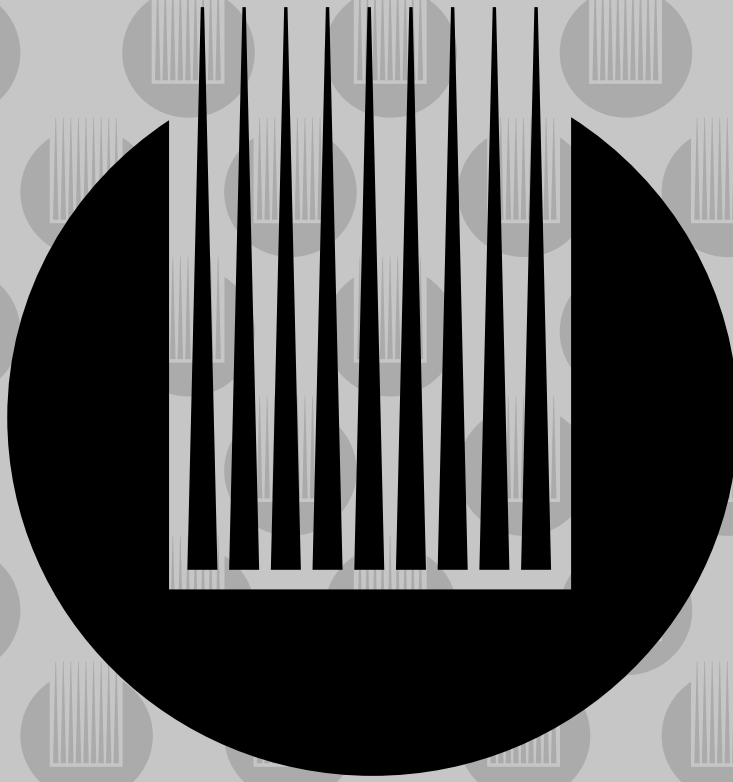


DEVELOPMENT BANK OF TURKEY



ANNUAL REPORT 2017

Contents

02

Corporate Profile

16

Chairman and General Manager's Message

28

Evaluation of Activities Carried out in 2017 and Targets for 2018

37

Environmental Management Activities

INTRODUCTION

- 02 Corporate Profile
- 04 Mission, Vision, Core Values and Firsts
- 06 Strategic Plan of the Development Bank of Turkey for the 2015-2019 Period
- 08 Financial Highlights, Capital and Shareholder Structure
- 10 Amendments to the Articles of Association and Reasons
- 14 The Development Bank of Turkey: From Past to Present
- 16 Chairman and General Manager's Message
- 22 The World and Turkish Economy in 2017
- 26 The Development Bank of Turkey in the Turkish Banking Industry
- 28 Evaluation of Activities Carried out in 2017 and Targets for 2018
- 34 Subsidiaries
- 36 Information Technology
- 37 Environmental Management Activities
- 39 Technical Assistance, Research and Development Activities
- 41 Promotional and Social Activities
- 42 Declaration of Responsibility of the Annual Report
- 43 Annual Activity Report Compliance Opinion

CORPORATE GOVERNANCE

- 44 Board of Directors
- 47 Internal Systems Departments
- 48 Senior Management
- 50 Organizational Chart
- 51 Committees
- 55 Principles of the Bank's Human Resources Policy
- 55 Support Services Providers
- 56 Corporate Governance Compliance Report
- 66 Summary of Board of Directors Report

RISK MANAGEMENT

- 67 Assessment of the Audit Committee Regarding the Operation of Internal Control, Internal Audit and Risk Management Systems and its Activities during the Fiscal Year
- 69 Risk Management Policies
- 72 Assessment of Financial Strength, Profitability and Solvency
- 76 Information on Transactions between the Bank and its Risk Groups
- 77 Credit Ratings
- 78 Financial Information and Key Ratios 2013-2017

FINANCIAL INFORMATION AND INDEPENDENT AUDITORS' REPORT

- 79 Independent Auditor's Report for the Period 01 January - 31 December 2017
- 96 The Unconsolidated Financial Report as of 31 December 2017



Member of ADFIMI



Member of ADFIAP



Member of IIF



Member of EIF-NPI

Development Bank of Turkey Head Office Necatibey Caddesi No: 98 Kızılay/Ankara, Turkey

Phone: +90 312 231 84 00 Fax: +90 312 231 43 41 Trade Registry No: 32345 Central Registration System No: 08779002993500013

Website: www.kalkinma.com.tr

E-mail: haberlesme@kalkinma.com.tr

WE MAKE A DIFFERENCE

As Development Bank of Turkey, we support our country's sustainable development with our expertise and experience spanning more than 40 years while we distinguish ourselves from other banks by financing the future.

With an awareness that the future lies in value-added production, we place special emphasis on Industry 4.0 investments and innovative initiatives.

In 2017, we continued to diversify our sources by expanding our collaborations with international institutions while providing training on corporate capacity building to development agencies and public agencies. We also continued to provide financing for local and renewable energy investments and contributed to the real economy with our Apex loans.

Looking forward to the beautiful future of our country...

Corporate Profile

Maintaining its successful financial performance in 2017, the Development Bank of Turkey increased its net profit by 80% over the previous year to TL 128.3 million.

The Development Bank of Turkey has successfully provided beneficial and systematic contributions to Turkey's sustainable economic growth since 1975. Over the last 40 years, the Bank has played a key role in facilitating the investments of a wide range of companies from diverse sectors. The Bank has also assumed strategic positions in providing long-term resources – the most basic requirement of sustainable economic development.

In pursuit of its mission to boost employment, income and prosperity levels across Turkey, the Bank allocates funds to fixed and working capital investments of various sectors, including energy, energy efficiency, industrial manufacturing, tourism, finance, and healthcare.

STRONG RELATIONSHIPS WITH INTERNATIONAL FUNDING AGENCIES

The Development Bank of Turkey has strong relationships based on mutual trust with the world's leading funding agencies. The Bank offers the business world long-term financing sources it obtains through its international network, via either direct lending or Apex Banking. Another area that the Bank has extensive expertise in is consulting and technical assistance services. The Bank provides support to institutions and businesses operating in various sectors with a team of experts who have deep knowledge of their respective sectors coupled with local and international field experience, while supporting their efforts to develop their own potential with solid contributions. The Development Bank of Turkey goes beyond being a conventional lender; it is a service provider that unconditionally shares its technical know-how and experience with its customers throughout the investment period.

For the Development Bank of Turkey, contributing to environmental sustainability efforts is a top priority. The Bank plays a major role in realizing investments in tourism, renewable energy and energy efficiency as well as environmental investments in other sectors, with the purpose of building an environmentally sustainable economy. Positioning itself as a model corporate citizen, the Bank collaborates with international financial institutions on initiatives to protect the environment and address climate change, both of which are essential to achieving sustainable development.

SUSTAINABLE FINANCIAL PERFORMANCE

Maintaining its successful financial performance in 2017, the Development Bank of Turkey increased its total assets by 27.6% over the previous year to TL 8,983.2 million. Shareholders' equity grew 62.1% (YoY) to reach TL 1,256.3 million. Return on assets was TL 128.3 million with an 80% increase. The Development Bank of Turkey has a strong shareholding structure with the Republic of Turkey Prime Ministry Undersecretariat of Treasury holding 99.08% of the Bank's paid-in capital. The remaining shares are traded on the Borsa İstanbul Main Market under the "KLNMA" ticker. Shaping its operations in line with Turkey's 2023 vision, the Development Bank of Turkey will continue to contribute to Turkey's sustainable growth in the coming period with its strong funding structure, highly competent workforce and professional approach to corporate governance.



TL 500 MILLION

Issued Capital

As of year-end 2017, the Development Bank of Turkey's issued capital is TL 500 million.

Mission, Vision, Core Values and Firsts

Our Mission

In accordance with sustainable development priorities of our country, The Bank's mission is to meet the financing needs of entrepreneurs, to contribute to the widespread ownership of capital and structural transformation, to cooperate with national and international institutions and to provide consultancy support

Our Vision

Being "Turkey's Development Bank"

Our Core Values

- Commitment to the principles of sustainable development,
- High-quality and modern development banking services,
- Environmental awareness,
- Monitoring economic, technological, social and cultural developments on every platform,
- High quality services and activities at international standards,
- Openness to change,
- Capability to provide each customer group with appropriate products in line with the Bank's lines of services (customer orientation),
- Transparency,
- Accountability,
- Reliability.

Our Firsts

In light of its expertise and experience spanning more than 40 years, the Development Bank of Turkey has contributed significantly to the real economy while pioneering many “firsts” and innovations over the course of its history.

The Development Bank of Turkey is:

The first bank to offer financial as well as technical support to the companies,

The first bank to execute incentive loans,

The first bank to prepare a financial support program to bring unfinished facilities into the economy,

The first bank to support clusters within a program,

The first and only bank to provide infrastructure technical support in the process of developing tourism potential,

The first bank to carry out an initial public offering in the capital markets,

The first bank to transfer Islamic Development Bank resources to SMEs,

The first bank to receive ISO 14001 Environmental Management Certification as a state-owned bank,

The first and only bank that reports to CDP (Carbon Disclosure Project) on a voluntary basis. CDP is the largest climate action movement in the world with 50 signatories from Turkey,

The first and only bank to apply the World Bank's grant program RSM (Risk-Sharing Mechanism) to geothermal development projects,

The Development Bank of Turkey is the first and only Turkish bank to become an affiliate member of EIF-NPI.

Strategic Plan of the Development Bank of Turkey for the 2015-2019 Period

The Development Bank of Turkey revised its financial projections for the period 2017-2020 in its Strategic Plan in line with the changing conditions. The revised projections were approved by the Bank's Board of Directors.

The Development Bank of Turkey, which has successfully executed its task of development banking for over 42 years since its establishment in line with the priorities of the development plans and programs, prepared a strategic plan for the period 2015-2019 as part of the country's 2023 vision. The Strategic Plan of the Bank for the period of 2015-2019 was adopted by the Board of Directors' decision dated February 27, 2015 and numbered 032. The plan continues to be implemented.

The parts of the Strategic Plan that set out a future outlook including the Bank's mission, vision and strategic objectives have been kept the same until the next period. However, financial projections are revised each year and presented to the Board of Directors for approval. Accordingly, The Bank revised its financial projections for the period 2017-2020 in its Strategic Plan in line with the changing conditions; and the revised projections were approved by the Board of Directors' resolution dated February 27, 2017 and numbered 038.

Strategic Objectives

Objectives toward Production/ Asset Growth

To efficiently meet the financing needs of real sector investments with medium- and long-term resources in parallel with Turkey's development plans.

To carry out an active participation policy and to integrate new financing tools with the available set of loan products.

To increase allocations to public-private cooperation and infrastructure investments.

To develop infrastructure for the activation of technical assistance and advisory services.

Objective to Strengthen the Resource Structure

To create a strong resource structure that supports sustainable asset growth.

Objective towards Processes

To create a corporate structure supported by information technology, providing operational efficiency and productivity in all areas.



6,928.9
TL MILLION

Steady Loan Growth...

In 2017, the Development Bank of Turkey expanded its customer base while the Bank's total loan volume reached TL 6,928.9 million at year-end.

Financial Highlights, Capital and Shareholder Structure

Maintaining its successful financial performance in 2017, the Development Bank of Turkey increased its total assets by 28% year-over-year to TL 8,983.2 million while shareholders' equity grew 62% to reach TL 1,256.3 million.

Financial Highlights (TL Million)

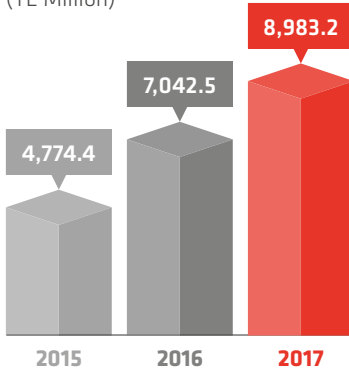
	December 2016	December 2017	Change (Value)	Change (%)
Total Assets	7,042.5	8,983.2	1,940.7	28
Loans	5,425.7	6,928.9	1,503.2	28
Foreign Resources	6,267.4	7,726.9	1,459.5	23
Shareholders' Equity	775.1	1,256.3	481.2	62
Total Income	259.6	405.4	145.8	56
Total Expenditures	166.8	240.7	73.9	44
Provision for Taxes	21.7	36.4	14.7	68
Profit/Loss	71.1	128.3	57.2	80

Basic Ratios (%)

	December 2016	December 2017
Loans/Total Assets	77.0	77.1
Shareholders' Equity/Total Assets	11.0	14.0
Return on Assets	1.0	1.4
Return on Equity	9.2	10.2
Standard Capital Adequacy Ratio	13.4	16.7

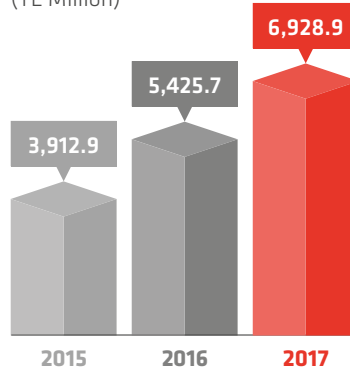
Total Assets

(TL Million)



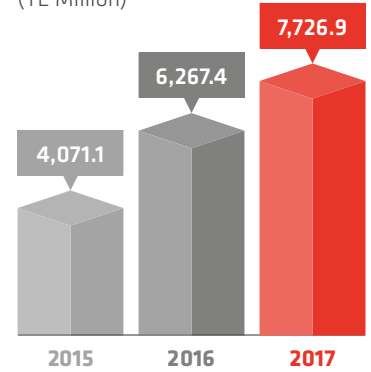
Loans

(TL Million)



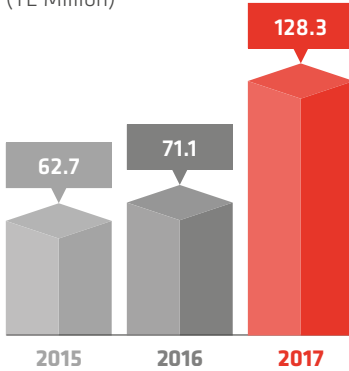
Foreign Assets

(TL Million)



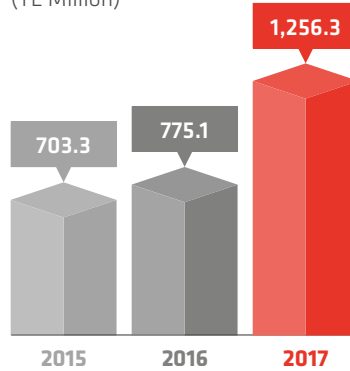
Profit/Loss

(TL Million)



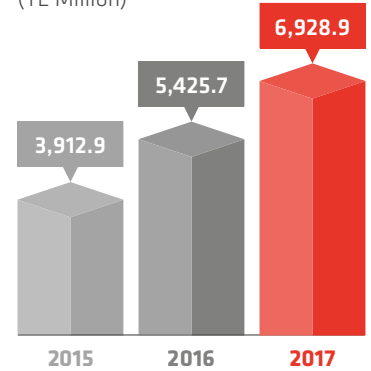
Shareholders' Equity

(TL Million)



Loans

(TL Million)

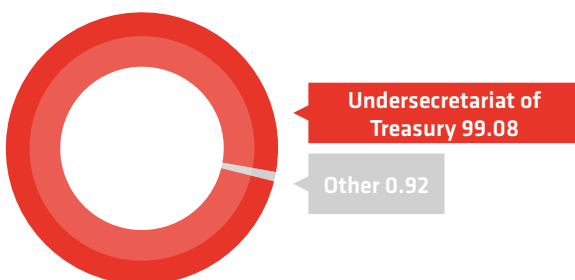


Shareholding Structure^(*)

NO	Shareholders	Share (TL)	(%)
1	Undersecretariat of Treasury	495,407,663.49	99.08
2	Other ^(*)	4,592,336.51	0.92
	Total	500,000,000.00	100.00

^(*) Covers all real and legal persons, and since the majority of the stocks that belong to these partners are traded in Borsa Istanbul, the number of partners is not known.

Shareholding Structure



Capital Increase

The transactions related to raising the issued capital from TL 160,000,000 to TL 500,000,000, which were initiated at year-end 2016, were completed. Subsequently, the Bank's issued capital of TL 500,000,000 was registered at Ankara Trade Registration Office on February 17, 2017 and published in the Trade Registry Gazette No. 9269 dated February 22, 2017.

The decision to increase the Bank's registered capital ceiling from TL 500,000,000 to TL 2,500,000,000 was approved at the Ordinary General Assembly meeting held on June 12, 2017, and the decision was published in the Official Gazette dated September 26, 2017, as per the Council of Ministers' Decree.

Amendments to the Articles of Association and Reasons

Old Version Article 5: Capital

Pursuant to Article 6 of Law No. 4456 and Capital Market Law No. 6362, the Bank adopted the registered capital system and began to implement this system under the Capital Markets Board's permission dated February 8, 2000 and numbered 157.

The Bank's registered capital of TL 500,000,000 (five hundred million) has been divided into 50,000,000,000 (fifty billion) shares each with a nominal value of 1 Kuruş.

The Bank's issued capital of TL 160,000,000 (one hundred and sixty million) has been fully paid up and divided into 16,000,000,000 (sixteen billion) registered shares each with a nominal value of 1 Kuruş.

While the nominal value of shares has been changed from TL 1,000 to 1 Yeni (New) Kuruş per share, pursuant to Law No. 5274 on amendments to the Turkish Commercial Code, the term "Yeni" (New) was later removed from the currency denominations "Yeni Türk Lirası" (New Turkish Lira) and "Yeni Kuruş" (New Kuruş) on January 1, 2009, as per the Council of Ministers' Decree No. 2007/11963, dated April 4, 2007; thereby, 1 Yeni (New) Kuruş was changed to 1 Kuruş. As a result of this change, the total number of shares has decreased; therefore, each 10 former shares having a nominal value of TL 1,000 were replaced by one share having a nominal value of 1 (Yeni/New) Kuruş.

This amendment has been made without prejudice to the existing rights of the shareholders arising out of the shares they currently hold so that all their existing rights are reserved.

The term "Turkish Lira" herein mentioned refers to the currency name amended by the Council of Ministers' Decree. The shares representing the capital are monitored on a registered basis pursuant to registration principles.

New Version Article 5: Capital

Pursuant to Article 6 of Law No. 4456, and Capital Market Law No. 6362, the Bank adopted the registered capital system and began to implement this system under the Capital Markets Board's permission dated February 8, 2000 and numbered 157.

The Bank's registered capital of TL 500,000,000 (five hundred million) has been divided into 50,000,000,000 (fifty billion) shares each with a nominal value of 1 Kuruş.

The Bank's issued capital of TL 500,000,000 (five hundred million) has been fully paid up and divided into 50,000,000,000 (fifty billion) registered shares each with a nominal value of 1 Kuruş.

While the nominal value of shares has been changed from TL 1,000 to 1 Yeni (New) Kuruş per share, pursuant to Law No. 5274 on amendments to the Turkish Commercial Code, the term "Yeni" (New) was later removed from the currency denominations "Yeni Türk Lirası" (New Turkish Lira) and "Yeni Kuruş" (New Kuruş) on January 1, 2009, as per the Council of Ministers' Decree No. 2007/11963, dated April 4, 2007; thereby, 1 Yeni (New) Kuruş was changed to 1 Kuruş. As a result of this change, the total number of shares has decreased; therefore, each 10 former shares having a nominal value of TL 1,000 were replaced by one share having a nominal value of 1 (Yeni/New) Kuruş.

This amendment has been made without prejudice to the existing rights of the shareholders arising out of the shares they currently hold so that all their existing rights are reserved.

The term "Turkish Lira" herein mentioned refers to the currency name amended by the Council of Ministers' Decree. The shares representing the capital are monitored on a registered basis pursuant to registration principles.

Reason for the Amendment to the Articles of Association

The Bank raised its issued capital from TL 160,000,000 to TL 500,000,000, pursuant to Article 5 of the Articles of Association.

The permission for the registered capital ceiling that was granted by the Capital Markets Board is valid for the period 2016-2020 (five years). Even if the permitted registered capital ceiling has not been reached as of the end of 2020, in order for the Board of Directors to adopt a resolution regarding a capital increase, it is mandatory to obtain permission from the Capital Markets Board for the ceiling that was previously permitted or for a new ceiling amount, and to receive authorization from the General Assembly for a new time period.

If such authorization cannot be obtained, the Bank shall be considered to have abandoned the registered capital system. The Board of Directors is authorized to raise the issued capital, without being bound by the provisions of the Turkish Commercial Code regarding a capital increase, up to the registered capital ceiling mentioned above by issuing new shares, whenever it deems necessary, between the years of 2016 and 2020, in accordance with the provisions of the Capital Market Law.

The registered capital ceiling may only be raised by a Council of Ministers' Decree upon a General Assembly resolution.

The Board of Directors is authorized to limit the pre-emptive rights and to sell allocated shares.

Old Version Article 5: Capital

Pursuant to Article 6 of Law No. 4456, and Capital Market Law No. 6362, the Bank adopted the registered capital system and began to implement this system under the Capital Markets Board's permission dated February 8, 2000 and numbered 157.

The permission for the registered capital ceiling that was granted by the Capital Markets Board is valid for the period 2016-2020 (five years). Even if the permitted registered capital ceiling has not been reached as of the end of 2020, in order for the Board of Directors to adopt a resolution regarding a capital increase after 2020, it is mandatory to obtain permission from the Capital Markets Board for the ceiling that was previously permitted or for a new ceiling amount, and to receive authorization from the General Assembly for a new time period, which shall not exceed five years.

If such authorization cannot be obtained, the Bank cannot increase the capital with a Board of Directors' resolution. The Board of Directors is authorized to raise the issued capital, without being bound by the provisions of the Turkish Commercial Code regarding a capital increase, up to the above-mentioned registered capital ceiling by issuing new shares, whenever it deems necessary, between the years of 2016 and 2020, in accordance with the provisions of the Capital Market Law.

The registered capital ceiling may only be raised by a Council of Ministers' Decree upon a General Assembly resolution.

The Board of Directors is authorized to limit the rights of shareholders to acquire new shares, to issue new shares at a price higher than the nominal value, and to sell allocated shares. The authority to limit the right to acquire new shares cannot be exercised in a manner leading to inequality among shareholders

New Version Article 5: Capital

Pursuant to Article 6 of Law No. 4456, and Capital Market Law No. 6362, the Bank adopted the registered capital system and began to implement this system under the Capital Markets Board's permission dated February 8, 2000 and numbered 157.

Reason for the Amendment to the Articles of Association

Increasing the registered capital ceiling and updating the validity period of the registered capital ceiling as 2017-2021, pursuant to the Capital Markets Board Communiqué on the Registered Capital System (No: II-18.1).

Amendments to the Articles of Association and Reasons

The Bank's registered capital of TL 500,000,000 (five hundred million) has been divided into 50,000,000,000 (fifty billion) shares each with a nominal value of 1 Kuruş.

The Bank's issued capital of TL 500,000,000 (five hundred million) has been fully paid up and divided into 50,000,000,000 (fifty billion) registered shares each with a nominal value of 1 Kuruş.

While the nominal value of shares has been changed from TL 1,000 to 1 Yeni (New) Kuruş per share, pursuant to Law No. 5274 on amendments to the Turkish Commercial Code, the term "Yeni" (New) was later removed from the currency denominations "Yeni Türk Lirası" (New Turkish Lira) and "Yeni Kuruş" (New Kuruş) on January 1, 2009, pursuant to the Council of Ministers' Decree No. 2007/11963, dated April 4, 2007; thereby, 1 Yeni (New) Kuruş was changed to 1 Kuruş. As a result of this change, the total number of shares has decreased; therefore, each 10 former shares having a nominal value of TL 1,000 were replaced by one share having a nominal value of 1 (Yeni/New) Kuruş.

This amendment has been made without prejudice to the existing rights of the shareholders arising out of the shares they currently hold so that all their existing rights are reserved.

The term "Turkish Lira" herein mentioned refers to the currency name amended by the Council of Ministers' Decree. Shares representing the capital are monitored on a registered basis pursuant to registration principles.

The Bank's registered capital of TL 2,500,000,000 (two billion five hundred million) has been divided into 250,000,000,000 (two hundred and fifty billion) shares each with a nominal value of 1 Kuruş.

The Bank's issued capital of TL 500,000,000 (five hundred million) has been fully paid up and divided into 50,000,000,000 (fifty billion) registered shares each with a nominal value of 1 Kuruş.

While the nominal value of shares has been changed from TL 1,000 to 1 Yeni (New) Kuruş per share, pursuant to Law No. 5274 on amendments to the Turkish Commercial Code, the term "Yeni" (New) was later removed from the currency denominations "Yeni Türk Lirası" (New Turkish Lira) and "Yeni Kuruş" (New Kuruş) on January 1, 2009, as per the Council of Ministers' Decree No. 2007/11963, dated April 4, 2007; thereby, 1 Yeni (New) Kuruş was changed to 1 Kuruş. As a result of this change, the total number of shares has decreased; therefore, each 10 former shares having a nominal value of TL 1,000 were replaced by one share having a nominal value of 1 (Yeni/New) Kuruş.

This amendment has been made without prejudice to the existing rights of the shareholders arising out of the shares they currently hold so that all their existing rights are reserved.

The term "Turkish Lira" herein mentioned refers to the currency name amended by the Council of Ministers' Decree. Shares representing the capital are monitored on a registered basis pursuant to registration principles.

The permission for the registered capital ceiling that was granted by the Capital Markets Board is valid for the period 2016-2020 (five years). Even if the permitted registered capital ceiling has not been reached as of the end of 2016, in order for the Board of Directors to adopt a resolution regarding a capital increase, it is mandatory to obtain permission from the Capital Markets Board for the ceiling that was previously permitted or for a new ceiling amount, and to receive authorization from the General Assembly for a new time period which shall not exceed five years.

If such authorization cannot be obtained, the Bank cannot increase the capital with a Board of Directors' resolution. The Board of Directors is authorized to raise the issued capital, without being bound by the provisions of the Turkish Commercial Code regarding a capital increase, up to the above-mentioned registered capital ceiling by issuing new shares, whenever it deems necessary, between the years of 2016 and 2020, in accordance with the provisions of the Capital Market Law.

The registered capital ceiling may only be raised by a Council of Ministers' Decree upon a General Assembly resolution.

The Board of Directors is authorized to limit the rights of shareholders to acquire new shares, to issue new shares at a price higher than the nominal value, and to sell allocated shares. The authority to limit the right to acquire new shares cannot be exercised in a manner leading to inequality among shareholders.

The permission for the registered capital ceiling that was granted by the Capital Markets Board is valid for the period 2017-2021 (five years). Even if the permitted registered capital ceiling has not been reached as of the end of 2021, in order for the Board of Directors to adopt a resolution regarding a capital increase after 2021, it is mandatory to obtain permission from the Capital Markets Board for the ceiling that was previously permitted or for a new ceiling amount, and to receive authorization from the General Assembly for a new time period, which shall not exceed five years.

If such authorization cannot be obtained, the Bank cannot increase the capital with a Board of Directors' resolution. The Board of Directors is authorized to raise the issued capital, without being bound by the provisions of the Turkish Commercial Code regarding a capital increase, up to the above-mentioned registered capital ceiling by issuing new shares, whenever it deems necessary, between the years of 2017 and 2021, in accordance with the provisions of the Capital Market Law.

The registered capital ceiling may only be raised by a Council of Ministers' Decree upon a General Assembly resolution.

The Board of Directors is authorized to limit the rights of shareholders to acquire new shares, to issue new shares at a price higher than the nominal value, and to sell allocated shares. The authority to limit the right to acquire new shares cannot be exercised in a manner leading to inequality among shareholders.

The Development Bank of Turkey: From Past to Present

In 2017, the Development Bank of Turkey continued its activities by creating new financing sources with the aim of supporting Turkey's development mission.

1975

THE BANK WAS FOUNDED UNDER THE NAME DEVLET SANAYİ VE İŞÇİ YATIRIM BANKASI (DESİYAB) A.Ş. (STATE INDUSTRY AND LABORER'S INVESTMENT BANK LTD).

With its strong foundations and stable structure, the Bank has assumed an important mission in Turkey's progress towards its growth targets. The foundations of the Development Bank of Turkey were laid with Devlet Sanayi ve İşçi Yatırım Bankası A.Ş. (DESİYAB) (State Industry and Laborer's Investment Bank Ltd), established in accordance with the Authorization Act No. 1877 and Statutory Decree No. 13 dated November 27, 1975 to conduct all the activities of investment and development banking, including profit sharing-based capital finance, as an incorporated company and as a development and investment bank subject to the provisions of private law.

1988

THE BANK WAS RENAMED AS TÜRKİYE KALKINMA BANKASI A.Ş. (DEVELOPMENT BANK OF TURKEY LTD) AND WAS ALSO AUTHORIZED TO FINANCE OTHER SECTORS IN ADDITION TO THE INDUSTRIAL SECTOR.

With a reorganization of its structure and activities in 1983, the Bank was renamed as Türkiye Kalkınma Bankası A.Ş. on July 15, 1988 and was thus authorized to finance other sectors in addition to the industrial sector.

1989

T.C. TURİZM BANKASI A.Ş. (TOURISM BANK OF TURKEY LTD) WAS MERGED WITH THE DEVELOPMENT BANK OF TURKEY WITH ALL OF ITS ASSETS AND LIABILITIES.

T.C. Turizm Bankası A.Ş. (Tourism Bank of Turkey Ltd) was merged into the Development Bank of Turkey with all of its assets and liabilities in accordance with the decision made by the Higher Planning Council on January 20, 1989. The Bank thus added the tourism sector to the areas it serves.

1990

THE BANK UNDERTOOK NEW PROGRAMS FOR PRIORITY DEVELOPMENT REGIONS.

The Bank started to implement three emergency support programs in the regions where development was deemed a priority and successfully continued these programs until 2000.

1999

THE BANK'S CHARTER ACT NO. 4456 WAS ENACTED AND ENTERED INTO FORCE.

The Bank's Charter Act No. 4456 was enacted on October 14, 1999 and entered into force with its publication in the Official Gazette dated October 17, 1999 No. 23849. As a development and investment bank with a legal entity, which was founded in the form of an incorporated company subject to the provisions set forth in this act as well as to the provisions of private law, the Development Bank of Turkey serves under the Prime Ministry.

2008

THE BANK LAUNCHES APEX BANKING ACTIVITIES.

The Development Bank of Turkey started to carry out Apex banking activities in cooperation with multi-branch local banks in order to support the investments of non-incorporated companies, thus beginning to allocate resources to finance the investments of SMEs.

2010

THE BANK'S TOTAL ASSETS EXCEED US\$ 1 BILLION.

Demonstrating healthy and efficient growth, the Bank's total assets exceeded US\$ 1 billion for the first time; also, its long-term resources provided from abroad increased by 51%.

2012

THE BANK CONTINUED SUSTAINABLE GROWTH.

Constantly progressing towards its targets, the Development Bank of Turkey continued to support customers operating in various areas, especially in energy efficiency, during 2012. The international credit rating agency Fitch Ratings upgraded the Bank's credit rating to BBB-.

2013

THE BANK SECURED LONG-TERM RESOURCES AT A RECORD LEVEL.

As a result of the strong international relations that it has built over many years, the Bank secured nearly US\$ 840 million in long-term resources from five different international financial institutions in 2013.

2014

THE BANK'S FINANCING SUPPORT TO NATIONAL DEVELOPMENT EXCEEDED TL 3 BILLION.

Having made important contributions to the Turkish economy in the field of development banking for 40 years, the Development Bank of Turkey experienced an increase in its loan volume, reaching TL 3,145 million in 2014. The share of total loans in the Bank's total assets rose to 80.3%.

2015

THE BANK'S STRATEGIC PLAN FOR THE PERIOD 2015 TO 2019 WAS APPROVED.

The Strategic Plan of the Development Bank of Turkey for the 2015-2019 period, prepared in line with Turkey's 2023 vision, was adopted and put into practice following the Board of Directors' decision dated February 27, 2015. On the other hand, the 64th Government's program states that the Development Bank of Turkey shall be restructured in an approach to give more support to the qualified projects that our economy needs.

2016

THE DEVELOPMENT BANK OF TURKEY DECIDED TO INCREASE ITS ISSUED CAPITAL TO TL 500,000,000.

The Development Bank of Turkey decided to increase its issued capital within the permitted registered capital ceiling of TL 500,000,000. The Bank raised its issued capital from TL 160,000,000 to TL 500,000,000 – an increase of TL 340,000,000 (212.5%) to be fully paid in cash.

2017

THE DEVELOPMENT BANK OF TURKEY EXPANDED ITS GLOBAL COLLABORATION NETWORK WITH NEW INITIATIVES.

The Development Bank of Turkey became an affiliate member of the EIF-NPI Equity Platform, a collaborative initiative launched by the European Investment Fund (EIF) to promote collaboration including corporate representation, personnel exchange and knowledge sharing among National Promotional Institutions (NPIs) and banks across Europe. EIF provides SMEs in Europe with access to equity finance through venture capital funds and risk financing. With this initiative, the Development Bank of Turkey further expanded its global collaboration network.

THE DEVELOPMENT BANK OF TURKEY STRENGTHENED ITS PIONEERING POSITION IN THE FINANCIAL SECTOR WITH ITS CARBON DISCLOSURE PROJECT REPORT.

The Development Bank of Turkey achieved another remarkable success in the seventh year of its environmental management system. The Bank completed the calculation and validation of its carbon footprint, and other activities for becoming a "carbon neutral" bank in the first half of the year and issued its Carbon Disclosure Project (CDP) report. In its first year of reporting, the Development Bank of Turkey's Climate Change Report received a score in the second highest threshold level on the list from the Carbon Disclosure Project, and the Bank ranked 6th among 19 financial institutions in Turkey.

THE DEVELOPMENT BANK OF TURKEY BEGAN DISBURSING EUR 100 MILLION IN APEX LOANS.

Under the EUR 100 million loan agreement signed between the Development Bank of Turkey and the Council of Europe Development Bank (CEB) on December 20, 2016 to provide financing to SMEs in Turkey through the Apex method and support job creation in SMEs, the Bank is collaborating with the Industrial Development Bank of Turkey (TSKB), which obtained loans from CEB under the same program and in the same amount, to ensure effective and efficient disbursement and monitoring of the loans. Accordingly in December 2017, the Development Bank of Turkey and TSKB signed loan agreements with six leading financial leasing companies in Turkey for the disbursement of loans allocated to these financial leasing companies on November 29, 2017. Subsequently, the initial portion of the funds - EUR 30 million – was transferred to the financial leasing companies. Loan disbursement and monitoring activities will be tracked on the online portal www.apexisbirligi.com, created jointly by the Development Bank of Turkey and TSKB.

THE DEVELOPMENT BANK OF TURKEY SECURED US\$ 200 MILLION FINANCING.

On November 22, 2017, the Development Bank of Turkey signed a US\$ 200 million loan agreement with the Islamic Development Bank (IDB) under the guarantee of the Undersecretariat of Treasury to provide financing for energy infrastructure, clean energy and energy efficiency projects, in line with Turkey's energy security goals.





“Having financed real sector investments for the past 43 years in line with Turkey’s development priorities, our Bank will continue to support innovative projects that aim to protect ecological balance and contribute to the development of domestic industry.”



Ahmet BUÇUKOĞLU
Chairman and General Manager

Chairman and General Manager's Message

Despite the volatility in global financial markets, rising oil prices and geopolitical risks, Turkey maintained strong economic growth in 2017.

Esteemed Shareholders,

As a result of the expansion in global trade, investment spending and industrial manufacturing, the world economy picked up momentum in 2017. The improvements in financial conditions coupled with supportive monetary policies created an environment of confidence, which fueled global economic growth. Even though the world economy is expected to continue expanding in the coming period, adverse factors such as heightened geopolitical risks and financial market volatility persist. Against this backdrop, international financial institutions revised upward their global growth forecasts slightly. In 2017, advanced economies are expected to record GDP growth of 2.3%, up from 1.7% in 2016. Meanwhile, emerging markets are forecast to post gross domestic product expansion of 4.7%, up from 4.4% last year. The IMF announced its global growth forecast as 3.7% for 2017, and 3.9% for 2018 and 2019. In 2017, major central banks began to gradually unwind the expansionary monetary policies that they started implementing after the global financial crisis. During the year, the Federal Reserve raised interest rates by 75 basis points to 1.5% and announced that it would remain cautious while incrementally lifting interest rates in 2018. The European Central Bank left interest rates unchanged, but reduced its bond purchase program. Meanwhile, the Bank of England increased interest rates for the first time in a decade, raising its benchmark rate to 0.5%.

THE TURKISH ECONOMY DEMONSTRATED A SUCCESSFUL PERFORMANCE IN 2017.

Despite the volatility in global financial markets, rising oil prices and geopolitical risks, Turkey maintained strong economic growth in 2017. The Turkish economy expanded 3.2% in 2016, and 11.1% in third quarter 2017. Economic growth had a positive impact on employment indicators, with unemployment declining to 10.3% in November 2017, down from 10.9% in 2016. Due to highly volatile foreign exchange rates, inflation rose to 11.9% in 2017, up from 8.5% in 2016. Rising inflation affected monetary policy. The CBRT (Central Bank of the Republic of Turkey) lifted lending rates, both the overnight rate and the Late Liquidity Window rate, by tightening its monetary policy.

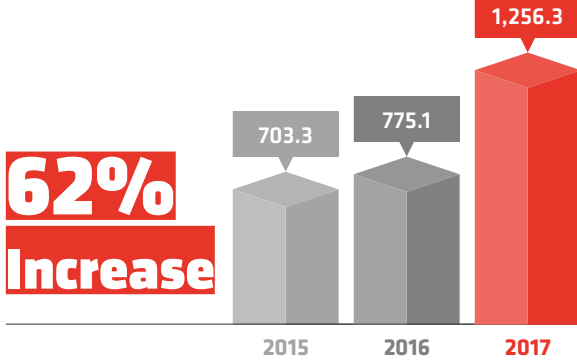
Asset growth had a positive impact on our profitability. Our net profit for the period increased 80.4% year-on-year to TL 128 million. Meanwhile, return on assets (ROA) and return on equity (ROE) rose to 1.4% and 10.2%, respectively. In 2017, we also raised our registered capital ceiling to TL 2.5 billion.

WE CONTINUE TO PROVIDE FINANCING TO THE REAL ECONOMY – THE ENERGY SECTOR IN PARTICULAR.

Contributing to our country's developing economy, the Development Bank of Turkey continued to support investments in 2017. Our loan volume expanded 27.7% year-on-year to TL 6.9 billion while total assets went up 27.6% to TL 9.0 billion. Aiming to transfer its sources to the real economy, our Bank's loans to assets ratio stands at 77.1% – a significantly high level compared to the industry average.

Shareholders' Equity

(TL million)



Asset growth had a positive impact on our profitability. Our net profit for the period increased 80.4% year-over-year to TL 128.3 million. Meanwhile, return on assets (ROA) and return on equity (ROE) rose to 1.4% and 10.2%, respectively. In 2017, we also raised our registered capital ceiling to TL 2.5 billion.

The Development Bank of Turkey continued to provide financing to the real economy – the energy sector in particular.

In 2017, the Bank continued to obtain Treasury guaranteed, long-term funding from international financial institutions. Under the loan agreements signed with the World Bank, European Investment Bank (EIB), Islamic Development Bank (IDB), Japan Bank for International Cooperation (JBIC) and German Development Bank (KfW), the Development Bank of Turkey secured total loans of EUR 204 million and US\$ 94 million in 2017.

Our Bank continued to provide financing to the real economy – the energy sector in particular. As for the sector distribution of the Development Bank of Turkey's credit portfolio, the energy industry, at 58%, accounts for the largest share. This sector is followed by manufacturing (18%), tourism (14%), finance (8%), and education-healthcare (2%). We continue to support the renewable energy sector, as renewable energy sources are critical in protecting the ecosystem and reducing Turkey's dependence on foreign energy. To that end, the Bank has successfully implemented the ISO 14001 Environmental Management System for the last eight years.

In addition to direct lending, the Development Bank of Turkey has also provided medium- and long-term financing to SMEs via intermediary financial institutions using apex lending agreements since 2008. As of end-2017, our Bank has extended a total of TL 1.1 billion in financing to SMEs through apex lending.

The Development Bank of Turkey is a founding partner of the Istanbul Venture Capital Initiative (iVCI), one of the sub-funds of the Turkish Investment Initiative (TII). Under this program, the Bank has so far invested more than EUR 160 million in 63 companies operating in various industries. Forty-five of these companies are based in Turkey. Leveraging its experience in this area, the Development Bank of Turkey will work to expand financing opportunities in the country and continue to provide venture capital in the coming year. To this end, our Bank became an affiliate member of the EIF-NPI Equity Platform (European Investment Fund – National Promotional Institutions/Banks) in order to further expand collaboration with venture capital funds that invest in technology and innovation. With this effort, we continue our capacity-building efforts.

IN LINE WITH ITS CORPORATE GOVERNANCE PHILOSOPHY, THE DEVELOPMENT BANK OF TURKEY WILL CONTINUE SUPPORTING ECONOMIC DEVELOPMENT EFFORTS, INCLUDING ENVIRONMENTAL SENSITIVITY AND AWARENESS.

For more than 40 years, the Development Bank of Turkey has successfully fulfilled its duties and responsibilities related to the economic development of our country. Our Bank plans to continue support to the national economy by providing financing at reasonable terms for real sector investments, particularly in R&D and innovation. The Bank will also extend its efforts to mitigate interregional differences in development levels and take an active role in areas with limited funding options, such as venture capital.

In line with our vision of being "Turkey's Development Bank," we will continue placing special emphasis on environmental sensitivity, which we see as a key factor in economic development. I would like to take this opportunity to thank all our stakeholders on behalf of the Board of Directors, and especially our employees for all the hard work they do each year.

Yours sincerely,

AHMET BUÇUKOĞLU
Chairman and General Manager

CONTINUOUS SUPPORT FROM THE DEVELOPMENT BANK OF TURKEY FOR **ENERGY FINANCING...**

1,256.3
TL MILLION
SHAREHOLDERS' EQUITY

The Development Bank of Turkey's shareholders' equity grew 62% year-over-year to reach TL 1,256.3 million. The Development Bank of Turkey has a strong shareholding structure with the Republic of Turkey Prime Ministry Undersecretariat of Treasury holding 99.08% of the Bank's paid-in capital.

ACCESS TO INTERNATIONAL **LONG-TERM** FUNDS WITH LOW INTEREST RATES...

128.3
TL MILLION

As of year-end 2017, the Development Bank of Turkey's net profit for the period increased by 80% to reach TL 128.3 million while return on assets (ROA) and return on equity (ROE) rose to 1.4% and 10.2%, respectively.

58%

SHARE OF THE ENERGY
SECTOR IN THE PORTFOLIO...

In the sectoral distribution of the Bank's credit portfolio, the energy sector accounts for 58%. The Development Bank of Turkey has identified the renewable energy sector as its primary target, concentrating its placements in this sector, as renewable energy is of great importance in reducing Turkey's dependence on foreign energy.

SOLID CAPITAL STRUCTURE, **ACTIVE SUPPORT TO ENTREPRENEURSHIP...**

7,584.4

TL MILLION
LIABILITY

Medium- and long-term loan facilities secured by the Development Bank of Turkey in 2017 amounted to TL 7,584.4 million. The Bank signed a EUR 100 million loan agreement with the Council of Europe Development Bank to be extended to SMEs.

STRONG FUNDING STRUCTURE, COMPETENT WORKFORCE, PROFESSIONAL APPROACH TO CORPORATE GOVERNANCE...

The World and Turkish Economy in 2017

Against this backdrop, the world economy is projected to expand 3.6% in 2017 and 3.7% in 2018.

GLOBAL ECONOMY – DEVELOPMENTS AND OUTLOOK

In 2017, global economic activity maintained the upward trend observed since the second half of 2016, in parallel with strong economic growth, especially in developed countries. While favorable financing environment and relatively steady commodity prices signal continued global growth for the coming period, medium-term forecasts are being revised upward. In light of these developments, IMF revised its global growth forecast upward from 3.5% to 3.6% in June.

The monetary policies of major central banks, the Federal Reserve in particular, European elections, developments in the Brexit process, the economic policy of the new U.S. administration, geopolitical developments, and oil prices are some of the important factors that will shape the global economy and therefore should be closely watched from 2017 onwards.

Against this backdrop, the world economy is projected to expand 3.6% in 2017 and 3.7% in 2018. On the other hand, developing economies, key drivers of global growth, are expected to grow 4.6% in 2017 and 4.9% in 2018; meanwhile, developed economies are estimated to expand 2.2% in 2017 and 2.0% in 2018.

Having recorded a growth rate of 1.5% in 2016, the U.S. economy exceeded forecasts in 2017 and grew 1.2% in the first quarter, 2.6% in the second quarter, and 3% in the third quarter. The U.S. economy is expected to expand at an annual rate of 2.2% in 2017 and 2.0% in 2018.

The Euro Area economy, on the other hand, grew 1.8% in 2016. However, GDP growth in Europe is expected to rebound to 2.1% in 2017 and then moderate to 1.9% in 2018.

In 2017, expansionary monetary policies increased the money supply; however the end of this era is drawing near.

After posting rapid growth in recent years, China's economic growth trajectory was slower but more balanced. China's economy grew 6.9% in the first half of 2017, and the country's annual economic growth is expected to edge up to 6.8% in 2017, and 6.5% in 2018. In India, one of the world's fastest growing major economies, economic growth slowed in 2016 and it is likely to decelerate further in 2017. India's economy grew 7.1% in 2016. However, economic growth is expected to slow to 6.7% in 2017 and then rebound to 7.4% in 2018.

In 2017, expansionary monetary policies increased the money supply; however the end of this era is drawing near. The Federal Reserve ("Fed") raised its benchmark interest rate, which was in the range of 0.50-0.75% at year-end 2016, by 25 basis points in March 2017 and by another 25 basis points in June 2017 to the range of 1.00-1.25%. At the same meeting, the Federal Open Market Committee announced that it would start scaling back its US\$ 4.5 trillion balance sheet in 2017.

The European Central Bank continued its supportive monetary policy due to ongoing economic problems in the Euro Area (less in 2017), the potential consequences of Brexit, deflation, the refugee crisis, heightened risk of terrorist attacks, and financial fluctuations. ECB extended its bond-buying program, which was due to end in March 2017, until the end of the year, but starting in April, ECB cut its monthly bond purchases to EUR 60 billion from EUR 80 billion.



7.4% GROWTH

Steady Growth Performance...

As of year-end 2017, the Turkish economy grew 7.4%.

After a period of slow growth since the financial crisis, global trade regained momentum in line with global economic growth and revival of global demand. World trade volume expanded by 2.4% in 2016, and it is projected to grow 2.4% in 2017, and between 2.1-4% in 2018.

Crude oil prices climbed above US\$ 50 in the last quarter of 2016 and continued to rise in 2017. It is expected that the price of Brent crude oil will range between US\$ 50 and US\$ 55 in the last quarter of 2017. In May 2017, OPEC producers agreed to extend oil output cuts, a decision that

was announced at the beginning of the year to balance the world oil market, until the end of the first quarter of 2018. Oil prices, which dropped 15.7% in 2016, are expected to rise 17.4% in 2017, and then fall by 0.2% in 2018. Non-fuel commodity prices, on the other hand, are expected to fall by 7.1% in 2017 and to increase by 0.5% in 2018.

According to the IMF's October 2017 "World Economic Outlook" Update, CPI (Consumer Price Index) in developed countries, after rising by 0.8% in 2016, is forecast to stand at 1.7% in 2017 and 2018. CPI in emerging markets is expected to rise 4.4% in 2018.

The World and Turkish Economy in 2017

After declining 0.9% in 2016, Turkey's exports increased by 10.2% to US\$ 157.1 billion in 2017.

The unemployment rate in the United States, which was 4.9% in 2016, stood at 4.4% in 2017 and is expected to be 4.1% in 2018. In the Euro Area, unemployment remains high, at 10% in 2016 with estimations of 9.2% and 8.7% in 2017 and 2018, respectively.

Main Global Economic Indicators (% Change)

	2016	2017 (Estimated)	2018 (Estimated)
Growth Rate			
World Economy	3.2	3.6	3.7
Developed Economies	1.7	2.2	2.0
Emerging and Developing Economies	4.3	4.6	4.9
World Trade Volume			
Developed Economies	0.9	-0.4	0.2
Emerging and Developing Economies	-1.2	0.1	-0.5
Commodity Prices			
Oil Prices	-15.7	17.4	-0.2
Commodity Non-Fuel Price Index	-1.8	7.1	0.5

Source: IMF World Economic Outlook Update, October 2017

TURKISH ECONOMY – DEVELOPMENTS AND OUTLOOK

Positive developments in global markets had a positive impact on Turkey's economy. As a result of the government's measures and revived domestic demand, the Turkish economy grew by 5.3% in the first quarter of 2017, and then by 5.4% and 11.1% in the second and third quarters, respectively. Hence, economic growth reached 7.4% in the first nine months of the year. Agricultural Gross Value Added (GVA) increased by 2.8% in the third quarter, compared to the same quarter of the prior year. Manufacturing, construction and service sectors also increased by 14.8%, 18.7% and 20.7%, respectively. The economic growth rate of 4.4% projected in the Medium-Term Program was revised up by 1.1 percentage points to 5.5% in October. In 2018, Turkey's economy is projected to expand by 5.5%.

As for the components of economic growth in terms of spending, private consumption, public consumption and Gross Fixed Capital Formation (GFCF) increased respectively by 11.7%, 2.8% and 12.4% in the third quarter of 2017. According to the Medium-Term Program (MTP) for 2017-2019, public consumption, private consumption and fixed capital investments are projected to rise by 2.7%, 4.6% and 4.8%, respectively. On the other hand, public consumption, private consumption and fixed capital investments are expected to increase by 3.5%, 4.0% and 5.5%, respectively.

Consumer inflation rose one percentage higher than expected to stand at 8.5% in December 2017 (YoY) with average annual inflation coming in at 11.14% and 11.92% compared to the same period of the previous year. According to the Medium-Term Program, CPI will rise by 7.0% in 2018.

Real sector indicators were generally positive in 2017. Both the Industrial Production Index and the Manufacturing Index rose by 6.3% and 6.4% respectively, over the previous year.

Due to weak global demand and geopolitical risks, Turkey's foreign trade volume declined in 2015 and 2016. In 2016, total exports fell by 0.9% compared to the previous year and increased 10.2% in 2017 to total US\$ 157.1 billion. Imports also increased by 17.7% to US\$ 233.8 billion compared to 4.2% drop in the last year. As a result of this development in foreign trade components Turkey's trade deficit narrowed. In 2017, Turkey's trade deficit widened 36.8%, compared to the previous year, to US\$ 76.7 billion. According to the Medium-Term Program, Turkey's exports are estimated to total US\$ 169.0 billion, while imports will total US\$ 237.0 billion in 2018.

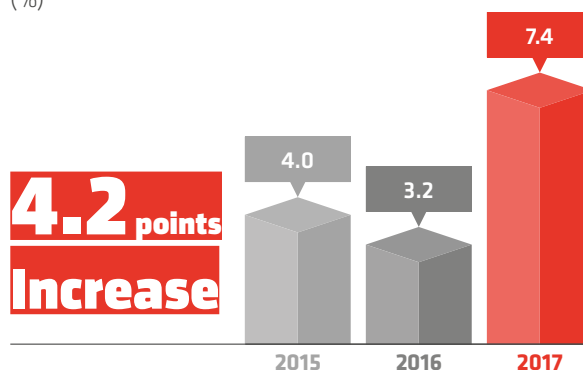
The advantage of lower energy prices – primarily oil prices – contributed positively to the current account balance in 2016. However, energy imports started to increase at the beginning of 2017 due to high growth rate and rising oil prices, which consequently had a negative impact on the current account balance. The increase in tourism revenue in 2017 wasn't sufficient to limit this negative impact. Therefore, current account deficit began widening in May 2017. The annualized current account deficit rose from US\$ 33.1 billion in December 2016 to US\$ 47.1 billion in December 2017. According to the Medium-Term Program, Turkey's current account deficit is expected to total US\$ 40.0 billion in 2018; meanwhile, the current account balance is estimated to amount to -4.6% and -4.3% of GDP in 2017 and 2018, respectively.

Real sector indicators were generally positive in 2017. Both the Industrial Production Index and the Manufacturing Index rose by average 6.3% and 6.4% respectively, over the previous year. The average capacity utilization rate in the manufacturing industry over the last year was 1.1 points higher than the same period of the previous year and stood at 78.5%.

Unemployment remained a major problem for Turkey in 2017. The unemployment rate, which was 10.9% in 2016, declined by 1.5 percentage points in October 2017 (YoY) to 10.3%, exceeding the forecast for 2017. The increase in the labor force participation rate in Turkey prevented a decline in the unemployment rate. According to the Medium-Term Program, the unemployment rate is expected to come in at 10.8% in 2017 and 10.5% in 2018.

Growth of Turkish Economy

(%)



Main Economic Indicators for Turkey

	2016	2017	2018 ⁽²⁾
Growth Rate (%)	3.2	7.4 ⁽¹⁾	5.5
Balance of Trade (Exports-Imports) (US\$ billion)	-56.1	-76.7	-68.0
Exports/Imports (%)	71.8	67.2	71.3
Current Account Balance (US\$ billion)	-32.6	-39.2 ⁽¹⁾	-40.0
Current Account Balance/GDP (%)	-3.8	-4.6 ⁽¹⁾	-4.3
Change in Consumer Prices (%)	8.5	11.9	7.0
Unemployment Rate (%)	10.9	10.8 ⁽¹⁾	10.5

⁽¹⁾ TÜİK

⁽²⁾ Ministry of Development, Medium-Term Program (2018-2020)

The Development Bank of Turkey in the Turkish Banking Industry

The Development Bank of Turkey expanded its loan stock by 28% to TL 6,929 million at year-end 2017.

As of December 2017, total bank assets grew by 19.3% year-over-year to reach TL 3,257.8 billion. The positive developments in the banking sector resulted from national and global monetary policies as well as the government's initiatives aimed at reviving the economy and boosting domestic demand, such as the Credit Guarantee Fund (KGF).

As of year-end 2017, loans accounted for 64.4% of total assets, making up the biggest item on Turkish banks' balance sheets. At year-end 2017, the sector's loan stock grew by 21.0% year-over-year to about TL 2,098 billion. Meanwhile, year-over-year loan growth at the development and investment banks subgroup was 30.6%, well above the industry average. The Development Bank of Turkey expanded its loan stock by 27.7% to TL 6,929 million at year-end 2017.

The Development Bank of Turkey's gross NPL ratio, which dropped from 2.71% in 2015 to 2.30% in 2016, fell further to 1.76% at year-end 2017, improving steadily.

The loans to assets ratio at Development and Investment Banks stood at 70.3% at end- 2016; this ratio rose to 74.9% by the end of 2017. The Bank's loans to assets ratio, on the other hand, was 77.1%, much higher when compared to that of the overall banking sector as well as other Development and Investment Banks.

The sector's gross non-performing loans ratio, which stood at 3.09% in 2015, rose to 3.24% at year-end 2016 and decreased to 2.95% at year-end 2017. Meanwhile, the gross NPL ratio of Development and Investment Banks fell to 0.59% at year-end 2016, down from 0.65% at year-end 2015 and to 0.55% in 2017.

The Development Bank of Turkey's gross NPL ratio, which dropped from 2.71% in 2015 to 2.30% in 2016, fell further to 1.76% at year-end 2017, improving steadily. The Bank's gross NPL ratio is below the industry average, but higher than that of Development and Investment Banks.

In 2017, the banking sector recorded a net profit of TL 49.1 billion, up 30.9% (about TL 11.6 billion) over the previous year. Net interest income grew 24.2% (YoY) to TL 113.4 billion. Net foreign exchange expenditures (losses) amounted to TL -4.1 billion in 2016 versus TL 2.5 billion of net foreign exchange income, during the same period in 2017. Because profit growth exceeded asset growth in the banking sector, return on assets (ROA) also increased to 1.6% in 2017. Development and Investment Banks increased their net profits by 32.1%. This rise in net profit can be attributed to a 28.8% growth in net interest income. In 2017, Development and Investment Banks' ROA rose to 1.9%. In comparison, the Bank's ROA fell to 1.40% in 2017, from 1.0% in 2016; this was mainly due to asset growth, which exceeded net profit growth for the same period.

Turkish banking sector's Capital Adequacy Ratio (CAR), which stood at 15.57% in both 2015 and 2016, rose to 16.87% at year-end 2017. Compared with the previous year, Development and Investment Banks' CAR declined in 2016 to 23.46% and then slightly rose to 23.59% by end-2017, remaining above the industry average. The Bank's CAR fell to 13.41% in 2016 from 17.84% at year-end 2015. However after the capital increase, the Bank's CAR improved significantly and rose to 16.73% at year-end 2017.

[illegible]

Evaluation of Activities Carried out in 2017 and Targets for 2018

As of year-end 2017, the Development Bank of Turkey's net profit for the period increased by 80% to reach TL 128.3 million while return on assets (ROA) and return on equity (ROE) rose to 1.4% and 10.2%, respectively.

The Development Bank of Turkey's loan volume grew 28% to TL 6,928.9 million in 2017, up from TL 5,425.7 million at year-end 2016. In 2017, the Bank's loans to assets ratio stood at 77%, the same level in 2016. Medium- and long-term funds obtained by the Bank amounted to TL 7,584.4 million at year-end 2017.

As of year-end 2017, the Development Bank of Turkey's net profit for the period increased by 80% to reach TL 128.3 million while return on assets (ROA) and return on equity (ROE) rose to 1.4% and 10.2%, respectively.

The Development Bank of Turkey continued to support Turkish investors both at home and abroad with the products and projects it developed in 2017.

The Bank's team of professionals and many years of industry know-how allow it to offer unique, tailored solutions for Turkish investors and the business world in areas such as:

- Accessing international funding,
- Project evaluation and project finance,
- Conducting feasibility studies for investment projects,
- Business valuation and appraisals,
- Training in feasibility studies, business valuation and interpretation of financial statements for professionals,
- Grant programs,
- International technical cooperation.

The Development Bank of Turkey continued to support Turkish investors both at home and abroad with the products and projects it developed in 2017.

CEB'S APEX LOAN FOR SME FINANCING

On December 20, 2016, the Development Bank of Turkey signed a EUR 100 million Apex loan agreement with the Council of Europe Development Bank (CEB) under the guarantee of the Undersecretariat of Treasury to provide financing to SMEs in Turkey via financial leasing companies with the aim of supporting job creation. Under this agreement, the Bank plans to collaborate with the Industrial Development Bank of Turkey (TSKB), which obtained loans from CEB under the same program and in the same amount, to ensure effective and efficient loan disbursement. To this end, Implementation Principles and Procedures regarding the collaboration between the two banks have been developed. Accordingly, the process of allocating the loans to six financial leasing companies was completed in November. On December 27, 2017, the Bank and TSKB concurrently transferred the initial portion of the funds – EUR 30 million – to five financial leasing companies. The remaining EUR 70 million will be allocated by the end of 2018. Loan disbursement and monitoring activities will be tracked on the online portal www.apexisbirligi.com, created jointly by the Development Bank of Turkey and TSKB.



128.3
TL MILLION

Successful Performance

Maintaining its successful performance in 2017, the Development Bank of Turkey increased its net profit to TL 128.3 million.



Evaluation of Activities Carried out in 2017 and Targets for 2018

The Development Bank of Turkey secured more than US\$ 3 billion long-term financing under the loan agreements signed with international financial institutions.

DEVELOPING AND MONITORING FUNDING RESOURCES

Since 2004, the Development Bank of Turkey has obtained loans from international financial institutions to provide financing to SMEs and renewable energy/energy efficiency projects. The aim is to build a strong funding structure that supports the Bank's sustainable asset growth. The Bank also evaluates and monitors opportunities to borrow from alternative lenders.

Under the loan agreements signed with the World Bank (WB), European Investment Bank (EIB), German Development Bank (KfW), Islamic Development Bank (IDB), French Development Bank (AFD), and Japan Bank for International Cooperation (JBIC), the Development Bank of Turkey has secured more than US\$ 3 billion long-term financing from international financial institutions by end-2017. Some EUR 148.2 million and US\$ 94.4 million of total funds obtained in 2017 have been transferred to the Bank's accounts.

Information about the funds that were obtained and/or are being used is outlined below:

EIB-EUROPEAN INVESTMENT BANK

The Development Bank of Turkey continues to successfully allocate EIB loans for Energy-Environment/A and Sustainable Tourism and Energy Efficiency. On February 9, 2017, the Bank and EIB signed a US\$ 100 million loan agreement aimed at SMEs and Large Enterprises (EIB SME LI III).

EUR 148.2 million and US\$ 94.4 million of total funds obtained in 2017 have been transferred to the Bank's accounts.

KFW-GERMAN DEVELOPMENT BANK

The Development Bank of Turkey successfully fulfills its responsibilities under the loan agreements signed with KfW to finance renewable energy and energy efficiency projects, and infrastructure investments. To this end, the Bank provides financing to solar power projects either directly or via the Apex method.

IDB- ISLAMIC DEVELOPMENT BANK

On November 22, 2017, the Development Bank of Turkey and the Islamic Development Bank signed a US\$ 200 million loan agreement for financing clean energy and energy infrastructure projects. The Bank continues negotiations with IDB for new loan facilities for the financing of energy and manufacturing industry projects.

SELP-II FUND

The SELP-II program (European Union Small Enterprises Loan Program-Second Phase), established under the EU Instrument for Pre-accession Assistance (IPA) program to provide financial support for small businesses, ended on November 30, 2013. As per relevant agreements, on December 22, 2017, KfW transferred a total of approximately EUR 56.1 million accumulated in the fund to the Bank to be used in accordance with the intended purpose of the SELP-II program. The Bank plans to allocate the funds within this framework in 2018.

PROJECT MANAGEMENT ACTIVITIES

COMCEC PROJECT FUNDING MANAGEMENT

On March 1, 2017, the Development Bank of Turkey signed a memorandum of understanding and collaboration protocol with the Ministry of Development General Directorate of Foreign Economic Relations (COMCEC Coordination Office) for implementing and monitoring the COMCEC Project Funding (PCM) program, which aims to provide financing for corporate capacity development projects at public agencies in member states of COMCEC (The Standing Committee for Economic and Commercial Cooperation of the Organization of the Islamic Cooperation). Accordingly, the Bank will be undertaking monitoring and financing functions during the 4th call for project proposals.

In order to prepare for the new implementation period, the Development Bank of Turkey and COMCEC Coordination Office provided applied training (in English) on the implementation and monitoring of the grant program, the scope of financial and operational agreements signed with the Bank, and project cycle management to the contact persons and coordinators of selected projects. The training took place in Ankara on March 21-22, 2017.

The Development Bank of Turkey signed agreements with the institutions that proposed a total of 13 international projects, which will be implemented with the support of COMCEC in 2017. The Bank completed the technical and financial evaluations of these 13 projects, which have been deemed eligible for grants. Under the COMCEC Project Funding Program (PCM), which is carried out in accordance with the protocol, the Bank reviewed the financial and technical progress reports, and expense documents related to these 13 projects, which have a total budget of US\$ 905,544.19. As of December 29, 2017, the Bank paid a total of US\$ 746,068.22.

Additionally, the Bank provided a total of US\$ 109,488.81 for 3 projects, which commenced in 2016 but haven't been completed yet.

In 2018, the Development Bank of Turkey aims to renew its protocol with COMCEC Coordination Office and thereby to monitor and evaluate the projects, which will be implemented during the 5th Call for Project Proposals (19 projects with a total budget of approximately US\$ 1,500,000) under the COMCEC Project Funding Program (PCM).

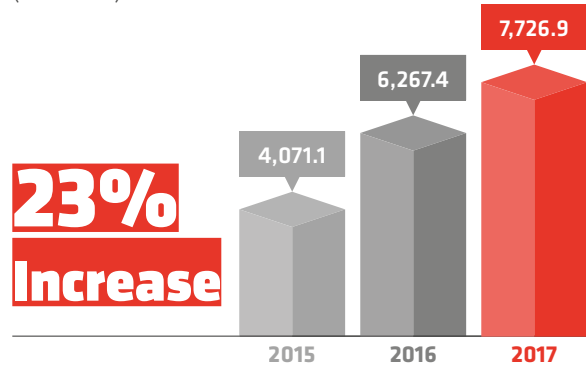
GEOHERMAL DEVELOPMENT PROJECT - RISK SHARING MECHANISM (RSM) WITH THE WORLD BANK

The Development Bank of Turkey established a Risk Sharing Mechanism (RSM) under the geothermal development project, and formed a multidisciplinary team of 11 experts.

Under the Geothermal Development Project, the Bank will allocate US\$ 39.8 million in grant funds provided by the World Bank for financing private sector geothermal projects. Some

Foreign Resources

(TL Million)



US\$ 1.8 million will be allocated to consulting and technical services regarding the set-up and operation of the Risk Sharing Mechanism (RSM) at the Bank. The remaining US\$ 38 million will be used for risk sharing during the initial phase of drilling operations that will be carried out by investors.

Working in collaboration with an RSM procurement consultant, the Bank finalized the tender for procuring RSM consultancy services under the supervision of the World Bank, and a Geothermal Technical Consultant has been selected. The technical consultant and the RSM group started receiving applications from geothermal companies. Only private investors, who hold an exploration license that is valid for at least 18 months, can apply to RSM. In the event that the geothermal wells drilled by investors are not successful, RSM will pay the investors 40% of the total investment spending in the cities of Aydın, Denizli and Manisa, and 60% in other parts of Turkey, provided that the amount payable does not exceed US\$ 4 million.

Under the Geothermal Development Project, the Development Bank of Turkey will allocate US\$ 39.8 million in grant funds provided by the World Bank for financing private sector geothermal projects.

TREASURY AND CAPITAL MARKET TRANSACTIONS

The Bank's Treasury Department closely monitored developments in both domestic and international money and capital markets, and managed Turkish Lira and foreign currency assets through effective management of interest rate, FX and liquidity risks.

The amounts and distribution of assets (liquid assets) managed by the Treasury Department are presented in the table below. In 2017, the Bank's total liquid assets grew 30.5% over the previous year to reach TL 1,919.2 million.

Evaluation of Activities Carried out in 2017 and Targets for 2018

The amount of TL assets in the Development Bank of Turkey's asset portfolio rose 9.5% to TL 908.1 million in 2017 from TL 829.4 million in 2016.

Liquid Assets (TL Million)

	2016			2017		
	TL	FX	Total	TL	FX	Total
Cash Assets and CBRT	1.1	-	1.1	0.7	-	0.7
Banks	712.0	553.4	1,265.4	425.0	910.2	1,335.2
Receivables from Takasbank Money Market	-	-	-	316.0	-	316.0
Receivables from Reverse Repurchase Agreements	10.5	-	10.5	10.0	-	10.0
Securities Portfolio ^(*)	105.8	87.5	193.3	156.4	100.9	257.3
Total	829.4	640.9	1,470.3	908.1	1,011.1	1,919.2

Liquid Assets (%)

	2016			2017		
	TL	FX	Total	TL	FX	Total
Cash Assets and CBRT	0.1	-	0.1	0.1	-	0.0
Banks	85.8	86.3	86.1	46.8	90.0	69.6
Receivables from Takasbank Money Market	-	-	-	34.8	-	16.5
Receivables from Reverse Repurchase Agreements	1.3	-	0.7	1.1	-	0.5
Securities Portfolio ^(*)	12.8	13.7	13.1	17.2	10.0	13.4
Total	100.0	100.0	100.0	100.0	100.0	100.0

^(*) Including securities that represent share capital.

The share of FX assets in the Development Bank of Turkey's total liquid assets rose to 52.7% in 2017 from 43.6% in 2016.

MANAGEMENT OF TL ASSETS

The Bank's TL assets, which make up a significant portion of the total assets managed by the Treasury Department, are mostly kept in money market instruments (interbank money market, Takasbank money market, repo and reverse-repo market, and CBRT), and TL securities.

The amount of TL assets in the Development Bank of Turkey's asset portfolio rose 9.5% to TL 908.1 million in 2017 from TL 829.4 million in 2016. The share of TL assets in total liquid assets stood at 47.3% as of year-end 2017.

The Bank placed its TL assets mostly in money markets. As of year-end 2017, 82.8% (TL 751.7 million) of TL assets were placed in money markets while 17.2% (TL 156.4 million) were placed in the securities portfolio. In 2017, placements in money markets and TL securities portfolio respectively increased by 3.9% and 47.8% year-over-year. This was mainly the result of an increase in bond coupon rates in 2017. Placements in money markets were made in various terms, mostly overnight, according to loan repayments and liquidity requirements.

MANAGEMENT OF FX ASSETS

The share of FX assets in total liquid assets rose to 52.7% in 2017 from 43.6% in 2016. The US\$-equivalent value of the Bank's FX assets increased by US\$ 85.8 million over the previous year to reach US\$ 268.7 million at year-end 2017. This increase was mainly the result of loan repayments as well as funds obtained from international financial institutions.

As of year-end 2017, 90% of FX assets were placed in money markets while 10% were placed in Eurobonds. The US\$-equivalent value of the Bank's Eurobond portfolio increased to US\$ 26.8 million in 2017, up from US\$ 25 million in 2016. The remaining FX assets were put in overnight and fixed-term FX placements according to loan repayments and liquidity requirements.

As of year-end 2017, 90% of FX assets were placed in money markets while 10% were placed in Eurobonds.

Subsidiaries

In line with its development banking objectives, the Development Bank of Turkey supports development and sustainable growth through its subsidiaries.

The Development Bank of Turkey pursues the mission of supporting development and sustainable growth in line with its development banking objectives by providing support to investments at the regional, sectoral and technological levels. The Development Bank of Turkey executes the mission of supporting development and sustainable growth. Against this backdrop, the Bank will contribute capital to new enterprises that harness entrepreneurial power, contribute to employment, and reduce regional disparities through a “social cost-benefit” approach. The Bank will also extend support to distressed companies through participation, while establishing and participating in pioneering partnerships. Once the purpose of the participation is achieved, the Bank will offer its shares to the public to contribute to the development of capital markets and to expand capital to the broader public. If this is not possible, the Bank will sell its shares to entrepreneurs through block sales.

In addition, the Bank will continue to sell its shares in its subsidiaries, as in previous years, and will exercise its preemptive rights that arise from capital increases at these subsidiaries to the advantage of its own interests until it sells its shares.

Under Article 49 of the Banking Law, the subsidiaries over which the Bank has direct control are Kalkınma Yatırım Menkul Değerler A.Ş. (KYMD A.Ş.), which is in the process of liquidation, and Arıcak Turizm ve Ticaret A.Ş. As of December 31, 2017, Arıcak A.Ş.’s credit account balance monitored as non-performing receivables stood at TL 1,502,165.61 (excluding accumulated interest), and the company’s interest share of TL 4,125,214.32 is recorded as Non-Performing Receivables.

Domestic Subsidiaries of the Development Bank of Turkey (TL)

Name of the Subsidiary	Registered Capital of the Subsidiary (TL)	Total Participation of the Bank (TL)	Participation Rate (%)
Arıcak A.Ş.	1,250,000.00	1,246,400.00	99.71
T. H. Kalkınma Menkul Değerler A.Ş.	5,000,000.00	4,999,930.00	100.00
Maksan A.Ş.	1,525,200.00	474,956.18	31.14
Takasbank A.Ş.	600,000,000.00	2,179,154.07	0.36
Türk Suudi Holding A.Ş.	5,800,000.00	1,431,875.00	24.69
Yozgat Otelcilik A.Ş.	96,000.00	3,600.00	3.75

Foreign Subsidiaries of the Development Bank of Turkey

Name of Association	Place of Establishment	Paid-in Capital (EUR)	Participation Rate (%)	Total Participation of the Bank (EUR)
TII-Sub Fund iVCi	Luxembourg	119,480,000.00	7,467,500.00	6.25

The Development Bank of Turkey contributes capital to new enterprises through a “social cost-benefit” approach.

INFORMATION ABOUT ISTANBUL VENTURE CAPITAL INITIATIVE – iVCi

The Istanbul Venture Capital Initiative (iVCi) – or with its new name the Turkish Investment Initiative (TII) – was established under the leadership of the European Investment Fund (EIF) that was the partner of European Investment Bank and European Commission in Luxembourg and is subject to the legislation of Luxembourg. In 2007, the Development Bank of Turkey committed to invest in the Initiative, which currently consists of two funds. Istanbul Venture Capital Initiative (iVCi), the first sub-fund of TII, has a total capital of EUR 160 million. The partners in iVCi are European Investment Fund (EUR 50 million), Technology Development Foundation of Turkey (EUR 40 million), KOSGEB (EUR 50 million), Development Bank of Turkey (EUR 10 million), Garanti Bank (EUR 5 million), and National Bank of Greece Group (EUR 5 million).

The sub-fund iVCi, which has a portfolio size of EUR 1.73 billion, has invested in a total of 63 companies through the funds in its portfolio.

The Development Bank of Turkey has the right to nominate a candidate for representation on the Board of Directors of the Turkish Investment Initiative (TII), a fund of funds (FOF), which was established to support venture capital funds, and whose end beneficiaries are companies in Turkey. The Bank also has the right to appoint an observer on the investment committee of the sub-fund iVCi (Istanbul Venture Capital Initiative).

The current investment period for iVCi, which is the first sub-fund of TII, has ended. As of September 2017, in addition to a co-investment decision, the iVCi Investment Committee decided to invest a total of EUR 160,191,876 in nine sub-funds. One of the funds, which TII invests in, is the G43 Anatolian Venture Capital Fund; an investment fund aimed at Anatolia and set up with European Union sources (IPA – Pre-accession Assistance) by transferring funds through the European Investment Fund. The total value of funds, in which the sub-fund iVCi invests in varying proportions, stands at about EUR 1.8 billion.

The sub-fund iVCi, which has a portfolio size of EUR 1.73 billion, has so far invested in a total of 63 companies in various industries - 45 of them based in Turkey - through the funds in its portfolio. The investment activities of these funds, excluding three funds, have been completed while portfolio payouts continue.

As of December 31, 2017	(Euro)
Capital	160,000,000
Paid-in Capital	119,480,000
The Bank’s Participation Share	7,467,500
The Bank’s Participation Rate	6.25%

Information Technology

Aiming for continuous improvement, the Development Bank of Turkey ranks among the best in the banking industry with its successful projects in information security, business continuity and infrastructure systems.

In 2017, the Development Bank of Turkey continued efforts to further improve and develop its information technology infrastructure to ensure continuity of banking operations. To this end, the Bank expanded its data center capacity, executed resource planning activities, and undertook regular maintenance and improvement of its IT infrastructure to ensure service continuity. The Bank also performed IT Service Continuity, Disaster Recovery, Infiltration and Load Tests to test the strength of its systems and obtained positive results.

Additionally, the Bank evaluated IT risks, followed up with action plans, and carried out improvements, when deemed necessary. The Bank measured the performance of IT processes and set quality targets. The Bank plans to conduct these activities in 2018 as well.

The Bank initiated efforts to update IT processes, set performance measures and quality targets and move them to a manageable platform, which was launched in 2017. The Bank will continue building and developing systems that support digital transformation.

In 2017, the results of independent audit and safety tests were evaluated and identified issues were resolved. These efforts are planned to continue in the coming period in accordance with BRSA legislation and regulations pertaining to ITIL and COBIT.

The internal Cyber Attack Prevention Team (CAPT) successfully continued its activities in 2017. The Bank provided training to its employees to raise their awareness of information security and cyber security. In addition, more information on this topic was communicated via the Bank's intranet, e-mails and bulletin boards placed in various locations across the Bank.



Committed to ensuring effective IT security, the Development Bank of Turkey closely follows advances in cyber security in all of its business areas. In 2017, the Bank provided training to its IT employees to increase their knowledge and awareness of cyber security. The Bank plans to follow innovations and continue efforts in 2018.

The Development Bank of Turkey adopts the latest technologies and ranks among the best in the banking industry. Additionally, the Bank aims to boost overall workforce performance, process efficiency and competitiveness by taking a meticulous approach to legal compliance, information security, business continuity and infrastructure development.

Environmental Management Activities

In its first year of reporting, the Development Bank of Turkey's Climate Change Report received a score in the highest threshold level from the Carbon Disclosure Project, and the Bank ranked sixth among 19 financial institutions in Turkey that reported to CDP.

In its seventh year of implementing the ISO 14001 Environmental Management System, the Development Bank of Turkey scored B with its first ever CDP Climate Change Report. The Bank achieved a remarkable success by ranking sixth among a total of 19 financial institutions (including 12 banks) in Turkey that reported to and were rated by CDP in 2017.

Understanding that environmental protection is a key driver of sustainable development, the Development Bank of Turkey successfully completed the seventh year of the ISO 14001 Environmental Management System, which it has implemented since 2010.

The Environmental Management Committee achieved the targets set for 2017 and completed the calculation, validation and neutralization of the Bank's carbon footprint, and reported carbon emissions to the Carbon Disclosure Project (CDP) in the first half of the year. The Bank's carbon footprint

in 2016 has been calculated, its carbon emissions in 2015 and 2016 have been validated by TSE, and the Bank obtained "The International REC Standard (I-REC)" and "Gold Standard" certificates for neutralizing greenhouse gas emissions.

The Development Bank of Turkey successfully completed the seventh year of the ISO 14001 Environmental Management System, which it has implemented since 2010.

The Development Bank of Turkey reported its 2016 activities in fighting climate change and managing risks and opportunities to the Carbon Disclosure Project (CDP) on a voluntary basis. CDP scored the Bank for the first time in 2017, and the score it received confirms that the Bank considers the risks and opportunities of climate change at management level while conducting its activities.

In 2017, about 6,500 global companies managing US\$ 87 trillion in assets measured the risks and impact of their operations on climate change, water and forest resources, and disclosed their findings to investors through the CDP program.

CDP's scoring system assesses organizations in four levels. In 2017, its first year of reporting, the Development Bank of Turkey received a score in the highest threshold level on the list and placed sixth among a total of 19 financial institutions in Turkey that reported to and were rated by CDP. Ranking among the top financial institutions in terms of activities aimed at managing the effects of climate change, the Bank will continue efforts to manage the risks and opportunities associated with climate change more effectively and thereby climb to a higher level.



Environmental Management Activities

The Development Bank of Turkey fulfills its duties to ensure more effective, efficient, innovative and fair use of natural resources.

The Bank revised its Environmental Management System documents in accordance with carbon footprint calculation requirements under TS EN ISO 14064-1 Greenhouse Gas Standard and Protocol. The Bank plans to complete the revision of system documents according to TS EN ISO 14001:2015 Environmental Management System Standard in 2018. Focusing on sustainable development and growth, the Development Bank of Turkey fulfills its duties to ensure more effective, efficient, innovative and fair use of natural resources. The Bank is committed to supporting all kinds of initiatives related to the environment, climate change in particular. To this end, the Bank's experts and managers participated in the following activities in 2017:

- Carbon Disclosure Project (CDP) Turkey 2017 workshop,
- Partnership for Market Readiness Project workshops organized by the Turkish Ministry of Environment and Urbanization,
- "Paris Agreement and Private Sector Workshop" organized by the Turkish Ministry of Environment and Urbanization; and the opening conference and workshops of the "Technical Assistance for Developed Analytical Basis for Formulating Strategies and Actions towards Low Carbon Development" project, carried out by the Human Dynamics-REC-AESA consortium under the coordination of the Ministry,

- Advisory Committee workshops titled "Energy Performance Contracting in the Public and Private Sectors",
- Turkish Standards Institution (TSE) workshop for developing the program of the Third Photovoltaic Workshop,
- "Innovate4Climate Finance & Markets Week", an interactive global dialogue organized by the World Bank Climate Change Group in Barcelona to bring together business, finance and banking industry leaders, multilaterals, and governments from around the world to shape the next generation of climate finance and policy instruments.

The Bank revised its Environmental Management System documents in accordance with carbon footprint calculation requirements under TS EN ISO 14064-1 Greenhouse Gas Standard and Protocol.

"Adopting the principle of reducing the negative environmental impacts of our services and activities, as well as the usage of resources, and increasing the positive environmental activities, our Bank is committed to meeting legal environmental obligations, promoting environmental awareness, focusing on environment, making continuous improvement, and transferring its environmental accumulation to the stakeholders." The Development Bank of Turkey takes an environment-centered approach to lending activities as well. Accordingly, the loans extended to the energy sector by the Bank between 2004 and 2017 helped reduce CO₂ emissions by 3,194,713 tons annually.

Technical Assistance, Research and Development Activities

The Development Bank of Turkey's research specialists prepare reports on the industry and the economy.

The Development Bank of Turkey conducts high value-added research and development activities with a customer-oriented approach. The Bank provides direction to development with its know-how and institutional competencies, and reinforces customer satisfaction. In addition to its basic function of allocating resources to feasible projects, the Bank generates added value by evaluating the economic and social contributions of these investments to Turkey's macroeconomic structure, and provides technical support to entrepreneurs.

In research units, research efforts are conducted not only for the benefit of the Bank's own operations but also in areas needed by the Turkish economy; all eligible studies are disclosed publicly in an electronic environment.

The Bank's primary research and training activities in 2017 were clustered in the main categories as follows:

REGIONAL STUDIES

Regional Studies are conducted to formulate the development strategies of a specific geographic region, evaluate strategic sectors and analyze any possible investment ideas, and to turn this investment idea into actual investment within the framework of the right decisions (feasibility study results). In this context, the Bank prepared the following reports in 2017:

- Feasibility Study Report on Karaman Free Zone Project" for Karaman Special Provincial Administration
- Study on Potential Investment Areas in Adana, Erzurum for Northeast Anatolia Development Agency, Study on Potential Investment Areas in Erzincan" and "Study on Potential Investment Areas in Bayburt

The Development Bank of Turkey conducts research studies in areas needed by the Turkish economy; and these studies are shared with the public in an electronic environment.



Technical Assistance, Research and Development Activities

The Development Bank of Turkey provides direction to development with its know-how and institutional competencies, and reinforces customer satisfaction.

TRAINING ACTIVITIES

As required by various institutions and organizations, particularly development agencies, the Bank's personnel provide domestic and international technical capacity building and informative training activities. Against this backdrop, the Bank conducted the following training activities in 2017:

- The Bank conducted a total of six "Feasibility Assessment Analysis" training programs, comprised of on-site training for the personnel of the Turkish Ministry of Development; South Marmara Development Agency (GMKA); Central Anatolia Development Agency (ORAN), as well as two training programs held on the Bank's premises for employees of various development agencies.
- A total of 175 employees from various public agencies participated in two training programs on Applied Financial Statement Analysis aimed at corporate capacity development, and other training sessions on Business Valuation, Project Process Management, Entrepreneurship, and New Venture Financing.

SECTORAL AND GENERAL STUDIES

These studies are conducted on topics directly related to the Bank's business areas in order to contribute to decision-support processes. In this context, TAIG Economic and Social Research Department prepared the following reports:

- Performance Analysis of Manufacturing Subsectors,
- Analysis of the Turkish Manufacturing Industry's Competitiveness in International Trade,
- Evaluation Report on the Textile Industry,
- Evaluation Report on the Dried Fruits & Vegetables Industry,
- Evaluation Report on the Furniture Industry,
- Evaluation Report on the Pasta Industry,
- Evaluation Report on the Cement Industry,
- Evaluation Report on the Apparel Manufacturing Industry,
- Evaluation Report on the Polypropylene Sacks Industry,
- Evaluation Report on the Wallpaper Industry,
- Evaluation Report on the Glasswool and Rockwool Industry,
- Evaluation Report on the Aluminum Industry,

- Evaluation Report on the Plastic Pipes Industry,
- Evaluation Report on the Ceramic Coating Materials Industry,
- Evaluation Report on the Ceramic Sanitary Ware Industry,
- Evaluation Report on the Autoclaved Aerated Concrete Manufacturing Industry,
- Evaluation Report on the Prefabricated Building Elements Industry,
- Evaluation Document on Corrugated Paper and Cardboard Manufacturing Industry and Paper and Cardboard Packaging Industry,
- Pre-Evaluation Document on Lime Industry Profile,
- Evaluation Document on Stone and Marble Cutting, Shaping and Finishing Industry,
- Presentations on the Development in Basic Macroeconomic Indicators (revised every month).

Of these reports which examine competitive conditions in the sectors as well as the events that set the economic agenda in Turkey and in the world, the ones not deemed confidential are disclosed to the public and posted on the Bank's website (www.kalkinma.com.tr).

Whenever requested, the Development Bank of Turkey's expert personnel deliver domestic and international training programs to enhance technical capacity at various institutions and organizations, particularly development agencies.

APPRAISAL AND VALUATION ACTIVITIES

As part of appraisal and valuation activities, the Bank prepared appraisal reports for five companies; business valuation reports for nine companies; valuation reports for two companies; and provided opinion on expert witness reports for four companies.

Promotional and Social Activities

The Development Bank of Turkey continues to support the Turkish economy with its sources of finance while adding value to society through social responsibility projects.

PROMOTIONAL ACTIVITIES

In 2017, the Development Bank of Turkey successfully conducted promotional activities to increase brand awareness and introduce its products and services to a broader audience. To this end, the Bank visited various companies in Istanbul, Gaziantep and Kocaeli to introduce its lending options. It also participated in the following national and international trade shows, and events:

- The “8th Energy Efficiency Forum and Exhibition” held on January 11-12, 2017,
- The “21st International East Mediterranean Tourism and Travel Exhibition, EMITT” held on January 26-29, 2017,
- Solarex Istanbul, the “10th International Solar Energy and Technologies Fair” held on April 6-8, 2017,
- “ICCI - 23rd International Energy & Environment Fair & Conference” held on May 3-5, 2017,
- The informative meeting organized by Gaziantep Chamber of Industry and Commerce on May 17-18, 2017,
- “IICEC 8th International Energy and Climate Forum” held on October 13, 2017,
- VI. TÜYİD Investor Relations Summit,
- “The Capital Markets Congress of Turkey” held on November 14-15, 2017,
- “IICEC World Energy Outlook 2017 Turkey Presentation” held on December 15, 2017.

CSR ACTIVITIES

The Development Bank of Turkey executed the following CSR activities in 2017:

- Encyclopedias, novels, storybooks, test preparation books and other documents collected by the Bank’s personnel were delivered to Şirnak Village Library.
- Ramadan Packages and chocolates were given to the Bank’s janitorial and security services personnel;
- The Traditional Iftar (Fast-Breaking) Dinner was held on June 15, 2017 with the participation of Bank employees and retirees.

The songs performed by the Development Bank of Turkey’s Classical Turkish Music Choir were compiled in a commemorative book.

SPORTS, CULTURE AND ARTS ACTIVITIES

The Development Bank of Turkey supported prestigious sports, culture & arts events that bolster the Bank’s well-respected brand identity. In 2017, the Bank provided support for the following events:

- Six employees of the Development Bank of Turkey competed in the Athletics-Running category at the 15th Corporate Games held on May 12-14, 2017; Bank employee Aydın ÇEKEN came first in the 5K race for the 50+ age category.
- “The Development Bank of Turkey Classical Turkish Music Choir’s Spring Concert” was held at the Farabi Hall of Ankara University Faculty of Languages, History and Geography on May 21, 2017. A total of 350 guests, including the Bank’s senior managers, attended the concert.
- The songs performed by the Bank’s Classical Turkish Music Choir were compiled in a commemorative book.
- In 2017, the 81st, 82nd, 83rd and 84th issues of the Bank’s e-Journal were published.
- Some 2,422 persons attended the concerts, operas, plays, and operettas supported by the Bank in 2017.

Declaration of Responsibility of the Annual Report

The 2017 Annual Report of the Bank, which was prepared in accordance with the Banking Regulation and Supervision Agency (BRSA)'s "Regulation on the Principles and Procedures Concerning the Preparation of the Annual Report by Banks" and the Capital Markets Board's "Communiqué (II-14.1) on the Financial Reporting Standards in Capital Markets" and examined in the framework of the information we have with respect to our duties and responsibilities in the Bank, does not include any untrue statements or any shortcomings on major issues, and fairly and correctly reflects the Bank's financial position, results of operations, together with the risks and uncertainties it faces.



AHMET BUÇUKOĞLU
Chairman and CEO



MEHMET AYDIN
Chairman of the Audit Committee



YALÇIN YÜKSEL
Deputy Chairman of the Audit Committee



ADNAN YALÇINCI
Executive Vice President Responsible for
Financial Reporting



METİN ÇINAR
Head of Corporate Banking, Investments
and Budget Department

Annual Activity Report Compliance Opinion

INDEPENDENT AUDITOR'S REPORT ON THE MANAGEMENT'S ANNUAL REPORT

To the Board of Directors of Türkiye Kalkınma Bankası A.Ş.

1) Opinion

We have audited the annual report of Türkiye Kalkınma Bankası A.Ş. ("the Bank") for the period between 1 January 2017-31 December 2017.

In our opinion, the financial information included in the Board of Directors' annual report, and the Board of Directors' evaluation of the Bank's current financial position are consistent, in all material respects, with the complete set of audited financial statements and our findings during the independent audit, and provide a fair presentation.

2) Basis for Opinion

We conducted our independent audit in accordance with the "Regulation on Independent Auditing of Banks" published in the Official Gazette No. 29314, and the Independent Auditing Standards, which is a component of the Turkish Auditing Standards ("TAS") published by the Public Oversight, Accounting and Auditing Standards Authority ("POA"). Our responsibilities under those standards are further described in the "Independent Auditor's Responsibilities for the Audit of the Annual Report" section of our report. We hereby declare that we are independent of the Bank in accordance with the Code of Ethics for Independent Auditors (Code of Ethics) published by POA, and the ethical requirements of independent audit legislation. We have also fulfilled our other ethical responsibilities in accordance with the Code of Ethics and applicable legislation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

3) Auditor's Opinion on the Complete Set of Financial Statements

We expressed an unqualified opinion on the Bank's complete set of financial statements for the reporting period January 1, 2017 - December 31, 2017 in our audit report dated February 9, 2018.

4) Other Issue

The Bank's annual report for the period January 1, 2016 - December 31, 2016 was audited by another independent auditor, who reported an unqualified opinion on the annual report on February 28, 2017.

5) Management's Responsibility for the Annual Report

Pursuant to Articles 514 and 516 of the Turkish Commercial Code No. 6102 ("TCC") and the provisions of the "Regulation on the Principles and Procedures Concerning the Preparation and Publishing of Annual Reports by Banks" (the "Regulation") published in the Official Gazette No. 26333 dated November 1, 2006, the Board of Directors' responsibilities for the annual report include the following:

- Preparing the annual report within three months after the balance sheet date and presenting it to the general assembly.
- Ensuring that the annual report represents the Bank's financial position accurately, fully, clearly and fairly in all aspects of the Bank's activities in the current year. In the report, financial position is evaluated based on financial statements. Additionally, the report clearly indicates the Bank's progress and risk exposure. The Board of Directors' evaluation of such matters is also included in the report.
- The annual report also includes the following:
 - Events after the reporting period,
 - The Bank's research and development activities,
 - Compensation including salaries and bonuses paid to Board Members and Senior Managers; and other benefits such as allowances, travel, accommodation and representation expenses, cash and in-kind benefits, insurances and etc.

The Board of Directors takes into consideration the regulations, circulars, communiqués (secondary legislation) issued by the Ministry of Customs and Trade, and other relevant authorities when preparing the annual report.

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

Under the provisions of TCC and the Regulation, our responsibility is to express an opinion on whether the financial information included in the annual report, and the Board of Directors' evaluation of the Bank's financial position are consistent with the audited financial statements, and our findings during the independent audit, and provide a fair presentation; and to prepare a report including our opinion.

We conducted our independent audit in accordance with the "Regulation on Independent Auditing of Banks" published in the Official Gazette No. 29314, and Independent Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the independent audit to obtain reasonable assurance about whether the financial information included in the annual report and the Board of Directors' evaluation of the Bank's financial position are consistent with the financial statements and audit findings, and provide a fair presentation.

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



ERDAL TIKMAK
PARTNER

28 February 2018
İstanbul, Turkey

Board of Directors



AHMET BUÇUKOĞLU
Chairman of the Board of Directors and CEO

Born in Kayseri in 1955. He graduated from Ankara University Faculty of Political Sciences, Department of Economics/Public Finance in 1981. In 1982, Ahmet Buçukoğlu began his career as an Assistant Inspector at the Board of Inspection of T.C. Ziraat Bankası (Agricultural Bank of the Republic of Turkey). He later assumed the following duties consecutively within the structure of T.C. Ziraat Bankası: 1986-1989, Inspector at the Board of Inspection; 1989-1995, Assistant Manager at the Agricultural Credit Department; 1995-1998, Manager at the Intelligence Department; 1998-2003, Manager at Istanbul Aksaray, Osmanbey and Beyazıt Branches; 2003-2006, Head of Region at Istanbul 1st Regional Directorate; and at Kocaeli Regional Directorate, 2006-2007, Branch Manager at Istanbul 3rd Regional Directorate; 2007-2012, Manager at Istanbul Zeytinburnu Branch; 2012-2014, Region Manager at Istanbul 2nd Regional Directorate. He has been serving as the Chairman of the Board of Directors and the General Manager at the Development Bank of Turkey since June 27, 2014. Moreover, he is the Chairman of T.H. Kalkınma Yatırım Menkul Değerleri A.Ş. and a Member of the Board of Directors at ADFIAP (Association of Development Financing Institutions in Asia and the Pacific) and at ADFIMI (Association of National Development Finance Institutions in Member Countries of the Islamic Development).



MUSTAFA CÜNEYD DÜZYOL
Deputy Chairman of the Board of Directors

Born in İzmir in 1964. He graduated from the Middle East Technical University Faculty of Engineering, Department of Civil Engineering in 1988. He received his bachelor's degree in Development Economics, at the University of East Anglia in the UK and a master's degree in Economic Policy at the University of Illinois in the United States. In 1988, Mr. Düzyol began his professional career as a Civil Engineer at the Turkish Standards Institute and assumed duties respectively as a Planning Assistant Specialist, as the Head of Department and as a General Manager between 1989 and 2009 at the DPT (State Planning Organization) Economic Sectors and Coordination General Directorate. He served as the Deputy Undersecretary of the State Planning Organization (DPT) between 2009-2011, and as the Deputy Undersecretary of the T.R. Ministry of Development between 2011-2014, and as a Member of the Board of Directors at T.C. Ziraat Portföy A.Ş. between May 2012-May 2014. Between December 2, 2014 - September 22, 2015, Mr. DÜZYOL served as the Undersecretary of the T.R. Ministry of Development, and between September 22, 2015 - November 24, 2015 he served as the Minister of the T.R. Ministry of Development. He has been serving as the Undersecretary of the T.R. Ministry of Development since November 24, 2015. Serving as a Member and Deputy Chairman of the Board of Directors at the Bank between April 29, 2014 - September 22, 2015, he was re-elected as Member of the Board of Directors in November 30, 2015, and has currently been serving as the Deputy Chairman of the Board of Directors at the Bank since December 24, 2015. He is also a member of Audit Committee at Innova Bilişim Çözümleri A.Ş.



DR. ZEKİ ÇİFTÇİ
Member of the Board of Directors, Deputy Chairman of the Corporate Governance Committee

Born in Çelikkörü-Çanakkale in 1961, Zeki Çiftçi graduated from the Department of Electrical and Electronic Engineering at the Middle East Technical University in 1985. He completed his graduate degree in the same department and gained a Ph.D. from the Department of Electronics Computer Education at Gazi University. He began his professional career as a Research Assistant in 1985 in the Department of Electrical and Electronic Engineering at the Middle East Technical University. He joined the Development Bank of Turkey in 1987. Mr. ÇİFTÇİ served as an Assistant Specialist, Specialist, Senior Specialist and Manager at the Development Bank of Turkey from 1987 to 2007, and as the Manager and Deputy Chairman of the Information Technologies Department in the Grand National Assembly between 2007 and 2012. He has been the Member of Board of Directors of NCTR Development Bank since 2003. He has been working as an Assistant General Manager at the Turkish Radio and Television Corporation since 2012. Mr. Çiftçi has been a Board Member at the Bank since May 15, 2012.


MEHMET AYDIN

Independent Member of the Board of Directors, Chairman of the Audit Committee, Chairman of the Corporate Governance Committee

Born in Sapanlı in 1967. Mehmet Aydın graduated from Ankara University, Faculty of Political Science. After serving as Chief Controller at the Ministry of Interior, he served as Advisor at the Public Procurement Authority between June 16, 2010 and 2011, and later as Vice President from 2011 to 2016. Mr. Aydın was a Member of the Audit Committee at the Development Bank of Turkey between 2008 and 2009, and Board Member from 2009 to 2012. Previously, he also served as Board Member at Türkiye Denizcilik İşletmeleri A.Ş., Sümer Holding A.Ş. and Türkiye Şeker Fabrikaları A.Ş. He has served as Advisor to the Public Procurement Authority and Board Member at the Development Bank of Turkey since 2016.


HAKAN ERTÜRK

Member of the Board of Directors, Member of Compensation Committee

Born in Ankara in 1977. Hakan Ertürk graduated from Ankara University, Faculty of Political Science, Department of Economics in 2000. He earned an MBA from the University of Illinois (2006-2008). Mr. Ertürk began his professional career at the Central Bank of the Republic of Turkey in 2000. From 2000 to 2004, he worked as an Intern-Treasury Controller at the Undersecretariat of Treasury, and later as Treasury Controller (2004-2007) and Internal Auditor (2007-2012). Between November 21, 2011 and November 10, 2016, he was Head of the Financial Instruments and Market Development Department at the Undersecretariat of Treasury. Mr. Ertürk has served as Acting Director-General of Financial Sector Relations and Exchange at the Undersecretariat of Treasury since November 10, 2016, and Board Member at the Development Bank of Turkey since January 24, 2017.


YALÇIN YÜKSEL

Independent Member of the Board of Directors, Deputy Chairman of the Audit Committee and Member of the Compensation Committee

Born in Ankara in 1974. Yalçın Yüksel graduated from Ankara University Faculty of Political Science, Department of Economics in 2000. He began his career at the Undersecretariat of Treasury, where he worked as an Intern-Treasury Controller and Treasury Controller (2000-2006), Vice President of Human Resources (2006), Advisor to the Minister of State for Treasury and Advisor to the Undersecretary (2007-2010). In addition to his role at the Undersecretariat of Treasury, Mr. Yüksel also served as Board Member at the General Directorate of Agricultural Enterprises, Ministry of Agriculture from 2007 to 2009. He earned his MS in Economics at the University of Illinois in U.S.A (2011-2012). Mr. Yüksel was the Head of the Department of Energy and Mines at the Undersecretariat of Treasury-Directorate General of State-Owned Enterprises (2013-2014), and Board Member at Vakıfbank REIT (2013-2015). He has been serving as President of Human Resources Department at the Undersecretariat of Treasury since 2014 and as Board Member at Türkiye Petrolleri A.O. since 2015. Mr. YÜKSEL has been a Board Member of the Development Bank of Turkey since June 15, 2017.

Board of Directors

THE COMPOSITION AND WORKING PRINCIPLES OF THE BOARD OF DIRECTORS OF THE DEVELOPMENT BANK OF TURKEY AND THE NUMBER OF BOARD MEETINGS AND RESOLUTIONS IN 2017

The Board of Directors of the Development Bank of Turkey consists of six members: five members elected in the AGM from among shareholders, and the CEO. The Board of Directors serves for a term of three years. A member may be re-elected after the expiry of his or her term of office. The provisions of the Turkish Commercial Code apply in the event of vacancy in membership before the expiration of the term of office. The Bank's Charter Act No. 4456 and its Articles of Association stipulate that the Board of Directors convenes at least twice a month with a quorum consisting of the majority of its members. The Board of Directors holds at least 24 meetings each year. The Board of Directors holds the power to draft as many interim resolutions as it requires. A majority of the members of the Board of Directors should be present in order to convene a meeting.

In 2017, the Board of Directors convened 24 times and passed 171 resolutions, 13 of which were interim resolutions.

Notes

- Selim YEŞİLBAŞ served as Board Member between April 29, 2014 and June 12, 2017.
- As prescribed by Capital Markets Board Communiqué No. II-17.1 on Corporate Governance, Audit Committee Members Mehmet AYDIN and Yalçın YÜKSEL are considered Independent Members of the Board of Directors.

Internal Systems Departments

SALİM ŞAHİN**Head of Internal Audit**

Born in Beyoğlu-Istanbul in 1969. Salim Şahin graduated from Istanbul University, Department of Economics in 1992, and he began his banking career in 1997. In 2001, he joined the Development Bank of Turkey, where he worked as Assistant Inspector, Inspector, and Chief Inspector, respectively. Mr. Şahin has been serving as Head of Internal Audit since January 8, 2018.

FİLİZ BAYAR**Internal Control Manager**

Born in Bakırköy-Istanbul in 1969. Filiz Bayar graduated from Ankara University, Faculty of Political Science, Department of Business Administration in 1990. The same year, she began her career as an Assistant Specialist at the Development Bank of Turkey, where she later worked as Specialist (1994-2000), Senior Specialist (2000-2001), and Assistant Manager at the Internal Control Department (2001-2010). After serving as Senior Specialist between 2010 and 2016, she was appointed Acting Manager of Internal Control on February 28, 2017. Ms. Bayar has been serving as Internal Control Manager since December 29, 2017.

DR. SEMRA PEKKAYA**Risk Monitoring Manager**

Born in Polatlı, Ankara in 1969, Semra Pekkaya graduated from Ankara University (Faculty of Political Science, Department of Economics) in 1989 and received her master's degree (1997) and doctorate (2005) from Gazi University, Department of Economics. Beginning her career as an assistant specialist at the Development Bank of Turkey in 1990, she worked in the Bank's Economic and Social Research, Resources and International Relations, and Investments Portfolio units as a Specialist. When the Bank's Risk Monitoring Department was set up in 2001, she became its first Assistant Manager, a position that she held until 2006 when she became manager. Serving as Manager of the Bank's Treasury unit from 2011 to 2013, Semra Pekkaya has been Risk Monitoring Manager since September 13, 2013.

Notes

- Murat DOĞUŞLU served as Deputy Chairman of the Audit Committee between December 28, 2015 and January 8, 2018.
- Ramazan KOYUNCUGİL served as Internal Control Manager between March 15, 2011 and March 2, 2017.

Senior Management



AHMET BUÇUKOĞLU **Chairman of the Board of Directors and General Manager**

Born in Kayseri in 1955. He graduated from Ankara University Faculty of Political Sciences, Department of Economics/Public Finance in 1981. In 1982, Ahmet Buçukoğlu began his career as an Assistant Inspector at the Board of Inspection of T.C. Ziraat Bankası (Agricultural Bank of the Republic of Turkey). He later assumed the following duties consecutively within the structure of T.C. Ziraat Bankası: 1986-1989, Inspector at the Board of Inspection; 1989-1995, Assistant Manager at the Agricultural Credit Department; 1995-1998, Manager at the Intelligence Department; 1998-2003, Manager at Istanbul Aksaray, Osmanbey and Beyazıt Branches; 2003-2006, Head of Region at Istanbul 1st Regional Directorate; and at Kocaeli Regional Directorate, 2006-2007, Branch Manager at Istanbul 3rd Regional Directorate; 2007-2012, Manager at Istanbul Zeytinburnu Branch; 2012-2014, Region Manager at Istanbul 2nd Regional Directorate. He has been serving as the Chairman of the Board of Directors and the General Manager at the Development Bank of Turkey since June 27, 2014. Moreover, he is a Member of the Board of Directors at ADFIAP (Association of Development Financing Institutions in Asia and the Pacific) and at ADFIMI (Association of National Development Finance Institutions in Member Countries of the Islamic Development).



BAHATTİN SEKKİN **Executive Vice President**

Born in Üçkuyu-Afyonkarahisar in 1956, Mr. Bahattin Sekkin graduated from the Faculty of Economics and Administrative Sciences, Department of Business Administration at Middle East Technical University in 1980. Beginning his professional career as an Assistant Specialist at the Bank in 1981, Mr. Sekkin served as a Specialist between 1985 and 1990, a Senior Specialist in 1990, Assistant Manager between 1990 and 1997, Executive Vice President in 1997, Advisor to the General Manager between 1997 and 1998, Executive Vice President in 1998 and Advisor to the General Manager between 1999 and 2003. He was also employed as Executive Director at Betonsan A.Ş. from 1987 to 1988 and at Keban Holding Sodyum Bikromat A.Ş. in 1988 and as Executive Vice President at Turkish Saudi Investment Holding in 1993. Mr. Sekkin has been serving as an Executive Vice President at the Bank since August 22, 2003. He is currently in charge of the Treasury, Technology, Research and Business Development, Intelligence and Financial Analysis departments.



ADNAN YALÇINCI **Executive Vice President**

Born in Ankara in 1965, Mr. Adnan Yalçın graduated from the Faculty of Economics and Administrative Sciences, Department of Public Finance at Dokuz Eylül University in 1987 and completed an MA degree from the Institute of Social Sciences at Gazi University. Beginning his professional career at the Regional Directorate of Forestry in 1986, Mr. Yalçın worked for Türkiye Halk Bankası in 1988 and 1989. He later served as Assistant Specialist and Specialist at the Training and Organization Directorate, Research and Development Department and Organization Department of Ziraat Bank between 1989 and 2001. He served as the Administrator of Mamak/Ankara Branch and the Manager of the 100. Yıl/Ankara Branch of Ziraat Bank between 2001 and 2005. Mr. Yalçın has been an Executive Vice President at the Bank since October 14, 2005 and served as a Member of the Board of Directors from 2008 to 2009. He is currently in charge of the Credit Marketing, Financial Affairs, Istanbul Branch departments.



ZEKAİ IŞILDAR

Executive Vice President

Born in Pınarbaşı-Kayseri in 1963, Mr. Zekai Işıldar graduated from the Department of Mining Engineering at the Middle East Technical University in 1986. Beginning his professional career as an Assistant Specialist at the Bank in 1986, Mr. Işıldar served as a Specialist, Senior Specialist and as a Manager between 1991-2007. Afterwards, he was appointed Acting Executive Vice President in 2007, and then Executive Vice President on January 30, 2009. Zekai Işıldar served as Board Member at the Development Bank of Turkey between 2008 and 2009. Previously, he also served as Board Member at the Bank's subsidiaries Aciselsan A.Ş. and T.H. Kalkınma Yatırım Menkul Değerler A.Ş. He is currently in charge of Loan Monitoring and Collections, IT, Support Services and Procurement, Financial Institutions, Real Estate, Construction and Expertise functions.

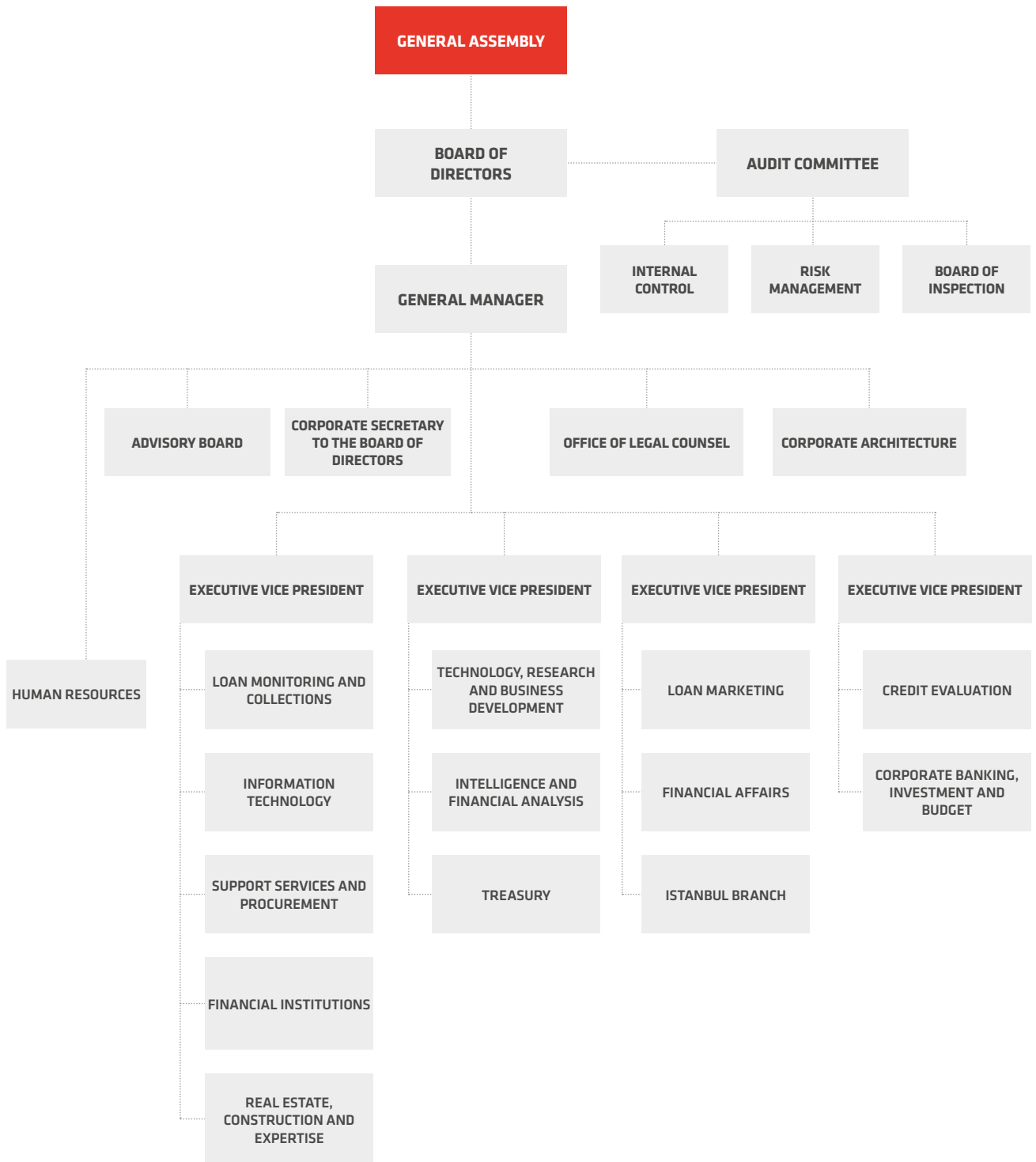


SATI BALCI

Executive Vice President

Born in Aydıncık in 1966. Satı Balcı graduated from Ankara University, Faculty of Political Science, Department of Business Administration in 1988. She began her professional career in 1988 as a Clerk at Yapı Kredi Bank and later worked as Assistant Specialist, Specialist (1993-1998), Senior Specialist (1998-2006), Manager (2006-2011), and Department Head (2011-2017) at the same bank. Satı Balcı served as Board Member at the Bank's subsidiaries Yozgat Otelcilik A.Ş. and Arıcak A.Ş. Currently, she is a Board Member of T.H. Kalkınma Yatırım Menkul Değerler A.Ş. Mrs. Balcı has been serving as Executive Vice President at the Development Bank of Turkey since November 7, 2017, and she is in charge of Credit Evaluation and Corporate Banking, Investments and Budget functions.

Organizational Chart



Committees

AUDIT COMMITTEE

The Audit Committee was formed following the Bank's Board of Directors' Resolution No. 227 dated October 31, 2006 to execute audit/supervision activities of the Board of Directors and to perform certain internal systems functions in accordance with the provisions of the Regulation on the Bank's Internal Systems. The Audit Committee conducts its activities in accordance with the Audit Committee Operating Procedures and Principles that were approved by the Board of Directors' Resolution No. 162 dated September 15, 2014.

Mehmet AYDIN and Yalçın YÜKSEL were elected Committee Members, pursuant to Board of Directors' resolution numbered 87 and dated June 19, 2017.

The Board of Internal Audit, Internal Control Department and Risk Monitoring Department, which are units of the internal systems, report directly to the Board of Directors; this reporting relationship is executed via the Audit Committee. The Audit Committee met 14 times in 2017 and passed 65 decisions to be submitted to the Bank's Board of Directors.

Members of the Audit Committee and their Primary Functions^(*)

Name	Title	Primary Function
Mehmet AYDIN	Chairman	Public Procurement Authority, Institution Consultant
Yalçın YÜKSEL	Deputy Chairman	Undersecretariat for the Treasury, Department of Personnel

^(*) Dr. Zeki ÇİFTÇİ served as the Chairman of the Audit Committee from May 11, 2016 to June 19, 2017. Selim YEŞİLBAŞ served as a member of the Audit Committee from December 27, 2016 to June 12, 2017.

COMPENSATION COMMITTEE

The BRSA's Regulation Amending the Regulation on Banks' Corporate Governance Principles published in the Official Gazette issue 27959 dated June 9, 2011 obligates establishing a compensation policy that is aligned with the scope and structure of the Bank's activities, strategies, long-term goals and risk management structures; that prevents taking excessive risks; and that will contribute to effective risk management. The said Regulation also requires a review of the compensation policy at least on an annual basis by the Board of Directors to ensure efficiency of the compensation policy; and the establishment of a compensation committee made up of at least two members for the purpose of monitoring and overseeing compensation practices on behalf of the Board of Directors. The committee will be required to evaluate the compensation policy and implementations with respect to risk management and submit its recommendations thereon in a report every year to the Board of Directors. Along the line, a Compensation Committee was formed with two non-executive Board members to evaluate the Bank's compensation policy and practices with respect to risk management and submit recommendations thereon to the Board of Directors by the Board of Directors' Resolution No. 272 dated December 8, 2011. As per Board of Directors' Resolution numbered 89 and dated June 19, 2017, Hakan ERTÜRK was elected Chairman of the Compensation Committee and Yalçın YÜKSEL was elected Committee Member.

In 2017, the Compensation Committee held one meeting and passed one resolution to be presented to the Board of Directors.

Members of the Compensation Committee and their Primary Responsibilities^(*)

Name-Surname	Title	Primary Responsibility
Hakan ERTÜRK	Chairman	Head of the Financial Instruments and Market Development Department at the Undersecretariat of Treasury, Deputy General Manager
Yalçın YÜKSEL	Member	Head of the Undersecretariat of Treasury

^(*) Selim YAŞILBAŞ served as Chairman of the Compensation Committee between August 29, 2016 and June 12, 2017; Mehmet AYDIN served as Member of the Compensation Committee from August 29, 2016 to June 19, 2017.

Committees

CORPORATE GOVERNANCE COMMITTEE

The Corporate Governance Committee was formed with the Bank's Board of Directors' Resolution No. 185 dated June 15, 2007 in accordance with the Regulation on the Bank's Corporate Governance Principles issued by the Banking Regulation and Supervision Agency (BRSA) and published in the Official Gazette issue 26333 dated November 1, 2006, and with the Corporate Governance Principles issued by the Capital Markets Board of Turkey (CMB). The Operating Procedures and Principles of the Corporate Governance Committee were put into effect by the Board of Directors' Resolution No. 209 dated July 24, 2007. The operating procedures and principles of the committee have been revised and transformed into the Corporate Governance Committee Bylaws by the Board of Directors' Resolution No. 283 dated December 29, 2011. The regulation was revised with the Board of Directors' Decision No. 214, dated November 25, 2014.

The function of the Committee is to work for determining the principles of the Bank's corporate governance policy, to oversee compliance with corporate governance principles, to carry out initiatives to make improvements in this respect and to make recommendations to the Board of Directors. With the Board of Directors' Decision No. 89, dated July 27, 2017; Mehmet AYDIN, who is an independent member of Board of Directors without executive duty, was selected as Corporate Governance Committee Chairman, and Dr. Zeki ÇİFTÇİ was selected as the Deputy President of Corporate Governance Committee. The Corporate Governance Committee met two times in 2015 and passed 2 decisions in 2017.

The Board of Directors has additionally decided that the duties of a Nominating Committee are to be carried out by the Bank's Corporate Governance Committee, as allowed by the Capital Markets Board's "Communiqué Concerning the Determination and Application of Corporate Governance Principles".

Corporate Governance Committee is continuing to work for improving the Bank's corporate governance practices.

Members of the Corporate Governance Committee and their Primary Functions^(*)

Name-Surname	Title	Primary Function
Mehmet AYDIN	Chairman	Public Procurement Authority, Counsel
Dr. Zeki ÇİFTÇİ	Deputy Chairman	Turkish Radio and Television Corporation Deputy General Manager
Dr. Metin ÇINAR.	Member	Corporate Banking and Investments and Budget Manager

^(*) Selim YEŞİLBAŞ served as Deputy Chairman of the Corporate Governance Committee between April 30, 2014 and June 12, 2017. Hakan ERTÜRK served as Member of the Corporate Governance Committee between June 19, 2017 and July 24, 2017.

LOANS AND PARTICIPATIONS COMMITTEE

The Loans and Participations Committee was set up to determine the principles governing the Bank's general lending and participation policy; plan the composition of the types of loans that are, or will be, part of the Bank's loan book; evaluate proposals put forth by related departments; oversee lending activities on a continuous basis; and facilitate the changes needed in accord with general economic policies.

The Loans and Participations Committee carries out its activities in accordance with the Loans and Participations Committee Bylaws as revised by the Board of Directors' Resolution No. 283 dated December 29, 2011.

The Committee is chaired by the General Manager and consists of the Bank's Executive Vice Presidents and managers of related departments. Depending on the meeting agenda, other personnel may also be invited to the Committee meetings. In 2016, the Committee met 26 times and passed 115 decisions to be submitted to the Bank's Board of Directors.

Members of the Loans and Participations Committee and Their Primary Functions^(*)

Name	Title	Primary Function
Ahmet BUÇUKOĞLU	Chairman	General Manager
Zekai IŞILDAR	Deputy Chairman	Executive Vice President
Adnan YALÇINCI	Member	Executive Vice President
Bahattin SEKKİN	Member	Executive Vice President
Satı BALCI	Member	Executive Vice President
Executives of Related Departments	Member	Legal Affairs Loan Evaluation Director Loan Follow Up and Collections Director Credit Marketing Director Intelligence and Financial Analysis Director

ASSETS AND LIABILITIES MANAGEMENT COMMITTEE

The Assets and Liabilities Management Committee was set up to facilitate effective and efficient management of the asset and liability items of the Bank's balance sheet. The Committee conducts its activities in accordance with the Bank's vision, mission, strategic objectives and targets, risk management policies and strategies; it takes into consideration various factors including current or potential economic developments, interest rates, maturity and currency.

The Assets and Liabilities Management Committee was established by the Bank's Board of Directors' Resolution No. 213 dated September 8, 2008; the guidelines governing the operating procedures and principles of the committee were revised and put in effect under the Assets and Liabilities Management Committee Bylaws by the Board of Directors' Resolution No. 283 dated December 29, 2011.

The Committee is chaired by the General Manager, and its members consist of Executive Vice Presidents. In the absence of the Chairman, the Executive Vice President of the Financial Institutions Department chairs the meetings. Depending on the meeting agenda, the Chairman of the Committee may invite the related department directors or other personnel to attend the meetings. In 2017, the Committee met 28 times and passed 15 decisions to be submitted to the Bank's Board of Directors.

Members of the Assets and Liabilities Management Committee and their Primary Functions

Name	Title	Primary Function
Ahmet BUÇUKOĞLU	Chairman	General Manager
Bahattin SEKKİN	Deputy Chairman	Executive Vice President
Zekai IŞILDAR	Member	Executive Vice President
Adnan YALÇINCI	Member	Executive Vice President
Satı BALCI	Member	Executive Vice President

Committees

ENVIRONMENTAL MANAGEMENT COMMITTEE

As part of its Environmental Management Policy, Development Bank of Turkey aims to form, administer, improve, monitor and ensure corporate awareness about the Environmental Management System. To this end, the Environmental Management Committee pursues its activities under the Functions, Authorities, Responsibilities and Operating Procedures and Principles of the Environmental Management Committee as revised by the Board of Directors' Resolution No. 147 dated August 15, 2014. The Committee consists of a total of seven members appointed by the General Manager, one of whom is the representative selected from among executive vice presidents or managers, and two of whom are representative assistants elected from among other personnel. The Committee met six times in 2017 and passed 7 decisions.

Members of the Environmental Management Committee and their Primary Responsibilities^(*)

Name	Title	Primary Function
Bahattin SEKKİN	Representative of the Management	Deputy General Manager
Hakan KILDOKUM	Assistant to the Representative of the Management	Executive Vice President in Corporate Banking, Investment and Budget
Zehra BİROL	Assistant to the Representative of the Management	Head of Loan Marketing Department
Meral YILDIZ	Member	Senior Specialist
Zeki AVŞAR	Member	Senior Specialist
Murat Şevki AKKÖSE	Member	Chief Engineer
Afide ERYİĞİT	Member	Senior Supervisor

^(*) İbrahim SEVİN served as Assistant Management Representative on the Environmental Management Committee between January 12, 2011 and April 10, 2017. Esra CEYLAN and Kurtay Kurtar ERBAŞ served as Members of the Environmental Management Committee between February 16, 2016 and February 23, 2017.

Principles of the Bank's Human Resources Policy

The Bank's Human Resources Policy Principles are described in the Personnel Bylaw. The hiring process is conducted in accordance with the Bank's HR vision and mission by recruiting individuals with skills and qualifications required for the relevant position through appropriate assessment tools and methods, within the Bank's activities.

The Development Bank of Turkey shapes its HR policy with the belief that a skilled and qualified workforce is one of the greatest assets of the Bank for meeting business requirements and achieving goals.

The recruitment and promotion of the Bank's personnel is carried out in accordance with the Bank's Personnel Bylaw, Inspection Board Bylaw, and the Bylaws Concerning Recruitment, Qualification and Promotion Principles for Specialist and Assistant Specialist Positions.

The Development Bank of Turkey gives priority to employing qualified specialist personnel with the aim of carrying the current experience and knowledge to the future. After a successful hiring process, the Bank signs a Labor Contract with employees. Additionally, employee performance is evaluated using predetermined and objective criteria. The Bank offers its employees various training programs to support their career development. Training activities are planned based on the needs of the Bank and its employees, and they aim to improve employee competencies.

Employees can easily access the Bank's regulations, studies conducted by various departments, up-to-date announcements and supplementary resources through the Bank's website and intranet. The HR Department notifies the public of the Bank's recruitment exams through press releases and the website; subsequently, the Department announces the exam results on the website and in writing to related parties.

Additionally, the Bank's HR practices include:

- Realizing studies to improve the efficiency and productivity of the Bank's operations,
- Pursuing and protecting employees' personal rights in accordance with the laws and new policies,
- Applying the use of Right of Petition Law No. 3071 and the Right to Information Act No. 4982,
- Assessing the individual job applications made to the Bank.

As of year-end 2017, the Development Bank of Turkey had 553 employees, of whom 34 were fixed-term employees. The Bank has one branch in Istanbul.

TRAINING ACTIVITIES

In 2017, a total of 1,055 Bank employees participated in "In-house Occupational Training" programs; and 89 employees participated in outsourced training programs in Turkey. Additionally, a total of 7 training programs on "Feasibility Study Preparation and Project Process Management" were organized externally with 115 persons participating in these programs.

The Development Bank of Turkey offers internship/skill-building opportunities to university and vocational high school students who are interested in a career in banking.

Support Service Providers

As per the "Regulation on Support Services that will be Purchased by Banks and Authorizing Support Service Companies"; as stipulated the Law Act No. 5188, our Bank purchases private security and guidance services from the companies called Metin Özel Güvenlik Vip Koruma Hizmetleri Sanayi ve Tic. Ltd. Şti. and server hosting services from Türk Telekom A.Ş.

Corporate Governance Compliance Report

SECTION I - CORPORATE GOVERNANCE COMPLIANCE DECLARATION

The Development Bank of Turkey undertakes its operations in accordance with Law No. 4456 and other regulatory laws, and complies with the mandatory Corporate Governance Principles issued by the Capital Markets Board.

SECTION II - SHAREHOLDERS

2.1. Shareholder Relations Unit

The functions of the Bank's Shareholder Relations Department are carried out by the Corporate Banking, Investments and Budget Department.

One application was made to the department within the period, and all of them were answered.

The contact information of the Shareholder Relations Unit's managers is provided below:

Corporate Banking, Investments and Budget Directorate

Unit Manager: Dr. Metin Çınar

License: Corporate Governance Rating

Phone: +90 312 425 32 05/ +90 312 418 30 72

E-mail: metin.cinar@kalkinma.com.tr
kurumsalbutce@kalkinma.com.tr

Unit Manager: GldoĖan HANCIOĖLU

Phone: +90 312 425 32 05/+90 312 418 30 72

E-mail:guldogan.hancioglu@kalkinma.com.tr
kurumsalbutce@kalkinma.com.tr

Executive Vice President managing the department: Satı BALCI

A report was presented to the Board of Directors on January 31, 2018 regarding the activities carried out by the Department.

2.2. Exercise of Shareholders' Right to Obtain Information

The Bank receives applications in writing from small shareholders requesting information on various topics. All of these were responded or referred to relevant units in writing or via electronic means as appropriate.

The information about the progresses related with the Bank's operations are announced on the website. The information and explanations which can affect the shareholders rights have been presented on the website for the shareholders. Announcements aiming to facilitate effective exercise of shareholder rights are regularly posted on the website. The Bank's Articles of Association do not recognize the appointment of a special auditor as an individual right. The Bank did not receive any requests for the appointment of a special auditor during the reporting period.

2.3. Information about General Assembly

The Ordinary General Meeting for 2016 was held under the custody of the Ministry representative Grseř AYHAN, who was assigned with a letter of permission, numbered 25707697 and dated 12.06.2017 by Republic of Turkey Ankara Governorship Provincial Directorate of Commerce, on June 12, 2017 at 14:00 in the Bank's headquarters at the following address: "Necatibey Cad. No: 98, Kat: 7, Bakanlıklar/ANKARA".

Pursuant to applicable law and the Articles of Association, the meeting invitation, including the agenda, was published within the required timeframe, on the Public Disclosure Platform on May 4, 2017; via the Bank's website (www.kalkinma.com.tr); in Turkish Trade Registry Gazette No. 9323 dated May 10, 2017; in Sabah and Posta newspapers on May 10, 2017; and through the Electronic General Assembly System of the Central Registry Agency.

Upon review of the list of attendants, it was verified that out of 50,000,000,000 shares representing the Company's share capital of TL 500,000,000.00 – a total of 49,540,763,349 shares representing the Company's share capital of TL 495,407,663.49 – 312.5 shares representing TL 3,125 were represented at the meeting. At the meeting, the following agenda items were discussed and approved by majority of votes:

- Approval of the balance sheet and the income statement,
- Approval of Board Member appointments made during the year,
- Release of the Members of the Board of Directors for their activities in the reporting period, pursuant to the Turkish Commercial Code (Members of the Board of Directors did not vote for their own release),
- Board of Directors' proposal regarding profit distribution,
- To appoint Mr. Hakan ERTÜRK as Board Member on January 16, 2017 to replace Mr. Hakan TOKAÇ, who resigned from the Board of Directors on August 15, 2016, pursuant to Article 363 of the Turkish Commercial Code;
- To allow Zeki ÇİFTÇİ, Ph.D., Mehmet AYDIN and Hakan ERTÜRK to continue to serve as Board Members; and to elect Mustafa Cüneyd DÜZYOL and Yalçın YÜKSEL to serve a three-year term;
- Proposal to determine the remuneration of Board Members;
- Amendment to the Bank's Articles of Association pertaining to increasing the Bank's registered capital ceiling to TL 2,500,000,000, which was approved by the Capital Markets Board with a letter of permission numbered E.4082 and dated March 31, 2017; by the Banking Regulation and Supervision Agency with a letter of permission numbered E.5892 and dated April 10, 2017; and by the General Directorate of Domestic Trade, Ministry of Customs and Trade with a letter of permission numbered 24219462 and dated April 14, 2017.

At the meeting, the following agenda items were discussed and unanimity approved:

- Additionally, it was unanimously approved to assign AKİS Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş., which was selected by the Board of Directors, as the independent auditor of the Bank for 2017 within the framework of the Turkish Commercial Code No. 6102, and to authorize the General Directorate to make a contract with this firm.

In accordance with the related legislation; the Balance Sheet, Income Statement, Annual Report of the Board of Directors, Dividend Distribution Offer of the Board of Directors, Statutory Auditors' Report, Audit Committee Report and the Independent Audit Report for the year were made available at the location of the meeting for the examination of the shareholders prior to the Ordinary General Assembly meeting. In addition, a General Assembly Information Document was prepared and published on the Bank's website. Media representatives and the Bank's employees also attended the General Assembly meeting.

General Assembly agenda items were proposed by the representative of the controlling shareholder; all items on the agenda, except the item regarding the approval of the independent audit firm, were approved by affirmative majority votes cast by shareholders representing majority shares with a total nominal value of TL 495,407,663.49 against one dissenting vote cast by the holder of shares having a nominal value of TL 3,125.

Minutes to the General Assembly are publicly announced on the Bank's website <http://www.kalkinma.com.tr/genel-kurul.aspx> and on the Public Disclosure Platform's website <http://www.kap.gov.tr/bildirim-sorgulari/bildirm-sorgu-sonuc.aspx?sirketgrubu=06&BildirimTipi=-2&SirketAraciKurumList=1085>.

Corporate Governance Compliance Report

2.4. Rights to Vote and Minority Rights

There are no privileges regarding the voting rights in the Articles of Association of the Bank. The Bank does not have any subsidiaries that create parent company relationship. Companies that have subsidiary relationships did not cast votes at the General Assembly. The Bank's Charter Act and Articles of Association do not provide for the representation of minority shares in management or the cumulative voting system. According to the Bank's Articles of Association, minority rights are granted to shareholders representing at least one-twentieth of the share capital.

2.5. Entitlement to Dividends

There are no privileges in participating in the Bank's profit. Pursuant to the Bank's Charter Act and Articles of Association available on the Bank's website; "A first dividend is paid from the Bank's distributable profit, calculated by setting aside provisions for taxes and other legal obligations from the gross profit, in accordance with the provisions of the Turkish Commercial Code, Banking Law and other related legislation.

A portion of up to 5% of the profit remaining after the first dividend distribution as determined by the General Assembly, shall be set aside as a bonus dividend for the employees to be distributed in accordance with the principles set by the Board of Directors, not to exceed three months of gross salary of employees. After other deductions and legal reserves stipulated by the Turkish Commercial Code and the General Assembly are also set aside, the remaining amount is distributed to the shareholders as second dividend by the General Assembly."

Accordingly, the Bank's Board of Directors presents its profit distribution proposal for the approval of the shareholders at the General Assembly.

The distribution of profit is made in accordance with the decision of the General Assembly and within the time frame stipulated by legislation.

Shareholders were informed about the Profit Distribution Policy which has been made public on the Bank's website.

At the Ordinary General Assembly meeting for the year 2016, it was decided not to distribute profit.

2.6. Transfer of Shares

The Bank's Articles of Association do not contain any provisions restricting the transfer of shares.

SECTION III - PUBLIC DISCLOSURE AND TRANSPARENCY

3.1. Company Website and Its Content

Information regarding corporate governance principles is available on the Bank's website (<http://www.kalkinma.com.tr/>).

3.2. Annual Report

The Bank's annual reports include all information required by Corporate Governance Principles.

SECTION IV - STAKEHOLDERS

4.1. Informing Stakeholders

The Bank expends best effort in providing information to employees, creditors, clients and all interested parties. The Bank respects the principle of confidentiality by not disclosing the information it obtains due to its business relations to anybody other than the bodies allowed by laws and regulations.

The stakeholders and the media are informed verbally, directly in writing and through the electronic media as part of the Bank's Information Disclosure Policy practices. The Bank employs the following methods and tools to inform stakeholders:

- a) Material Event Disclosures submitted to the Public Disclosure Platform;
- b) Financial Statements and their Accompanying notes, Independent Audit Reports and Declarations submitted to Borsa Istanbul and the CMB on a periodic basis;
- c) Annual and interim reports;
- d) Notices and announcements published in the Turkish Trade Registry Gazette and daily newspapers in certain circumstances (capital increase, General Assembly meetings);
- e) The Bank's website: www.kalkinma.com.tr;
- f) Press announcements made during the year via the print and visual media;
- g) Announcements made to data distribution institutions;
- h) Information requests received in writing or via electronic environment.

In addition, the Bank conducts informational meetings for employees regarding the Bank's activities, objectives and goals.

Stakeholders can notify the Bank of any transactions that are ethically inappropriate and/or contrary to the Bank's bylaws via the suggestion and complaint forms that are available on the Bank's website. All notifications submitted in this manner will be directed to relevant boards or committees of the Bank, according to their subject matter.

4.2. Stakeholder Participation in Management

There is no arrangement aimed at the participation of shareholders in the management.

4.3. Human Resources Policy

The principles of the Bank's personnel policy are defined in the Personnel Regulation; in this framework, the workforce need is fulfilled by recruiting and placing the individuals possessing the competencies and qualifications required by the relevant position, employing appropriate assessment tools and methods, in line with the vision and mission specific to human resources.

The recruitment and promotions of Inspectors and Assistant Inspectors are conducted pursuant to the provisions of the Board of Internal Audit Regulation; the recruitments and promotions of Specialists and Assistant Specialists are conducted pursuant to the provisions of the Regulation on Recruitment, Proficiency and Promotion Principles for Specialists and Assistant Specialists; while promotion of other personnel is performed according to the provisions of the Personnel Bylaws.

Moreover, internships and skill training programs are offered to both university and vocational high school students.

The Bank determines the career paths of its personnel and related issues in accordance with the Personnel Code and carries out the promotion of its personnel according to the plans that were determined in advance.

As of year-end 2017, the Development Bank of Turkey employed 553 personnel, of whom 34 were fixed-term employees. In order to achieve the future goals of the Bank and increase the quality of its personnel, the Bank offers training programs. Furthermore, in a bid to carry the current experience and knowledge to the future, priority is given to employing qualified, high quality specialist personnel.

Since the Bank's personnel are working under a contract statute, the Labor Contract is signed on an annual basis.

Employees have the opportunity for promotion in accordance with their performance and in line with their current positions after they are evaluated within the framework of specified performance evaluation criteria.

Corporate Governance Compliance Report

Employees are provided with access to the Bank's regulations, studies of the departments, updated announcements and supplementary resources in a rapid and efficient manner through the Bank's website and in-house intranet site.

Furthermore, efforts are undertaken aimed at:

- Increasing the effectiveness and efficiency of the Bank's operations;
- Pursuing and protecting employees' personal rights in accordance with the law and new policies;
- Correctly responding to any petitions submitted by personnel within the framework of the Use of Right of Petition Law No. 3071 and the Right to Information Act No. 4982;
- Performing the assessment of personal job applications;
- Informing the public regarding examinations prepared by the Bank through the press and the internet,
- Providing a written declaration of the results of examinations through the Bank's website.

No complaint was received from any of the personnel with respect to discrimination.

The Bank has not yet appointed an employee relations representative. In accordance with the provisions of the Civil Servant Unions Law No. 4688 and other related legislation, at the Corporate Management Council meetings held with joint participation of the Bank representatives and the representatives of the unionized employees, recommendations aimed at improving the social and personal rights of all employees and their working conditions are discussed and developed.

4.4. Code of Ethics and Social Responsibility

An Ethics Commission was established within the Bank pursuant to Article 29 titled "Ethics Commission" of the "Regulation on Codes of Ethical Conduct for Civil Servants and Application Procedures and Principles" published by the Office of the Prime Ministry in the Official Gazette issue no. 25785 dated April 13, 2005. It became effective on this date and with the approval of the Head Office, dated April 22, 2005 and numbered 1165. In accordance with Article 23 of the same regulation with the title "Adhering to Ethical Conduct Principles", the "Ethics Contract" contained in the appendix of the regulation was signed by all Bank employees and placed in their personal files. The Bank is a signatory to the Banking Ethics Principles that were declared by the Banks Association of Turkey on July 26, 2006.

Being the first public bank with the Environmental Management System certification, the Development Bank of Turkey has been effectively implementing the TS EN ISO 14001- TS ISO 14064-1 Environmental Management System standard since 2010. The Bank takes an environmentally sensitive approach and aims for continuous improvement when providing services and carrying out its activities. In its seventh year of implementing the Environmental Management System, the Development Bank of Turkey was included in CDP's list with its first ever Climate Change Report, and it ranked 6th among a total of 20 financial institutions in Turkey.

Additionally, the Bank offset its carbon footprint for 2015 with the Gold Standard Certificate.

Detailed information about these activities are provided on the Bank's website (<http://www.kalkinma.com.tr>) and in annual reports.

SECTION V - BOARD OF DIRECTORS

5.1. The Structure and Composition of the Board of Directors

The members of the Bank's Board of Directors are elected in accordance with the conditions stipulated by Turkish Commercial Code, Banking Law No. 5411 and the Bank's Charter Act No. 4456.

The Board of Directors is composed of seven members: six members elected by the General Assembly from among shareholders and the General Manager. There is no restriction for the Board members to be employed outside the Bank.

Board of Directors^(*) ^(**)

Name-Surname	Title	Start Date	Position outside the Bank
Ahmet BUÇUKOĞLU	Chairman of the Board of Directors and General Manager	June 27, 2014	-
Mustafa Cüneyd DÜZYOL	Board Member, Deputy Chairman of the Board of Directors (Non-executive Director)	April 29, 2014; July 21, 2014	Undersecretary of the Ministry of Development
Dr. Zeki ÇİFTÇİ	Board Member, Deputy Chairman of the Corporate Governance Committee (Non-executive Director)	May 15, 2012; July 24, 2014;	Deputy General Manager at TRT (Turkish Radio and Television Corporation)
Mehmet AYDIN	Board Member, Chairman of the Audit Committee, Chairman of the Corporate Governance Committee (Non-executive Independent Director)	April 28, 2016; May 27, 2016; July 24, 2017	Advisor to the Public Procurement Authority
Hakan Ertürk	Board Member, Chairman of the Compensation Committee (Non-executive Member)	January 24, 2017 June 19, 2017	Acting Director-General of Financial Sector Relations and Exchange, the Undersecretariat of Treasury
Yalçın YÜKSEL	Board Member, Deputy Chairman of the Audit Committee, Deputy Chairman of the Compensation Committee (Non-executive Member)	June 15, 2017 June 19, 2017	Undersecretariat of Treasury Head of Department of Personnel

^(*) Resumes of the Members of the Board of Directors are presented under the "Board of Directors" section of the Annual Report.

5.2. Working Principles of the Board of Directors

It is stated that the Board of Directors shall arrange at least two meetings per month and 24 meetings per year with absolute majority of the total member number, and decisions will be taken with a unanimity of votes without abstention vote; in the event of a split votes, the chairman's vote will count as two votes in accordance with Law No. 4456, under the Main Contract. The decisions reached in the meetings are recorded in the minute book in accordance with legislation, any and dissenting votes are recorded in the minute book, along with their justification. No member of the Board of Directors has the right to veto. The loss caused by the members of Board of Directors' defects during their duties are not insured.

Corporate Governance Compliance Report

The Private Secretariat and Board of Directors Office is responsible for the information and communication of the Chairman and members of Board of Directors. While the agenda of the meeting is determined by the Chairman and the General Manager, the date is determined by the Chairman.

The Board of Directors of the Bank met a total of 24 times in 2017 and made 171 decisions, 13 of which are interim decisions.

5.3. Number, Structure and Independence of Committees Established by the Board of Directors

Members of the Bank's Board of Directors serve on more than one committee, in view of the obligation of independent members to be present in committees and the number of members on the Board.

Audit Committee^(*)

An Audit Committee was formed within the Board of Directors pursuant to Article 24 of the Banking Law No. 5411 and Regulation on the Banks' Internal Systems, with the Bank's Board of Directors' Resolution No. 227 dated October 31, 2006 in order to assist the Board of Directors in conducting its audit and oversight activities.

Mehmet AYDIN and Yalçın YÜKSEL were elected Committee Member, pursuant to Board of Directors' resolution numbered 87 and dated June 19, 2017.

The Audit Committee conducts its activities in accordance with the Audit Committee Operating Procedures and Principles that were approved by the Board of Directors' Resolution No. 36 dated January 24, 2007. The secretarial tasks of the Committee are carried out by the Private Secretariat and Board of Directors' Office.

The Committee met 14 times and passed 65 decisions in 2017.

Chairman:	Mehmet AYDIN (Non-executive, Independent Board of Directors Member)
Deputy Chairman:	Yalçın YÜKSEL. (Non-executive, Independent Board of Directors Member)

^(*) Selim YEŞİLBAŞ served as Chairman of the Audit Committee between December 27, 2016 and June 12, 2017; Mr. Hakan TOKAÇ served as Member of the Audit Committee from May 18, 2012 to June 12, 2017.

Corporate Governance Committee

Corporate Governance Committee was formed with the Bank's Board of Directors' Resolution No. 185 dated June 15, 2007 in accordance with the "Regulation on the Bank's Corporate Governance Principles" issued by the Banking Regulation and Supervision Agency and published in the Official Gazette No. 26333 dated November 1, 2006 and the "Corporate Governance Principles" issued by the Capital Markets Board, to conduct studies for determining principles of the Bank's corporate governance policy, to oversee compliance with Corporate Governance Principles, to carry out initiatives to make improvements in this respect and to make recommendations to the Board of Directors.

At the Board of Directors meeting of July 24, 2017, Mehmet AYDIN, a non-executive member of the Board of Directors was elected as the Chairman of the Corporate Governance Committee and Zeki ÇİFTÇİ, also a non-executive independent member of the Board of Directors, was elected as the Deputy Chairman of the Committee.

The secretarial tasks of the Corporate Governance Committee are performed by the Corporate Banking, Investments and Budget Department. The Corporate Governance Committee met two times and passed two decisions in 2017. Corporate Governance Committee is continuing to work toward improving the Bank's corporate governance practices.

Chairman:	Mehmet AYDIN (Non-executive, Independent Board of Directors Member)
Deputy Chairman:	Zeki ÇİFTÇİ, Ph.D. (Non-executive, Board of Directors Member)
Member:	Metin ÇINAR, Ph.D. (Director of Investor Relations Unit)

^(*) Selim YEŞİLBAŞ served on the Corporate Governance Committee between April 30, 2014 and June 12, 2017; Hakan ERTÜRK served on the Corporate Governance Committee from June 19, 2017 to July 24, 2017.

Furthermore, the Bank's Board of Directors decided that the duties of the Candidate Nomination Committee shall be performed by the Corporate Governance Committee. The decision was reached within the framework of the Capital Markets Board's "Communiqué on the Determination and Implementation of Corporate Governance Principles".

Compensation Committee

The BRSA's Regulation Amending the Regulation on Banks' Corporate Governance Principles published in the Official Gazette issue 27959 dated June 9, 2011 obligates establishing a compensation policy that is aligned with the scope and structure of the Bank activities, its strategies, long-term goals and risk management structures; that prevents taking excessive risks; and that will contribute to effective risk management. The said Regulation also requires a review of the compensation policy at least on an annual basis by the Board of Directors to ensure efficiency of the compensation policy; and the establishment of a compensation committee made up of at least two members for the purpose of monitoring and overseeing compensation practices on behalf of the Board of Directors; the committee will be required to evaluate the compensation policy and implementations with respect to risk management and submit its recommendations thereon in a report every year to the Board of Directors.

In this regard, Compensation Committee was formed among the non-executive members, with the Bank's Board of Directors' Resolution No. 272 dated December 8, 2011 in order to evaluate, within the framework of risk management activities, the compensation policy and related applications, and to present recommendations to the Board of Directors. The Committee's Report No. 2015/01 related to the compensation system of the Bank was approved by Board of Directors' Resolution No. 2016-24-12/247 dated December 16, 2016.

Under Board of Directors Resolution dated June 19, 2017, Hakan ERTÜRK was elected as the Chairman and Yalçın YÜKSEL. The Committee held one meeting in 2017 and made one decision to be submitted to the Board of Directors of the Bank.

Chairman:	Hakan ERTÜRK (Non-executive, Independent Board of Directors Member)
Member:	Yalçın YÜKSEL (Non-executive, Independent Board of Directors Member)

^(*) Selim YEŞİLBAŞ served in the Compensation Committee from August 29, 2016 to June 12, 2017 and Mehmet AYDIN also serves from August 29, 2016 to June 19, 2017.

5.4. Risk Management and the Internal Control Mechanism

Internal control, internal audit and risk management activities are conducted in accordance with the BRSA's "Code of Banks Internal Systems," which was declared on July 11, 2014.

The Audit Committee is responsible for maintaining the efficiency and adequacy of internal systems, the completeness of information provided from the auditing and reporting systems, the pre-evaluation of ratings, assessment and support services, the regular tracking of these agencies' activities, maintaining the subsidiaries' internal auditing activities and the consolidation of the process.

Two non-executive members of the Bank's Board of Directors were elected as Audit Committee members. The Internal Control Department, Board of Internal Audit and Risk Monitoring Department structured within the scope of Internal Systems carry out activities under the Audit Committee in line with the regulations approved by the Bank's Board of Directors.

Corporate Governance Compliance Report

The Audit Committee reports the activities and results of these activities carried out by the Board of Internal Audit, the Internal Control Management and Risk Monitoring Management to the Board of Directors every six months.

Regarding the results of its activities, the Internal Control Department presents Monthly Activity Reports to the Audit Committee, the General Manager and to the Board of Internal Audit.

The Board of Internal Audit continues its annual auditing activities in line with the internal audit plans confirmed by Board of Directors. The Board of Internal Audit Presidency also reports the operational results to Board of Directors through the Audit Committee every three months.

Existing and potential risks faced by the Bank are monitored through internal reports prepared on daily, weekly and monthly basis by the Risk Monitoring Department.

Various analyses regarding the risks exposed by the Bank are included in the monthly risk analysis reports prepared by the Risk Monitoring Department.

With the "Risk Limits Monitoring Report" prepared by the Risk Monitoring Department, the results regarding the risk limits determined and approved by the Board of Directors for the quantifiable risks are specified.

Monthly reports are submitted to the Audit Committee, the Board of Directors, Active-Passive Management, Senior Management and other related units. As such, executive, managing and auditing mechanisms are informed of the risks.

The Capital Adequacy Ratio that was calculated by the Risk Monitoring Department within the scope of the legal reporting has started to be calculated within the framework of the Basel II approach since July 2012. On the other hand, Interest Rate Standard Ratio arising from Banking Book is calculated by the mentioned Department and reported to the BRSA. Moreover, as per the Regulation on "Banks' Internal Systems and Internal Capital Adequacy Evaluation Process" published by the Banking Regulation and Supervision Agency in the Official Gazette No. 29057, dated July 11, 2014; "Development Bank of Turkey Internal Capital Adequacy Assessment Process (ICAAP) Report" for 2016 period was prepared by the Risk Monitoring Department in March 2017, approved by the Board of Directors and submitted to the BRSA.

The general risk principles followed by the Bank can be defined as including the following activities: specializing in activities in accordance with its mission, vision and its structure defined in its settlement law; taking definable, monitorable and/or manageable risks accordingly; avoiding risks other than the ones unavoidable due to the main activities. Within this scope, the fundamental principle is taking risks which are defined and manageable.

Risk management is carried out under different committees determined by their operational areas. While the Active-Passive Management Committee determines the general policies concerning the Bank's current assets and foreign exchange exposure, the Credit Participation Committee determines the relevant credit risk policies.

5.5. The Company's Strategic Position

The Law No. 4456 regulating the establishment of the Bank defines the objectives and scope of the Bank as follows: "With the aim of promoting Turkey's development, to grant loans to enterprises incorporated as joint stock companies, to provide them with financial and operational support by participating in them, to channel both domestic and foreign savings into investments bearing the potential to provide a contribution to the development of the country, to contribute to the development of the capital markets, to finance domestic, foreign and international joint investments, and to carry out all functions of development and investment banking."

The Bank's mission and vision adopted by the Board of Directors' Decision No. 32 and dated February 27, 2015 are set out on the Bank's website.

The strategic targets of the Bank are approved by the Board of Directors and the annual budget, as well as business plan, is prepared in accordance with these targets. The strategic targets, in compliance with the strategic objectives of the Bank, are set out in the form of sub-objectives of each objective. Strategic targets are determined by taking into consideration the satisfactory, common, logical, outstanding, attainable and numerical qualities and with maximum participation.

The Bank's activities are arranged, in the form of tables, on the basis of the rate of attainment of the objectives and the past performances. These monthly reports are submitted for the consideration of the Board of Directors. The annual reports, work programs and the budget are submitted to the Board of Directors for the approval. In addition, performance reports are prepared every six months.

5.6. Financial Rights

The remuneration of members of the Board of Directors is determined by the General Assembly; there is no additional compensation provided. Payments and benefits offered to the members of Board of Directors and senior managers are presented to the public through KAP (Public Disclosure Platform) and our Company's official website (in the "Financial Reports" section under "Financial Information"), within the scope of the independent audit report issued every three months.

Personnel credits are made available to members of the Board of Directors in accordance with the rules applicable for the Bank's personnel as prescribed by the Personnel Loan Regulation. There is no credit, debt record or bail concerning any board member or post-holder whether directly or through a third party, other than the credits stated above.

According to Establishment Law No. 4456, item 15, the pay and other financial and social benefits of Bank personnel are determined by decisions made by the Council of Ministers after proposals are put forward by the General Manager, and confirmation by the Board of Directors and State Personnel Presidency. In addition, the Bank personnel were paid a bonus equivalent to one month's salary in January, April, July and October, in line with working days. However, the monthly average sum of the salary which is an average of all the payments done under the name of salary, social benefits, pay rises, amends, subventions and others (including the portion of the bonus corresponding to one month, excluding Board of Directors membership compensation) cannot exceed the upper limit determined by the Higher Planning Council.

Summary of Board of Directors Report

Thanks to favorable financing environment, relatively steady commodity prices, and strong economic growth, especially in developed countries, the global economy maintained its upward momentum. In 2017, the world economy grew 3.6% mainly because the Federal Reserve remained on track to continue increasing interest rates, the European Central Bank (ECB) maintained its accommodative monetary policy, and the European elections had limited effects. In 2018, the global economy is expected to expand 3.7%, at a pace similar to 2017.

Positive developments in global markets had a positive impact on Turkey's economy. As a result of the government's measures and revived domestic demand, the Turkish economy grew 5.3% in the first quarter of 2017, 5.4% in the second quarter, and reached a record high of 11.1% in the third quarter. The 4.4% growth rate projected in the Medium Term Program (MTP) for 2017 was revised upward by 1.1 percentage points to 5.5% in October.

Having significantly contributed to Turkey's sustainable development for more than 40 years, the Development Bank of Turkey increased its total assets by 27.6% over the previous year to TL 8,938.2 million in 2017 (2016: TL 7,042.5 million). The Bank's asset growth in 2017 well outperformed the industry average, further bolstering stakeholders' trust.

Expanding its loan volume steadily, the Development Bank of Turkey increased its loan volume by 27.7% over the previous year to TL 6,928.9 million in 2017 (2016: TL 5,425.7 million). Despite challenging market conditions during the year, the Bank significantly increased both its assets and loan volume in 2017, a clear demonstration of its strong financial foundation. A large portion of the Bank's loan portfolio is composed of overseas loans. The total amount of medium- and long-term financing facilities secured by the Bank rose by 30.7% over the previous year to TL 7,584.4 million in 2017 (2016: TL 5,800.8 million).

The Bank's net profit grew by 80.4% (YoY) to TL 128.3 million in 2017 (2016: TL 71.1 million) while its return on equity (ROE) and return on assets (ROA) stood at 10.2% (2015: 9.2%) and 1.4% (2016: 1%), respectively.

The Development Bank of Turkey increased its issued capital within the permitted registered capital ceiling of TL 500,000,000. The Bank raised its issued capital from TL 160,000,000 to TL 500,000,000 – an increase of TL 340,000,000 (212.5%) – to be fully paid in cash. Meanwhile, it was decided to increase the Development Bank of Turkey's registered capital ceiling from TL 500,000,000 to TL 2,500,000,000.

The Development Bank of Turkey's capital adequacy ratio rose to 16.73% at year-end 2017 (2016: 13.41%), as a result of the capital increase of TL 340 million in 2017.

In its seventh year of implementing the Environmental Management System, the Development Bank of Turkey issued its first CDP (Carbon Disclosure Project) report, and the Bank placed 6th among 19 financial institutions in Turkey with its CDP score – another important milestone for the Bank in 2017. The Development Bank of Turkey will continue to undertake pioneering sustainability initiatives and maintain its environmental focus in lending activities in the coming period.

As the Board of Directors of the Development Bank of Turkey, we would like to extend our gratitude to all our stakeholders for their valuable contributions and support for our business activities in 2017. We hereby submit the Development Bank of Turkey's Board of Directors' and Statutory Auditors' reports and financial statements for 2017.

The Development Bank of Turkey
Board of Directors

Assessment of the Audit Committee Regarding the Operation of Internal Control, Internal Audit and Risk Management Systems and its Activities during the Fiscal Year

The Development Bank of Turkey's Audit Committee conducts its activities within the framework of the provisions of the "Regulation on Banks' Internal Systems and the Internal Capital Adequacy Assessment Process" that was issued by the Banking Regulation and Supervision Agency. The Board of Internal Control, Internal Audit and Risk Monitoring Departments report to the Audit Committee at the Bank.

Internal audit, internal control and risk management activities carried out during the year were evaluated at Audit Committee meetings. The Audit Committee passed a total of 65 resolutions at 14 meetings held in 2017. The activities performed by the Audit Committee are reported to the Board of Directors every six months in accordance with BRSA regulations.

ACTIVITIES OF THE INTERNAL CONTROL DEPARTMENT

The Board of Internal Audit conducts audits in order to add value to performing and developing the activities of all Bank units in line with the Banking Law and other legal regulations and internal legislation, policies and targets. Risk oriented audits are made within the scope of the annual audit plan that covers the units, processes, information systems, support service companies, internal control and risk management. The quarterly activity reports on the activities conducted by the Bank's Board of Internal Audit are submitted to the Audit Committee. After the approval of the reports by the Board of Directors, the reports are submitted to the BRSA.

In 2017, the Board of Internal Audit issued a total of 18 reports including nine inspection reports (including support services); three investigation reports; four evaluation reports on independent audit, rating and valuation companies; ICAAP (Internal Capital Adequacy Assessment Process) Validation Report, and ICAAP audit report. The Board of Internal Audit also carried out studies relating to the Board of Directors' report, which is based on reports concerning information systems, banking processes and support service companies. The Board of Internal Audit carries out tasks to achieve compliance with the legislation regarding the Prevention of Laundering of Proceeds of Crime and Financing of Terrorism.

ACTIVITIES OF THE INTERNAL AUDIT DEPARTMENT

The Internal Control Department performs regular controls over banking processes such as accounting processes, credit processes, credit accounting processes, payment systems, treasury and securities operations, information system processes, reporting processes, and other support and service processes.

Internal control personnel report the errors and deficiencies detected in standard control points to the Management, and the Internal Control Department consolidates all reports into one monthly activity report. In 2017, the Internal Control Department prepared 12 activity reports and presented these reports to the Audit Committee, the General Manager and the Board of Internal Audit. The Internal Control Department monitors applicable external legislation and informs all units of the Bank.

Assessment of the Audit Committee Regarding the Operation of Internal Control, Internal Audit and Risk Management Systems and its Activities during the Fiscal Year

ACTIVITIES OF THE RISK MONITORING DEPARTMENT

The risks that the Development Bank of Turkey is currently or potentially exposed to are monitored by the Risk Monitoring Department on a daily basis via the "Daily Report", on a weekly basis via the "Weekly Report", and on a monthly basis via the "Risk Analysis of the Development Bank of Turkey Based on Selected Indicators and Risk Groups" report and the "Risk Limits Monitoring Report". The Daily Report contains summarized balance sheet, analyses of exchange risk and interest rate risk, and actualizations of limits that are monitored on a daily basis. The Weekly Report covers the actualizations of limits that are monitored on a weekly basis, and domestic and overseas macroeconomic developments to enable the following-up of macroeconomic risks. The monthly "The Development Bank of Turkey's Risk Analysis According to Specified Indicators and Risk Groups" report covers risk analyses assessed under topics such as liquidity risk, FX risk, maturity risk, credit risk, interest rate risk and operational risk. The report also includes summaries of the reports that are prepared for and submitted to Banking Regulation and Supervision Agency, mainly as Capital Adequacy Ratio Form. Furthermore, the monthly prepared "Risk Limits Monitoring Report" contains actualizations of limits that are defined by quantifiable risks and approved by the Board of Directors. The monthly reports prepared by the Risk Monitoring Department are presented to the Board of Directors, Assets and Liabilities Management Committee, senior management and related departments besides the Audit Committee.

Within the scope of statutory reporting, the Risk Monitoring Department calculates and reports capital adequacy ratio, standard ratio of the interest rate risk arising from banking accounts and operational value at risk (VaR) to BRSA in the risk-reporting format defined by BRSA. As per the "Regulation on Banks' Internal Systems and Internal Capital Adequacy Assessment Process" issued by BRSA and published in the Official Gazette No. 29057 dated July 11, 2014, the Bank prepares an annual Internal Capital Adequacy Assessment Process (ICAAP) Report. Accordingly, the Risk Monitoring Department prepared "The Development Bank of Turkey 2016 Internal Capital Adequacy Assessment Process (ICAAP) Report," which was then approved by the Board of Directors, and submitted to BRSA in March 2017.



YALÇIN YÜKSEL
Deputy Chairman of Audit Committee



MEHMET AYDIN
Chairman of Audit Committee

Risk Management Policies

The general principles of the Bank's risk policies consist of specializing in areas of business that are consistent with its function, vision and structure established by the Charter Act. In this regard, it is the general principle to take only those risks that can be identified, controlled and/or managed, and try to avoid taking risks other than those that naturally arise due to the nature of its activities and are unavoidable.

The Bank ensures that the existing and potential future impacts of the risks taken are measured as much as possible within the limits of the risk measurement and reporting techniques. Furthermore, it specifies in writing limits for the quantifiable risks arising from its activities within the framework of the Article 38 of the Banking Regulation and Supervision Agency's "Regulation on Banks' Internal Systems and Internal Capital Adequacy Evaluation Process". It is made sure that quantifiable risks stay within these limits approved by the Board of Directors.

In addition, the Bank measures the current and potential future impact of the risk it takes to the extent allowed by risk measurement and reporting techniques and the Bank continues to do so in the future as well.

CREDIT RISK MANAGEMENT POLICIES

Credit risk is the probability of loss resulting from a client of the Bank being unable to fulfill their obligation, either partially or completely, as stated in the contract with the Bank. The Bank, in accordance with BRSA regulations and limitations, manages the credit risk with regard to the best options for credit volume, qualification and complexity.

The Bank calculates the value at the credit risk in accordance with the "Regulation on Measurement and Assessment of Capital Adequacy of Banks" and Basel II criteria. The management of credit risk, such as to sustain a capital adequacy standard ratio above minimal level, is essential and determined by the regulations. In relation to credit risk management, credit volume, qualification and complexity are measured, monitored and analyzed with stress test and scenario analyses; the process and the results are reported to the Audit Committee and the General Manager. The assessment of new products and services in terms of credit risk is a requirement. The Bank defines measures and manages loan risk as well as all products and activities which bear credit risk. The conforming of credit decision support systems with the Bank's operational structure, size and complexity is constantly examined, developed and regulated by the Board of Directors. Credit risk is monitored not only in terms of clients and firms but also with regard to the total credit portfolio and the composition thereof. Credit risk is monitored and managed in terms of sector, maturity, collateral, region, currency and type of credit. The Bank's credit risk management policy requires diversification of the credit portfolio. The financial data of the parties which have used credits, suspended credits or restructured credits from the Bank is tracked on a regular basis until maturity. Firms bearing relatively high levels of risk, or those for which a physical site visit is required, are examined by the Bank. As a result of the examinations and assessments, a monitoring report with developed suggestions is prepared. The Bank continues to undertake this policy on non-performing loans.

MARKET RISK MANAGEMENT POLICY

The Bank is exposed to market risk as a result of its operations due to volatility in exchange rates, interest rates and share prices. The amount of exposure to market risk is calculated by the standard method and reported to the Banking Regulation and Supervision Agency as stated in the "Regulation on Banks' Capital Adequacy Measurement and Assessment".

EXCHANGE RATE RISK MANAGEMENT POLICY

As a result of operations which involve the use of foreign currencies, the Bank is exposed to currency risk stemming from the Bank's net foreign exchange position in its assets and liabilities.

Risk Management Policies

The Bank's exchange rate risk management policy is determined regarding financial situation of the Bank, economic developments and market trends and also profitability and efficiency in accordance with "Foreign Exchange Net Overall Position/Equity Standard Ratio" determined by the regulations. By protecting this basic target, the existing foreign currency holdings are placed with the most favorable interest rates and the opportunities in the conditions and time in forex markets; these are utilized with the purpose of both assets and liabilities management.

In order to be able to manage the exchange rate risk as set out above, futures and swaps transactions are made in the context of the Assets and Liabilities Management for the purposes of risk protection (hedging), if necessary.

MANAGEMENT POLICY OF INTEREST RATE RISK ARISING FROM BANKING ACCOUNTS

Interest rate risk is the probability of loss arising from changes in interest rates and the Bank's financial position. Interest rate risk arising from bank accounts includes reprising risk, yield curve risk, base risk and option risk. The main aim in interest risk management is to minimize the maturity mismatch in Bank's balance sheet in order to avoid the effects arising from volatility in interest rates. In this scope, interest sensitive assets are managed through portfolio optimization, duration, interest rate expectations, alternative yield and commensurable loss. Compliance with the limits in interest risk management is a requirement accepted by the Board of Directors.

LIQUIDITY RISK MANAGEMENT POLICY

Liquidity risk represents the probability that the Bank's cash flow requirements, either predictable or unpredictable, cannot be met adequately without affecting daily operations or the financial structure, and that the Bank records losses. In addition, liquidity risk can be interpreted as the risk facing the Bank in the event that a position cannot be closed or balanced due to a lack of market debt or high volatility; as a result, it has a probability of recording losses. The main policy regarding liquidity risk is to employ an active structure which fulfills all obligations under all circumstances. As a specialized bank, the Bank's liquidity requirements are more observable when compared to other commercial banks, and this provides the Bank with regular cash flow. The types of asset and liabilities, maturity structure, and interest rate all comply with the decisions of the Assets and Liabilities Management Committee; the Bank performs a policy regarding liquidity ratios and risk limits determined by the regulations. In order to manage liquidity risk, cash flows are forecasted by using predictable data with regard to the maturity structure of the Bank's assets and liabilities. It is essential to complete the placement of excess liquidity as an alternative yield or to meet liquidity requirement with minimum costs. Besides, monthly proforma cash flows and balance sheet durations are monitored to anticipate probable risks for mid and long term liabilities.

OPERATIONAL RISK POLICY

Pursuant to BRSA regulations, the Bank manages its operational risk in accordance with the amount, quality and level of sophistication of its activities and accepts the fact that the operational risk management process encompasses all activities and employees of the Bank. The Bank's main principle in this respect is that the Bank's personnel are aware of operational risks and evaluate their impacts, they take necessary measures to mitigate and/or eliminate risks or develop recommendations to achieve this and they conduct their activities in a control-aware manner while performing their duties, authorities and responsibilities. New products and services are assessed from the viewpoint of personnel, process, system and externally-triggered operational risk.

The main objective of the Bank's operational risk management policies is to identify the risks before they occur and to report and analyze them on a regular basis. The basic principle in operational risk management policy is defined as taking the necessary measures in order to prevent the risk from occurring. The most effective policy tool in operational risk management is to intensify the controls over each stage of all the identified business processes in the Bank.

COUNTERPARTY CREDIT RISK MANAGEMENT POLICY

Counterparty credit risk is the default risk of the counterpart in the transaction before the last obligatory payment. The Bank takes precautions against credit risk arising from the counterparties, such as over counter derivative transactions.

CONCENTRATION RISK MANAGEMENT POLICY

Concentration risk includes the risks arising from concentration of credits in certain sectors or regions, concentration risk resulting from concentration of deposits and other financial resources, operational risk, operational concentration risk stemming from concentration of certain processes and technology systems operational loss, market concentration risks arising from the concentration risk of general market risk, stock market risk and exchange rate risk.

The Bank continues its operations by taking concentration risk into account. When the increase in concentration risk is examined, measures are taken to decrease it to an acceptable level.

INFORMATION TECHNOLOGIES RISK POLICY

Any threats, disruptions, or faults that might occur in the IT processes included in all internal and external activities of the Bank, would inevitably lead to financial, managerial and reputational loss for the Bank. Under the information technologies risk management policy; regarding the existing/potential risks that occur/will occur in the Bank's practices that can be considered within the scope of the Information Technologies (system, software, data security, data processing, data storage); (i) risks are detected at the first stage; and (ii) solutions are found to eliminate these risks; and/or (iii) necessary measures are taken; and (iv) this process is systematically monitored.

As part of the Information Technologies risk management, necessary measures for the risks and information on practicing these measures are evaluated with the annual risk assessment reports. Based on the information technologies risk evaluation reports; what actions are to be taken for the detected risks and whether these actions are promptly taken or not is evaluated, and the Board of Directors is informed by the Audit Board about the issue.

INTERNAL ASSESSMENT OF CAPITAL REQUIREMENT AND CAPITAL ADEQUACY POLICY

The main principle of the Internal Assessment of Capital Requirement and Capital Adequacy Policy of the Bank is to create strong, effective and perfect strategies and processes in order to continuously evaluate and maintain the types, components, and structure of the capital that is considered sufficient for the risks that occur/will occur. As a principle, the Bank shall have an Internal Capital Adequacy Assessment Process suitable for its risk profiles according to the complexity and characteristics of its activities and shall set capital targets in conformity with its risk profile, activity environment and strategies.

The Internal Capital Adequacy Assessment Process is designed based on the Bank's scale, and the complexity and characteristics of its activities while the internal capital evaluation results are reported to the Bank's Top Management. Internal Capital Adequacy Assessment Process is designed and carried out by the risk management unit, and is presented to the Board of Directors by the Audit Board. The Bank's Top Management is responsible for integrating the Capital Planning and Management into the general risk management culture and approach. Bank's Top Management makes sure that capital planning and management policies and procedures are announced and practiced within the Bank and supported with sufficient powers and means.

In case any changes occur in the Bank's strategies, business plans, activity environment or in the other factors that may have significant impacts on the theories and methods used in Internal Capital Adequacy Assessment Process, necessary corrections are made in the process. As a principle, Bank's internal assessment process shall at least cover the credit risk, market risk and operational risk used in capital requirement calculations and shall also cover all other important risks such as interest rate risk arising from banking book, concentration risk, liquidity risk, reputation risk and strategic risks. As mandated by the "Banks are required to establish and implement an internal capital adequacy assessment process (ICAAP) that is compatible with their risk profile and operational environment" rule of the Banking Regulation and Supervision Agency's "Regulation on banks' internal systems and internal capital adequacy assessment processes" published in issue 29057 of the official gazette on July 11, 2014, an ICAAP has been established and is now being implemented at the Bank. As part of the process established within the Bank, the Development Bank of Turkey issues a comprehensive annual ICAAP Report based on its year-end financial statements and submits the report to BRSA by the end of March every year.

Assessment of Financial Strength, Profitability and Solvency

Financial data regarding the Bank's financial position as of December 31, 2017 is presented in the tables below in a comparative format with the respective financial data from December 31, 2016.

TL Million	December 2016	December 2017	Change (Value)	Change (%)
Total Assets	7,042.5	8,983.2	1,940.7	27.6
Total Assets (US\$ Million)	2,010.4	2,387.7	377.3	18.8
Loans	5,425.7	6,928.9	1,503.2	27.7
Foreign Resources (TL Million)	6,267.4	7,726.9	1,459.5	23.3
Shareholders' Equity	775.1	1,256.3	481.2	62.1
Free Capital (*)	584.8	1,083.0	498.2	85.2
Total Income	259.6	405.4	145.8	56.1
Total Expenditures	166.8	240.7	73.9	44.3
Provision for Taxes	21.7	36.4	14.7	67.4
Profit/Loss	71.1	128.3	57.2	80.4
Standard Capital Adequacy Ratio (%)	13.41	16.73	3.32	24.8

(*) Free Capital = Shareholders' Equity - (Subsidiaries + Affiliated Companies + Fixed Assets + Non-Performing Loans (Net) + Deferred Tax Asset + Prepaid Expenses)

As of December 2017, the Bank's total assets grew by 27.6% (YoY) to TL 8,983.2 million. The growth in assets was mainly attributed to a 27.7% increase in loans (TL 1,503.2 million) and a TL 315.6 million increase in the "receivables from money markets" item.

Meanwhile, a 23.3% (TL 1,459.5 million) increase in foreign resources, and 62.1% (TL 481.2 million) growth in shareholders' equity made an impact on liabilities.

FX assets and liabilities, which constitute a significant portion of the Bank's balance sheet, and the increases, observed in exchange rates (7.4% for U.S. dollar and 22.1% for euro) during this period should be taken into consideration while evaluating the increase in assets and liabilities. The Bank's asset growth rate is 9.3% when it is calculated based on the Bank's FX balance sheet denominated in euro-USD, and by excluding the 16.7% increase in the currency basket.

A look at the Bank's total assets in 2017 reveals that loan volume grew by 27.7% (YoY) to TL 6,929 million. The loans to assets ratio, on the other hand, realized 77.1% in 2017, while 77.0% in 2016. The Bank maintains the composition of its credit portfolio, which is almost exclusively, composed of foreign currency loans (the share of foreign currency loans in total loans is 94.4%).

Composition of Assets (%)	December 2016	December 2017
Cash Balances, Central Bank, Banks and Other Financial Institutions	18.0	14.9
Money Markets	0.1	3.6
Available for Sale Marketable Securities	2.7	2.9
Loans	77.0	77.1
<i>Non-performing Loans (Gross)</i>	1.10	0.6
Securities Held to Maturity	0.3	0.0
Subsidiaries and Affiliates	0.4	0.5
Tangible Fixed Assets	1.0	0.7
Other Assets	0.5	0.3
Total	100.0	100.0

While the Bank's loan volume expanded by 27.7% (YoY) at end-2017, the total amount of Non-performing Loans (gross) decreased to TL 123.0 million in December 2017, from TL 125.7 million at end-2016. Due to the increase in loan volume, the Bank's gross NPL ratio fell to 1.8% as of year-end 2017, down from 2.3% at end-2016. Loan provisions/Non-performing Loans ratio rose to 58.9% in 2017 from 39.8% in 2016. Meanwhile, Non-performing Loans (Net)/Total Loans ratio fell to 0.7% from 1.4%.

Total Loans (TL Million)	December 2016	December 2017
Loans	5,425.7	6,928.9
Non-performing Loans (Gross)	125.8	123.0
Loan Provisions (-)	50.1	72.4
Non-performing Loans (Net)	75.7	50.6

Asset Quality (%)	December 2016	December 2017
Loans/Total Assets	77.0	77.1
Non-performing Loans (Net)/Total Assets	1.1	0.6
Non-performing Loans (Net)/Total Loans	1.4	0.7
Loan provisions/Non-performing Loans	39.8	58.9
Non-performing Loans (Gross)/Total Assets	1.8	1.4
Non-performing Loans (Gross)/Total Loans	2.3	1.8

Assessment of Financial Strength, Profitability and Solvency

The Bank's liquid assets increased by 30.5% to reach TL 1,919.2 million in December 2017, up from TL 1,470.4 million at year-end 2016. Accordingly, the liquid assets to total assets ratio rose to 21.4%, up from 20.9% a year earlier.

Liquid Assets (TL Million)	December 2016	December 2017
Cash Balances and Central Bank	1.1	0.7
Financial Assets at Fair Value through Profit and Loss	0.0	0.0
Banks and Other Financial Institutions	1,265.4	1,335.2
Money Markets	10.5	326.0
Available for Sale Marketable Securities	193.3	257.3
Total	1,470.3	1,919.2

An analysis of the Bank's funding structure shows that the share of equity in total liabilities increased from 11% last year to 14% in 2017, mainly because total shareholders' equity grew in line with paid-in capital inflow. As of December 2017, the share of external debt in total liabilities fell slightly to 81.4% from 82.2% at year-end 2016. The capital increase of TL 340 million, which was completed at end-December 2016, was reported under "Other Liabilities" instead of the "Shareholders' Equity" account because the related procedure was completed at the beginning of 2017. Therefore, the share of other liabilities in total liabilities fell to 0.4% at year-end 2017, down from 5.3% in 2016.

Composition of Liabilities (%)	December 2016	December 2017
Money Markets	0.0	0.0
Borrowings	82.1	81.4
Funds	0.2	3.0
Provisions	1.3	1.2
Other Liabilities	5.3	0.4
Shareholders' Equity	11.0	14.0
<i>Profit/Loss for the Period</i>	1.0	1.4
Total	100.0	100.0

In 2017, the increase in total income was greater than the increase in total expenditures. Total income grew by 56.1% (TL 145.7 million) to reach TL 405.4 million while total expenditures increased 44.3% (TL 73.9 million) to TL 240.7 million. As a result, the Bank's net profit grew by 80.4% (YoY) to TL 128.3 million in 2017.

Total Revenues and Expenditures (TL Million)	December 2016	December 2017	Change (Value)	Change (%)
Income	259.7	405.4	145.7	56.1
Other Expenditures	166.8	240.7	73.9	44.3
Provision for Taxes (-)	21.7	36.4	14.7	67.4
Net Profit (Loss)	71.1	128.3	57.1	80.4

Compared to December 2016, the Bank's interest margin increased by TL 113.6 million, offsetting the negative effects of other income margin, fees & commissions margin, and FX margin, which amounted to TL 30.1 million, TL 6.9 million, and TL 4.7 million, respectively. As a result, the Bank's net profit grew by 80.4% (YoY) to about TL 128.3 million in 2017.

Sources of Profit/Loss (TL Million)	December 2016	December 2017
Interest Margin	165.8	279.4
FX Margin	1.1	-3.6
Fees and Commissions Margin	19.6	12.7
Securities Trading Margin	0.0	0.0
Derivative Financial Operation Margin	0.0	0.0
Other Income Margin	-93.7	-123.8
Pre-tax Profit	92.8	164.7
Provision for Taxes (-)	21.7	36.4
Net Profit (Loss)	71.1	128.3

An analysis of the Bank's interest income-expenditures indicates that interest generated by loans remained the key source of profitability, with loans accounting for the biggest share in total assets. As of year-end 2017, the share of interest generated from loans in total interest income dropped to 69.2%, from 77.8% in 2016. Meanwhile, the share of interest income earned from the liquid investment portfolio has increased in line with the growth in interest income generated from banks and money market transactions. In 2017, the share of interest income from money market transactions in total interest income was realized as 3.0% to 8.4% compared to the same period of the previous year and the interest income obtained from banks in total interest income in the same period rose to 18.0% from 13.4%.

Composition of Interest Income/Expenditures (%)	December 2016	December 2017
Interest Income	100.0	100.0
From Loans	77.8	69.2
From Banks	18.0	
From Money Market Operations	3.0	8.4
From Securities	5.4	4.4
Other	0.4	0.01
Interest Expenditures	100.0	100.0
On Money Market Operations	0.8	1.9
On Borrowings	99.9	98.1
Other	0.1	0.0

Because the Bank's net profit growth exceeded asset growth during the same period, return on assets (ROA) increased from 1.01% to 1.43%. Meanwhile, the increase in shareholders' equity was lower than net profit growth, and therefore the Bank's return on equity (ROE) rose to 10.21% from 9.18%.

As of end-December 2017, the Bank's shareholders' equity amounted to TL 1,256.3 million; risk-weighted assets for credit risk and for market risk totaled TL 7,454.7 million and TL 31.5 million, respectively; and operational risk-weighted assets came in at TL 302.4 million. Hence, the Bank's capital adequacy ratio (CAR) rose to 16.73% at year-end 2017, up from 13.41% at year-end 2016, as a result of the capital increase of TL 340 million.

Information on Transactions between the Bank and its Risk Groups

The Chairman of the Board of Directors, the Members of the Board of Directors, the General Manager and the Assistant General Managers of the Bank, are not shareholders in the Bank's capital. In case the Members of the Board of Directors make a request, the Bank extends credit to these persons pursuant to the Bank's "Personnel Loans Regulation", and under the terms and conditions applicable for Bank personnel. Apart from the credits extended under the Banking legislation, there is no record of any credits extended by means of third persons or any other money lent and any surety given to any of the Members of the Board of Directors or executives of the Bank.

Credit Ratings

After the international credit rating agency Fitch Ratings downgraded Turkey's sovereign credit rating to non-investment grade on January 27, 2017, the Development Bank of Turkey updated its credit ratings on October 4, 2017 in accordance with the Regulation on Annual Reports and the "Regulation on the Principles Regarding the Authorization and Activities of Credit Rating Agencies issued by the Banking Regulation and Supervision Agency and published in the Official Gazette numbered 26333 and dated November 1, 2006. The updated credit ratings of the Development Bank of Turkey are presented below:

	2017	2018
FOREIGN CURRENCY		
Long-term	BB+	BB+
Short-term	B	B
Outlook	Stable	Stable
TURKISH LIRA		
Long-term	BBB-	BBB-
Short-term	F3	F3
Outlook	Stable	Stable
NATIONAL		
Long-term	AAA (TUR)	AAA (TUR)
Outlook	Stable	Stable
Support Rating	3	3
Baseline Support Rating	BB+	BB+

Financial Information and Key Ratios 2013-2017

(TL Million)	2013	2014	2015	2016	2017
Total Assets	3,556.1	3,914.9	4,774.4	7,042.5	8,983.2
Liquid Assets	659.9	633.9	724.8	1,470.4	1,919.2
Total Loans	2,758.7	3,145.0	3,912.9	5,425.7	6,928.9
Non-performing Loans (Net)	80.5	61.0	61.2	75.7	50.6
Total Foreign Resources	2,952.0	3,272.3	4,071.1	6,267.4	7,726.9
Paid-in Capital	160.0	160.0	160.0	160.0	500.0
Shareholders' Equity	604.1	642.6	703.3	775.1	1,256.3
Net Interest Income	111.4	122.9	145.7	165.8	279.4
Net Profit	36.6	46.9	62.7	71.1	128.3

(%)	2013	2014	2015	2016	2017
Total Loans/Total Assets	77.6	80.3	82.0	77.0	77.1
Non-performing Loans (Gross)/ Total Loans (Gross)	4.5	3.4	2.7	2.3	1.8
Total Foreign Resources/Total Liabilities	83.0	83.6	85.3	89.0	86.0
Shareholders' Equity/Total Assets	17.0	16.4	14.7	11.0	14.0
Standard Capital Adequacy Ratio	21.38	20.40	17.84	13.41	16.73
Return on Assets (ROA)	1.0	1.2	1.3	1.0	1.4
Return on Equity (ROE)	6.1	7.3	8.9	9.2	10.2

TÜRKİYE KALKINMA BANKASI A.Ş.

Unconsolidated Financial Statements

As of and For the Year Ended 31 December 2017

With Independent Auditors' Report Thereon

(Convenience Translation of Unconsolidated Financial Statements and Related Disclosures and Footnotes Originally Issued in Turkish)

9 February 2018

This report contains "Independent Auditors' Report" comprising 3 pages and; "Unconsolidated Financial Statements and Related Disclosures and Footnotes" comprising 119 pages.



KPMG Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.
İş Kuleleri Kule 3 Kat:2-9
Levent 34330 İstanbul
Tel +90 212 316 6000
Fax +90 212 316 6060
www.kpmg.com.tr

(Convenience Translation of Unconsolidated Financial Statements and Related Disclosures and
Footnotes Originally Issued in Turkish)

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Türkiye Kalkınma Bankası A.Ş.

A) Audit of Unconsolidated Financial Statements

Opinion

We have audited the accompanying unconsolidated financial statements of Türkiye Kalkınma Bankası A.Ş. ("the Bank") which comprise the unconsolidated balance sheet as at 31 December 2017 and the unconsolidated statement of income, unconsolidated statement of 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 unconsolidated notes, comprising a summary of significant accounting policies and other explanatory information.

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

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the unconsolidated financial statements of the current period. These matters were addressed in the context of our audit of the unconsolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Basis for Opinion section we have determined the matters described below to be the key audit matters to be communicated in our report.

Impairment of loans and other receivables

Refer to Section III, No: VII to the unconsolidated financial statements relating to the details of accounting policies and significant judgments of for impairment in loans and other receivables.



KPMG Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.
İş Kuleleri Kule 3 Kat:2-9
Levent 34330 İstanbul
Tel +90 212 316 6000
Fax +90 212 316 6060
www.kpmg.com.tr

Key audit matter

As of 31 December 2017, loans and other receivables comprise 77% of Bank's total assets.

The Bank recognizes its loans and other receivables in accordance with the Regulation on Identification of and Provision against Non-Performing Loans and Other Receivables (the "Regulation") published on the Official Gazette No. 26333 dated 1 November 2006. In accordance with the mentioned Regulation, the assessment of impairment is basically related to the proper classification of loan and other receivables.

The classification of loans and other receivables is performed in accordance with the criteria in the Regulation. Those include both objective and subjective criteria which management judgment is applied. Because of subjective criteria there is a risk of misclassification of loans and receivables which prevent any determination of impairment.

Disclosures related to credit risk are presented in Section IV, No II Credit Risk.

How the matter is addressed in our audit

Our procedures for testing the classification of loans and advances in accordance with the Regulation and key assumptions made by management include below:

- We tested the design and operating effectiveness of the controls on lending, collateralization, collection, follow-up, classification and impairment procedures.
- We performed loan reviews for selected loan samples which include a detailed examination of loan files and related information. In this context, the current status of the loan customer has been evaluated.
- We tested the appropriateness of the provisions in accordance with the Regulation.

Other Matter

The unconsolidated financial statements of the Bank as at and for the year ended 31 December 2016 was audited by another auditor who expressed an unqualified opinion on 9 February 2017.

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

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

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

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

Auditors' Responsibilities for the Audit of the Unconsolidated Financial Statements

Responsibilities of auditors in an audit are as follows:

Our objectives are to obtain reasonable assurance about whether the unconsolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with BRSA Auditing Regulation and Standards on Auditing issued by POA will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these unconsolidated financial statements.



KPMG Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.
İş Kuleleri Kule 3 Kat:2-9
Levent 34330 İstanbul
Tel +90 212 316 6000
Fax +90 212 316 6060
www.kpmg.com.tr

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the unconsolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

B) Other Legal and Regulatory Requirements

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

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

Erdal Tıkmak, SMMM
Partner

9 February 2018
İstanbul, Turkey

TÜRKİYE KALKINMA BANKASI A.Ş.
THE UNCONSOLIDATED FINANCIAL REPORT AS OF 31 DECEMBER 2017

The Headquarters Address	Necatibey Cad. No: 98 P.K.06100 Bakanlıklar/ANKARA
Telephone and Facsimile	Tel: 0312 231 84 00 Fax: 0312 418 78 67
Website Address	http://www.kalkinma.com.tr
E-mail Address	muhasebe@kalkinma.com.tr

The unconsolidated financial report for the year-end prepared in accordance with the “Communiqué on Financial Statements and Related Disclosures and Notes to be Announced to Public by Banks” as regulated by Banking Regulation and Supervision Agency, consists of the following sections.

- GENERAL INFORMATION ABOUT THE BANK
- UNCONSOLIDATED FINANCIAL STATEMENTS OF THE BANK
- EXPLANATIONS ON ACCOUNTING POLICIES OF THE BANK
- INFORMATION ON THE FINANCIAL STRUCTURE OF THE BANK
- DISCLOSURES AND NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
- OTHER EXPLANATIONS
- INDEPENDENT AUDITORS' REPORT

The unconsolidated financial statements and related disclosures and notes included in this report are prepared, unless otherwise stated, in Thousand Turkish Liras, in accordance with the Procedures And Principles Regarding Banks' Accounting Practices and Maintaining Documents, Turkish Financial Reporting Standards and the related appendices and interpretations and our Bank's financial records, and they have been independently audited and enclosed.



Ahmet BUÇUKOĞLU
Board of Directors Member
and General Manager



Mehmet AYDIN
Chairman of Audit
Committee



Yalçın YÜKSEL
Chairman of Audit
Committee (By Proxy)



Adnan YALÇINCI
Assistant General Manager
Responsible for Financial Reporting



Aydın TOSUN
Head of Financial Affairs

Information on the authorized personnel to whom questions related to this financial report may be directed

Name Surname/Title : Zeynep Koç / Finance Manager
Tel No : 0 312 - 417 92 00-2506
Fax No : 0 312 - 418 78 67

SECTION ONE

General Information

I-	Establishment Date of the Bank, Initial Articles of Association, History of the Bank Including the Changes of These Articles	85
II-	Capital Structure of the Bank, Shareholders that Retain Direct or Indirect Control and Management of the Bank Solely or Together, Changes about These Issues During the Year And Disclosures about the Group	85
III-	Explanations Regarding the Bank's Chairman and Members of Board of Directors, Audit Committee Members, Chief Executive Officer and Executive Vice Presidents And Their Shares Attributable to the Bank, if any	85-86
IV-	Information About Persons And Institutions that Have Qualified Shares Attributable to the Bank	86
V-	Summary of Functions and Lines of Activities of the Bank	86
VI-	Information on Application Differences Between Consolidation Practices as per the Regulation on Preparation of Consolidated Financial Statements of Banks and the Turkish Accounting Standards, and Entities Subject to Full or Proportional Consolidation or Deducted From Equity or Not Subject to Any of These Three Methods	86
VII-	Current or Likely Actual or Legal Barriers to Immediate Transfer of Equity or Repayment of Debts between the Bank and Its Subsidiaries	86

SECTION TWO

Unconsolidated Financial Statements

I-	Balance Sheet	88-89
II-	Statement of Off-Balance Sheet Accounts	90
III-	Statement of Income	91
IV-	Statement of Profit or Loss Accounted for under Shareholders' Equity	92
V-	Statement of Changes in Shareholders' Equity	93
VI-	Statement of Cash Flows	94
VII-	Statement of Profit Distribution	95

SECTION THREE

Accounting Policies

I-	Explanations on Basis of Presentation	96
II-	Explanations on Utilization Strategy of Financial Instruments and Foreign Currency Transactions	97
III-	Explanations on Derivative Instruments	97
IV-	Explanations on Interest Income and Expenses	98
V-	Explanations on Fees and Commission Income and Expenses	98
VI-	Explanations on Financial Assets	98-100
VII-	Explanations on Impairment of Financial Assets	100-101
VIII-	Explanations on Offsetting of Financial Assets and Liabilities	101
IX-	Explanations on Sales and Repurchase Agreements and Lending of Securities	101
X-	Explanations on Assets Held For Sale and Discontinued Operations	101
XI-	Explanations on Goodwill and Other Intangible Assets	102
XII-	Explanations on Tangible Fixed Assets	102-103
XIII-	Explanations on Leasing Transactions	103
XIV-	Explanations on Provisions and Conditional Liabilities	103
XV-	Explanations on Employee Benefit Liabilities	103-104
XVI-	Explanations on Taxation	104-106
XVII-	Additional Explanations on Borrowings	106
XVIII-	Explanations on Shares Issued	106
XIX-	Explanations on Bill Guarantees and Acceptances	106
XX-	Explanations on Government Incentives	106
XXI-	Explanations on Segment Reporting	107-108
XXII-	Explanations on Other Matters	109

SECTION FOUR

Information on Financial Structure and Risk Management

I-	Explanations Related to Capital Adequacy Ratio	110-119
II-	Explanations Related to Credit Risk	120-127
III-	Explanations Related to Currency Risk	128-130
IV-	Explanations Related to Interest Rate Risk	130-134
V-	Explanations Related to Equity Securities in Banking Book	135
VI-	Liquidity Risk Management and Liquidity Coverage Ratio	135-141
VII-	Explanations Related to Leverage Ratio	142
VIII-	Explanations Related to the Presentation of Financial Assets and Liabilities at Fair Values	143-144
IX-	Explanations Related to the Transactions Made on Behalf of Others and Items Held in Trust	144
X-	Explanations Related to Risk Management	144-169

SECTION FIVE

Explanations and Notes Related to the Unconsolidated Financial Statements

I-	Explanations and Notes Related to Assets	170-187
II-	Explanations and Notes Related to Liabilities	188-192
III-	Explanations and Notes Related to Off-Balance Sheet Accounts	193-195
IV-	Explanations and Notes Related to Income Statement	195-200
V-	Explanations and Notes Related to Statement of Changes in Shareholders' Equity	200
VI-	Explanations and Notes Related to Cash Flows Statement	200-201
VII-	Explanations Related to Risk Group of the Bank	202-203
VIII-	Explanations Related to Domestic, Foreign, Off-shore Branches and Representative Offices Abroad	203

SECTION SIX

Other Explanations

I-	Other Explanations on Operations of the Bank	204
II-	Explanations Related to Subsequent Events	204

SECTION SEVEN

Independent Auditors' Report

I-	Explanations on Independent Auditors' Report	204
II-	Explanations and Notes Prepared by Independent Auditor	204

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

SECTION ONE GENERAL INFORMATION

I- Establishment Date of the Bank, Initial Articles of Association, History of the Bank Including the Changes of These Articles:

The Bank was established on 27 November 1975 according to the Decree Based on Law numbered 13 as a related institution of the Ministry of Trade and Technology with the legal title of "Devlet Sanayi ve İşçi Yatırım Bankası A.Ş.". Some adjustments were made on the status of the Bank with the Decree Based on Law numbered 165 dated 14 November 1983.

On 15 July 1988, its legal title was changed to Türkiye Kalkınma Bankası A.Ş. by being associated to the Prime Ministry in the context of the Decree Law numbered 329 and in parallel with the developments in its activities. The Bank had become a development and investment bank that provides financing support to companies in tourism sector as well as trade sector by taking over T.C. Turizm Bankası A.Ş. with all of its assets and liabilities with the decision of Supreme Planning Council dated 20 January 1989 and numbered 89/T-2. Also with the Decree Law numbered 401 dated 12 February 1990, some of the articles related to the Bank status were changed.

With the Law dated 14 October 1999 and numbered 4456, Decree Law numbered 13, 165, 329 and 401 were revoked and the establishment and operating principles of the Bank were rearranged.

II- Capital Structure of the Bank, Shareholders that Retain Direct or Indirect Control and Management of the Bank Solely or Together, Changes about These Issues During the Year And Disclosures about the Group:

The capital ceiling of the Bank which is subject to registered capital system is TRY 2.500.000 Thousand. The issued capital within the registered capital is TRY 500.000 Thousand (The Bank's capital consist of 50 Billion shares with par value of TRY 0,01 each), and the shareholders and their shares in the issued capital are shown below.

Shareholders	Share Amount (Thousand TRY)	Share (%)	Share Capital (Thousand TRY)	Unpaid Capital (Thousand TRY)
Treasury	495.408	99,08	495.408	-
Other Shareholders ^(*)	4.592	0,92	4.592	-
Total	500.000	100,00	500.000	-

^(*) Includes all shareholders and shares of these shareholders are traded in Borsa İstanbul. Therefore, number of shareholders can't be known.

III- Explanations Regarding the Bank's Chairman and Members of Board of Directors, Audit Committee Members, Chief Executive Officer and Executive Vice Presidents And Their Shares Attributable to the Bank, if any:

Chairman and Members of the Board of Directors:

Name Surname	Duty	Assignment Date	Education Level	Experience in Banking Sector (Years)
Ahmet BUÇUKOĞLU	Chairman of the Board	27.06.2014	Bachelor	35
Mustafa Cüneyd DÜZYOL	Member of the Board (By.Proxy)	30.11.2015	Master's Degree	29
Yalçın YÜKSEL	Member of the Board	12.06.2017	Master's Degree	17
Hakan ERTÜRK	Member of the Board	24.01.2017	Master's Degree	17
Mehmet AYDIN	Member of the Board	22.04.2016	Bachelor	27
Zeki ÇİFTÇİ	Member of the Board	24.04.2015	Doctorate	32

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

General Manager, Assistant General Managers:

Name Surname	Duty	Assignment Date	Education Level	Experience in Banking Sector (Years)
Ahmet BUÇUKOĞLU	General Manager / All areas	27.06.2014	Bachelor	35
Bahattin SEKKİN	AGM/Tech.Mon.-Ins.Comm.-Econ. and Social Res.-Credit Ins.	22.08.2003	Bachelor	35
Adnan YALÇINCI	AGM/Loan Follow-up and Coll.-Fiscal Aff.-Budgeting	14.10.2005	Master's Degree	29
Zekai İŞILDAR	AGM/ Support Services	30.01.2009	Bachelor	30
Satı BALCI	AGM/ Loan Follow Up	13.01.2017	Bachelor	29

Chief Internal Inspector:

Name Surname	Duty	Assignment Date	Education Level	Experience in Banking Sector (Years)
Murat DOĞUŞLU	Chief Internal Inspector	28.12.2015	Bachelor	30

Executives mentioned above do not own any shares of the Bank in the part which is not publicly traded.

IV- Information About Persons And Institutions that Have Qualified Shares Attributable to the Bank:

The Under Secretariat of Treasury owns 99,08% of the shares of the Bank.

V- Summary of Functions and Lines of Activities of the Bank:

The line of activities of Türkiye Kalkınma Bankası A.Ş. as a development and investment bank is; to provide loans to enterprises having the status of "Incorporated Company" for the purposes of profitability and productivity of the development of Turkey, to finance and give operational support by participating to enterprises, to direct domestic and foreign savings into development investments, to assist in the development of capital markets, to finance domestic, foreign and international joint ventures and carry out all kinds of development and investment banking activities.

VI- Information on application differences between consolidation practices as per the Regulation on Preparation of Consolidated Financial Statements of Banks and the Turkish Accounting Standards, and entities subject to full or proportional consolidation or deducted from equity or not subject to any of these three methods:

Since Kalkınma Yatırım Menkul Değerler A.Ş. which is the subsidiary of the Bank is in liquidation process, the Bank has lost control over its subsidiary in accordance with the related provisions of TAS and TFRS and net investment value of Kalkınma Yatırım Menkul Değerler A.Ş. in liquidation has been reclassified to available for sale financial assets.

Due to differences between the Communiqué on Preparation of Consolidated Financial Statements of Banks and Turkish Account Standards (TAS), the non-financial associate, Arıcak A.Ş. are not consolidated since they are not in scope of financial institutions according to related Communiqué.

VII- Current or likely actual or legal barriers to immediate transfer of equity or repayment of debts between the bank and its subsidiaries:

As explained above, Kalkınma Yatırım Menkul Değerler A.Ş. is in liquidation process, and transfer of equity is expected to be made at the end of the liquidation process

SECTION TWO
UNCONSOLIDATED FINANCIAL STATEMENTS

- I- Balance Sheet
- II- Statement of Off-Balance Sheet Accounts
- III- Statement of Income
- IV- Statement of Profit or Loss Accounted under Shareholders' Equity
- V- Statement of Changes in Shareholders' Equity
- VI- Statement of Cash Flows
- VII- Statement of Profit Distribution

Türkiye Kalkınma Bankası A.Ş.

Unconsolidated Balance Sheet

(Statement of Financial Position)

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

ASSETS	Note	AUDITED CURRENT PERIOD (31/12/2017)			AUDITED PRIOR PERIOD (31/12/2016)		
		TRY	FC	Total	TRY	FC	Total
I. CASH AND BALANCES WITH THE CENTRAL BANK	(1)	710	-	710	1.070	-	1.070
II. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS (Net)	(2)	-	-	-	-	-	-
2.1 Financial assets held for trading		-	-	-	-	-	-
2.1.1 Government securities		-	-	-	-	-	-
2.1.2 Equity securities		-	-	-	-	-	-
2.1.3 Derivative financial assets held for trading		-	-	-	-	-	-
2.1.4 Other securities		-	-	-	-	-	-
2.2 Financial assets at fair value through profit and loss		-	-	-	-	-	-
2.2.1 Government securities		-	-	-	-	-	-
2.2.2 Equity securities		-	-	-	-	-	-
2.2.3 Loans		-	-	-	-	-	-
2.2.4 Other Securities		-	-	-	-	-	-
III. BANKS	(3)	425.026	910.164	1.335.190	712.049	553.377	1.265.426
IV. INTERBANK MONEY MARKETS		326.024	-	326.024	10.505	-	10.505
4.1 Interbank money market placements		-	-	-	-	-	-
4.2 Istanbul stock xxchange money market placements		316.014	-	316.014	-	-	-
4.3 Receivables from reverse repurchase agreements		10.010	-	10.010	10.505	-	10.505
V. FINANCIAL ASSETS AVAILABLE FOR SALE (Net)	(4)	156.440	100.901	257.341	105.849	87.540	193.389
5.1 Equity securities		8.037	-	8.037	8.037	-	8.037
5.2 Government securities		129.184	29.765	158.949	87.827	18.770	106.597
5.3 Other Securities		19.219	71.136	90.355	9.985	68.770	78.755
VI. LOANS	(5)	391.324	6.537.597	6.928.921	262.736	5.162.949	5.425.685
6.1 Performing loans		340.721	6.537.597	6.878.318	187.040	5.162.949	5.349.989
6.1.1 Loans to bank's risk group		-	-	-	-	-	-
6.1.2 Government securities		-	-	-	-	-	-
6.1.3 Other		340.721	6.537.597	6.878.318	187.040	5.162.949	5.349.989
6.2 Loans under follow-up		123.012	-	123.012	125.779	-	125.779
6.3 Specific provisions (-)		(72.409)	-	(72.409)	(50.083)	-	(50.083)
VII. FACTORING RECEIVABLES		-	-	-	-	-	-
VIII. INVESTMENTS HELD-TO-MATURITY (Net)	(6)	-	-	-	20.415	-	20.415
8.1 Government securities		-	-	-	20.415	-	20.415
8.2 Other securities		-	-	-	-	-	-
IX. INVESTMENTS IN ASSOCIATES (Net)	(7)	10.812	35.992	46.804	9.910	18.497	28.407
9.1 Associates consolidated under equity accounting		-	-	-	-	-	-
9.2 Unconsolidated associates		10.812	35.992	46.804	9.910	18.497	28.407
9.2.1 Financial investment in associates		-	35.992	35.992	-	18.497	18.497
9.2.2 Non-financial investments in associates		10.812	-	10.812	9.910	-	9.910
X. INVESTMENTS IN AFFILIATES (Net)	(8)	-	-	-	-	-	-
10.1 Unconsolidated financial investments in affiliates		-	-	-	-	-	-
10.2 Unconsolidated non-financial investments in affiliates		-	-	-	-	-	-
XI. INVESTMENTS IN JOINT-VENTURES (Net)	(9)	-	-	-	-	-	-
11.1 Joint-ventures consolidated under equity accounting		-	-	-	-	-	-
11.2 Unconsolidated joint ventures		-	-	-	-	-	-
11.2.1 Financial investments in joint-ventures		-	-	-	-	-	-
11.2.2 Non-financial investments in joint-ventures		-	-	-	-	-	-
XII. LEASE RECEIVABLES (Net)	(10)	9	-	9	-	-	-
12.1 Finance lease receivables		-	-	-	-	-	-
12.2 Operational lease receivables		9	-	9	-	-	-
12.3 Others		-	-	-	-	-	-
12.4 Unearned income (-)		-	-	-	-	-	-
XIII. DERIVATIVE FINANCIAL ASSETS HELD FOR RISK MANAGEMENT	(11)	-	-	-	-	-	-
13.1 Fair value hedging		-	-	-	-	-	-
13.2 Cash flow hedging		-	-	-	-	-	-
13.3 Net foreign investment hedges		-	-	-	-	-	-
XIV. TANGIBLE ASSETS (Net)	(12)	63.452	-	63.452	70.386	-	70.386
XV. INTANGIBLE ASSETS (Net)	(13)	1.048	-	1.048	1.531	-	1.531
15.1 Goodwill		-	-	-	-	-	-
15.2 Other intangibles		1.048	-	1.048	1.531	-	1.531
XVI. INVESTMENT PROPERTY (Net)	(14)	937	-	937	980	-	980
XVII. TAX ASSET	(15)	4.957	-	4.957	8.433	-	8.433
17.1 Current Tax Assets		-	-	-	-	-	-
17.2 Deferred Tax Assets		4.957	-	4.957	8.433	-	8.433
XVIII. ASSETS FOR ASSET HELD FOR SALE AND HELD FROM DISCONTINUED OPERATIONS	(16)	-	-	-	-	-	-
18.1 Assets held for sale		-	-	-	-	-	-
18.2 Assets of discontinued operations		-	-	-	-	-	-
XIX. OTHER ASSETS	(17)	15.473	2.297	17.770	14.734	1.556	16.290
TOTAL ASSETS		1.396.212	7.586.951	8.983.163	1.218.598	5.823.919	7.042.517

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

Türkiye Kalkınma Bankası A.Ş.

Unconsolidated Balance Sheet

(Statement of Financial Position)

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

LIABILITIES AND EQUITY	Note	AUDITED CURRENT PERIOD (31/12/2017)			AUDITED PRIOR PERIOD (31/12/2016)		
		TRY	FC	Total	TRY	FC	Total
I. DEPOSITS	(1)	-	-	-	-	-	-
1.1 Deposits from bank's risk group		-	-	-	-	-	-
1.2 Other		-	-	-	-	-	-
II. DERIVATIVE FINANCIAL LIABILITIES HELD FOR TRADING	(2)	-	-	-	-	-	-
III. BORROWING FUNDING LOANS	(3)	440	7.315.224	7.315.664	-	5.785.103	5.785.103
IV. MONEY MARKET BALANCES		130	-	130	351	-	351
4.1 Interbank money market takings		-	-	-	-	-	-
4.2 Istanbul stock exchange money market takings		-	-	-	-	-	-
4.3 Obligations under repurchase agreements		130	-	130	351	-	351
V. SECURITIES ISSUED (Net)		-	-	-	-	-	-
5.1 Bills		-	-	-	-	-	-
5.2 Asset-backed securities		-	-	-	-	-	-
5.3 Bonds		-	-	-	-	-	-
VI. FUNDS		15.934	252.681	268.615	15.297	107	15.404
6.1 Borrower funds		-	-	-	-	-	-
6.2 Other		15.934	252.681	268.615	15.297	107	15.404
VII. MISCELLANEOUS PAYABLES		13.526	5.096	18.622	6.425	11.689	18.114
VIII. OTHER EXTERNAL FUNDINGS PAYABLE	(4)	5.184	867	6.051	345.303	2.349	347.652
IX. FACTORING PAYABLES		-	-	-	-	-	-
X. LEASE PAYABLES (Net)	(5)	-	-	-	-	-	-
10.1 Financial lease payables		-	-	-	-	-	-
10.2 Operational lease payables		-	-	-	-	-	-
10.3 Other		-	-	-	-	-	-
10.4 Deferred expenses (-)		-	-	-	-	-	-
XI. DERIVATIVE FINANCIAL LIABILITIES HELD FOR RISK MANAGEMENT	(6)	-	-	-	-	-	-
11.1 Fair value hedging		-	-	-	-	-	-
11.2 Cash flow hedging		-	-	-	-	-	-
11.3 Net foreign investment hedges		-	-	-	-	-	-
XII. PROVISIONS	(7)	108.753	-	108.753	91.961	-	91.961
12.1 General provisions		72.623	-	72.623	57.168	-	57.168
12.2 Restructuring reserves		-	-	-	-	-	-
12.3 Reserve for employee benefits		36.128	-	36.128	34.791	-	34.791
12.4 Insurance technical provisions (Net)		-	-	-	-	-	-
12.5 Other provisions		2	-	2	2	-	2
XIII. TAX LIABILITY	(8)	9.063	-	9.063	8.805	-	8.805
13.1 Current tax Liability		9.063	-	9.063	8.805	-	8.805
13.2 Deferred tax Liability		-	-	-	-	-	-
XIV. LIABILITIES FOR ASSET HELD FOR SALE AND HELD FROM DISCONTINUED OPERATIONS (Net)	(9)	-	-	-	-	-	-
14.1 Assets held for sale		-	-	-	-	-	-
14.2 Assets of discontinued operations		-	-	-	-	-	-
XV. SUBORDINATED DEBTS	(10)	-	-	-	-	-	-
XVI. SHAREHOLDERS' EQUITY	(11)	1.253.634	2.631	1.256.265	775.679	(552)	775.127
16.1 Paid-in Capital		500.000	-	500.000	160.000	-	160.000
16.2 Capital reserves		219.435	2.631	222.066	209.746	(552)	209.194
16.2.1 Share premium		1.582	-	1.582	1.491	-	1.491
16.2.2 Share cancellation profits		-	-	-	-	-	-
16.2.3 Securities value increase fund		9.915	2.631	12.546	451	(552)	(101)
16.2.4 Revaluation surplus on tangible assets		-	-	-	-	-	-
16.2.5 Revaluation surplus on intangible assets		-	-	-	-	-	-
16.2.6 Revaluation surplus on investment property		-	-	-	-	-	-
16.2.7 Bonus shares of associates, affiliates and joint-ventures		-	-	-	-	-	-
16.2.8 Hedging reserves (effective portion)		-	-	-	-	-	-
16.2.9 Revaluation surplus on assets held for sale and assets of discontinued operations		-	-	-	-	-	-
16.2.10 Other capital reserves		207.938	-	207.938	207.804	-	207.804
16.3 Profit reserves		405.933	-	405.933	334.813	-	334.813
16.3.1 Legal reserves		32.150	-	32.150	32.150	-	32.150
16.3.2 Status reserves		-	-	-	-	-	-
16.3.3 Extraordinary reserves		370.897	-	370.897	300.484	-	300.484
16.3.4 Other profit reserves		2.886	-	2.886	2.179	-	2.179
16.4 Profit/Loss		128.266	-	128.266	71.120	-	71.120
16.4.1 Prior periods profit/loss		-	-	-	-	-	-
16.4.2 Current period net profit/loss		128.266	-	128.266	71.120	-	71.120
TOTAL LIABILITIES AND EQUITY		1.406.664	7.576.499	8.983.163	1.243.821	5.798.696	7.042.517

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

Türkiye Kalkınma Bankası A.Ş.

Unconsolidated Off Balance Sheet Accounts (Statement of Financial Position)

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

	Note	AUDITED CURRENT PERIOD (31/12/2017)			AUDITED PRIOR PERIOD (31/12/2016)		
		TRY	FC	Total	TRY	FC	Total
A. OFF BALANCE SHEET CONTINGENCIES AND COMMITMENTS (I+II+III)		221.447	2.311.094	2.532.541	440.185	975.979	1.416.164
I. GUARANTEES AND SURETYSHIPS	(1), (3)	37	772	809	38	84.402	84.440
1.1. Letters of Guarantee		37	-	37	38	-	38
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		37	-	37	38	-	38
1.2. Bank acceptances		-	-	-	-	-	-
1.2.1. Import letter of acceptance		-	-	-	-	-	-
1.2.2. Other bank acceptances		-	-	-	-	-	-
1.3. Letters of Credit		-	772	772	-	84.402	84.402
1.3.1. Documentary Letters of Credit		-	772	772	-	84.402	84.402
1.3.2. Other Letters of Credit		-	-	-	-	-	-
1.4. Guaranteed Prefinancings		-	-	-	-	-	-
1.5. Endorsements		-	-	-	-	-	-
1.5.1. Endorsements to the Central Bank of Turkey		-	-	-	-	-	-
1.5.2. Other Endorsements		-	-	-	-	-	-
1.6. Underwriting commitments		-	-	-	-	-	-
1.7. Factoring related guarantees		-	-	-	-	-	-
1.8. Other Guarantees		-	-	-	-	-	-
1.9. Other Sureties		-	-	-	-	-	-
II. COMMITMENTS	(1), (3)	221.410	2.310.322	2.531.732	440.147	891.577	1.331.724
2.1. Irrevocable Commitments		-	11.393	11.393	-	10.484	10.484
2.1.1. Asset purchase and sale commitments		-	-	-	-	-	-
2.1.2. Deposit purchase and sale commitments		-	-	-	-	-	-
2.1.3. Share capital commitments to associates and affiliates		-	11.393	11.393	-	10.484	10.484
2.1.4. Loan granting commitments		-	-	-	-	-	-
2.1.5. Securities issuance brokerage commitments		-	-	-	-	-	-
2.1.6. Commitments for reserve deposit requirements		-	-	-	-	-	-
2.1.7. Commitments for cheque payments		-	-	-	-	-	-
2.1.8. Tax and fund obligations on export commitments		-	-	-	-	-	-
2.1.9. Commitments for credit card limits		-	-	-	-	-	-
2.1.10. Commitments for credit cards and banking services related promotions		-	-	-	-	-	-
2.1.11. Receivables from "short" sale commitments on securities		-	-	-	-	-	-
2.1.12. Payables from "short" sale commitments on securities		-	-	-	-	-	-
2.1.13. Other irrevocable commitments		-	-	-	-	-	-
2.2. Revocable Commitments		221.410	2.298.929	2.520.339	440.147	881.093	1.321.240
2.2.1. Revocable Loan Granting Commitments		221.410	2.298.929	2.520.339	440.147	881.093	1.321.240
2.2.2. Other Revocable Commitments		-	-	-	-	-	-
III. DERIVATIVE FINANCIAL INSTRUMENTS	(2)	-	-	-	-	-	-
3.1. Derivative financial instruments held for risk management		-	-	-	-	-	-
3.1.1. Fair value hedges		-	-	-	-	-	-
3.1.2. Cash flow hedges		-	-	-	-	-	-
3.1.3. Net foreign investment hedges		-	-	-	-	-	-
3.2. Trading derivatives		-	-	-	-	-	-
3.2.1. Forward foreign currency purchases/sales		-	-	-	-	-	-
3.2.1.1. Forward foreign currency purchases		-	-	-	-	-	-
3.2.1.2. Forward foreign currency sales		-	-	-	-	-	-
3.2.2. Currency and interest rate swaps		-	-	-	-	-	-
3.2.2.1. Currency swaps-purchases		-	-	-	-	-	-
3.2.2.2. Currency swaps-sales		-	-	-	-	-	-
3.2.2.3. Interest rate swaps-purchases		-	-	-	-	-	-
3.2.2.4. Interest rate swaps-sales		-	-	-	-	-	-
3.2.3. Currency, interest rate and security options		-	-	-	-	-	-
3.2.3.1. Currency call options		-	-	-	-	-	-
3.2.3.2. Currency put options		-	-	-	-	-	-
3.2.3.3. Interest rate call options		-	-	-	-	-	-
3.2.3.4. Interest rate put options		-	-	-	-	-	-
3.2.3.5. Security call options		-	-	-	-	-	-
3.2.3.6. Security put options		-	-	-	-	-	-
3.2.4. Currency futures		-	-	-	-	-	-
3.2.4.1. Currency futures-purchases		-	-	-	-	-	-
3.2.4.2. Currency Futures-Sales		-	-	-	-	-	-
3.2.5. Interest rate futures		-	-	-	-	-	-
3.2.5.1. Interest rate futures-purchases		-	-	-	-	-	-
3.2.5.2. Interest rate futures-sales		-	-	-	-	-	-
3.2.6. Others		-	-	-	-	-	-
B. CUSTODY AND PLEDGED ITEMS (IV+V+VI)		2.442.685	22.700.434	25.143.119	1.869.864	19.466.590	21.336.454
IV. ITEMS HELD IN CUSTODY		3.702	573	4.275	3.349	763	4.112
4.1. Customers' securities held		-	-	-	-	-	-
4.2. Investment securities held in custody		3.702	-	3.702	3.349	-	3.349
4.3. Checks received for collection		-	-	-	-	-	-
4.4. Commercial notes received for collection		-	-	-	-	-	-
4.5. Other assets received for collection		-	-	-	-	-	-
4.6. Assets received through public offering		-	-	-	-	-	-
4.7. Other Items under custody		-	573	573	-	763	763
4.8. Custodians		-	-	-	-	-	-
V. PLEDGED ITEMS		2.436.481	22.686.365	25.122.846	1.864.952	19.465.606	21.330.558
5.1. Securities		-	-	-	-	-	-
5.2. Guarantee notes		39.985	3.264.763	3.304.748	61.760	2.863.121	2.924.881
5.3. Commodities		-	-	-	-	-	-
5.4. Warranties		-	-	-	-	-	-
5.5. Real estates		1.710.349	13.519.507	15.229.856	1.172.351	11.617.142	12.789.493
5.6. Other pledged items		401.466	4.553.191	4.954.657	203.425	3.629.157	3.832.582
5.7. Pledged Items-depository		284.681	1.348.904	1.633.585	427.416	1.356.186	1.783.602
VI. CONFIRMED BILLS OF EXCHANGE AND SURETIES		2.502	13.496	15.998	1.563	221	1.784
TOTAL OFF-BALANCE SHEET ITEMS (A+B)		2.664.132	25.011.528	27.675.660	2.310.049	20.442.569	22.752.618

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

Türkiye Kalkınma Bankası A.Ş.

Unconsolidated Income Statement

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

INCOME AND EXPENSES	Note	AUDITED CURRENT PERIOD (01/01/2017-31/12/2017)	AUDITED PRIOR PERIOD (01/01/2016-31/12/2016)
I. INTEREST INCOME	(1)	375.009	219.891
1.1 Interest income on loans		259.665	171.062
1.2 Interest income on reserve deposits		-	-
1.3 Interest income on banks		67.540	29.490
1.4 Interest income on money market transactions		31.345	6.509
1.5 Interest income on securities portfolio		16.421	11.972
1.5.1 Trading financial assets		-	-
1.5.2 Financial assets valued at fair value through profit or loss		-	-
1.5.3 Financial assets available-for-sale		16.406	10.053
1.5.4 Investments held-to-maturity		15	1.919
1.6 Finance lease income		-	-
1.7 Other interest income	(12)	38	858
II. INTEREST EXPENSE	(2)	(95.587)	(54.036)
2.1 Interest on deposits		-	-
2.2 Interest on funds borrowed		(93.768)	(53.988)
2.3 Interest on money market transactions		(1.819)	(42)
2.4 Interest on securities issued		-	-
2.5 Other interest expense	(12)	-	(6)
III. NET INTEREST INCOME (I - II)		279.422	165.855
IV. NET FEES AND COMMISSIONS INCOME		12.718	19.596
4.1 Fees and commissions received		13.328	20.001
4.1.1 Non-cash loans		1.031	1.917
4.1.2 Other	(12)	12.297	18.084
4.2 Fees and commissions paid		(610)	(405)
4.2.1 Non-cash loans		-	-
4.2.2 Other	(12)	(610)	(405)
V. DIVIDEND INCOME	(3)	296	474
VI. NET TRADING INCOME/LOSSES (Net)	(4)	(3.642)	1.108
6.1 Trading account income/losses		(3)	9
6.2 Income/losses from derivative financial instruments		-	-
6.3 Foreign exchange gains/losses		(3.639)	1.099
VII. OTHER OPERATING INCOME	(5)	6.350	10.185
VIII. TOTAL OPERATING INCOME (III+IV+V+VI+VII)		295.144	197.218
IX. PROVISION FOR LOSSES ON LOANS AND OTHER RECEIVABLES (-)	(6)	(40.098)	(20.392)
X. OTHER OPERATING EXPENSES(-)	(7)	(90.402)	(83.980)
XI. NET OPERATING INCOME/(LOSS) (VIII-IX-X)		164.644	92.846
XII. INCOME RESULTED FROM MERGERS		-	-
XIII. INCOME/LOSS FROM INVESTMENTS UNDER EQUITY ACCOUNTING		-	-
XIV. GAIN / (LOSS) ON NET MONETARY POSITION		-	-
XV. OPERATING PROFIT/LOSS BEFORE TAXES (XI+XII+XIII+XIV)	(8)	164.644	92.846
XVI. PROVISION FOR TAXES (±)	(9)	(36.378)	(21.726)
16.1 Current tax charge		(36.120)	(22.433)
16.2 Deferred tax charge		(258)	707
XVII. NET OPERATING INCOME AFTER TAXES (XV±XVI)	(10)	128.266	71.120
XVIII. INCOME FROM DISCONTINUED OPERATIONS		-	-
18.1 Income from assets held for sale		-	-
18.2 Income from sale of associates, affiliates and joint-ventures		-	-
18.3 Others		-	-
XIX. EXPENSES FROM DISCONTINUED OPERATIONS (-)		-	-
19.1 Expenses on assets held for sale		-	-
19.2 Expenses on sale of associates, affiliates and joint-ventures		-	-
19.3 Others		-	-
XX. PROFIT/LOSS BEFORE TAXES ON DISCONTINUED OPERATIONS (XVIII-XIX)	(8)	-	-
XXI. PROVISION FOR TAXES OF DISCONTINUED OPERATIONS (±)	(9)	-	-
21.1 Current tax charge		-	-
21.2 Deferred tax charge		-	-
XXII. NET PROFIT/LOSSES FROM DISCONTINUED OPERATIONS (XX±XXI)	(10)	-	-
XXIII. NET PROFIT/(LOSS) (XVII+XXII)	(11)	128.266	71.120
Earnings per share / (Full, Turkish Kuruş)		0,00272	0,00445

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

Türkiye Kalkınma Bankası A.Ş.

Statement of Unconsolidated Profit and Loss Accounted for Under Equity

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

STATEMENT OF PROFIT AND LOSS ACCOUNTED FOR UNDER EQUITY	AUDITED	
	CURRENT PERIOD (01/01/2017- 31/12/2017)	PRIOR PERIOD (01/01/2016- 31/12/2016)
I. MARKET VALUE GAINS ON AVAILABLE FOR SALE ASSETS ACCOUNTED UNDER SECURITIES VALUE INCREASE FUND	15.809	(108)
II. REVALUATION SURPLUS ON TANGIBLE ASSETS	-	-
III. REVALUATION SURPLUS ON INTANGIBLE ASSETS	-	-
IV. TRANSLATION DIFFERENCES FOR TRANSACTIONS IN FOREIGN CURRENCIES	-	-
V. GAIN/LOSS ON DERIVATIVE FINANCIAL ASSETS HELD FOR CASH FLOW HEDGES (effective portion)	-	-
VI. GAIN/LOSS ON DERIVATIVE FINANCIAL ASSETS HELD FOR HEDGES OF NET INVESTMENT IN FOREIGN OPERATIONS (effective portion)	-	-
VII. EFFECTS OF CHANGES IN ACCOUNTING POLICIES AND CORRECTIONS	-	-
VIII. OTHER INCOME/EXPENSE ITEMS ACCOUNTED UNDER SHAREHOLDERS' EQUITY AS PER TAS	168	1.048
IX. DEFERRED TAXES ON VALUE INCREASES/DECREASES	(3.195)	(188)
X. NET INCOME/EXPENSE ITEMS ACCOUNTED DIRECTLY UNDER SHAREHOLDERS' EQUITY (I+II+III+IV+V+VI+VII+VIII+IX)	12.782	752
XI. CURRENT PERIOD PROFIT/LOSSES	128.266	71.120
11.1. Net changes in fair value of securities (transferred to income statement)	(3)	-
11.2. Gains/losses on derivative financial assets held for cash flow hedges, reclassified and recorded in income statement	-	-
11.3 Gains/losses on hedges of net investment in foreign operations, reclassified and recorded in income statement	-	-
11.4. Others	128.269	71.120
XII. TOTAL PROFIT/LOSS ACCOUNTED FOR THE CURRENT PERIOD (X+XI)	141.048	71.872

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

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

(*) Consist of actuarial gain/(loss) of the current period and other capital reserves

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

Türkiye Kalkınma Bankası A.Ş.

Unconsolidated Statement of Cash Flows

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

	AUDITED		
	CURRENT PERIOD		PRIOR PERIOD
	Note	(01/01/2017-31/12/2017)	(01/01/2016-31/12/2016)
A. CASH FLOWS FROM BANKING OPERATIONS			
1.1. Operating profit before changes in operating assets and liabilities (+)	(1)	178.567	101.884
1.1.1. Interest received (+)		357.108	205.247
1.1.2. Interest paid (-)		(88.859)	(48.056)
1.1.3. Dividend received (+)		296	474
1.1.4. Fees and commissions received (+)		13.328	20.001
1.1.5. Other income (+)		288	1.282
1.1.6. Collections from previously written off loans (+)		4.677	4.446
1.1.7. Collections from previously written-off loans and other receivables (-)		(63.616)	(58.671)
1.1.8. Taxes paid (-)		(37.950)	(21.378)
1.1.9. Others (+/-)	(1)	(6.705)	(1.461)
1.2. Assets and Liabilities Subject to Banking Operations	(1)	(166.349)	595.035
1.2.1. Net (increase) decrease in financial assets held for trading (+/-)		-	-
1.2.2. Net (increase) decrease in financial assets valued at fair value through profit or loss (+/-)		-	-
1.2.3. Net (increase) decrease in due from banks (+/-)		-	-
1.2.4. Net (increase) decrease in loans (+/-)		(672.526)	(762.837)
1.2.5. Net (increase) decrease in other assets (+/-)		1.111	1.943
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 loans borrowed (+/-)		593.285	1.004.804
1.2.9. Net increase (decrease) in matured payables (+/-)		-	-
1.2.10. Net increase (decrease) in other liabilities (+/-)	(1)	(88.219)	351.125
I. Net cash flow from banking operations (+/-)	(1)	12.218	696.919
B. CASH FLOWS FROM INVESTING ACTIVITIES			
II. Net cash provided from investing activities (+/-)		(27.728)	(30.405)
2.1. Cash paid for purchase of associates, affiliates and joint-ventures (-)		(1.457)	(1.618)
2.2. Cash obtained from sale of associates, affiliates and joint-ventures (+)		-	-
2.3. Purchases of tangible assets (-)		(78)	(1.860)
2.4. Sales of tangible assets (+)		4.621	352
2.5. Cash paid for purchase of financial assets available-for-sale (-)		(173.407)	(113.852)
2.6. Cash obtained from sale of financial assets available-for-sale (+)		122.908	87.824
2.7. Cash paid for purchase of investments held-to-maturity (-)		-	(5)
2.8. Cash obtained from sale of investments held-to-maturity (+)		20.415	37
2.9. Others (+/-)		(730)	(1.283)
C. CASH FLOWS FROM FINANCING ACTIVITIES			
III. Net cash provided from financing activities (+/-)	(1)	340.000	-
3.1. Cash obtained from loans borrowed and securities issued (+)		-	-
3.2. Cash used for repayment of loans borrowed and securities issued (-)		-	-
3.3. Equity instruments issued (+)	(1)	340.000	-
3.4. Dividends paid (-)		-	-
3.5. Payments for finance leases (-)		-	-
3.6. Others (+/-)		-	-
IV. Effect of change in foreign exchange rate on cash and cash equivalents (+/-)	(1)	57.465	49.144
V. Net increase / (decrease) in cash and cash equivalents (I+II+III+IV)	(3)	381.955	715.658
VI. Cash and cash equivalents at beginning of the period (+)	(2)	1.275.652	559.994
VII. Cash and cash equivalents at end of the period (V+VI)	(3)	1.657.607	1.275.652

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

Türkiye Kalkınma Bankası A.Ş.

Unconsolidated Statement of Profit Distribution

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

	AUDITED CURRENT PERIOD (31/12/2017)	AUDITED PRIOR PERIOD (31/12/2016) ^(**)
I.DISTRIBUTION OF CURRENT YEAR PROFIT		
1.1.CURRENT YEAR PROFIT	164.644	92.846
1.2.TAXES AND DUTIES PAYABLE	(36.378)	(21.726)
1.2.1.Corporate tax (Income tax)	(36.120)	(22.433)
1.2.2.Income withholding tax	-	-
1.2.3.Other taxes and duties	(258)	707
A. NET PROFIT FOR THE YEAR (1.1-1.2)	128.266	71.120
1.3.ACCUMULATED LOSSES (-)	-	-
1.4.FIRST LEGAL RESERVES (-)	-	-
1.5.OTHER STATUTORY RESERVES (-)	-	-
B. NET PROFIT AVAILABLE FOR DISTRIBUTION [(A)-(1.3+1.4+1.5)]	128.266	71.120
1.6.FIRST DIVIDEND TO SHAREHOLDERS (-)	-	-
1.6.1.To owners of ordinary shares	-	-
1.6.2.To owners of privileged shares	-	-
1.6.3.To owners of redeemed shares	-	-
1.6.4.To profit sharing bonds	-	-
1.6.5.To holders of profit and loss sharing certificates	-	-
1.7.DIVIDENDS TO PERSONNEL (-)	-	-
1.8.DIVIDENDS TO BOARD OF DIRECTORS (-)	-	-
1.9.SECOND DIVIDEND TO SHAREHOLDERS (-)	-	-
1.9.1.To owners of ordinary shares	-	-
1.9.2.To owners of privileged shares	-	-
1.9.3.To owners of redeemed shares	-	-
1.9.4.To profit sharing bonds	-	-
1.9.5.To holders of profit and loss sharing certificates	-	-
1.10.SECOND LEGAL RESERVES (-)	-	-
1.11.STATUTORY RESERVES (-)	-	-
1.12.EXTRAORDINARY RESERVES	-	70.413
1.13.OTHER RESERVES	-	707
1.14.SPECIAL FUNDS	-	-
II. DISTRIBUTION OF RESERVES		
2.1.APPROPRIATED RESERVES	-	-
2.2.SECOND LEGAL RESERVES (-)	-	-
2.3.DIVIDENDS TO SHAREHOLDERS (-)	-	-
2.3.1.To owners of ordinary shares	-	-
2.3.2.To owners of privileged shares	-	-
2.3.3.To owners of redeemed shares	-	-
2.3.4.To profit sharing bonds	-	-
2.3.5.To holders of profit and loss sharing certificates	-	-
2.4.DIVIDENDS TO PERSONNEL (-)	-	-
2.5.DIVIDENDS TO BOARD OF DIRECTORS (-)	-	-
III. EARNINGS PER SHARE ^(**)		
3.1.TO OWNERS OF ORDINARY SHARES	0,00272	0,00445
3.2.TO OWNERS OF ORDINARY SHARES (%)	0,27%	0,44%
3.3.TO OWNERS OF PRIVILEGED SHARES	-	-
3.4.TO OWNERS OF PRIVILEGED SHARES (%)	-	-
IV. DIVIDEND PER SHARE		
4.1.TO OWNERS OF ORDINARY SHARES	-	-
4.2.TO OWNERS OF ORDINARY SHARES (%)	-	-
4.3.TO OWNERS OF PRIVILEGED SHARES	-	-
4.4.TO OWNERS OF PRIVILEGED SHARES (%)	-	-

^(*) Since the Board of Directors has not prepared any proposal for profit distribution relating to the year 2017 yet, only profit available for distribution for the year 2017 is presented

^(**) A nominal value of 1 Kuruş figures a share in unconsolidated income statement and unconsolidated statement of profit distribution and an earnings per share is calculated for a nominal value of 1 Kuruş

^(***) The chart above is edited according to actual figures

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

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

SECTION THREE ACCOUNTING POLICIES

I- Explanations on Basis of Presentation:

a. The preparation of financial statements and related notes according to Turkish Accounting Standards and Regulation on the Procedures And Principles Regarding Banks Accounting Practices and Maintaining Documents:

As prescribed in the Article 37 of the Banking Act No. 5411, the Bank prepares its financial statements and underlying documents in accordance with the "Regulation on the Procedures and Principles for Accounting Practices and Retention of Documents by Banks" and other regulations, explanations and circulars on accounting and financial reporting principles announced by the Banking Regulation and Supervision Agency ("BRSA") and Turkish Accounting Standards ("TAS") published by Public Oversight Accounting and Auditing Standards Authority ("POA") except for matters regulated by BRSA legislation. TAS consists of Turkish Accounting Standards, Turkish Financial Reporting Standards and related appendices and interpretations.

The format and content of the 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".

Unless otherwise specified, all balances in the financial statements and footnotes are expressed in Thousand Turkish Lira ("TRY").

Additional paragraph for convenience translation to English

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

b. Basis of valuation used in the preparation of financial statements:

Accounting policies for the preparation of financial statements and valuation principles used are applied in line with Turkish Accounting Standards, Turkish Financial Reporting Standards and the related legislations, communiqués and decrees published by the Banking Regulation and Supervision Agency.

Those accounting policies and valuation principles are explained below notes through II to XXII.

Except for the financial assets and liabilities carried at fair value, the unconsolidated financial statements have been prepared in thousands of Turkish Lira ("TL") under the historical cost.

c. Accounting policies used for the correct interpretation of financial statements:

The financial statements as of 31 December 2017 are presented comparatively with the audited financial statements as of 31 December 2016. In order to give information about financial position and performance trends, unconsolidated financial statements of the Bank have been prepared comparatively with the prior period balances. To comply with the current year presentation, certain reclassifications are made in the unconsolidated financial statements and important differences are explained when necessary.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

II- Explanations on Utilization Strategy of Financial Instruments and Foreign Currency Transactions:

The majority of the liabilities of the balance sheet of the Bank consist of funds obtained from domestic and international markets. The majority of funds obtained domestically consist of funds provided by international institutions such as World Bank and Council of European Development Bank via Turkish Treasury and budget originated funds and the rest consists of funds provided through short-term money market transactions within the framework of balance sheet management. The Bank acts as an intermediary for those funds provided by the Turkish Treasury to be utilized in various sectors. The funds obtained internationally consist of medium and long term loans borrowed from World Bank, and European Investment Bank and Council of European Development Bank, Islamic Development Bank, French Development Agency and Japan International Corporation Bank.

During the utilization of the funds obtained, the Bank pays attention for utilization of loans in line with borrowing conditions while taking assets-liability mismatch into account, and tries to avoid maturity, exchange rate and liquidity risks. Exchange rate risk, interest rate risk and liquidity risk are measured and monitored on a regular basis, necessary measures are taken as a result of changes in the market data and balance sheet management is performed within the predetermined risk limits and legal limits.

A non-speculative exchange rate position risk management is applied to limit the Bank's exchange rate risk. For that reason, during the determination of the allocation of balance sheet and off-balance sheet assets according to currencies, foreign currency management policy is applied in the most effective way.

Commercial placements are directed to high-profit and low-risk assets by taking Bank-specific and domestic economic expectations, market conditions, expectations and inclinations of loan customers, risks like interest, liquidity, exchange rate etc. into account, and safety policy is kept in the foreground for placement activities. Basic macro goals concerning balance sheet sizes are determined during budgeting and the transactions are carried out according to work programs prepared in this context.

The exchange rates, interest and price movements are closely monitored; transaction and control limits that are developed from the Bank's previous experiences are based on when taking positions as well as legal limits. In this way, limit excesses are prevented.

During foreign currency transactions, procedures detailed below are applied.

- a. Foreign currency monetary assets and liabilities are translated to Turkish Lira (TRY) with the buying exchange rates announced by the Bank at the end of period and foreign exchange differences are accounted as foreign exchange gain or loss.
- b. There is no exchange rate differences capitalized as of the balance sheet date.
- c. Basic principles of exchange rate risk management policy: Decisions to avoid exchange rate and parity risks are taken by the Asset- Liability Committee that meets regularly. The decisions are in line with the models prepared in the context of the basic boundaries of Foreign Currency Net General Position/Shareholders' Equity Ratio which is included in legal requirements, and those decisions are carried out carefully. To avoid parity risk, foreign exchange position is managed by taking singular and general positions.
- d. Foreign currency transactions are calculated using the exchange rates prevailing at the dates of transactions and the profit/ losses are included in the income statement of the related period.

III- Explanations on Derivative Instruments:

The Bank has no derivative instruments that can be separated from the host contract. Derivative financial instruments are recorded with the fair value at the date of agreement and valued at fair value in the following reporting periods. In addition, the receivables and payables arising from these transactions are accounted for at off-balance sheet accounts. Depending on valuation difference being positive or negative, measurement differences are presented on the related balance sheet accounts.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

IV- Explanations on Interest Income and Expenses:

Interests are recorded according to the effective interest rate method (rate equal to the rate in calculation of present value of future cash flows of financial assets or liabilities) defined in the Turkish Accounting Standard 39 (TAS 39) "Financial Instruments: Recognition and Measurement".

If a financial asset possesses on uncollected interest accrual before its acquisition by the Bank, interest collected afterwards is separated into periods such as before its acquisition and after acquisition, and only the part of after acquisition is recognized as interest income on the income statement.

Realized and unrealized interest accruals of non-performing loans and other receivables are cancelled in line with the "Regulation on Procedures and Principles for Determination of Qualification of Loans and Other Receivables, and Allocation of Provisions" published in the Official Gazette dated 1 November 2006 and numbered 26333 and those amounts are not included in the income statement unless collected.

V- Explanations on Fees and Commission Income and Expenses:

Fees and commissions received from cash loans, that are not attributable to interest rates applied, and fees for banking services are recorded as income on the date of collection. Fees and commissions paid for the funds borrowed, which are not attributable to interest rates of the funds borrowed, are recorded as expense on the date of the payment. All other commission and fee income and expenses, are recorded on an accrual basis. Earnings in return of agreements or as a result of services provided for real or legal third parties for purchase or sale of assets are recorded as income when collected.

VI- Explanations on Financial Assets:

Financial assets mainly constitute the Bank's commercial activities and operations. These instruments have the ability to expose, affect and diminish the liquidity, credit and interest rate risks in the financial statements.

The financial assets of the Bank are classified and accounted as "Financial Assets at Fair Value Through Profit and Loss", "Available-for-Sale Financial Assets", "Loans and Receivables" or "Investments Held to Maturity". The sale and purchase of financial assets are accounted for using settlement date accounting. The classification of financial assets is determined by the management of the Bank considering the purpose of purchase on acquisition date.

Financial Assets at Fair Value through Profit and Loss:

Financial assets held for trading are financial assets, which are either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are financial assets included in a portfolio with a pattern of short-term profit taking.

Trading securities are initially recognized at cost and carried at fair value in the financial statements. Marketable securities that are traded in Borsa Istanbul (BIST) are carried at weighted average exchange prices of BIST as of the balance sheet date.

Gains or losses arising as a result of valuation of held for trading financial assets are accounted under profit/loss accounts. Positive difference between the cost and amortized value is recorded under "Interest Income". Positive difference between fair value and amortized value is recorded under "Capital Market Operations Profit", negative difference is recorded under "Capital Market Operations Loss".

Financial assets at fair value through profit and loss are financial assets which are not acquired for trading, however, are classified as financial assets at fair value through profit and loss during the initial recognition. The Bank has no financial assets classified as Financial Assets at Fair Value through Profit and Loss.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

Available-for-Sale Financial Assets:

Financial assets available-for-sale represents non-derivative financial assets except for loans and receivables, investments held to maturity and financial assets at fair value through profit and loss.

Financial assets available-for-sale are initially recognized at cost including the transaction costs and carried at fair value in the financial statements. Marketable securities that are traded on BIST are carried at weighted average exchange prices of ISE as of the balance sheet date. In the case a price does not occur in an active market, it is accepted that fair value cannot be reliably determined and amortized value which is calculated using the internal rate of return is accepted as the fair value. The difference between the cost and fair value is accounted for as interest income accrual or impairment loss. Interest income for available-for-sale financial assets with fixed or floating interest rate shows the difference between cost and amortized amount calculated using internal rate of return and accounted for as interest income from marketable securities. Unrealized gains and losses arising from changes in fair value of the financial assets available-for-sale and which are denoting the difference between fair value and amortized cost of financial assets, are recognized in the "Marketable Securities Revaluation Differences". Amounts accounted for under equity are reflected to income statement when financial assets available-for-sale are sold.

Loans and Receivables:

Loans and receivables represent unquoted financial assets in an active market that provide money, goods or services to the debtor with fixed or determinable payments.

Loans and receivables are initially recognized with cost and carried at amortized cost calculated using the internal rate of return at the subsequent periods. Transaction fees, dues and other expenses paid for loan guarantees are reflected to the customers.

Loans granted by the Bank consist of investment and working capital loans, and fund originated loans.

Foreign currency denominated loans are followed at TRY accounts after converting into TRY by using the opening exchange rates. Repayments are calculated using the exchange rates at the repayment dates and exchange differences are recognized under the foreign currency income and expense accounts in the income statement.

Bank management monitors the credit portfolio regularly and if they are doubts about collectibility, non-performing loans are classified in accordance with the "Regulation on Procedures and Principles for Determination of Qualification of Loans and Other Receivables, and Allocation of Provisions" published in the Official Gazette dated 1 November 2006 and numbered 26333, and ultimately amended by the legislation published in Official Gazette dated 7 February 2014 and numbered 28906. For the cash loans classified as non-performing, specific provision is set for the remaining loan balance after deducting collateral amount, which is calculated by taking collaterals admission rates into account, and by using the rates specified in the communiqué. specific provisions are reflected to "820 Provisions and Impairment Expenses – 82000 Specific Provisions Expenses" account. Provisions released in same year are recognized as a credit under the "Provision Expenses", released portion of the previous period provisions are recognized under "Other Operating Income" account. Collections are accounted for under "Non-performing Loans (including collections from Doubtful Receivables)" and "Interest on Uncollectible Loans and Other Receivables" accounts. Besides the specific provisions, the Bank provided general loan loss provision for loans and other receivables in accordance with the relevant regulations.

Cash and Cash Equivalents:

Cash and cash equivalents are cash on hand, demand deposits and other highly liquid short-term investments with maturity of 3 months or less following the date of purchase, which is readily convertible to a known amount of cash, and does not bear the risk of significant amount of value change. The carrying amounts of these assets represent their fair values.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

Investments Held To Maturity:

Investments held to maturity are non-derivative financial assets, other than those which are classified at fair value through profit and loss or available for sale or loans and receivables at initial recognition, for which there is an intention of holding until maturity and the relevant conditions for fulfillment of such intention, including the funding ability, and for which there are fixed or determinable payments with fixed maturity.

Investments held to maturity are subsequently measured at amortized cost using internal rate of return, and they are accounted for by setting forth provision for impairment loss or by posting interest income accrual. Interests received from investments held to maturity are recognized as interest income.

The Bank does not have any financial assets that are previously classified as investments held-to-maturity but prohibited to be classified in this portfolio for two years because of incompliance with the principles of financial assets classification.

Explanations on Investments in Associates and Subsidiaries;

Investments in associates and subsidiaries are recognized at cost and shown in the financial statements with their cost values after the deduction of, if any, impairment losses within the scope of "TAS 27-Separate Financial Statements".

The Bank has changed its accounting policy and started to recognize foreign currency denominated subsidiaries at fair value beginning from 30 June 2017. Foreign currency denominated subsidiaries are translated at historic rates at the date fair value is determined. For these subsidiaries, fair value is determined by valuation reports, TL equivalents of investments related to subsidiaries are fixed as of revaluation date and revaluation differences added to subsidiaries' values are recognized in "Marketable Securities Value Increase Fund" under shareholders' equity.

VII- Explanations on Impairment of Financial Assets:

At each balance sheet date, the Bank reviews the carrying amounts of its financial assets or group of financial assets whether there is an objective indication that those assets have suffered an impairment loss. If such indication exists, the Bank measures the related impairment amount.

If expected recoverable amount of financial assets which is the discounted amount of expected future cash flows using internal rate of return, or fair value of the financial assets are lower than their carrying amount, these financial assets are considered as impaired. Provision is set for impairment loss and the provision is reflected to income statement.

The changes in the value of financial assets held for sale are reflected to income statement in the related period.

If there is a permanent impairment on available for sale financial assets, impairment is debited to "Impairment Loss on Securities" account in line with the related Turkish Accounting Standard.

Impairment losses attributable to the investments held to maturity are measured as the difference between the present value of estimated future cash flows which is the discounted amount using the original interest rate of financial asset and the carrying amount of the asset. The related difference is recognized as a loss and it decreases the carrying value of the financial asset. In subsequent periods, if the impairment loss amount decreases, impairment loss recognized is reversed.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

Loans are classified and followed in line with the provisions of the "Regulation on Identification of Loans and Other Receivables and Provisioning against Them", published on the Official Gazette No: 26333 dated 1 November 2006. Specific provision is allocated for the total amount of loans and other receivables, which is deemed non-performing, without being restricted by the minimum legal requirements stated in the related regulation, and such specific provisions are recognized in the income statement. The provisions, which are released within the same year, are credited to the "Provision Expenses" account and the released parts of the provisions from the previous years are transferred to and recognized in the "Other Operating Income" account. Besides the specific provisions, the Bank provided general loan loss provision for loans and other receivables in accordance with the relevant regulations.

VIII- Explanations on Offsetting of Financial Assets and Liabilities:

Financial assets and liabilities are offset on balance sheet when the Bank has a legally enforceable right to set off, and the intention of collecting or paying the net amount of related assets and liabilities or the right to offset the assets and liabilities simultaneously.

IX- Explanations On Sales And Repurchase Agreements And Lending Of Securities:

Securities sold in repurchase agreements (repo) are accounted for in the balance sheet accounts in line with Uniform Chart of Accounts. Accordingly, the government bonds and treasury bills sold to the clients in the context of repurchase agreements are classified as "Subject to Repurchase Agreements" and are valued at fair values in or discounted values using internal rate of return according to the holding purposes in the Bank portfolio. Funds gained by repurchase agreements are shown separately in the liability accounts and interest expense accrual is calculated for these funds.

Securities that were purchased to resell commitment (reverse repurchase agreements) are shown as a line item under 'Money Market Placements' line. For the difference between the purchase of securities and resale prices of the reverse repo agreements for the period; income accrual is calculated using the internal rate of return method. There are no marketable securities lending transactions.

X- Explanations on Assets Held For Sale and Discontinued Operations:

Assets that are classified as held for sale (or the disposal group) are measured at the lower of its carrying amount and fair value less costs to sell. Depreciation on these assets is stopped, and these assets disclosed separately in the balance sheet. In order to classify a tangible fixed asset as held for sale, the asset (or the disposal group) should be available for an immediate sale in its present condition subject to the terms of any regular sales of such assets (or such disposal groups) and the sale should be highly probable. For a highly probable sale, the appropriate level of management must be committed to a plan to sell the asset (or the disposal group), and an active program to complete the plan should be initiated to locate a customer.

Also, the asset should have an active market sale value, which is a reasonable value in relation to its current fair value. Events or circumstances may extend the completion of the sale more than one year. Such assets (or the disposal group) are still classified as held for sale if there is sufficient evidence that the delay in the sale process is due to the events and circumstances occurred beyond the control of the entity or the entity remains committed to its plan to sell the assets. The Bank has no assets classified as held for sale.

A discontinued operation is a component that either has been disposed of, or is classified as held for sale. Gains or losses relating to discontinued operations are presented separately in the income statement. The Bank has no discontinued operations.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

XI- Explanations on Goodwill and Other Intangible Assets:

As at the balance sheet date, there is no goodwill recorded in the unconsolidated balance sheet of the Bank.

Intangible fixed assets first are carried at cost which includes acquisition costs and other direct costs bearded necessary for the assets to become ready for use. Subsequent to recognition, intangible assets are presented in financial statements at cost less any accumulated amortization and accumulated impairment losses, if any.

Amortization is charged on a straight-line basis over their estimated useful lives which is 33,33%. Useful life of other intangible assets are determined by the consideration of items like expected usage period of the asset, technical, technological or other kind of obsolesce and maintenance costs incurred to obtain economic benefit from the assets.

Expenses related to existing computer software and computer software improvement that enhance original content and useful life, are capitalized over the software. Those capitalized expenses are amortized over the remaining useful life of the related assets using the "straight line method".

XII- Explanations on Tangible Fixed Assets:

Tangible fixed assets are carried at cost which includes acquisition costs and other direct costs bearded necessary for the assets to become ready for use, and if results of appraisal reports exceed the costs, they are not subject to any revaluation. Subsequent to recognition, tangible fixed assets are presented in financial statements at cost less any accumulated depreciation and accumulated impairment losses, if any.

The Bank's tangible fixed assets purchased before 1 January 2005 are carried at restated cost in the balance sheet before 31 December 2004 and its tangible fixed assets that are purchased subsequently are valued at historical cost.

Gain or loss arising from the disposal or retirement of an item of tangible fixed assets is determined as the difference between the sales proceeds and the carrying amount of that asset and is recognized in profit or loss.

Ordinary maintenance and repair expenses of tangible fixed assets items are recognized as expenses. Investment expenditures that increase the future benefit by enhancing the capacity of tangible assets are capitalized. Investment expenditures include cost items that extend the useful life of the asset, increase the servicing capabilities of the asset, improve the quality of goods or services produced or reduces the costs. There is no pledge, mortgage and other restriction on the tangible fixed assets or given for the purchase commitments or any restrictions on the rights for the use of these.

According to "Prime Ministry Circular numbered 2012/15 on Transactions of Public Institutions and Organizations Regarding Their Immovable" published in the Official Gazette dated 16 June 2012 and numbered 28325, public institutions and organizations (excluding Municipalities and Specific Provincial Directorates) and companies, more than 50% of whose capital is owned by state institutions and organizations, has to get the approval of the Prime Ministry for transactions like sale, lease, easement, exchange, assign, transfer of immovable in their own property or savings to public institutions and organizations, foundations, associations or their companies, real or legal persons. Therefore, all transactions of the Bank regarding its immovable and specified under the mentioned circular are subject to approval of the Prime Ministry. Other than the issue mentioned, there are no mortgages, pledges or similar precautionary measures on tangible fixed assets or commitments given for the purchase or any restrictions designated for the use of those tangible fixed assets.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

Tangible fixed assets are amortized by using the straight-line method over their estimated useful lives. Estimated depreciation rates of tangible fixed assets are as follows;

	Estimated Useful Life (Years)	Amortization Rate (%)
Building	50	2
Safes (vaults)	50	2
Vehicles	5	20
Other Tangible Assets	3-15	6,66-33,33

There is no change in accounting estimations that has material effect in the current period or that is expected to have effect in the subsequent periods.

Investment Properties

Investment property, which is property, held to earn rentals and/or for capital appreciation is carried at cost less accumulated depreciation and any accumulated impairment losses. Costs of investment properties are recognised when they occurred. These costs comprise of costs of acquiring investment properties, incremental costs, modification and service costs of investment properties. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Straight line method is used in depreciation of investment properties. The useful life of investment property is 50 years.

XIII- Explanations on Leasing Transactions:

The Bank, as the lessee, recognizes its leasing operations in accordance with the requirements of the Turkish Accounting Standards (TAS 17) "Leases". Lease receivables other than financial lease receivables and from the rental of assets that are not used in banking operations, not collected as of the balance sheet date are included under lease receivables account.

As of balance sheet data, the Bank has 2 real estates under operational leasing agreement and these real estates are presented as investment property on balance sheet.

XIV- Explanations on Provisions and Contingent Liabilities:

In the financial statements, a provision is made for an existing commitment resulted from past events if it is probable that the commitment will be settled and a reliable estimate can be made of the amount of the obligation.

Provisions other than the specific and general provisions set for loans and other receivables and contingent liabilities are accounted for in accordance with "Turkish Accounting Standard on Provisions, Contingent Liabilities and Contingent Assets" (TAS 37).

For transactions that can affect financial structure, provisions are provided by using the existing data if they are accurate, otherwise by using the estimates.

XV- Explanations on Employee Benefit Liabilities:

Obligations for employee benefits are recognized in accordance with the TAS19 "Employee Benefits".

There is no fund to which the Bank personnel are members. However, personnel are members of Personnel Assistance and Additional Social Security Foundation of Türkiye Kalkınma Bankası A.Ş. and the Bank has no obligations regarding this foundation, accordingly no provision is reserved in the accompanying financial statements.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

Under the Turkish legislation as supplemented by union agreements, lump sum payments are made to all employees who retire or whose employment is terminated without due cause. According to the related legislation, depending on the status and position of the employee in the Bank and social security institution, retirement pay provision is calculated in two ways; if the employee is a state employee, the calculation is based on retirement pension for the working period of the state employee, and if the employee is a blue-collar worker, the calculation is based on the final salary at the date of retirement or leave (to the extent that the payments and/or salary amount does not exceed the Retirement Payment Provision ceiling).

The principal 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 at 31 December 2017, the provision has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of the employees. The provisions at the respective balance sheet dates have been calculated assuming an annual inflation rate of 3,20% and a discount rate of 11,03%, resulting in a real discount rate of approximately 7,59% (31 December 2016: 4,81%). As the maximum liability is revised semiannually, the maximum amount of TRY 5.001,76 effective from 1 January 2018 has been taken into consideration in calculation of provision from employment termination benefits (1 January 2016 TRY 4.426,16).

XVI- Explanations on Taxation:

Current Tax

The corporate tax rate of 20% implementation on the Corporate Tax Law No. 5520 was taken into effect on 1 January 2006 after being published in the Official Gazette dated 21 June 2006 numbered 26205 , will be applied as 22% for corporation earnings for three years from 1 January 2018 with the regulation dated 28 November 2017 numbered 7061. Furthermore, Cabinet is made authorized to decrease this ratio to 20% from 22%. The bank applies new regulations to its current and deferred tax responsibilities. The corporate tax rate is calculated on the total income of the Bank after adjusting for certain disallowable expenses, exempt income (like affiliate gains) and other allowances. If there is no dividend distribution, no further tax charges are made.

Dividends paid to non-resident corporations, which have a place of business or permanent attorney in Turkey or to resident corporations are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 15%. An increase in capital via issuing bonus shares is not considered as profit distribution and no withholding tax incurs in such a case. Corporations are required to pay advance corporate tax quarterly at a rate of 22% on their corporate income. Advance tax is declared by the 14th and paid by the 17th day of the second month following each calendar quarter end. Advance tax paid by corporations for the current period is credited against the annual corporation tax calculated on the annual corporate income in the following year.

Despite the offset, if there is temporary prepaid tax remaining, this balance can be refunded or used to offset any other financial liabilities to the government. According to 5.1.e. article of Corporation Tax Law which is important tax exemption that is applied by banks, corporations' 50% of revenues that occur from selling of their real estates, are in assets, that belong to the corporations at least two years (730 days), 75% of revenues that occur from selling their founding bonds that are belong to the corporations as long as time of participation stocks, redeemed shares and option to call are exempted from Corporation Tax. (It was changed with 89th article of code 7061 that entries into force in 5 December 2017. According to dated 23 December 2017 3rd article of Corporation Tax Code (CTC) 14 annunciation this exemption will apply as ratio of 75% for selling that made till the 5 December 2017, after this date it will apply as ratio of 50%). This exemption applies to the period the sale is made and the part of return on sales that benefits from the exemption is held in a special fund in the liabilities account until the end of the fifth year started from the following year sale is made. However, the sales payment must be collected until the end of the second calendar year following the year in which the sale is made. Taxes which are not realized in time due to the exemption that hits uncollected sales payment are considered tax loss. Taxes which does not accrue on time because the applying exemption for the transfer of the expemted part of revenue to the other accounts with other ways out of capitalizing in five years or withdrawn from company or transferring from limited taxpayer corporations to the headquarters, are considered as tax loss. This is also be applicable in the condition of liquidation of business (Except transfers and divisions that make according to this code).

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

Moreover, according to 5.1.f. article of Corporation Tax Law; corporations which have been fallen to legal proceedings because of owe to the bank or Savings Deposit Insurance Funds, and their warranters' real estates, participation stocks, founding bonds, redeemed shares, options to call of mortgagors' revenues that used for against debts or transferring to SDIF, 75% of real estates, and 50% others are exempted from Corporation tax. . (It was changed with 89th article of code 7061 that entries into force in 5 December 2017. According to dated 23 December 2017 3rd article of Corporation Tax Code (CTC) 14 annunciation this exemption will apply as ratio of 75% for selling that made till the 5 December 2017, after this date it will apply as ratio of 50%). Under the Turkish Corporate Tax Law, losses can be carried forward to offset against future taxable income for up to five years. Losses cannot be carried back to offset profits from previous periods. In Turkey, there is no procedure for a final and definitive agreement on tax assessments with tax authorities. Tax returns are required to be filled and delivered to the related tax office until the evening of the 25th of the fourth month following the balance sheet date and the accrued tax is paid until the end of the same month Tax returns are open for 5 years from the beginning of the year following the balance sheet date and during this period the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessment based on their findings.

Deferred Tax

In accordance with TAS 12 "Turkish Accounting Standards Relating to Income Tax", the Bank calculates and recognizes deferred tax for temporary differences between the bases calculated based on the accounting policies used and valuation principles and that calculated under the tax legislation.

Deferred tax is recognized on temporary 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, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences. However, 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. Such assets and liabilities are not recognized as deferred tax liability or asset if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. The carrying amount of a deferred tax asset is reviewed at each balance sheet date. Carrying amount of a deferred tax asset can be reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied in the period in which the liability is settled or the asset realized and reflected in the statement of income as expense or income.

Moreover, if the deferred tax is related with items directly recorded under the equity in the same or different period, deferred tax is associated directly with equity. Deferred tax asset and deferred tax liability are presented as net in these financial statements. The deferred tax benefit is not taken into account in profit distribution in accordance with the relevant circular of BRSA.

The income tax charge is composed of the sum of current tax and deferred tax. The current tax liability is calculated over 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 and it further excludes items that are never taxable or deductible.

According to the second paragraph of the Article 53 of the Banking Act No: 5411 dated 19 October 2005, all specific reserves for loans and other receivables are considered as deductible expense for determining corporate tax base.

The current tax payable is offset with prepaid tax, if they are associated with. Deferred tax assets and liabilities are also offset.

Deferred tax asset is not allocated over the amount of general provisions for possible losses in accordance with the circular of BRSA dated 8 December 2004 no. BRSA.DZM.2/13/1-a-3.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

Transfer Pricing

Transfer pricing is regulated through Article 13 of Corporate Tax Law titled “Transfer Pricing through camouflage of earnings”. Detailed information for the practice regarding the subject is found in the “General Communiqué Regarding Camouflage of Earnings Through Transfer Pricing”. According to the aforementioned regulations, in the case of making purchase or sales of goods or services with relevant persons/corporations at a price that is determined against “arm’s length principle”, the gain is considered to be distributed implicitly through transfer pricing and such distribution of gains is not subject to deductions in means of corporate tax.

XVII- Additional Explanations on Borrowings:

The Bank accounts its debt instruments in accordance with the Turkish Accounting Standard (TAS 39) “Financial Instruments: Recognition and Measurement”. In the subsequent periods, all financial liabilities are carried at amortized cost by using the internal rate of return method. The Bank has no borrowings that require hedging techniques for accounting and valuation of debt instruments and liabilities representing the borrowings.

The Bank continues its financial support that it provided and still providing by acquiring sources from domestic and international markets. The Bank acts as an intermediary for funds provided by Turkish Treasury to be utilized domestically. Disbursement from this source has been finalized and there has been no new source transfer from the Undersecretaries of Treasury. Funds are recorded to the Banks’s liabilities on the date of transfer. The maturity dates and interest rates of these funds are determined by the public authority as per the communiqués on Investment Incentives.

The present foreign funds of the Bank are medium and long term loans from World Bank, European Investment Bank, Council of European Development Bank, Islamic Development Bank, French Development Agency and Japan International Corporation Bank and German Development Bank are recorded to related accounts on the date and with the cost the funds are available to the Bank.

The Bank generally prefers providing loans in parallel to the borrowing terms like maturity date, interest rate, interest type and currency type to avoid maturity, exchange rate and liquidity risks.

The Bank has not issued any convertible bonds and debt instruments.

XVIII- Explanations on Shares Issued:

Transaction costs related to share issuance are recognized as expenses.

In the meeting of the General Assembly it has been resolved that, paid-in capital of the Bank will be increased from TL 160.000 to TL 500.000 by adding TL 340.000. TL 340.000 transferred from the capital increase account of Ziraat Yenışehir Branch to the Bank on 26 December 2016, issuance of shares were registered on the trade registry on 17 February 2017 and published in the Official Gazette dated 22 February 2017 and 1 March 2017.

XIX- Explanations on Bill Guarantees and Acceptances:

Commitments regarding bill guarantees and acceptances of the Bank are presented in the “Off Balance Sheet” commitments.

XX- Explanations on Government Incentives:

There are no government incentives utilized by the Bank in the current and prior period.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

XXI- Explanations on Segment Reporting:

Besides investment banking, the sale and purchase of investment funds of the Bank, sale and purchase of government bonds and treasury bills and repurchase agreements and money swaps and forward exchange transactions are conducted by Treasury Department.

As of 31 December 2017, explanations on segment reporting in line with "Financial Statements to be Publicly Announced and the Accompanying Policies and Disclosures" are shown below:

Current Period	Treasury Investment Banking		Undistributed ⁽¹⁾	Total Operations of the Bank
OPERATING INCOME/EXPENSES - (31.12.2017)				
Interest income	115.306	259.665	38	375.009
Interest income on loans	-	259.665	-	259.665
Interest income on banks	67.540	-	-	67.540
Interest income on interbank money market placements	31.345	-	-	31.345
Interest income on marketable securities	16.421	-	-	16.421
Other interest income	-	-	38	38
Interest expense	(1.819)	(93.768)	-	(95.587)
Interest expense on borrowings	-	(93.768)	-	(93.768)
Interest on money market transactions	(1.819)	-	-	(1.819)
Other interest expense	-	-	-	-
Net fees and commissions income	(610)	13.035	294	12.718
Fees and commissions received	-	13.035	294	13.328
Fees and commissions paid	(610)	-	-	(610)
Dividend income	-	296	-	296
Trading profit/loss (net)	1	(3.643)	-	(3.642)
Profit/loss from capital market operations (net)	(3)	-	-	(3)
Profit/loss from derivative transactions (net)	-	-	-	-
Foreign exchange gains/losses (net)	4	(3.643)	-	(3.639)
Other operating income	-	5.526	824	6.350
Provisions for losses on loans and other receivables	-	(40.098)	-	(40.098)
Other operating expense	-	-	(90.402)	(90.402)
Profit before tax	112.878	145.326	(93.559)	164.644
Tax provision	-	-	-	(36.378)
Net profit for the period	-	-	-	128.266
Financial assets at fair value through profit and loss	-	-	-	-
Banks and money market placements	1.661.214	-	-	1.661.214
Available for sale financial assets	249.304	6.357	1.680	257.341
Loans and receivables	-	6.928.921	-	6.928.921
Investments held to maturity	-	-	-	-
Associates and subsidiaries	-	46.804	-	46.804
Tangible assets (net)	-	25.418	38.034	63.452
Intangible assets (net)	-	-	1.048	1.048
Investment properties	-	-	937	937
Other assets	-	2.274	21.172	23.446
PERIOD ASSETS ⁽²⁾	1.910.518	7.009.774	62.871	8.983.163
Derivative financial liabilities held for trading	-	-	-	-
Borrowings and funds	-	7.584.279	-	7.584.279
Money market balances	130	-	-	130
Provisions	-	72.625	36.128	108.753
Shareholders' equity	-	-	1.256.265	1.256.265
Other liabilities	-	-	33.736	33.736
PERIOD LIABILITIES ⁽²⁾	130	7.656.904	1.326.129	8.983.163

⁽¹⁾ Income and balance sheet items that cannot be decomposed between treasury and investment banking operations are presented at this column.

⁽²⁾ There is no receivable and payable due to fund transfer between segments.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

Prior Period – (31.12.2016)	Treasury	Investment Banking	Undistributed ⁽¹⁾	Total Operations of the Bank
OPERATING INCOME/EXPENSE				
Interest income	47.971	171.062	858	219.891
Interest income on loans	-	171.062	-	171.062
Interest income on banks	29.490	-	-	29.490
Interest income on interbank money market placements	6.509	-	-	6.509
Interest income on marketable securities	11.972	-	-	11.972
Other interest income	-	-	858	858
Interest expense	(42)	(53.994)	-	(54.036)
Interest expense on borrowings	-	(53.988)	-	(53.988)
Interest on money market transactions	(42)	-	-	(42)
Other interest expense	-	(6)	-	(6)
Net fees and commissions income	(405)	18.968	1.033	19.596
Fees and commissions received	-	18.968	1.033	20.001
Fees and commissions paid	(405)	-	-	(405)
Dividend income	-	474	-	474
Trading profit/loss (net)	25	1.083	-	1.108
Profit/loss from capital market operations (net)	9	-	-	9
Profit/loss from derivative transactions (net)	-	-	-	-
Foreign exchange gains/losses (net)	16	1.083	-	1.099
Other operating income	-	9.304	881	10.185
Provisions for losses on loans and other receivables	-	(20.392)	-	(20.392)
Other operating expense	-	-	(83.980)	(83.980)
Profit before tax	47.549	126.505	(81.208)	92.846
Tax provision	-	-	(21.726)	(21.726)
Net profit for the period	47.549	126.505	(102.934)	71.120
Financial assets at fair value through profit and loss	-	-	-	-
Banks and money market placements	1.275.931	-	-	1.275.931
Available for sale financial assets	185.353	6.357	1.679	193.389
Loans and receivables	-	5.425.685	-	5.425.685
Investments held to maturity	20.415	-	-	20.415
Associates and subsidiaries	-	28.407	-	28.407
Tangible assets (net)	-	28.161	42.225	70.386
Intangible assets (net)	-	-	1.531	1.531
Investment properties	-	-	980	980
Other assets	-	1.556	24.237	25.793
PERIOD ASSETS ⁽²⁾ - (31.12.2016)	1.481.699	5.490.166	70.652	7.042.517
Derivative financial liabilities held for trading	-	-	-	-
Borrowings and funds	-	5.800.507	-	5.800.507
Money market balances	351	-	-	351
Provisions	-	57.170	34.791	91.961
Shareholders' equity	-	-	775.127	775.127
Other liabilities	-	-	374.571	374.571
PERIOD LIABILITIES ⁽²⁾ - (31.12.2016)	351	5.857.677	1.184.489	7.042.517

⁽¹⁾ Income and balance sheet items that cannot be decomposed between treasury and investment banking operations are presented at this column.

⁽²⁾ There is no receivable and payable due to fund transfer between segments.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

XXII- Explanations on Other Matters:

Developments related to IFRS 9 transition process

The last version of TFRS 9 “Financial Instruments” Standard published in January 2017 by POA, has changed the existing guidance on TAS 39 “Financial Instruments: Recognition and Measurement” and moved the implementations about accounting, classification, measurement and off balance sheet of financial instruments to TFRS 9. The latest version of TFRS 9 includes guidance issued in previous versions of TFRS 9, including the new application of the expected credit loss model for the calculation of impairment in financial assets, as well as updated applications for new general hedge accounting requirements. TFRS 9 is put into force on 1 January 2018. In this context, banks have become obliged to apply TFRS 9 as of 1 January 2018 with the “Regulation on Procedures and Principles for Classification of Loans and Provisions to be Issued” of the BRSA published in the Official Gazette dated 22 June 2016 and numbered 29750.

The Bank has deferred adoption of TFRS 9 for one year with the approval of BRSA dated 5 January 2018 and No. 247.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

SECTION FOUR INFORMATION ON FINANCIAL STRUCTURE

I – Explanations related to capital adequacy ratio:

Equity amount and capital adequacy standard ratio are calculated within the framework of “Regulation Regarding Equities of Banks” and “Regulation Regarding Measurement and Evaluation of Banks’ Capital Adequacy”.

The Bank’s equity amount as at 31 December 2017 is TRY 1.302.641, and its capital adequacy ratio is 16,73%. The Bank’s equity amount which calculated per abolished regulation of 31 December 2016 is TRY 805.314 and its capital adequacy ratio is 13,41%.

I- Information on Equity Items:

Current Period (31.12.2017)	Amount	Amount Related to Practice before 1/1/2014*
Common Equity Tier I Capital		
Paid-in Capital to be Entitled for Compensation after All Creditors	706.074	
Share Premium	1.582	
Reserves	405.933	
Other Comprehensive Income according to TAS	19.507	
Profit	128.266	
Net profit for the period	128.266	
Retained Earnings	-	
Bonus Shares from Associates, Affiliates and Joint-Ventures not Accounted in Current Period’s Profit	-	
Common Equity Tier I Capital Before Deductions	1.261.362	
Deductions from Common Equity Tier I Capital	-	
Valuation adjustments calculated as per the article 9. (i) of the Regulation on Bank Capital	-	-
Current and Prior Periods’ Losses not Covered by Reserves, and Losses Accounted under Equity according to TAS (-)	1.495	-
Leasehold Improvements on Operational Leases (-)	7	-
Goodwill Netted with Deferred Tax Liabilities	-	-
Other Intangible Assets Netted with Deferred Tax Liabilities Except Mortgage Servicing Rights	838	-
Net Deferred Tax Asset/Liability (-)	-	-
Differences arise when assets and liabilities not held at fair value, are subjected to cash flow hedge accounting	-	-
Credit losses that exceed total expected loss calculated according to the Regulation on Calculation of Credit Risk by Internal Ratings Based Approach	-	-
Securitization gains	-	-
Unrealized gains and losses from changes in bank’s liabilities’ fair values due to changes in creditworthiness	-	-
Net amount of defined benefit plans	-	-

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

Current Period (31.12.2017)	Amount	Amount Related to Practice before 1/1/2014*
Direct and Indirect Investments of the Bank on its own Tier I Capital (-)	-	-
Shares Obtained against Article 56, Paragraph 4 of the Banking Law (-)	-	-
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 above Tier I Capital (-)	-	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-	-
Mortgage Servicing Rights Exceeding the 10% Threshold of Tier I Capital (-)	-	-
Net Deferred Tax Assets arising from Temporary Differences Exceeding the 10% Threshold of Tier I Capital (-)	-	-
Amount Exceeding the 15% Threshold of Tier I Capital as per the Article 2, Clause 2 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	-	-
The Portion of Net Long Position of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital not deducted from Tier I Capital (-)	-	-
Mortgage Servicing Rights not deducted (-)	-	-
Excess Amount arising from Deferred Tax Assets from Temporary Differences (-)	-	-
Other items to be Defined by the BRSA (-)	-	-
Deductions from Tier I Capital in cases where there are no adequate Additional Tier I or Tier II Capitals (-)	28.794	-
Total Deductions From Common Equity Tier I Capital	31.134	-
Total Common Equity Tier I Capital	1.230.228	-
ADDITIONAL TIER 1 CAPITAL	-	-
Preferred Stock not Included in Common Equity Tier I Capital and the Related Share Premiums	-	-
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Issued or Obtained after 1.1.2014)	-	-
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Covered by Temporary Article 4) (Issued or Obtained after 1.1.2014)	-	-
Additional Tier 1 Capital Before Deductions	-	-
Deductions From Additional Tier 1 Capital	-	-
Direct and Indirect Investments of the Bank on its own Additional Tier I 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 above Tier I Capital (-)	-	-
The Total of Net Long Position of the Direct or Indirect Investments in Additional Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital (-)	-	-
Other items to be defined by the BRSA (-)	-	-
Items to be Deducted from Tier I Capital during the Transition Period	-	-

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

Current Period (31.12.2017)	Amount	Amount Related to Practice before 1/1/2014*
Goodwill and Other Intangible Assets and Related Deferred Taxes not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	210	-
Net Deferred Tax Asset/Liability not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	-	-
Deduction from Additional Tier I Capital when there is not enough Tier II Capital (-)	-	-
Total Deductions from Additional Tier I Capital	210	
Total Additional Tier I Capital		
Total Tier I Capital (Tier I Capital= Common Equity Tier I Capital + Additional Tier I Capital)	1.230.018	
TIER II CAPITAL	-	
Debt Instruments and the Related Issuance Premiums Defined by the BRSA	-	
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Covered by Temporary Article 4)	-	
Provisions (Amounts explained in the first paragraph of the article 8 of the Regulation on Bank Capital)	72.623	
Total Deductions from Tier II Capital	-	
Deductions from Tier II Capital	-	
Direct and Indirect Investments of the Bank on its own Tier II Capital (-)	-	-
Investments in Equity Instruments Issued by Banks and Financial Institutions Invested in Bank's Tier II Capital and Having Conditions Stated in the Article 8 of the Regulation	-	-
Total of Net Long Positions of the Investments in Equity Items of Non-Consolidated Banks and Financial Institutions where the Bank owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-	-
The Total of Net Long Position of the Direct or Indirect Investments in Additional Tier I Capital and Tier II 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 I Capital (-)	-	-
Other items to be defined by the BRSA (-)	-	-
Total Deductions from Tier II Capital	-	
Total Tier II Capital	72.623	
Total Equity (Total Tier I and Tier II Capital)	1.302.641	
Total Tier I Capital and Tier II Capital (Total Equity)	-	
Loans Granted against the Articles 50 and 51 of the Banking Law (-)	-	
Net Book Values of Movables and Immovable Exceeding the Limit Defined in the Article 57, Clause 1 of the Banking Law and the Assets Acquired against Overdue Receivables and Held for Sale but Retained more than Five Years (-)	-	
Other items to be Defined by the BRSA (-)	-	
Items to be Deducted from the Sum of Tier I and Tier II Capital (Capital) During the Transition Period	-	
The Portion of 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 above Tier I Capital not deducted from Tier I Capital, Additional Tier I Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	-	-
The Portion of Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Additional Tier I Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	-	-

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

Current Period (31.12.2017)	Amount	Amount Related to Practice before 1/1/2014*
The Portion of Net Long Position of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital, of the Net Deferred Tax Assets arising from Temporary Differences and of the Mortgage Servicing Rights not deducted from Tier I Capital as per the Temporary Article 2, Clause 2, Paragraph (1) and (2) and Temporary Article 2, Clause 1 of the Regulation (-)	-	-
Capital		
Total Capital (Total of Tier I Capital and Tier II Capital)	1.302.641	-
Total Risk Weighted Assets	7.788.635	-
CAPITAL ADEQUACY RATIOS		
CET1 Capital Ratio (%)	15,80	-
Tier I Capital Ratio (%)	15,79	-
Capital Adequacy Ratio (%)	16,73	-
BUFFERS	-	
Bank-specific total CET1 Capital Ratio	-	-
Capital Conservation Buffer Ratio (%)	1,25	-
Bank-specific Counter-Cyclical Capital Buffer Ratio (%)	-	-
Additional CET1 Capital Over Total Risk Weighted Assets Ratio Calculated According to the Article 4 of Capital Conservation and Counter-Cyclical Capital Buffers Regulation	-	-
Amounts Lower Than Excesses as per Deduction Rules	-	
Remaining 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	-	-
Remaining Total of Net Long Positions of the Investments in Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% or less of the Issued Share Capital	-	-
Remaining Mortgage Servicing Rights	-	-
Net Deferred Tax Assets arising from Temporary Differences	8.557	-
Limits for Provisions Used in Tier II Capital Calculation		
General Loan Provisions for Exposures in Standard Approach (before limit of one hundred and twenty five per ten thousand)	-	-
General Loan Provisions for Exposures in Standard Approach Limited by 1.25% of Risk Weighted Assets	-	-
Total Loan Provision that Exceeds Total Expected Loss Calculated According to Communiqué on Calculation of Credit Risk by Internal Ratings Based Approach	-	-
Total Loan Provision that Exceeds Total Expected Loss Calculated According to Communiqué on Calculation of Credit Risk by Internal Ratings Based Approach, Limited by 0.6% Risk Weighted Assets	-	-
Debt Instruments Covered by Temporary Article 4 (effective between 1.1.2018-1.1.2022)		
Upper Limit for Additional Tier I Capital Items subject to Temporary Article 4	-	-
Amount of Additional Tier I Capital Items Subject to Temporary Article 4 that Exceeds Upper Limit	-	-
Upper Limit for Additional Tier II Capital Items subject to Temporary Article 4	-	-
Amount of Additional Tier II Capital Items Subject to Temporary Article 4 that Exceeds Upper Limit	-	-

* Amounts to be taken into consideration under the previous provisions

In the equity table, under the amount of capital, in which, is the last receivable right receivable in case of bank liquidation, there is capital and other capital reserves (inflation difference correction). Investment in associates which is denominated in foreign currency on balance sheet, is presented under deductions from Tier I on equity table if there is not enough Tier I or Tier II capital. The amount included in the provision item under Tier II is general provisions. Real estates obtained through receivables and could not sold more than five years are presented under deductions from equity.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

Prior Period (31.12.2016)	Balance	Amount Related to Practice before 1/1/2014*
Common Equity Tier I Capital		
Paid-in Capital to be Entitled for Compensation after All Creditors	366.074	
Share Premium	1.491	
Reserves	334.813	
Other Comprehensive Income according to TAS	2.791	
Profit	71.120	
Net profit for the period	71.120	
Retained Earnings	-	
Bonus Shares from Associates, Affiliates and Joint-Ventures not Accounted in Current Period's Profit	-	
Common Equity Tier I Capital Before Deductions	776.289	
Deductions from Common Equity Tier I Capital	-	
Valuation adjustments calculated as per the article 9. (i) of the Regulation on Bank Capital	-	-
Current and Prior Periods' Losses not Covered by Reserves, and Losses Accounted under Equity according to TAS (-)	756	-
Leasehold Improvements on Operational Leases (-)	18	-
Goodwill Netted with Deferred Tax Liabilities	-	-
Other Intangible Assets Netted with Deferred Tax Liabilities Except Mortgage Servicing Rights	919	-
Net Deferred Tax Asset/Liability (-)	5.303	-
Differences arise when assets and liabilities not held at fair value, are subjected to cash flow hedge accounting	-	-
Total credit losses that exceed total expected loss calculated according to the Regulation on Calculation of Credit Risk by Internal Ratings Based Approach	-	-
Securitization gains	-	-
Unrealized gains and losses from changes in bank's liabilities' fair values due to changes in creditworthiness	-	-
Net amount of defined benefit plans	-	-
Direct and Indirect Investments of the Bank on its own Tier I Capital (-)	-	-
Shares Obtained against Article 56, Paragraph 4 of the Banking Law (-)	-	-

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

Prior Period (31.12.2016)	Balance	Amount Related to Practice before 1/1/2014*
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 above Tier I Capital (-)	-	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-	-
Mortgage Servicing Rights Exceeding the 10% Threshold of Tier I Capital (-)	-	-
Net Deferred Tax Assets arising from Temporary Differences Exceeding the 10% Threshold of Tier I Capital (-)	-	-
Amount Exceeding the 15% Threshold of Tier I Capital as per the Article 2, Clause 2 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	-	-
The Portion of Net Long Position of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital not deducted from Tier I Capital (-)	-	-
Mortgage Servicing Rights not deducted (-)	-	-
Excess Amount arising from Deferred Tax Assets from Temporary Differences (-)	-	-
Other items to be Defined by the BRSA (-)	-	-
Deductions from Tier I Capital in cases where there are no adequate Additional Tier I or Tier II Capitals (-)	11.098	-
Total Deductions From Common Equity Tier I Capital	18.094	-
Total Common Equity Tier I Capital	758.195	-
ADDITIONAL TIER 1 CAPITAL	-	-
Preferred Stock not Included in Common Equity Tier I Capital and the Related Share Premiums	-	-
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Issued or Obtained after 1.1.2014)	-	-
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Covered by Temporary Article 4) (Issued or Obtained after 1.1.2014)	-	-
Additional Tier 1 Capital Before Deductions	-	-
Deductions From Additional Tier 1 Capital	-	-
Direct and Indirect Investments of the Bank on its own Additional Tier I 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 above Tier I Capital (-)	-	-
The Total of Net Long Position of the Direct or Indirect Investments in Additional Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital (-)	-	-
Other items to be defined by the BRSA (-)	-	-
Items to be Deducted from Tier I Capital during the Transition Period	-	-
Goodwill and Other Intangible Assets and Related Deferred Taxes not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	612	-
Net Deferred Tax Asset/Liability not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	3.536	-

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

	Balance	Amount Related to Practice before 1/1/2014*
Prior Period (31.12.2016)		
Deduction from Additional Tier I Capital when there is not enough Tier II Capital (-)	-	-
Total Deductions from Additional Tier I Capital	4.148	
Total Additional Tier I Capital		
Total Tier I Capital (Tier I Capital= Common Equity Tier I Capital + Additional Tier I Capital)	754.047	
TIER II CAPITAL	-	
Debt Instruments and the Related Issuance Premiums Defined by the BRSA	-	
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Covered by Temporary Article 4)	-	
Provisions (Amounts explained in the first paragraph of the article 8 of the Regulation on Bank Capital)	57.168	
Total Deductions from Tier II Capital	-	
Deductions from Tier II Capital	-	
Direct and Indirect Investments of the Bank on its own Tier II Capital (-)	-	
Investments in Equity Instruments Issued by Banks and Financial Institutions Invested in Bank's Tier II Capital and Having Conditions Stated in the Article 8 of the Regulation	-	-
Total of Net Long Positions of the Investments in Equity Items of Non-Consolidated Banks and Financial Institutions where the Bank owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-	-
The Total of Net Long Position of the Direct or Indirect Investments in Additional Tier I Capital and Tier II 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 I Capital (-)	-	-
Other items to be defined by the BRSA (-)	-	-
Total Deductions from Tier II Capital	-	
Total Tier II Capital	57.168	
Total Equity (Total Tier I and Tier II Capital)	811.215	
Total Tier I Capital and Tier II Capital (Total Equity)	-	
Loans Granted against the Articles 50 and 51 of the Banking Law (-)	-	
Net Book Values of Movables and Immovable Exceeding the Limit Defined in the Article 57, Clause 1 of the Banking Law and the Assets Acquired against Overdue Receivables and Held for Sale but Retained more than Five Years (-)	5.901	
Other items to be Defined by the BRSA (-)	-	
Items to be Deducted from the Sum of Tier I and Tier II Capital (Capital) During the Transition Period	-	
The Portion of 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 above Tier I Capital not deducted from Tier I Capital, Additional Tier I Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	-	
The Portion of Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Additional Tier I Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	-	-
The Portion of Net Long Position of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital, of the Net Deferred Tax Assets arising from Temporary Differences and of the Mortgage Servicing Rights not deducted from Tier I Capital as per the Temporary Article 2, Clause 2, Paragraph (1) and (2) and Temporary Article 2, Clause 1 of the Regulation (-)	-	-

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

Prior Period (31.12.2016)	Balance	Amount Related to Practice before 1/1/2014*
Capital		-
Total Capital (Total of Tier I Capital and Tier II Capital)	805.314	-
Total Risk Weighted Assets	6.004.150	-
CAPITAL ADEQUACY RATIOS		-
CET1 Capital Ratio (%)	12,63	-
Tier I Capital Ratio (%)	12,56	-
Capital Adequacy Ratio (%)	13,41	-
BUFFERS	-	-
Bank-specific total CET1 Capital Ratio	-	-
Capital Conservation Buffer Ratio (%)	1,25	-
Bank-specific Counter-Cyclical Capital Buffer Ratio (%)	-	-
Additional CET1 Capital Over Total Risk Weighted Assets Ratio Calculated According to the Article 4 of Capital Conservation and Counter-Cyclical Capital Buffers Regulation	-	-
Amounts Lower Than Excesses as per Deduction Rules	-	-
Remaining 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	-	-
Remaining Total of Net Long Positions of the Investments in Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% or less of the Issued Share Capital	-	-
Remaining Mortgage Servicing Rights	-	-
Net Deferred Tax Assets arising from Temporary Differences	-	-
Limits for Provisions Used in Tier II Capital Calculation		-
General Loan Provisions for Exposures in Standard Approach (before limit of one hundred and twenty five per ten thousand)	-	-
General Loan Provisions for Exposures in Standard Approach Limited by 1.25% of Risk Weighted Assets	-	-
Total Loan Provision that Exceeds Total Expected Loss Calculated According to Communiqué on Calculation of Credit Risk by Internal Ratings Based Approach	-	-
Total Loan Provision that Exceeds Total Expected Loss Calculated According to Communiqué on Calculation of Credit Risk by Internal Ratings Based Approach, Limited by 0.6% Risk Weighted Assets	-	-
Debt Instruments Covered by Temporary Article 4 (effective between 1.1.2018-1.1.2022)		-
Upper Limit for Additional Tier I Capital Items subject to Temporary Article 4	-	-
Amount of Additional Tier I Capital Items Subject to Temporary Article 4 that Exceeds Upper Limit	-	-
Upper Limit for Additional Tier II Capital Items subject to Temporary Article 4	-	-
Amount of Additional Tier II Capital Items Subject to Temporary Article 4 that Exceeds Upper Limit	-	-

* Amounts to be taken into consideration under the previous provisions

In the equity table, under the amount of capital, in which, is the last receivable right receivable in case of bank liquidation, there is capital and other capital reserves (inflation difference correction). Investment in associates which is denominated in foreign currency on balance sheet, is presented under deductions from Tier I on equity table if there is not enough Tier I or Tier II capital. The amount included in the provision item under Tier II is general provisions. Real estates obtained through receivables and could not sold more than five years are presented under deductions from equity.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

Explanations on the reconciliation of capital items to balance sheet:

Current Period (31.12.2017)	Carrying Value	Amount of correction	Value of the capital report	Explanation of difference
Paid-in-Capital	500.000	206.074	706.074	Inflation adjustment reflected in paid in capital according to the Temporary Article 1 in the Regulation.
Capital Reserves	222.066	(202.664)	19.594	Capital reserves which are added to paid capital
Other Comprehensive Income				
According to TAS	220.484	(202.664)	18.012	Capital reserves which are added to paid capital
Marketable Securities				Items which are not included in the calculation in accordance with Article 9-1-ç
Revaluation Fund	12.546	3.410	15.956	
Tangible Assets Revaluation Reserves	-	-	-	
Intangible Assets				
Revaluation Reserves	-	-	-	
Revaluation Reserves for Investment Properties	-	-	-	
Hedging Funds (Effective Portion)	-	-	-	
Value Increase on Assets Held for Sale and Held From Discontinued Operations	-	-	-	
Other capital reserves	207.938	(206.074)	2.056	Inflation adjustment reflected in paid in capital according to the Temporary Article 1 in the Regulation.
Free Bonus Shares of Subsidiaries, Associates and Joint Ventures	-	-	-	
Share Premiums	1.582	-	1.582	
Profit Reserves	405.933	-	405.933	
Profit or Loss	128.266	-	128.266	
Prior Years' Income/Losses	-	-	-	
Net Profit or Loss	128.266	-	128.266	
Deductions from Common Equity Tier I Capital (-)	-		29.641	Deductions from Common Equity Tier 1 Capital as per the Regulation
Common Equity Tier I Capital	1.256.265		1.230.226	
Subordinated Loans			-	
Deductions from Tier I capital (-)			210	Deductions from Tier 1 Capital as per the Regulation
Tier I Capital			1.230.018	
Subordinated Loans				
General Provisions			72.623	General Loan Provisions added to Tier II Capital as per the Article 8 of the Regulation
Deductions from Tier II capital (-)			-	
Tier II Capital			72.623	
Deductions from Total Capital (-)			-	
Total			1.302.641	

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

Prior Period (31.12.2016)	Carrying Value	Amount of correction	Value of the capital report	Explanation of difference
Paid-in-Capital	160.000	206.074	366.074	Inflation adjustment reflected in paid in capital according to the Temporary Article 1 in the Regulation.
Capital Reserves	209.194	(206.074)	3.120	
Other Comprehensive Income				
According to TAS	207.703	(206.074)	1.629	
Marketable Securities Revaluation Fund	(101)	-	(101)	
Tangible Assets Revaluation Reserves	-	-	-	
Intangible Assets Revaluation Reserves	-	-	-	
Revaluation Reserves for Investment Properties	-	-	-	
Hedging Funds (Effective Portion)	-	-	-	
Value Increase on Assets Held for Sale and Held From Discontinued Operations	-	-	-	
Other capital reserves	207.804	(206.074)	1.730	Inflation adjustment reflected in paid in capital according to the Temporary Article 1 in the Regulation.
Free Bonus Shares of Subsidiaries, Associates and Joint Ventures	-	-	-	
Share Premiums	1.491	-	1.491	
Profit Reserves	334.813	-	334.813	
Profit or Loss	71.120	-	71.120	
Prior Years' Income/Losses	-	-	-	
Net Profit or Loss	71.120	-	71.120	
Deductions from Common Equity Tier I Capital (-)	-		16.932	Deductions from Common Equity Tier 1 Capital as per the Regulation
Common Equity Tier I Capital	775.127		758.195	
Subordinated Loans			-	
Deductions from Tier I capital (-)			4.148	Deductions from Tier 1 Capital as per the Regulation
Tier I Capital			754.047	
Subordinated Loans			-	
General Provisions			57.168	General Loan Provisions added to Tier II Capital as per the Article 8 of the Regulation
Deductions from Tier II capital (-)			-	
Tier II Capital			57.168	
Deductions from Total Capital (-)			5.901	Discounts made as per the Regulations
Total			805.314	

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

II- Explanations related to credit risk:

Credit risk defined as the probability of loss that the Bank may incur as a result of the counterparty's failure to comply its contractual obligation partially or completely in time. The Bank ensures that credit risk is managed in accordance with the volume, nature and complexity of the loans, taking into account the best practices, within the framework of the BRSA regulations.

The most basic banking service provided by the Bank to finance medium and long-term investments, which is the core function of the Bank, is the "project evaluation-based lending activity". Considering the proportional size within the balance sheet structure, credit risk is the most important risk item of the Bank.

The general principle of the risk policies to be monitored by the Bank is to take risks that can be defined, controlled and / or managed in this sense and to strive not to take a risk other than the risks that are inevitable and arising due to the nature of its activities. The risks that the Bank may have in this context are defined as manageable risks as well as the risk of exchange risk depending on the sensitivity of the credit disbursements to comply with the credit extension conditions except for the inevitable credit risk and counterparty risk. The credit risk does not involve additional risks such as the interest risk or maturity risk.

Having a fully functioning mechanism based on activities, the Bank's Lending and Participation Committee is responsible for determining the principles and principles of the Bank's credit, assessing the credit-participation risk and the position of the placements, evaluating the reports prepared for the credit bureau, To continuously monitor lending activities, including the reorganization of the terms of its receivables, to establish the procedures and principles of the Bank's participation policies, and to make the necessary changes within the framework of general economic policies.

All loan placements of the Bank are allocated in accordance with legal legislations and reports prepared by Intelligence and Financial Analysis Department and Loan Assessment Department and with approvals of Lending and Participation Committee and Board of Directors. Since the lending of the Bank are in the form of project financing, the amount of loan that can be disbursed to a firm is basically determined during project assessment stage and disbursements are made in a controlled manner through monitoring of expenditures.

The financial data of the customers are regularly monitored until the collection and liquidation of the risk is completed with respect to the customers that are lend by the bank, and with deferred payment plan. For the customers whose income is above a certain limit or need to be re-evaluated, both the customer and its headquarters and the investment place are examined and detected. A Monitoring Report including recommendations developed as a result of the examinations and detections is being prepared. This implementation of the Bank's problematic loan portfolio review is continuously performed.

Loan balances of borrowers and other receivables are regularly monitored in accordance with the relevant legislation, and in case of an increase in the risk level of the borrower's credit, the credit limits are monitored and additional collateral is taken if necessary.

For loan allocations, sectors are defined in accordance with borrowing conditions. The sectoral distribution of the loan customers is monitored and those distributions are taken into account during lending decisions and goals.

Bank ensures that credit risk is managed in accordance with the volume, nature and complexity of the loans, taking into account the best practices, within the framework of the BRSA regulations. The Bank ensures that the credit risks of all products, not only loan products, and activities are defined, measured and managed, not limited to loan products only. The Board of Directors constantly reviews, develops and, if necessary, makes adjustments to the system to ensure that the loan decision support systems are in compliance with the structure, size and complexity of the Bank's activities.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

The Bank is not subject to the general loan restrictions defined by the Article 54 of the Banking Law numbered 5411. However, in the Bank's internal loan bylaws, the loan limits are determined mostly in parallel with the limitations set out in the Law. Loan monitoring department actively takes part in the measuring, analyzing and monitoring processes in order to determine credit risk level, and reports periodically to the Board of Directors, the Audit Committee and senior management.

In accordance with Banking Regulation and Supervision Agency Accounting and Reporting Legislation;

Non-Performing Loans are the loans that overdue up to 90 days but not impaired. For such loans, "General Provisions" are allocated as per the Provisioning Regulation.

Impaired loans; are the loans that either overdue more than 90 days as of the reporting date or are treated as impaired due to their creditworthiness. For such loans, "Specific provisions" are allocated as per the Provisioning Regulation.

Within asset-liability management framework, forward and other derivatives are executed by taking legal limits into consideration. Credit risks faced due to those transactions are managed with the other risks arising from market movements. When their percentage in the balance sheet is considered, credit risk beared by the Bank is low. If the credit risk from the derivative product is very high, then the credit risk reducing methods are performed. Currently, the Bank does not have any options.

The Bank allocates general and specific provisions according to "Regulation on Procedures and Principles for Determination of Qualifications of Loans And Allocation of Provisions". Indemnified non- cash loans are subject to the same risk weight with non-performing loans.

Risk categories	Current Period (31.12.2017)		Prior Period (31.12.2016)	
	Risk Amount ^(*)	Average Risk Amount	Risk Amount	Average Risk Amount
Conditional and unconditional receivables to central governments or central banks	899	2.354	21.591	21.451
Conditional and unconditional receivables to banks and brokerage houses	2.188.090	1.654.291	1.672.291	1.009.302
Conditional and unconditional corporate receivables	5.040.204	4.587.747	3.901.279	3.268.169
Conditional and unconditional retail receivables	227.020	222.502	156.181	36.951
Conditional and unconditional receivables secured by real estate property	1.077.669	999.524	931.576	774.032
Overdue receivables	50.603	63.455	75.696	68.299
Receivables defined in high risk category by BRSA	40.992	33.142	22.866	23.534
Other Receivables	93.128	94.371	97.615	91.119

^(*) Includes risk amounts before the effect of credit risk mitigation but after the credit conversions.

Restructured loans whose amortization schedule has changed are followed in the accounts which are specified by related regulations and monitored in accordance with the Bank's credit risk policies. Accordingly, commercial activities of debtors are analyzed and repayments are monitored whether they are in line with the repayments schedules or not, and necessary precautions are taken.

Since the Bank does not have any risks within the scope of private sector loans and trading accounts in banking accounts in other countries, cyclical capital buffer is not calculated.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

The Bank bears low credit risk due to its foreign banking transactions.

- a) The Bank's top 100 and 200 cash loan customers compose 84,46% and 95,50% of the total cash loan portfolio, respectively (31 December 2016: 86,64% and 97,40%).
- b) The Bank's top 100 and 200 cash and non-cash loan customers compose 65,83% and 74,44% of the total on and off balance sheet assets, respectively (31 December 2016: 67,75% and 76,02%).
- c) The Bank's top 100 and 200 non-cash loan customers compose 100% of the total non-cash loans (31 December 2016: 100%).

The generic loan loss provision related with the credit risk beared by the Bank is TRY 72.623 (31 December 2016: TRY 57.168).

Specific provisions are excluded in the calculation of rates above.

Profile of Significant Risks in Major Regions:

	Risk Categories ^(***)							Others
	Conditional and unconditional receivables to central governments or central banks	Conditional and unconditional receivables to banks and brokerage houses	Conditional and unconditional corporate receivables	Conditional and unconditional retail receivables	Conditional and unconditional receivables secured by real estate property	Overdue receivables	Receivables defined in high risk category by BRSA	
Current Period (31.12.2017)								
Domestic	899	2.187.099	5.040.204	227.020	1.077.669	50.603	5.000	-
European Union (EU) Countries	-	936	-	-	-	-	35.992	-
OECD Countries ^(*)	-	-	-	-	-	-	-	-
Off-Shore Banking Regions	-	-	-	-	-	-	-	-
USA, Canada	-	55	-	-	-	-	-	-
Other Countries	-	-	-	-	-	-	-	-
Associates, Subsidiaries and joint -Ventures	-	-	-	-	-	-	-	10.812
Unallocated Assets ^(**)	-	-	-	-	-	-	-	82.316
Total	899	2.188.090	5.040.204	227.020	1.077.669	50.603	40.992	93.128
Prior Period (31.12.2016)								
Domestic	21.591	1.669.916	3.901.279	156.181	931.576	75.696	4.369	-
European Union (EU) Countries	-	2.375	-	-	-	-	18.497	-
OECD Countries ^(*)	-	-	-	-	-	-	-	-
Off-Shore Banking Regions	-	-	-	-	-	-	-	-
USA, Canada	-	-	-	-	-	-	-	-
Other Countries	-	-	-	-	-	-	-	-
Associates, Subsidiaries and joint -Ventures	-	-	-	-	-	-	-	9.910
Unallocated Assets ^(**)	-	-	-	-	-	-	-	87.705
Total	21.591	1.672.291	3.901.279	156.181	931.576	75.696	22.866	97.615

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

^(**) Includes asset and liability items that cannot be allocated on a consistent basis.

^(***) Includes risk amounts before the effect of credit risk mitigation but after the credit conversions.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

	Conditional and unconditional receivables to central governments or central banks	Conditional and unconditional receivables to banks and brokerage houses	Conditional and unconditional corporate receivables	Conditional and unconditional retail receivables	Conditional and unconditional receivables secured by real estate property	Overdue receivables	Receivables defined in high risk category by BRSA	Others	TRY	FC	TOTAL
Current Period (31.12.2017)											
Agriculture	-	-	-	-	-	890	-	-	890	-	890
Farming and Stockbreeding	-	-	-	-	-	-	-	-	-	-	-
Forestry	-	-	-	-	-	890	-	-	890	-	890
Fishery	-	-	-	-	-	-	-	-	-	-	-
Manufacturing	-	-	3.849.054	184.548	1.058.700	18.534	-	-	67.988	5.042.849	5.110.837
Mining and Quarrying	-	-	-	-	-	-	-	-	-	-	-
Production	-	-	981.904	14.980	78.981	10.202	-	-	32.503	1.053.564	1.086.067
Electricity, Gas, Water	-	-	2.867.150	169.568	979.719	8.332	-	-	35.485	3.989.285	4.024.770
Construction	-	-	-	3.375	-	523	-	-	523	3.375	3.898
Services	899	2.188.090	1.157.348	37.296	18.969	30.656	35.992	-	1.322.060	2.147.190	3.469.250
Wholesale and Retail Trade	-	-	-	-	-	-	-	-	-	-	-
Accommodation and Dining	-	6	958.743	24.388	6.467	26.192	-	-	307.629	708.167	1.015.796
Transportation and Telecommunication	-	-	-	-	-	-	-	-	-	-	-
Financial Institutions	899	2.188.084	113.439	-	-	-	35.992	-	1.005.127	1.333.287	2.338.414
Real Estate and Rental Services	-	-	-	-	-	-	-	-	-	-	-
Professional Services	-	-	-	-	-	-	-	-	-	-	-
Educational Services	-	-	32.245	5.047	12.502	-	-	-	-	49.795	49.795
Health and Social Services	-	-	52.921	7.861	-	4.464	-	-	9.304	55.941	65.245
Others	-	-	33.802	1.801	-	-	5.000	93.128	95.769	37.961	133.730
Total	899	2.188.090	5.040.204	227.020	1.077.669	50.603	40.992	93.128	1.487.230	7.231.375	8.718.605

(*) Includes risk amounts before the effect of credit risk mitigation but after the credit conversions.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements

for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

Risk Profile by Sectors or Counterparties:

Prior Period (31.12.2016)	Conditional and unconditional receivables to central governments or central banks	Conditional and unconditional receivables to banks and brokerage houses	Conditional and unconditional corporate receivables	Conditional and unconditional retail receivables	Conditional and unconditional receivables secured by real estate property	Overdue receivables	Receivables defined in high risk category by BRSA	Others	TRY	FC	TOTAL
Agriculture	-	-	-	-	-	1.325	-	-	1.325	-	1.325
Farming and Stockbreeding	-	-	-	-	-	-	-	-	-	-	-
Forestry	-	-	-	-	-	1.325	-	-	1.325	-	1.325
Fishery	-	-	-	-	-	-	-	-	-	-	-
Manufacturing	-	-	3.117.198	131.098	916.965	30.573	-	-	94.442	4.101.392	4.195.834
Mining and Quarrying	-	-	-	-	-	-	-	-	-	-	-
Production	-	-	846.199	13.665	83.079	15.482	-	-	47.169	911.256	958.425
Electricity, Gas, Water	-	-	2.270.999	117.433	833.886	15.091	-	-	47.273	3.190.136	3.237.409
Construction	-	-	-	-	-	-	-	-	-	-	-
Services	21.591	1.672.291	760.741	22.254	14.611	43.798	18.497	-	904.322	1.649.461	2.553.783
Wholesale and Retail Trade	-	-	-	-	-	-	-	-	-	-	-
Accommodation and Dining	-	6	706.361	15.479	4.368	37.132	-	-	150.064	613.282	763.346
Transportation and Telecommunication	-	-	-	-	-	-	-	-	-	-	-
Financial Institutions	21.591	1.672.285	-	-	-	-	18.497	-	741.709	970.664	1.712.373
Real Estate and Rental Services	-	-	-	-	-	-	-	-	-	-	-
Professional Services	-	-	-	-	-	-	-	-	-	-	-
Educational Services	-	-	8.316	3.516	10.243	-	-	-	-	22.075	22.075
Health and Social Services	-	-	46.064	3.259	-	6.666	-	-	12.549	43.440	55.989
Others	-	-	23.340	2.829	-	-	4.369	97.615	100.428	27.725	128.153
Total	21.591	1.672.291	3.901.279	156.181	931.576	75.696	22.866	97.615	1.100.517	5.778.578	6.879.095

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

Analysis of Maturity-Bearing Risks According to Remaining Maturities

Risk Categories

Current Period (31.12.2017)

	Term to Maturity				
	Up to 1 Month	1-3 Months	3-6 Months	6-12 Months	Over 1 Year
Conditional and unconditional receivables to central governments or central banks	626	-	-	-	-
Conditional and unconditional receivables to banks and brokerage houses	1.593.226	44.999	5.659	-	523.190
Conditional and unconditional corporate receivables	1.494.703	817.207	504.131	1.008.064	1.216.099
Conditional and unconditional retail receivables	67.325	36.802	22.704	45.409	54.779
Conditional and unconditional receivables secured by real estate property	319.595	174.702	107.778	215.555	260.039
Receivables defined in high risk category by BRSA	6	17	42	123	4.812
Total	3.475.481	1.073.727	640.314	1.269.151	2.058.919

(*) Includes risk amounts before the effect of credit risk mitigation but after the credit conversions

Risk Categories

Prior Period (31.12.2016)

	Term to Maturity				
	Up to 1 Month	1-3 Months	3-6 Months	6-12 Months	Over 1 Year
Conditional and unconditional receivables to central governments or central banks	21.435	-	-	-	-
Conditional and unconditional receivables to banks and brokerage houses	857.798	54.827	-	-	394.213
Conditional and unconditional corporate receivables	121.617	60.493	148.521	262.339	3.308.308
Conditional and unconditional retail receivables	8.240	2.305	10.003	9.643	125.990
Conditional and unconditional receivables secured by real estate property	29.072	14.570	30.482	60.964	796.489
Receivables defined in high risk category by BRSA	7	21	29	159	4.153
Total	1.038.169	132.216	189.035	333.105	4.629.153

Information on Risk Categories

For the determination of risk weights for risk classes defined in the article 6 of the "Regulation on Measurement and Assessment of Capital Adequacy of Banks", all counter parties are treated as non-rated since no rating agency is authorized by the Bank.

Credit Risk by Risk Weights:

Current Period (31.12.2017)	0%	10%	20%	50%	75%	100%	150%	200%	Deductions from Equity
Risk Weights									
Before Credit Risk Mitigation	1.071	-	425.026	1.381.498	227.020	6.641.802	38.320	3.868	6.905
After Credit Risk Mitigation	3.157	-	425.026	1.779.339	216.425	6.252.470	38.320	3.868	-

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

Prior Period (31.12.2016)	0%	10%	20%	50%	75%	100%	150%	200%	Deductions from Equity
Risk Weights									
Before Credit Risk Mitigation	21.721	-	712.053	921.896	156.181	5.029.802	34.291	3.151	7.645
After Credit Risk Mitigation	23.284	-	712.053	1.121.899	148.343	4.836.074	34.291	3.151	-

Information by Major Sectors or Type of Counterparties:

In accordance with the policies determined by BRSA;

Non-Performing Loans; are the loans that overdue up to 90 days but not impaired. For such loans, "General Provisions" are allocated as per the Provisioning Regulation.

Impaired loans; are the loans that either overdue more than 90 days as of the reporting date or are treated as impaired due to their creditworthiness. For such loans, "Specific provisions" are allocated as per the Provisioning Regulation.

Current Period (31.12.2017)

Major Sectors / Counter Parties	Credits			
	Impaired Loans	Non-Performing Loans	Impaired Loans	Non-Performing Loans
Agriculture	1.775	-	-	885
Farming and Stockbreeding	1.775	-	-	885
Forestry	-	-	-	-
Fishery	-	-	-	-
Manufacturing	52.337	699	14	33.281
Mining and Quarrying	1.856	-	-	1.334
Production	33.817	-	-	23.615
Electricity, Gas and Water	16.664	699	14	8.332
Construction	-	-	-	-
Services	67.715	220	3	37.058
Wholesale and Retail Trade	-	-	-	-
Accommodation and Dining	58.724	220	3	32.531
Transportation and Telecommunication	72	-	-	72
Financial Institutions	-	-	-	-
Real Estate and Rental Services	-	-	-	-
Professional Services	-	-	-	-
Educational Services	-	-	-	-
Health and Social Services	8.919	-	-	4.455
Others	1.185	-	-	1.185
Total	123.012	919	17	72.409

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

Prior Period (31.12.2016)

Major Sectors / Counter Parties	Credits			
	Impaired Loans	Non-Performing Loans	Impaired Loans	Non-Performing Loans
Agriculture	1.767	-	-	442
Farming and Stockbreeding	1.767	-	-	442
Forestry	-	-	-	-
Fishery	-	-	-	-
Manufacturing	55.413	1.453	29	24.840
Mining and Quarrying	1.848	-	-	1.333
Production	36.906	54	1	21.425
Electricity, Gas and Water	16.659	1.399	28	2.082
Construction	-	-	-	-
Services	67.402	4.699	85	23.604
Wholesale and Retail Trade	-	-	-	-
Accommodation and Dining	58.442	4.699	85	21.310
Transportation and Telecommunication	72	-	-	72
Financial Institutions	-	-	-	-
Real Estate and Rental Services	-	-	-	-
Professional Services	-	-	-	-
Educational Services	-	-	-	-
Health and Social Services	8.888	-	-	2.222
Others	1.197	-	-	1.197
Total	125.779	6.152	114	50.083

Information on Movements in Value Adjustments and Provisions:

Current Period (31.12.2017)	Opening Balance	Provision for Period	Provision Reversals	Other Adjustments	Closing Balance
1. Specific provisions	50.083	24.473	(2.147)	-	72.409
2. General Provisions	57.168	15.625	(170)	-	72.623
Prior Period (31.12.2016)	Opening Balance	Provision for Period	Provision Reversals	Other Adjustments	Closing Balance
1. Specific provisions	46.271	4.454	(642)	-	50.083
2. General Provisions	41.238	15.938	(8)	-	57.168

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

III- Explanations related to currency risk

The Bank is open to currency risk because of inconsistency of the foreign currency denominated asset and liability balances with respect to the transactions made in foreign currencies.

The Bank's currency risk management policy of the Bank defined as, keeping the "Foreign Currency Net Position / Capital Standard" ratio within the legal boundaries with respect to the economic matters, trends in the market and financial position of the Bank. By keeping up with this main goal and with respect to asset and liability management, foreign currency denominated assets are appreciated with the most favorable interest rates in the foreign currency market.

Currency risk is calculated within the scope of the standard method used for legal reporting.

Besides, the exchange rate risk faced by the Bank on a daily basis is determined by preparing the foreign currency balance sheet by covering individual positions. Proforma foreign currency balance sheets are used for the measurement of the future exchange rate risks (including foreign currency-indexed assets and liabilities).

The Bank has no hedging derivative instruments for foreign currency denominated borrowings and net foreign currency investments.

A non-speculative foreign exchange position management policy is followed in order to limit the exposure of the currency risk. In this respect, distribution of foreign currency denominated on balance sheet and off balance sheet items are considered.

In order to reduce the risk of foreign exchange rate fluctuations affecting the financial structure of the bank, the risk of foreign exchange rate of the bank is determined based on the Foreign Currency Net General Position / Equity ratio determined by the BRSA, which is 20%.

The foreign Exchange buying rates of the Bank as of the date of the financial statements and the last five business days prior to that date are as follows:

Date	USD	EURO	100 JPY
31/12/2017	3,76220	4,49880	3,34060
29/12/2017	3,76220	4,49880	3,34060
28/12/2017	3,80540	4,54170	3,37810
27/12/2017	3,80010	4,51600	3,35910
26/12/2017	3,78760	4,49740	3,34480
25/12/2017	3,78960	4,49790	3,34740

The simple arithmetic average of the last thirty day rates as of 31 December 2017; USD: TRY 3,83028, EURO: TRY 4,54315, JPY: TRY 3,39970.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

Information on the currency risk of the Bank:

	EURO	USD	Other FC ⁽¹⁾	Total
Current Period (31.12.2017)				
Assets				
Cash (cash in vault, effectives, money in transit, cheques purchased) and balances with the Central Bank of the Republic of Turkey	-	-	-	-
Banks	760.748	149.126	290	910.164
Financial assets at fair value through profit and loss	-	-	-	-
Money market placements	-	-	-	-
Financial assets available for sale	61.390	39.511	-	100.901
Loans	3.750.276	2.787.321	-	6.537.597
Subsidiaries, associates and jointly controlled entities (joint ventures)	35.992	-	-	35.992
Investments held to maturity	-	-	-	-
Derivative financial assets for hedging purposes	-	-	-	-
Tangible Assets	-	-	-	-
Intangible Assets	-	-	-	-
Other assets	282	2.015	-	2.297
Total assets	4.608.688	2.977.973	290	7.586.951
Liabilities				
Interbank deposits	-	-	-	-
Other deposits	-	-	-	-
Money market borrowings	-	-	-	-
Funds provided from other financial institutions	4.595.470	2.972.435	7.567.905	-
Marketable securities issued	-	-	-	-
Sundry creditors	887	4.209	5.096	-
Derivative financial liabilities for hedging purposes	-	-	-	-
Other liabilities	2.829	669	-	3.498
Total liabilities	4.599.186	2.977.313	-	7.576.499
Net balance sheet position	9.502	660	290	10.452
Net off-balance sheet position	-	-	-	-
Assets on derivative instruments	-	-	-	-
Liabilities on derivative instruments	-	-	-	-
Non-cash loans	772	-	-	772
Prior Period (31.12.2016)				
Total assets	3.346.015	2.477.645	259	5.823.919
Total liabilities	3.324.098	2.474.598	-	5.798.696
Net balance sheet position	21.917	3.047	259	25.223
Net off-balance sheet position	-	-	-	-
Assets on derivative instruments	-	-	-	-
Liabilities on derivative instruments	-	-	-	-
Non-cash loans	22.857	61.545	-	84.402

⁽¹⁾ The foreign currencies presented in the other FC column of assets comprise; 18% GBP, 49% CHF and 33% JPY.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

Currency Risk Sensitivity:

The following table shows the sensitivity of the Bank with 10% change in USD and EURO currencies:

Current Period (31.12.2017)

	Increase in Exchange Rates	Effect on Profit/Loss ^(*)		Effect on Capital	
	%	Current Period	Prior Period	Current Period	Prior Period
USD	10	66	304	1.144	558
EURO	10	(2.649)	2.191	2.382	2.863
Other	10	29	26	29	26

Current Period (31.12.2017)

	Decrease in Exchange Rates	Effect on Profit/Loss ^(*)		Effect on Capital	
	%	Current Period	Prior Period	Current Period	Prior Period
USD	10	(66)	(304)	(1.144)	(558)
EURO	10	2.649	(2.191)	(2.382)	(2.863)
Other	10	(29)	(26)	(29)	(26)

^(*) Indicates the values before tax.

Prior Period (31.12.2016)	Increase in Exchange Rates	Effect on Profit/Loss ^(*)		Effect on Capital	
	%	Current Period	Prior Period	Current Period	Prior Period
USD	10	304	509	558	(50)
EURO	10	2.191	2.156	2.863	(14)
Other	10	26	23	26	-

Prior Period (31.12.2016)	Decrease in Exchange Rates	Effect on Profit/Loss ^(*)		Effect on Capital	
	%	Current Period	Prior Period	Current Period	Prior Period
USD	10	(304)	(509)	(558)	50
EURO	10	(2.191)	(2.156)	(2.863)	14
Other	10	(26)	(23)	(26)	-

^(*) Indicates the values before tax.

IV- Explanations related to interest rate risk:

The interest rate risk indicates the probability of loss that the Bank may incur due to the position of the financial instruments due to movements in the interest rates. Changes in interest rates affect the return on the assets and the cost of the liabilities. Interest rate risk arising from banking accounts, includes re-pricing risk, yield curve risk, base risk and option risk.

The interest rates determined by the market actors, especially the central banks, have a decisive role on the economic value of the Bank's balance sheet and on the Bank's income-loss balance. Sudden interest shocks in the market because the Bank to open the gap between the applied interest rate of the revenue generating assets and the interest paid on the liabilities. The opening of this gap may cause the Bank interest income to be adversely affected by fluctuations in market interest rates and may cause decrease in profitability of the Bank.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

The Bank's basic principle in the interest rate risk management policy is to avoid mismatch and provide alignment between loans disbursed with fixed and floating rate and funds provided with fixed and floating rate. Accordingly, interest rate, currency and maturity alignment is respected during the disbursement of loans funded by foreign long-term borrowings, which form the material part of the loan portfolio. Almost the entire loan portfolio is financed by floating rate borrowings, thus interest rate risk from changes in interest rates seems not probable for the loan portfolio because of the correlation provided between the sources and the uses. Other loans in the portfolio are financed by the equity of the Bank.

Within the framework of the Bank's basic principle of interest rate risk policy, optimization of portfolio distribution in the management of interest-sensitive assets other than loans is provided by considering possible changes in duration of positions and current interest rate limits; by taking into account alternative return, limits of tolerable loss and risk. In this context, to measure the interest rate risk exposure of the Bank, the effect of days to maturity and profit/loss are analyzed considering the scenarios of possible changes in interest rates for securities portfolio. Alternatives for compensation of probable losses that may arise as a result of fluctuations in interest rates are examined using different markets. Interest rate sensitivity analysis is also made for the positions besides securities portfolio.

There is no interest rate mismatch on loan portfolio as the main principle of interest rate adjustment on the source and disbursement side of the loan portfolio of the Bank. For this reason, the Bank's credit portfolio does not carry any interest rate risk even if it is affected by market volatility. Sensitive items in the Bank's balance sheet are limited to the trading and available for sale portfolio sizes in the liquid portfolio only and the standard method is used to measure the interest risk of the portfolio and the capital requirement.

In order to minimize the possibility of unfavorable effects of market interest rate changes on the Bank's financial position, risk limits are used for the management of interest rate risk. These limits are set by Asset-Liability Committee and approved by Board of Directors. The Bank monitors and controls whether interest-sensitive assets are within the determined limits. Standard method is used reporting legal interest rate risk.

In order to minimize the likelihood that the change in market interest rates in the bank's securities portfolio management will cause adverse effects on the financial structure of the bank, limits have been set on the adjusted duration of the securities portfolio and the amount of daily loss that may arise from the securities portfolio.

Based on the statutory 20% rate of "The Ratio of Interest Rate Risk Due To Banking Book" determined by the BRSA to the measurement and evaluation of the interest rate risk by using standard shock method, arising from the on-balance sheet and off-balance sheet positions in the banking book within the scope of the interest rate limits of the Bank, is determined with a more conservative approach.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

Interest rate sensitivity of assets, liabilities and off-balance sheet items (based on days to repricing dates):

Current Period (31.12.2017)	Up to 1 Month	1 – 3 Months	3 – 12 Months	1 – 5 Years	5 Years and Over	Non-Interest Bearing	Total
Assets							
Cash (cash in vault, effectives, money in transit, cheques purchased) and balances with the Central Bank of the Republic of Turkey ⁽¹⁾	-	-	-	-	-	710	710
Banks ⁽¹⁾	1.277.212	44.999	-	-	-	12.979	1.335.190
Financial assets at fair value through profit and loss	-	-	-	-	-	-	-
Money market placements	326.024	-	-	-	-	-	326.024
Financial assets available for sale ⁽³⁾	5.234	16.755	123.941	103.374	-	8.037	257.341
Loans and Receivables ⁽²⁾	1.881.540	1.028.532	1.909.365	187.151	1.871.730	50.603	6.928.921
Investments held to maturity	-	-	-	-	-	-	-
Other assets ⁽⁴⁾	-	-	-	-	-	134.977	134.977
Total Assets	3.490.010	1.090.286	2.033.306	290.525	1.871.730	207.306	8.983.163
Liabilities							
Interbank deposits	-	-	-	-	-	-	-
Other deposits	-	-	-	-	-	-	-
Money market borrowings	130	-	-	-	-	-	130
Sundry creditors	-	-	-	-	-	18.622	18.622
Marketable securities issued	-	-	-	-	-	-	-
Funds provided from other financial institutions	1.215.546	1.263.276	2.959.991	1.134.166	1.011.300	-	7.584.279
Other liabilities ⁽⁴⁾	1.380.132	1.380.132	-	-	-	-	-
Total liabilities	1.215.676	1.263.276	2.959.991	1.134.166	1.011.300	1.398.754	8.983.163
Long position on balance sheet	2.274.334	-	-	-	860.430	-	3.134.764
Short position on balance sheet	-	(172.990)	(926.685)	(843.641)	(1.191.448)	(3.134.764)	-
Long position on off-balance sheet	-	-	-	-	-	-	-
Short position on off-balance sheet	-	-	-	-	-	-	-
Total position	2.274.334	(172.990)	(926.685)	(843.641)	860.430	(1.191.448)	-

⁽¹⁾ Balances without maturity are shown in the "Non-interest Bearing" column.

⁽²⁾ Net balance of non-performing loans and receivables is shown in "Non-interest Bearing" column.

⁽³⁾ Securities representing a share in capital and investment funds are shown in "Non-interest Bearing" column.

⁽⁴⁾ Deferred tax asset, shareholders' equity and other non-interest bearing assets and liabilities are shown in "Non-interest Bearing" column.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

Interest rate sensitivity of assets, liabilities and off-balance sheet items (based on days to repricing dates):

Prior Period (31.12.2016)	Up to 1 Month	1 – 3 Months	3 – 12 Months	1 – 5 Years	5 Years and Over	Non-Interest Bearing	Total
Assets							
Cash (cash in vault, effectives, money in transit, cheques purchased) and balances with the Central Bank of the Republic of Turkey ⁽¹⁾	-	-	-	-	-	1.070	1.070
Banks ⁽¹⁾	857.798	50.212	-	-	-	357.416	1.265.426
Financial assets at fair value through profit and loss	-	-	-	-	-	-	-
Money market placements	10.505	-	-	-	-	-	10.505
Financial assets available for sale ⁽³⁾	32.281	9.265	36.665	107.141	-	8.037	193.389
Loans and Receivables ⁽²⁾	1.531.685	895.522	1.727.471	59.831	1.135.480	75.696	5.425.685
Investments held to maturity	20.415	-	-	-	-	-	20.415
Other assets ⁽⁴⁾	-	-	-	-	-	126.027	126.027
Total Assets	2.452.684	954.999	1.764.136	166.972	1.135.480	568.246	7.042.517
Liabilities							
Interbank deposits	-	-	-	-	-	-	-
Other deposits	-	-	-	-	-	-	-
Money market borrowings	351	-	-	-	-	-	351
Sundry creditors	-	-	-	-	-	18.114	18.114
Marketable securities issued	-	-	-	-	-	-	-
Funds provided from other financial institutions	873.012	1.122.836	2.526.098	590.275	688.286	-	5.800.507
Other liabilities ⁽⁴⁾	-	-	-	-	-	1.223.545	1.223.545
Total liabilities	873.363	1.122.836	2.526.098	590.275	688.286	1.241.659	7.042.517
Long position on balance sheet	1.579.321	-	-	-	447.194	-	2.026.515
Short position on balance sheet	-	(167.837)	(761.962)	(423.303)	-	(673.413)	(2.026.515)
Long position on off-balance sheet	-	-	-	-	-	-	-
Short position on off-balance sheet	-	-	-	-	-	-	-
Total position	1.579.321	(167.837)	(761.962)	(423.303)	447.194	(673.413)	-

⁽¹⁾ Balances without maturity are shown in the "Non-interest Bearing" column.

⁽²⁾ Net balance of non-performing loans and receivables is shown in "Non-interest Bearing" column.

⁽³⁾ Securities representing a share in capital and investment funds are shown in "Non-interest Bearing" column.

⁽⁴⁾ Deferred tax asset, shareholders' equity and other non-interest bearing assets and liabilities are shown in "Non-interest Bearing" column.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

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

Current Period (31.12.2017)	EURO	USD	JPY	TRY
Assets (*)				
Cash (cash in vault, effectives, money in transit, cheques purchased) and balances with the Central Bank of the Republic of Turkey	-	-	-	-
Banks	0,57	1,70	-	13,44
Financial assets at fair value through profit and loss	-	-	-	-
Money market placements	-	-	-	13,79
Financial assets available for sale	3,63	5,59	-	10,03
Loans and Receivables	2,61	4,61	-	13,69
Investments held to maturity	-	-	-	-
Liabilities (*)	-	-	-	-
Interbank deposits	-	-	-	-
Other deposits	-	-	-	-
Money market borrowings	-	-	-	4,91
Sundry creditors	-	-	-	-
Marketable securities issued	-	-	-	-
Funds provided from other financial institutions	0,51	2,60	-	4,32

(*) Rates shown in the table are calculated by using the annual interest rates.

Prior Period (31.12.2016)	EURO	USD	JPY	TRY
Assets (*)				
Cash (cash in vault, effectives, money in transit, cheques purchased) and balances with the Central Bank of the Republic of Turkey	-	-	-	-
Banks	0,31	1,09	9,21	-
Financial assets at fair value through profit and loss	-	-	-	-
Money market placements	-	-	-	8,49
Financial assets available for sale	3,63	4,96	-	8,82
Loans and Receivables	2,67	4,29	-	11,94
Investments held to maturity	-	-	-	8,60
Liabilities (*)	-	-	-	-
Interbank deposits	-	-	-	-
Other deposits	-	-	-	-
Money market borrowings	-	-	-	4,94
Sundry creditors	-	-	-	-
Marketable securities issued	-	-	-	-
Funds provided from other financial institutions	0,49	2,21	-	-

(*) Rates shown in the table are calculated by the annual interest rates.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

V- Position risk of equity securities in banking book:

		Comparison		
Current Period (31.12.2017)				
Equity shares		Carrying Value	Fair Value	Market Value
1 Available-for-Sale Financial Assets		-	-	-
Quoted securities		-	-	-
2 Associates		-	-	-
Quoted securities		-	-	-
3 Subsidiaries		-	-	-
Quoted securities		-	-	-
Prior Period (31.12.2016)		Comparison		
Equity shares		Carrying Value	Fair Value	Market Value
1 Available-for-Sale Financial Assets		-	-	-
Quoted securities		-	-	-
2 Associates		-	-	-
Quoted securities		-	-	-
3 Subsidiaries		-	-	-
Quoted securities		-	-	-

VI- Liquidity Risk Management and Liquidity Coverage Ratio:

The Bank's liquidity management is managed by Treasury Department in coordination with related departments and the strategies constituted by Asset Liability Committee as part of "Risk Management Strategies, Policies and Application Principles" that is approved by the Board of Directors.

The liquidity risk management as per the "Our Bank's Risk Management Strategies, Policies and Implementation Principles" as updated by the decision of the Board of Directors of our Bank are stated as follows:

Liquidity risk refers to the probability that the Bank will incur the consequential loss that it cannot anticipate or face unforeseeable, all cash flow requirements without affecting the day-to-day operations or financial structure.

Liquidity risk also represents the possibility of loss due to Bank's inability of settling with market prices since the lack of depth and excessive fluctuations in the market.

The main policy of Liquidity Risk Management in the Bank is to provide quality asset structure in which any liabilities can be fulfilled. Since the Bank is specialized, its liquidity need is more predictable as compared to commercial banks, and ensures cash flows provided for its liabilities more regularly.

The type, maturity structure and compliance of interest rates with assets and liabilities in the balance sheet, is assured within the framework of the Asset Liability Management Committee's decisions. The Bank keeps liquidity ratios within risk limits as set out in legal legislation and follows regularly.

In order to manage liquidity risk, proforma cash flows are set on the basis of predictable data by evaluating the maturities of asset and liability structure. Proper placement of liquidity excess considering alternative gains and meeting liquidity needs with the most appropriate cost of funding is essential.

Additionally, monthly proforma cash flows and balance sheet durations regarding the fulfilment level of medium and long term liabilities are traced in order to determine early factors that generate risk.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

Mainly for risk measurement and monitoring activities to determine the level of liquidity risk;

The liquidity risk of the Bank is calculated by using "Liquidity Analysis Forms" in accordance with the form determined by the BRSA and reported to the BRSA on a weekly and daily basis.

Limits on liquidity risk are determined under; the legal limitations set out by the BRSA and the Liquidity Emergency Plan Directive of the Bank". The Bank's "Liquidity Emergency Plan Directive" came into force with the decision of the Board of Directors dated 27 October 2016 and numbered 2016-20-10 / 180. Situations that require the implementation of the Liquidity Emergency Plan are followed by indicators derived from bank-specific (internal) and financial market developments. The Liquidity Emergency Plan includes actions to ensure that the Bank fulfills its obligations at its current level and to maintain liquidity at the level required by the Bank or to achieve liquidity at acceptable costs and to provide the necessary liquidity with the objective of protecting the Bank's reputation.

In the Bank's liquidity risk management, limitations of the related regulations of BRSA, Bank's "Risk Management Strategies, Policies and Implementation Fundamentals" and internal risk limitations that are determined by general market conditions are fundamental. Consequently, active units within the liquidity risk management Department of Treasury being in the first place, act according to these limitations. First limitation on legal requirements set by the BRSA is; as per the regulation on "Calculation of Liquidity Coverage Ratio", minimum limits of 100% and 80% are assigned on consolidated and nonconsolidated basis respectively for total and foreign currency limits. On the other hand investment and development banks are exempt from those limitations until 2018.

The Bank's internal reporting within the scope of liquidity risk management consists of daily, weekly and monthly reports that are prepared by the Risk Monitoring Department. Daily balance sheet and duration calculations are prepared by risk monitoring department. On weekly reports, which are prepared by the same department, liquidity limits are monitored. Weekly realized liquidity limits determined by Board of Directors is aggregated in monthly risk limits monitoring report. Those reports investigate legal risks and adaption of early warning limits. Also, to monitor liquidity risk in "TKB Riskness Analysis According to Selected Indicators and Risk Groups" report prepared monthly includes;

- Proforma Cash Flows Statement,
- Proforma Currency Balance Sheet
- Duration of Balance Sheet items, - in detail-Marketable Securities (by class of financial instruments)
- Summary of liquidity forms sent to BRSA by Financial Accounting Department. Proforma cash flows statement and amount of future liquid assets in different scenarios for one year period.

Related report is presented to the Board of Directors; the Audit Committee and senior management on a monthly basis. By taking into consideration these reports, the Asset Liability Committee and Audit Committee evaluate the liquidity position of the Bank, and results of liquidity measurement system are included in the decision making process. Also, these reports prepared by the Risk Monitoring Department are sent to the Audit Committee and senior management.

Regarding the liquidity risk, as well as legal limits, internal limits have been determined in accordance with its own internal procedures, mission and risk appetite, as included in the Bank's risk policies. These limits have been determined by the Board of Directors in excess of legal limits, including early warning limits, and are revised annually.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

1. Liquidity Coverage Ratio:

According to regulations which is published in the Official Gazette numbered 28948 on 21 March 2014 related to calculation of liquidity coverage ratio of banks, calculated liquidity coverage ratios are shown below. Including the reporting period for the last 12 months unconsolidated foreign currency and total liquidity coverage ratio and minimum and maximum levels are shown below by specified weeks.

Current Period (31.12.2017)	Liquidity Coverage Ratio (Weekly Unconsolidated Report)			
	FC	Date	TRY+FC	Date
Maximum (%)	77	20.10.2017	352	08.12.2017
Minimum (%)	60	24.11.2017	234	03.11.2017

Prior Period (31.12.2016)	Liquidity Coverage Ratio (Weekly Unconsolidated Report)			
	FC	Date	TRY+FC	Date
Maximum (%)	98	14.10.2016	479	14.10.2016
Minimum (%)	66	11.11.2016	113	30.12.2016

	Total Unweighted Value (Average)	Total Weighted Value (Average)		
Current Period (31.12.2017)	TRY+FC	FC	TRY+FC	FC
HIGH-QUALITY LIQUID ASSETS			136.999	27.876
Total high-quality liquid assets (HQLA)	-	-	136.999	27.876
CASH OUTFLOWS				
Retail and small business customers deposits	-	-	-	-
Stable deposits	-	-	-	-
Less stable deposits	-	-	-	-
Unsecured funding other than retail and small business customers deposits	79.334	62.243	74.110	62.203
Operational deposits	-	-	-	-
Non-operational deposits	-	-	-	-
Other unsecured funding	79.334	62.243	74.110	62.203
Secured wholesale funding	-	-	-	-
Other cash outflows	12.809	12.781	5.508	5.480
Liquidity needs related to derivatives and market valuation changes on derivatives transactions	641	613	641	613
Debts related to structured financial products	-	-	-	-
Payment commitments related to debts to financial markets and other off balance sheet liabilities	12.168	12.168	4.867	4.867
Commitments that are unconditionally revocable at any time and other contractual commitments	2.304.332	2.024.206	115.217	101.210
Other irrevocable or conditionally revocable commitments	1.317	1.317	66	66
TOTAL CASH OUTFLOWS	194.901	168.959		
CASH INFLOWS				
Secured receivables	81.195	73.375	81.195	73.375
Unsecured receivables	930.311	487.279	929.739	486.707
Other cash inflows	644	29	644	29
TOTAL CASH INFLOWS	1.012.150	560.683	1.011.578	560.111
			Total Adjusted Value	
TOTAL HIGH QUALITY LIQUID ASSETS			136.999	27.876
TOTAL NET CASH OUTFLOWS			48.725	42.240
LIQUIDITY COVERAGE RATIO (%)			281,17	65,99

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

	Total Unweighted Value (Average)	Total Weighted Value (Average)		
Prior Period (31.12.2016)	TRY+FC	FC	TRY+FC	FC
HIGH-QUALITY LIQUID ASSETS			119.570	19.109
Total high-quality liquid assets (HQLA)	-	-	119.570	19.109
CASH OUTFLOWS				
Retail and small business customers deposits	-	-	-	-
Stable deposits	-	-	-	-
Less stable deposits	-	-	-	-
Unsecured funding other than retail and small business customers deposits	64.879	31.826	62.812	31.826
Operational deposits	-	-	-	-
Non-operational deposits	-	-	-	-
Other unsecured funding	64.879	31.826	62.812	31.826
Secured wholesale funding	-	-	-	-
Other cash outflows	36.126	35.877	6.424	6.175
Liquidity needs related to derivatives and market valuation changes on derivatives transactions	1.153	904	1.153	904
Debts related to structured financial products	-	-	-	-
Payment commitments related to debts to financial markets and other off balance sheet liabilities	34.973	34.973	5.271	5.271
Commitments that are unconditionally revocable at any time and other contractual commitments	1.446.464	1.006.318	72.323	50.316
Other irrevocable or conditionally revocable commitments	50.058	50.058	2.503	2.503
TOTAL CASH OUTFLOWS	144.062	90.820		
CASH INFLOWS				
Secured receivables	72.090	66.968	72.090	66.968
Unsecured receivables	710.363	412.575	710.261	412.474
Other cash inflows	1.155	462	1.155	462
TOTAL CASH INFLOWS	783.608	480.005	783.506	479.904
			Total Adjusted Value	
TOTAL HIGH QUALITY LIQUID ASSETS			119.570	19.109
TOTAL NET CASH OUTFLOWS			36.015	22.705
LIQUIDITY COVERAGE RATIO (%)			332,00	84,16

2. Explanations Liquidity Coverage Ratio

Significant factors that impact the result of liquidity coverage ratio and change of the items in time that are taken into account in calculation of this ratio

The significant factors that impact liquidity provision rate are net cash outflows and high quality assets stock. Items in the calculation of the rate in consideration may be changed in time because of economic structure and decisions of the Bank on fund management.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

The explanation about elements of the High Quality Liquid Assets

High quality liquid assets mostly consist of domestic Government bonds, and Eurobonds.

Content or funds and their composition

The main fund source of the Banks is long term borrowings which are provided by the International Financial Organizations. The coverage of these sources in all funds is approximately 96 percent. Other 4 percent of the Bank's total fund is provided by the repo operations.

Cash outflows generating from derivative transactions and information about which transactions are subject to collateral margin

The Banks' derivative transactions are mainly maturity based transactions. As 31 December 2017, there is no derivative transactions. In the period, incomes and expenses of derivative transactions done are accounted in foreign exchange gains and losses. There is no collateral margin completion transaction.

Counterparty and product-based funding sources and concentration limits on collateral

The funds of the Bank which operates as a development bank are mainly from international development banks and financial organizations. There is no concentration limit on counterparty or product.

The operational and legal factors that hinder liquidity transfer which is needed by the bank itself, its foreign branch and its consolidated subsidiary, and respective liquidity risk.

None.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

Maturity analysis of assets and liabilities according to remaining maturities:

	Demand	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Undistributed ^(*)	Total
Current Period (31.12.2017)								
Assets								
Cash (Cash on hand, Money in Transit, Purchased Cheques and Balances with Central Bank)	710	-	-	-	-	-	-	710
Banks	12.979	1.277.212	44.999	-	-	-	-	1.335.190
Financial Assets at Fair Value through Profit/Loss	-	-	-	-	-	-	-	-
Interbank Money Market	-	-	-	-	-	-	-	-
Placements	-	326.024	-	-	-	-	-	326.024
Financial Assets For Sale	8.037	6.353	16.890	124.987	101.074	-	-	257.341
Loans and Receivables	-	131.453	102.452	741.194	3.890.708	2.012.511	50.603	6.928.921
Investments Held-to-Maturity	-	-	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-	134.977	134.977
Total Assets	21.726	1.741.042	164.341	866.181	3.991.782	2.012.511	185.580	8.983.163
Liabilities								
Bank Deposits	-	-	-	-	-	-	-	-
Other Deposits	-	-	-	-	-	-	-	-
Other Funding	-	62.182	86.137	416.141	3.147.482	3.619.567	252.770	7.584.279
Interbank Money Market	-	-	-	-	-	-	-	-
Takings	-	130	-	-	-	-	-	130
Securities Issued	-	-	-	-	-	-	-	-
Miscellaneous Payables	18.622	-	-	-	-	-	-	18.622
Other Liabilities	-	1.244	7.819	-	-	-	1.371.069	1.380.132
Total Liabilities	18.622	63.556	93.956	416.141	3.147.482	3.619.567	1.623.839	8.983.163
Liquidity Gap	3.104	1.677.486	70.385	450.040	844.300	(1.607.056)	(1.438.259)	-
Net Off-Balance Position	-	-	-	-	-	-	-	-
Derivative Financial Assets	-	-	-	-	-	-	-	-
Derivative Financial Liabilities	-	-	-	-	-	-	-	-
Non-Cash Loans	37	180	-	592	-	-	-	809
Prior Period (31.12.2016)								
Total Assets	366.523	1.062.488	141.720	531.398	3.053.551	1.685.114	201.723	7.042.517
Total Liabilities	18.114	34.355	80.255	276.057	2.197.914	3.220.828	1.214.994	7.042.517
Liquidity Gap	348.409	1.028.133	61.465	255.341	855.637	(1.535.714)	(1.013.271)	-
Net Off-Balance Position	-	-	-	-	-	-	-	-
Derivative Financial Assets	-	-	-	-	-	-	-	-
Derivative Financial Liabilities	-	-	-	-	-	-	-	-
Non-Cash Loans	38	9.103	-	72.719	2.580	-	-	84.440

^(*) Assets, such as fixed assets, associates, subsidiaries, property value, prepaid expenses and net non performing receivables, other asset accounts that would not be converted to cash in a short time period and needed to used in the banking activities; Liabilities and equity accounts, such as the accounts with no maturities and provisions, are shown in the undistributed column. Deferred tax asset is included in the undistributed column.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

Remaining maturity of contractual financial liabilities:

In compliance with the Turkish Financial Reporting Standard No: 7, the following table indicates the maturities of the Bank's major non-derivative financial liabilities. The following tables have been prepared by referencing the earliest dates of payments without discounting the liabilities. The interest to be paid to the related liabilities is included in the following table. Adjustments column shows the items that may cause possible cash flows in the following periods. The balances of the related liabilities in balance sheet do not include these amounts.

Current Period (31.12.2017)	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Adjustments	Total
Liabilities							
Funds provided from other financial institutions	63.139	88.519	469.212	3.464.548	3.877.580	(378.719)	7.584.279
Money market borrowings	130	-	-	-	-	-	130
Total	63.269	88.519	469.212	3.464.548	3.877.580	(378.719)	7.584.409

Prior Year (31.12.2016)	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Adjustments	Total
Liabilities							
Funds provided from other financial institutions	33.392	78.311	325.823	2.450.824	3.440.162	(528.005)	5.800.507
Money market borrowings	351	-	-	-	-	-	351
Total	33.743	78.311	325.823	2.450.824	3.440.162	(528.005)	5.800.858

The following table shows non-cash loans according to remaining maturities.

Current Period (31.12.2017)	Demand	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Total
Letters of Credit	180	592	-	-	772	-	-
Endorsements	-	-	-	-	-	-	-
Letters of Guarantee	37	37	-	-	-	-	-
Acceptances	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Total	37	180				592	809

Prior Period (31.12.2016)	Demand	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Total
Letters of Credit	-	9.103	72.719	2.580	84.402	-	-
Endorsements	-	-	-	-	-	-	-
Letters of Guarantee	38	-	-	-	-	-	38
Acceptances	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Total	38	9.103	-	72.719	2.580	-	84.440

As of 31 December 2017, the Bank has no derivative financial assets and liabilities.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

VII- Explanation of leverage ratio:

In the current period, the rate of increase in tier I capital was realized higher than the rate of increase in the total amount of risk. The Banks's leverage ratio as of 31 December 2017 calculated by taking average of end of month leverage ratios for the last three month period is 13,70% (31 December 2016: 11,34%). The fact that the current period leverage ratio is higher than the leverage ratio of the previous period is due to the fact that the tier I capital amount. has increased higher than the total risk amount related to on-balance sheet assets

	Current Period (31.12.2017)	Prior Period (31.12.2016)
On-balance sheet assets ^(*)		
Balance sheet assets (Excluding derivative financial instruments and credit derivatives, including collaterals)	8.677.929	6.398.837
(Assets deducted in determining Tier 1 capital)	-	(5.935)
Total balance sheet exposures	8.677.929	6.392.902
Derivative financial instruments and loan derivatives	-	-
Replacement cost of derivative financial instruments and loan derivatives	-	-
Potential loan risk of derivative financial instruments and loan derivatives	-	20
Total derivative financial instruments and loan derivatives exposure	-	20
Securities financing transaction exposure	-	-
Risks from securities financing transaction exposure assets	-	-
Risks from brokerage activities related exposures	-	-
Total risks related with securities or commodity financing transactions	-	-
Off-balance sheet items	-	-
Gross notional amounts of off-balance sheet items	2.363.446	1.482.347
(Adjustments for conversion to credit equivalent amounts)	(2.126.061)	(1.265.601)
Total risks of off-balance sheet items	237.385	216.746
Capital and total risks	-	-
Tier 1 capital	1.221.570	746.069
Total risks	8.915.314	6.609.668
Leverage ratio	-	-
Leverage ratio	13,70	11,34

^(*) Calculated by taking the average of the last three months financial statements.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

VIII- Explanation related to presentation of financial assets and liabilities at fair value:

When fair value of financial assets and liabilities are determined, discounted values are taken into consideration according to remaining maturities. Transactions traded on the stock exchange are valued by using the daily weighted average prices of the last working day on the balance sheet date based on the stock market value.

	Book Value ^(*)		Fair Value	
	Current Period (31.12.2017)	Prior Period (31.12.2016)	Current Period (31.12.2017)	Prior Period (31.12.2016)
Financial Assets	8.847.476	6.915.420	8.886.666	6.949.684
Money markets placements	326.024	10.505	326.024	10.505
Banks (**)	1.335.190	1.265.426	1.335.190	1.265.426
Financial assets available for sale	257.341	193.389	257.341	193.389
Held to Maturity Investment	-	20.415	-	20.407
Loans	6.928.921	5.425.685	6.968.111	5.459.957
Financial Liabilities	7.603.031	5.818.972	7.646.846	5.833.372
Interbank deposits	-	-	-	-
Payables to Money Market	130	351	130	351
Other deposits	-	-	-	-
Funds provided from other financial institutions	7.584.279	5.800.507	7.628.094	5.814.907
Marketable securities issued	-	-	-	-
Sundry creditors	18.622	18.114	18.622	18.114

(*) The book values of financial assets and financial liabilities are stated in the book values by adding accrual amounts at the end of the period.

Methods and estimations used for the fair value determination of financial instruments which are not presented with their fair values in the financial statements:

- i- For the fair value determination of loans, interest rates as of balance sheet date are considered
- ii- For the fair value determination of banks, interest rates as of balance sheet date are considered
- iii- For the fair value determination of investments held-to-maturity, market prices as of the balance sheet date are considered.
- iv- For the fair value determination of the funds provided from other financial institutions, alternative resource interest rates are considered.

Information on fair value measurements recognized in the financial statements:

TFRS 7 "Financial Instruments: Disclosures" standard requires the items, which are recognized in the balance sheet at their fair values to be shown in the notes by being classified. According to this standard, the related financial instruments are classified into three levels in such a way that they will express the significance of the data used in fair value measurements. At the first level, there are financial instruments, whose fair values are determined according to quoted prices in active markets for identical assets or liabilities, at the second level, there are financial instruments, whose fair values are determined by directly or indirectly observable market data, and at the third level, there are financial instruments, whose fair values are determined by the data, which are not based on observable market data. The financial assets, which are recognized in the balance sheet at their values, are shown below as classified according to the aforementioned principles.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

Current Period (31.12.2017)	Level 1	Level 2	Level 3
Financial assets at fair value through profit and loss	-	-	-
Debt securities	-	-	-
Share certificates	-	-	-
Derivative financial assets held for trading	-	-	-
Other	-	-	-
Financial assets available-for-sale*	148.403	100.901	-
Debt securities	148.403	100.901	-
Other	-	-	-
Investment in subsidiaries and associates **	-	-	35.992
Derivative financial liabilities	-	-	-

(*) Since they are not traded in an active market, share certificates (TRY 8.037) under financial assets available-for-sale are shown in the financial statements with their acquisition costs, therefore not included in the table.

(**) Since the unlisted investments in associates and subsidiaries are recognized at acquisition cost within the framework of TAS 39, these companies are not included in the table.

Prior Period (31.12.2016)	Level 1	Level 2	Level 3
Financial assets at fair value through profit and loss	-	-	-
Debt securities	-	-	-
Share certificates	-	-	-
Derivative financial assets held for trading	-	-	-
Other	-	-	-
Financial assets available-for-sale*	185.352	-	-
Debt securities	185.352	-	-
Other	-	-	-
Investment in subsidiaries and associates **	-	-	-
Derivative financial liabilities	-	-	-

(*) Since they are not traded in an active market, share certificates (TRY 8.037) under financial assets available-for-sale are shown in the financial statements with their acquisition costs, therefore not included in the table.

(**) Since the unlisted investments in associates and subsidiaries are recognized at acquisition cost within the framework of TAS 39, these companies are not included in the table.

In the current period, there is no transition between Level 1 and Level 2.

There has been a transition from cost to level 3 due to fair value measurement of foreign currency denominated subsidiary.

Level 3 Movement Table

Balance at the Beginning 31.12.2016	18.497
Valuation Amount	16.038
Payment in the period	1.457
Balance at the End 31.12.2017	35.992

IX- Explanations related to transactions made on behalf of others and items held in trust:

The Bank acts as an intermediary for purchases and sales of securities on behalf of others and provides custody services. Besides, the Bank acts as an intermediary for implementation of tourism and infrastructure investments on behalf of Republic of Turkey Ministry of Culture and Tourism.

The Bank has no fiduciary transactions.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

X- Explanations on risk management :

1. General information on risk management and risk weighted amounts:

The Bank's risk management approach:

It should be emphasized firstly that the Bank is actively using committees and risk budgeting in decision-making mechanisms and risk management processes while assessing risk management performance in addition to the functional and financial performance, which has operational mechanisms based on a wide range of activities. Within the framework of the Bank's vision, mission, strategic objectives and targets set by the Board of Directors and risk management policies and strategies; the Asset and Liability Management Committee and the Credit Participation Committee constitute two main committees that play a critical role in the execution of the Bank's activities; which the Asset and Liability Management Committee ensuring that the assets and liabilities are managed effectively and efficiently by taking into consideration the current and possible economic developments and the factors such as interest, maturity and currency, and establishing coordination and communication between the Senior Management and the Bank's units, and the Credit Participation Committee with the function of determining the principles of lending, evaluating the credit-participation risk and the situation of the investment, evaluating the reports prepared on the loan appraisal and in summary taking care of all the lending activities. Within the framework of the short-term strategies determined by the Asset and Liability Management Committee in line with the vision and strategic objectives of the Bank's Strategic Plan, each of the units in the Bank comply with these targets and the risk budgeting application based on the consolidation of these budgets are applied to contribute to the basic activities of the Bank.

Risk monitoring processes constitute the main determinant of risk management policies in decision making processes in the Bank. The organizational structure of the risk monitoring processes is composed of, the "Internal Control" and "Risk Monitoring" Directorates which the duties and authorities established within the Bank with the decision of the Board of Directors pursuant to the Banking Law and the BRSA legislation, the Audit Committee and the Internal Inspection Department. The units within the internal systems of the Bank and the Audit Committee undertake their activities in accordance with the "Regulation on Internal Systems of Banks and Internal Capital Adequacy Assessment Process" dated 11/07/2014 and numbered 29057 of the BRSA.

The general principle of the risk policies followed by the Bank where the implementation of committees and risk budgeting actively in decision-making mechanisms and risk management processes; which was approved by Board of Directors dated 11.01.2016, 2016-01-15/015 stated in the Bank's "Risk Management Strategies, Policies and Implementation Principles", "To specialize in the activities in accordance with the mission, vision and structure determined by the Establishment Law, to take risks that can be identified, controlled and / or managed ", and to make efforts to avoid any risks other than the risks inevitable and arising as part of the nature of the activities". While the Bank is specializing in its activities in accordance with its vision and structure in line with this general principle, it shapes the asset composition in line with this principle and in the risk management policy it is subject to the principle of "taking risks that can be controlled and / or managed, not taking any risks other than the risks that are unavoidable and to apply this principle as much as possible. In this context, it is the basic principle to ensure that the risks to be taken are defined and manageable.

In addition, to the extent that risk measurement and reporting techniques allow, measurement of the present and future potential impacts of the risks taken is made possible and written limits for the risks arising from the operations of the Bank and for the digitization are determined according to the BRSA (BDDK) regulations. Therefore, the risk appetite of the Bank is determined and monitored by the risk limits prepared in accordance with the provisions of Article 39 titled "Risk Appetite Structure" of Internal Systems and ICAAP Regulations of Banks No. 29057 issued by the BRSA and published in the Official Gazette on 11 July 2014. "Risk Limits and Implementation Principles", which are revised by the Risk Monitoring Department annually in accordance with the Bank's risk policies and accepted by the Board of Directors, are the main policy that determines the Bank's risk appetite structure.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

According to the “Risk Limits and Implementation Guidelines” which is the most important indicator of the risk appetite of the bank, limits, early warning limits and actions to be taken in case of exceeding limit are determined by basic risk groups. In determining limits, the legal limits shape the general framework. However, in addition to the principle of prudence in risk management, specific limits specific to the Bank are also set for each risk type. The early warning limits are intended to prevent limit overs, and the limits are set one level below (or above). Each risk group covered by the Bank’s risk limits is monitored by reports made to the Senior Management and the Audit Committee on a daily, weekly, monthly basis by the Risk Monitoring Department and is first informed to the relevant unit in the framework of the actions to be taken in determining the elimination of exceeded limits.

It is clear that both the decision-making mechanisms and the risk management processes are the general principle of risk policies and the Bank has a “risk avoider” risk appetite within the framework of risk limits and implementation principles.

The limits stated in the text of “Risk Appetite Structure, Risk Limits and Implementation Principles” approved by the Board of Directors within the framework of the 37th article of “Regulation on Internal Systems of Banks” issued by the BRSA for quantifiable risks arising from the activities of the Bank are determined, . The Risk Monitoring Department monitors compliance with these limits and regularly reports to the Board of Directors, the Audit Committee and the Senior Management.

Within the scope of risk management activities, shocks are applied on two key parameters of macroeconomic variables, which best represent the conjuncture, in the Bank’s ongoing stress testing activities: interest and exchange rates. As a result of the shocks at different rates on current interest rates and exchange rates, possible changes in the Bank’s income-expense accounts and equity accounts are obtained. The studies within the scope of “Stress Test and Scenario Analyzes” which are reported to the BRSA annually, are summarized as follows:

- “Profit / Loss and Equity” of the changes that may occur on the basis of TRY and foreign currency (FX) interest rates and 4 base scenarios at exchange rate are tried to be measured on the interest rate and currency sensitive items included in the Bank’s financial statements. This stress test is performed every quarter.
- On the Bank’s securities portfolio (Trading Portfolio and Available-for-Sale Portfolio), portfolio sensitivity is firstly calculated against changes in interest rates, and two separate scenarios are set forth to compensate for the potential loss arising from adverse interest rate changes. In the first scenario, the number of days that the loss that will arise due to the disposing of the entire portfolio after the interest rate increase can be recovered from the risk-free interest rate (Takasbank O / N) is calculated while in the second scenario the weighted average number of days (duration) that the nominal value of the new portfolio value resulting from the interest increase will be calculated. Theoretical scenario analyzes for the securities portfolio are made on a daily-basis.
- The sensitivity of the foreign currency position of the Bank to exchange rate changes is also calculated frequently on a daily basis with 3 different scenarios. In the applied stress tests, the profit / loss amounts that will be caused by the changes that may occur in exchange rates on different scenarios are calculated with respect to foreign currency assets and liabilities in the Bank’s balance sheet.
- The Bank’s specific variable, which is followed up within the scope of the scenario analysis of the stress tests, is the “Non-performing Loan Rates”. Non-performing Loan Rates where the Bank’s control power is more limited in terms of the asset quality of the Bank and which is highly sensitive to external developments and therefore comparable to other items on the balance sheet is also subject to scenario analysis. This analysis demonstrates that the increase in the current Non-performing Loan Rate by 200 basis points and the decrease in the specific provision ratio at the date of the analysis will result in a decrease in the net provision for the current period’s profit and shareholders’ equity. This scenario is important for the negative developments to be experienced in the Non-performing Loan Rates for any reason to have effects on the profitability and equity structure of the Bank..
- The Bank’s “Proforma Cash Flows Statement” analysis, which is prepared based on the possible cash inflows and outflows in the next one-year period, including seven different scenarios, ranging from 45 percent to 95 percent of “loan collection rates” and implicitly including currency and interest forecasts, it is the most detailed scenario analysis that the Bank has prepared.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

Overview of risk weighted amounts:

	Risk Weighted Amount		Minimum Capital Requirement	
	Current Period (31.12.2017)	Prior Period (31.12.2016)	Current Period (31.12.2017)	Prior Period (31.12.2016)
1 Credit risk (excluding counterparty credit risk) (CCR) ^(*)	7.454.624	5.708.395	596.370	456.672
2 Of which standardized approach (SA)	7.454.624	5.708.395	596.370	456.672
3 Of which internal rating-based (IRB) approach	-	-	-	-
4 Counterparty credit risk	55	34	4	3
5 Of which standardized approach for counterparty credit risk (SA-CCR)	55	34	4	3
6 Of which internal model method (IMM)	-	-	-	-
7 Equity position in banking book under basic risk weighting or internal rating-based	-	-	-	-
8 Equity investments in funds – look-through approach	-	-	-	-
9 Equity investments in funds – mandate-based approach	-	-	-	-
10 Equity investments in funds – 1250% risk weighting approach	-	-	-	-
11 Settlement risk	-	-	-	-
12 Securitization exposures in banking book	-	-	-	-
13 Of which IRB ratings-based approach (RBA)	-	-	-	-
14 Of which IRB supervisory formula approach (SFA)	-	-	-	-
15 Standard Of which SA/simplified supervisory formula approach (SSFA)	-	-	-	-
16 Market Risk	31.538	38.963	2.523	3.117
17 Of which standardized approach (SA)	31.538	38.963	2.523	3.117
18 Of which internal model approaches (IMM)	-	-	-	-
19 Operational Risk	302.418	256.792	24.193	20.543
20 Of which basic indicator approach	302.418	256.792	24.193	20.543
21 Of which standardized approach	-	-	-	-
22 Of which advanced measurement approach	-	-	-	-
23 Amounts below the thresholds for deduction from capital (subject to 250% risk weight)	-	-	-	-
24 Floor adjustments	-	-	-	-
25 Total (1+4+7+8+9+10+11+12+16+19+23+24)	7.788.635	6.004.184	623.090	480.335

2. Credit risk explanations:

General qualitative information on credit risk:

The Bank calculates its legal credit risk as per the framework of the “Regulation on the Measurement and Evaluation of Banks’ Capital Adequacy” and Basel II criteria. The management of credit risk is essential in such a way as to ensure that the standard ratio of legal capital adequacy is above the minimum limit of existing regulations.

Within the scope of “Basel II application” under the measure of credit risk, the standard method prescribed by the BRSA is used and this measurement method based on weighting to the classes and guarantees of the loans is embodied in the KR520 form which is reported monthly to the BRSA. There are basically 3 main headings of the form:

- Risk Classes,
- Credit Risk Reduction Techniques and Credit Risk Substitution Effects,
- Distribution by Risk Weights.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

In order to determine the credit risk, the Bank's Risk Weighted Assets are classified by "Separation on the basis of risk classes". After the asset is classified according to the risk classes, collaterals received on loans are assessed under Basel II "Credit Risk Mitigation Techniques and Credit Risk Substitution Effects". The credit risk is measured monthly within the standard method framework, by using the algorithm in the "Basel II Credit Rating Classification".

The Bank provides for the measurement, monitoring, stress testing and scenario analysis studies that are in line with the volume, quality and complexity of the credit risk management and reporting results to the Audit Committee and the Board of Directors.

Moving from the Bank's loan portfolio structure for risk measurement and monitoring activities besides the standard method for determining the level of credit risk that the bank may encounter;

- Credit Risks by Sectors
- Credit Risks by Region
- Non-performing Loans Analysis
- Concentration Analysis of Credits
- Risks Weights of Loan Collaterals
- Sectoral Risks According to Risk Weights of Loans
- Distribution of Loans by Maturity and Source
- Distribution of Performing Credits is analyzed and reported.

In the Bank's credit risk management policy, diversification of credit portfolio is essential.

Although the Bank is not subject to the credit limitations imposed on deposit-taking banks pursuant to Article 77 of the Banking Law No. 5411, the credit limits were set out in Article 7 of the "Internal Loans Circular" dated April 2014, approved by the Board of Directors. In accordance with the Article 8 of the "Internal Loans Circular", transactions that are not subject to credit limitation are excluded from the scope of risk limits.

Credit quality of assets:

	a	B	c	D
			Provisions/ Amortizations and Impairment	Net Value (a+b-c)
Current Period (31.12.2017)	Overdue	Not Overdue		
	Gross carrying value as per TAS			
1 Loans	123.012	6.878.318	72.409	6.928.921
2 Debt securities	-	249.418	115	249.304
3 Off-balance sheet assets	2	809	2	809
4 Total	123.014	7.128.545	72.526	7.179.034

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

	a	B	c	D
Perior Period (31.12.2016)	Overdue	Not Overdue	Provisions/ Amortizations and Impairment	Net Value (a+b-c)
Gross carrying value as per TAS				
1 Loans	125.779	5.349.989	50.083	5.425.685
2 Debt securities	-	196.514	3.252	193.262
3 Off-balance sheet assets	2	84.440	2	84.440
4 Total	125.781	5.630.943	53.337	5.703.386

Changes in non-performing loans and debt securities:

Current Period (31.12.2017)

1	Defaulted loans and debt securities at the end of prior reporting period	125.781
2	Defaulted loans and debt securities from last reporting period	1.700
3	Receivables that are not defaulted	12
4	Amounts written of	-
5	Other Changes	(4.479)
6	Defaulted loans and debt securities at the end of reporting period (1+2-3-4+-5)	123.014

Perior Period (31.12.2016)

1	Defaulted loans and debt securities at the end of prior reporting period	107.473
2	Defaulted loans and debt securities from last reporting period	22.754
3	Receivables that are not defaulted	(4.446)
4	Amounts written of	-
5	Other Changes	-
6	Defaulted loans and debt securities at the end of reporting period (1+2-3-4+-5)	125.781

Additional disclosures about the credit quality of assets:

Loans that are overdue by 90 days after the end of reporting period or those that are deemed to be impaired due to their credibility are regarded as non-performing loans. "Specific provisions" are set for these loans within the scope of the Provisioning Regulation.

Overdue loans are loans that have been overdue up to 90 days at the end of the reporting period but have not been impaired. For these loans, a "General Provision" is calculated within the scope of the Provisioning Regulation.

In both types of receivables, the collection of receivables is overdue and general provision is calculated for receivables overdue up to 90 days and the specific provision is calculated for receivables overdue more than 90 days.

Specific provisions are set for all non-performing loans over 90 days and there is no receivable without no provision in this category.

Within the scope of the Provisioning Regulation, the collection of the receivables is delayed and the general provision is calculated for the overdue receivables up to 90 days and the specific provision is calculated for receivables more than 90 days.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

Loans and other receivables, including overdue interest, are restructured under the Provisioning Regulation by providing additional credits, if necessary, in order to provide liquidity to the borrower for the purposes of ultimately enabling collection of the receivables in the event that it is arising from temporary liquidity difficulties.

Provisional liquidity problem is considered as manageable cash inflow difficulty arising from the fact that a borrower with credit risk that is able to fulfill its obligations on time and on its terms would have been fundamentally irregular due to fluctuations in sales revenue or operating income due to unforeseen and temporary consequences.

Restructured loans continue to be followed in the same groups they are originally classified. During this period, specific or general provision are made at respective rates for the group to which they are classified.

Breakdown of exposures by geographical areas, industry and maturity

Exposures provisioned by major regions and sectors

Current Period (31.12.2017)	Non-performing loans	Specific provisions
Domestic	123.012	72.409
European Countries	-	-
OECD Countries	-	-
Total	123.012	72.409
Perior Period (31.12.2016)	Non-performing loans	Specific provisions
Domestic	125.779	50.083
European Countries	-	-
OECD Countries	-	-
Total	125.779	50.083

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

Current Period (31.12.2017)

Major Sectors/ Counterparties	Credits			
	Impaired Credits	Past Due Credits	Value Adjustments	Provisions
Agriculture	1.775	-	-	885
Farming and Animal Breeding	1.775	-	-	885
Forestry	-	-	-	-
Fishery	-	-	-	-
Industry	52.337	699	14	33.281
Mining and quarry	1.856	-	-	1.334
Manufacturing	33.817	-	-	23.615
Electricity, gas and water	16.664	699	14	8.332
Construction	-	-	-	-
Service	67.715	220	3	37.058
Wholesale and retail trade	-	-	-	-
Hotel and food services	58.724	220	3	32.531
Transportation and communication	72	-	-	72
Financial institutions	-	-	-	-
Real estate and leasing services	-	-	-	-
Self-employment services	-	-	-	-
Educational services	-	-	-	-
Health and social services	8.919	-	-	4.455
Other	1.185	-	-	1.185
Total	123.012	919	17	72.409

Perior Period (31.12.2016)

Major Sectors/ Counterparties	Credits			
	Impaired Credits	Past Due Credits	Value Adjustments	Provisions
Agriculture	1.767	-	-	442
Farming and Animal Breeding	1.767	-	-	442
Forestry	-	-	-	-
Fishery	-	-	-	-
Industry	55.413	1.453	29	24.840
Mining and quarry	1.848	-	-	1.333
Manufacturing	36.906	54	1	21.425
Electricity, gas and water	16.659	1.399	28	2.082
Construction	-	-	-	-
Service	67.402	4.699	85	23.604
Wholesale and retail trade	-	-	-	-
Hotel and food services	58.442	4.699	85	21.310
Transportation and communication	72	-	-	72
Financial institutions	-	-	-	-
Real estate and leasing services	-	-	-	-
Self-employment services	-	-	-	-
Educational services	-	-	-	-
Health and social services	8.888	-	-	2.222
Other	1.197	-	-	1.197
Total	125.779	6.152	114	50.083

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

Maturity analysis for non-performing loans

Current Period (31.12.2017)	Up to 3 Months	3-12 Months	1-3 Years	3-5 Years	5 Years and above
Corporate and Commercial Loans	1.259	-	23.405	26.962	70.200
Other	-	-	-	-	1.185
Total	1.259	-	23.405	26.962	71.386
Perior Period (31.12.2016)	Up to 3 Months	3-12 Months	1-3 Years	3-5 Years	5 Years and above
Corporate and Commercial Loans	-	21.969	6.568	33.685	62.361
Other	-	-	-	-	1.196
Total	-	21.669	6.568	33.685	63.557

Qualitative disclosure on credit risk mitigation techniques:

In the calculation of the amounts subject to credit risk, the Bank evaluates the loans in terms of risk weight, taking into consideration the risk classes, grading notes and risk reduction elements within the context of "Communiqué on Credit Risk Mitigation Techniques".

The receivables from the counterparties in relation to the non-cash loans and commitments, if any, are accounted for at the net amounts after deducting specific provisions, in accordance with the "Regulation on the Procedures and Principles for the Determination of the Qualifications of Loans and Other Receivables and the Provisions to be Made" as per the provisions of the Article 5 of the "Regulation" by using credit conversion factors set out in the Communiqué on "Credit Risk Mitigation Techniques" and included in the relevant risk class specified in the Article 6 of the Regulation and the risk class is determined according to the Annex-1.

The Bank does not make on-balance sheet and off-balance sheet netting within the scope of credit risk mitigation. Applications related to valuation and management of collateral are carried out in line with the Communiqué on Credit Risk Mitigation Techniques. Main guarantees taken by the Bank in the context of credit risk mitigation techniques are financial guarantees (cash) and guarantees (Turkish Treasury and banks). Monetary guarantees are evaluated with the most recent values as of the reporting date in the credit risk reduction process. In the event that a bank loan customer receives guarantees obtained from other institutions, the credit risk worthiness of the guaranteeing institution in the credit risk reduction process is taken into consideration. Risk-reducing effects of collaterals are taken into account through standard volatility adjustments in the portfolios in which the comprehensive financial guarantee method is used.

Overview of credit risk mitigation techniques:

	a	b	c	d	e	f	g
	Exposures unsecured: carrying amount as per TAS	Exposures secured by collateral	Collateralized amount of exposures secured by collateral	Exposures secured by financial guarantees	Collateralized amount of exposures secured by financial guarantees	Exposures secured by credit derivatives	Collateralized amount of exposures secured by credit derivatives
Current Period (31.12.2017)							
1 Loans	41.893	6.887.028	100%	-	-	-	-
2 Debt Instruments	-	249.304	100%	-	-	-	-
3 Total	41.893	7.136.332	100%	-	-	-	-
4 Overdue	-	123.012	100%	-	-	-	-

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

	a	b	c	d	e	f	g
	Exposures unsecured: carrying amount as per TAS	Exposures secured by collateral	Collateralized amount of exposures secured by collateral	Exposures secured by financial guarantees	Collateralized amount of exposures secured by financial guarantees	Exposures secured by credit derivatives	Collateralized amount of exposures secured by credit derivatives
Perior Period (31.12.2016)							
1 Loans	37.666	5.161.861	100%	-	-	-	-
2 Debt Instruments	-	-	-	-	-	-	-
3 Total	37.666	5.161.861	100%	-	-	-	-
4 Overdue	-	125.779	100%	-	-	-	-

Qualitative information on ratings used by the banks while calculating credit risk with standard approach

The risk weights of the risk categories as per the Article 6 of the "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" are determined pursuant to the regulations. Any external risk ratings which are determined by any international rating agency are not used.

Standard Approach - Credit risk exposure and credit risk mitigation effects:

The Bank calculates the credit risk with a standard approach and do not use a rating grade.

Current Period (31.12.2017)	Exposures before CCF and CRM		Exposures post- CCF and CRM		Risk Weighted Amount and Intensity of Risk Weighted Amount	
Risk Class	On-balance sheet amount	Off-Balance Sheet Amount	On-balance sheet amount	Off-Balance Sheet Amount	RWA	RWA density
Exposures to sovereigns and central banks	899	-	2.985	-	-	0.0%
Exposures to regional and local governments	-	-	-	-	-	0.0%
Exposures to administrative bodies and non-commercial entities	-	-	-	-	-	0.0%
Exposures to multilateral development banks	-	-	-	-	-	0.0%
Exposures to international organizations	-	-	-	-	-	0.0%
Exposures to banks and brokerage houses	2.188.057	33	2.585.898	33	1.884.947	25.3%
Exposures to corporates	5.039.815	2.478.597	4.658.819	390	4.659.209	62.5%
Retail exposures	227.020	53.911	216.425	-	162.319	2.2%
Exposures secured by residential property	35.366	-	35.366	-	19.512	0.3%
Exposures secured by commercial property	1.042.303	-	1.033.966	-	522.933	7.0%
Overdue items	50.603	-	50.603	-	49.382	0.7%
Exposures in high-risk categories	40.992	-	40.992	-	63.421	0.9%
Exposures in the form of bonds secured by mortgages	-	-	-	-	-	0.0%
Short term exposures to banks, brokerage houses and corporates	-	-	-	-	-	0.0%
Exposures in the form of collective investment undertakings	-	-	-	-	-	0.0%
Other exposures	93.128	-	93.128	-	92.956	1.2%
Equity share investments	-	-	-	-	-	0.0%
Total	8.718.183	2.532.541	8.718.182	423	7.454.679	100.0%

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

Standard Approach - Credit risk exposure and credit risk mitigation effects:

Prior Period (31.12.2016)	Exposures before CCF and CRM		Exposures post -CCF and CRM		Risk Weighted Amount and Intensity of Risk Weighted Amount	
	On-balance sheet amount	Off-Balance Sheet Amount	On-balance sheet amount	Off-Balance Sheet Amount	RWA	RWA density
Risk Class						
Exposures to sovereigns and central banks	21.591	-	23.154	-	-	0,0%
Exposures to regional and local governments	-	-	-	-	-	0,0%
Exposures to administrative bodies and non-commercial entities	-	-	-	-	-	0,0%
Exposures to multilateral development banks	-	-	-	-	-	0,0%
Exposures to international organizations	-	-	-	-	-	0,0%
Exposures to banks and brokerage houses	1.672.257	34	1.872.261	34	1.198.615	21,0%
Exposures to corporates	3.867.897	1.340.281	2.374.253	1.340.281	3.714.535	65,2%
Retail exposures	147.354	75.849	72.494	75.849	111.257	1,9%
Exposures secured by residential property	20.068	-	20.068	-	10.801	0,2%
Exposures secured by commercial property	911.508	-	904.524	-	458.806	8,0%
Overdue items	75.696	-	75.696	-	81.057	1,4%
Exposures in high-risk categories	22.866	-	22.866	-	35.875	0,6%
Exposures in the form of bonds secured by mortgages	-	-	-	-	-	0,0%
Short term exposures to banks, brokerage houses and corporates	-	-	-	-	-	0,0%
Exposures in the form of collective investment undertakings	-	-	-	-	-	0,0%
Other exposures	97.615	-	97.615	-	97.485	1,7%
Equity share investments	-	-	-	-	-	0,0%
Total	6.836.852	1.416.164	5.462.931	1.416.164	5.708.431	100,0%

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

Standard Approach: Exposures by asset classes and risk weights:

The Bank calculates the credit risk with the standard approach and does not use a rating score

Current Period (31.12.2017)	a	b	c	d	e	f	g	h	i	j
Risk Class	0%	10%	20%	50% Secured by property mortgages	75%	100%	150%	200%	Other	Total risk amount (after CCF and CRM)
1 Exposures to sovereigns and their central banks	2.985	-	-	-	-	-	-	-	-	2.985
2 Exposures to regional and local governments	-	-	-	-	-	-	-	-	-	-
3 Exposures to administrative bodies and non-commercial entities	-	-	-	-	-	-	-	-	-	-
4 Exposures to multilateral development banks	-	-	-	-	-	-	-	-	-	-
5 Exposures to international organizations	-	-	-	-	-	-	-	-	-	-
6 Exposures to banks and brokerage houses	-	-	425.026	721.926	-1.438.979	-	-	-	-	2.585.931
7 Exposures to corporates	-	-	-	-	-4.659.209	-	-	-	-	4.659.209
8 Retail exposures	-	-	-	-	216.425	-	-	-	-	216.425
9 Exposures secured by residential property	-	-	-	31.708	-	3.658	-	-	-	35.366
10 Exposures secured by commercial property	-	-	-	1.022.067	-	11.899	-	-	-	1.033.966
11 Past-due items	-	-	-	3.638	-	45.769	1.196	-	-	50.603
12 Exposures in high-risk categories	-	-	-	-	-	-	37.124	3.868	-	40.992
13 Exposures in the form of bonds secured by mortgages	-	-	-	-	-	-	-	-	-	-
14 Short term exposures to banks, brokerage houses and corporates	-	-	-	-	-	-	-	-	-	-
15 Exposures in the form of collective investment undertakings	-	-	-	-	-	-	-	-	-	-
16 Other exposures	172	-	-	-	-	92.956	-	-	-	93.128
17 Equity share investments	-	-	-	-	-	-	-	-	-	-
18 Total	3.157	-	425.026	1.779.339	216.425	252.470	38.320	3.868	-	8.718.605

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

Standard Approach: Exposures by asset classes and risk weights:

Perior Period (31.12.2016)	a	b	c	d	e	f	g	h	i	j
Risk Class	0%	10%	20%	50% Secured by property mortgages	75%	100%	150%	200%	Other	Total risk amount (after CCF and CRM)
1 Exposures to sovereigns and their central banks	23.154	-	-	-	-	-	-	-	-	23.154
2 Exposures to regional and local governments	-	-	-	-	-	-	-	-	-	-
3 Exposures to administrative bodies and non-commercial entities	-	-	-	-	-	-	-	-	-	-
4 Exposures to multilateral development banks	-	-	-	-	-	-	-	-	-	-
5 Exposures to international organizations	-	-	-	-	-	-	-	-	-	-
6 Exposures to banks and brokerage houses	-	-	712.053	208.073	-	952.168	-	-	-	1.872.294
7 Exposures to corporates	-	-	-	-	-	3.714.535	-	-	-	3.714.535
8 Retail exposures	-	-	-	-	148.343	-	-	-	-	148.343
9 Exposures secured by residential property	-	-	-	18.535	-	1.533	-	-	-	20.068
10 Exposures secured by commercial property	-	-	-	891.437	-	13.087	-	-	-	904.524
11 Past-due items	-	-	-	3.854	-	57.266	14.576	-	-	75.696
12 Exposures in high-risk categories	-	-	-	-	-	-	19.715	3.151	-	22.866
13 Exposures in the form of bonds secured by mortgages	-	-	-	-	-	-	-	-	-	-
14 Short term exposures to banks, brokerage houses and corporates	-	-	-	-	-	-	-	-	-	-
15 Exposures in the form of collective investment undertakings	-	-	-	-	-	-	-	-	-	-
16 Other exposures	130	-	-	-	-	97.485	-	-	-	97.615
17 Equity share investments	-	-	-	-	-	-	-	-	-	-
18 Total	23.284	-	712.053	1.121.899	148.343	4.836.074	34.291	3.151	-	6.879.095

3. Explanations on counterparty credit risk:

Evaluation of counterparty credit risk according to measurement methods:

A counterparty credit risk is the risk that a counterparty who is involved in a transaction that is liable to both parties defaults before the final payment in the cash flow of that transaction.

The Bank takes necessary measures to limit counterparty credit risks arising from bilateral transactions, such as off-balance sheet over the counter derivative transactions, by taking into account risk capacities.

Transactions made by the Treasury Department including counter-party risks such as over the counter forward, swaps and options are reported daily to the Senior Management and Risk Monitoring Department. All transactions made by the other party are considered within the limits of the counterparty. Exceeded limits are reported daily to the responsible managers and are recorded with all measures taken to overcome these limitations.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

3. Explanations on counterparty credit risk:

Evaluation of counterparty credit risk according to measurement methods:

	a	b	c	d	e	f
	Replacement cost	Potential Credit Risk Amount	Alpha used for competing EEPE regulatory	EAD	EAD Post- CRM	Risk Weighted Amounts
Current Period (31.12.2017)						
1 Standardized Approach - CCR (for derivatives)	-	-	-	1,4	-	-
2 Internal Model Method (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)	-	-	-	-	-	-
3 Simple Approach for credit risk mitigation (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)	-	-	-	-	-	-
4 Comprehensive Approach for credit risk mitigation (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)	-	-	-	-	-	-
5 Value-at-Risk (VaR) for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions	-	-	-	-	273	55
6 Total	-	-	-	-	273	55

Evaluation of counterparty credit risk according to measurement methods:

	a	b	c	d	e	f
	Replacement cost	Potential Credit Risk Amount	Alpha used for competing EEPE regulatory	EAD	EAD Post- CRM	Risk Weighted Amounts
Perior Period (31.12.2016)						
1 Standardized Approach - CCR (for derivatives)	-	-	-	1,4	-	-
2 Internal Model Method (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)	-	-	-	-	-	-
3 Simple Approach for credit risk mitigation (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)	-	-	-	-	-	-
4 Comprehensive Approach for credit risk mitigation (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)	-	-	-	-	-	-
5 Value-at-Risk (VaR) for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions	-	-	-	-	156	34
6 Total	-	-	-	-	156	34

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

KKR2: Capital Requirements for KDA:

The table is not prepared since advanced method is not used in the calculation of KDA.

Standard approach - counterparty credit risk based on risk classes and risk weights:

Current Period (31.12.2017)	a	b	c	d	e	f	g	h	i
Risk Class	0%	10%	23%	50%	75%	100%	150%	Other	Total credit exposure*
Exposures to sovereigns and their central banks	273	-	-	-	-	-	-	-	273
Exposures to regional and local governments	-	-	-	-	-	-	-	-	-
Exposures to administrative bodies and non-commercial entities	-	-	-	-	-	-	-	-	-
Exposures to multilateral development banks	-	-	-	-	-	-	-	-	-
Exposures to international organizations	-	-	-	-	-	-	-	-	-
Exposures to banks and brokerage houses	-	-	-	-	-	-	-	-	-
Exposures to corporates	-	-	-	-	-	-	-	-	-
Retail exposures	-	-	-	-	-	-	-	-	-
Exposures secured by residential property	-	-	-	-	-	-	-	-	-
Exposures secured by commercial property	-	-	-	-	-	-	-	-	-
Overdue items	-	-	-	-	-	-	-	-	-
Exposures in high-risk categories	-	-	-	-	-	-	-	-	-
Exposures in the form of bonds secured by mortgages	-	-	-	-	-	-	-	-	-
Short term exposures to banks, brokerage houses and corporates	-	-	-	-	-	-	-	-	-
Exposures in the form of collective investment undertakings	-	-	-	-	-	-	-	-	-
Equity share investments	-	-	-	-	-	-	-	-	-
Other exposures	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-
Total	273	-	-	-	-	-	-	-	273

(*) Total credit risk: Risk amount after the counterparty credit risk measurement techniques are applied.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

Standard approach - counterparty credit risk based on risk classes and risk weights:

Perior Period (31.12.2016)	a	b	c	d	e	f	g	h	i
Risk Class	0%	10%	23%	50%	75%	100%	150%	Other	Total credit exposure*
Exposures to sovereigns and their central banks	156	-	-	-	-	-	-	-	156
Exposures to regional and local governments	-	-	-	-	-	-	-	-	-
Exposures to administrative bodies and non-commercial entities	-	-	-	-	-	-	-	-	-
Exposures to multilateral development banks	-	-	-	-	-	-	-	-	-
Exposures to international organizations	-	-	-	-	-	-	-	-	-
Exposures to banks and brokerage houses	-	-	-	-	-	-	-	-	-
Exposures to corporates	-	-	-	-	-	-	-	-	-
Retail exposures	-	-	-	-	-	-	-	-	-
Exposures secured by residential property	-	-	-	-	-	-	-	-	-
Exposures secured by commercial property	-	-	-	-	-	-	-	-	-
Overdue items	-	-	-	-	-	-	-	-	-
Exposures in high-risk categories	-	-	-	-	-	-	-	-	-
Exposures in the form of bonds secured by mortgages	-	-	-	-	-	-	-	-	-
Short term exposures to banks, brokerage houses and corporates	-	-	-	-	-	-	-	-	-
Exposures in the form of collective investment undertakings	-	-	-	-	-	-	-	-	-
Equity share investments	-	-	-	-	-	-	-	-	-
Other exposures	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-
Total	156	-	-	-	-	-	-	-	156

KKR5 - Collaterals for counterparty credit risk:

A counterparty credit risk is the risk that a counterparty who is involved in a transaction that is liable to both parties defaults before the final payment in the cash flow of that transaction.

The Bank takes necessary measures to limit counterparty credit risks arising from bilateral transactions, such as off-balance sheet derivative transactions, by taking into account risk capacities.

Transactions made by the Treasury Department including counter-party risks such as over the counter forward, swaps and options are reported daily to the Senior Management and Risk Monitoring Department. All transactions made by the counter party are considered within the limits of the counter party. Exceeded limits are reported daily to the responsible managers and are recorded with all measures taken to overcome these limitations.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

Current Period (31.12.2017)

	a	b	c	D	e	f
	Collateral for derivative transactions				Collateral for other transactions	
	Fair value of collateral received		Fair value of collateral given			
	Segregated	Unsegregated	Segregated	Unsegregated	Fair value of collateral Received	Fair value of collateral given
Cash-domestic currency	-	-	-	-	-	-
Cash-foreign currency	-	-	-	-	-	-
Domestic sovereign debts	-	-	-	-	10.522	146
Other sovereign debts	-	-	-	-	-	-
Government agency debts	-	-	-	-	-	-
Corporate debts	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
Total	-	-	-	-	10.522	146

KKR5 - Collaterals for counterparty credit risk:

Perior Period (31.12.2016)

	a	b	c	D	e	f
	Collateral for derivative transactions				Collateral for other transactions	
	Fair value of collateral received		Fair value of collateral given		Fair value of collateral Received	Fair value of collateral given
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash-domestic currency	-	-	-	-	-	-
Cash-foreign currency	-	-	-	-	-	-
Domestic sovereign debts	-	-	-	-	11.650	392
Other sovereign debts	-	-	-	-	-	-
Government agency debts	-	-	-	-	-	-
Corporate debts	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
Total	-	-	-	-	11.650	392

Credit derivatives

None.

Exposures to central counterparties (CCP)

None.

Explanations on securitizations

None.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

4. Explanations on market risk:

Qualitative information to be publicly disclosed on market risk:

The fluctuations that may occur in the financial market due to the activities of the Bank are exposed to market risk due to the fluctuations in interest rates and stock prices.

The Bank calculates and legally reports its market risk by using the standard method within the framework of the provisions of the "Regulation Regarding the Measurement and Evaluation of Banks' Capital Adequacy" published in the Official Gazette No. 29511 dated 23 October 2015.

In addition to the monthly standardized methodology, the market risk is calculated on a daily basis using the Value At Risk (VaR) approach. The VaR calculated by using the internal model to predict the potential loss in financial market conditions, the stress tests and scenario analysis results, including the price changes occurring in the crises that occurred in previous years or the probable effects of different interest and exchange rate shocks on existing portfolios.

In accordance with the "Regulation on the Internal Systems of Banks and the Internal Capital Adequacy Assessment Process" published on the Official Gazette dated 11 July 2014 and numbered 29057, the limits of these risks are determined by taking into account the main risks borne by the Bank and such risk limits are determined within the framework of changing market conditions and Bank strategies "Risk Appetite Structure, Risk Limits and Implementation Principles" which are frequently revised and approved by the Board of Directors.

The reports prepared within the framework of compliance with the risk limits are regularly presented to the Board of Directors, the Audit Committee and senior management.

Market risk amounts based on standard approach:

	A
Current Period (31.12.2017)	RAT
Direct (cash) Products	
1 Interest rate risk (general and specific)	29.788
2 Equity risk (general and specific)	-
3 Foreign exchange risk	1.750
4 Commodity risk	-
Options	
5 Simplified approach	-
6 Delta-plus method	-
7 Scenario approach	-
8 Securitization	-
9 Total	31.538

	A
Perior Period (31.12.2016)	RAT
Direct (cash) Products	
1 Interest rate risk (general and specific)	26.338
2 Equity risk (general and specific)	-
3 Foreign exchange risk	12.625
4 Commodity risk	-
Options	
5 Simplified approach	-
6 Delta-plus method	-
7 Scenario approach	-
8 Securitization	-
9 Total	38.963

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

5. Link between the financial statements and risk amounts:

Explanations on differences between the amounts prepared as per TAS and the risk amounts:

“Market Risks” are calculated over the securities classified as “Financial assets at fair value through profit or loss” and “Available-for-sale financial assets”.

Repurchase and Reverse Repo transactions of the Bank are subject to “Counterparty Loan Risks” and the Capital Obligation against Counterparty Credit Risk is calculated and reported under the “Credit Risk”. In addition, “Market Risk “ is calculated over the securities used in the “Reverse Repo” transactions.

The amount included in the “Off-balance sheet amounts” line of the B2 table is reported as “Subject to Credit risk” by multiplying with “Loan Conversion Rates”.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

Differences and matching between accounting consolidation and legal consolidation:

Current Period (31.12.2017)	Carrying values		Items in accordance with TMS				Not subject to capital requirements or subject to deduction from capital
	Carrying values in financial statements prepared as per TAS	Carrying values in financial statements prepared as per TAS within legal consolidation	Subject to credit risk	The counterparty credit risk	Securitization positions	Subject to market risk	
Assets							
Cash and Balances with the Central Bank	710	-	710	-	-	-	-
Financial assets held for trading	-	-	-	-	-	-	-
Financial assets at fair value through profit or loss	-	-	-	-	-	-	-
Banks	1.335.190	-	1.335.190	-	-	-	-
Interbank money market	326.024	-	316.014	10.010	-	-	-
Financial assets available-for-sale (net)	257.341	-	8.037	-	-	249.304	-
Loans	6.928.921	-	6.928.921	-	-	-	-
Factoring receivables	-	-	-	-	-	-	-
Investments held to maturity (net)	-	-	-	-	-	-	-
Investments in associates	46.804	-	46.804	-	-	-	-
Lease receivables	9	-	9	-	-	-	-
Tangible assets (net)	63.452	-	63.452	-	-	-	-
Intangible assets (net)	1.048	-	-	-	-	-	1.048
Investment properties (net)	937	-	937	-	-	-	-
Tax asset	4.957	-	-	-	-	-	4.957
Other assets	17.770	-	17.770	-	-	-	-
Total Assets	8.983.163	-	8.717.844	10.010	-	249.304	6.005

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

Current Period (31.12.2017)	Items in accordance with TMS					Not subject to capital requirements or subject to deduction from capital
	Carrying values in financial statements prepared as per TAS	Carrying values in financial statements prepared as per TAS within legal consolidation	Subject to credit risk	The counterparty credit risk	Securitization positions	
Liabilities						
Deposit	-	-	-	-	-	-
Derivative financial liabilities held for trading	-	-	-	-	-	-
Borrowing funding loans	7.315.664	-	-	-	-	-
Money markets balances	130	-	273	130	-	-
Issued securities	-	-	-	-	-	-
Funds	268.615	-	-	-	-	-
Miscellaneous Payables	18.622	-	-	-	-	-
Other external funding's payable	6.051	-	-	-	-	-
Factoring Payables	-	-	-	-	-	-
Debts from leasing transactions	-	-	-	-	-	-
Derivative financial liabilities for hedging purposes	-	-	-	-	-	-
Provisions	108.753	-	-	-	-	-
Tax liability	9.063	-	-	-	-	-
Liabilities for assets held for sale and discontinued operations	-	-	-	-	-	-
Subordinated debts	-	-	-	-	-	-
Shareholders' equity	1.256.265	-	-	-	-	-
Total liabilities and equity	8.983.163	-	273	130	-	-

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

Prior Period (31.12.2016)	Items in accordance with TMS					Not subject to capital requirements or subject to deduction from capital
	Carrying values in financial statements prepared as per TAS	Carrying values in financial statements prepared as per TAS within legal consolidation	Subject to credit risk	The counterparty credit risk	Securitization positions	Subject to market risk
Assets						
Cash and Balances with the Central Bank	1.070	-	1.070	-	-	-
Financial assets held for trading	-	-	-	-	-	-
Financial assets at fair value through profit or loss	-	-	-	-	-	-
Banks	1.265.426	-	1.265.426	-	-	-
Interbank money market	10.505	-	151	10.505	-	10.505
Financial assets available-for-sale (net)	193.389	-	8.037	-	-	185.352
Loans	5.425.685	-	5.425.685	-	-	-
Factoring receivables	-	-	-	-	-	-
Investments held to maturity (net)	20.415	-	20.415	-	-	-
Investments in associates	28.407	-	28.407	-	-	-
Lease receivables	-	-	-	-	-	-
Tangible assets (net)	70.386	-	70.386	-	-	-
Intangible assets (net)	1.531	-	-	-	-	1.531
Investment properties (net)	980	-	980	-	-	-
Tax asset	8.433	-	-	-	-	8.433
Other assets	16.290	-	16.290	-	-	-
Total Assets	7.042.517	-	6.836.847	10.505	-	195.857
						9.964

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

Perior Period (31.12.2016)	Items in accordance with TMS					Not subject to capital requirements or subject to deduction from capital
	Carrying values in financial statements prepared as per TAS	Carrying values in financial statements prepared as per TAS within legal consolidation	Subject to credit risk	The counterparty credit risk	Securitization positions	Subject to market risk
Liabilities						
Deposit	-	-	-	-	-	-
Derivative financial liabilities held for trading	-	-	-	-	-	-
Borrowing funding loans	5.785.103	-	-	-	-	-
Money markets balances	351	-	5	351	-	-
Issued securities	-	-	-	-	-	-
Funds	15.404	-	-	-	-	-
Miscellaneous Payables	18.114	-	-	-	-	-
Other external funding's payable	347.652	-	-	-	-	-
Factoring Payables	-	-	-	-	-	-
Debts from leasing transactions	-	-	-	-	-	-
Derivative financial liabilities for hedging purposes	-	-	-	-	-	-
Provisions	91.961	-	-	-	-	-
Tax liability	8.805	-	-	-	-	-
Liabilities for assets held for sale and discontinued operations	-	-	-	-	-	-
Subordinated debts	-	-	-	-	-	-
Shareholders' equity	775.127	-	-	-	-	-
Total liabilities and equity	7.042.517	-	5	351	-	-

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

Main sources of differences between the risk amounts and carrying values in financial statements prepared as per TAS:

Current Period (31.12.2017)	Total	Subject to credit risk	Securitization positions	Subject to counterparty risk	Subject to market risk
1 Carrying values of assets in accordance with TAS within legal consolidation	8.983.163	8.717.844	-	10.010	249.304
2 Carrying values of liabilities in accordance with TAS within legal consolidation	-	273	-	130	-
3 Total net amount under legal consolidation	8.983.163	8.717.571	-	9.880	249.304
4 Off-balance sheet items	2.532.541	424	-	-	-
5 Valuation differences	-	-	-	-	-
6 Differences arising from netting of differences (outside line 2)	-	-	-	-	-
7 Differences arising from consideration of provisions	-	-	-	-	-
8 Differences arising from the applications of the BRSA	-	-	-	-	-
Risk balances	11.515.704	8.717.995	-	9.880	249.304

Perior Period (31.12.2016)	Total	Subject to credit risk	Securitization positions	Subject to counterparty risk	Subject to market risk
1 Carrying values of assets in accordance with TAS within legal consolidation	7.042.517	6.836.852	-	10.505	195.857
2 Carrying values of liabilities in accordance with TAS within legal consolidation	-	-	-	-	-
3 Total net amount under legal consolidation	-	-	-	-	-
4 Off-balance sheet items	1.416.164	42.243	-	-	-
5 Valuation differences	-	-	-	-	-
6 Differences arising from netting of differences (outside line 2)	-	-	-	-	-
7 Differences arising from consideration of provisions	-	-	-	-	-
8 Differences arising from the applications of the BRSA	-	-	-	-	-
Risk balances	8.458.681	6.879.095	-	10.505	195.857

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

6. Explanations on operational risk:

Operational risk amount is calculated by using the basic indicator approach within the scope of 14th article of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks. The value is, 15% of the Banks' gross income for the last three years multiplied with 12,5.

The annual gross income, as presented in the statement of income, is composed of net interest income by adding net fees and commissions income, dividend income from shares except for the subsidiaries and associates, net trading income/(expenses) and other operating income and after deducting realized gains/losses from the sale of securities held-to-maturity, extraordinary income, operating expenses due to support services and income derived from insurance claims at year-end.

Current Period (31.12.2017)	31.12.2014	31.12.2015	31.12.2016	Total / Positive BG year amount	Ratio (%)	Total
Gross Income	134.560	162.086	187.223	161.290	15	24.193
Value at operational risk (Total * 12,5)						302.418

Prior Period (31.12.2016)	31.12.2014	31.12.2015	31.12.2016	Total / Positive BG year amount	Ratio (%)	Total
Gross Income	114.221	134.560	162.086	136.956	15	20.543
Value at operational risk (Total * 12,5)						256.792

7. Interest rate risk on banking accounts:

Bank calculates the interest rate risk on banking book according to "Regulation on Measurement and Evaluation of Interest Rate Risk on Banking Book as per Standard Shock Method" and reports to the BRSA monthly.

Interest Rate Risk on Banking Book report includes Receivables from Central Bank, Money Market Placements, Receivables from Banks, Available for Sale Financial Assets (excluding government bonds), Receivables from Reverse-repo, Loans and Receivables, Investments Held to Maturity and Other Receivables in the asset side, and Payables to Central Bank, Money Market Borrowings, Payables to Banks, Funds Obtained from Repo Transactions, Issued Bonds; Borrowings, Subordinated Debt and Other Payables on the liabilities side.

Economic value differences due to the interest rate instabilities calculated according to "Regulation on Measurement and Evaluation of Interest Rate Risk on Banking Book as per Standard Shock Method" are presented below for each currency.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

Current Period (31.12.2017)		Applied Shock (+/- x base points)	Gains / Losses	Gains / Equity - Losses / Equity
Currency				
1	TRY	(+) 500 base points	(9.911)	(0.76)%
2	TRY	(-) 400 base points	9.305	0.71%
3	EURO	(+) 200 base points	5.713	0.44%
4	EURO	(-) 200 base points	(6.478)	(0.50)%
5	USD	(+) 200 base points	36.171	2.78%
6	USD	(-) 200 base points	(42.874)	(3.29)%
Total (Of Negative Shocks)			(40.046)	(3.07)%
Total (Of Positive Shocks)			31.973	2.45%

Prior Period (31.12.2016)		Applied Shock (+/- x base points)	Gains / Losses	Gains / Equity - Losses / Equity
Currency				
1	TRY	(+) 500 base points	(9.535)	(1,18)%
2	TRY	(-) 400 base points	9.269	1,15%
3	EURO	(+) 200 base points	17.641	2,19%
4	EURO	(-) 200 base points	(20.906)	(2,60)%
5	USD	(+) 200 base points	14.022	1,74%
6	USD	(-) 200 base points	(16.008)	(1,99)%
Total (Of Negative Shocks)			(27.645)	(3,43)%
Total (Of Positive Shocks)			22.129	2,75%

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

SECTION FIVE EXPLANATIONS AND NOTES RELATED TO THE UNCONSOLIDATED FINANCIAL STATEMENTS

I- Explanations and notes related to assets:

1.a) Information on cash and balances with the Central Bank of the Republic of Turkey:

	Current Period (31.12.2017)		Prior Period (31.12.2016)	
	TRY	FC	TRY	FC
Cash and foreign currency	84	-	50	-
Central Bank of the Republic of Turkey	626	-	1.020	-
Other	-	-	-	-
Total	710	-	1.070	-

1.a.1) Information on required reserve deposits:

Since the Bank does not accept deposits, it is not subject to Central Bank of the Republic of Turkey's Communiqué No: 2005/1 "Reserve Requirements".

1.b) Information on the account of Central Bank of the Republic of Turkey:

	Current Period (31.12.2017)		Prior Period (31.12.2016)	
	TRY	FC	TRY	FC
Unrestricted Demand Deposit	626	-	1.020	-
Unrestricted Time Deposit	-	-	-	-
Restricted Time Deposit	-	-	-	-
Total	626	-	1.020	-

2.a.1) Financial assets at fair value through profit and loss subject to repurchase agreements:

None.

2.a.2) Financial assets at fair value through profit and loss given as collateral or blocked:

None.

2.b) Positive differences related to the derivative financial assets held-for-trading:

None.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

3.a) Information on banks:

	Current Period (31.12.2017)		Prior Period (31.12.2016)	
	TRY	FC	TRY	FC
Banks				
Domestic	425.026	909.173	712.049	545.032
Foreign	-	991	-	8.345
Foreign Head Office and Branches	-	-	-	-
Total	425.026	910.164	712.049	553.377

3.b) Information on foreign bank accounts:

	Unrestricted Amount		Restricted Amount	
	Current Period (31.12.2017)	Prior Period (31.12.2016)	Current Period (31.12.2017)	Prior Period (31.12.2016)
EU Countries	936	2.494	-	-
USA and Canada	55	5.851	-	-
OECD Countries ^(*)	-	-	-	-
Off-Shore Banking Regions	-	-	-	-
Other	-	-	-	-
Total	991	8.345	-	-

4) Information on financial assets available-for-sale:

4.a.1) Financial assets available-for-sale subject to repurchase agreements:

	Current Period (31.12.2017)		Prior Period (31.12.2016)	
	TRY	FC	TRY	FC
Share certificates	-	-	-	-
Bonds, treasury bills and similar securities	146	-	392	-
Other	-	-	-	-
Total	146	-	392	-

4.a.2) Information on financial assets available-for-sale given as collateral or blocked:

	Current Period (31.12.2017)		Prior Period (31.12.2016)	
	TRY	FC	TRY	FC
Share certificates	-	-	-	-
Bonds, treasury bills and similar securities	42.706	-	15.260	-
Other	-	-	-	-
Total	42.706	-	15.260	-

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

4.b) Information on financial assets available-for-sale:

	Current Period (31.12.2017)	Prior Period (31.12.2016)
Debt Securities	249.419	185.794
Quoted on a stock exchange	249.419	185.794
Unquoted	-	-
Share Certificates	10.847	10.847
Quoted on a stock Exchange	-	-
Unquoted	10.847	10.847
Provision for impairment (-)	(2.925)	(3.252)
Total	257.341	193.389

5. Information on loans:

5.a) Information on all types of loans and advances given to shareholders and employees of the Bank:

	Current Period (31.12.2017)		Prior Period (31.12.2016)	
	Cash	Non-Cash	Cash	Non-Cash
Direct loans granted to shareholders	-	-	-	-
Legal Entities	-	-	-	-
Individuals	-	-	-	-
Indirect loans granted to shareholders	-	-	-	-
Loans granted to employees	5.000	-	4.368	-
Total	5.000	-	4.368	-

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

5.b) Information on the first and second group loans and other receivables including restructured or rescheduled loans:

Current Period (31.12.2017)

Cash Loans	Standard Loans and Other Receivables			Loans and Other Receivables Under Follow Up		
	Loans and Other Receivables (Total)	Loans and Receivables with Revised Contract Terms		Loans and Other Receivables (Total)	Loans and Receivables with Revised Contract Terms	
		Extension of Repayment Plan	Other		Extension of Repayment Plan	Other
Non-specialized loans	5.628.524	-	106.900	234.669	5.674	35.461
Discount notes	31.685	-	237	-	-	-
Export loans	-	-	-	-	-	-
Import loans	-	-	-	-	-	-
Loans given to financial sector	528.815	-	-	-	-	-
Consumer loans	5.000	-	-	-	-	-
Credit cards	-	-	-	-	-	-
Other	5.063.024	-	106.663	234.669	5.674	35.461
Special loans	929.262	5.979	9.612	85.863	11.210	-
Other receivables	-	-	-	-	-	-
Total	6.557.786	5.979	116.512	320.532	16.884	35.461

No. of extensions	Standard Loans and Other Receivables	Loans and Other Receivables under Close Monitoring
1 or 2 Times Extended	114.452	52.345
3 - 4 or 5 Times Extended	8.039	-
Over 5 Times Extended	-	-

Extension Periods	Standard Loans and Other Receivables	Loans and Other Receivables under Close Monitoring
0 - 6 Months	1.545	-
6 - 12 Months	36	533
1 - 2 Years	18.206	7.356
2 - 5 Years	30.620	20.175
5 Years and Over	72.084	24.281

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

Prior Period (31.12.2016)

Cash Loans	Standard Loans and Other Receivables			Loans and Other Receivables Under Follow Up		
	Loans and Receivables with Revised Contract Terms			Loans and Receivables with Revised Contract Terms		
	Loans and Other Receivables (Total)	Extension of Repayment Plan	Other	Loans and Other Receivables (Total)	Extension of Repayment Plan	Other
Non-specialized loans	4.613.654	-	44.546	178.180	2.353	22.457
Discount notes	51.222	-	3.867	152	-	-
Export loans	-	-	-	-	-	-
Import loans	-	-	-	-	-	-
Loans given to financial sector	398.791	-	-	-	-	-
Consumer loans	4.368	-	-	-	-	-
Credit cards	-	-	-	-	-	-
Other	4.159.273	-	40.679	178.028	2.353	22.457
Special loans	456.270	-	-	101.885	9.430	-
Other receivables	-	-	-	-	-	-
Total	5.069.924	-	44.546	280.065	11.783	22.457

Prior Period (31.12.2016)

No. of extensions	Standard Loans and Other Receivables	Loans and Other Receivables under Close Monitoring
1 or 2 Times Extended	-	11.783
3 - 4 or 5 Times Extended	-	-
Over 5 Times Extended	-	-

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

Extension Periods	Standard Loans and Other Receivables	Loans and Other Receivables under Close Monitoring
0 - 6 Months	-	11.783
6 - 12 Months	-	-
1 - 2 Years	-	-
2 - 5 Years	-	-
5 Years and Over	-	-

5.c) Loans according to their maturity structure:

	Standard Loans and Other Receivables		Loans and Other Receivables Under Follow Up	
	Loans and Other Receivables	Loans and Receivables with Revised Contract Terms	Loans and Other Receivables	Loans and Receivables with Revised Contract Terms
Short term loans and other receivables	37.657	-	1.488	-
Non-specialized loans	-	-	-	-
Specialized loans	10.573	-	-	-
Other receivables	27.084	-	1.488	-
Medium and long term loans and other receivables	6.520.129	-	319.044	-
Non-specialized loans	5.601.440	-	233.181	-
Specialized loans	918.689	-	85.863	-
Other receivables	-	-	-	-

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

5.ç) Information on consumer loans, individual credit cards, and personnel loans and personnel credit cards:

Current Period (31.12.2017)	Short Term	Medium and Long Term	Total
Consumer Loans- TRY	-	-	-
Real estate loans	-	-	-
Vehicle loans	-	-	-
Consumer loans	-	-	-
Other	-	-	-
Consumer Loans -Indexed to FC	-	-	-
Real estate loans	-	-	-
Vehicle loans	-	-	-
Consumer loans	-	-	-
Other	-	-	-
Consumer Loans- FC	-	-	-
Real estate loans	-	-	-
Vehicle loans	-	-	-
Consumer loans	-	-	-
Other	-	-	-
Individual Credit Cards- TRY	-	-	-
With Installments	-	-	-
Without Installments	-	-	-
Individual Credit Cards- FC	-	-	-
With Installments	-	-	-
Without Installments	-	-	-
Personnel Loans - TRY	-	5.000	5.000
Real estate loans	-	-	-
Vehicle loans	-	-	-
Consumer loans	-	5.000	5.000
Other	-	-	-
Personnel Loans-Indexed to FC	-	-	-
Real Estate Loans	-	-	-
Vehicle Loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Personnel Loans- FC	-	-	-
Real estate loans	-	-	-
Vehicle loans	-	-	-
Consumer loans	-	-	-
Other	-	-	-
Personnel Credit Cards- TRY	-	-	-
With Installments	-	-	-
Without Installments	-	-	-
Personnel Credit Cards- FC	-	-	-
With Installments	-	-	-
Without Installments	-	-	-
Overdraft Accounts-TRY (Real Persons)	-	-	-
Overdraft Accounts-FC (Real Persons)	-	-	-
Total	-	5.000	5.000

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

Perior Period (31.12.2016)	Short Term	Medium and Long Term	Total
Consumer Loans- TRY	-	-	-
Real estate loans	-	-	-
Vehicle loans	-	-	-
Consumer loans	-	-	-
Other	-	-	-
Consumer Loans -Indexed to FC	-	-	-
Real estate loans	-	-	-
Vehicle loans	-	-	-
Consumer loans	-	-	-
Other	-	-	-
Consumer Loans- FC	-	-	-
Real estate loans	-	-	-
Vehicle loans	-	-	-
Consumer loans	-	-	-
Other	-	-	-
Individual Credit Cards- TRY	-	-	-
With Installments	-	-	-
Without Installments	-	-	-
Individual Credit Cards- FC	-	-	-
With Installments	-	-	-
Without Installments	-	-	-
Personnel Loans - TRY	-	4.368	4.368
Real estate loans	-	-	-
Vehicle loans	-	-	-
Consumer loans	-	4.368	4.368
Other	-	-	-
Personnel Loans-Indexed to FC	-	-	-
Real Estate Loans	-	-	-
Vehicle Loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Personnel Loans- FC	-	-	-
Real estate loans	-	-	-
Vehicle loans	-	-	-
Consumer loans	-	-	-
Other	-	-	-
Personnel Credit Cards- TRY	-	-	-
With Installments	-	-	-
Without Installments	-	-	-
Personnel Credit Cards- FC	-	-	-
With Installments	-	-	-
Without Installments	-	-	-
Overdraft Accounts-TRY (Real Persons)	-	-	-
Overdraft Accounts-FC (Real Persons)	-	-	-
Total	-	4.368	4.368

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

5.d) Information on commercial loans with installments and corporate credit cards:

The Bank has not granted any commercial loans with installments and corporate credit cards as of balance sheet date.

5.e) Loans according to type of borrowers::

	Current Period (31.12.2017)	Prior Period (31.12.2016)
Public	-	-
Private	6.878.318	5.349.989
Total	6.878.318	5.349.989

5.f) Breakdown of domestic and international loans:

	Current Period (31.12.2017)	Prior Period (31.12.2016)
Domestic loans	6.878.318	5.349.989
International loans	-	-
Total	6.878.318	5.349.989

5.g) Loans granted to subsidiaries and associates:

TRY 5.627 of loan disbursed to Arıcak A.Ş., a subsidiary of the Bank, has been followed at Group V. TRY 5.546 specific provision has been provided for this loan.

5.ğ) Specific provisions provided against loans:

	Current Period (31.12.2017)	Prior Period (31.12.2016)
Loans and other receivables with limited collectability	63	-
Loans and other receivables with doubtful collectability	-	2.082
Uncollectible loans and receivables	72.346	48.001
Total	72.409	50.083

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

5h) Information on non-performing loans (net):

5.h.1) Information on loans and other receivables restructured or rescheduled from non-performing loans:

	III. Group:	IV. Group:	V. Group
	Loans and Other Receivables With Limited Collectability	Loans and Other Receivables With Doubtful Collectability	Uncollectible Loans and Other Receivables
Current Period (31.12.2017)	-	-	-
(Gross amounts before specific provisions)	-	-	-
Restructured loans and other receivables	-	-	-
Rescheduled loans and other receivables	-	-	-
Prior Period (31.12.2016)	1.612	-	-
(Gross amounts before specific provisions)	-	-	-
Restructured loans and other receivables	1.612	-	-
Rescheduled loans and other receivables	-	-	-

5.h.2) Information on the movement of non-performing receivables:

	III. Group	IV. Group	V. Group
	Loans and Other Receivables With Limited Collectability	Loans and Other Receivables With Doubtful Collectability	Uncollectible Loans and Other Receivables
Prior period end balance	-	16.659	109.120
Additions (+)	1.259	4	647
Transfer from other categories of non-performing loans (+)	-	-	16.663
Transfer to other categories of non-performing loans (-)	-	(16.663)	-
Collections (-)	-	-	(4.677)
Write-offs (-)	-	-	-
Corporate and commercial loans	-	-	-
Consumer loans	-	-	-
Credit cards	-	-	-
Other	-	-	-
Current period end balance	1.259	-	121.753
Specific provisions (-)	(63)	-	(72.346)
Net balance on balance sheet	1.196	-	49.407

5.h.3) Information on foreign currency non-performing loans:

As set out in the third part of the Communiqué on the Bank's Uniform Chart of Accounts and Prospectus, the context of definitions of Doubtful Receivables, Uncollectible Fees, Commissions and Other Receivables and Non-Performing Loans and Other Receivables, foreign currency loans which become non-performing loans are transferred to and monitored in terms of Turkish Lira.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

5.h.4) Information regarding gross and net amounts of non-performing loans with respect to user groups:

	III. Group	IV. Group	V. Group
	Loans and Other Receivables With Limited Collectability	Loans and Other Receivables With Doubtful Collectability	Uncollectible Loans and Other Receivables
Current Period (Net) (31.12.2017)	1.196	-	49.407
Loans to Real Persons and Legal Entities (Gross)	1.259	-	121.753
Specific provisions (-)	(63)	-	(72.346)
Loans to Real Persons and Legal Entities (Net)	1.196	-	49.407
Banks (Gross)	-	-	-
Specific provisions (-)	-	-	-
Banks (Net)	-	-	-
Other Loans and Receivables (Gross)	-	-	-
Specific provisions (-)	-	-	-
Other Loans and Receivables (Net)	-	-	-
Prior Period (Net) (31.12.2016)	-	14.577	61.119
Loans to Real Persons and Legal Entities (Gross)	-	16.659	109.120
Specific provisions (-)	-	(2.082)	(48.001)
Loans to Real Persons and Legal Entities (Net)	-	14.577	61.119
Banks (Gross)	-	-	-
Specific provisions (-)	-	-	-
Banks (Net)	-	-	-
Other Loans and Receivables (Gross)	-	-	-
Specific provisions (-)	-	-	-
Other Loans and Receivables (Net)	-	-	-

5.h.5) Maturity analysis of post due but not impaired loans per classes of financial statements:

Current Period (31.12.2017)	0-30 Days	31-60 Days	61-90 Days	Total
Loans				
Corporate Loans	699	-	-	699
Consumer Loans	-	-	-	-
Specialized Loans	220	-	-	220
Total	919	-	-	919
Prior Period (31.12.2016)	0-30 Days	31-60 Days	61-90 Days	Total
Loans				
Corporate Loans	119	1.334	-	1.453
Consumer Loans	-	-	-	-
Specialized Loans	2.168	1.267	1.264	4.699
Total	2.287	2.601	1.264	6.152

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

Net Value of Collaterals of Loans Under Follow Up, Collateral Type and Risk Mapping

Type of collateral	Current Period (31.12.2017)		Prior Period (31.12.2016)	
	Net Value of Collateral	Loan Balance	Net Value of Collateral	Loan Balance
Real Estate Mortgages ^(*)	93.137	93.137	65.442	65.442
Vehicle Pledges	-	-	-	-
Cash Collateral (Cash, Marketable Securities, etc.)	227.395	227.395	214.623	214.623
Pledge on wages	-	-	-	-
Cheque/Notes	-	-	-	-
Other (suretyship, commercial enterprise pledge, export documents etc.)	-	-	-	-
Non-collateralized	-	-	-	-
Total	320.532	320.532	280.065	280.065

^(*) Net values of collaterals are stated at the lower of appraisal value and mortgage value. When the collateral value exceeds the credit risk loan balance, credit risk loan balance is presented.

Net Value of Collaterals of Non-performing Loans, Collateral Types and Risk Mapping

Type of collateral	Current Period (31.12.2017)		Prior Period (31.12.2016)	
	Net Value of Collateral	Loan Balance	Net Value of Collateral	Loan Balance
Real Estate Mortgages ^(*)	99.155	99.155	102.046	102.046
Cash collateral	-	-	-	-
Vehicle Pledges	-	-	-	-
Other (suretyship, commercial enterprise pledge, commercial valuable papers etc.) ^(**)	16.931	16.931	16.916	16.916
Without Collateral	-	6.926	6.817	-
Total	116.086	123.012	118.962	125.779

^(*) Net values of collaterals are stated at the lower of appraisal value and mortgage value. When the collateral value exceeds the credit risk of loan balance, loan balance is presented.

5.1) Main principles of liquidating non-performing loans and other receivables:

In case collaterals complying with Article 9 of the "Regulation on Procedures and Principles for Determination of Qualification of Loans and Other Receivables, and Allocation of Provisions" are present, liquidation of receivables are realized by converting collaterals into cash immediately as a result of either administrative or legal procedures.

In the case collaterals are not present; the Bank is engaged in substantive intelligence in various periods to determine whether any property holdings are subsequently acquired in order to apply for legal procedures, even if there is evidence of insolvency for the debtor.

Before and after liquidation process; the Bank reviews financial information of the debtor companies. Then, in the case it is agreed that the companies show indications of operating on an ongoing basis and probably are going to have contributions to the economy; the Bank tries to make collections through rescheduling the payment terms.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

5.i) Explanations on write-off policy:

Uncollectible loans or receivables are written-off with the decision of the Board of Directors, after the date 100% provision is set considering the collaterals using the rates determined in the related communiqué, when they are deemed impossible to collect in accordance with a convincing document or a court order.

6. Information on he old-to-maturity investments:

6.a) Information on comparative net values of held-to-maturity investments subject to repurchase agreements and given as collateral or blocked:

a.1) Held-to-maturity investments subject to repurchase agreements:

None.

a.2) Held-to-maturity investments given as collateral or blocked:

None.

6.b) Information on held-to-maturity debt securities:

	Current Period (31.12.2017)	Prior Period (31.12.2016)
Government bonds	-	20.415
Treasury bills	-	-
Other public sector debt securities	-	-
Total	-	20.415

6.c) Information on held-to-maturity investments:

	Current Period (31.12.2017)	Prior Period (31.12.2016)
Debt securities	-	20.415
Quoted on a stock Exchange	-	20.415
Unquoted	-	-
Provision for impairment(-)	-	-
Total	-	20.415

6.ç) Movement of held-to-maturity investments:

	Current Period (31.12.2017)	Prior Period (31.12.2016) (*)
Balance at the beginning of the period	20.415	20.532
Foreign currency differences on monetary assets	-	-
Purchases during the year (*)	-	1.301
Disposals through sales and redemptions (*)	(20.415)	(1.418)
Provision for impairment (-)	-	-
Balance at the end of the period	-	20.415

(*) As of 31 December 2016, TRY 1.296 of purchases and TRY 1.381 of disposals include discount differences.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

7. Information on Investments in associates (net):

7.a. Information on associates:

Description	Address (City/ Country)	The Bank's share percentage-if different voting percentage (%)	The Bank's risk group share percentage (%)
1 Maksan A.Ş.	Malatya	20,00	31,14
2 Türk Suudi Holding A.Ş. ^(*)	İstanbul	10,00	24,69
3 Yozgat Otelcilik A.Ş.	Yozgat	20,00	3,75
4 İstanbul Risk Sermayesi Girişimi	Lüksemburg	11,11	6,25

^(*) Türk Suudi Holding A.Ş. is the process of liquidation.

7.b. Financial statement information of associates as sorted in (7.a)

		Shareholders' Equity	Total Fixed Asset	Interest Income	Income From Marketable Securities	Current Period Profit/Loss	Prior Period Profit/ Loss	Fair Value ^(*)
^(*)	Total Assets							
1	25.176	15.338	2.823	-	-	1.101	1.148	-
2	24.643	24.408	-	1.039	-	928	1.017	-
3	266	270	151	2	-	35	78	-
4	553.997	553.376	-	4	36.252	32.606	13.078	-

^(*) The information of Maksan A.Ş., Yozgat Otelcilik A.Ş., Türk Suudi Holding A.Ş. and İstanbul Venture Capital Initiative are provided from the unaudited financial statements as of 30 September 2017. Capital commitment of İstanbul Venture Capital ("IVCI") is EUR 160 Million and the Bank's capital commitment is EUR 10 Million. The Bank has made EUR 7.467.500 capital payment. Prior period information of Maksan A.Ş., Yozgat Otelcilik A.Ş., Türk Suudi Holding A.Ş. and İstanbul Venture Capital Initiative is provided from the unaudited financial statements as of 30 September 2016.

Bank has the right to nominate a member for the Board of Directors of the Company due to the investment of the Investment Fund of Turkey (TII) -Alt Fund, İstanbul Venture Capital Initiative (IVCI). The Bank's current term has expired on 30 September 2016 and the election of new members has not been realized yet.

7.c. Movement of associates:

	Current Period (31.12.2017)	Prior Period (31.12.2016)
Balance at the beginning of the period	28.407	26.332
Movements during the period	18.397	2.075
Additions ^(*)	1.457	1.618
Bonus shares certificates	-	-
Shares in current year profit	-	-
Disposals	-	-
Revaluation increase	16.038	-
Provision for impairment (-) / Cancellation of provision	902	457
Balance at the end of the period	46.804	28.407
Capital commitments ^(*)	11.393	10.484
Share percentage at the end of the period (%)	-	-

^(*) 2.532 EURO is the remaining capital commitment of IVCI.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

7.ç. Sectoral information about associates and their carrying amounts:

	Current Period (31.12.2017)	Prior Period (31.12.2016)
Banks	-	-
Insurance companies	-	-
Factoring companies	-	-
Leasing companies	-	-
Financing companies	-	-
Other financial associates	35.992	18.497

Associates quoted in the stock exchange:

None.

8. Information on Investments in subsidiaries:

8.a. Information on subsidiaries:

By the application of the company's Board of Directors and approval the Capital Markets Board (CMB), the company's activities has been temporarily suspended beginning from 31 December 2009. In 2011, the licenses of the company have been canceled. In the General Assembly held on 20 March 2012, it was resolved to liquidate the company. Since the company is in liquidation process, the Bank has lost control over its subsidiary and net investment value of Kalkınma Yatırım Menkul Değerler A.Ş. in liquidation has been classified as financial assets available for sale in the accompanying financial statements.

8.b. Movement of subsidiaries:

None.

8.c. Sectoral information about subsidiaries and their carrying amounts:

None.

8.d. Subsidiaries quoted on the stock exchange:

None.

9. Information on jointly controlled entities (joint ventures):

None.

10. Information on finance lease receivables (net):

The Bank has no financial leasing transaction. The receivables from operating leasing are TRY 9 (31 December 2016: None).

11. Information on derivative financial assets for hedging purposes:

None.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

12. Information on tangible fixed assets:

Current Period (31.12.2017)	Real-Estates	Non-Current Assets to be Disposed	Vehicles	Other	Total
Cost					
Balance at the beginning of the period	121.547	31.795	130	11.266	164.738
Provision for impairment	(1.797)	(1.376)	-	-	(3.173)
Movements during the period	-	-	-	-	-
-Additions	-	-	-	78	78
-Disposals (-)	-	(2.543)	-	(472)	(3.015)
-Transfer from investment properties	-	-	-	-	-
-Provision for impairment (-)	-	148	-	-	148
-Reversal from provision for impairment (-)	-	-	-	-	-
Balance at the end of the period	119.750	27.728	130	10.872	158.480
Accumulated Depreciation					
Balance at the beginning of the period	81.972	2.258	116	6.833	91.179
Movements during the period	-	-	-	-	-
-Depreciation charge (*)	2.441	52	8	1.818	4.319
-Transfer from investment properties	-	-	-	-	-
-Disposals (-)	-	-	-	470	470
-Provision for impairment (-)	-	-	-	-	-
Balance at the end of the period	84.413	2.310	124	8.181	95.028
Net book value at the end of the period	35.337	25.418	6	2.691	63.452

Prior Period (31.12.2016)	Real-Estates	Non-Current Assets to be Disposed	Vehicles	Other	Total
Cost					
Balance at the beginning of the period	121.547	27.299	130	9.679	158.655
Provision for impairment	(9.594)	(967)	-	-	(10.561)
Movements during the period	-	-	-	-	-
-Additions	-	4.496	-	1.860	6.356
-Disposals (-)	-	-	-	(273)	(273)
-Transfer from investment properties	-	-	-	-	-
-Provision for impairment (-)	-	(409)	-	-	(409)
-Reversal from provision for impairment (-) (*)	7.797	-	-	-	7.797
Balance at the end of the period	119.750	30.419	130	11.266	161.565
Accumulated Depreciation					
Balance at the beginning of the period	79.531	1.546	109	5.414	86.600
Movements during the period	-	-	-	-	-
-Depreciation charge (*)	2.441	712	7	1.686	4.846
-Transfer from investment properties	-	-	-	-	-
-Disposals (-)	-	-	-	(267)	(267)
-Provision for impairment (-)	-	-	-	-	-
Balance at the end of the period	81.972	2.258	116	6.833	91.179
Net book value at the end of the period	37.778	28.161	14	4.433	70.386

(*) The real estates of our bank have been appraised at the end of 2015 and as a result of the test made according to the new expertise figures, TRY 7.797 has been reversed from the amount allocated for real estates in previous years.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

13. Information on intangible assets:

Current Period (31.12.2017)	Prior Period (31.12.2016)	
Cost		
Balance at the beginning of the period	5.241	3.958
Movements during the period	-	
- Additions	314	1.283
- Disposals	-	-
Balance at the end of the period	5.555	5.241
Accumulated Amortisation		
Balance at the beginning of the period	3.710	2.795
Movements during the period	-	
- Amortization charge	797	915
- Disposals	-	-
Balance at the end of the period	4.507	3.710
Net book value at the end of the period	1.048	1.531

14. Information on investment properties:

As of 31 December 2017, the Bank has investment properties held for rent whose net book value is TRY 937 (31 December 2016: TRY 980). According to appraisal report prepared by an independent and the CMB registered real-estate appraiser company and issued in December 2015 fair value of the investment properties is determined as TRY 5.386. As of 31 December 2017, the Bank has rental income amounting to TRY 570. (31 December 2016: TRY 507).

	Current Period (31.12.2017)	Prior Period (31.12.2016)
Cost		
Balance at the beginning of the period	2.149	2.149
Provision for impairment	-	-
Movements during the period	-	-
-Additions	-	-
-Disposals(-)	-	-
-Classified as tangible fixed assets (-)	-	-
-Provision for impairment(-)	-	-
-Reversal from provision for impairment (-)	-	-
Balance at the end of the period	2.149	2.149
Accumulated Depreciation		
Balance at the beginning of the period	1.169	1.125
Movements during the period	-	-
- Accumulated depreciation classified as investment property (-)	-	-
- Depreciation charge	43	44
- Accumulated depreciation classified as tangible fixed asset (-)	-	-
- Disposals	-	-
- Provision for impairment(-)	-	-
Balance at the end of the period	1.212	1.169
Net book value at the end of the period	937	980

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

15. Information on deferred tax assets:

As of 31 December 2017 the Bank has deferred tax asset amounting to TRY 4.957 (31 December 2016: TRY 8.433). The Bank has computed deferred tax asset or liability on temporary differences arising from carrying values of assets and liabilities in the accompanying financial statements and their tax bases. In the case assets or liabilities which are subject to deferred tax calculation are presented under shareholders' equity, respective deferred tax asset/liability has been also presented under shareholders' equity. The Bank has no deferred tax assets calculated for period losses or tax deductions as of 31 December 2017 (31 December 2016: None).

	Current Period (31.12.2017)	Prior Period (31.12.2016)
Deferred Tax Assets		
From Financial Losses	-	-
From Tax Discounting and Its Exceptions	-	-
From Depreciations	-	-
From Interest Rediscounts	63	7
From Severance Payments	7.226	6.958
Other Non-Financial Treasury Bills and Government Bonds	363	-
Uncollectable Loans	484	1.362
Actuarial	432	-
Other	786	449
Total Deferred Tax Assets	9.354	8.776
Deferred Tax Liabilities		
From Depreciations	296	(332)
From Interest Rediscounts	24	(9)
Actuarial	465	-
Other (*)	3.612	(2)
Total Deferred Tax Liabilities	4.397	(343)
Net Deferred Tax Assets	4.957	8.433

(*) TRY 3.208 of the amount is the deferred tax which is calculated on the amount of associates' valuations.

16. Information on assets held for sale and discontinued operations:

None.

17. Information on other assets:

	Current Period (31.12.2017)	Prior Period (31.12.2016)
Inventory	88	80
Prepaid expenses	5.420	4.819
Temporary account debtor	11.467	11.080
Sundry receivables	795	311
Total	17.770	16.290

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

II. Explanations and notes related to liabilities:

1. Information on maturity structure of deposits:

The Bank is not accepting deposits and funds.

2. Information on derivative financial liabilities held-for-trading:

2.a) Negative differences related to derivative financial liabilities held-for-trading:

None.

3. Information on funds borrowed:

3.a) Information on banks and other financial institutions:

	Current Period (31.12.2017)		Prior Period (31.12.2016)	
	TRY	FC	TRY	FC
From Central Bank of the Republic of Turkey	-	-	-	-
From domestic banks and institutions	440	1.034.528	-	657.559
From foreign banks, institutions and funds	-	6.280.696	-	5.127.544
Total	440	7.315.224	-	5.785.103

3.b) Maturity structure of funds borrowed:

	Current Period (31.12.2017)		Prior Period (31.12.2016)	
	TRY	FC	TRY	FC
Short-term	440	-	-	-
Medium and long-term	-	7.315.224	-	5.785.103
Total	440	7.315.224	-	5.785.103

3.c) Additional information for the areas of liability concentrations:

As the Bank is not authorized to accept deposits, liabilities are composed of funds obtained from domestic and international financial institutions, medium and long term loans.

Most of the loans from international finance institutions are from World Bank, European Investment Bank, European Commission Development Bank, Islamic Development Bank, French Development Agency and Japan International Corporation Bank. Domestic loans are from Eximbank, Arab Turkish Bank and Turkish Treasury.

3.c.1) Explanations on funds:

Material part of the domestic funds amounting to TRY 268.615 (31 December 2016: TRY 15.404) is obtained from Dünya Bank amount to TRY 64 and Turkish Treasury amount to TRY 268.551.

3.c.2) Information on funds provided under repurchase agreements:

All of repurchase agreements amounting to TRY 130 belong to other agency and institutions (31 December 2016: TRY 351).

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

4. If other liabilities exceed 10 % of the balance sheet total, name and amount of sub-accounts constituting at least 20 % of grand total:

Other liabilities do not exceed 10% of the balance sheet total.

5. Explanations on financial lease payables (net):

The Bank has no financial lease payables.

6. Information on derivative financial liabilities for hedging purposes:

The Bank has no derivative financial liabilities for hedging purposes.

7. Explanations on Provisions:

7.a) Information on General Provisions:

	Current Period (31.12.2017)	Prior Period (31.12.2016)
General Provisions	72.623	57.168
Allocated for Group - I loans and receivables (Total)	64.829	50.239
Additional provision for loans and receivables with extended maturities	-	-
Allocated for Group - II loans and receivables (Total)	6.344	5.531
Additional provision for loans and receivables with extended maturities	-	-
Allocated for non-cash loans	2	173
Other	1.448	1.225

7.b) Foreign exchange loss provisions on the foreign currency indexed loans and finance lease receivables:

There are no foreign exchange loss provisions on the foreign currency indexed loans and finance lease receivables (31 December 2016: None).

7.c) Specific provisions provided for indemnified non-cash loans:

As of December 31, 2017, the specific provision for indemnified non-cash loans is TRY 2. (31 December 2016: TRY 2).

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

7.d) Other provisions:

i) The Bank has not allocated provision for probable risks.

ii) The Bank accounts for the provisions for employee benefits in accordance with the Turkish Accounting Standards No: 19 and recognizes in financial statements. As of 31 December 2017, the Bank allocated provision for employee benefits amounting to TRY 35.877 (31 December 2016: TRY 34.550) and for unused vacation accruals amounting to TRY 251 (31 December 2016: TRY 241).

	Current Period (31.12.2017)	Prior Period (31.12.2016)
Liabilities at the beginning of period	34.550	32.472
Change in the period	5.332	4.666
Actuarial gain/loss	(167)	(1.048)
Payments in the period	(3.838)	(1.540)
Liabilities at the end of period	35.877	34.550

8. Explanations on tax liabilities:

8.a) Information on current tax liability:

8.a.1) Information on tax provision:

Corporation tax and deferred tax	Current Period (31.12.2017)		Prior Period (31.12.2016)	
	TRY	FC	TRY	FC
Corporate tax payable	7.819	-	7.496	-
Deferred tax payable	-	-	-	-
Total	7.819	-	7.496	-

8.a.2) Information on taxes payable:

	Current Period (31.12.2017)	Prior Period (31.12.2016)
Corporate tax payable	7.819	7.496
Taxation on income on marketable securities	1	3
Property tax	1	1
Banking insurance transaction tax (BITT)	171	90
Foreign exchange transaction tax	-	-
Value added tax payable	91	234
Other	823	796
Total	8.906	8.620

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

8.a.3) Information on premiums:

	Current Period (31.12.2017)	Prior Period (31.12.2016)
Social security premiums- Employee	59	69
Social security premiums- Employer	86	101
Bank social aid pension fund premium- Employee	-	-
Bank social aid pension fund premium- Employer	-	-
Pension fund membership fees and provisions- Employee	-	-
Pension fund membership fees and provisions- Employer	-	-
Unemployment insurance- Employee	4	5
Unemployment insurance- Employer	8	10
Other	-	-
Total	157	185

8.b) Information on deferred tax liabilities, if any:

None.

9. Information on liabilities regarding assets held for sale and discontinued operations:

None.

10. Information on the number of subordinated loans the Bank used, maturity, interest rate, institutions that the loan was borrowed from, and conversion option, if any:

None.

11.Information on shareholder's equity:

11.a) Presentation of paid-in capital:

	Current Period (31.12.2017)	Prior Period (31.12.2016)
Common Stock	500.000	160.000
Preferred Stock	-	-

11.b) Paid-in capital amount, explanation whether the registered share capital system is applicable for the Bank, if so amount of registered capital ceiling:

Capital System	Paid-in capital	Ceiling
Registered capital	500.000	2.500.000

11.c) Information on share capital increases and their sources; other information on increased capital shares in current period:

Date of Increase	Amount of Increase	Cash	Profit reserves that are subject of increasement	Capital reserves that are subject of increasement
31 January 2017	340.000	340.000	-	-

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

11.ç) Information on additions from capital reserves to capital in the current period:

There is no increase from capital reserves.

11.d) Capital commitments in the last fiscal year and that continue until the end of the following interim period, general purpose of these commitments and projected resources required to meet these commitments:

The Bank has no capital commitments.

11.e) Indicators of the Bank's income, profitability and liquidity for the prior periods and possible effects of these future assumptions based on the uncertainty of these indicators on the Bank's equity

The income of the prior periods, profitability and liquidity of the Bank and projections for the successive periods are followed by Business, Product and Planning Department. Given the conditions of Turkish economy and the Bank's prior period performance; when its revenue, profitability and liquidity is considered, it is estimated that Bank will continue to increase its shareholders' equity and is not going to experience significant issue in capital adequacy ratio.

11.f) Information on preferred shares:

The Bank has no preferred shares.

11.g) Information on marketable securities valuation differences:

	Current Period (31.12.2017)		Prior Period (31.12.2016)	
	TRY	FC	TRY	FC
From associates, subsidiaries and jointly controlled entities (joint ventures)	10.912	1.918	-	-
Valuation difference	(997)	713	451	(552)
Foreign exchange difference	-	-	-	-
Total	9.915	2.631	451	(552)

12. Information on minority interests:

None.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

III. Explanations and notes related to off-balance sheet accounts

1. Information on off-balance sheet liabilities:

1.a) Nature and amount of irrevocable loan commitments:

	Current Period (31.12.2017)	Prior Period (31.12.2016)
Share capital commitments to associates and subsidiaries	11.393	10.484
Total	11.393	10.484

1.b) Nature and amount of possible losses and commitments from the off-balance sheet items including the below mentioned:

The Bank's provision of possible losses arising from the off-balance sheet items is TRY 2 (31 December 2016: TRY 2).

1.b.1) Guarantees, confirmed bills and guarantees assessed as financial guarantees and non-cash loans including other letter of credits:

The Bank's letters of credit commitments are TRY 772 (31 December 2016: TRY 84.402). The Bank has no guarantee and bank acceptances.

1.b.2) Definite guarantees, tentative guarantees, suretyships and similar transactions:

Total amount of the Bank's TRY letters of guarantee are TRY 37 (31 December 2016: TRY 38). TRY 4 (31 December 2016: TRY 4) of this amount is letters of guarantee given to customs and other part is definite letters of guarantees.

1.c.1) Total non-cash loans:

	Current Period (31.12.2017)	Prior Period (31.12.2016)
Non-cash loans for providing cash loans	-	-
With original maturity of one year or less	-	-
With original maturity more than one year	-	-
Other non-cash loans	809	84.440
Total	809	84.440

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

1.c.2) Non-cash loans sectoral risk concentrations:

	Current Period (31.12.2017)				Prior Period (31.12.2016)			
	TRY	(%)	TRY	(%)	TRY	(%)	TRY	(%)
Agriculture	2	5,41	-	-	2	5,26	-	-
Farming and raising livestock	2	5,41	-	-	2	5,26	-	-
Forestry	-	-	-	-	-	-	-	-
Fishery	-	-	-	-	-	-	-	-
Industry	2	5,41	772	100,00	2	5,26	84.402	100,00
Mining and quarry	-	-	-	-	-	-	-	-
Manufacturing	2	5,41	-	-	2	5,26	-	-
Electricity, gas and water	-	-	772	100,00	-	-	84.402	100,00
Construction	-	-	-	-	-	-	-	-
Service	33	89,19	-	-	34	89,47	-	-
Wholesale and retail trade	-	-	-	-	-	-	-	-
Hotel and food services	-	-	-	-	-	-	-	-
Transportation and communication	-	-	-	-	-	-	-	-
Financial institutions	33	89,19	-	-	34	89,47	-	-
Real estate and leasing services	-	-	-	-	-	-	-	-
Self-employment services	-	-	-	-	-	-	-	-
Educational services	-	-	-	-	-	-	-	-
Health and social services	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Total	37	100,00	772	100,00	38	100,00	84.402	100,00

1.c.3) Non-cash loans classified in Group I and II:

	Current Period (31.12.2017)		Prior Period (31.12.2016)	
	I. Group		I. Group	
Non-cash loans	TRY	FC	TRY	FC
Letters of guarantee	37	-	38	-
Letters of credit	-	772	-	84.402

2. Information on derivative financial instruments:

The Bank has no derivative instruments.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

3. Information on contingent liabilities and assets:

Istanbul Venture Capital Initiative (IVCI - A Luxembourg Investment Company Fund) is founded as a stock company having variable capital and subject to laws of Luxembourg. The Bank has committed to buy "Group A" shares equal to nominal value of EUR 10 million and to pay this amount at the date determined by Fund according to its investment plan. The Fund's initial capital commitment was EUR 150 Million and its capital was increased to EUR 160 Million with new participants in March 2009. The Bank's participation was approved by the Board of Directors of IVCI on 13 November 2007 and share purchase agreement was signed at of the same date.

The Bank made payment of share capital amounting to EUR 6.655.000 constituting payments equal to EUR 300.000 on 7 November 2008, EUR 218.750 on 6 July 2009 and EUR 281.250 on 12 November 2010, EUR 167.500 on 15 July 2011, EUR 437.500 on 10 November 2011, EUR 500.000 on 15 February 2012, EUR 500.000 on 25 May 2012, EUR 250.000 on 10 August 2012, EUR 500.000 on 19 September 2012, EUR 500.000 on 18 January 2013, EUR 500.000 on 27 June 2013 and EUR 500.000 on 13 December 2013, EUR 500.000 on 1 August 2014, EUR 500.000 on 29 August 2014, EUR 500.00 on 4 May 2015, EUR 500.000 on 16 October 2015, EUR 500.00 on 3 May 2016 and EUR 312.500 on 30 November 2017. The total capital payment is EUR 7.467.500.

With reference to the above capital contributions, out of the Bank's total commitment of EURO 10 million, EURO 7.467.500 have been paid, EURO 2.532.500 is not yet paid as of the balance sheet date.

As 31 December 2017, there are 103 cases which are brought against the Bank. The risk amount is TRY 4.449. The Bank doesn't expect any obligation by results of the cases so there is no any provision on the financial tables for these cases.

4. Services supplied on behalf of others:

The Bank does not act as an intermediary for purchases and sales of securities on behalf of others and provides custody services.

IV. Explanations and notes related to income statement:

1.a) Information related to interest income on loans:

	Current Period (31.12.2017)		Prior Period (31.12.2016)	
	TRY	FC	TRY	FC
Interest on Loans				
Short term loans	604	2.202	1.508	3.780
Medium and long term loans	34.876	209.561	21.799	141.514
Interest on non-performing loans	12.422	-	2.461	-
Total	47.902	211.763	25.768	145.294

1.b) Information related to interest income on banks

	Current Period (31.12.2017)		Prior Period (31.12.2016)	
	TRY	FC	TRY	FC
From Central Bank of the Republic of Turkey	-	-	-	-
From domestic banks	62.993	4.542	28.596	894
From foreign banks	-	5	-	-
From foreign head offices and branches	-	-	-	-
Total	62.993	4.547	28.596	894

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

1.c) Information related to interest income on marketable securities:

	Current Period (31.12.2017)		Prior Period (31.12.2016)	
	TRY	FC	TRY	FC
From financial assets held-for-trading	-	-	-	-
From financial assets at fair value through profit and loss	-	-	-	-
From financial assets available-for-sale	12.972	3.434	7.312	2.741
From investments held-to-maturity	15	-	1.919	-
Total	12.987	3.434	9.231	2.741

1.ç) Information related to interest income from subsidiaries and associates:

None.

1.d) Information on interest income from money market transactions:

	Current Period (31.12.2017)		Prior Period (31.12.2016)	
	TRY	FC	TRY	FC
Money Market Transactions	-	-	-	-
Reverse repurchase agreements	31.345	-	6.509	-
Total	31.345	-	6.509	-

2.a) Information related to interest expense on borrowings:

	Current Period (31.12.2017)		Prior Period (31.12.2016)	
	TRY	FC	TRY	FC
Banks (*)	2	3.549	1	1.899
Central Bank of the Republic of Turkey	-	-	-	-
Domestic Banks	2	-	1	3
Foreign Banks	-	3.549	-	1.896
Foreign Head Office and Branches	-	-	-	-
Other Institutions	660	89.557	1.101	50.987
Total	662	93.106	1.102	52.886

(*)Includes fees and commissions related to borrowings.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

2.b) Information related to interest expenses to subsidiaries and associates:

None.

2.c) Information related to interest on securities issued:

The Bank has no securities issued.

2.ç) Information related to interest on money market transactions:

	Current Period (31.12.2017)		Prior Period (31.12.2016)	
	TRY	FC	TRY	FC
Repurchase agreements	1.819	-	42	-

3. Information related to dividend income:

	Current Period (31.12.2017)	Prior Period (31.12.2016)
From financial assets held-for-trading	-	-
From financial assets at fair value through profit and loss	-	-
From financial assets available-for-sale	296	272
Other	-	202
Total	296	474

4. Information related to trading income/loss:

	Current Period (31.12.2017)	Prior Period (31.12.2016)
Gain	10.349	9.137
Gains on capital market operations	3	16
Gains on derivative financial instruments	-	-
Foreign exchange gains	10.346	9.121
Loss (-)	(13.992)	(8.029)
Losses from the capital market operations	(7)	(7)
Losses on derivative financial instruments	-	-
Foreign exchange losses	(13.985)	(8.022)

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

5. Information related to other operating income:

	Current Period (31.12.2017)	Prior Period (31.12.2016)
Income from sale of assets	2.076	347
Reversals from prior years' provisions	3.461	8.957
Other	813	881
Total	6.350	10.185

In general, other operating income consists of collections and/or cancellations of specific provisions recognized as expense and income from sales of assets in prior periods.

6. Provision expenses for impairment on loans and other receivables:

	Current Period (31.12.2017)	Prior Period (31.12.2016)
Specific provisions on loans and other receivables	24.473	4.454
Group- III loans and receivables	63	-
Group- IV loans and receivables	1	2.082
Group-V loans and receivables	24.409	2.372
General loan provision expenses	15.625	15.938
Provision expenses for possible losses	-	-
Marketable securities impairment expenses	-	-
Financial assets at fair value through profit and loss	-	-
Financial assets available-for-sale	-	-
Impairment losses from associates, subsidiaries, jointly controlled entities (joint ventures) and investments held-to-maturity	-	-
Associates	-	-
Subsidiaries	-	-
Jointly controlled entities (joint ventures)	-	-
Investments held-to-maturity	-	-
Other	-	-
Total	40.098	20.392

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

7. Information related to other operating expenses:

	Current Period (31.12.2017)	Prior Period (31.12.2016)
Personnel expenses	60.022	56.909
Provision for employee termination benefits	5.332	4.885
Provision expense for bank social aid fund deficits	-	-
Fixed assets impairment charges	-	-
Depreciation charges of fixed assets	4.311	4.178
Intangible assets impairment charges	-	-
Goodwill impairment charges	-	-
Amortization charges of intangible assets	797	915
Impairment charges on investments accounted for at equity method accounting	-	-
Impairment charges of assets that will be disposed	-	270
Amortization charges of assets that will be disposed	-	711
Impairment charges for non-current assets held for sale and discontinued operations	-	-
Other operating expenses	15.020	12.306
Operational leasing expenses	76	90
Maintenance expenses	421	346
Advertisement expenses	173	61
Other expenses ^(*)	14.350	11.809
Loss on sale of assets	-	1
Other	4.920	3.805
Total	90.402	83.980

^(*) Other expenses consist of cleaning expenses amounting to TRY 3.798 (31 December 2016: TRY 3.497), communication expenses amounting to TRY 1.561 (31 December 2016: TRY 1.396), security expenses amounting to TRY 1.422 (31 December 2016: TRY 1.322), computer usage expenses amounting to TRY 1.166 (31 December 2016: TRY 635), heating, lighting and water expenses amounting to TRY 1.002 (31 December 2016: TRY 921), vehicle expenses amounting to TRY 590 (31 December 2016: TRY 615), dues amounting to TRY 3.868 (31 December 2016: TRY 3.443) and other expenses amounting to TRY 943 (31 December 2016: TRY 980).

8. Information related to operating profit/loss before taxes:

As of 31 December 2017, the Bank's income before tax from the continuing operations is TRY 164.644 (31 December 2016: TRY92.846) and the Bank has no discontinued operations.

9. Information related to tax provisions for taxes:

As of 31 December 2017, the Bank's income tax provision from continuing operations amounting to TRY (36.378), (31 December 2016: TRY (21.726)) consists of TRY (36.120) of current tax charge (31 December 2016: TRY (22.433)) and TRY (258) of deferred tax charge (31 December 2016: TRY 707 deferred tax benefit).

10. Information related to net operating income after taxes:

The Bank has earned net profit of TRY 128.266 from continuing operations between 1 January 2017 and 31 December 2017 (Between 1 January 2016-31 December 2016: TRY 71.120).

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

11. Information on net profit/loss:

11.a) The nature and amount of income and expenses from ordinary banking operations, if their nature, amount and frequency are required for the complete understanding of the performance of the Bank in the current period:

None.

11.b) The effect of the change in accounting estimates to the net profit/loss; including the effects to the future period, if any:

There are no changes in accounting estimates.

12. If the other items in the income statement exceed 10 % of the income statement total, sub-accounts amounting to at least 20 % of these items are presented below:

As of 31 December 2017, "Other Fees and Commissions Received" amounts to TRY 12.297; (31 December 2016: TRY 18.804) and TRY 9.603 of this amount consists of project service income (31 December 2016: TRY 14.156)

V. Explanations and Notes Related to Statement of Changes in Shareholders' Equity:

In legal records, paid-in capital is TRY 500.000 (31 December 2016: TRY 160.000). As of the balance sheet date, the balance of legal reserves is TRY 32.150 (31 December 2016: TRY 32.150), the balance of extraordinary reserves is TRY 370.897 (31 December 2016: TRY 300.484) and the balance of other legal reserves is TRY 2.886 (31 December 2016: TRY 2.179).

The valuation difference which is total TRY 12.546 (31 Aralık 2016: TRY (101)) on securities are resulted from IVCI exchange difference and appreciation which are TRY 12.830 in total and available for sale revaluation for sale which is TRY 284.

TRY 1.864 (31 December 2016: TRY 1.730) in other reserves totally consist of actuarial gains / losses after deferred tax balances.

VI. Explanations and Notes Related to Cash Flow Statement:

1. Explanations related to "other" items and "effect of change in foreign currency rates on cash and cash equivalents" in statement of cash flows:

The Bank's net cash inflow arising from banking operations is equal to TRY 12.218 (31 December 2016: TRY 669.919). TRY (166.349) (31 December 2016: TRY 595.035) of this amount is generated from the change in operating assets and liabilities, and TRY 178.567 (31 December 2016: TRY 101.884) from operating profit. Net increase/decrease in other payables under the changes in operating assets and liabilities is resulted from changes in funds received, funds provided through repurchase agreements, sundry payables, other liabilities and taxes, duties, and premiums payable, in total amounts to TRY (88.219) (31 December 2016: TRY 351.125). The "others" item under operating income composes of fees and commissions paid, trading gains/losses and other operating expenses excluding employee costs, and amounts to TRY (6.705) (31 December 2016: TRY (1.461)).

Because of the increasement of cash capital in 2017 , there is not any net cash outflows from financing activities during 2016-2017.

The effect of change in foreign currency rates on cash and cash equivalents is calculated by converting original currencies of cash and cash equivalents into TRY using rates for both beginning and end of the period. The effect for the current period is calculated as TRY 57.465 (31 December 2016: TRY 49.144).

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

2. Cash and cash equivalents at the beginning of the period:

	Current Period (31.12.2017)	Prior Period (31.12.2016)
Cash	358.482	10.141
Cash in TRY and foreign currencies	47	71
Demand deposits at banks	358.435	10.070
Cash equivalents	917.170	549.853
Interbank money market placements	10.505	35.000
Time deposits at banks	906.665	514.853
Total cash and cash equivalents	1.275.652	559.994

The total value of the transactions in prior period is the sum of current periods cash and cash equivalents.

3. Cash and cash equivalents at the end of the period:

	Current Period (31.12.2017)	Prior Period (31.12.2016)
Cash	13.688	358.482
Cash in TRY and foreign currencies	84	47
Demand deposits at banks and Central Bank of the Republic of Turkey	13.604	358.435
Cash equivalents	1.643.919	917.170
Interbank money market	323.413	10.505
Time deposits at banks	1.320.506	906.665
Total cash and cash equivalents	1.657.607	1.275.652

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

VII. Explanations Related to Risk Group of the Bank:

Predicted limitations determined in the Banking Law are maintained through internal regulations in the Bank which has no transactions related to deposit acceptance. For the transactions with risk groups, normal customer relationships and market conditions are taken into account. The Bank adopts policies that restrict the balance of transactions with risk groups in total assets and liabilities. Practices are carried out in accordance with this policy.

a) Current Period:

Risk Group	Subsidiaries, Associates and Jointly Controlled Entities (Joint Ventures))		Direct or Indirect Shareholders of the Bank		Other Real and Legal Persons in the Risk Group	
	Cash	Non-Cash	Cash	Non-Cash	Cash	Non-Cash
Loans and other receivables	-	-	-	-	-	-
Beginning Balance	418	-	-	-	-	-
Closing Balance	81	-	-	-	-	-
Interest and Commissions Income	-	-	-	-	-	-

(*) TRY 5.627 of loan extended to Arıcak A.Ş., a subsidiary of the Bank, has been followed in Group V. For this loan, TRY 5.546 specific provision has been provided.

b) Prior Period:

Risk Group	Subsidiaries, Associates and Jointly Controlled Entities (Joint Ventures))		Direct or Indirect Shareholders of the Bank		Other Real and Legal Persons in the Risk Group	
	Cash	Non-Cash	Cash	Non-Cash	Cash	Non-Cash
Loans and other receivables	-	-	-	-	-	-
Beginning Balance	403	-	-	-	-	-
Closing Balance	418	-	-	-	-	-
Interest and Commissions Income	-	-	-	-	-	-

(*) TRY 1.444 of loan extended to Arıcak A.Ş., a subsidiary of the Bank, has been followed in Group V. For this loan, TRY 1.026 specific provision has been provided.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

c) Information on forward transactions, option contracts and similar other transactions between the Bank and its risk groups:

None.

d) Information on remuneration and benefits provided for the senior management of the Bank:

Salaries and dividend paid to members of Board of Directors, Supervisory Board, General Manager and Vice General Managers are presented below.

	Current Period (31.12.2017)	Prior Period (31.12.2016)
Salaries	991	965
Dividend and fringe benefits	148	148
Total	1.139	1.113

VIII. Explanations Related to the Bank's Domestic, Foreign and Off-shore Branches and Representatives Abroad:

	Number	Number of Employees		
Domestic branches ^(*)	1	12		
	Country			
Foreign rep-offices	-	-		
			Total Assets	Capital
Foreign branches	-	-	-	-
Off-shore branches	-	-	-	-

^(*) Total number of employees is 553 and 12 of them are employed at İstanbul Branch.

Türkiye Kalkınma Bankası A.Ş.

Notes to the Unconsolidated Financial Statements for the Year Ended 31 December 2017

(Amounts expressed in Thousands of the Turkish Lira (TRY) unless otherwise stated.)

SECTION SIX OTHER EXPLANATIONS

I. Other explanations related to Operations of the Bank:

The summary of information on the Bank's rating by International Rating Agencies:

The international ratings of the Bank are performed by Fitch in 4 October 2017 and summary of the results as of 31 December 2017 and 31 December 2016 are presented below:

	2017	2016
Foreign Currency Commitments		
Long Term	BB+	BBB-
Short Term	B	F3
Outlook	Durağan	Negative
Turkish Lira Commitments		
Long Term	BBB-	BBB-
Short Term	F3	F3
Outlook	Durağan	Negative
National		
Long Term	AAA(TUR)	AAA(TUR)
Outlook	Durağan	Stable
Individual Rating	3	2
Support Points	BB+	BBB-

II. Explanations related to subsequent events

None.

SECTION SEVEN INDEPENDENT AUDITOR'S REPORT

I. Explanations on Independent Auditor's Report:

The unconsolidated financial statements as of 31 December 2017 were audited by KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (Member of KPMG International Cooperative, a Swiss entity) and Independent Auditor's Report dated 9 February 2018 is presented preceding the unconsolidated financial statements.

II. Explanations and Notes Prepared by Independent Auditor:

None.

www.kalkinma.com.tr