

TO: ULUSOY UN SANAYİ ve TİCARET AŞ

BOARD OF DIRECTORS

EARLY DETECTION OF RISK COMMITTEE REPORT

Report Date: 27.05.2016

Report No: 2016/3

Subject: Turkish Central Bank (TCMB) Interest Policy and its Impact on Exchange Rate

Early Detection of Risk Committee convened on 27.05.2016 and carried out assessments concerning the subjects below.

The Central Bank made reductions amounting to 100bp in total at upper band of interest rate corridor during last two Monetary Policy Committee (MPC) meetings and decreased upper band of the corridor to 9.50%. After such reduction, average funding interest receded to 8.5%.

Under current simplification steps, continuance of gradual interest rate cuts to the extent allowed by markets is within framework of expectations and there is a probability that average funding interest recedes to 7.5% which is policy interest.

In the event average funding interest continues to decrease, re-acceleration in FED interest rate hike process may turn up pressure on TRY may increase.

If we are to make an assessment for the rest of the year; there may be a possibility for the market ranging between 2.90-2.95 for USDTRY exchange rate to increase to the levels of 3.20 in negative status. Decrease of approximately 10% in value may come into agenda as a risk element in the forthcoming period. Increase in value of TRY which is a follow-up of interest rate cut process will create a restricting impact and increase the probability that 2.80's will be the lowest annual levels.

In this context, keeping foreign currency open position in sustainable level within the framework of exchange rate risk management model is of vital importance.

Regards

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