated 31 March 2016, a dividend amounting to TL 4.703 was distributed to personnel and TL 75.000 was distributed to shareholders on 5 April 2016.

|  | <b>Current Period</b> | <b>Prior Period</b> |
|--|-----------------------|---------------------|
| Amounts transferred to reserves from retained earnings (+) | 13.706                | 9.481               |

i) Information on shares issued: None (31 December 2015: None)

**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 53.291 (31 December 2015: TL 46.862) 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 781.226 (31 December 2015: TL 862.381 ) 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 2.744 (31 December 2015: 20.095) consists of changes in sundry debtors and other assets.

The effect of changes in foreign currencies on cash and cash equivalents is TL 533.759 (31 December 2015: TL 426.051).

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

**VI. Explanations and Notes Related To Statement of Cash Flows (Continued)**

**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:

| <b>Beginning of the period</b>                                | <b>Current Period</b> | <b>Prior Period</b> |
|---|-----------------------|---------------------|
| <b>Cash</b>   | <b>55</b>             | <b>54</b>           |
| Cash in TL/Foreign Currency                                   | 13                    | 15                  |
| Central Bank - Unrestricted amount                            | 42                    | 39                  |
| Other   | -                     | -                   |
| <b>Cash equivalents</b>                                       | <b>6.617.585</b>      | <b>5.095.564</b>    |
| Banks   | 6.598.704             | 5.070.778           |
| Money market placements                                       | 18.881                | 24.786              |
| <b>Total Cash and Cash Equivalents</b>                        | <b>6.617.640</b>      | <b>5.095.618</b>    |
| Capital Market Council Share (*)                              | -                     | (21.013)            |
| Accruals (-)  | (14.522)              | (13.397)            |
| <b>Total cash and cash equivalents in cash flow statement</b> | <b>6.603.118</b>      | <b>5.061.208</b>    |
| <b>End of the period</b>                                      |                       |                     |
| <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>    |

(\*) Since 1st January 2014, according to the instruction of CMB, Debt of Council Portion is considered as blocaged amount and is discounted from the sum of cash and cash equivalents since 31st December 2015.

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

**VII. Explanations and notes related to Bank's risk group**

**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 Venture)</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>Cash</b> | <b>Non-cash</b>                                  | <b>Cash</b> |
| Loans and other receivables    |   |                 |   |             |  |             |
| Balance at beginning of period | -   | -               | 141.553   | 1.751.219   | 138.134  | -           |
| Balance at end of period       | -   | -               | 98.945  | 2.783.755   | 70.038   | -           |
| Interest and commission income | 236   | -               | 25.723  | 15.455      | 2.538  | -           |

b) Prior Period:

| <b>Bank's Risk Group</b>       | <b>Subsidiaries, associates and entities under common control (Joint Venture)</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>Cash</b> | <b>Non-cash</b>                                  | <b>Cash</b> |
| Loans and other receivables    |   |                 |   |             |  |             |
| Balance at beginning of period | -   | -               | 92.124  | 2.333.793   | 80.161   | -           |
| Balance at end of period       | -   | -               | 141.553   | 1.751.219   | 138.134  | -           |
| Interest and commission income | 261   | -               | 19.436  | 11.541      | 2.396  | -           |

**c) Information on related party deposits balances:** None (31 December 2015: None).

**d) Information on forward and option agreements and other similar agreements made with related parties:** None (31 December 2015: None).

**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 2015: None).

**b) Besides the structure of relationship, nature of the transaction, amount and ratio to the total volume of transactions, amount of major items and ratio to all items, pricing policies and other factors:** None (31 December 2015: None).

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

**VII. Explanations and notes related to Bank's risk group (continued)**

**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 2015: None).

**d) Transactions accounted for under the equity method:** None (31 December 2015: 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 2015: 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**

|                    | Number | Employees |         |             |         |
|--------------------|--------|-----------|---------|-------------|---------|
| Domestic branches  | 1      | 261       |         |             |         |
|                    |        |           | Country |             |         |
| Rep-offices abroad | -      | -         | -       |             |         |
|                    |        |           |         | Total Asset | Capital |
| 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 (31 December 2015: None).

**IX. Explanations and Notes Related To Subsequent Events**

Main partner of the Bank is Borsa Istanbul A.Ş. and it was operating under the Undersecretariat of Treasury, but from now on it will continue to be in the possession of the Asset Management Fund of Turkey with the decision of Decree No. 2017/9756 dated January 24, 2017.

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**SECTION SIX**

**OTHER EXPLANATIONS**

**I. Other Explanations on the Operations of the Bank**

i) As of 31 December 2016, under the Financial Assets at Fair Value through Profit and Loss account, the Bank has government bonds, amounting to TL 1.154 belonging to problematic brokerage houses, as a guarantee. In addition, under the receivables from reverse repurchase agreements account, as a guarantee, the Bank has investment securities purchased under commitments to resell amounting to TL 21.168 which also belongs to problematic brokerage firms. The corresponding liability accounts for these securities are followed under sundry creditors account. The increase in the fair values of these government bonds and treasury bills amounting to TL 4 and the income accrual of the reverse repo transactions amounting to TL 14 based on the difference between the sale and repurchase prices, are recorded under other liabilities without recognizing the amounts in the income statement.

ii) Bank has decided to support the World Bank Development Center of the Global Islamic Finance for 5 years with the decision of Board of Management No:8 dated 30 May 2013. In this scope, total amount of USD 450.000 contribution has planned to be made on the basis of voluntariness and USD 180.000 (full amount) of this amount has been paid in 2014 and USD 90.000 (full amount) has been paid on 2 October 2015.

iii) The Bank's board of directors decided that within the framework of strategic collaboration carried out between BİAŞ (Borsa İstanbul A.Ş) and Nasdaq OMX, the Bank would purchase Nasdaq OMX software's license; source codes; purchase software and source codes to be carried into effect; and information transfer, maintenance, and support services, which it needs for swap and collateral management; and risk management, from BİAŞ for USD 26.985.000 (full amount). Within this scope, the bank paid the first instalment of TL 22.862 to BİAŞ, corresponding to USD 10.794.000, on 30 April 2014. On 30 September 2015 the Bank recorded the second instalment of TL 28.174, which corresponds to USD 10.794.000 (full amount), and also recorded TL 11.722, which is total amount of the invoice, as of 30 September 2015 which is the invoice date and then paid this amount on 2 April 2015. The payment of the third installment amount of US Dollars 5.397.000 (full amount) amounting to TL 15.292 paid on 4 April 2016. The Bank classifies the invoiced amount and the total personnel expenses for the project amounting to TL 85.075 as "Intangible Assets" in the financial statements.

iv) The results of the ratings performed by Fitch Ratings are shown below:

| <b>Fitch Ratings:</b>                     | <b>August 2016</b>             | <b>February 2017</b>        |
|---|--------------------------------|-----------------------------|
| Foreign currency long term<br><b>View</b> | <b>BBB-</b><br><b>Negative</b> | <b>BB+</b><br><b>Stable</b> |
| Foreign currency short term               | F3                             | B                           |
| TL long term<br><b>View</b>               | BBB-<br><b>Negative</b>        | BBB-<br><b>Stable</b>       |
| TL short term                             | F3                             | F3                          |
| National long term<br><b>View</b>         | AAA (tur)<br><b>Stable</b>     | AAA (tur)<br><b>Stable</b>  |
| <b>Support Points</b>                     | <b>2</b>                       | <b>3</b>                    |
| <b>Support Rating Base</b>                | <b>BBB-</b>                    | <b>BB+</b>                  |
| <b>Financial Capacity Rating</b>          | <b>bbb-</b>                    | <b>bb+</b>                  |

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**SECTION SEVEN**

**INDEPENDENT AUDITOR'S REPORT**

**I. Explanations on the Independent Auditor's Report**

The unconsolidated financial statements for the year ended 31 December 2016 have been audited by PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. and the independent auditor's report dated 20 February 2017 has been presented prior to the unconsolidated financial statements.

**II. Other Footnotes and Explanations Prepared by Independent Auditor**

None (31 December 2015: None).

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## Evaluation of the Financial Status, Profitability and Solvency



As of December 31, 2016, Takasbank's assets rose by 12.8 percent to 8,006,348 thousand Turkish lira year-on-year.

In the current period, in line with previous period data, banks item constituted a significant portion of the Bank's assets. The Bank's assets are comprised of the following: 96 percent (7,715,925 thousand Turkish lira); Bank's, one percent (98,945 thousand Turkish lira); loans, one percent (45,943 thousand Turkish lira); Held-to-maturity Investments until the Maturity of the Government Debt Securities in the portfolio.

As of the end of 2016, Takasbank borrowed 2,444,230 thousand Turkish lira domestic loans, amounting to 31 percent of the liabilities on the balance sheet. The Bank did not use loans from abroad as of the balance sheet date. Miscellaneous payables item, which mainly consist of member cash collateral, accounted for 55 percent of the liabilities. The Bank's paid-up capital is 600 million Turkish lira with a shareholders' equity of 1,043,686 thousandn Turkish lira by 2016 year-end.

Bank profitability has maintained its upward trend in recent years. The Bank's pre-tax profit increased by 22.6 percent to 265,357 thousand Turkish lira year-on-year. In order to manage the 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 the Risk Type



### ► Management of Pillar 1 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 performs risk assessment under the coordination of the Risk Management Department with

participation from all departments by taking into account all the risk it is exposed to.

The principle of proportionality has been 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 2015 Stress Test Report prepared under the coordination of the Risk Management Department, and the ICAAP Report and attached Validation Report by the Internal Control and Compliance Department, and the Survey Report by the Internal Audit Department were all approved at the Board meetings No. 294 dated January 27, 2016 and No. 296 dated March 24, 2016, respectively, and submitted to the Banking Regulation and Supervision Agency.

The Bank's risk appetite structure is monitored 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. When the established risk appetites, risk limits and signal values are exceeded, the relevant authorities are notified.

Risk Management Department manages and coordinates its 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 within the scope of the regulations approved by the Board of Directors.

### 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 scope of the credit risk.

The cash credit transactions of Takasbank consist of the loans extended to brokerage houses. 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 as non-cash loans in accordance with the banking legislation. Our Bank operates as CCP in the Securities Lending Market (SLM), Futures and Options Market (VIOP) and Borsa Istanbul Money Market and the obligations arising from such transactions are also considered as non-cash loans.

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.

When identifying the membership type for the members who will conduct transactions in the market or capital market instruments that receive central counterparty services with the credit or position limits allocated to the members, internal credit rating scores are used, and these limits are entered into force after approval by the Board of Directors.

Credit risk is managed with the presence of an effective and sound collateral mechanism and by allocating appropriate limits.

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 within the early warning systems as well as the legal and internal capital requirements.

According to the regulations of 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 the BRSA. Also, risk reports prepared by the Risk Management Department are submitted to the BRSA quarterly.

### Market Risk Management

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

The Bank's fund management operations are conducted mainly with the banks decided by the Board of Directors and with public banks. The Bank does not take securities other than Government Debt Securities into securities portfolio; and it may use derivative products only for hedging purposes.

Fund Management Team and Executive Management constantly monitor Takasbank



portfolio’s breakdown in terms of maturity and instruments, and revise the fund management strategy according to market developments.

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

The Bank calculates the market risk based amount, 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, market risk based and economic capital requirements are calculated, and back tests, stress tests and scenario analysis are executed.

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

#### Operational Risk Management

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

While Takasbank considers human resources its most important resource, it adopts the conduct of its activities not to be person-oriented, but system and process oriented as its basic principle on in order to ensure the maintenance of corporate structure.

Practices such as keeping software and hardware used at Takasbank readily available along with their alternatives, copying the data simultaneously to different environments, keeping communication, energy, human resources and their substitutes ready, business continuity and emergency planning enable the efficient management of operational risks which may arise from information systems.

At Takasbank, the authorities and responsibilities concerning critical transactions are separated from each other. Approval- authorization mechanisms allows administrative controls during transaction execution. In addition to the control activities executed 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.

The losses arising due the operational risk, reputational risk, legal risk, strategic risk and the information technologies risks being considered part of the operational risk to which Takasbank is exposed are monitored by the "Operational Risk Loss Database". The Bank's processes and sub- process risks regarding all businesses and information technologies are monitored under the "Operational Risk Database," and the records for this database constitute an input for management declaration practices. Internal Control and Compliance Department monitors the actions and key risk indicators regarding the risks that are equal to the operational risk appetite approved by the Board of Directors or are over the operational risk appetite in the Operational Risk Database and the Executive Management takes the necessary actions.

In addition, the probable risks that may be caused by any interruption which might occur in the operations and their potential effects

are also evaluated through the business impact analyses.

Self-assessment practices are conducted with the aim of creating a common operational risk culture among Takasbank personnel, ensuring adoption of risk management activities within the bank, facilitating effective communication between the departments and meeting the revision and update needs of databases which would ensure Takasbank Executive Management to take rapid actions.

Risks that may result from service procurement are evaluated by Takasbank to ensure the continuity of services received from support service institutions. The operational risks, to which Takasbank is/may be exposed, are substantially covered by the insurance policies being purchased.

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

Operational risk based amount is calculated according to the basic indicator approach on an annual basis in accordance with the regulations published by the BRSA, and results are reported to the BRSA.

## ► Management of Pillar 2 Risks

The Bank's Pillar 2 risks involve liquidity risk, interest rate risk arising from banking activity calculations, and central counterparty general business risk.

Provisions for the guarantee funds and transaction collaterals followed in suspense liability accounts or miscellaneous debts by virtue of Takasbank's functions are held as liquid value in the assets. Upon overall consideration of the factors such as Takasbank assets, credit quality and concentrations of credit collaterals, its funding structure and the depth of securities markets, it is seen that the probability of undergoing any liquidity squeeze in fulfilling its liabilities due to maturity mismatch is low.

In performing liquidity planning, Takasbank's both existing and under-stress liquidity requirements as well as the risk appetite and capacity are assessed together. The liquidity planning is performed in order to prevent Takasbank from falling below the statutory ratios to that it is subject to, even under stress conditions.

Takasbank manages the liquidity risk it is exposed to by taking into consideration the interest rate risk arising from banking books, implementation limitations stipulated in all legal regulations, risk appetite, allocated credit risk limits, signal values determined within the early warning systems as well as internal capital requirements.

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

For the liquidity risk, term-to-maturity analysis and liquidity gap analysis are conducted; whereas for the interest rate risk in the banking book, duration analysis and repricing gap analysis are performed. Furthermore, monthly and annual stress tests are performed for the calculation of the loss amount which Takasbank may encounter due to the liquidity risk at certain statistical confidence levels and their results are reported to Takasbank Executive Management. Stress tests conducted for the interest rate risk in the banking book and for the central counterparty business risk and repricing provisions are addressed within the scope of ICAAP.

## Information Related to Transactions the Bank Conducts with its Risk

The table shows the information related to transactions the Bank performs with its risk group.

### Current Period

| Bank's Risk Group                       | Subsidiaries, Affiliates and Jointly-managed Partnerships (Business Partnerships) |          | Bank's Direct and Indirect Shareholders |           | Other Real and Legal Persons in the Risk Group |          |
|---|---|----------|---|-----------|--|----------|
|   | Cash  | Non-cash | Cash                                    | Non-cash  | Cash   | Non-cash |
| <b>Loans and Other Receivables</b>      |   |          |   |           |  |          |
| Opening Balance                         | -   | -        | 141,553                                 | 1,751,219 | 138,134  | -        |
| Closing Balance                         | -   | -        | 98,945                                  | 783,755   | 70,038   | -        |
| Received Interest and Commission Income | 236   |          | 25,723                                  | 15,455    | 2,538  | -        |

### Previous Period

| Bank's Risk Group                       | Subsidiaries, Affiliates and Jointly-managed Partnerships (Business Partnerships) |          | Bank's Direct and Indirect Shareholders |           | Other Real and Legal Persons in the Risk Group |          |
|---|---|----------|---|-----------|--|----------|
|   | Cash  | Non-cash | Cash                                    | Non-cash  | Cash   | Non-cash |
| <b>Loans and Other Receivables</b>      |   |          |   |           |  |          |
| Opening Balance                         | -   | -        | 92,124                                  | 2,333,793 | 80,161   | -        |
| Closing Balance                         | -   | -        | 141,553                                 | 1,751,219 | 138,134  | -        |
| Received Interest and Commission Income | 261   | 19,436   | 11,541                                  | 2,396     | -  | -        |

## Prospective Risks in Sales, Productivity, Income-Generating Capacity, Profitability, Debt/Shareholders' Equity and Similar Issues Early Detection of Risk and Governance Committee Work

Within the scope of BRSA's Regulation on the Internal Systems and Internal Capital Adequacy Assessment Process of Banks, the internal capital adequacy ratio is calculated based on the Board of Directors' approved budget, strategic plan and financial model for the upcoming three-year period for any pillar one and two risks the bank may be exposed to. Efforts are made to conduct operations by taking into account both the legal and the internal capital adequacy ratio.

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

## Business Continuity and Information Security



The interim audit established that the information security management system is successfully maintained and used within the organization is completed with zero findings. Timely action was taken on the 2015 independent penetration test findings and reported to the BRSA. An independent penetration test was performed in 2016 within the scope of the BRSA legislation. ISO 27001:2013 internal examination audit was completed and reported. Action plans were developed based on the findings. An independent information systems audit was successfully completed pursuant to BRSA legislation and information security as well as awareness online training was provided to new bank employees. An independent external follow-up audit conducted in October 2016 to ensure the validity of the ISO 22301 Business Continuity Management System (BCMS), obtained in 2014, Certificate reported that the bank maintains an effective BCMS. Various training sessions were held at the bank as part of the 2016 business continuity awareness program.

Clearing and Settlement transactions that were executed on capital markets in 2016 were completed fully and on time. In the same year, 437 of the 639 improvement requests made at the Bank were completed and implemented as part of the initiative on continuous assessment and improvement of bank processes with a flawless, effective and superior service approach.

Senior management was provided with information and project details regarding improvement efforts through quarterly Information Technology Committee meetings as well as through Strategy Committee meetings. In the light of the information it received, bank processes were once again assessed and improved with a flawless, effective and superior service approach in 2016.

In 2016, the average usability ratio of the bank's critical services was slightly lower than the targeted duration.

## Takasbank Ratings assigned by International Credit Rating Agencies

The bank's international ratings are provided by Fitch Ratings and are summarized below:

| Description                 | August 2016 | February 2017 |
|-----------------------------|-------------|---------------|
| Foreign Exchange Long Term  | BBB-        | BB+           |
| Outlook                     | Negative    | Stable        |
| Foreign Exchange Short Term | F3          | B             |
| TL Long Term                | BBB-        | BBB-          |
| Outlook                     | Negative    | Stable        |
| TL Short Term               | F3          | F3            |
| National Long Term          | AAA (tur)   | AAA (tur)     |
| Outlook                     | Stable      | Stable        |
| Support                     | 2           | 3             |
| Support Rating Base         | BBB-        | BB+           |
| Financial Capacity Rating   | bbb-        | bb+           |

## Five-Year Summary Financial Information

| (Thousand TL)                 | 2016      | 2015      | 2014      | 2013      | 2012      |
|-------------------------------|-----------|-----------|-----------|-----------|-----------|
| Total Assets                  | 8,006,348 | 7,092,438 | 5,495,623 | 5,596,026 | 3,671,623 |
| Shareholders' Equity          | 1,043,686 | 911,026   | 800,244   | 590,396   | 331,605   |
| Paid-up Capital               | 600,000   | 600,000   | 600,000   | 420,000   | 60,000    |
| Operating Profit              | 265,357   | 216,418   | 150,547   | 101,220   | 69,936    |
| Interest and Portfolio Income | 294,068   | 233,635   | 179,323   | 123,670   | 89,523    |

| (In Thousands of US Dollars)*                      | 2016      | 2015      | 2014      | 2013      | 2012      |
|--|-----------|-----------|-----------|-----------|-----------|
| Total Assets                                       | 2,275,048 | 2,439,276 | 2,369,927 | 2,621,949 | 1,247,171 |
| Shareholders' Equity                               | 296,569   | 313,326   | 345,096   | 276,623   | 162,802   |
| Paid-up Capital                                    | 170,493   | 206,356   | 258,743   | 196,786   | 31,765    |
| Operating Profit                                   | 75,403    | 74,432    | 64,922    | 47,425    | 22,888    |
| Interest and Portfolio Income                      | 83,561    | 80,353    | 77,331    | 57,944    | 24,442    |
| CBRT's US Dollar Exchange Rates Used in Assessment | 3.5192    | 2.9076    | 2.3189    | 2.1343    | 1.7826    |

\*US dollar figures are calculated based on the foreign exchange buying rate announced by the CBRT on the last day of the year.

| Financial Ratios (%)                  | 2016   | 2015  | 2014  | 2013   | 2012  |
|---------------------------------------|--------|-------|-------|--------|-------|
| Operating Profit/Total Assets         | 3.30   | 3.05/ | 2.74/ | 1.81   | 1.90  |
| Shareholders' Equity/Total Assets     | 13.00  | 12.90 | 14.56 | 10.55  | 9.03  |
| Operating Profit/Shareholders' Equity | 25.40/ | 23.70 | 18.81 | 17.14/ | 21.09 |
| Growth in Assets                      | 12.89  | 29.06 | -1.79 | 52.41  | 55.86 |

| Personnel Information | 2016 | 2015 | 2014 | 2013 | 2012 |
|-----------------------|------|------|------|------|------|
|                       | 261  | 284  | 257  | 238  | 216  |

**İstanbul Takas ve  
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