

(Convenience Translation of Consolidated Financial Statements and Related Disclosures and Footnotes Originally Issued in Turkish, See Note I in Section Three)

Ziraat Katılım Bankası Anonim Şirketi

Consolidated Financial Statements

As of 31 December 2018

With Independent Auditors' Report Thereon

(Convenience translation of the independent auditors' report and financial statements originally issued in Turkish, see Note I in section three)

18 February 2019

This report contains "independent auditors' report" comprising 5 pages and; "Consolidated Financial Statements and Related Disclosures and Footnotes" comprising 119 pages.



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Convenience Translation of the Independent Auditors' Report Originally Prepared and Issued
in Turkish to English (See Note I in Section Three)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Ziraat Katılım Bankası Anonim Şirketi

A) Report on the Audit of the Consolidated Financial Statements

Qualified Opinion

We have audited the accompanying consolidated financial statements of Ziraat Katılım Bankası Anonim Şirketi ("the Bank") and its financial subsidiaries (together the "Group") which comprise the consolidated statement of financial position as at 31 December 2018 and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in shareholders' equity, consolidated statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, except for the effect of the matter described in the Basis for Qualified Opinion section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Ziraat Katılım Bankası Anonim Şirketi and its consolidated financial subsidiaries as at 31 December 2018, and its consolidated financial performance and its consolidated 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 Financial Reporting Standards ("TFRS") for the matters not regulated by the aforementioned legislations.

Basis for Qualified Opinion

As disclosed in section five footnote II.8.d.1, the accompanying consolidated financial statements as at 31 December 2018 include a general reserve of total of TL 30.000 thousands which is provided by the Bank management in the current period for the possible effects of the negative circumstances which may arise in the economy or market conditions.



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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated 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 Qualified Opinion* section we have determined the matters described below to be the key audit matters to be communicated in our report.

Impairment of loans measured at amortised cost

Refer to Section III, No: VIII to the consolidated financial statements relating to the details of accounting policies and significant judgments of for impairment of loans measured at amortised cost.

<i>Key audit matter</i>	<i>How the matter is addressed in our audit</i>
<p>As of 31 December 2018, loans measured at amortised cost comprise approximately 80% of the Group's total assets.</p> <p>The Group recognizes its loans measured at amortised cost in accordance with the Regulation on the Procedures and Principles for Classification of Loans by Banks and Provisions to be set aside (the "Regulation") published on the Official Gazette No. 29750 dated 22 June 2016 which became effective on 1 January 2018 and TFRS 9 Financial Instruments standard ("Standard").</p> <p>As of 1 January 2018, due to the new adoption of the Standard, in determining the impairment of financial assets the Bank started to apply "expected credit loss" model rather than the "incurred loss model". The new model contains significant assumptions and estimates.</p> <p>The significant assumptions and estimates of the Group's management are as follows:</p> <ul style="list-style-type: none"> - Determining the significant increase in credit risk since initial recognition of loans on the financial statements 	<p>Our procedures for auditing the expected credit losses on loans include below:</p> <ul style="list-style-type: none"> • We tested the design and operating effectiveness of the controls on lending, collateralization, collection, follow-up, classification and impairment procedures are tested with the support of information risk management specialists. • We evaluated the Group's business model whose objective is to hold financial assets in order to collect contractual cash flows and we tested the appropriateness of the loan agreements with the model by selecting samples. • We evaluated the adequacy of the subjective and objective criteria that is defined in the Group's impairment accounting policy compared with the Regulation and Standard. • We evaluated the Banks's business model and methodology and the evaluation of the calculations carried out with the control testing and detail analysis by the involvement of specialist.

<ul style="list-style-type: none"> - incorporating the forward looking macroeconomic information in calculation of credit risk - design and implementation of expected credit loss model - The determination of the impairment of loans measured at amortised cost depends on the credit default status, the model based on the change in the credit risk at the first recognition date and the classification of the loans measured at amortised cost according to the model. Establishing an accurate classification is a significant process as the calculation of expected credit loss varies to the staging of the financial assets. <p>The Group estimates expected credit losses on a collective basis.</p> <p>The collective basis expected credit loss calculation is based on complex processes which are modelled by using current and past data sets and incorporating the future expectations.</p> <p>Impairment on loans calculation is determined as a key audit matter, due to the significance of the estimates and the level of judgments and its complex structure as explained above</p>	<ul style="list-style-type: none"> • We performed loan reviews for selected loan samples which include a detailed examination of loan files and related information and evaluation of their classification. In this context, the current status of the loan customer has been evaluated by including forward looking information and macroeconomic expectations. • We tested the accuracy and completeness of the data in calculation of the data in the calculation models for the loans which are assessed on collective basis. We recalculated the expected credit loss calculation. The models used for the calculation of the risk parameters were examined and the risk parameters were recalculated. • We assessed the macroeconomic models which are used to reflect forward looking expectations and tested the effect of the risk parameters by recalculation method. • We evaluated the criterias which are used in determining the significant increase in credit risk. • Additionally, we also evaluated the adequacy of the disclosures in the consolidated financial statements related to impairment provisions.
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Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

The Group management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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



Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Responsibilities of auditors in an audit are as follows:

Our objectives are to obtain reasonable assurance about whether the consolidated 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 Regulation and TSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error. Misstatements 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 consolidated financial statements.

As part of an audit in accordance with BRSA Audit Regulation TSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 consolidated 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) Report on Other Legal and Regulatory Requirements



1) Pursuant to the fourth paragraph of Article 402 of the Turkish Commercial Code No. 6102 ("TCC"); no significant matter has come to our attention that causes us to believe that the Bank's bookkeeping activities for the period 1 January - 31 December 2018 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.

Additional paragraph for convenience translation to English:

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

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



Erdal N. Koca, SMMM
Partner
18 February 2019
İstanbul, Turkey

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED CONSOLIDATED FINANCIAL STATEMENTS AND AUDITED REPORT ORIGINALLY ISSUED IN TURKISH, SEE THE NOTE I. OF SECTION THREE

**CONSOLIDATED FINANCIAL REPORT OF ZİRAAT KATILIM BANKASI A.Ş.
AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2018**

The Bank's Headquarter Address: Hobyar Eminönü Mahallesi
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The consolidated year-end financial report in accordance with the “Communiqué on the Financial Statements and Related Explanation and Notes that will be Publicly Announced” as sanctioned by the Banking Regulation and Supervision Agency, is comprised of the following sections:

- GENERAL INFORMATION ABOUT THE PARENT BANK
- CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP
- EXPLANATIONS ON ACCOUNTING POLICIES
- EXPLANATIONS ON THE FINANCIAL POSITION AND RISK OF MANAGEMENT OF THE GROUP
- EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL STATEMENTS
- INDEPENDENT AUDITOR'S REPORT

Subsidiaries financial statements have been consolidated in this annual consolidated financial report are as follows;

	Subsidiaries	Investments in Associates	Joint Ventures
1	Ziraat Katılım Varlık Kiralama A.Ş.	-	-
2	ZKB Varlık Kiralama A.Ş.	-	-

The accompanying consolidated financial statements and notes to these financial statements which are expressed, unless otherwise stated, in thousands of Turkish Lira have been prepared and presented based on the accounting books of the Bank in accordance with the Regulation on the Principles and Procedures Regarding Banks' Accounting and Keeping of Documents, Turkish Accounting Standards, Turkish Financial Reporting Standards, and related appendices and interpretations of these, and have been independently audited.

Hüseyin AYDIN
Chairman of the Board

Metin OZDEMİR
Member of the Board,
General Manager

Cemalettin BAŞLI
Member of the Board,
Member of the Audit
Committee

Feyzi ÇUTUR
Member of the Board,
Member of the Audit Committee

Osman KARAKÜTÜK
Vice President of Treasury
and Internal Operating

Gürkan ÇAKIR
Head of Financial
Coordination Department

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

Name-Surname/Position : Mesut Küçük / Financial Reporting Manager
Tel No : 0 216 559 22 53
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SECTION ONE
General Information about the Bank

	Page No
I. History of the Parent Bank including its incorporation date, initial legal status and amendments to legal status	1
II. Explanations about the Parent Bank's capital structure and shareholders who are in charge of the management and/or auditing of the Bank directly or indirectly, changes in these matters throughout the year (if any) and the group of the Bank	1
III. Explanations on the chairman and members of the board of directors, members of audit committee, general managers and assistant general managers and their shareholdings in the Parent Bank	2
IV. Information about the persons and institutions that have qualified shares attributable to the Parent bank	2
V. Explanations of the Parent Bank's services and field of operations	3
VI. Differences between the communicate on preparation of consolidated financial statements of banks and Turkish accounting standards and short explanation about the entities subject to full consolidation or proportional consolidation and entities which are deducted from equity or entities which are not included in these three methods	3
VII. Current or likely actual legal barriers to immediate transfer of equity or repayment of debts between Parent Bank and its subsidiaries	3

SECTION TWO
The Bank's Consolidated Financial Statements

I. Consolidated Balance sheet	5
II. Consolidated Statement of off-balance sheet commitments	9
III. Consolidated Statement of profit or loss	11
IV. Consolidated Statement of profit or loss and other comprehensive income	13
V. Statement of changes in shareholders' equity	15
VI. Consolidated Cash flows statement	17
VII. Consolidated Statement of Profit Distribution	19

SECTION THREE
Accounting Principles

I. Explanations on basis of presentation	21
II. Explanations on usage strategy of financial assets and foreign currency transactions	22
III. Explanations on consolidated subsidiaries	22
IV. Explanations on forward and option contracts and derivative instruments	23
V. Explanations on profit share income and expense	24
VI. Explanations on fees and commission income and expenses	24
VII. Explanations on financial assets	24
VIII. Explanations on impairment of financial assets	26
IX. Explanations on offsetting of financial assets and liabilities	27
X. Explanations on sales and repurchase agreements and lending of securities	28
XI. Explanations on assets held for sale and discontinued operations and related liabilities	28
XII. Explanations on goodwill and other intangible assets	28
XIII. Explanations on tangible assets	29
XIV. Explanations on leasing transactions	29
XV. Explanations on provisions and contingent liabilities	30
XVI. Explanations on obligations related to employee rights	30
XVII. Explanations on taxation	32
XVIII. Explanations on additional disclosures on borrowings	34
XIX. Explanations on share certificates issued	34
XX. Explanations on acceptances	34
XXI. Explanations on government incentives	34
XXII. Explanations on cash and cash equivalent	34
XXIII. Explanations on segment reporting	34
XXIV. Explanations on other matters	35

SECTION FOUR
Explanations Related to the Financial Position and Risk Management of the Bank

I. Explanations on shareholders' equity	39
II. Explanations on credit risk	46
III. Explanations on counter-cyclical capital buffer calculations risk	54
IV. Explanations on the consolidated currency risk	54
V. Equity share position risk on banking accounts	56
VI. Explanations related to consolidated liquidity risk management and liquidity coverage ratio	56
VII. Explanations on leverage ratio	62
VIII. Explanations on securitization positions	62
IX. Explanations on risk management	62
X. Explanations on hedge transactions	73
XI. Explanations on counter party credit risk	73
XII. Explanations on consolidated operating segments	78
XIII. Explanations on presentation of financial assets and liabilities at fair value	80
XIV. Explanations on activities carried out on behalf and account of other parties	81

SECTION FIVE
Explanations and notes related to consolidated financial statements

I. Explanations and notes related to consolidated assets	82
II. Explanations and notes related to consolidated liabilities	97
III. Explanations and notes related to consolidated off-balance sheet accounts	105
IV. Explanations and notes related to the statement of consolidated profit or loss	109
V. Explanations and notes related to changes in shareholders' equity	115
VI. Explanations and notes related to statement of cash flows	115
VII. Explanations and notes related to the risk group of the Parent bank	116
VIII. Significant events and matters arising subsequent to balance sheet date	117
IX. Explanations and notes related to domestic, foreign, off-shore branches or affiliates and foreign representatives of the Parent bank	118

SECTION SIX
Other Explanations and Notes

I.	Information on the Group's rating that has been determined by international rating agencies	119
II.	Other explanations on Group's operations	119

SECTION SEVEN
Explanations on Independent Auditor's Report

I.	Explanations on the independent auditor's report	119
II.	Explanations and notes prepared by the independent auditors	119

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY - 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

SECTION ONE GENERAL INFORMATION ABOUT THE GROUP

I. HISTORY OF THE PARENT BANK INCLUDING ITS INCORPORATION DATE, INITIAL LEGAL STATUS AND AMENDMENTS TO LEGAL STATUS

Ziraat Participation Bank is founded by permission of Banking Regulation and Supervision Agency numbered as 6046 at 10 November 2014 which was published in the Official Gazette numbered as 29146 at 15 November 2014 with a capital of TL 675.000 that is fully paid by T.C. Treasury and its legal entity was comprised of the registration in the trade registry as of 16 February 2015. The Bank has obtained official permission by the decision of Banking Regulation and Supervision Agency numbered as 6302 at 12 May 2015 and published in the Official Gazette numbered as 29355 at 14 May 2015. The Bank has begun its operations by opening its first branch in 29 May 2015. In accordance with the decision of the Bank's Ordinary General Assembly Meeting held on 29 April 2016, the paid-in capital of the Bank has been increased in cash by TL 72.000 from TL 675.000 to 747.000. In accordance with the decision of the Bank's Ordinary General Assembly Meeting held on 13 June 2017, the paid-in capital of the Bank has been increased by the amount of cash by TL 500.000 and by increasing the amount of internal resources by TL 3.000 to TL 1.250.000. In accordance with the decision of the Bank's Ordinary General Assembly Meeting held on September 20, 2018, the paid-in capital of the Bank has been raised from TL 1,250,000 to TL 1,750,000 by increasing the amount of cash by TL 500,000. Governance body of the bank is in Istanbul.

Main operation field of the Parent Bank is gathering funds by the accounts named as "Private Current Accounts" and "Participation Accounts to Profit and Loss" from domestic and abroad additional to its own capital and lending these funds to the economy, carrying up every kind of financing operations within the scope of legal legislation, promoting investment operations of real and corporate bodies that are making agricultural, industrial and commercial operations, participating in these operations, making up joint ventures and carrying out all these services and operations within the scope of participation banking fundamentals.

The Parent Bank can carry out every kind of banking, economic, trade and financial operation within the limits of permissions given by the Banking Regulation and Supervision Agency within the scope of Participation Banking fundamentals.

All of the shares of the Parent Bank, T.C Ziraat Bankası A.Ş. has been transferred from Republic of Turkey Prime Ministry Undersecretariat of Treasury to the Turkey Wealth Fund according to enactment dated 24 January 2017, no 2017/9756 by the Council of Ministry.

II. EXPLANATION ABOUT THE PARENT BANK'S CAPITAL STRUCTURE AND SHAREHOLDERS WHO ARE IN CHARGE OF THE MANAGEMENT AND/OR AUDITING OF THE BANK DIRECTLY OR INDIRECTLY, CHANGES IN THESE MATTERS THROUGHOUT THE YEAR (IF ANY) AND THE GROUP OF THE BANK

As of 31 December 2018 and 31 December 2017, main shareholders and capital amounts as follows:

Name of Shareholders	31 December 2018		31 December 2017	
	Paid-in Capital	%	Paid-in Capital	%
T.C. Ziraat Bankası A.Ş. (*)	1.750.000	99,9999996	1.250.000	99,9999996
Ziraat Sigorta A.Ş.	-	0,0000001	-	0,0000001
Ziraat Hayat ve Emeklilik A.Ş.	-	0,0000001	-	0,0000001
Ziraat Teknoloji A.Ş.	-	0,0000001	-	0,0000001
Ziraat Yatırım Menkul Değerler A.Ş.	-	0,0000001	-	0,0000001
Total	1.750.000	100,00	1.250.000	100,00

(*) All of the shares of the Parent Bank, T.C Ziraat Bankası A.Ş. has been transferred from Republic of Turkey Prime Ministry Undersecretariat of Treasury to the Turkey Wealth Fund according to enactment dated 24 January 2017, no 2017/9756 by the Council of Ministry.

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY - 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

GENERAL INFORMATION ABOUT THE BANK (Continued)

III. EXPLANATIONS ON THE CHAIRMAN AND MEMBERS OF THE BOARD OF DIRECTORS, MEMBERS OF AUDIT COMMITTEE, GENERAL MANAGERS AND ASSISTANT GENERAL MANAGERS AND THEIR SHAREHOLDINGS IN THE PARENT BANK

Name	Title
Board of Directors	
Hüseyin AYDIN	Chairman
Metin ÖZDEMİR	General Manager and Member of the BOD, Member of Pricing Committee, President of Credit Committee, Member of Corporate Management Committee
Yusuf DAĞCAN	Executive Vice President and Member of the BOD
Cemalettin BAŞLI	Member of the BOD, Member of Credit Committee, Member of Audit Committee
Feyzi ÇUTUR	Member of the BOD, Member of Credit Committee, Member of Audit Committee
Salim ALKAN	Member of the BOD, President of Corporate Management Committee, Member of Pricing Committee, Substitute Member of Credit Committee
Assistant General Manager	
Mehmet Said GÜL	Information Technologies and Operating
Osman KARAKÜTÜK	Treasury and Internal Operations
Tahir DEMİRKIRAN	Loan Allocation and Management
Temel Tayyar YEŞİL	Marketing

Chairman and members of the Board of Directors have no Parent Bank's share capital.

IV. INFORMATION ABOUT THE PERSONS AND INSTITUTIONS THAT HAVE QUALIFIED SHARES ATTRIBUTABLE TO THE PARENT BANK

Name / Trade Name	Share Amount (Nominal)	Shareholding Percentage	Paid Shares	Unpaid Shares
T.C. Ziraat Bankası A.Ş. ^(*)	1.750.000	99,9999996	1.750.000	-
Ziraat Sigorta A.Ş.	-	0,0000001	-	-
Ziraat Hayat ve Emeklilik A.Ş.	-	0,0000001	-	-
Ziraat Teknoloji A.Ş.	-	0,0000001	-	-
Ziraat Yatırım Menkul Değerler A.Ş.	-	0,0000001	-	-
Total	1.750.000	100,00	1.750.000	-

(*) All of the shares of the Parent Bank, T.C Ziraat Bankası A.Ş. has been transferred from Republic of Turkey Prime Ministry Undersecretariat of Treasury to the Turkey Wealth Fund according to enactment dated 24 January 2017, no 2017/9756 by the Council of Ministry.

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY - 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”))

GENERAL INFORMATION ABOUT THE BANK (Continued)

V. EXPLANATIONS OF THE PARENT BANK’S SERVICES AND FIELD OF OPERATIONS

Operation field of Parent Bank was declared in the prime contract within the scope of Banking Law and other legislation codes. The bank collects funds with the scope of Banking Principles and provide all type of cash, non-cash funds within the scope of Islamic banking principles in any case. Moreover, the Bank operates its participation banking operations to the extent permitted by the Legal Code, for the benefit of the society within the principles of the participation banking such as for the purpose of society.

The Parent Bank sorts out participation accounts discretely from the other accounts in its account records in terms of their maturity. Participation accounts are opened in 5 maturity groups as maturity to one month, maturity to three months (three months included), maturity to nine months (nine months included), maturity to one year (one year included) and maturity to one year or more (with dividend payment of one month, 3 months, six months and annually).

The Parent Bank can determine the rates of participating in profit and loss by operating participation accounts discretely as of currency type, amount and maturity groups but participation rate to loss cannot be less than 50% of participation rate to profit.

The Parent Bank branches provides Islamic insurance within the principles of participation banking (takaful insurance) as an agent of Ziraat Hayat ve Emeklilik A.Ş. and Ziraat Sigorta A.Ş. to their client.

As of 31 December 2018, the Parent Bank operates with its 80 branches (31 December 2017: 63 domestic branches) and 1,042 (31 December 2017: 890) workers domestically.

The Parent Bank has no branches abroad.

VI. DIFFERENCES BETWEEN THE COMMUNIQUE ON PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS OF BANKS AND TURKISH ACCOUNTING STANDARDS AND SHORT EXPLANATION ABOUT THE ENTITIES SUBJECT TO FULL CONSOLIDATION OR PROPORTIONAL CONSOLIDATION AND ENTITIES WHICH ARE DEDUCTED FROM EQUITY OR ENTITIES WHICH ARE NOT INCLUDED IN THESE THREE METHODS

There is no difference between consolidated financial statements prepared in accordance with BRSA regulation on the preparation of consolidated financial statements and consolidated financial statements prepared in accordance with Turkish Accounting Standards for the Bank. The Bank’s subsidiary Ziraat Katılım Varlık Kiralama A.Ş. which is established on 22 January 2016 and ZKB Varlık Kiralama A.Ş. which is established in 8 September 2017 are consolidated within the scope of full consolidation.

VII. CURRENT OR LIKELY ACTUAL LEGAL BARRIERS TO IMMEDIATE TRANSFER OF EQUITY OR REPAYMENT OF DEBTS BETWEEN PARENT BANK AND ITS SUBSIDIARIES

None.

SECTION TWO

THE BANK'S CONSOLIDATED FINANCIAL STATEMENTS

- I.** Consolidated balance sheet (statement of financial position)
- II.** Consolidated Statement of off-balance sheet commitments
- III.** Consolidated Statement of profit or loss
- IV.** Consolidated Statement of profit or loss and other comprehensive income
- V.** Consolidated Statements of changes in shareholders' equity
- VI.** Consolidated Statement of cash flows
- VII.** Consolidated Statement of Profit Distribution

ZİRAAT KATILIM BANKASI A.Ş.

CONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION) AS OF 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

I.	BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)	Note (Section Five I)	THOUSAND OF TURKISH LIRA		
			Current Period (31/12/2018)		
			TL	FC	Total
	ASSETS				
I.	FINANCIAL ASSETS (NET)		1.520.928	2.577.299	4.098.227
1.1	Cash and Cash Equivalents		338.745	2.456.239	2.794.984
1.1.1	Cash and Balances with Central Bank	(1)	333.810	1.673.503	2.007.313
1.1.2	Banks	(2)	4.935	782.736	787.671
1.1.3	Money Markets		-	-	-
1.2	Financial Assets at Fair Value Through Profit or Loss		-	-	-
1.2.1	Government Debt Securities		-	-	-
1.2.2	Equity Instruments		-	-	-
1.2.3	Other Financial Assets		-	-	-
1.3	Financial Assets at Fair Value Through Other Comprehensive Income	(3)	1.183.345	121.017	1.304.362
1.3.1	Government Debt Securities		-	-	-
1.3.2	Equity Instruments		4.897	-	4.897
1.3.3	Other Financial Assets		1.178.448	121.017	1.299.465
1.4	Financial Assets Measured at Amortized Cost	(4)	-	-	-
1.4.1	Government Debt Securities		-	-	-
1.4.2	Other Financial Assets		-	-	-
1.5	Derivative Financial Assets	(5)	13	43	56
1.5.1	Derivative Financial Assets at Fair Value Through Profit or Loss		13	43	56
1.5.2	Derivative Financial Assets at Fair Value Through Other Comprehensive Income		-	-	-
1.6	Non-Performing Financial Assets		-	-	-
1.7	Expected Loss Provision (-)	(6)	1.175	-	1.175
II.	LOANS (NET)	(7)	12.565.543	5.173.882	17.739.425
2.1	Loans		12.034.001	4.969.829	17.003.830
2.1.1	Measured at Amortized Cost		12.034.001	4.969.829	17.003.830
2.1.2	Fair Value Through Profit or Loss		-	-	-
2.1.3	Fair Value Through Other Comprehensive Income		-	-	-
2.2	Lease Receivables		499.781	204.053	703.834
2.2.1	Financial Lease Receivables		607.877	236.153	844.030
2.2.2	Operating Lease Receivables		-	-	-
2.2.3	Unearned Income (-)		108.096	32.100	140.196
2.3	Factoring Receivables		-	-	-
2.3.1	Measured at Amortized Cost		-	-	-
2.3.2	Fair Value Through Profit or Loss		-	-	-
2.3.3	Fair Value Through Other Comprehensive Income		-	-	-
2.4	Non-Performing Loans		240.160	-	240.160
2.5	Expected Credit Loss (-)		208.399	-	208.399
2.5.1	12 Month Expected Credit Losses (Stage I)		32.984	-	32.984
2.5.2	Significant Increase in Credit Risk (Stage II)		51.637	-	51.637
2.5.3	Credit-Impaired Losses (Stage III / Special Provision)		123.778	-	123.778
III.	PROPERTY AND EQUIPMENT HELD FOR SALE PURPOSE AND RELATED TO DISCONTINUED OPERATIONS (Net)		4.259	-	4.259
3.1	Held for Sale Purpose		4.259	-	4.259
3.2	Related to Discontinued Operations		-	-	-
IV.	EQUITY INVESTMENTS	(9)	-	-	-
4.1	Investments in Associates (Net)		-	-	-
4.1.1	Associates Valued Based on Equity Method		-	-	-
4.1.2	Unconsolidated Associates		-	-	-
4.2	Subsidiaries (Net)		-	-	-
4.2.1	Unconsolidated Financial Subsidiaries		-	-	-
4.2.2	Unconsolidated Non-Financial Subsidiaries		-	-	-
4.3	Joint Ventures (Net)		-	-	-
4.3.1	Joint Ventures Valued Based on Equity Method		-	-	-
4.3.2	Unconsolidated Joint Ventures		-	-	-
V.	PROPERTY AND EQUIPMENT (Net)	(10)	52.116	-	52.116
VI.	INTANGIBLE ASSETS (Net)	(11)	80.396	-	80.396
6.1	Goodwill		-	-	-
6.2	Other		80.396	-	80.396
VII.	INVESTMENT PROPERTY (Net)	(12)	-	-	-
VIII.	CURRENT TAX ASSET	(13)	-	-	-
IX.	DEFERRED TAX ASSET	(14)	49.870	-	49.870
X.	OTHER ASSETS	(15)	161.719	2.691	164.410
	TOTAL ASSETS		14.434.831	7.753.872	22.188.703

As noted in Section three note I current period financial statements are prepared in accordance with the accounting policies different from the accounting policies which have been used in prior period financial statements. Therefore prior period financial statements and notes have not been restated. Prior period financial statements are presented separately.

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

ZİRAAT KATILIM BANKASI A.Ş.

CONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION) AS OF 31 DECEMBER 2017

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

I.	BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)	Note (Section Five I)	THOUSAND OF TURKISH LIRA		
			Prior Period (31/12/2017)		
			TL	FC	Total
	ASSETS				
I.	CASH BALANCES WITH THE CENTRAL BANK OF TURKEY	(1)	305.803	1.337.886	1.643.689
II.	FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS (Net)	(2)	33	4	37
2.1	Financial Assets Held for Trading		33	4	37
2.1.1	Public Sector Debt Securities		-	-	-
2.1.2	Securities Representing a Share in Capital		-	-	-
2.1.3	Derivative Financial Assets Held for Trading		33	4	37
2.1.4	Other Marketable Securities		-	-	-
2.2	Financial Assets at Fair Value Through Profit or Loss		-	-	-
2.2.1	Public Sector Debt Securities		-	-	-
2.2.2	Securities Representing a Share in Capital		-	-	-
2.2.3	Loans		-	-	-
2.2.4	Other Marketable Securities		-	-	-
III.	BANKS	(3)	3.320	275.261	278.581
IV.	MONEY MARKET PLACEMENTS		-	-	-
V.	FINANCIAL ASSETS AVAILABLE FOR SALE (Net)	(4)	516.461	7.712	524.173
5.1	Securities Representing a Share in Capital		4.719	-	4.719
5.2	Public Sector Debt Securities		-	-	-
5.3	Other Marketable Securities		511.742	7.712	519.454
VI.	LOANS AND RECEIVABLES	(5)	9.656.012	1.718.732	11.374.744
6.1	Loans and receivables		9.639.259	1.718.732	11.357.991
6.1.1	Loans to Risk Group of the Bank		400.452	358.536	758.988
6.1.2	Public sector debt securities		-	-	-
6.1.3	Other		9.238.807	1.360.196	10.599.003
6.2	Non-performing loans		34.841	-	34.841
6.3	Specific provisions (-)		18.088	-	18.088
VII.	INVESTMENTS HELD TO MATURITY (Net)	(6)	-	-	-
VIII.	INVESTMENTS IN ASSOCIATES (Net)	(7)	-	-	-
8.1	Accounted with Equity Method		-	-	-
8.2	Unconsolidated Associates		-	-	-
8.2.1	Financial investments		-	-	-
8.2.2	Non-financial investments		-	-	-
IX.	INVESTMENTS IN SUBSIDIARIES (Net)	(8)	-	-	-
9.1	Unconsolidated financial subsidiaries		-	-	-
9.2	Unconsolidated non-financial subsidiaries		-	-	-
X.	ENTITIES UNDER COMMON CONTROL (JOINT VENT.) (Net)	(9)	-	-	-
10.1	Consolidated under equity method		-	-	-
10.2	Unconsolidated		-	-	-
10.2.1	Financial subsidiaries		-	-	-
10.2.2	Non-financial subsidiaries		-	-	-
XI.	RECEIVABLES FROM LEASING TRANSACTIONS	(10)	372.944	-	372.944
11.1	Finance Lease Receivables		479.451	-	479.451
11.2	Operating Lease Receivables		-	-	-
11.3	Other		-	-	-
11.4	Unearned Income (-)		106.507	-	106.507
XII.	DERIVATIVE FINANCIAL ASSETS FOR HEDGING PURPOSE	(11)	-	-	-
12.1	Fair Value Hedges		-	-	-
12.2	Cash Flow Hedges		-	-	-
12.3	Hedges for Investments Made in Foreign Countries		-	-	-
XIII.	TANGIBLE ASSETS (Net)	(14)	47.235	-	47.235
XIV.	INTANGIBLE ASSETS (Net)	(15)	63.280	-	63.280
14.1	Goodwill		-	-	-
14.2	Other		63.280	-	63.280
XV.	REAL ESTATES FOR INVESTMENT PURPOSE (Net)	(12)	-	-	-
XVI.	TAX ASSET	(16)	14.093	-	14.093
16.1	Current Tax Asset		-	-	-
16.2	Deferred Tax Asset		14.093	-	14.093
XVII.	ASSETS HELD FOR SALE AND ASSETS HELD FROM DISCONTINUED OPERATIONS (Net)	(13)	3.561	-	3.561
17.1	Held for Sale		3.561	-	3.561
17.2	Held from Discontinued Operations		-	-	-
XVIII.	OTHER ASSETS	(17)	27.580	122	27.702
	TOTAL ASSETS		11.010.322	3.339.717	14.350.039

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

ZİRAAT KATILIM BANKASI A.Ş.**CONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)
AS OF 31 DECEMBER 2018**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”))

I.	BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)	Note (Section Five II)	THOUSAND OF TURKISH LIRA		
			Current Period (31/12/2018)		
			TL	FC	Total
	LIABILITIES AND EQUITY				
I.	FUNDS COLLECTED	(1)	8.248.433	6.902.550	15.150.983
II.	FUNDS BORROWED	(2)	16.648	1.970.129	1.986.777
III.	MONEY MARKETS DEBTS	(3)	864.414	-	864.414
IV.	SECURITIES ISSUED (Net)	(4)	1.375.097	-	1.375.097
V.	FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	(5)	-	-	-
VI.	DERIVATIVE FINANCIAL LIABILITIES	(6)	-	6.145	6.145
6.1	Derivative Financial Liabilities at Fair Value Through Profit or Loss		-	6.145	6.145
6.2	Derivative Financial Liabilities at Fair Value Through Other Comprehensive Income		-	-	-
VII.	FINANCE LEASE PAYABLES	(7)	-	415	415
7.1	Finance Lease Payables		-	422	422
7.2	Operating Lease Payables		-	-	-
7.3	Other		-	-	-
7.4	Deferred Finance Lease Expenses (-)		-	7	7
VIII.	PROVISIONS	(8)	117.948	14.016	131.964
8.1	Restructuring Provisions		-	-	-
8.2	Reserve for Employee Benefits		21.640	-	21.640
8.3	Insurance Technical Provisions (Net)		-	-	-
8.4	Other Provisions		96.308	14.016	110.324
IX.	CURRENT TAX LIABILITY	(9)	53.987	-	53.987
X.	DEFERRED TAX LIABILITY	(10)	-	-	-
XI.	LIABILITIES FOR PROPERTY AND EQUIPMENT HELD FOR SALE AND RELATED TO DISCONTINUED OPERATIONS (Net)	(11)	-	-	-
11.1	Held for Sale Purpose		-	-	-
11.2	Related to Discontinued Operations		-	-	-
XII.	SUBORDINATED DEBT INSTRUMENTS	(12)	-	-	-
12.1	Loans		-	-	-
12.2	Other Debt Instruments		-	-	-
XIII.	OTHER LIABILITIES	(13)	368.204	32.133	400.337
XIV.	SHAREHOLDERS' EQUITY	(14)	2.218.279	305	2.218.584
14.1	Paid-in capital		1.750.000	-	1.750.000
14.2	Capital Reserves		-	-	-
14.2.1	Share Premium		-	-	-
14.2.2	Share Cancellation Profits		-	-	-
14.2.3	Other Capital Reserve		-	-	-
14.3	Accumulated Other Comprehensive Income or Loss Not Reclassified Through Profit or Loss		1.473	-	1.473
14.4	Accumulated Other Comprehensive Income or Loss Reclassified Through Profit or Loss		(40.112)	305	(39.807)
14.5	Profit Reserves		158.593	-	158.593
14.5.1	Legal Reserves		9.961	-	9.961
14.5.2	Status Reserves		-	-	-
14.5.3	Extraordinary Reserves		138.256	-	138.256
14.5.4	Other Profit Reserves		10.376	-	10.376
14.6	Income or (Loss)		348.325	-	348.325
14.6.1	Prior Periods' Income or (Loss)		25.660	-	25.660
14.6.2	Current Period Income or (Loss)		322.665	-	322.665
	TOTAL LIABILITIES AND EQUITY		13.263.010	8.925.693	22.188.703

As noted in Section three note I current period financial statements are prepared in accordance with the accounting policies different from the accounting policies which have been used in prior period financial statements. Therefore prior period financial statements and notes have not been restated. Prior period financial statements are presented separately.

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

ZİRAAT KATILIM BANKASI A.Ş.

CONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION) AS OF 31 DECEMBER 2017

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

I. BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)		Note (Section Five II)	THOUSAND OF TURKISH LIRA		
			Prior Period (31/12/2017)		
			TL	FC	Total
LIABILITIES AND EQUITY					
I. FUND COLLECTED	(1)		6.345.837	3.678.649	10.024.486
1.1 Fund Collected Held By the Risk Group of the Bank			8.156	3	8.159
1.2 Other			6.337.681	3.678.646	10.016.327
II. DERIVATIVE FINANCIAL LIABILITIES HELD FOR TRADING	(2)		-	6.280	6.280
III. FUNDS BORROWED	(3)		419.374	1.629.936	2.049.310
IV. MONEY MARKET BALANCES	(4)		32.462	-	32.462
V. MARKETABLE SECURITIES ISSUED (Net)	(5)		557.804	-	557.804
VI. MISCELLANEOUS PAYABLES			27.253	8.462	35.715
VII. OTHER LIABILITIES	(6)		69.368	1.202	70.570
VIII. FINANCE LEASE PAYABLES	(7)		-	-	-
8.1 Finance Lease Payables			-	-	-
8.2 Operating Lease Payables			-	-	-
8.3 Other			-	-	-
8.4 Deferred Finance Lease Expenses (-)			-	-	-
IX. DERIVATIVE FINANCIAL LIABILITIES FOR HEDGING	(8)		-	-	-
9.1 Fair Value Hedges			-	-	-
9.2 Cash Flow Hedges			-	-	-
9.3 Hedges for Investments Made in Foreign Countries			-	-	-
X. PROVISIONS	(9)		138.685	3.605	142.290
10.1 General Provisions			99.082	-	99.082
10.2 Restructuring Provisions			-	-	-
10.3 Employee Benefits Provisions			4.719	-	4.719
10.4 Insurance Technical Reserves (Net)			-	-	-
10.5 Other Provisions			34.884	3.605	38.489
XI. TAX LIABILITY	(10)		27.441	-	27.441
11.1 Current Tax Liability			27.441	-	27.441
11.2 Deferred Tax Liability			-	-	-
XII. LIABILITIES FOR ASSETS HELD FOR SALE AND HELD FROM DISCONTINUED OPERATIONS (Net)	(11)		-	-	-
12.1 Held for Sale			-	-	-
12.2 Held from Discontinued Operations			-	-	-
XIII. SUBORDINATED LOANS	(12)		-	-	-
XIV. SHAREHOLDERS' EQUITY	(13)		1.403.692	(11)	1.403.681
14.1 Paid-in Capital			1.250.000	-	1.250.000
14.2 Capital Reserves			(14.901)	(11)	(14.912)
14.2.1 Share Premium			-	-	-
14.2.2 Share Cancellation Profits			-	-	-
14.2.3 Marketable Securities Valuation Differences			(14.901)	(11)	(14.912)
14.2.4 Tangible Assets Revaluation Reserves			-	-	-
14.2.5 Intangible Assets Revaluation Reserves			-	-	-
14.2.6 Revaluation Reserves of Real Estates for Investment Purpose			-	-	-
14.2.7 Bonus shares obtained from associates, subsidiaries and jointly controlled entities (Joint Vent.)			-	-	-
14.2.8 Hedging Funds (Effective Portion)			-	-	-
14.2.9 Accumulated valuation differences from assets held for sale and from discontinued operations			-	-	-
14.2.10 Other Capital Reserves			-	-	-
14.3 Profit Reserves			9.691	-	9.691
14.3.1 Legal Reserves			1.308	-	1.308
14.3.2 Statutory Reserves			-	-	-
14.3.3 Extraordinary Reserves			3.843	-	3.843
14.3.4 Other Profit Reserves			4.540	-	4.540
14.4 Profit or Loss			158.902	-	158.902
14.4.1 Prior Years Profit/Loss			-	-	-
14.4.2 Net Period Profit/Loss			158.902	-	158.902
TOTAL LIABILITIES AND EQUITY			9.021.916	5.328.123	14.350.039

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

ZİRAAT KATILIM BANKASI A.Ş.

CONSOLIDATED STATEMENT OF OFF-BALANCE SHEET COMMITMENTS AS OF 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

II.	CONSOLIDATED STATEMENT OF OFF-BALANCE SHEET ACCOUNTS	Note (Section Five III)	THOUSAND OF TURKISH LIRA		
			Current Period (31/12/2018)		
			TL	FC	Total
A	OFF-BALANCE SHEET COMMITMENTS (I+II+III)	(1)	4.369.125	8.684.102	13.053.227
I.	GUARANTEES AND WARRANTIES		4.070.241	6.213.201	10.283.442
1.1	Letters of Guarantee		4.058.895	4.581.471	8.640.366
1.1.1	Guarantees Subject to State Tender Law		263.507	1.436.775	1.700.282
1.1.2	Guarantees Given for Foreign Trade Operations		3.622.754	-	3.622.754
1.1.3	Other Letters of Guarantee		172.634	3.144.696	3.317.330
1.2	Bank Acceptances		-	3.591	3.591
1.2.1	Import Letter of Acceptance		-	3.591	3.591
1.2.2	Other Bank Acceptances		-	-	-
1.3	Letters of Credit		5.584	611.224	616.808
1.3.1	Documentary Letters of Credit		5.584	611.224	616.808
1.3.2	Other Letters of Credit		-	-	-
1.4	Prefinancing Given as Guarantee		-	-	-
1.5	Endorsements		-	-	-
1.5.1	Endorsements to the Central Bank of the Republic of Turkey		-	-	-
1.5.2	Other Endorsements		-	-	-
1.6	Other Guarantees		-	1.010.273	1.010.273
1.7	Other Collaterals		5.762	6.642	12.404
II.	COMMITMENTS	(1)	298.884	59.931	358.815
2.1	Irrevocable Commitments		298.884	59.931	358.815
2.1.1	Forward asset purchase commitments		28.133	59.931	88.064
2.1.2	Share Capital Commitments to Associates and Subsidiaries		-	-	-
2.1.3	Loan Granting Commitments		-	-	-
2.1.4	Securities Issue Brokerage Commitments		-	-	-
2.1.5	Commitments for Reserve Deposit Requirements		-	-	-
2.1.6	Payment commitment for checks		102.994	-	102.994
2.1.7	Tax and Fund Liabilities from Export Commitments		6.925	-	6.925
2.1.8	Commitments for Credit Card Limits		-	-	-
2.1.9	Commitments for Credit Cards and Banking Services Promotions		-	-	-
2.1.10	Receivables from Short Sale Commitments of Marketable Securities		-	-	-
2.1.11	Payables for Short Sale Commitments of Marketable Securities		-	-	-
2.1.12	Other Irrevocable Commitments		160.832	-	160.832
2.2	Revocable Commitments		-	-	-
2.2.1	Revocable Loan Granting Commitments		-	-	-
2.2.2	Other Revocable Commitments		-	-	-
III.	DERIVATIVE FINANCIAL INSTRUMENTS	(2)	-	2.410.970	2.410.970
3.1	Hedging Derivative Financial Instruments		-	-	-
3.1.1	Fair value hedge		-	-	-
3.1.2	Cash flow hedge		-	-	-
3.1.3	Foreign Net Investment Hedges		-	-	-
3.2	Trading Derivative Financial Instruments		-	2.410.970	2.410.970
3.2.1	Forward Foreign Currency Buy/Sell Transactions		-	2.410.970	2.410.970
3.2.1.1	Forward Foreign Currency Transactions-Buy		-	1.204.570	1.204.570
3.2.1.2	Forward Foreign Currency Transactions-Sell		-	1.206.400	1.206.400
3.2.2	Other Forward Buy/Sell Transaction		-	-	-
3.3	Other		-	-	-
B.	CUSTODY AND PLEDGES RECEIVED (IV+V+VI)		19.380.896	2.390.013	21.770.909
IV.	ITEMS HELD IN CUSTODY		1.322.027	752.222	2.074.249
4.1	Customer Fund and Portfolio Balances		-	-	-
4.2	Investment Securities Held in Custody		919.760	-	919.760
4.3	Checks Received for Collection		361.417	61.070	422.487
4.4	Commercial Notes Received for Collection		39.613	2.604	42.217
4.5	Other Assets Received for Collection		-	-	-
4.6	Assets Received for Public Offering		-	-	-
4.7	Other Items Under Custody		1.237	297.828	299.065
4.8	Custodians		-	390.720	390.720
V.	PLEDGES RECEIVED		18.058.869	1.637.791	19.696.660
5.1	Marketable Securities		919.767	442.154	1.361.921
5.2	Guarantee Notes		1.204.313	156.295	1.360.608
5.3	Commodity		1.286.488	367.493	1.653.981
5.4	Warranty		-	-	-
5.5	Properties		12.115.418	105.561	12.220.979
5.6	Other Pledged Items		2.532.883	566.288	3.099.171
5.7	Pledged Items-Depository		-	-	-
VI.	ACCEPTED INDEPENDENT GUARANTEES AND WARRANTIES		-	-	-
TOTAL OFF-BALANCE SHEET COMMITMENTS (A+B)			23.750.021	11.074.115	34.824.136

As noted in Section three note I current period financial statements are prepared in accordance with the accounting policies different from the accounting policies which have been used in prior period financial statements. Therefore prior period financial statements and notes have not been restated. Prior period financial statements are presented separately.

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

ZİRAAT KATILIM BANKASI A.Ş.

CONSOLIDATED STATEMENT OF OFF-BALANCE SHEET COMMITMENTS AS OF 31 DECEMBER 2017

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

II.	STATEMENT OF OFF-BALANCE SHEET COMMITMENTS	Note (Section Five III)	THOUSAND OF TURKISH LIRA		
			Prior Period (31/12/2017)		
			TL	FC	Total
A	OFF-BALANCE SHEET COMMITMENTS (I+II+III)	(1)	3.274.276	4.234.096	7.508.372
I.	GUARANTEES AND WARRANTIES		3.173.375	2.938.163	6.111.538
1.1	Letters of Guarantee		3.169.925	2.152.205	5.322.130
1.1.1	Guarantees Subject to State Tender Law		111.858	696.422	808.280
1.1.2	Guarantees Given for Foreign Trade Operations		2.910.565	-	2.910.565
1.1.3	Other Letters of Guarantee		147.502	1.455.783	1.603.285
1.2	Bank Acceptances		-	4.784	4.784
1.2.1	Import Letter of Acceptance		-	4.784	4.784
1.2.2	Other Bank Acceptances		-	-	-
1.3	Letters of Credit		-	447.193	447.193
1.3.1	Documentary Letters of Credit		-	447.193	447.193
1.3.2	Other Letters of Credit		-	-	-
1.4	Prefinancing Given as Guarantee		-	-	-
1.5	Endorsements		-	-	-
1.5.1	Endorsements to the Central Bank of the Republic of Turkey		-	-	-
1.5.2	Other Endorsements		-	-	-
1.6	Other Guarantees		3.450	329.962	333.412
1.7	Other Collaterals		-	4.019	4.019
II.	COMMITMENTS	(1)	100.901	31.855	132.756
2.1	Irrevocable Commitments		100.901	31.855	132.756
2.1.1	Forward asset purchase commitments		30.056	31.855	61.911
2.1.2	Share Capital Commitments to Associates and Subsidiaries		-	-	-
2.1.3	Loan Granting Commitments		-	-	-
2.1.4	Securities Issue Brokerage Commitments		-	-	-
2.1.5	Commitments for Reserve Deposit Requirements		-	-	-
2.1.6	Payment commitment for checks		64.845	-	64.845
2.1.7	Tax and Fund Liabilities from Export Commitments		1.966	-	1.966
2.1.8	Commitments for Credit Card Limits		-	-	-
2.1.9	Commitments for Credit Cards and Banking Services Promotions		-	-	-
2.1.10	Receivables from Short Sale Commitments of Marketable Securities		-	-	-
2.1.11	Payables for Short Sale Commitments of Marketable Securities		-	-	-
2.1.12	Other Irrevocable Commitments		4.034	-	4.034
2.2	Revocable Commitments		-	-	-
2.2.1	Revocable Loan Granting Commitments		-	-	-
2.2.2	Other Revocable Commitments		-	-	-
III.	DERIVATIVE FINANCIAL INSTRUMENTS	(2)		1.264.078	1.264.078
3.1	Hedging Derivative Financial Instruments		-	-	-
3.1.1	Fair value hedge		-	-	-
3.1.2	Cash flow hedge		-	-	-
3.1.3	Foreign Net Investment Hedges		-	-	-
3.2	Trading Derivative Financial Instruments		-	1.264.078	1.264.078
3.2.1	Forward Foreign Currency Buy/Sell Transactions		-	1.264.078	1.264.078
3.2.1.1	Forward Foreign Currency Transactions-Buy		-	629.444	629.444
3.2.1.2	Forward Foreign Currency Transactions-Sell		-	634.634	634.634
3.2.2	Other Forward Buy/Sell Transaction		-	-	-
3.3	Other		-	-	-
B.	CUSTODY AND PLEDGES RECEIVED (IV+V+VI)		12.684.779	946.613	13.631.392
IV.	ITEMS HELD IN CUSTODY		447.409	252.379	699.788
4.1	Customer Fund and Portfolio Balances		-	-	-
4.2	Investment Securities Held in Custody		119.399	-	119.399
4.3	Checks Received for Collection		307.270	2.778	310.048
4.4	Commercial Notes Received for Collection		20.465	4.592	25.057
4.5	Other Assets Received for Collection		-	-	-
4.6	Assets Received for Public Offering		-	-	-
4.7	Other Items Under Custody		275	97.500	97.775
4.8	Custodians		-	147.509	147.509
V.	PLEDGES RECEIVED		12.237.370	694.234	12.931.604
5.1	Marketable Securities		1.189.468	331.670	1.521.138
5.2	Guarantee Notes		864.266	35.828	900.094
5.3	Commodity		830.495	27	830.522
5.4	Warranty		-	-	-
5.5	Properties		8.755.047	-	8.755.047
5.6	Other Pledged Items		598.094	326.709	924.803
5.7	Pledged Items-Depository		-	-	-
VI.	ACCEPTED INDEPENDENT GUARANTEES AND WARRANTIES		-	-	-
TOTAL OFF-BALANCE SHEET COMMITMENTS (A+B)			15.959.055	5.180.709	21.139.764

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

ZİRAAT KATILIM BANKASI A.Ş.**CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2018**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

ZİRAAT KATILIM BANKASI A.Ş. CONSOLIDATED STATEMENT OF PROFIT OR LOSS		
INCOME AND EXPENSE ITEMS	Note (Section Five IV)	Current Period 01/01/2018-31/12/2018
I. PROFIT SHARE INCOME	(1)	2.090.557
1.1 Profit share on loans		1.852.528
1.2 Profit share on reserve deposits		37.081
1.3 Profit share on banks		-
1.4 Profit share on money market placements		-
1.5 Profit share on marketable securities portfolio		136.942
1.5.1 Fair Value Through Profit or Loss		-
1.5.2 Fair Value Through Other Comprehensive Income		136.942
1.5.3 Measured at Amortized Cost		-
1.6 Finance lease income		54.581
1.7 Other profit share income		9.425
II. PROFIT SHARE EXPENSE	(2)	1.319.723
2.1 Expense on profit sharing accounts		1.099.243
2.2 Profit share expense on funds borrowed		54.976
2.3 Profit share expense on money market borrowings		24.801
2.4 Expense on securities issued		140.695
2.5 Other profit share expense		8
III. NET PROFIT SHARE INCOME (I - II)		770.834
IV. NET FEES AND COMMISSIONS INCOME/EXPENSE		60.727
4.1 Fees and commissions received		84.273
4.1.1 Non-cash loans		66.607
4.1.2 Other		17.666
4.2 Fees and commissions paid		23.546
4.2.1 Non-cash loans		42
4.2.2 Other		23.504
V. PERSONNEL EXPENSE (-)		123.973
VI. DIVIDEND INCOME	(3)	177
VII. TRADING INCOME /(LOSS) (Net)	(4)	57.781
7.1 Capital market transaction gains / (losses)		(2.396)
7.2 Gains/ (losses) from derivative financial instruments		61.368
7.3 Foreign exchange gains / (losses)		(1.191)
VIII. OTHER OPERATING INCOME	(5)	80.212
IX. GROSS OPERATING INCOME (III+IV+V+VI+VII+VIII)		845.758
X. EXPECTED CREDIT LOSS (-)	(6)	256.021
XI. OTHER OPERATING EXPENSES (-)	(7)	175.188
XII. NET OPERATING INCOME/(LOSS) (VIII-IX-X)		414.549
XIII. EXCESS AMOUNT RECORDED AS INCOME AFTER MERGER		-
XIV. INCOME/(LOSS) FROM INVESTMENTS IN SUBSIDIARIES CONSOLIDATED BASED ON EQUITY METHOD		-
XV. INCOME/(LOSS) ON NET MONETARY POSITION		-
XVI. PROFIT/LOSS BEFORE TAX FROM CONTINUED OPERATIONS (XII+...+XV)	(8)	414.549
XVII. TAX PROVISION FOR CONTINUED OPERATIONS (±)	(9)	(91.884)
17.1 Current Tax Provision		(113.918)
17.2 Deferred Tax Income Effect (+)		(626)
17.3 Deferred Tax Expense Effect (-)		22.660
XVIII. CURRENT PERIOD PROFIT/LOSS FROM CONTINUED OPERATIONS (XVI±XVII)	(10)	322.665
XIX. INCOME FROM DISCONTINUED OPERATIONS		-
19.1 Income on assets held for sale		-
19.2 Income on sale of associates, subsidiaries and jointly controlled entities (joint vent.)		-
19.3 Income on other discontinued operations		-
XX. EXPENSES FOR DISCONTINUED OPERATIONS (-)		-
20.1 Expenses for Non-current Assets Held for Sale		-
20.2 Loss on sale of associates, subsidiaries and jointly controlled entities (joint vent.)		-
20.3 Expenses for Other Discontinued Operations		-
XXI. PROFIT/LOSS BEFORE TAX FROM DISCONTINUED OPERATIONS (XIX-XX)		-
XXII. TAX PROVISION FOR DISCONTINUED OPERATIONS (±)		-
22.1 Current tax provision		-
22.2 Deferred Tax Expense Effect (+)		-
22.3 Deferred Tax Income Effect (-)		-
XXIII. CURRENT PERIOD PROFIT/LOSS FROM DISCONTINUED OPERATIONS (XXI±XXII)		-
XXIV. NET INCOME/(LOSS) (XVIII+XXIII)	(11)	322.665
24.1 Group profit/loss		322.665
24.1 Minority shares profit/loss		-
Earning/(Loss) per share (in TL full)		0,2432

As noted in Section three note I current period financial statements are prepared in accordance with the accounting policies different from the accounting policies which have been used in prior period financial statements. Therefore prior period financial statements and notes have not been restated. Prior period financial statements are presented separately.

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

ZİRAAT KATILIM BANKASI A.Ş.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

ZİRAAT KATILIM BANKASI A.Ş. CONSOLIDATED STATEMENT OF PROFIT OR LOSS			
III. INCOME AND EXPENSE STATEMENT	Note (Section Five IV)	THOUSAND OF TURKISH LIRA	
			Prior Period 01/01-31/12/2017
I. PROFIT SHARE INCOME	(1)		981.392
1.1 Profit share on loans			885.752
1.2 Profit share on reserve deposits			16.396
1.3 Profit share on banks			-
1.4 Profit share on money market placements			-
1.5 Profit share on marketable securities portfolio			48.634
1.5.1 Held-for-trading financial assets			-
1.5.2 Financial assets at fair value through profit and loss			-
1.5.3 Available-for-sale financial assets			48.634
1.5.4 Investments held-to-maturity			-
1.6 Finance lease income			29.782
1.7 Other profit share income			828
II. PROFIT SHARE EXPENSE	(2)		538.306
2.1 Expense on profit sharing accounts			471.134
2.2 Profit share expense on funds borrowed			38.705
2.3 Profit share expense on money market borrowings			3.058
2.4 Expense on securities issued			25.409
2.5 Other profit share expense			-
III. NET PROFIT SHARE INCOME (I - II)			443.086
IV. NET FEES AND COMMISSIONS INCOME/EXPENSE			30.343
4.1 Fees and commissions received			45.743
4.1.1 Non-cash loans			35.266
4.1.2 Other			10.477
4.2 Fees and commissions paid			15.400
4.2.1 Non-cash loans			4
4.2.2 Other			15.396
V. DIVIDEND INCOME	(3)		-
VI. NET TRADING INCOME	(4)		11.556
6.1 Capital market transaction gains / (losses)			(851)
6.2 Gains/ (losses) from derivative financial instruments			(26.682)
6.3 Foreign exchange gains / (losses)			39.089
VII. OTHER OPERATING INCOME	(5)		2.663
VIII. NET OPERATING INCOME (III+IV+V+VI+VII)			487.648
IX. PROVISION FOR LOAN LOSSES AND OTHER RECEIVABLES (-)	(6)		90.143
X. OTHER OPERATING EXPENSES (-)	(7)		197.531
XI. NET OPERATING INCOME/(LOSS) (VIII-IX-X)			199.974
XII. AMOUNT IN EXCESS RECORDED AS GAIN AFTER MERGER			-
XIII. GAIN / (LOSS) ON EQUITY METHOD			-
XIV. GAIN / (LOSS) ON NET MONETARY POSITION			-
XV. PROFIT / (LOSS) BEFORE TAXES FROM CONTINUED OPERATIONS (XI+...+XIV)	(8)		199.974
XVI. TAX PROVISION FOR CONTINUED OPERATIONS (±)	(9)		(41.072)
16.1 Current Tax Provision			(46.907)
16.2 Deferred Tax Provision			5.835
XVII. NET PROFIT / (LOSS) FROM CONTINUED OPERATIONS (XV±XVI)	(10)		158.902
XVIII. INCOME FROM DISCONTINUED OPERATIONS			-
18.1 Income on assets held for sale			-
18.2 Income on sale of associates, subsidiaries and jointly controlled entities (joint vent.)			-
18.3 Income on other discontinued operations			-
XIX. LOSS FROM DISCONTINUED OPERATIONS (-)			-
19.1 Loss from assets held for sale			-
19.2 Loss on sale of associates, subsidiaries and jointly controlled entities (joint vent.)			-
19.3 Loss from other discontinued operations			-
XX. PROFIT / LOSSES BEFORE TAXES FROM DISCONTINUED OPERATIONS (XVIII-XIX)			-
XXI. PROVISION FOR INCOME TAXES FROM DISCONTINUED OPERATIONS (±)			-
21.1 Current tax provision			-
21.2 Deferred tax provision			-
XXII. NET PROFIT / LOSS FROM DISCONTINUED OPERATIONS (XX±XXI)			-
XXIII. NET PROFIT / LOSS (XVII+XXII)	(11)		158.902
23.1 Group profit/loss			
23.2 Minority shares profit/loss			
Earning/(Loss) per share (in TL full)			0,1615

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

ZİRAAT KATILIM BANKASI A.Ş.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

ZİRAAT KATILIM BANKASI A.Ş. CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	
THOUSAND OF TURKISH LIRA	
	Current Period 01/01-31/12/2018
I. CURRENT PERIOD INCOME/LOSS	322.665
II. OTHER COMPREHENSIVE INCOME	(23.422)
2.1 Not Reclassified Through Profit or Loss	1.002
2.1.1 Property and Equipment Revaluation Increase/Decrease	-
2.1.2 Intangible Assets Revaluation Increase/Decrease	-
2.1.3 Defined Benefit Pension Plan Remeasurement Gain/Loss	1.253
2.1.4 Other Comprehensive Income Items Not Reclassified Through Profit or Loss	-
2.1.5 Tax Related Other Comprehensive Income Items Not Reclassified Through Profit or Loss	(251)
2.2 Reclassified Through Profit or Loss	(24.424)
2.2.1 Foreign Currency Translation Differences	-
2.2.2 Valuation and/or Reclassification Income/Expense of the Financial Assets at Fair Value through Other Comprehensive Income	(30.945)
2.2.3 Cash Flow Hedge Income/Loss	-
2.2.4 Foreign Net Investment Hedge Income/Loss	-
2.2.5 Other Comprehensive Income Items Reclassified Through Profit or Losses	-
2.2.6 Tax Related Other Comprehensive Income Items Reclassified Through Profit or Loss	6.521
III. TOTAL COMPREHENSIVE INCOME (I+II)	299.243

As noted in Section three note I current period financial statements are prepared in accordance with the accounting policies different from the accounting policies which have been used in prior period financial statements. Therefore prior period financial statements and notes have not been restated. Prior period financial statements are presented separately.

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

ZİRAAT KATILIM BANKASI A.Ş.**CONSOLIDATED STATEMENT OF PROFIT AND LOSS ITEMS ACCOUNTED
UNDER SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017**

Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL")

IV. STATEMENT OF PROFIT AND LOSS ITEMS ACCOUNTED UNDER SHAREHOLDERS' EQUITY		Prior Period
		01/01/2017-31/12/2017
I.	ADDITIONS TO MARKETABLE SECURITIES VALUATION DIFFERENCES FOR AVAILABLE SALE FINANCIAL ASSETS	(17.225)
II.	TANGIBLE ASSETS REVALUATION DIFFERENCES	-
III.	INTANGIBLE ASSETS REVALUATION DIFFERENCES	-
IV.	FOREIGN EXCHANGE DIFFERENCES FOR FOREIGN CURRENCY TRANSACTIONS I	-
V.	PROFIT/LOSS FROM DERIVATIVE FINANCIAL INSTRUMENTS FOR CASH FLOW HEDGE PURPOSES (EFFECTIVE PORTION OF FAIR VALUE DIFFERENCES)	-
VI.	PROFIT/LOSS FROM DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGE OF NET INVESTMENT IN FOREIGN OPERATIONS (EFFECTIVE PORTION OF FAIR VALUE DIFFERENCES)	-
VII.	THE EFFECT OF CORRECTION OF ERRORS AND CHANGES IN ACCOUNTING POLICIES	-
VIII.	OTHER PROFIT LOSS ITEMS ACCOUNTED FOR UNDER EQUITY DUE TO TAS	-
IX.	DEFERRED TAX OF VALUATION DIFFERENCES	3.382
X.	TOTAL NET PROFIT/LOSS ACCOUNTED FOR UNDER EQUITY (I+II+...+IX)	(13.843)
XI.	PROFIT/LOSS	158.902
11.1	Change in fair value of marketable securities (transfer to profit/loss)	-
11.2	Reclassification of derivatives accounted for cash flow hedge purposes to statement of profit or loss	-
11.3	Reclassification of hedge of net investments in foreign operations to statement of profit or loss	-
11.4	Other	158.902
XII.	TOTAL PROFIT/LOSS ACCOUNTED FOR THE PERIOD (X±XI)	145.059

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

ZİRAAT KATILIM BANKASI A.Ş.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL").)

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY																
Current Period 1 January -31 December 2018		Paid-in capital	Share Premium	Share certificate cancellation profits	Other Capital Reserves	Accumulated Revaluation Increase/Decrease of Fixed Assets	Accumulated Remeasurement Gain/Loss of Defined Benefit Pension Plan	Other (Shares of Investments Valued by Equity Method in Other Comprehensive Income Not Classified Through Profit or Loss and Other Accumated Amounts of Other Comprehensive Income Items Not Reclassified Through Other Profit or Loss)	Foreign Currency Translation Differences)	Accumulated Revaluation and/or Remeasurement Gain/Loss of the Financial Assets at Fair Value Through Other Comprehensive Income	Other (Cash Flow Hedge Gain/Loss, Shares of Investments Valued by Equity Method in Other Comprehensive Income Classified Through Profit or Loss and Other Accumated Amounts of Other Comprehensive Income Items Reclassified Through Other Profit or Loss)	Profit Reserves	Prior Period Profit or (Loss)	Current Period Profit or (Loss)	Total Shareholders' Equity	
I.	Prior Period End Balance	1.250.000	-	-	-	-	471	-	-	(15.383)	-	9.691	158.902	-	1.403.681	
II.	Corrections and Accounting Policy Changes Made According to TAS 8	-	-	-	-	-	-	-	-	-	-	-	25.660	-	25.660	
2.1	Effects of Corrections	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
2.2	Effects of the Changes in Accounting Policies	-	-	-	-	-	-	-	-	-	-	-	25.660	-	25.660	
III.	Adjusted Beginning Balance (I+II)	1.250.000	-	-	-	-	471	-	-	(15.383)	-	9.691	184.562	-	1.429.341	
IV.	Total Comprehensive Income	-	-	-	-	-	1.002	-	-	(24.424)	-	-	-	322.665	299.243	
V.	Capital Increase by Cash	500.000	-	-	-	-	-	-	-	-	-	-	-	-	500.000	
VI.	Capital Increase by Internal Sources	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
VII.	Paid-in capital inflation adjustment difference	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
VIII.	Convertible Bonds to Shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
IX.	Subordinated Debt Instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
X.	Increase/Decrease by Other Changes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
XI.	Profit Distribution	-	-	-	-	-	-	-	-	-	-	148.902	(158.902)	-	(10.000)	
11.1	Dividends paid	-	-	-	-	-	-	-	-	-	-	-	(10.000)	-	(10.000)	
11.2	Transfers to Reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
11.3	Other	-	-	-	-	-	-	-	-	-	-	148.902	(148.902)	-	-	
	Period-End Balance (I+II+III+...+XVI+XVII+XVIII)	1.750.000	-	-	-	-	1.473	-	-	(39.807)	-	158.593	25.660	322.665	2.218.584	

As noted in Section three note I current period financial statements are prepared in accordance with the accounting policies different from the accounting policies which have been used in prior period financial statements. Therefore prior period financial statements and notes have not been restated. Prior period financial statements are presented separately.

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

ZİRAAT KATILIM BANKASI A.Ş.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL").)

V. CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY																				
THOUSAND TURKISH LIRA		Note (Section Five)	Paid-in Capital	Capital Reserves: from: Inflation: Adjustments: to Paid-in: Capital	Share: Premium	Share: Cancellation: Profits	Legal: Reserves	Status: Reserves	Extraordinary: Reserves	Other: Reserves	Current Period Net Profit / (Loss)	Prior Period Net Profit / (Loss)	Valuation Differences of Securities	Revaluation Fund on Tangible and Intangible Assets	Non-paid up: shares from: partnerships	Hedge Funds	Revaluation: Fund on Assets: Held for Sale: and: Discontinued: Operations	Total Equity Excluding Minority: Shareholders	Minority: Shareholders	Total Shareholders' Equity
Audited	Prior Period																			
1 January 2017 – 31 December 2017																				
I.	Balances at the beginning of the period		747.000	-	-	-	-	-	-	-	30.673	(11.982)	(1.070)	-	-	-	-	764.621	-	764.621
	Changes in the period		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
II.	Increase / decrease related to mergers		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
III.	Valuation difference of available-for-sale securities		-	-	-	-	-	-	-	-	-	-	(13.842)	-	-	-	-	(13.842)	-	(13.842)
IV.	Hedging transactions (effective portion)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4.1	Cash flow hedge		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4.2	Hedging of a net investment in foreign subsidiaries		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
V.	Revaluation fund on tangible assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VI.	Revaluation fund on intangible assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VII.	Capital bonus of associates, subsidiaries and joint ventures		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VIII.	Foreign exchange differences		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IX.	Changes related to sale of assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
X.	Changes related to reclassification of assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XI.	Effect of changes in equities of associates		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XII.	Capital increase		503.000	-	-	-	-	-	-	-	-	(3.000)	-	-	-	-	-	500.000	-	500.000
12.1	Cash		500.000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	500.000	-	500.000
12.2	Domestic sources		3.000	-	-	-	-	-	-	-	-	(3.000)	-	-	-	-	-	-	-	-
XIII.	Issuances of share certificates		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIV.	Abolition profit of share certificates		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XV.	Capital reserves from inflation adjustments to paid-in capital		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVI.	Others		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVII.	Current period net profit / loss		-	-	-	-	-	-	-	-	158.902	-	-	-	-	-	-	158.902	-	158.902
XVIII.	Profit distribution		-	-	-	-	1.308	-	3.843	4.540	(30.673)	14.982	-	-	-	-	-	(6.000)	-	(6.000)
18.1	Dividends		-	-	-	-	-	-	-	-	-	(6.000)	-	-	-	-	-	(6.000)	-	(6.000)
18.2	Transferred to reserves		-	-	-	-	1.308	-	3.843	4.540	-	(9.691)	-	-	-	-	-	-	-	-
18.3	Others		-	-	-	-	-	-	-	-	(30.673)	30.673	-	-	-	-	-	-	-	-
	Balance at the end of the period (I+II+III+.....+XVI+XVII+XVIII)		1.250.000	-	-	-	1.308	-	3.843	4.540	158.902	-	(14.912)	-	-	-	-	1.403.681	-	1.403.681

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

ZİRAAT KATILIM BANKASI A.Ş.**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL").)

ZİRAAT KATILIM BANKASI A.Ş. CONSOLIDATED STATEMENT OF CASH FLOWS		
		THOUSAND OF TURKISH LIRA
	Note (VI)	Current Period 01/01/2018 - 31/12/2018
A. CASH FLOWS FROM BANKING OPERATIONS		
1.1 Operating profit before changes in operating assets and liabilities)		(262.408)
1.1.1 Profit share income received		1.946.489
1.1.2 Profit share expense paid		(1.218.373)
1.1.3 Dividend received		177
1.1.4 Fees and commissions received		84.273
1.1.5 Other income		15.519
1.1.6 Collections from previously written off loans		19.317
1.1.7 Payments to personnel and service suppliers		(135.031)
1.1.8 Taxes paid		(83.458)
1.1.9 Others		(891.321)
1.2 Changes in operating assets and liabilities		647.647
1.2.1 Net (increase)/decrease in held for trading financial assets		(435)
1.2.2 Net (increase) decrease in fair value through profit/loss financial assets		(322.369)
1.2.3 Net (increase) decrease in due from banks and other financial institutions		(5.637.051)
1.2.4 Net (increase) decrease in loans		(137.402)
1.2.5 Net (increase) decrease in other assets		40.870
1.2.6 Net increase (decrease) in bank deposits		5.013.229
1.2.7 Net increase (decrease) in other deposits		-
1.2.8 Net increase (decrease) in funds borrowed		78.626
1.2.9 Net increase (decrease) in due payables		-
1.2.10 Net increase (decrease) in other liabilities		1.612.179
I. Net cash provided from banking operations		385.239
B. CASH FLOWS FROM INVESTING ACTIVITIES		
II. Net cash provided from investing activities		(800.717)
2.1 Cash paid for purchase jointly controlled operations, associates and subsidiaries		-
2.2 Cash obtained from sale of jointly controlled operations, associates and subsidiaries		-
2.3 Fixed assets purchases		(43.950)
2.4 Fixed assets sales		-
2.5 Cash paid for purchase of financial assets available for sale		(756.767)
2.6 Cash obtained from sale of financial assets available for sale		-
2.7 Cash paid for purchase of investment securities		-
2.8 Cash obtained from sale of investment securities		-
2.9 Other		-
C. CASH FLOWS FROM FINANCING ACTIVITIES		
III. Net cash provided from financing activities		655.818
3.1 Cash obtained from funds borrowed and securities issued		3.454.000
3.2 Cash used for repayment of funds borrowed and securities issued		(2.777.402)
3.3 Marketable Securities Issued		-
3.4 Dividends paid		-
3.5 Payments for finance leases		(26.612)
3.6 Other		5.832
IV. Effect of change in foreign exchange rate on cash and cash equivalents		303.391
V. Net increase (decrease) in cash and cash equivalents (I+II+III+IV)		543.731
VI. Cash and cash equivalents at the beginning of the period	(I)	601.801
VII. Cash and cash equivalents at the end of the period	(I)	1.145.532

As noted in Section three-note I current period financial statements are prepared in accordance with the accounting policies different from the accounting policies which have been used in prior period financial statements. Therefore prior period financial statements and notes have not been restated. Prior period financial statements are presented separately.

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

ZİRAAT KATILIM BANKASI A.Ş.**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL").)

ZİRAAT KATILIM BANKASI A.Ş. CONSOLIDATED STATEMENT OF CASH FLOWS		
		THOUSAND OF TURKISH LIRA
	Note (VI)	Prior Period 01/01/2017 - 31/12/2017
A. CASH FLOWS FROM BANKING OPERATIONS		
I.1 Operating profit before changes in operating assets and liabilities)		121.921
1.1.1 Profit share income received		823.676
1.1.2 Profit share expense paid		(491.718)
1.1.3 Dividend received		-
1.1.4 Fees and commissions received		45.743
1.1.5 Other income		762
1.1.6 Collections from previously written off loans		12.807
1.1.7 Payments to personnel and service suppliers		(86.969)
1.1.8 Taxes paid		(29.546)
1.1.9 Others		(152.834)
I.2 Changes in operating assets and liabilities		(1.451.586)
1.2.1 Net (increase)/decrease in held for trading financial assets		1.118
1.2.2 Net (increase) decrease in fair value through profit/loss financial assets		-
1.2.3 Net (increase) decrease in due from banks and other financial institutions		(755.341)
1.2.4 Net (increase) decrease in loans		(5.824.304)
1.2.5 Net (increase) decrease in other assets		(8.140)
1.2.6 Net increase (decrease) in bank deposits		(17.131)
1.2.7 Net increase (decrease) in other deposits		4.371.041
1.2.8 Net increase (decrease) in funds borrowed		885.232
1.2.9 Net increase (decrease) in due payables		-
1.2.10 Net increase (decrease) in other liabilities		(104.061)
I. Net cash provided from banking operations		(1.329.665)
B. CASH FLOWS FROM INVESTING ACTIVITIES		
II. Net cash provided from investing activities		(155.126)
2.1 Cash paid for purchase jointly controlled operations, associates and subsidiaries		-
2.2 Cash obtained from sale of jointly controlled operations, associates and subsidiaries		-
2.3 Fixed assets purchases		(59.478)
2.4 Fixed assets sales		-
2.5 Cash paid for purchase of financial assets available for sale		(95.648)
2.6 Cash obtained from sale of financial assets available for sale		-
2.7 Cash paid for purchase of investment securities		-
2.8 Cash obtained from sale of investment securities		-
2.9 Other		-
C. CASH FLOWS FROM FINANCING ACTIVITIES		
III. Net cash provided from financing activities		921.158
3.1 Cash obtained from funds borrowed and securities issued		1.100.000
3.2 Cash used for repayment of funds borrowed and securities issued		(669.064)
3.3 Marketable Securities Issued		500.000
3.4 Dividends paid		(6.000)
3.5 Payments for finance leases		(8.318)
3.6 Other		4.540
IV. Effect of change in foreign exchange rate on cash and cash equivalents		51.176
V. Net increase (decrease) in cash and cash equivalents (I+II+III+IV)		(512.457)
VI. Cash and cash equivalents at the beginning of the period	(I)	1.114.258
VII. Cash and cash equivalents at the end of the period	(I)	601.801

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

ZİRAAT KATILIM BANKASI A.Ş.**CONSOLIDATED STATEMENT OF PROFIT DISTRIBUTION
FOR THE YEAR ENDED 31 DECEMBER 2018**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

VII.	STATEMENT OF PROFIT DISTRIBUTION	Audited Current Period (31/12/2018)
I.	DISTRIBUTION OF THE CURRENT YEAR INCOME	
1.1	Current Year Income (Loss)	414.549
1.2	Taxes and Duties Payable (-) ⁽³⁾	113.918
1.2.1	Corporate Tax (Income Tax)	113.918
1.2.2	Income withholding tax	-
1.2.3	Other taxes and duties	-
A.	NET INCOME FOR THE YEAR (1.1-1.2)	300.631
1.3	Prior Year Losses (-)	-
1.4	First Legal Reserves (-)	-
1.5	Other Statutory Reserves (-)	-
B.	NET INCOME AVAILABLE FOR DISTRIBUTION [(A)-(1.3+1.4+1.5)]	300.631
1.6	First Dividend to Shareholders (-)	-
1.6.1	To Owners of Ordinary Shares	-
1.6.2	To Owners of Privileged Shares	-
1.6.3	To Owners of Preferred Shares	-
1.6.4	To Profit Sharing Bonds	-
1.6.5	To Holders of Profit and Loss Sharing Certificates	-
1.7	Dividends to Personnel (-)	-
1.8	Dividends to Board of Directors (-)	-
1.9	Second Dividend to Shareholders (-)	-
1.9.1	To Owners of Ordinary Shares	-
1.9.2	To Owners of Privileged Shares	-
1.9.3	To Owners of Preferred Shares	-
1.9.4	To Profit Sharing Bonds	-
1.9.5	To Holders of Profit and Loss Sharing Certificates	-
1.10	Second Legal Reserves (-)	-
1.11	Statutory Reserves (-)	-
1.12	Extraordinary Reserves	-
1.13	Other Reserves	-
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 Preferred Shares	-
2.3.4	To Profit Sharing Bonds	-
2.3.5	To Holders of Profit and Loss Sharing Certificates	-
2.4	Dividends to Personnel (-)	-
2.5	Dividends to Board of Directors (-)	-
III.	EARNINGS PER SHARE	
3.1	To Owners of Ordinary Shares	0,2432
3.2	To Owners of Ordinary Shares (%)	24,3206
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 (%)	-

(*) Profit distribution is decided by the General Assembly. As of reporting date, General Assembly meeting has not been held yet.

(**) Deferred tax related to current year, amount of TL 22.034 is not subject to profit distribution.

(***) It is shown in full TL amounts.

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

ZİRAAT KATILIM BANKASI A.Ş.**CONSOLIDATED STATEMENT OF PROFIT DISTRIBUTION
FOR THE YEAR ENDED 31 DECEMBER 2017**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

VII. STATEMENT OF PROFIT DISTRIBUTION	Audited Prior Period (31/12/2017)
I. DISTRIBUTION OF THE CURRENT YEAR INCOME	
1.1 Current Year Income (Loss)	199.974
1.2 Taxes and Duties Payable (-) ^(*)	46.907
1.2.1 Corporate Tax (Income Tax)	46.907
1.2.2 Income withholding tax	-
1.2.3 Other taxes and duties	-
A. NET INCOME FOR THE YEAR (1.1-1.2)	153.067
1.3 Prior Year Losses (-)	-
1.4 First Legal Reserves (-)	-
1.5 Other Statutory Reserves (-)	-
B. NET INCOME AVAILABLE FOR DISTRIBUTION [(A)-(1.3+1.4+1.5)]	153.067
1.6 First Dividend to Shareholders (-)	-
1.6.1 To Owners of Ordinary Shares	-
1.6.2 To Owners of Privileged Shares	-
1.6.3 To Owners of Preferred Shares	-
1.6.4 To Profit Sharing Bonds	-
1.6.5 To Holders of Profit and Loss Sharing Certificates	-
1.7 Dividends to Personnel (-)	10.000
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 Preferred Shares	-
1.9.4 To Profit Sharing Bonds	-
1.9.5 To Holders of Profit and Loss Sharing Certificates	-
1.10 Second Legal Reserves (-)	1.000
1.11 Statutory Reserves (-)	-
1.12 Extraordinary Reserves	134.414
1.13 Other Reserves	-
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 Preferred Shares	-
2.3.4 To Profit Sharing Bonds	-
2.3.5 To Holders of Profit and Loss Sharing Certificates	-
2.4 Dividends to Personnel (-)	-
2.5 Dividends to Board of Directors (-)	-
III. EARNINGS PER SHARE	
3.1 To Owners of Ordinary Shares (**)	0,1556
3.2 To Owners of Ordinary Shares (%)	15,5551
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 (%)	-

(*) Deferred tax related to current year, amount of TL 5.835 is not subject to profit distribution.

(**) It is shown in full TL amounts.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2018**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

**SECTION THREE
ACCOUNTING PRINCIPLES**

I. BASIS OF PRESENTATION

The consolidated financial statements are prepared within the scope of the “Regulation on Accounting Applications for Banks and Safeguarding of Documents” related with Banking Law numbered 5411 published in the Official Gazette no. 26333 dated 1 November 2006 and other regulations related to reporting principles on accounting records of Banks published by Banking Regulation and Supervision Agency and circulars and interpretations published by Banking Regulation and Supervision Authority (together referred as BRSA Accounting and Reporting Legislation) and in case where a specific regulation is not made by BRSA, Turkish Accounting Standards, within the scope of interim reporting Turkish Accounting Standards or TAS and Turkish Financial Reporting Standards (“TFRS”) and related appendices and interpretations (referred as “Turkish Accounting Standards” or “TAS”) put into effect by Public Oversight Accounting and Auditing Standards Authority (“POA”) (“all referred as BRSA Principles”).

The format and content of the publicly announced consolidated financial statements and notes to these statements have been prepared in accordance with the “Communiqué on Publicly Announced Financial Statements, Explanations and Notes to These Financial Statements”, published in Official Gazette no. 28337, dated 28 June 2012 and amendments to this Communiqué. The Bank maintains its books in Turkish Lira in accordance with the Banking Law, Turkish Commercial Code and Turkish Tax Legislation.

Unless otherwise specified, all balances in the consolidated financial statements and footnotes are expressed in thousand Turkish Lira (“TL”) excluding financial assets and liabilities presented at fair value.

The preparation of financial statements requires the use of certain critical estimates on assets and liabilities reported as of balance sheet date or amount of contingent assets and liabilities explained and amount of income and expenses occurred in related period. Although these estimates rely on the management’s best judgment, actual results can vary from these estimates. Judgements and estimates are explained in related notes.

Additional paragraph for convenience translation into English:

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

CHANGES IN ACCOUNTING POLICIES

As of 1 January 2018 the Parent Bank has applied TFRS 9 Financial Instruments (“TFRS 9”) published by POA according to “Regulation on the Procedures and Principles for Classification of Loans by Banks and Provisions to be set aside” published in the Official Gazette dated 22 June 2016 numbered 29750 for the first time in attached consolidated financial statements. Prior period financial statements and notes were not restated in accordance with the transition provisions of TFRS 9. Therefore, the impact of the first application of standard has been reflected to Prior years' profit or loss and attached financial statements are presented separately rather than comparatively. TFRS 9 has been in effect as of 1 January 2018, the impact on opening balances are presented in Note XXIV of Section Three.

TFRS 15 Revenue from Contracts with Customers and other TAS/TFRS changes have not significant impact on Bank's accounting policies, financial position and performance.

TFRS 16 Leases standard abolishes the dual accounting model currently applied for lessees through recognizing finance leases in the balance sheet whereas not recognizing operational lease. Instead, it is set forth a single model similar to the accounting of finance leases (on balance sheet). For lessors, the accounting stays almost the same. The standard is effective from annual periods beginning on and after 1 January 2019 and the adoption process regarding the mentioned amendments continues as of the reporting date.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2018**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

ACCOUNTING PRINCIPLES (Continued)

II. EXPLANATIONS ON USAGE STRATEGY OF FINANCIAL ASSETS AND FOREIGN CURRENCY TRANSACTIONS

The Parent Bank's main field of operations are; to provide all kinds of domestic and foreign currency cash, non-cash loans, make transactions in domestic and foreign capital markets, collect current and participation accounts. As of reporting date, an important part of the Bank's resources consists of funds collected, funds borrowed and shareholders equity. Bank evaluates these resources on lease certificates and loans.

The Parent Bank's liquidity position considered as defraying all the maturing liabilities.

The procedures including foreign currency were recorded based on the buying rate of the counter ruling at the transaction date. Foreign currency denominated monetary assets and liabilities are valued with the period end exchange rates announced by the Central Bank of Turkey converting them into Turkish Lira and valuation differences of foreign currencies have been recognized under the net foreign exchange income/expense account.

The Parent Bank carries out the balance sheet and equity management within the risk limits by the Asset and Liability Committee determined by the Board of Directors in order to keep the liquidity, exchange rate and credit risks within certain limits and to maximize the profitability in consideration of the market conditions within the possibilities.

III. EXPLANATIONS ON CONSOLIDATED SUBSIDIARIES

a. Consolidation principles applied:

The consolidated financial statements have been prepared in accordance with the procedures listed in the "Communiqués related to the Regulation on the Preparation of the Consolidated Financial Statements of Banks" published in the Official Gazette No. 26340 dated 8 November 2006 and the "Consolidated Financial Statements" ("TFRS 10").

1. Consolidation principles for subsidiaries:

Subsidiaries (including special purpose entity) are all entities, in which the Group has power to control the financial and operating policies for the benefit of the Parent Bank, either (a) through the power to exercise more than 50% of the voting rights relating to shares in the companies owned directly and indirectly by itself; or (b) although not having the power to exercise more than 50% of the using rights, otherwise having the power to exercise control over the financial and operating policies.

Control is evident when the Parent Bank owns, either directly or indirectly, the majority of the share capital of the company or owns the privileged shares or owns the right of controlling the operations of the company in accordance with the agreements made with other shareholders or owns the right of appointment or the designation of the majority of the board of directors of the company.

Subsidiaries are consolidated with full consolidation method by considering the outcomes of their activities and the size of their assets and shareholders' equity in scope of the materiality principle. Financial statements of the related subsidiaries are included in the consolidated financial statements beginning from the date control on their activities are transferred to the Group. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

In accordance with the full consolidation method, balance sheet, income statement and off balance sheet items of the subsidiaries have been consolidated line by line with the balance sheet, income statement and off balance sheet of the Parent Bank. The book value of the investments of the Group in each subsidiary has been netted off with the portion of each subsidiary's capital that belongs to the Group. Unrealized gains and losses and balances resulting from the transactions among the subsidiaries included in consolidation have been eliminated. In order to determine the net income of the Group, minority shares in the net income of the consolidated subsidiaries have been identified and deducted from the net income of the subsidiary.

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

ACCOUNTING PRINCIPLES (Continued)

III. EXPLANATIONS ON CONSOLIDATED SUBSIDIARIES

The subsidiaries included in consolidation, their title, their place of incorporation, their main activities and their effective shareholding rates are as follows:

Title	Address (City / Country)	Main Activities	31 December 2018	
			Parent Bank's Share Percentage (%)	Parent Bank's Risk Group Share Percentage (%)
Ziraat Katılım Varlık Kiralama A.Ş.	Istanbul/Turkey	Rent Certificate Issue	100	100
ZKB Varlık Kiralama A.Ş.	Istanbul/Turkey	Rent Certificate Issue	100	100

Ziraat Katılım Varlık Kiralama A.Ş. was established and registered to the trade registry in 22 January 2016 with the permission taken from "Banking Regulation and Supervision Agency" and "Capital Markets Board of Turkey". Ziraat Katılım Varlık Kiralama A.Ş. has been founded to operate lease certificate according to rulings of Capital Markets Board of Turkey which was dated 7 June 2013 and numbered 28760 serial: 3 no: 61.1 published in Official Gazette. ZKB Varlık Kiralama Anonim Şirketi was established on 19 July 2017 with TL 50 capital amount paid by the Main Shareholder Bank. It began to operate after the registration on 8 September 2017.

2. Consolidation principles of associates and joint ventures:

As of the date of 31 December 2018, there is no jointly controlled subsidiaries.

3. Principles applied during share transfer, merger and acquisition: None.

4. Transactions with minority shareholders: None.

b. Presentation of consolidated subsidiaries and associates in consolidated financial statements:

There is no subsidiaries and associates within the scope of The Parent's Bank consolidation.

IV. EXPLANATIONS ON FORWARD AND OPTION CONTRACTS AND DERIVATIVE INSTRUMENTS

The Parent Bank's derivative financial instruments consist of forward foreign currency buy/sell agreements.

Derivative financial instruments of the Parent Bank are classified under "TFRS 9 Financial Instruments" ("TFRS 9"), "Derivative Financial Assets at Fair Value through Profit or Loss" or "Derivative Financial Assets at Fair Value through Other Comprehensive Income".

Derivative transactions are valued at their fair values subsequent to their acquisition. In accordance with the classification of derivative financial instruments, if the fair value is positive, the amount is classified as "Derivative Financial Assets at Fair Value Through Profit or Loss", if the fair value is negative, the amount is classified as "Derivative Financial Liabilities at Fair Value Through Profit or Loss". The fair value differences of derivative financial instruments are recognized in the income statement under trading profit/loss line in profit/loss from derivative financial transactions.

The fair value of derivative instruments is calculated by taking into account the market value of the derivatives or by using the discounted cash flow model.

The payables and receivables arising from derivative transactions are recorded in off-balance sheet accounts at their agreement amounts.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2018**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

ACCOUNTING PRINCIPLES (Continued)

V. EXPLANATIONS ON PROFIT SHARE INCOME AND EXPENSE

Profit share incomes are recognized in accordance with internal rate of return method. The Bank calculates expense accrual in accordance with the unit value calculation method on sharing accounts and reflects these amounts in "Funds Collected" account on the balance sheet.

VI. EXPLANATIONS ON FEES AND COMMISSION INCOME AND EXPENSES

Commission income from banking, agency, intermediary services is recognized as income on the date collected. Whereas, commission income from individual, corporate and entrepreneurial cash and non-cash loans are recognized on an accrual basis by using internal rate of return method and transferred to the income statement in accordance with the matching principle. Other fees and commission expenses are recorded as expense on the date they are paid.

Commissions and fees received from cash loans and relating to the future periods are recorded to the "Unearned Revenues" account under "Other Liabilities" on the balance sheet.

VII. EXPLANATIONS ON FINANCIAL ASSETS

As TFRS 9 has been put into effect on 1 January 2018, the Bank's accounting policy for financial instruments is summarized as follows.

Financial assets are recognized or derecognized according to TFRS 9 Financial Instruments Part 3 Recognition and Derecognition. Financial assets are measured at fair value at initial recognition in the financial statements. During the initial recognition of financial assets other than "Financial Assets at Fair Value Through Profit or Loss", transaction costs are added to fair value or deducted from fair value. They are included in the balance sheet of the Parent Bank, if the Parent Bank is a legal party to these instruments.

The Parent Bank categorizes its financial assets as "Fair Value Through Profit/Loss", "Fair Value Through Other Comprehensive Income" or "Measured at Amortized Cost". Financial instruments comprise financial assets and liabilities and derivative instruments. This classification is based on the contractual cash flow characteristics of the financial assets and related business model used for management of the financial assets at initial recognition.

a. Financial assets at fair value through profit or loss:

"Financial assets at fair value through profit/loss" are financial assets that are either acquired for generating a profit from short term fluctuations in prices or are financial assets included in a portfolio aiming to short-term profit making.

Financial assets at the fair value through profit or loss are initially recognized at fair value and remeasured at their fair value after recognition.

All gains and losses arising from these valuations are reflected in the income statement.

The Parent Bank does not have any financial assets classified as "Financial Assets at Fair Value Through Profit or Loss".

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2018**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

ACCOUNTING PRINCIPLES (Continued)

VII. EXPLANATIONS ON FINANCIAL ASSETS (Continued)

b. Financial assets at fair value through other comprehensive income

In addition to Financial assets within a business model that aims to hold to collect contractual cash flows and aims to hold to sell, financial asset with contractual terms that lead to cash flows are solely payments of principal and profit share at certain dates, they are classified as fair value through other comprehensive income.

Financial assets at fair value through other comprehensive income are recognized by adding transaction cost to acquisition cost reflecting the fair value of the financial asset. After the recognition, financial assets at fair value through other comprehensive income are remeasured at fair value. Profit share income calculated with internal rate of return method arising from financial assets at fair value through other comprehensive income and dividend income from equity securities are recorded to income statement. "Unrealized gains and losses" arising from the difference between the amortized cost and the fair value of financial assets at fair value through other comprehensive income are not reflected in the income statement of the period until the acquisition of the asset, sale of the asset, the disposal of the asset, and impairment of the asset and they are accounted under the "Accumulated other comprehensive income or expense to be reclassified through profit or loss" under shareholders' equity.

At initial recognition, the Bank may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument within the scope of TFRS 9 that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which TFRS 3 applies. The Bank makes the election on an instrument by instrument basis.

Amounts presented in other comprehensive income shall not be subsequently transferred to profit/loss. However, the cumulative gain or loss shall be transferred to prior periods' profit/loss. Dividends on such investments are recognised in profit/loss unless the dividend clearly represents a recovery of part of the cost of the investment. Equity instruments measured at fair value through other comprehensive income are not subject to impairment calculation.

c. Financial assets measured at amortized cost:

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and profit share are classified as financial assets measured at amortized cost.

Financial assets measured at amortized cost are initially recognized at acquisition cost including the transaction costs which reflect the fair value of those instruments and subsequently recognized at amortized cost by using internal rate of return method. Profit share income obtained from financial assets measured at amortized cost is accounted in income statement.

The Bank does not have financial assets that are classified as "Financial Assets Measured at Amortized Cost".

Loans:

Loans are financial assets that are originated by the Bank by providing goods and services to the borrower. Loans are initially recognized at acquisition cost plus transaction costs presenting their fair value and thereafter measured at amortized cost using the "Internal Rate of Return Method".

Bank loans and receivables are initially carried at cost value. Bank loans are measured at amortized cost with internal rate of return. Short-term and long-term loans are grouped as open or guaranteed; FC loans are recognized with fixed price and revalued by the counter foreign exchange buying rate of the Bank. Foreign exchange indexed loans are used as TL by the valid counter foreign exchange buying rate of the Bank at usage date. Repayments of these loans are collected as calculated TL value by the valid counter foreign exchange selling rate of Bank at installment date.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2018**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

ACCOUNTING PRINCIPLES (Continued)

VIII. EXPLANATIONS ON IMPAIRMENT OF FINANCIAL ASSETS

Explanations on Expected Loss Provisions

The main principle of the expected credit loss model is to reflect the general outlook of deterioration or improvement in the credit quality of financial instruments. The amount of expected credit losses known as loss provision or provision varies according to the degree of increase in credit risk. There are two measurements according to the general approach:

- 12-Month Expected Loss Provision (Stage 1) applies to all assets unless there is a significant deterioration in credit quality.
- Lifetime Expectation Loss (Stage 2 and Stage 3) is applied when there is a significant increase in credit risk

Impairment

As of 1 January 2018, the Parent Bank recognizes provisions for impairment in accordance with TFRS 9 requirements according to the "Regulation on the Procedures and Principles for Classification of Loans by Banks and Provisions to be set aside". In this framework, as of 31 December 2017, method of provisions for impairment as set out in accordance with the related legislation of BRSA is changed by applying the expected credit impairment model under TFRS 9.

The expected credit loss model includes instruments that are recorded at amortized cost or at fair value in other comprehensive income tables (such as bank deposits, loans and securities) and, in addition, financial lease receivables, contract assets, credit commitments and financial guarantee contracts.

The guiding principle of the expected credit loss model is to reflect the increase in credit risk of financial instruments or the general view of the recovery. The amount of allowance for the loss depends on the extent of the increase in credit risk since the initial issuance of the loan.

Expected credit loss is an estimate of the expected credit losses over the life of a financial instrument also the following aspects are important for the measurement.

- Probability-weighted and neutral amount determined by taking into account possible outcomes,
- Time value of money,
- Reasonable and supportable information on past events, current conditions and forecast of future economic conditions, at the time of reporting, without excessive cost and effort.

These financial assets are divided into three categories depending on the gradual increase in credit risk observed since their initial recognition:

Provision for 12 month expected credit loss (stage 1)

These are the financial assets that do not have a significant increase in credit risk at their initial recognition or after the initial recognition to financial statements. Impairment for credit risk for these assets is recorded in the amount of 12-month expected credit losses. It is valid for all assets unless there is a significant deterioration in the quality of the loan. The expected 12 month loss values (within 12 months after the reporting date or within a shorter period if the life of a financial instrument is shorter than 12 months) are part of the estimation of loss of life expectancy.

Significant increase in credit risk (stage 2)

In the event of a significant increase in credit risk, the financial asset is transferred to Stage 2. The expected loss provision is calculated for loans under stage 1 by calculating the 1-year maturity, while the expected loss provision for loans under stage 2 is calculated by taking into consideration the remaining maturity. The main criteria taken into consideration in determining the credit risk of the financial asset to be significantly increased and transferred to the second stage are the close monitoring, the number of delay days being 30 and above, and the Bank's internal early warning system note.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2018**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

ACCOUNTING PRINCIPLES (Continued)

VIII. EXPLANATIONS ON IMPAIRMENT OF FINANCIAL ASSETS (Continued)

Default (stage 3 / special provision)

Includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime expected credit losses are recorded.

The Bank assesses that debt is in default in the following two cases:

-Objective Default Definition: Having past due more than 90 days

-Subjective Default Definition: It means that the bank is convinced the debt will not be paid. In the event that the debtor cannot fulfill the debts related to the loan, the debtor is considered to be in default regardless of the number of delay days.

The collective valuation of financial instruments is based on homogeneous group assets resulting from portfolio segmentation based on similar credit risk and product characteristics. This section presents an overview of the risk parameter estimation methods for the damage assessment approach that is expected on a common basis for each stage.

Credits that differ in cash flows or have different characteristics with other credits may be subject to individual valuation instead of aggregate valuation. An expected credit loss can be defined as the difference between all contractual cash flows that are outstanding under the contract and the original effective interest rate and discounted cash flows. When cash flows are estimated, the following situations are considered.

- During the expected life of the financial instrument, all contractual terms of the financial instrument,
- Cash flows expected to be obtained from collateral sales.

In the calculation of the expected credit loss, the basic parameters which are expressed as probability of default, loss in default and default amount are used.

Probability of Default

Probability of default refers to the likelihood that a loan will default at a certain time. In Default Probability models, sectoral information for the corporate portfolio are taken as the basis.

Default Amount

The default amount represents the expected gross receivable if a loan is defaulted.

Loss Given Default

Loss given default refers to the ratio of the economic net loss resulting from the default of a loan to the default amount. In other words, it refers to the ratio of net loss due to a defaulted loan to the balance at the time of default.

Future Expectations

The effect of future expectations is included in the credit risk parameters used in the calculation of expected credit losses by using scenarios related to macroeconomic factors. The main macroeconomic indicators that create these estimation models are the ratio of Gross Domestic Product (GDP) and Consumer Price Index (CPI). Macroeconomic estimation models include more than one scenario and the related scenarios are taken into account in the expected credit loss calculations.

IX. EXPLANATIONS ON OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities shall be offset and the net amount presented in the balance sheet when and only when the Parent Bank currently has a legally enforceable right to set off the recognized amounts or intends either to collect/settle on a net basis or to realize the asset and settle the liability simultaneously.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2018**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”))

ACCOUNTING PRINCIPLES (Continued)

X. EXPLANATIONS ON SALES AND REPURCHASE AGREEMENTS AND LENDING OF SECURITIES

As of the balance sheet date, there are no securities lending transactions. Central Bank of the Republic of Turkey (“CBRT”) made some changes on orders for open market transactions (“OMT”) and prepared an additional frame contract for participation banks in order to present rent certificates to open market operations of CBRT in accordance with the principles of participation banks. According to this agreement; a new type of transaction was formed which enables participation banks to resell or repurchase rent certificates on their portfolio to CBRT when they are in need of funding or in attempt to evaluate the excess liquidity. The Bank performs purchase tenders which are held by CBRT of which maturities are weekly; in return for rent certificates that are reported as assets in balance sheet in order to raise funds.

XI. EXPLANATIONS ON ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS AND RELATED LIABILITIES

Property and equipment held-for-sale consist of tangible assets that were acquired due to non-performing loans and receivables and are accounted in the financial statements in accordance with the regulations of “Turkish Financial Reporting Standard for Assets Held for Sale and Discontinued Operations (TFRS 5)”.

Assets which meet the criteria to be classified as held for sale are measured by the book value or the fair value from which the cost of sales is deducted, whichever is lower and no more amortization is made for such assets; and these assets are shown separately on the balance sheet. In order to classify an asset as an held for sale, the related asset (or the group of assets to be disposed of) should be able to be sold immediately and the probability of sale for such assets (or group of assets to be disposed of), should be high under current conditions.

The properties obtained from the Parent Bank’s receivables are shown at the fixed assets held for sale line according to the execution of the forward sales agreement.

A discontinued operation is a part of a bank’s business classified as sold or held-for-sale. The results of the discontinued operations are disclosed separately in the income statement. The bank has no discounted operations.

As of 31 December 2018, the Parent Bank’s held for sale assets is TL 4.259 (31 December 2017: TL 3.561).

XII. EXPLANATIONS ON GOODWILL AND OTHER INTANGIBLE ASSETS

As of the balance sheet date, the Parent Bank has no goodwill within the financial statements.

Other intangible assets are measured at cost on initial recognition and any directly attributable costs of setting the asset to work for its intended use are included in the initial measurement. Subsequently, intangible assets are carried at historical costs after the deduction of accumulated depreciation and the provision for value decreases.

Other intangible assets are amortized by using the straight line method based on their useful life. Useful life of other intangible assets are determined by the consideration of items as; useful life of asset, maintenance costs incurred to obtain expected economic benefit from assets and technical, technological or any other type of obsolescence.

The Parent Bank recognizes its software costs incurred under the intangible assets - intangible rights account and the qualifying expenses are added to software’s initial costs and amortized over 3-15 years considering the useful life.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2018**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

ACCOUNTING PRINCIPLES (Continued)

XIII. EXPLANATIONS ON TANGIBLE ASSETS

Property and equipment is measured at its cost when initially recognised and any directly attributable costs of setting the asset in working order for its intended use are included in the initial measurement.

Subsequent to recognition, tangible fixed assets are presented in financial statements at cost less any accumulated depreciation and impairment loss, if any. Tangible fixed assets are amortized by using the straight-line method over their estimated useful lives.

Applied depreciation rates are as follows;

Vehicles and Fixtures	: 2% – 25%
Operational Lease Improvement Costs (Leasehold Improvements)	: Leasing Period – 5 years

Gains or losses emerging from the disposal of tangible assets are recognized in the profit or loss account as difference between net revenue of a related intangible asset and its net book value.

The depreciation of an asset held for a period less than a full financial year is calculated as a proportion of the full year depreciation charge from the date of acquisition to the financial year end. Leasehold improvements are depreciated over their estimated economic useful lives in equal amounts. The estimated economic useful lives cannot exceed the leasing period.

There is no tangible assets that are held for sale.

XIV. EXPLANATIONS ON LEASING TRANSACTIONS

Transactions as a lessee

The Bank, as the lessee, recognizes its leasing operations in accordance with the requirements of TAS 17 "Leases". Fixed assets that are acquired under financial leasing are amortized with respect to the rates used for directly acquired assets that have similar nature. Assets held under financial leases are recognized under the tangible fixed assets account and are depreciated on annual and monthly basis with respect to their useful lives. Principal and installment paid for tangible fixed assets that are acquired under financial leasing are charged to liability account "Finance Lease Payable", whereas interests are recognized in "Deferred Financial Leasing Expenses" account. At installment payments, principal and interest amount of installment amount are debited to "Financial Lease Payable" account, whereas interest is credited in "Deferred Financial Leasing Expenses" account and recorded to the "Other Profit Share Expenses".

Transactions as a lessor

The Bank presents finance leased assets as a receivable equal to the net investment in the lease. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2018**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

ACCOUNTING PRINCIPLES (Continued)

XV. EXPLANATIONS ON PROVISIONS AND CONTINGENT LIABILITIES

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

The Parent Bank provides provision in case of an existing liability (legal or implicit) as a result of an incident that took place in the past, there is possibility of disposal of assets that bring economic benefit and the liability is measurable. When a reliable estimate of the amount of obligation cannot be made, it is considered that a "contingent" liability exists and it is disclosed in the related notes to the financial statements.

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

As of the balance sheet date, there are no probable contingent liabilities resulting from past events whose amount can be reliably measured.

Contingent assets usually arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the entity. Contingent assets are not recognized in financial statements since this may result in the recognition of income that may never be realized. Contingent assets are disclosed where an inflow of economic benefits is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the financial statements in which the change occurs.

XVI. EXPLANATIONS ON OBLIGATIONS RELATED TO EMPLOYEE RIGHTS

a. Employment termination and vacation benefits

Liabilities related to severance pay and right to leave calculated according to the regulations of the TAS 19 "Accounting Standard of Employee Benefits".

According to the related regulation, the Group is obliged to pay termination benefits depending on the arise of the legal conditions for employees who retire, die, quit for their military service obligations, who have been dismissed as defined in the related regulation or (for the female employees) who have voluntarily quit within one year after the date of their marriage. According to the related legislation, depending on the status and position of the employee in the Bank and social security institution, Employment Termination Benefit Provision 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 Employment Termination Benefit Provision ceiling). Employment Termination Benefit is calculated based on actuarial assumptions.

The Group's liabilities related to future severance pay and right to leave calculated and reflected to the financial statements on the net present value. The Bank benefits from independent actuaries on determination of obligation and makes assumptions on discount rate, employee turnover rate, and future raise in salaries. As of 31 December 2018, the Bank's employee termination benefit is TL 5.056 (31 December 2017: TL 2.330).

Unused vacation liability is calculated based on number of unused vacation days which is calculated by subtracting used vacation days of all personnel from legally deserved vacation days. As of 31 December 2018 unused vacation liability of the Bank is TL 3.584 (31 December 2017: TL 2.389).

The Group does not employ its personnel by means of limited-period contracts.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2018**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

ACCOUNTING PRINCIPLES (Continued)

XVI. EXPLANATIONS ON OBLIGATIONS RELATED TO EMPLOYEE RIGHTS (Continued)

b. T.C. Ziraat Bankası and T. Halk Bankası employee pension fund foundations (TZHEMSAN) liability

Some of the Bank's personnel are the members of T.C. Ziraat Bankası and T. Halk Bankası A.Ş. Employees' Pension Fund ("Fund") which was established by 20th provisional article of Social Security Law Act numbered 506. Provisional article 23 of the Banking Act No: 5411 requires the Bank's pension funds founded in the scope of SIA to be transferred to the Social Insurance Institution (SII) within 3 years subsequent to the publishing date of the act. The procedure and essentials for the transfer were determined by the Council of Ministers' decision dated 30 November 2006 and numbered 2006/11345 and accordingly, both pension fund foundations would have been transferred to SSI. However, with the decree of the Constitutional Court numbered E.2005/139, K.2007/13 and K.2007/33 published in the Official Gazette dated 31 March 2007 and numbered 26479, the first paragraph of the temporary first article of the provisional article 23 of the Banking Act No: 5411 is cancelled and the execution has been ceased starting from the date the decree is published.

After the justified decree related to cancellation was announced by the Constitutional Court, Turkish Grand National Assembly started to work on establishing new legal regulations, and after it was approved at the General Assembly of the TGNA, the Law numbered 5754 "Emendating Social Security and General Health Insurance Act and Certain Laws and Decree Laws" ("Renewed Law"), which was published on the Official Gazette dated 8 May 2008 and numbered 26870, came into effect.

The new law decrees that the contributors of the bank pension funds, the ones who receive salaries or income from these funds and their rightful beneficiaries will be transferred to the Social Security Institution and will be subject to this Law within 3 years after the release date of the related article, without any need for further operation. The three year transfer period can be prolonged for maximum 2 years by the Cabinet decision. In accordance with the related legislation, as of the transfer date, the income and expenses of the transferred funds will be considered by the insurance branches and the cash value of the liabilities will be calculated with the actuarial interest rate 9,8%. Moreover, after the transfer to SSI, the unfulfilled other social rights and payments existed in the settlement deeds of the subjected pension funds of the transferred participants, members or the rightful owners will be continued to be fulfilled by the employer entities of the funds and its participants.

According to the 58th And the temporary 7th Article of the Banking Law, the sentence which states that the banks cannot transfer funds in order to fulfill the deficit of the Funds from 1 January 2008, has been postponed up to five years.

However related transfer period has been prolonged for the banks, insurance and reinsurance companies, chamber of commerce, chamber of industries, stock exchanges or their Funds founded for their organization's personnel and monthly payment or income earners and their rightful owners, as a part of the temporary 20th Statute of the law numbered 506, to transfer to the Social Security Institution (SSI) for 2 years by the Cabinet decision, which was published on the Official Gazette dated 9 April 2011 and numbered 27900.

In addition, by the Law numbered 6283 "Emendating Social Security and General Health Insurance Act", which was published on the Official Gazette dated 8 March 2012 and numbered 28227, this period of 2 years has been raised to 4 years.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2018**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

ACCOUNTING PRINCIPLES (Continued)

XVI. EXPLANATIONS ON OBLIGATIONS RELATED TO EMPLOYEE RIGHTS (Continued)

b. T.C. Ziraat Bankası and T. Halk Bankası employee pension fund foundations (TZHEMSAN) liability (Continued)

Based on the Council of Ministers' decree numbered 2014/6042 and issued in the Official Gazette numbered 28987 dated 30 April 2014, the participants of the funds that were founded for the personnel constituting these entities and the ones having salary or income and the right holders of them to Social Security Institution has been extended for one year.

Lastly, 51st article of Law No.6645 dated 23 April 2015, published on Official Gazette and the first paragraph of the transient 20th article of Law No.5510 related to the transfer of Bank and Insurance Funds to Social Security Institution; "Council of Ministers is the authority to determine the date of transfer of banks, insurance and reinsurance companies, boards of trade, chambers of industry and stock markets or the participants of funds established for their constitute union personnel and the ones that were endowed salary or income and their beneficiaries within the scope of transient 20th article of Law No.506. As from the transfer date, the participants are considered as insured within the scope of clause (a), first paragraph and 4th article of this Law.

The technical balance sheet report as of 31 December 2018 which is prepared in accordance with the new law and the allowance determined as 9,80%, concluded no technical deficit arises in the above mentioned fund. Since the Bank has no legal right to hold the present value of any economic benefits available in the form of refunds from Pension Fund or reductions in future contributions to Pension Fund, no asset is recognized in the Bank's financial statements.

XVII. EXPLANATIONS ON TAXATION

a. 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 the current rate 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%).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2018**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

ACCOUNTING PRINCIPLES (Continued)

XVII. EXPLANATIONS ON TAXATION (Continued)

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).

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 warrantors' 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.

Under the Turkish Corporate Tax Law, losses can be carried forward to offset against future taxable income for up to five years. Losses cannot be carried back to offset profits from previous periods.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments with tax authorities. Tax returns are required to be filled and delivered to the related tax office until the evening of the 25th of the fourth month following the balance sheet date and the accrued tax is paid until the end of the same month Tax returns are open for 5 years from the beginning of the year following the balance sheet date and during this period the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

b. Deferred tax

In accordance with TAS 12 "Turkish Accounting Standards Relating to Income Tax", the Parent 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2018**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”))

ACCOUNTING PRINCIPLES (Continued)

XVIII. EXPLANATIONS ON ADDITIONAL DISCLOSURES ON BORROWINGS

Borrowings are recognized using the effective internal rate of return method in the following periods after the initial recognition. The Parent Bank has no borrowings that require hedging techniques for accounting and revaluation of debt instruments and liabilities representing the borrowings. There are no debt securities issued by the Bank. The Bank has issued borrowings as sukuk issuances, through its subsidiary Ziraat Katılım Varlık Kiralama A.Ş. and ZKB Varlık Kiralama A.Ş., these sukuk issuances are provided to the qualified investors without being released through an IPO and the bank takes place during this operation as a fund user.

XIX. EXPLANATIONS ON SHARE CERTIFICATES ISSUED

The decision to increase the capital to TL 1.750.000 was approved at the Extraordinary General Assembly of the Parent Bank held on September 20, 2018, and the capital increase and accordingly the amendment to the related article of the Articles of Association were registered on 23 October 2018 and it was announced in the Trade Registry Gazette No. 9691. The accounting for the related capital increase was made on 7 November 2018 with the permission of BRSA.

XX. EXPLANATIONS ON ACCEPTANCES

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

XXI. EXPLANATIONS ON GOVERNMENT INCENTIVES

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

XXII. EXPLANATION ON CASH AND CASH EQUIVALENTS

Cash and cash equivalents are cash on hand, demand deposits and other highly liquid short-term investments with maturities of 3 months or less following the date of acquisition, which is readily convertible to a known amount of cash, and does not bear the risk of significant amount of value change. The book values of these assets represent their fair values. Cash equivalents and balances regarding banks are valued by the period end counter foreign currency buying rate of the Bank.

For the purposes of the cash flow statement, “Cash” includes cash, effectives, gold, cash in transit, purchased cheques and demand deposits including balances with the Central Bank; and “Cash equivalents” include interbank money market placements and time deposits at banks with original maturity periods of less than three months.

XXIII. EXPLANATION ON SEGMENT REPORTING

Information about operating segments which are determined in line with TFRS 8 “Turkish Accounting Standard about Operating Segments” together with organizational and internal reporting structure of the Group, are disclosed in Note XII. of Section Four.

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

ACCOUNTING PRINCIPLES (Continued)

XXIV. EXPLANATIONS ON OTHER MATTERS

Adoption of TFRS 9 financial instruments:

TFRS 9 “Financial Instruments”, which is effective as at 1 January 2018 is published by the Public Oversight Accounting and Auditing Standards Authority (“POA”) in the Official Gazette numbered 29953 dated 19 January 2017.

TFRS 9 sets out the new principles for the classification and measurement of financial instruments, impairment for credit risk on financial assets and general hedge accounting.

According to TFRS 9 requirements, classification and measurement of financial assets will depend on the business model within which financial assets are managed and their contractual cash flow characteristics whether the cash flows represent “solely payments of principal and interest.

Explanations on the impact of TFRS 9 implementation of the Parent Bank are below.

Reconciliation of statement of financial position balances to TFRS 9

ASSETS	31.12.2017	TFRS-9 Reclassification impact	TFRS-9 Remeasurement impact	01.01.2018
FINANCIAL ASSETS (NET)	2.446.480	(792)	531	2.446.219
Cash and Cash Equivalents	1.922.270	-	-	1.922.270
Cash and Balances with Central Bank	1.643.689	-	-	1.643.689
Banks	278.581	-	-	278.581
Money Markets	-	-	-	-
Financial Assets at Fair Value Through Profit or Loss	-	-	-	-
Financial Assets at Fair Value Through Other Comprehensive Income	524.173	-	-	524.173
Financial Assets Measured at Amortised Cost	-	-	-	-
Derivative Financial Assets	37	-	-	37
Non-Performing Financial Assets	-	-	-	-
Expected Loss Provision (-)	-	792	(531)	261
LOANS (NET)	11.747.688	(98.291)	62.130	11.711.527
Loans	11.747.688	(98.291)	62.130	11.711.527
Measured at Amortized Cost	11.730.935	-	-	11.730.935
Non-Performing Loans	34.841	-	-	34.841
Expected Loss Provision (-)	18.088	98.291	(62.130)	54.249
12 Month Expected Credit Losses (Stage I)	-	97.427	(66.180)	31.247
Significant Increase in Credit Risk (Stage II)	-	864	1.593	2.457
Credit-Impaired Losses (Stage III / Special Provision)	18.088	-	2.457	20.545
PROPERTY AND EQUIPMENT HELD FOR SALE PURPOSE AND RELATED TO DISCONTINUED OPERATIONS (Net)	3.561	-	-	3.561
Investments in Associates (Net)	100	-	-	100
Subsidiaries (Net)	-	-	-	-
Joint Ventures (Net)	100	-	-	100
PROPERTY AND EQUIPMENT (Net)	47.235	-	-	47.235
INTANGIBLE ASSETS (Net)	63.280	-	-	63.280
INVESTMENT PROPERTY (Net)	-	-	-	-
OTHER ASSETS	41.799	-	7.472	49.271
TOTAL ASSETS	14.350.143	(99.083)	70.133	14.321.193

⁽¹⁾ Financial assets classified as available for sale financial assets at 31 December 2017 reclassified as Financial Assets Measured at Fair Value Through Other Comprehensive Income at 1 January 2018. Since the measurements of the previous and current accounts are the same, the classification change had no effect.

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

ACCOUNTING PRINCIPLES (Continued)

XXIV. EXPLANATIONS ON OTHER MATTERS (Continued)

Reconciliation of the opening balances of the provision for expected credit losses to TFRS 9 (continued)

LIABILITIES AND EQUITY	31.12.2017	TFRS-9 Reclassification impact	TFRS-9 Remeasurement impact	01.01.2018
FUNDS COLLECTED	10.024.595	-	-	10.024.595
FUNDS BORROWED	2.607.114	-	-	2.607.114
MONEY MARKETS DEBTS	32.462	-	-	32.462
SECURITIES ISSUED (Net)	-	-	-	-
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	-	-	-	-
DERIVATIVE FINANCIAL LIABILITIES	6.280	-	-	6.280
FINANCE LEASE PAYABLES	-	-	-	-
PROVISIONS	142.291	(99.083)	44.473	87.681
General Provisions	99.083	(99.083)	-	-
Employee Benefits Provisions	4.719	-	-	4.719
Other Provisions	38.489	-	44.473	82.962
Current Tax Liability	27.435	-	-	27.435
Deferred Tax Liability	-	-	-	-
OTHER LIABILITIES	106.285	-	-	106.285
SHAREHOLDERS' EQUITY	1.403.681	-	25.660	1.429.341
Paid-in capital	1.250.000	-	-	1.250.000
Capital Reserves	(14.912)	-	-	(14.912)
Other Capital Reserve	-	-	-	-
Accumulated Other Comprehensive Income or Loss Not Reclassified Through Profit or Loss	(14.912)	-	-	(14.912)
Accumulated Other Comprehensive Income or Loss Reclassified Through Profit or Loss	-	-	-	-
Tangible Assets Revaluation Reserves	-	-	-	-
Bonus shares obtained from associates, subsidiaries and jointly controlled entities (Joint Vent.)	-	-	-	-
Profit Reserves	9.691	-	-	9.691
Legal Reserves	1.308	-	-	1.308
Statutory Reserves	-	-	-	-
Extraordinary Reserves	3.843	-	-	3.843
Other Profit Reserves	4.540	-	-	4.540
Profit or Loss	158.902	-	25.660	184.562
Prior Years Profit/Loss	-	-	25.660	25.660
Net Period Profit/Loss	158.902	-	-	158.902
TOTAL LIABILITIES AND EQUITY	14.350.143	(99.083)	70.133	14.321.193

	Book value before TFRS 9 31 December 2017	Remeasurements	Book value after TFRS 9 1 January 2018
Loans	116.379	(62.130)	54.249
Stage 1 ^(*)	97.427	(66.180)	31.247
Stage 2 ^(*)	864	1.593	2.457
Stage 3	18.088	2.457	20.545
Financial Assets ^(**)	792	(531)	261
Non-cash Loans	9.701	2.320	12.021
Stage 1 and 2	8.111	2.030	10.141
Stage 3	1.590	290	1.880
Total	126.872	(60.341)	66.531

^(*) Represents general provisions for stage 1 and 2 loans before TFRS 9.

^(**) Within the scope of TFRS 9, provisions include provisions for Amortized Cost, Fair Value Through Other Comprehensive Income, Receivables from Banks and Receivables from Money Markets.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2018**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

ACCOUNTING PRINCIPLES (Continued)

XXIV. EXPLANATIONS ON OTHER MATTERS (Continued)

Explanations on prior period accounting policies not available for the current period

“IFRS 9 Financial Instruments” standard came into effect instead of “TAS 39 Financial Instruments: Recognition and Measurement” as of 1 January 2018. Accounting policies lost their validity with the transition of IFRS 9 are given below:

a. Financial assets at the fair value through profit or loss:

Financial Assets at the Fair Value Through Profit or Loss have two sub categories: “Trading Financial Assets” and “Financial Assets at Fair Value Through Profit/Loss”.

Trading financial assets either acquired for generating profit from short-term fluctuations in the price or dealer’s margin, are the financial assets included in a portfolio in which a pattern of short-term profit making exists independent from the acquisition purpose.

Financial assets held for trading are initially recognized at transaction prices which are assumed to reflect the fair value and subsequently measured at fair value. Gain or loss resulted from valuation of these financial assets are transferred to profit or loss accounts.

The Group has no financial assets at fair value through profit or loss.

b. Available-for-sale financial assets:

Available-for-sale financial assets refer to financial assets other than the ones classified as “loans and receivables”, “held-to-maturity assets” or “financial assets at fair value through profit or loss”.

Available for sale assets are initially recognized at cost value. The cost of the securities is recognized as fair value.

Available-for-sale financial assets are subsequently re-measured at fair value in financial statements.

The difference between fair value and cost of available for sale financial assets is booked as profit share income accrual or impairment provision. Furthermore, amortized cost using the internal rate of return method and cost value is compared and the difference is booked as profit share income or impairment expense. Fair value and amortized cost of these securities are compared and the difference is recognized in shareholders’ equity as “Marketable Securities Value Increase Fund”. When these financial assets are disposed of or impaired the related fair value differences accumulated in the shareholders’ equity are transferred to the income statement.

When there is no price quotation in an active market for price formations to constitute the basis of the fair value or in such a situation when the reasonable value is not measured confidentially; the fair value of the available-for-sale financial assets are carried at amortized cost using the internal rate of return method or appropriate valuation methods.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2018**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

ACCOUNTING PRINCIPLES (Continued)

XXIV. EXPLANATIONS ON OTHER MATTERS (Continued)

Explanations on prior period accounting policies not valid for the current period (Continued)

c. Loans and receivables:

Bank loans and receivables represent financial other than those held for trading or held for sale in a short period are not derivative financial instruments.

Loans and receivables are initially recognized at cost, and subsequently recognized at the amortized cost calculated using the internal rate of return method, Individual and corporate loans tracked in cash loans are recognized at their original amounts according to Uniform Chart of Accounts (UCA) and accounts determined in its prospects in line with their content.

Foreign currency indexed retail and commercial loans are converted to Turkish Lira at the rate on the lending date and they are followed under Turkish Lira (“TL”) accounts. Repayment amounts are calculated at the exchange rate on the repayment date and the foreign exchange differences are reflected in the profit/loss accounts.

d. Held-to-maturity financial assets:

Investments held to maturity are composed of financial assets that holding with keeping intention until maturity with the fulfilled relevant conditions and have fixed or determinable payments and fixed maturity other than loans and receivables.

Investments held to maturity are subsequently measured at amortized cost with internal rate of return, and they are accounted by setting forth provision for impairment loss (impairment loss expense) or by posting profit share income.

Held to maturity assets are initially recognized at cost value.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2018**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

SECTION FOUR

EXPLANATIONS RELATED TO THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK

I. EXPLANATIONS ON SHAREHOLDERS’ EQUITY

As of 31 December 2018 current period capital amount of the Group is TL 2.164.339 (31 December 2017: TL 1.259.583), and capital adequacy standard ratio is 12,76% (31 December 2017: 13,06%).

Information Related To The Components of Shareholders’ Equity:

	Current Period 31.12.2018	Amounts related to treatment before 1/1/2014(*)
COMMON EQUITY TIER 1 CAPITAL		
Paid-in capital following all debts in terms of claim in liquidation of the Bank	1.750.000	
Share issue premiums		
Reserves	158.593	
Gains recognized in equity as per TAS	305	
Profit	348.325	
Current Period Profit	322.665	
Prior Period Profit	25.660	
Shares acquired free of charge from subsidiaries, affiliates and jointly controlled partnerships and cannot be recognized within profit for the period	-	
Common Equity Tier 1 Capital Before Deductions	2.257.223	
Deductions from Common Equity Tier 1 Capital		
Common Equity as per the 1st clause of Provisional Article 9 of the Regulation on the Equity of Banks	-	
Portion of the current and prior periods’ losses which cannot be covered through reserves and losses reflected in equity in accordance with TAS	38.639	
Improvement costs for operating leasing	18.408	
Goodwill (net of related tax liability)	-	
Other intangibles other than mortgage-servicing rights (net of related tax liability)	80.396	
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	
Differences are not recognized at the fair value of assets and liabilities subject to hedge of cash flow risk	-	
Communiqué Related to Principles of the amount credit risk calculated with the Internal Ratings Based Approach, total expected loss amount exceeds the total provision	-	
Gains arising from securitization transactions	-	
Unrealized gains and losses due to changes in own credit risk on fair valued liabilities	-	
Defined-benefit pension fund net assets	1.728	
Direct and indirect investments of the Bank in its own Common Equity	-	
Shares obtained contrary to the 4th clause of the 56th Article of the Law	-	
Portion of the total of net long positions of investments made in equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or less of the issued common share capital exceeding 10% of Common Equity of the Bank	-	
Portion of the total of net long positions of investments made in equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital exceeding 10% of Common Equity of the Bank	-	
Portion of mortgage servicing rights exceeding 10% of the Common Equity	-	
Portion of deferred tax assets based on temporary differences exceeding 10% of the Common Equity	-	
Amount exceeding 15% of the common equity as per the 2nd clause of the Provisional Article 2 of the Regulation on the Equity of Banks	-	
cess amount arising from the net long positions of investments in common equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital	-	
Excess amount arising from mortgage servicing rights	-	
Excess amount arising from deferred tax assets based on temporary differences	-	
Other items to be defined by the BRSA	-	
Deductions to be made from common equity due to insufficient Additional Tier I Capital or Tier II Capital	-	
Total Deductions From Common Equity Tier 1 Capital	139.171	
Total Common Equity Tier 1 Capital	2.118.052	

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL").)

EXPLANATIONS RELATED TO THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

I. EXPLANATIONS ON SHAREHOLDERS' EQUITY (Continued)

	Current Period 31.12.2018	Amounts related to treatment before 1/1/2014(*)
ADDITIONAL TIER I CAPITAL		
Preferred Stock not Included in Common Equity and the Related Share Premiums	-	-
Debt instruments and premiums approved by BRSA	-	-
Debt instruments and premiums approved by BRSA(Temporary Article 4)	-	-
Additional Tier I Capital before Deductions	-	-
Deductions from Additional Tier I Capital	-	-
Direct and indirect investments of the Bank in its own Additional Tier I Capital	-	-
Investments of Bank to Banks that invest in Bank's additional equity and components of equity issued by financial institutions with compatible with Article 7.	-	-
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	-	-
Transition from the Core Capital to Continue to deduce Components	-	-
Goodwill and other intangible assets and related deferred tax liabilities which will not deducted from Common Equity Tier 1 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	-	-
Net deferred tax asset/liability which is not deducted from Common Equity Tier 1 capital for the purposes of the sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	-	-
Deductions to be made from common equity in the case that adequate Additional Tier I Capital or Tier II Capital is not available (-)	-	-
Total Deductions From Additional Tier I Capital	-	-
Total Additional Tier I Capital	-	-
Total Tier I Capital (Tier I Capital=Common Equity+Additional Tier I Capital)	2.118.052	
TIER II CAPITAL		
Debt instruments and share issue premiums deemed suitable by the BRSA	-	-
Debt instruments and share issue premiums deemed suitable by BRSA (Temporary Article 4)	47.962	-
Provisions (Article 8 of the Regulation on the Equity of Banks)	-	-
Tier II Capital Before Deductions	47.962	
Deductions From Tier II Capital	-	-
Direct and indirect investments of the Bank on its own Tier II Capital (-)	-	-
Investments of Bank to Banks that invest on Bank's Tier 2 and components of equity issued by financial institutions with the conditions declared in Article 8.	-	-
Portion of the total of net long positions of investments made in equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or less of the issued common share capital exceeding 10% of Common Equity of the Bank (-)	-	-
Portion of the total of net long positions of investments made in Additional Tier I Capital item of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital exceeding 10% of Common Equity of the Bank	-	-
Other items to be defined by the BRSA (-)	-	-
Total Deductions from Tier II Capital	-	-
Total Tier II Capital	47.962	
Total Capital (The sum of Tier I Capital and Tier II Capital)	2.166.014	

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL").)

EXPLANATIONS RELATED TO THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

I. EXPLANATIONS ON SHAREHOLDERS' EQUITY (Continued)

	Current Period 31.12.2018	Amounts related to treatment before 1/1/2014(*)
Total of Original Capital and Supplementary Capital (Total Capital)		
Deductions from Capital Loans granted contrary to the 50th and 51th Article of the Law	-	
Net Book Values of Movables and Immovables Exceeding the Limit Defined in the Article 57, Clause 1 of the Banking Law and the Assets Acquired against Overdue Receivables and Held for Sale but Retained more than Five Years	-	
Other items to be defined by the BRSA (-)	1,075	
In transition from Total Core Capital and Supplementary Capital (the capital) to Continue to Download Components		
The Sum of net long positions of investments (the portion which exceeds the 10% of Banks Common Equity) in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity which will not deducted from Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	-	
The Sum of net long positions of investments in the Additional Tier 1 capital and Tier 2 capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity which will not deducted from Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	-	
The Sum of net long positions of investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity, mortgage servicing rights, deferred tax assets arising from temporary differences which will not deducted from Common Equity Tier 1 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	-	
TOTAL CAPITAL		
Total Capital	2,164,939	
Total risk weighted amounts (**)	16,782,005	
Capital Adequacy Ratios		
Core Capital Adequacy Ratio	12,62	
Tier 1 Capital Adequacy Ratio	12,62	
Capital Adequacy Ratio	12,76	
BUFFERS		
Total additional Common Equity Tier 1 Capital requirement ratio (a+b+c)	1,88	
a) Capital conservation buffer requirement	1,88	
b) Bank specific counter-cyclical buffer requirement	0,00	
c) Systemic significant bank buffer ratio	0,00	
The ratio of Additional Common Equity Tier 1 capital which will be calculated by the first paragraph of the Article 4 of Regulation on Capital Conservation and Countercyclical Capital buffers to Risk Weighted Assets	8,12	
Amounts below the Excess Limits as per the Deduction Principles		
Portion of the total of net long positions of 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	-	
Portion of the total of 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	-	
Amount arising from mortgage-servicing rights	-	
Amount arising from deferred tax assets based on temporary differences	-	
Limits related to provisions considered in Tier II calculation		
General provisions for standard based receivables (before tenthousandtwentyfive limitation)	47,962	
Up to 1.25% of total risk-weighted amount of general reserves for receivables where the standard approach used	47,962	
Excess amount of total provision amount to credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation	-	
Excess amount of total provision amount to &0,6 of risk weighted receivables of credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation	-	
Debt instruments subjected to Article 4 (to be implemented between 1 January 2018 and 1 January 2022)		
Upper limit for Additional Tier I Capital subjected to temporary Article 4	-	
Amounts Excess the Limits of Additional Tier I Capital subjected to temporary Article 4	-	
Upper limit for Additional Tier II Capital subjected to temporary Article 4	-	
Amounts Excess the Limits of Additional Tier II Capital subjected to temporary Article 4	-	

(*) Amounts in this column represents the amounts of items that are subject to transition provisions

(**) Legal capital amount used in capital adequacy calculation which has been taken into consideration as not included BHFOR effect is TL 2,140,475.

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

EXPLANATIONS RELATED TO THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

I. EXPLANATIONS ON SHAREHOLDERS’ EQUITY (Continued)

	Prior Period 31.12.2017	Amounts related to treatment before 1/1/2014(*)
COMMON EQUITY TIER 1 CAPITAL		
Paid-in capital following all debts in terms of claim in liquidation of the Bank	1.250.000	
Share issue premiums	-	
Reserves	9.691	
Gains recognized in equity as per TAS	-	
Profit	158.902	
Current Period Profit	158.902	
Prior Period Profit	-	
Shares acquired free of charge from subsidiaries, affiliates and jointly controlled partnerships and cannot be recognized within profit for the period	-	
Premiums on sale of share certificates	-	
Common Equity Tier 1 Capital Before Deductions	1.418.593	
Deductions from Common Equity Tier 1 Capital		
Common Equity as per the 1st clause of Provisional Article 9 of the Regulation on the Equity of Banks	-	
Portion of the current and prior periods’ losses which cannot be covered through reserves and losses reflected in equity in accordance with TAS	14.912	
Improvement costs for operating leasing	15.987	
Goodwill (net of related tax liability)	-	
Other intangibles other than mortgage-servicing rights (net of related tax liability)	50.624	
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	
Differences are not recognized at the fair value of assets and liabilities subject to hedge of cash flow risk	-	
Communiqué Related to Principles of the amount credit risk calculated with the Internal Ratings Based Approach, total expected loss amount exceeds the total provision	-	
Gains arising from securitization transactions	-	
Unrealized gains and losses due to changes in own credit risk on fair valued liabilities	-	
Defined-benefit pension fund net assets	-	
Direct and indirect investments of the Bank in its own Common Equity	-	
Shares obtained contrary to the 4th clause of the 56th Article of the Law	-	
Portion of the total of net long positions of investments made in equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or less of the issued common share capital exceeding 10% of Common Equity of the Bank	-	
Portion of the total of net long positions of investments made in equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital exceeding 10% of Common Equity of the Bank	-	
Portion of mortgage servicing rights exceeding 10% of the Common Equity	-	
Portion of deferred tax assets based on temporary differences exceeding 10% of the Common Equity	-	
Total Deductions From Common Equity Tier 1 Capital	81.523	
Total Common Equity Tier 1 Capital	1.337.070	

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

EXPLANATIONS RELATED TO THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

I. EXPLANATIONS ON SHAREHOLDERS’ EQUITY (Continued)

	Prior Period 31.12.2017	Amounts related to treatment before 1/1/2014(*)
ADDITIONAL TIER 1 CAPITAL		
Preferred Stock not Included in Common Equity and the Related Share Premiums	-	
Debt instruments and premiums approved by BRSA	-	
Debt instruments and premiums approved by BRSA(Temporary Article 4)	-	
Additional Tier I Capital before Deductions	-	
Deductions from Additional Tier I Capital	-	
Direct and indirect investments of the Bank in its own Additional Tier I Capital	-	
Investments of Bank to Banks that invest in Bank’s additional equity and components of equity issued by financial institutions with compatible with Article 7	-	
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	-	
Transition from the Core Capital to Continue to deduce Components	-	
Goodwill and other intangible assets and related deferred tax liabilities which will not deducted from Common Equity Tier 1 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks’ Own Funds (-)	12.656	
Net deferred tax asset/liability which is not deducted from Common Equity Tier 1 capital for the purposes of the sub-paragraph of the Provisional Article 2 of the Regulation on Banks’ Own Funds (-)	-	
Deductions to be made from common equity in the case that adequate Additional Tier I Capital or Tier II Capital is not available (-)	-	
Total Deductions From Additional Tier I Capital	12.656	
Total Additional Tier I Capital		
Total Tier I Capital (Tier I Capital=Common Equity+Additional Tier I Capital)	1.324.414	
TIER II CAPITAL		
Debt instruments and share issue premiums deemed suitable by the BRSA	-	
Debt instruments and share issue premiums deemed suitable by BRSA (Temporary Article 4)	-	
Provisions (Article 8 of the Regulation on the Equity of Banks)	36.348	
Tier II Capital Before Deductions	36.348	
Deductions From Tier II Capital	-	
Direct and indirect investments of the Bank on its own Tier II Capital (-)	-	
Investments of Bank to Banks that invest on Bank’s Tier 2 and components of equity issued by financial institutions with the conditions declared in Article 8	-	
Portion of the total of net long positions of investments made in equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or less of the issued common share capital exceeding 10% of Common Equity of the Bank (-)	-	
Portion of the total of net long positions of investments made in Additional Tier I Capital item of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital exceeding 10% of Common Equity of the Bank	-	
Other items to be defined by the BRSA (-)	-	
Total Deductions from Tier II Capital	-	
Total Tier II Capital	36.348	
Total Capital (The sum of Tier I Capital and Tier II Capital)	1.360.762	

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2018**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

EXPLANATIONS RELATED TO THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

I. EXPLANATIONS ON SHAREHOLDERS’ EQUITY (Continued)

	Prior Period 31.12.2017	Amounts related to treatment before 1/1/2014(*)
Total of Original Capital and Supplementary Capital (Total Capital)		
Deductions from Capital Loans granted contrary to the 50th and 51th Article of the 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 (-)	101.179	
In transition from Total Core Capital and Supplementary Capital (the capital) to Continue to Download Components		
The Sum of net long positions of investments (the portion which exceeds the 10% of Banks Common Equity) in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity which will not deducted from Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks’ Own Funds	-	
The Sum of net long positions of investments in the Additional Tier 1 capital and Tier 2 capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity which will not deducted from Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks’ Own Funds	-	
The Sum of net long positions of investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity, mortgage servicing rights, deferred tax assets arising from temporary differences which will not deducted from Common Equity Tier 1 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks’ Own Funds	-	
TOTAL CAPITAL		
Total Capital	1.259.583	
Total risk weighted amounts	9.643.419	
Capital Adequacy Ratios		
Core Capital Adequacy Ratio (%)	13,87	
Tier 1 Capital Adequacy Ratio (%)	13,73	
Capital Adequacy Ratio (%)	13,06	
BUFFERS		
Bank specific total common equity tier 1 capital ratio (a+b+c)	1,25	
a)Capital conservation buffer requirement	1,25	
b)Bank specific counter-cyclical buffer requirement	0,00	
c)Systemic significant bank buffer ratio	0,00	
The ratio of Additional Common Equity Tier 1 capital which will be calculated by the first paragraph of the Article 4 of Regulation on Capital Conservation and Countercyclical Capital buffers to Risk Weighted Assets (%)	9,36	
Amounts below the Excess Limits as per the Deduction Principles	-	
Portion of the total of net long positions of 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	-	
Portion of the total of 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	-	
Amount arising from mortgage-servicing rights	-	
Amount arising from deferred tax assets based on temporary differences	-	
Limits related to provisions considered in Tier II calculation	-	
General provisions for standard based receivables (before tenthousandtwentyfive limitation)	36.348	
Up to 1.25% of total risk-weighted amount of general reserves for receivables where the standard approach used	36.348	
Excess amount of total provision amount to credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation	-	
Excess amount of total provision amount to &0,6 of risk weighted receivables of credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation	-	
Debt instruments subjected to Article 4 (to be implemented between 1 January 2018 and 1 January 2022)	-	
Upper limit for Additional Tier I Capital subjected to temporary Article 4	-	
Amounts Excess the Limits of Additional Tier I Capital subjected to temporary Article 4	-	
Upper limit for Additional Tier II Capital subjected to temporary Article 4	-	
Amounts Excess the Limits of Additional Tier II Capital subjected to temporary Article 4	-	

(*) Amounts in this column represents the amounts of items that are subject to transition provisions

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2018**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

EXPLANATIONS RELATED TO THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

I. EXPLANATIONS ON SHAREHOLDERS’ EQUITY (Continued)

Information of the borrowing instruments to be included in equity calculation:

None.

Required explanations for the reconciliation between table of equity components and balance sheet:

The difference between Total Capital and Equity in the consolidated balance sheet mainly arises from expected credit loss provisions arising from loans classified under stage I and stage II and subordinated loans. In the calculation of Total Capital, up to 1,25% of general provision from stage 1 and stage 2 over the credit risk amount and subordinated loans with nominal amounts are taken into consideration as Tier II Capital. On the other hand, in the calculation of the Total Capital, improvement costs for operating leases followed under tangible assets in the balance sheet, intangible assets and related deferred tax liabilities, net book value of immovables that are acquired against overdue receivables and retained more than five years, other items defined by the regulator are taken into consideration as amounts deducted from Total Capital.

	Balance Sheet Value	Adjustment Effect	Value in capital calculation form
Paid-in capital	1.750.000	-	1.750.000
Portion of the current and prior periods’ losses which cannot be covered through reserves and losses reflected in equity in accordance with TAS	-	(38.639)	(38.639)
Accumulated revaluation and/or remeasurement gain/loss of the financial assets at fair value through other comprehensive income	(38.334)	38.639	305
Profit reserves	158.593	-	158.593
Profit or loss	348.325	-	348.325
Prior Periods’ Income or (Loss)	25.660	-	25.660
Profit or loss for the current period	322.665	-	322.665
Deductions from capital	-	(100.532)	(100.532)
Common Equity Tier 1 Capital	-	-	2.118.052
Tier 1 Capital	-	-	2.118.052
General provisions	-	47.962	47.962
Debt instruments and share issue premiums deemed suitable by the BRSA ^(*)	-	-	-
Tier II Capital	-	47.962	47.962
Deductions to be defined by the BRSA (-)	-	1.075	1.075
Total Capital	2.218.584	-	2.164.939

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2018**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

**EXPLANATIONS RELATED TO THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE
BANK (Continued)**

II. EXPLANATIONS ON CREDIT RISK

The Credit risk states the debtor or institution’s probability of loss which may decrease in credit standing partially or completely and prevent the requirements of the engagement liabilities on the time due to any reason.

Loan allocation authorization belongs to Board of Directors however relying on the authorization given by the Board of Directors, limits of credit customers determined within the scope of General Management’s Credit Committee and the authorization limits which was given by Board of Directors, Financial and non-financial informations, credit needs, sectoral and identical features which belongs to credit customers evaluates accordingly allocate the limits.

With regards to the credit risk, the debtor or the group of debtors is subjected to risk limitation. Debtors and debtor groups are monitored weekly within the scope of risk limitation appetite.

The limits which is identified as related credit portfolio approved by the Board of Directors and revised when required. The identified limits will be distributed by considering the factors like portfolio structure, potentials of the customers and credit, regional and sectoral characteristics, competencies of the personnel.

After the allocation of limit within the commercial portfolios, firms are continued to be monitored and the changes in the financial structures and market relations of the credit firms are followed.

Documents required to be received are clearly stated by the regulations in the application of funds and limit allocation, and these topic documents are evidently mentioned in regularity that received or not received which is controlled by audit departments. The Bank considers guarantees as important in minimization and elimination of the risk. As a result of policies and process based on obtaining reliable and good security, the Bank’s credit risk expected to be significantly decline.

Bank applies internal ratings processes as a decision support system for analyzing credit standing and determining credit allocation for Corporate/Entrepreneur consumer loans.

The Bank makes provision as proposed with the “Communiqué on Methods and Principles for Determining the Nature of Loans and Other Receivables and Allocation of Provisions”.

Identification of limits for domestic and foreign banks provide allocation which is determined by considering the needs of both clients and departments, with financial and economic conditions of the banks and their countries.

Treasury operations are executed in the frame of pre-determined authorization and limits, these authorization and limits are executed by monitory transactions.

The Bank calculate specific provisions which is classified as an illiquid claim considering with related deposits received from customers as stated in “Methods and Principles for the Determination of Loans and other Receivables to be Reserved for and Allocation for Reserves”.

The receivable of the Parent Bank from its top 100 and 200 cash loan customers share in total cash loans ratio is %55,17 and %65,14 (31 December 2017: %50,43 and %60,57).

The receivable of the Parent Bank from its top 100 and 200 non-cash loan customers share in total non-cash loans ratio is 59,75% and %72,39 (31 December 2017: %56,73 and %71,10).

The receivable of the Parent Bank from its top 100 and 200 cash and non-cash receivables loan customers share in total cash and non-cash receivables loans ratio is %56,85 and %67,80 (31 December 2017: %41,28 and %52,90).

The Banks general loan loss provision amount for its credit risk is TL 84.621 (31 December 2017: TL 99.082).

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS OF 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

EXPLANATIONS RELATED TO THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

II. EXPLANATIONS ON CREDIT RISK (Continued)

	Conditional and unconditional receivables from central governments or central banks	Conditional and unconditional receivables from regional or local governments	Conditional and unconditional receivables from administrative units and non-commercial enterprises	Conditional and unconditional receivables from multilateral development banks	Conditional and unconditional receivables from international organizations	Conditional and unconditional receivables from banks and brokerage houses	Conditional and unconditional corporate receivables	Conditional and unconditional retail receivables	Conditional and unconditional receivables secured by mortgages	Past due receivables	Receivables defined in high risk category by BRSA	Securities collateralized by mortgages	Securitization positions	Short-term receivables from banks, brokerage houses and corporates	Investments similar to collective investment funds	Other receivables	Total
Current Period																	
Domestic	2.612.856	-	7.997	-	-	2.218.083	14.191.836	1.376.029	1.935.066	91.375	-	-	-	-	-	116.555	22.549.797
European Union Countries	-	-	-	-	-	115.275	-	-	-	-	-	-	-	-	-	-	115.275
OECD Countries ⁽¹⁾	-	-	-	-	-	1.281	-	-	-	-	-	-	-	-	-	-	1.281
Off-shore Banking Regions	-	-	-	-	-	63	-	-	-	-	-	-	-	-	-	-	63
USA, Canada	-	-	-	-	-	43.985	-	-	-	-	-	-	-	-	-	-	43.985
Other Countries	-	-	-	-	-	12.215	4.329	-	-	-	30.164	-	-	-	-	-	46.708
Subsidiaries, Associates and Joint Ventures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unallocated Assets/Liabilities ⁽²⁾	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	2.612.856		7.997			2.390.902	14.196.165	1.376.029	1.935.066	91.375	30.164					116.555	22.757.109

	Conditional and unconditional receivables from central governments or central banks	Conditional and unconditional receivables from regional or local governments	Conditional and unconditional receivables from administrative units and non-commercial enterprises	Conditional and unconditional receivables from multilateral development banks	Conditional and unconditional receivables from international organizations	Conditional and unconditional receivables from banks and brokerage houses	Conditional and unconditional corporate receivables	Conditional and unconditional retail receivables	Conditional and unconditional receivables secured by mortgages	Past due receivables	Receivables defined in high risk category by BRSA	Securities collateralized by mortgages	Securitization positions	Short-term receivables from banks, brokerage houses and corporates	Investments similar to collective investment funds	Other receivables	Total
Prior Period																	
Domestic	2.178.097	-	84.658	-	-	1.270.572	8.382.582	1.033.272	1.294.917	7.793	2.027	-	-	-	-	103.064	14.356.982
European Union Countries	-	-	-	-	-	58.927	-	-	-	-	-	-	-	-	-	-	58.927
OECD Countries ⁽¹⁾	-	-	-	-	-	750	-	-	-	-	-	-	-	-	-	-	750
Off-shore Banking Regions	-	-	-	-	-	3	-	-	-	-	-	-	-	-	-	-	3
USA, Canada	-	-	-	-	-	3.983	-	-	-	-	-	-	-	-	-	-	3.983
Other Countries	-	-	-	-	-	76.780	-	-	-	-	-	-	-	-	-	-	76.780
Subsidiaries, Associates and Joint Ventures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unallocated Assets/Liabilities ⁽²⁾	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	2.178.097		84.658			1.411.015	8.382.582	1.033.272	1.294.917	7.793	2.027					103.064	14.497.425

Prepared with the amounts after conversion rate to credit and before Credit Risk Reduction.

(1) OECD Countries other than EU countries, USA and Canada.

(2) Consists of assets and liabilities that cannot be distributed according to a consistent framework.

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS OF 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL").)

EXPLANATIONS RELATED TO THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

II. EXPLANATIONS ON CREDIT RISK(Continued)

Risk Profile by Sectors or Counterparties

Current Period	Risk Classes										Receivables defined in high risk category by BRSA	Securities collateralized by mortgages	Securitization positions	Short-term from banks, brokerage houses and corporates	Investments similar to collective investment funds	Other receivables	TL	FC	Total
	Conditional and unconditional receivables from central governments or central banks	Conditional and unconditional receivables from regional or local governments	Conditional and unconditional receivables from administrative units and non-commercial enterprises	Conditional and unconditional receivables from multilateral development banks	Conditional and unconditional receivables from international organizations	Conditional and unconditional receivables from banks and brokerage houses	Conditional and unconditional corporate receivables	Conditional and unconditional retail receivables	Conditional and unconditional receivables secured by mortgages	Past due receivables									
Sectors/Counter Parties																			
Agriculture	-	-	-	-	-	-	167.816	13.926	5.274	600	-	-	-	-	-	-	161.742	25.874	187.616
Farming and Stockbreeding	-	-	-	-	-	-	165.848	9.989	4.824	600	-	-	-	-	-	-	155.657	25.604	181.261
Forestry	-	-	-	-	-	-	1.968	3.356	-	-	-	-	-	-	-	-	5.054	270	5.324
Fishing	-	-	-	-	-	-	-	581	450	-	-	-	-	-	-	-	1.031	-	1.031
Manufacturing	-	-	-	-	-	-	6.709.315	386.972	236.014	11.713	-	-	-	-	-	-	2.283.557	5.060.457	7.344.014
Mining and Quarrying	-	-	-	-	-	-	228.911	10.291	2.779	-	-	-	-	-	-	-	42.759	199.222	241.981
Production	-	-	-	-	-	-	6.074.635	369.755	220.762	11.713	-	-	-	-	-	-	1.965.012	4.711.853	6.676.865
Electric, Gas and Water	-	-	-	-	-	-	405.769	6.926	12.473	-	-	-	-	-	-	-	275.786	149.382	425.168
Construction	-	-	-	-	-	-	2.999.326	168.416	489.634	29.073	-	-	-	-	-	-	2.403.786	1.282.663	3.686.449
Services	2.612.856	-	7.997	-	-	-	2.390.902	4.236.792	549.707	49.806	30.164	-	-	-	-	-	5.526.159	4.713.411	10.239.570
Wholesale and Retail Trade	-	-	-	-	-	-	2.422.604	427.177	184.752	23.275	-	-	-	-	-	-	1.831.224	1.226.584	3.057.808
Hotel Food and Beverage Services	-	-	-	-	-	-	75.722	13.351	15.881	81	-	-	-	-	-	-	36.189	68.846	105.035
Transportation and Telecommunication	-	-	-	-	-	-	415.185	22.146	4.885	198	-	-	-	-	-	-	111.292	331.122	442.414
Financial Institutions	2.612.856	-	2.824	-	-	-	2.390.902	330.671	2.710	-	30.164	-	-	-	-	-	2.915.941	2.454.186	5.370.127
Real Estate and Leasing Services	-	-	-	-	-	-	774.680	66.859	115.970	23.584	-	-	-	-	-	-	503.080	478.013	981.093
Self-Employment Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Education Services	-	-	-	-	-	-	24.110	4.843	32.941	1.992	-	-	-	-	-	-	49.147	14.739	63.886
Health and Social Services	-	-	5.173	-	-	-	193.820	12.621	6.917	676	-	-	-	-	-	-	79.286	139.921	219.207
Other	-	-	-	-	-	-	82.916	257.008	842.798	183	-	-	-	-	-	-	116.555	1.113.426	1.299.460
Total	2.612.856	-	7.997	-	-	-	2.390.902	14.196.165	1.376.029	1.935.066	91.375	30.164	-	-	-	-	116.555	11.488.670	11.268.439

Prepared with the amounts after conversion rate to credit and before Credit Risk Reduction.

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS OF 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

EXPLANATIONS RELATED TO THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

III. EXPLANATIONS ON CREDIT RISK(Continued)

Risk Profile by Sectors or Counterparties

Prior Period	Risk Classes																	
	Conditional and unconditional receivables from central governments or central banks	Conditional and unconditional receivables from regional governments or local governments	Conditional and unconditional receivables from administrative units and non-commercial enterprises	Conditional and unconditional receivables from multilateral development banks	Conditional and unconditional receivables from international organizations	Conditional and unconditional receivables from banks and brokerage houses	Conditional and unconditional corporate receivables	Conditional and unconditional retail receivables	Conditional and unconditional receivables secured by mortgages	Past due receivables	Receivables defined in high risk category by BRSA	Securities collateralized by mortgages	Securitization positions	Short-term from banks, brokerage houses and corporates	Investments similar to collective investment funds	Other receivables	TL	FC
Sectors/Counter Parties																		
Agriculture	-	-	-	-	-	-	79.855	11.587	5.767	-	-	-	-	-	-	-	80.833	16.376
Farming and Stockbreeding	-	-	-	-	-	-	77.031	7.439	5.542	-	-	-	-	-	-	-	73.636	16.376
Forestry	-	-	-	-	-	-	1.418	4.148	-	-	-	-	-	-	-	-	5.566	-
Fishing	-	-	-	-	-	-	1.406	0	225	-	-	-	-	-	-	-	1.631	-
Manufacturing	-	-	-	-	-	-	3.447.915	260.712	127.328	47	229	-	-	-	-	-	1.739.873	2.096.358
Mining and Quarrying	-	-	-	-	-	-	91.600	3.122	-	-	-	-	-	-	-	-	45.244	49.478
Production	-	-	-	-	-	-	3.212.657	256.586	122.465	47	229	-	-	-	-	-	1.547.561	2.044.423
Electric, Gas and Water	-	-	-	-	-	-	143.658	1.004	4.863	-	-	-	-	-	-	-	147.068	2.457
Construction	-	-	-	-	-	-	1.946.310	102.837	329.227	2.534	205	-	-	-	-	-	1.973.162	407.951
Services	2.178.097	-	82.903	-	-	1.411.015	2.827.739	424.957	242.649	5.212	1.432	-	-	-	-	-	4.977.304	2.196.700
Wholesale and Retail Trade	-	-	-	-	-	-	1.716.082	324.489	111.785	5.212	1.432	-	-	-	-	-	1.864.225	294.775
Hotel Food and Beverage Services	-	-	-	-	-	-	25.548	11.493	8.209	-	-	-	-	-	-	-	32.992	12.258
Transportation and Telecommunication	-	-	-	-	-	-	74.349	21.148	798	-	-	-	-	-	-	-	95.713	582
Financial Institutions	2.178.097	-	82.900	-	-	1.411.015	185.623	884	-	-	-	-	-	-	-	-	2.203.350	1.655.169
Real Estate and Leasing Services	-	-	-	-	-	-	701.029	59.107	109.863	-	-	-	-	-	-	-	723.955	146.044
Self-Employment Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Education Services	-	-	-	-	-	-	29.830	3.250	11.659	-	-	-	-	-	-	-	37.271	7.468
Health and Social Services	-	-	3	-	-	-	95.278	4.586	335	-	-	-	-	-	-	-	19.798	80.404
Other	-	-	1.755	-	-	-	80.762	233.179	589.946	-	162	-	-	-	-	-	103.064	955.904
Total	2.178.097	-	84.658	-	-	1.411.015	8.382.581	1.033.272	1.294.917	7.793	2.028	-	-	-	-	-	103.064	9.727.076
																	4.770.350	14.497.425

Prepared with the amounts after conversion rate to credit and before Credit Risk Reduction.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2018**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

EXPLANATIONS RELATED TO THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

II. EXPLANATIONS ON CREDIT RISK (Continued)

Analysis of maturity-bearing exposures according to remaining maturities:

	Term to Maturity				
	1 Month	1-3 Months	3-6 Months	6-12 Months	Over 1 Year
Exposure Classifications					
Conditional and unconditional exposures to central governments or central banks	1.385.243	3.469	78.412	-	1.145.732
Conditional and unconditional exposures to regional governments or local authorities	-	-	-	-	-
Conditional and unconditional receivables from administrative units and non-commercial enterprises	-	-	32	496	7.469
Conditional and unconditional exposures to multilateral development banks	-	-	-	-	-
Conditional and unconditional exposures to international organizations	-	-	-	-	-
Conditional and unconditional exposures to banks and brokerage houses	2.375.853	-	-	4.566	10.483
Conditional and unconditional exposures to corporates	507.586	1.540.540	2.312.046	3.474.044	6.361.949
Conditional and unconditional retail exposures	64.318	98.155	203.851	320.058	689.647
Conditional and unconditional exposures secured by real estate property	21.654	27.026	75.019	154.802	1.656.565
Past due receivables	91.375	-	-	-	-
Receivables defined in high risk category by BRSA	30.164	-	-	-	-
Exposures in the form of bonds secured by mortgages	-	-	-	-	-
Securitization Positions	-	-	-	-	-
Short term exposures to banks, brokerage houses and corporates	-	-	-	-	-
Exposures in the form of collective investment undertakings	116.555	-	-	-	-
Grand Total	4.592.748	1.669.190	2.669.360	3.953.966	9.871.845

Prepared with the amounts after conversion rate to credit and before Credit Risk Reduction.

Grades of Fitch Ratings International Rating Agency are used in determining risk weights for risk classes being used rating grade of risk classes indicated in article 6 of Communiqué on "Measurement and Assessment of Capital Adequacy of Banks". Additionally, grades of Fitch Ratings International Rating Agency were used for receivables from central government and central bank of our country and counter parties abroad. Counter parties resident are accepted as “gradeless” and take risk weight suited for “gradeless” category in relevant risk class.

Rating Scores are used in the following risk classes;

1. Receivables from Central Governments or Central Banks
2. Receivables from Regional Governments or Local Authorities
3. Receivables from Administrative Units and Non-commercial Enterprises
4. Receivables from Banks and Brokerage Houses

While credit quality level grade given by Fitch Ratings International Rating Agency decreases to 3, grades using in risk class of receivables from banks and intermediary institutions matched with all credit quality levels from 1 to 6 in risk classes of receivables from central governments or central banks, receivables from regional governments or local authorities and receivables from administrative units and non-commercial enterprises.

For determination of risk weight regarding items that export or issuer rating not included to purchase/sale accounts is firstly considered to export rating, and also issuer’s credit rating is considered in the absence of export rating.

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

EXPLANATIONS RELATED TO THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

II. EXPLANATIONS ON CREDIT RISK (Continued)

Exposures by risk weights:

	Risk Weights	0%	10%	20%	35%	50%	75%	100%	150%	200%	250%	1250%	Deductions from Equity
1	Exposures before Credit Risk Mitigation	2.539.811	-	2.491.245	995.131	2.196.952	1.373.343	14.117.461	30.164	-	-	-	98.804
2	Exposures after Credit Risk Mitigation	3.342.825	-	2.586.240	995.131	2.544.166	1.086.051	13.159.528	30.164	-	-	-	98.804

Prepared with the numbers after conversion rate to credit.

Information on Significant Sectors or Counterparty Based:

Impaired Credits; are the credits that were deemed to be impaired because of the credibility or delaying more than 90 days as of the end of the reporting period. For these credits “Expected Credit Loss” calculation is made within the scope of Regulation on Provisions.

Past Due Credits; are the credits whose maturity delayed up to 90 days as of the end of the reporting period but not incurred to impairment for these credits “Expected Credit Loss” calculation is made within the scope of Regulation for Provisions.

	Loans			Expected Credit Losses (Stage 2 and Stage 3)
	Impaired (TFRS9)		Non performing (Provision Regulation)	
	Significant increase in credit risk (Stage 2)	Defaulted (Stage 3)		
Current period				
Agriculture	16.025	4.643	-	2.741
Farming and raising livestock	11.934	2.728	-	1.641
Forestry	3.728	1.424	-	878
Fishing	363	491	-	222
Manufacturing	477.252	109.173	-	79.109
Mining	186.234	1.066	-	508
Production	291.018	108.107	-	78.598
Electricity, gas, water	-	-	-	3
Construction	303.739	31.225	-	22.270
Services	270.537	93.626	-	63.108
Wholesale and retail trade	186.712	47.732	-	36.510
Hotel food, beverage services	17.881	11	-	11
Transportation and telecommunication	25.399	27.351	-	13.772
Financial institutions	-	-	-	-
Real estate and lending service	39.819	14.704	-	11.092
Self-employment service	-	-	-	-
Education service	-	3.828	-	-
Health and social services	726	-	-	1.723
Other	8.168	1.493	-	8.187
Total	1.075.721	240.160	-	175.415

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

EXPLANATIONS RELATED TO THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

II. EXPLANATIONS ON CREDIT RISK (Continued)

	Loans			
	Impaired Credits	Past Due Credits	Value Adjustments	Provisions
Agriculture				
Farming and Stockbreeding	-	-	-	-
Forestry	-	-	-	-
Fishery	-	-	-	-
Manufacturing	9.718	17.308	346	5.453
Mining and Quarrying	-	1.304	26	-
Production	9.718	16.004	320	5.453
Electricity, Gas and Water	-	-	-	-
Construction	5.214	10.393	208	2.023
Services	12.800	8.041	161	8.607
Wholesale and Retail Trade	12.800	5.795	116	8.607
Accommodation and Dining	-	2.246	45	-
Transportation and Telecom.	-	-	-	-
Financial Institutions	-	-	-	-
Real Estate and Rental Services	-	-	-	-
Professional Services	-	-	-	-
Educational Services	-	-	-	-
Health and Social Services	-	-	-	-
Other	7.109	2.107	142	2.005
Total	34.841	37.849	857	18.088

Information about Value Adjustment and Change in Provisions:

		Opening Balance	Provision for Period	Provision Reversals	Other Adjustments	Closing Balance
1	Stage 3 Provisions	20.546	105.347	(2.115)	-	123.778
2	Stage 1 and 2 Provisions	33.964	71.272	(20.615)	-	84.621

The table below shows the maximum exposure to credit risk for the components of the financial statements. The table below shows the maximum exposure to credit risk for the components of the financial statements.

	Current Period
Financial Assets at Fair Value Through Profit/Loss	56
Banks	787.671
Interbank Money Market Placements	-
Financial Assets Measured at Fair Value Through Other Comprehensive Income	1.299.465
Financial Assets Measured at Amortised Cost	-
Loans	17.035.591
Receivables From Leasing Transactions	703.834
Other Assets	-
Total credit risk exposure of balance sheet items	19.826.617
Financial Guarantees	10.283.442
Commitments	358.815
Total credit risk exposure of off-balance sheet items	10.642.257
Total credit risk exposure	30.468.874

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

EXPLANATIONS RELATED TO THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

II. EXPLANATIONS ON CREDIT RISK (Continued)

	Prior Period
Financial Assets at Fair Value Through Profit/Loss	37
Banks	278.581
Interbank Money Market Placements	-
Available-for-sale Financial Assets	519.454
Held-to-maturity Investments	-
Loans	11.374.744
Receivables From Leasing Transactions	372.944
Other Assets	-
Total credit risk exposure of balance sheet items	12.545.760
Financial Guarantees	6.111.538
Commitments	132.756
Total credit risk exposure of off-balance sheet items	6.244.294
Total credit risk exposure	18.790.054

Information about credit quality per class of financial assets:

	Current Period		
Financial Assets	Neither past due nor impaired	Past due but not impaired	Total
Banks	787.671	-	787.671
Derivative Financial Assets	56	-	56
Loans	15.928.109	1.075.721	17.003.830
Corporate/Entrepreneurial Loans	14.319.501	1.069.764	15.389.265
Consumer Loans	1.608.608	5.957	1.614.565
Specialized Loans	-	-	-
Financial Assets Measured at Fair Value Through Other Comprehensive Income	1.299.465	-	1.299.465
Financial Assets at Fair Value Through Profit/Loss	-	-	-

	Prior Period		
Financial Assets	Neither past due nor impaired	Past due but not impaired	Total
Banks	278.581	-	278.581
Financial Assets at Fair Value Through Profit or Loss	37	-	37
Loans	11.318.542	39.449	11.357.991
Corporate/Entrepreneurial Loans	9.952.953	37.565	9.990.518
Consumer Loans	1.365.589	1.884	1.367.473
Specialized Loans	-	-	-
Available-for-sale Financial Assets	519.454	-	519.454
Held-to-maturity Investments	-	-	-

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2018**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

III. EXPLANATIONS ON COUNTER-CYCLICAL CAPITAL BUFFER CALCULATIONS RISK

According to the Board resolution of BRSA, the transactions made between the banks are not involved to the counter-cyclical buffer ratio calculation. Within this scope as of 31 December 2018 the Bank does not have any receivables from abroad apart from the Banks, however the Bank discretely uses the uppermost ratio determined by BRSA, which is 0%. The geographical distribution of receivables from the private sector taken into account in the calculation of the bank-specific counter-cyclical capital buffer is described in the following table:

Country name	RWA for banking accounts	RWA for trading accounts	TOTAL
Saudi Arabia	868	-	868

IV. EXPLANATIONS ON THE CONSOLIDATED CURRENCY RISK

- a) **Whether the Parent Bank is exposed to foreign currency risk, whether the effects of this matter are estimated, whether limits for the daily followed positions are determined by the Board of Directors**

The Parent Bank’s policy is to avoid carrying significant position by means of foreign currency management. Therefore, the Bank is not exposed to significant currency risks. Risks are monitored by the currency risk tables prepared based on the standard method. Besides, “Value at Risk” (“VAR”) is calculated for daily foreign exchange position and reported to the related departments. VAR based currency risk limit is also followed which was approved by Board of Directors.

Moreover, dealer’s positions and limits for foreign exchange transactions are under the authorization of the Board of Directors.

- b) **Hedge against foreign exchange debt instruments and net foreign exchange investments by hedging derivative instruments, if material:**

None.

- c) **Foreign currency risk policy:**

“Liquidity Gap Analysis”, “Repricing Gap Analysis” and “Structural Liquidity Gap Analysis” which takes into account historical repricing rates of foreign currency accounts, are prepared periodically in order to define liquidity and interest rate risks at USD and Euro, which are mainly used by the Parent Bank in its operations. Also, daily VAR analysis for following the currency risk and within the context of legal reporting, Foreign Currency Net General Position/Shareholders’ Equity Ratio and Foreign Currency Liquidity Position are also monitored regularly.

- ç) **Current foreign exchange bid rates of the Parent Bank for the last 5 business days prior to the financial statement date:**

	USD	EUR	AUD	DKK	SEK	CHF	CAD	NOK	GBP	SAR	100Yen
25.12.2018	5,2800	5,9968	3,7037	0,8021	0,5780	5,3275	3,8461	0,5986	6,6953	1,3966	4,7410
26.12.2018	5,2713	5,9995	3,7002	0,7996	0,5759	5,3004	3,8369	0,5947	6,6695	1,3944	4,7480
27.12.2018	5,2822	6,0305	3,6969	0,8040	0,5826	5,3514	3,8325	0,5978	6,6660	1,3973	4,7220
28.12.2018	5,2538	6,0137	3,6843	0,8016	0,5836	5,3470	3,8133	0,6013	6,6495	1,3898	4,7160
31.12.2018	5,2780	6,0320	3,7008	0,8040	0,5867	5,3379	3,8309	0,6035	6,7408	1,3964	4,7480

- d) **Simple arithmetic average of the Parent Bank’s current foreign exchange bid rates for the last 30 days prior to the balance sheet date:**

USD	EUR	AUD	DKK	SEK	CHF	CAD	NOK	GBP	SAR	100 Yen
5,2980	6,0268	3,7787	0,8036	0,5833	5,3314	3,9042	0,6106	6,7017	1,4015	4,6771

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

EXPLANATIONS RELATED TO THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

IV. EXPLANATIONS ON THE CONSOLIDATED CURRENCY RISK (Continued)

Information on the foreign currency risk of the Group:

	EUR	USD	Other FC ^(****)	Total
Current Period				
Assets				
Cash (Cash in vault, effectives, money in transit, cheques purchased) and balances with Central Bank of the Republic of Turkey	375.385	1.016.488	281.630	1.673.503
Banks	595.833	56.725	130.178	782.736
Financial assets at fair value through profit and loss ^(***)	-	-	-	-
Money market placements	-	-	-	-
Financial assets at fair value through other comprehensive income	121.017	-	-	121.017
Loans ^(*)	4.203.443	2.205.580	-	6.409.023
Equity Investments	-	-	-	-
Financial assets measured at amortised cost	-	-	-	-
Derivative financial assets for hedging purposes	-	-	-	-
Tangible fixed assets (net)	-	-	-	-
Intangible assets (net)	-	-	-	-
Other assets	60	477	2.154	2.691
Total assets (***)	5.295.738	3.279.270	413.962	8.988.970
Liabilities				
Current account and funds collected from Banks via participation accounts	300	5.608	-	5.908
Current and profit sharing accounts FC	2.840.290	3.649.523	406.829	6.896.642
Money market borrowings	-	-	-	-
Funds provided from other financial institutions	1.168.844	801.285	-	1.970.129
Marketable securities issued	-	-	-	-
Derivative financial liabilities for hedging purposes	-	-	-	-
Other liabilities	28.957	17.607	-	46.564
Total liabilities (***)	4.038.391	4.474.023	406.829	8.919.243
Net balance sheet position	1.224.053	(1.200.055)	7.133	31.131
Net off-balance sheet position ^(**)	(1.232.487)	1.242.597	-	10.110
Financial derivative assets	-	1.242.597	-	1.242.597
Financial derivative liabilities	(1.232.487)	-	-	(1.232.487)
Non-cash loans	3.145.078	2.996.581	71.542	6.213.201
Prior Period				
Total assets	2.527.292	2.684.690	158.015	5.369.997
Total liabilities	1.881.951	3.284.917	154.986	5.321.854
Net balance sheet position	645.341	(600.227)	3.029	48.143
Net off-balance sheet position	(634.634)	629.444	-	(5.190)
Financial derivative assets	-	629.444	-	629.444
Financial derivative liabilities	634.634	-	-	634.634
Non-cash loans	1.604.487	1.294.816	38.860	2.938.163

^(*) TL 377.117 equivalent of USD loans, and TL 858.024 equivalent of EUR loans are originated from foreign currency indexed loans and financial leasing.

^(**) Indicates the net balance of receivables and payables on derivative financial instruments.

^(***) In accordance with the principles of the “Regulation on Measurement and Practices of Banks’ Net Overall FC Position / Shareholders’ Equity Ratio on a Consolidated and Unconsolidated Basis”, Foreign Currency Expense Accruals of Derivative Financial Assets TL 56 and Derivative Financial Liabilities TL 6.145 are not included.

^(****) Of the foreign currencies presented in the other foreign currency column of assets 94% is Gold, 2% is GBP and remaining 2% is other foreign currencies. Of the foreign currencies presented in the other foreign currency column of liabilities 96% is Gold, 2% is GBP and the remaining 2% is other foreign currencies.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2018**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

EXPLANATIONS RELATED TO THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

V. EQUITY SHARE POSITION RISK ORIGINATED FROM BANKING ACCOUNTS

Carrying value of share investments, for fair value and quoted securities, comparison with market value if market value is significantly different from fair value:

The breakdown of the amount of capital liabilities on the basis of the relevant share investments, depending on the method of calculating the capital obligation selected by the bank from among the approaches allowed to be used in the Communiqué on Credit Risk Standard Method or Communiqué Related to Calculation of Credit Risk Based Approach Based on Internal Grading:

According to the standard method of credit risk, equity investments in banking accounts are TL 7.897 all of which are 100% risk weighted (31 December 2017: TL 7.181).

VI. EXPLANATIONS RELATED TO CONSOLIDATED LIQUIDITY RISK MANAGEMENT AND LIQUIDITY COVERAGE RATIO

General principles of liquidity and financial emergency situation management and the related application procedures are considered in the scope of “Regulation for Liquidity Risk and Liquidity and Financial Emergency Situation Management”.

Generally participation accounts concentration weighted for 1 month in both banking and participation banking sectors, collecting funds are longer than maturity perceived as an element of risk, in order to reduce the risk, attention showed to the liquidity of maturity group which is due for one month.

The Parent Bank performs “Remaining Maturity Analysis” for the observation of the maturity structure of the balance sheet, “Liquidity Gap” and “Structural Liquidity Gap Analysis” for the monitoring of the liquidity and between periods and Liquidity Stress Test for the evaluation of the Bank’s liquidity and in the worst case scenario and the loss associated with it. Besides, in order to compare the Bank’s level of liquidity risk with the sector, average remaining maturity balances of Bank-Sector and legal liquidity rates are monitored.

The Bank calculates and reports the liquidity adequacy ratio to BRSA weekly on unconsolidated basis and monthly on consolidated basis in accordance with “Regulation for Regulation on Banks’ Liquidity Coverage Ratio Calculation” issued in Official Gazette numbered 28948 and dated 21 March 2014. The liquidity coverage of the Bank is over the limit values specified in the mentioned regulation.

Also on the purpose of the liquidity risk management, risk limits and threshold determined as a part of risk appetite and daily monitored.

1) LIQUIDITY RISK:

a) Basis for the current liquidity risk of the Bank and whether the necessary measures taken, limitations imposed by the Bank’s Board of Directors on fund sources that can be used in payment of matured debts and can meet the immediate liquidity need:

The Parent Bank’s fund resources consist of mainly participation funds. The bank is gathering funds in the name of participation accounts that the principal and predetermined yield are not guaranteed to paid back to the holder of account, and participation rates to profit or loss that results from funds to be operated are reflected to the related accounts.

The Parent Bank, TL and FC liquidity meets its needs mostly from the funds collected, internal and external sources that can be used in an emergencies in order to meet the liquidity requirements are monitored periodically, borrowing limits of the markets organized by the Bank and other banks, liquidity levels that can be met. The Bank manages liquidity risk within the regulations of Liquidity Risk and Liquidity and Financial Emergency Management.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2018**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

EXPLANATIONS RELATED TO THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

VI. EXPLANATIONS RELATED TO CONSOLIDATED LIQUIDITY RISK MANAGEMENT AND LIQUIDITY COVERAGE RATIO (Continued)

- b) Payments, whether assets and liabilities are compatible with the rate of profit, whether the measurement of the probable effects of the actual inconsistency on profitability is done or not:**

Payments, assets and liabilities and profit rates are monitored regularly by the management to track whether it is compatible or not and there is no dissonance whatsoever.

- c) The banks internal and external sources to meet the short and long-term liquidity needs, unused significant liquidity sources:**

Although Bank’s assets average maturity is longer than collected funds, most of the securities, available for sale and held to maturity, make periodic coupon payment which is no longer than six months and monthly credit receivables payments provide cash flow to the Bank.

- ç) Evaluation of the banks cash flow rates and its sources:**

The Parent Bank’s main source is the participation funds, these funds are evaluated at other participation banks and loan placements. The banks most important cash inflows are receivables from banks and financial institutions and regular cash inflows from these institutions are seen as a factor that reduce the liquidity risk. Also monthly installment payments for loans are used to meet the Bank’s resource needs.

2) Liquidity Coverage Ratio:

Liquidity coverage ratio, established in order to hold and provide premium liquidity asset stock which is adequately fulfill the banks’ net cash outflow, calculated within the scope of “Calculation of The Liquidity Coverage Ratio” regulation that was published by BRSA. Liquidity coverage ratio directly affected by Bank’s asset, liability and potential cash inflow and outflow which is derived from off-balance sheet transactions with the level of liquid assets that can be realizable at any time and not mentioned to any collaterals.

The Parent Bank’s premium liquidity asset stock; consists of debt securities which is not subjected to any collateral or repurchase agreement transaction and basically export from the Republic of Turkey’s Treasury along with cash assets and care of Central Bank of the Republic of Turkey’s accounts.

The Parent Bank’s principal funding source represented by participation funds. Repurchase agreement transaction provided by funds and debts which comes from financial institutions take a part within the external participation fund debt items.

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL").)

EXPLANATIONS RELATED TO THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

VI. EXPLANATIONS RELATED TO CONSOLIDATED LIQUIDITY RISK MANAGEMENT AND LIQUIDITY COVERAGE RATIO (Continued)

2) Liquidity Coverage Ratio (Continued):

Managing liquidity risk effectively can be possible with preventing the concentrated liquidity asset and liability items. Participation fund, constitutes Bank's main fund source, is provided from numerous customers.

Derivative transactions are included in calculation of the liquidity coverage ratio over the cash flows within the 30 day basis time slots.

Current Period	Consideration Ratio Not Applied Total Value (*)		Consideration Ratio Applied Total Value (*)	
	TL+FC	FC	TL+FC	FC
HIGH QUALITY LIQUID ASSETS	2.811.586	1.600.247	2.811.586	1.600.247
High quality liquid assets	-	-	2.811.586	1.600.247
CASH OUTFLOWS	22.228.336	10.520.373	5.710.025	3.129.897
Real person deposits and retail deposits	7.500.634	3.492.136	684.961	349.214
Stable deposit	1.302.045	-	65.102	-
Deposit with low stability	6.198.589	3.492.136	619.859	349.214
Unsecured debts except real person deposits and retail deposits	7.055.132	3.537.075	3.904.431	1.904.188
Operational deposit	-	-	-	-
Non-operating deposits	-	-	-	-
Other unsecured debts	7.055.132	3.537.075	3.904.431	1.904.188
Secured debts	-	-	-	-
Other cash outflows	7.672.570	3.491.162	1.120.633	876.495
Derivative liabilities and margin obligations	682.458	653.705	682.458	653.705
Debt from structured financial instruments	-	-	-	-
Other off-balance sheet liabilities and commitments for the payment owed to financial markets	346.475	323.667	105.993	97.100
Revocable off-balance sheet obligations regardless of any other requirement and other contractual obligations	-	-	-	-
Other irrevocable or provisory revocable off-balance sheet liabilities	6.643.637	2.513.790	332.182	125.690
TOTAL CASH OUTFLOW	-	-	5.710.025	3.129.897
CASH INFLOWS	4.356.139	2.131.504	3.535.259	2.005.171
Secured receivables	-	-	-	-
Unsecured claims	3.667.131	1.458.629	2.846.250	1.332.297
Other cash inflows	689.008	672.874	689.008	672.874
TOTAL CASH INFLOWS	4.356.139	2.131.503	3.535.258	2.005.171
Applied maximum rate values	-	-	-	-
TOTAL HIGH QUALITY LIQUID ASSET STOCK	-	-	2.811.587	1.600.246
TOTAL NET CASH OUTFLOWS	-	-	2.174.767	1.124.726
LIQUIDITY COVERAGE RATIO (%)	-	-	129	142

(*) The monthly simple arithmetic average calculated liquidity coverage ratio of the last three months average

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

EXPLANATIONS RELATED TO THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

VI. EXPLANATIONS RELATED TO CONSOLIDATED LIQUIDITY RISK MANAGEMENT AND LIQUIDITY COVERAGE RATIO (Continued)

2) Liquidity Coverage Ratio (Continued):

Prior Period	Consideration Ratio Not Applied Total Value (*)		Consideration Ratio Applied Total Value (*)	
	TL+FC	FC	TL+FC	FC
HIGH QUALITY LIQUID ASSETS	2.018.345	1.283.032	2.018.345	1.283.032
High quality liquid assets	-	-	2.018.345	1.283.032
CASH OUTFLOWS	13.514.181	5.333.357	3.430.342	1.768.038
Real person deposits and retail deposits	4.591.572	1.821.619	420.669	182.162
Stable deposit	769.765	-	38.488	-
Deposit with low stability	3.821.807	1.821.619	382.181	182.162
Unsecured debts except real person deposits and retail deposits	4.153.603	1.651.717	2.238.483	966.394
Operational deposit	-	-	-	-
Non-operating deposits	-	-	-	-
Other unsecured debts	4.153.603	1.651.717	2.238.483	966.394
Secured debts	-	-	-	-
Other cash outflows	4.769.006	1.860.021	771.190	619.482
Derivative liabilities and margin obligations	526.520	520.140	526.520	520.140
Debt from structured financial instruments	-	-	-	-
Other off-balance sheet liabilities and commitments for the payment owed to financial markets	130.168	129.394	39.054	38.818
Revocable off-balance sheet obligations regardless of any other requirement and other contractual obligations	-	-	-	-
Other irrevocable or provisory revocable off-balance sheet liabilities	4.112.318	1.210.487	205.616	60.524
TOTAL CASH OUTFLOW	-	-	3.430.342	1.768.038
CASH INFLOWS	2.225.933	1.091.482	1.865.202	1.080.505
Secured receivables	-	-	-	-
Unsecured claims	1.700.461	584.029	1.339.730	573.052
Other cash inflows	525.472	507.453	525.472	507.453
TOTAL CASH INFLOWS	2.225.933	1.091.482	1.865.202	1.080.505
Applied maximum rate values	-	-	-	-
TOTAL HIGH QUALITY LIQUID ASSET STOCK	-	-	2.018.345	1.283.032
TOTAL NET CASH OUTFLOWS	-	-	1.565.140	687.533
LIQUIDITY COVERAGE RATIO (%)	-	-	129	187

(*) The weekly simple arithmetic average calculated liquidity coverage ratio of the last three months average

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

EXPLANATIONS RELATED TO THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

VI. EXPLANATIONS RELATED TO CONSOLIDATED LIQUIDITY RISK MANAGEMENT AND LIQUIDITY COVERAGE RATIO (Continued)

Breakdown of assets and liabilities according to their outstanding maturities:

	Demand	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Undistributed (*)	Total
Current Period								
Assets								
Cash (Cash in Vault, Effectives, Money in Transit, Cheques Purchased) and Balances with the Central Bank of the Republic of Turkey	357.861	1.649.452	-	-	-	-	-	2.007.313
Banks	787.671	-	-	-	-	-	-	787.671
Financial Assets at Fair Value Through Profit and Loss	-	-	-	-	-	-	-	-
Money Market Placements	-	-	-	-	-	-	-	-
Financial Assets Available-for-Sale	-	669	5.592	144.649	1.148.555	-	4.897	1.304.362
Loans Given	-	2.511.937	1.476.992	4.840.942	7.513.712	1.395.842	-	17.739.425
Financial Assets Measured at Amortised Cost	-	-	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-	349.932	349.932
Total Assets	1.145.532	4.162.058	1.482.584	4.985.591	8.662.267	1.395.842	354.829	22.188.703
Liabilities								
Funds Collected from Banks Via Current and Participation Accounts	5.918	20.247	20.051	-	-	-	-	46.216
Current and Participation Accounts	2.375.406	9.463.550	2.252.093	1.006.366	7.352	-	-	15.104.767
Funds Provided from Other Financial Instruments	-	811.330	561.494	472.036	141.917	-	-	1.986.777
Money Market Borrowings	-	864.414	-	-	-	-	-	864.414
Issued Marketable Securities	-	348.905	923.573	102.619	-	-	-	1.375.097
Other Liabilities *	-	-	-	-	-	-	2.811.432	2.811.432
Total Liabilities	2.381.324	11.508.446	3.757.211	1.581.021	149.269	-	2.811.432	22.188.703
Liquidity Gap	(1.235.792)	(7.346.388)	(2.274.627)	3.404.570	8.512.998	1.395.842	(2.456.603)	-

(*) Certain assets in the balance sheet that are necessary for the banking operations but cannot be readily convertible into cash in the near future, such as equity instruments, tangible assets, investments in associates and subsidiaries, stationary supplies, prepaid expenses and non-performing loans, other liabilities such as provisions which are not considered as payables and shareholders' equity are included under “undistributed”.

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

EXPLANATIONS RELATED TO THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

VI. EXPLANATIONS RELATED TO LIQUIDITY RISK MANAGEMENT AND LIQUIDITY COVERAGE RATIO (Continued)

Breakdown of assets and liabilities according to their outstanding maturities:

	Demand	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Undistributed (*)	Total
Prior Period								
Assets								
Cash (Cash in Vault, Effectives, Money in Transit, Cheques Purchased) and Balances with the Central Bank of the Republic of Turkey	323.220	1.320.469	-	-	-	-	-	1.643.689
Banks	278.581	-	-	-	-	-	-	278.581
Financial Assets at Fair Value Through Profit and Loss	37	-	-	-	-	-	-	37
Money Market Placements	-	-	-	-	-	-	-	-
Financial Assets Available-for-Sale	2.462	-	2.406	61.297	453.289	-	4.719	524.173
Loans Given	-	1.444.299	841.762	2.870.892	5.212.023	1.005.768	-	11.374.744
Investments Held-to-Maturity	-	-	-	-	-	-	-	-
Other Assets	155.871	8.934	515	3.173	280.272	80.050	-	528.815
Total Assets	760.171	2.773.702	844.683	2.935.362	5.945.584	1.085.818	4.719	14.350.039
Liabilities								
Funds Collected from Banks Via Current and Participation Accounts	339	5.007	-	-	-	-	-	5.346
Current and Participation Accounts	1.650.719	6.769.575	1.248.662	346.236	3.948	-	-	10.019.140
Funds Provided from Other Financial Instruments	-	620.612	89.900	1.144.308	194.490	-	-	2.049.310
Money Market Borrowings	-	32.462	-	-	-	-	-	32.462
Issued Marketable Securities	-	7.804	450.000	100.000	-	-	-	557.804
Sundry Creditors	-	-	-	-	-	-	35.715	35.715
Other Liabilities ^(*)	-	-	-	-	-	-	1.650.262	1.650.262
Total Liabilities	1.651.058	7.435.460	1.788.562	1.590.544	198.438	-	1.685.977	14.350.039
Liquidity Gap	(890.887)	(4.661.758)	(943.879)	1.344.818	5.747.146	1.085.818	(1.681.258)	-

(*) Fixed assets in the balance sheet that are necessary for the banking operations but cannot be readily convertible into cash in the near future, such as tangible assets are included under unallocated assets. The unallocated other liabilities column consists of equity and provisions.

Presentation of Liabilities According to Their Remaining Maturities

	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Total
Current Period						
Bank deposits	26.165	20.051	-	-	-	46.216
Other deposits	11.838.955	2.252.094	1.006.366	7.352	-	15.104.767
Funds borrowed from other financial institutions	811.330	561.494	472.036	141.917	-	1.986.777
Funds borrowed from Interbank money market	864.414	-	-	-	-	864.414
Total	13.540.864	2.833.639	1.478.402	149.269	-	18.002.174
Prior Period						
Bank Deposits	5.007	-	-	-	-	5.007
Other Deposits	6.769.575	1.248.661	346.235	3.949	-	8.368.420
Funds borrowed from other financial institutions	620.611	89.900	1.144.308	194.490	-	2.049.309
Funds borrowed from Interbank Money market	32.462	-	-	-	-	32.462
Total	7.427.655	1.338.561	1.490.543	198.439	-	10.455.198

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

EXPLANATIONS RELATED TO THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

VII. EXPLANATIONS ON LEVERAGE RATIO

As of December 31, 2018, the leverage ratio of the Group calculated from the average of three months is 6,1%. (31 December 2017: 6,6%). The relevant ratio is above the minimum rate specified by the Regulation on Measurement and Assessment of Leverage Level of Banks. The reason for the change between the current period and the previous period's leverage ratio is that the average total risk increase rate is higher than the increase in average capital.

Leverage ratio disclosure as follows:

Balance sheet assets	Current Period ^(*)	Prior Period
Balance sheet assets (Except for derivative financial instruments and credit derivatives, including warranties)	21.113.486	13.721.760
(Assets deducted from main capital)	(99.705)	(81.514)
Total risk amount of the balance sheet assets	21.013.781	13.640.246
Derivative financial instruments and credit derivatives		
Replacement cost of derivative financial instruments and credit derivatives	11.550	630
Potential credit risk amount of derivative financial instruments and credit derivatives	13.565	6.357
Total risk amount of derivative financial instruments and credit derivative	25.115	6.987
Security or secured financing transactions		
Risk amount of security or secured financing transactions (Except balance sheet)	36.567	160.316
Risk amount due to intermediated transactions	-	-
Total risk amount of security or secured financing transactions	36.567	160.316
Off-balance sheet transactions		
Gross nominal amount of off-balance sheet transactions	11.021.090	6.207.549
(Adjustment amount resulting from multiplying by credit conversion rates)	-	-
Risk amount of the off-balance sheet transactions	11.021.090	6.207.549
Equity and total risk		
Main capital	1.970.244	1.318.315
Total risk amount	32.096.553	20.015.098
Leverage ratio		
Leverage ratio	6,1	6,6

(*) Amounts in the table are obtained on the basis of three-month weighted average.

VIII. EXPLANATIONS ON SECURITIZATION POSITIONS

None.

IX. EXPLANATIONS ON RISK MANAGEMENT

Notes and explanations in this section have been prepared in accordance with the “Communiqué On Disclosures About Risk Management To Be Announced To Public By Banks” that have been published in Official Gazette no. 29511 on 23 October 2015 and became effective as of 31 March 2016. Due to usage of standard approach for the calculation of capital adequacy by the Bank, tables that need to be prepared within the scope of Internal Ratings Based (“IRB”) have not been presented.

Within the scope of risk management, there are many risks that affect the Bank’s financial performance significantly. These risks include the risk of credit risk, market risk, operational risk, liquidity risk and profit share ratio arising from banking accounts. Our risk management strategy is based on the mission and vision of the Bank and is aimed to respond to our customers’ financial needs in the most appropriate way and to support their financial success. In this context, our business practices and our working model support prudent risk management practices.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2018**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

EXPLANATIONS RELATED TO THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

IX. EXPLANATIONS ON RISK MANAGEMENT (Continued)

Internal bank risk appetite has been established and is periodically shared with top management in order to follow the specified risks. In addition, detailed risk management reports, including stress tests and scenario analyses, where all risks are analyzed in detail, are reported to the Audit Committee.

Scenarios such as sudden changes in the curriculum, changes in country grades, changes in the loan portfolio are taken into account in the stress tests conducted.

The capital adequacy ratio is followed up by the simulation method on a daily basis although it is followed up within the monthly period which is the legal submission period. The liquidity coverage ratio of the bank is monitored daily by the risk management and is shared with the top management of the bank and the treasury unit.

In order to create a common risk culture in our bank, our bank employees are given risk management training and strategically important units have detailed explanations about the importance of risk management. Risk management policies and procedures, banking regulations based on significant risks, are available to all employees working in the Bank.

The Bank is developing a system for risk measurement methods. In the present case, standard methods are generally used in the calculations and preparations are made for advanced methods with the growth of our bank. All risk processes are closely monitored.

1. Explanations on Risk Management and Risk-weighted Assets:

a) Overview of Risk-weighted Assets

		Risk Weighted Amount		Minimum capital Requirement
		Current Period	Prior Period	Current Period
	Overview of RWA			
1	Credit risk (excluding counterparty credit risk) (CCR)	15.955.756	9.308.200	1.276.460
2	Standardized approach (SA)	15.955.756	9.308.200	1.276.460
3	Internal rating-based (IRB) approach	-	-	-
4	Counterparty credit risk	204.871	5.091	16.390
5	Standardized approach for counterparty credit risk (SA-CCR)	204.871	5.091	16.390
6	Internal model method (IMM)	-	-	-
7	Basic risk weight approach to internal models equity position in the banking account	-	-	-
8	Investments made in collective investment companies – look-through approach	-	-	-
9	Investments made in collective investment companies – mandate-based approach	-	-	-
10	Investments made in collective investment companies - 1250% weighted risk approach	-	-	-
11	Settlement risk	-	-	-
12	Securitization positions in banking accounts	-	-	-
13	RB ratings-based approach (RBA)	-	-	-
14	IRB Supervisory Formula Approach (SFA)	-	-	-
15	SA/simplified supervisory formula approach (SSFA)	-	-	-
16	Market risk	129.986	44.918	10.399
17	Standardized approach (SA)	129.986	44.918	10.399
18	Internal model approaches (IMM)	-	-	-
19	Operational Risk (*)	491.392	285.210	39.311
20	Basic Indicator Approach	491.392	285.210	39.311
21	Standard Approach	-	-	-
22	Advanced measurement approach	-	-	-
23	The amount of the discount threshold under the equity (subject to a 250% risk weight)	-	-	-
24	Floor adjustment	-	-	-
25	Total (1+4+7+8+9+10+11+12+16+19+23+24)	16.782.005	9.643.419	1.342.560

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

EXPLANATIONS RELATED TO THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

IX. EXPLANATIONS ON RISK MANAGEMENT (Continued)

2. Linkages Between Financial Statements and Regulatory Exposures

a) Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

	Carrying values of items in accordance with TAS				
	Carrying values under scope of regulatory consolidation	Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
Assets					
Cash and balances at central bank	2.007.312	2.007.312	-	1.673.503	-
Financial assets held for trading	56	-	56	-	-
Financial assets designated at fair value through profit or loss	-	-	-	-	-
Banks	787.671	787.671	-	782.736	-
Receivables from money markets	-	-	-	-	-
Financial assets available for sale (net)	1.303.187	1.303.187	973.936	121.017	-
Loans and receivables	17.035.591	17.035.591	-	4.969.829	-
Factoring receivables	-	-	-	-	-
Held to maturity investments (net)	-	-	-	-	-
Investments in associates (net)	-	-	-	-	-
Investments in subsidiaries (net)	-	-	-	-	-
Investments in joint ventures (net)	-	-	-	-	-
Leasing receivables	703.834	703.834	-	204.053	-
Derivative financial assets held for hedges	-	-	-	-	-
Tangible assets (net)	52.115	33.707	-	-	18.408
Intangible assets (net)	80.396	-	-	-	80.396
Investment properties (net)	-	-	-	-	-
Tax assets	49.870	49.870	-	-	-
Non-current assets and disposal groups classified as held for sale (net)	4.259	4.259	-	-	-
Other assets	164.412	164.412	-	2.691	-
Total Assets	22.188.703	22.089.843	973.992	7.753.829	98.804
Liabilities					
Deposits	15.150.983	-	-	6.902.550	-
Derivative financial liabilities held for trading	6.145	-	-	6.145	-
Loans	1.986.777	-	-	1.970.129	-
Debt to money markets	864.414	-	864.414	-	-
Debt securities issued	1.375.097	-	-	-	-
Funds	-	-	-	-	-
Various Debts	-	-	-	-	-
Other Debts	400.337	-	-	32.133	-
Factoring debts	-	-	-	-	-
Debts from leasing transactions	415	-	-	415	-
Derivative financial liabilities held for hedge	-	-	-	-	-
Provisions	131.964	-	-	14.016	-
Tax liability	53.987	-	-	-	-
Liabilities included in disposal groups classified as held for sale (net)	-	-	-	-	-
Subordinated Debts	-	-	-	-	-
Equity	2.218.584	-	-	-	-
Total Liabilities	22.188.703	-	864.414	8.925.388	-

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

EXPLANATIONS RELATED TO THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

IX. EXPLANATIONS ON RISK MANAGEMENT (Continued)

2. Linkages Between Financial Statements and Regulatory Exposures

b) Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

	Total	Items subject to credit risk framework	Securitisation Position	Items subject to counterparty credit risk framework	Items subject to market risk framework
Asset carrying value amount under scope of regulatory consolidation	22.188.703	22.089.842	-	973.992	7.753.829
Liabilities carrying value amount under regulatory scope of consolidation	864.414	-	-	864.414	-
Total net amount under regulatory scope of consolidation	21.324.289	22.089.842	-	109.578	-
Off-balance sheet amounts	10.961.502	10.554.192	-	407.310	-
Differences in valuations	-	-	-	-	-
Differences due to different netting rules, other than those already included in row 2	-	-	-	-	-
Differences due to consideration of provisions	-	-	-	-	-
Differences due to prudential filters	-	-	-	-	-
Exposure amounts considered for regulatory purposes	-	-	-	-	-

3. Explanations on Credit Risk

3.1) General information about credit risk

a) General qualitative information about credit risk

Effective management of credit risk is one of the key elements of a comprehensive approach to risk management. Corporate, individual and SME loans, finance lease receivables, other elements constituting the bank's assets and non-cash transactions constitute the basis of the items which constitute credit risk, which are used depending on the activities of the Bank. Taking into consideration the risk appetite of the Bank in the activities carried out in this direction is important in terms of enabling the effective management of credit risk.

Credit risk limits has been designed in accordance with the level of risk that the Bank may be exposed to, its activities and the size and complexity of its products and services and is determined by taking the views and recommendations of the General Manager, the Audit Committee and the relevant Senior Managers. Limits are regularly monitored periodically, and adapting to changes in market conditions, the Bank's strategy and risk appetite. In addition to taking into account our legal requirements while creating credit risk policies, our current credit performance has been audited and a policy has been developed in line with the Bank's strategies and targets.

Credit risk calculations are carried out carefully and meticulously and controls are carried out in accordance with the legislation. In the present case, calculations are made using the standard method and infrastructure studies are continuing to use advanced methods. Credit risk calculations and applied methods are also monitored by internal control and audit departments, taking into account legal requirements at each stage.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

EXPLANATIONS RELATED TO THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)**IX. EXPLANATIONS ON RISK MANAGEMENT (Continued)****3. Explanations on Credit Risk (Continued)****3.1) General information about credit risk (Continued)****a) General qualitative information about credit risk (Continued)**

Detailed reporting including the relationship with credit risk and other risks exposed to the Board of Directors and Senior Managers is periodically shared and the credit risk is monitored effectively by the risk management unit.

b) Credit quality of assets

	Defaulted exposures	Non-defaulted exposures	Provisions/Amortization and impairment	Net value
Loans	240.160	17.707.665	123.778	17.824.047
Debt instruments	-	1.335.442	35.977	1.299.465
Off-balance sheet receivables	-	10.554.192	-	10.554.192
Total	240.160	29.597.299	159.755	29.677.704

(*) Financial Lease amount of TL 703.834 is included to the table.

c) Default receivables and change in debt instrument stock

1	Prior report period default loans and debt instrument amount	34.841
2	Default credits and debt instruments since the last reporting period	205.319
3	Non re-defaulted receivables	-
4	Write-offs	-
5	Other changes	-
6	Defaulted loans and debt securities at end of reporting period (1+2-3-4±5)	240.160

d) Additional disclosures about the credit quality of assets**i. The scope and definitions of "past due" and "impaired" exposures used for accounting purposes and the differences, if any, between the definition of past due and default for accounting and regulatory purposes**

The Bank provides special and general provisions for loans and other receivables in accordance with the "Regulation on the Procedures and Principles for the Determination of the Qualifications of Banks for Loans and Other Receivables and the Provisions to be Made".

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

The Bank automatically transfers the loans that are over 90 days past due to the provisions of the Provisions Regulation to the follow-up accounts and allocates the counterparty of the related class.

iii. Definitions of methods used when setting the allowance

The Bank sets expected loss provisions for loans and other receivables in accordance with the regulations stated by the Communiqué published on the Official Gazette numbered 29750 and dated 22 June 2016 on "Methods and Principles on Determining the Nature of Loans and Other Receivables and Allocation of Provisions". However, there is no judgement in the related Regulation and the BRSA's related disclosures that would prevent further provision of the minimum amounts required.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

EXPLANATIONS RELATED TO THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

IX. EXPLANATIONS ON RISK MANAGEMENT (Continued)

3. Explanations on Credit Risk (Continued)

3.1) General information about credit risk (Continued)

d) Additional disclosures about the credit quality of assets(continued)

iv. The Banks own definition of a restructured exposure

Real/legal persons using credit may, from time to time, face usual risks of business life such as failure to include the excessive cost increases in sales prices, loss of market share and turnover, unexpected expenses, problems in collection of receivables due to some factors that are beyond reasonable control of its own businesses or other businesses worked with. They may therefore have temporary liquidity difficulties. It involves setting new loan repayment maturities in line with cash flows for businesses which have no significant problem in credit worthiness and sustain their income-generating activities but fail, or priorly imply failure, to make their loan repayment in a timely manner due to temporary liquidity problems.

v. Breakdown of receivables according to geographical areas, breakdown by sector and remaining demand, geographical segments and sectoral provision amount and related provisions and write-offs:

Current period	Loans			Provisions for Expected Credit Losses
	Impaired (IFRS 9)		Non performing (Provision Regulations)	
	Significant Increase in credit risk (Stage 2)	Defaulted (Stage 3)		
Domestic	1.075.721	240.160	240.160	207.628
EU countries	-	-	-	16
USA, Canada	-	-	-	6
OECD Countries	-	-	-	-
Off-shore Banking Regions	-	-	-	-
Other	-	-	-	749
Total	1.075.721	240.160	240.160	208.399

Prior Period	Loans and Receivables	Non Performing Loans	Special Provisions	Total
Domestic	11.282.385	34.841	18.088	11.299.138
EU countries	-	-	-	-
USA, Canada	-	-	-	-
OECD Countries	-	-	-	-
Off-shore Banking Regions	-	-	-	-
Other	75.606	-	-	75.606
Total	11.357.991	34.841	18.088	11.374.744

ZİRAAT KATILIM BANKASI A.Ş.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

EXPLANATIONS RELATED TO THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)**IX. EXPLANATIONS ON RISK MANAGEMENT (Continued)****3. Explanations on Credit Risk (Continued)****3.1) General informations on credit risk (Continued)****v. Breakdown of receivables according to geographical areas, breakdown by sector and remaining demand, geographical segments and sectoral provision amount and related provisions and write-off (Continued)**

	Loans	Non performing loans	Expected Loss Provision	Total
Agriculture	319.891	4.643	3.183	321.351
Farming and Stockbreeding	245.851	2.728	2.006	246.573
Forestry	66.108	1.424	943	66.589
Fishery	7.932	491	234	8.189
Manufacturing	7.204.630	109.173	95.316	7.218.487
Mining and Quarrying	954.611	1.066	1.512	954.165
Production	5.977.816	108.107	92.741	5.993.182
Electricity, Gas and Water	272.203	-	1.063	271.140
Construction	3.139.236	31.225	30.409	3.140.052
Services	5.337.892	93.626	68.089	5.363.429
Wholesale and Retail Trade	2.046.400	47.732	39.437	2.054.695
Accommodation and Dining	55.775	11	105	55.681
Transportation and Telecom	289.081	27.351	14.350	302.082
Financial Institutions	-	-	-	-
Real Estate and Rental Services	2.841.458	14.704	12.079	2.844.083
Professional Services	-	-	-	-
Educational Services	56.091	3.828	244	59.675
Health and Social Services	49.087	-	1.874	47.213
Other	1.706.015	1.493	11.402	1.696.106
Total	17.707.664	240.160	208.399	17.739.425

	Loans and Receivables	Loans under follow up	Special Provisions	Total
Agriculture	207.642	-	-	207.642
Farming and Stockbreeding	150.319	-	-	150.319
Forestry	52.615	-	-	52.615
Fishery	4.708	-	-	4.708
Manufacturing	4.477.817	9.718	5.453	4.482.082
Mining and Quarrying	286.181	-	-	286.181
Production	4.026.740	9.718	5.453	4.031.005
Electricity, Gas and Water	164.896	-	-	164.896
Construction	1.501.198	5.214	2.023	1.504.389
Services	3.505.472	12.800	8.607	3.509.665
Wholesale and Retail Trade	1.402.871	12.800	8.607	1.407.064
Accommodation and Dining	74.150	-	-	74.150
Transportation and Telecom	427.308	-	-	427.308
Financial Institutions	-	-	-	-
Real Estate and Rental Services	1.461.198	-	-	1.461.198
Professional Services	-	-	-	-
Educational Services	34.531	-	-	34.531
Health and Social Services	105.414	-	-	105.414
Other	1.665.862	7.109	2.005	1.670.966
Total	11.357.991	34.841	18.088	11.374.744

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

EXPLANATIONS RELATED TO THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

IX. EXPLANATIONS ON RISK MANAGEMENT (Continued)

3. Explanations on Credit Risk (Continued)

	Demand	Up to 1 month	1-3 Month	3-12 Months	1-5 years	Over 5 years	Undistributed	Total
Current Period								
Loans given	-	2.511.937	1.476.992	4.840.942	7.513.712	1.395.842	-	17.739.425

	Demand	Up to 1 month	1-3 Month	3-12 Months	1-5 years	Over 5 years	Undistributed	Total
Prior Period								
Loans given	-	1.444.299	841.762	2.870.892	5.212.023	1.005.768	-	11.374.744

vi. Aging analysis for past due receivables

Past due but not impaired loans aging analysis based on credit class as follows:

Current Period	Up to 1 month	1-2 months	2-3 Months	Total
Loans and Receivables ⁽¹⁾				
Corporate/Entrepreneurial Loans	18.749	40.987	23.551	83.287
Consumer loans	598	113	72	783
Total	19.347	41.100	23.623	84.070

⁽¹⁾ Explanations on the amounts; For the loans with instalments, the overdue installment amounts, for other type of credits, the overdue principal amount and the remaining principal amounts of intallmanent results with a grand total of TL 991.651.

Previous Period	Up to 1 month	1-2 months	2-3 Months	Total
Loans and Receivables				
Corporate/Entrepreneurial Loans	35.808	7.192	4.553	47.553
Consumer loans	1.429	801	-	2.230
Total	37.237	7.993	4.553	49.783

3.2) Credit risk mitigation

a) Qualitative disclosure requirements related to credit risk mitigation techniques

It is taken into consideration that the collateralization process of the Bank's lending processes may create a risk. In the bank guarantee policy, residual risks are managed by observing all the risks such as not being able to get the collateral received on time or turning it into cash, the guarantor refusing or delaying the payment, insufficient legal documents of the legal documents for obtaining the desired legal result.

The transactions that the bank makes in the context of market risk are not subjected as collateral.

Financial collaterals are taken into consideration in mitigating credit risk in the Bank and as a rule, real estate mortgages are not considered as collateral. Mortgage-backed receivables are a separate risk class and the financial collateral used in the Bank consists of cash blockage, public guarantee fund and borrowing of public debts.

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

EXPLANATIONS RELATED TO THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

IX. EXPLANATIONS ON RISK MANAGEMENT (Continued)

3. Explanations on Credit Risk (Continued)

3.2) Credit risk mitigation (Continued)

b) Credit risk mitigation techniques - Overview

	Unsecured receivables: Amount assessed pursuant to TAS	Claims secured by guarantee	Collateralized portions of collateralized receivables	Receivables protected by financial guarantees	Collateralized portions of receivables protected by financial guarantees	Loans protected by credit derivatives	Collateralized portions of receivables protected by credit derivatives
Loans	16.386.571	1.437.476	998.648	1.283.498	894.287	-	-
Debt instruments	1.299.465	-	-	-	-	-	-
Total	17.686.036	1.437.476	998.648	1.283.498	894.287	-	-
Default	240.160	-	-	-	-	-	-

	Unsecured receivables: Amount assessed pursuant to TAS	Claims secured by guarantee	Collateralized portions of collateralized receivables	Receivables protected by financial guarantees	Collateralized portions of receivables protected by financial guarantees	Loans protected by credit derivatives	Collateralized portions of receivables protected by credit derivatives
Loans	9.934.785	1.812.904	971.403	1.390.238	914.450	-	-
Debt instruments	516.992	-	-	-	-	-	-
Total	10.451.777	1.812.904	971.403	1.390.238	914.450	-	-
Default	34.841	-	-	-	-	-	-

3.3) Credit risk under standardized approach

a) Qualitative disclosures on banks' use of external credit ratings under the standardized approach for credit risk

The Parent Bank uses the ratings issued by Fitch Ratings International Rating Agency in its risk classes for Receivables from Central Government or Central Banks, Receivables from Regional and Local Governments and Administrative Units and Non-Commercial, Receivables from Banks in the risk category, Fitch Ratings notes are used for receivables from resident banks and no rating agency notes are used for receivables from domestic resident banks. Country Notes used for Receivables from Central Government or Central Banks, Receivables from Regional or Local Governments and Administrative Units and Non-Commercial Enterprises are 3 in the Credit Quality Level, while the notes used in the risk classes of Banks and Intermediary Institutions are from 1 to 6 matched with credit quality levels.

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

EXPLANATIONS RELATED TO THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

IX. EXPLANATIONS ON RISK MANAGEMENT (Continued)

3.3) Credit risk under standardized approach (Continued)

b) Standard Approach - Exposure to credit risk and credit risk mitigation effects

Risk classes	The credit conversion rate and the credit amount before the credit risk reduction		The credit conversion rate and the credit amount after the credit risk reduction		Risk weighted amount and risk weighted amount density	
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	Risk weighted amount	Risk weighted amount density
Exposures to central governments or central banks	2.612.856	-	3.451.564	71.177	174.574	5%
Exposures to regional governments or local authorities	-	-	55.579	2.385	28.982	50%
Exposures to public sector entities	7.404	1.225	7.404	593	5.385	100%
Exposures to multilateral development Banks	-	-	-	-	-	0%
Exposures to international organizations	-	-	-	-	-	0%
Exposures to institutions	2.370.125	35.825	2.370.125	20.777	744.095	28%
Exposures to corporates	7.684.267	9.326.942	7.023.006	6.463.958	13.174.921	98%
Retail exposures	975.118	900.221	742.092	375.289	818.025	73%
Exposures secured by residential property	993.258	9.770	993.258	4.773	349.746	35%
Exposures secured by commercial Real Estate	796.892	203.081	796.893	140.142	468.517	50%
Past-due loans	91.375	-	91.375	-	82.871	91%
Higher-risk categories by the Agency Board	30.164	-	30.164	-	45.246	150%
Exposures in the form of covered Bonds	-	-	-	-	-	0%
Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-	-	0%
Exposures in the form of units or shares in collective investment undertakings (CIUs)	-	-	-	-	-	0%
Other assets	116.555	-	116.555	-	63.394	54%
Investments in equities	-	-	-	-	-	0%
Total	15.678.014	10.477.064	15.678.015	7.079.094	15.955.756	68%

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”))

EXPLANATIONS RELATED TO THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

IX. EXPLANATIONS ON RISK MANAGEMENT (Continued)

3.3) Credit risk under standardized approach (Continued)

c) Standard Approach: Receivables based on risk classes and risk weighted

Risk classes/ Risk Weight	0%	10%	20%	35% (secured by real estate)	50% (secured by real estate)	50% ^(*)	75%	100%	150%	200%	Others	Total credit risk exposure amount (after CCF and CRM)
Exposures to regional governments or local authorities	3.173.593	-	-	-	-	349.148	-	-	-	-	-	3.522.741
Exposures to regional governments or local authorities	-	-	-	-	-	57.964	-	-	-	-	-	57.964
Exposures to public sector entities	2.612	-	-	-	-	-	-	5.385	-	-	-	7.997
Exposures to multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-
Exposures to international organizations	-	-	-	-	-	-	-	-	-	-	-	-
Exposures to banks and financial intermediaries	-	-	1.514.068	-	-	871.106	-	5.728	-	-	-	2.390.902
Exposures to corporates	95.375	-	87.069	-	-	294.026	-	13.010.494	-	-	-	13.486.964
Retail exposures	17.925	-	10.719	-	-	2.686	1.086.051	-	-	-	-	1.117.381
Exposures secured by residential property	-	-	-	995.131	-	2.900	-	-	-	-	-	998.031
Exposures secured by commercial real estate	-	-	-	-	937.035	-	-	-	-	-	-	937.035
Past-due loans	159	-	-	-	-	16.689	-	74.527	-	-	-	91.375
Higher-risk categories by the Agency Board	-	-	-	-	-	-	-	-	30.164	-	-	30.164
Exposures in the form of covered bonds	-	-	-	-	-	-	-	-	-	-	-	-
Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-
Exposures in the form of units or shares in collective investment undertakings (CIUs)	-	-	-	-	-	-	-	-	-	-	-	-
Investments in equities	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	53.161	-	-	-	-	-	-	63.394	-	-	-	116.555
Total	3.342.825	-	1.611.856	995.131	937.035	1.594.519	1.086.051	13.159.528	30.164	-	-	22.757.109

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2018**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

EXPLANATIONS RELATED TO THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

X. EXPLANATIONS ON HEDGE TRANSACTIONS

It is essential to be bordered with limits compatible with risk profile of risk levels and risk toleration so as to prevent to considerably affect from the negativeness that can occur while the Parent Bank conducts its operations.

Risk limits are determined and approved by the Board of Directors by taking CEO, Audit Committee and Executives' offers.

Risk limits are determined compatible with risk levels, operations, size of products and services and complexity of the Bank. Limits are reviewed regularly, adapted according to changes in market conditions, Bank strategy and risk appetite and monitored cyclically.

In addition, derivative transactions are made by the Parent Bank, TL and FC liquidity risks are limited due to the committed transactions.

Credit Risks under the IRB (based on internal ratings)

Notes and explanations in this section have been prepared in accordance with the Communiqué On Disclosures About Risk Management To Be Announced To Public By Banks that have been prepared by BRSA and published in Official Gazette numbered 29511 dated 23 October 2015 and became effective as of 31 March 2016. The following tables which have to be presented on a quarterly, semi annually and annually basis have not been presented since the Bank use the standard approach as of 31 December 2018 for the calculation of credit risks:

Qualitative information presented to the public disclosure regarding the IRBs

IRB – Credit risk amounts on the basis of Portfolio and Default Probability ("DP")

IRB – The effect of the credit derivatives used as Credit Risk Reduction ("CRR") on the Risk Weighted Amounts ("RWA")

The conversion table of the RWA under the approach of IRB

IRB – Backtesting every Default Probability ("DP") on every risk class

IRB (Directed loans and the stock investments under simple risk weighted approach)

XI. EXPLANATION ON COUNTERPARTY CREDIT RISK

a) Qualitative disclosures about counterparty credit risk

In order to establish the counterparty credit risk that the Parent Bank may face, it is essential that risk measurement and monitoring activities are carried out and their results are taken into account in the strategic decision making process.

Within the scope of counterparty credit risk management; In accordance with the structure, size and complexity of its products and activities, it ensures that the results of the identification, measurement, monitoring and control of counterparty credit risk are reported to the Senior Management.

It is essential that the Parent Bank manages the counterparty credit risk level in such a way that it ensures that it remains above the minimum limits set forth in the legal regulations.

The Parent Bank risk measurement system takes measures to ensure that the work is carried out in accordance with legal regulations, in a manner that is consistent with its fields of activity and product range, is reliable, In this context, counterparty credit risk measurement and monitoring activities for at least; calculation of counterparty credit risk weighted asset and legal capital liability and monitoring of the Bank's compliance level with allocated limits is done.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

EXPLANATIONS RELATED TO THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

XI. EXPLANATION ON COUNTERPARTY CREDIT RISK (Continued)

b) Evaluation of counterparty credit risk according to measurement methods

		Replacement cost	Potential future exposure	EEPE(*)	Alpha used for computing regulatory EAD	EAD post CRM	Risk Weighted Amounts
1	Standardized Approach - CCR (For Derivatives)	574	12.486		1,4	13.060	6.396
2	Internal Model Method (for derivatives, repo transactions, marketable securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)			-	-	-	-
3	Simple Approach for Credit Mitigation (for repo transactions, marketable securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)					973.937	194.787
4	Comprehensive Approach for Credit Risk Mitigation (for repo transactions, marketable securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)					-	-
5	VaR for repo transactions, marketable securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions					-	-
6	Total						201.183

(*) Effective expected position amount

c) Capital requirement for loan valuation adjustments

		EAD post-CRM	Risk Weighted Amounts
	Total portfolios subject to the Advanced CVA capital charge		
1	(i) VaR component (including the 3×multiplier)		-
2	(ii) Stressed VaR component (including the 3×multiplier)		-
3	All portfolios subject to the Standardized CVA capital charge	13.060	3.688
4	Total subject to the CVA capital charge	13.060	3.688

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

EXPLANATIONS RELATED TO THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

XI. EXPLANATION ON COUNTERPARTY CREDIT RISK (Continued)

d) Standard approach - counterparty credit risk by risk classes and risk weights

Risk weights Risk classes	0%	10%	20%	50%	75%	100%	150%	Other	Total credit risk ^(*)
Claims from central governments and central banks	-	-	-	-	-	-	-	-	-
Claims from regional and local governments	-	-	-	-	-	-	-	-	-
Claims from administration and non-commercial entity	-	-	-	-	-	-	-	-	-
Claims from multilateral development banks	-	-	-	-	-	-	-	-	-
Claims from international organizations	-	-	-	-	-	-	-	-	-
Claims from banks and financial intermediaries	-	-	974.385	12.612	-	-	-	-	201.183
Corporates	-	-	-	-	-	-	-	-	-
Retail portfolios	-	-	-	-	-	-	-	-	-
Claims on landed real estate	-	-	-	-	-	-	-	-	-
Past due loans	-	-	-	-	-	-	-	-	-
Claims which are determined as high risk by the board of BRSA	-	-	-	-	-	-	-	-	-
Mortgage securities	-	-	-	-	-	-	-	-	-
Securitization positions	-	-	-	-	-	-	-	-	-
Claims from corporates, banks and financial intermediaries which have short term credit rating	-	-	-	-	-	-	-	-	-
Investments which are qualified as collective investment institutions	-	-	-	-	-	-	-	-	-
Stock investment	-	-	-	-	-	-	-	-	-
Other claims	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-
Total	-	-	974.385	12.612	-	-	-	-	201.183

^(*) Total credit risk: The amount related to capital adequacy calculation after counterparty credit risk measurement techniques are applied

e) Risk classification and counterparty credit risk on the basis of Default Probability (DP) (IRB)

None.

f) Collaterals for counterparty credit risk

	Collateral used in derivative transactions				Other transaction guarantees	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash – domestic currency	-	-	-	-	864.414	-
Cash – other currencies	-	-	-	-	-	-
Domestic sovereign debt	-	-	-	-	-	-
Other sovereign debt	-	-	-	-	-	-
Government agency debt	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	973.937
Total	-	-	-	-	864.414	973.937

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

EXPLANATIONS RELATED TO THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

XI. EXPLANATION ON COUNTERPARTY CREDIT RISK (Continued)

g) Credit Derivatives

None.

h) Risk Weighted Amounts (RWA) of the Counterparty Credit Risks within the scope of Internal Model Method

None.

i) Risks to the Central Counterparty

None.

5. Securitization Explanations

As of 31 December 2018, there is no securitization position in the Bank (31 December 2017: None).

6. Explanations on Market risk

a) Qualitative information to be disclosed to the public regarding market risk

The Parent Bank ensures effective management of the risk of concentration in the market due to market risk and market risk components in line with the volume, nature and complexity of its operations, taking into account the best practices, within the framework of BRSA regulations.

The Parent Bank ensures that measurement, monitoring, limiting, stress testing and scenario analysis work in compliance with the structure and complexity of its positions with respect to the management of the market risk, and report the results. Evaluation of new products and services in terms of market risk is essential.

In this context, as a minimum;

- The accounts and positions of the Parent Bank exposed to market risk and the market developments affecting the value of these accounts and positions are monitored on a minimum daily basis,
- Calculation of the amount subject to market risk of the Bank under the purchase and sale accounts,
- Analysis of the effects of ordinary and extraordinary up and down movements in the markets on the Bank's accounts and positions exposed to market risk,
- Retrospective test analysis of internal models used for monitoring purposes in the calculation of the amount subject to market risk,
- Regular calculation and follow-up of risk limits in relation to market risk,

In the Parent Bank, the Board of Directors, the Audit Committee and the General Manager fulfill the duties, powers and responsibilities within the scope of market risk management in the framework defined in the legislation. All units, including those within the scope of Internal Systems, fulfill their duties, powers and responsibilities within the framework of market risk management within the framework of the Regulation on Internal Systems of Banks and the Internal Capital Adequacy Assessment Process and their Regulations.

In order to be able to demonstrate the market risk that the bank may face, it is essential that the implementation and results of risk measurement and monitoring activities be taken into account in the Bank's strategic decision-making process.

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

EXPLANATIONS RELATED TO THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

XI. EXPLANATION ON COUNTERPARTY CREDIT RISK (Continued)

6. Explanations on Market Risk (Continued)

a) Qualitative information to be disclosed to the public regarding market risk (Continued)

In the framework of these principles, the following minimum analyzes shall be made for measurement and monitoring activities.

As a minimum under Market Risks:

- Standard Method: Market Risk Reporting Set published by BRSA in accordance with the disclosures.
- Risk Exposure Value Analysis: Historical Simulation, Parametric, EWMA or using a different method deemed appropriate by the Bank.

Internal Capital Requirement: The parameters, which are determined by BRSA and/or by the Bank, and which could affect the financial power of the Bank and the stress tests and/or scenario analysis related to these parameters and the capital level that compensates the risks that the Bank has been exposed or would be exposed are calculated with a predictive perspective with the appropriate methods.

b) Standard Approach

		Risk Weighted Amounts
	Outright products	-
1	Interest rate risk (general and specific)	48.100
2	Equity risk (general and specific)	-
3	Foreign exchange risk	81.886
4	Commodity risk	-
	Options	-
5	Simplified approach	-
6	Delta-plus method	-
7	Scenario approach	-
8	Securitization	-
9	Total	129.986

Notes and explanations in this section have been prepared in accordance with the Communiqué On Disclosures About Risk Management To Be Announced To Public By Banks that have been prepared by BRSA and published in Official Gazette numbered 29511 dated 23 October 2015 and became effective as of 31 March 2016. The following tables which have to be presented on a quarterly basis have not been presented as of 31 December 2018 since the Bank does not use the standard approach for the calculation of market risks:

Quantitative information for public disclosure for the banks using Internal Model Approach
Market Risk RWA (Risk Weighted Amounts) Conversion Table for the Internal Model Approach
Internal Model Approach for commerce account
The comparison between Value at Risk expectations and Profit and Loss

7. Explanations on Operational Risk

The Operational Risk Principal Amount in the Bank is calculated on an annual basis by the Basic Indicator Method. In the Basic Indicator Method, the parameter that determines the operational risk base amount is gross. Annual gross income consists of net profit share income, dividend income from net fees and commissions income, shares other than subsidiaries and participation shares, addition of trading income / loss (net) and other operating income, Profit / loss, extraordinary income and insurance compensations.

	31.12.2015	31.12.2016	31.12.2017	Total/Number of positive gross income years	Rate(%)	Total
Gross income	71.409	232.815	482.004	262.076	15	39.311
Amount subject to Operational Risk	-	-	-	-	-	491.392

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

EXPLANATIONS RELATED TO THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

XII. EXPLANATIONS ON CONSOLIDATED OPERATING SEGMENTS

Organizational and internal reporting structure of the Group is determined in line with TFRS 8 "Turkish Accounting Standard about Operating Segments".

The Bank has operations in retail banking, corporate and entrepreneurial banking, specialized banking, investment banking and international banking areas.

Table for Segment Reporting:

Current Period	Retail Banking	Corporate/ Entrepreneurial Banking	Treasury/ Investment Banking	Other/ Undistributed	Total
OPERATING INCOME/EXPENSE					
Profit Shares Income	191.401	1.661.127	174.023	64.006	2.090.557
Profit Shares from Loans	191.401	1.661.127	-	-	1.852.528
Profit Shares from Banks	-	-	-	-	-
Profit Shares from Securities	-	-	136.942	-	136.942
Other Profit Shares	-	-	37.081	64.006	101.087
Profit Shares Expense	556.583	535.822	227.310	8	1.319.723
Profit Shares Expense on Participation Funds	556.583	535.822	6.838	-	1.099.243
Profit Shares Expense on Funds Borrowed	-	-	54.976	-	54.976
Profit Shares Expense on Money Market Transactions	-	-	24.801	-	24.801
Profit Shares Expense on Securities Issued	-	-	140.695	-	140.695
Other Profit Shares Expense	-	-	-	8	8
Net Profit Shares Income/Expense	(365.182)	1.125.305	(53.287)	63.998	770.834
Net Fees and Commission Income/Expense	9.699	66.607	-	(15.579)	60.727
Fees and Commissions Received	9.699	66.607	-	7.967	84.273
Fees and Commissions Paid	-	-	-	23.546	23.546
Personnel Expenses	-	-	-	123.973	123.973
Dividend Income	-	-	177	-	177
Trading Income/Loss (Net)	-	-	57.781	-	57.781
Other Operating Income	-	64	-	80.148	80.212
Provision for Loans or Other Receivables Losses	24.413	213.567	-	18.041	256.021
Other Operating Expense	-	251	-	174.937	175.188
Income Before Tax	(379.896)	978.158	4.671	(188.384)	414.549
Tax Provision	-	-	-	(91.884)	(91.884)
Net Profit/Loss	(379.896)	978.158	4.671	(280.268)	322.665
SEGMENT ASSETS					
Financial Assets at FV Through P/L	-	-	-	-	-
Banks and Other Financial Institutions	-	-	787.671	-	787.671
Financial Assets Measured at Fair Value Through Other Comprehensive Income	-	-	1.304.362	-	1.304.362
Loans	1.614.565	14.124.399	2.000.461	-	17.739.425
Financial Assets Measured at Amortised Cost	-	-	-	-	-
Derivative Financial Assets	-	-	56	-	56
Associates, Subsidiaries and Joint Ventures	-	-	-	-	-
Other Assets	-	-	-	2.357.189	2.357.189
Total Segment Assets	1.614.565	14.124.399	4.092.550	2.357.189	22.188.703
SEGMENT LIABILITIES					
Funds Collected	10.471.740	4.679.243	-	-	15.150.983
Derivative Financial Liabilities	-	-	6.145	-	6.145
Funds Borrowed	-	-	1.986.777	-	1.986.777
Money Market Funds	-	-	864.414	-	864.414
Securities Issued (Net)	-	-	1.375.097	-	1.375.097
Provisions	-	-	-	131.964	131.964
Other Liabilities	-	-	-	454.739	454.739
Shareholders' Equity	-	-	-	2.218.584	2.218.584
Total Segment Liabilities	10.471.740	4.679.243	4.232.433	2.805.287	22.188.703

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

EXPLANATIONS RELATED TO THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

XII. EXPLANATIONS ON OPERATING SEGMENTS (Continued)

Table for Segment Reporting:

Prior Period	Retail Banking	Corporate/ Entrepreneurial Banking	Treasury/ Investment Banking	Other/ Undistributed	Total
OPERATING INCOME/EXPENSE					
Profit Shares Income	127.919	757.833	65.030	30.610	981.392
Profit Shares from Loans	127.919	757.833	-	-	885.752
Profit Shares from Banks	-	-	-	-	-
Profit Shares from Securities	-	-	48.634	-	48.634
Other Profit Shares	-	-	16.396	30.610	47.006
Profit Shares Expense	187.203	283.549	67.554	-	538.306
Profit Shares Expense on Participation Funds	187.203	283.549	382	-	471.134
Profit Shares Expense on Funds Borrowed	-	-	38.705	-	38.705
Profit Shares Expense on Money Market Transactions	-	-	3.058	-	3.058
Profit Shares Expense on Securities Issued	-	-	25.409	-	25.409
Other Profit Shares Expense	-	-	-	-	-
Net Profit Shares Income/Expense	(59.284)	474.284	(2.524)	30.610	443.086
Net Fees and Commission Income/Expense	2.000	35.266	-	(6.923)	30.343
Fees and Commissions Received	2.000	35.266	-	8.477	45.743
Fees and Commissions Paid	-	-	-	15.400	15.400
Dividend Income	-	-	-	-	-
Trading Income/Loss (Net)	-	-	11.556	-	11.556
Other Operating Income	-	2	-	2.661	2.663
Provision for Loans or Other Receivables Losses	9.420	61.562	-	19.161	90.143
Other Operating Expense	-	366	-	197.165	197.531
Income Before Tax	(66.704)	447.624	9.032	(189.978)	199.974
Tax Provision	-	-	-	(41.072)	(41.072)
Net Profit/Loss	(66.704)	447.624	9.032	(231.050)	158.902
SEGMENT ASSETS					
Financial Assets at FV Through P/L	-	-	37	-	37
Banks and Other Financial Institutions	-	-	278.581	-	278.581
Financial Assets Available for Sale (Net)	-	-	524.173	-	524.173
Loans	1.367.454	8.891.170	1.116.120	-	11.374.744
Held to Maturity Investments (Net)	-	-	-	-	-
Associates, Subsidiaries and Joint Ventures	-	-	-	-	-
Other Assets	-	-	-	2.172.504	2.172.504
Total Segment Assets	1.367.454	8.891.170	1.918.911	2.172.504	14.350.039
SEGMENT LIABILITIES					
Funds Collected	6.370.882	3.653.604	-	-	10.024.486
Derivative Financial Liabilities Held for Trading	-	-	6.280	-	6.280
Funds Borrowed	-	-	2.049.310	-	2.049.310
Money Market Funds	-	-	32.462	-	32.462
Securities Issued (Net)	-	-	557.804	-	557.804
Provisions	-	-	-	142.290	142.290
Other Liabilities	-	-	-	133.726	133.726
Shareholders' Equity	-	-	-	1.403.681	1.403.681
Total Segment Liabilities	6.370.882	3.653.604	2.645.856	1.679.697	14.350.039

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

EXPLANATIONS RELATED TO THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

XIII. EXPLANATIONS ON PRESENTATION OF FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE

a) Information regarding the fair value of financial assets and liabilities:

Current Period	Book Value	Fair Value
Financial Assets	19.831.458	19.831.458
Due from Interbank Money Market	-	-
Banks	787.671	787.671
Financial Assets Measured at Fair Value Through Other Comprehensive Income	1.304.362	1.304.362
Financial Assets Measured at Amortised Cost	-	-
Loans	17.739.425	17.739.425
Financial Liabilities	18.595.106	18.595.106
Bank Deposits	46.216	46.216
Other Deposits	15.104.767	15.104.767
Funds Borrowed from Other Financial Institutions	1.986.777	1.986.777
Issued Marketable Securities	1.375.097	1.375.097
Miscellaneous Payables	82.249	82.249

Prior Period	DeFTER Değeri	Gerçeğe Uygun Değer
Financial Assets	12.177.498	12.177.498
Due from Interbank Money Market	-	-
Banks	278.581	278.581
Available-for-sale Financial Assets	524.173	524.173
Held-to-maturity Investments	-	-
Loans	11.374.744	11.374.744
Financial Liabilities	12.667.315	12.667.315
Bank Deposits	5.346	5.346
Other Deposits	10.019.140	10.019.140
Funds Borrowed from Other Financial Institutions	2.049.310	2.049.310
Issued Marketable Securities	557.804	557.804
Miscellaneous Payables	35.715	35.715

Due from Interbank Money Market, Banks and Banks deposits considered to be equal to carrying values of their fair values because Due from Interbank Money Market, Banks and Banks deposits mostly consist of short term transactions.

Market price differences are considered on determining the available for sale financial assets book value and fair value. If the price formation does not occur within the active market conditions, indicator prices calculated by Central Bank are considered instead.

The fair value of loans and other deposits represent the sum of the acquisition cost and accumulated profit share accruals.

b) Information on fair value measurements recognized in the financial statements:

According to TFRS 7 "Financial Instruments: Explanations" Standard, the accounts recognized with the fair value in the balance sheet should be presented and classified sequentially in the related footnotes. Respectively, such financial instruments are classified in three levels representing the importance of the data used during for the measurement of fair values. At level one, the financial instruments whose fair values are determined with the recorded prices in the active markets for the assets and liabilities with identical fair values; at level two, the financial instruments whose fair value is based on the directly or indirectly observable market indicators and at level three; the financial instruments whose fair value is not based on the directly or indirectly observable market indicators are considered. The financial instruments which are recognized with their fair values at the Bank's balance sheet, are presented with respect to such basis of classification in the table below.

ZİRAAT KATILIM BANKASI A.Ş.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

EXPLANATIONS RELATED TO THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)**XIII. EXPLANATIONS ON PRESENTATION OF FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE (Continued)**

Current Period	Level 1	Level 2	Level 3	Total
Financial Assets at FV Through P/L	-	56	-	56
Government Debt Securities	-	-	-	-
Share Certificates	-	-	-	-
Trading Derivative Financial Assets	-	56	-	56
Hedging Derivative Financial Assets	-	-	-	-
Other Marketable Securities	-	-	-	-
Financial Assets Measured at Fair Value Through Other Comprehensive Income	1.178.448	121.017	-	1.299.465
Equity Securities	-	-	-	-
Government Debt Securities	-	-	-	-
Other Marketable Securities	1.178.448	121.017	-	1.299.465
Total Assets	1.178.448	121.073	-	1.299.521
Trading Derivative Financial Liabilities	-	6.145	-	6.145
Hedging Derivative Financial Liabilities	-	-	-	-
Total Liabilities	-	6.145	-	6.145

Prior Period	Level 1	Level 2	Level 3	Total
Financial Assets at FV Through P/L	-	37	-	37
Government Debt Securities	-	-	-	-
Share Certificates	-	-	-	-
Trading Derivative Financial Assets	-	37	-	37
Hedging Derivative Financial Assets	-	-	-	-
Other Marketable Securities	-	-	-	-
Available-for-Sale Financial Assets	511.742	7.712	-	519.454
Equity Securities	-	-	-	-
Government Debt Securities	-	-	-	-
Other Marketable Securities	511.742	7.712	-	519.454
Total Assets	511.742	7.749	-	519.491
Trading Derivative Financial Liabilities	-	6.280	-	6.280
Hedging Derivative Financial Liabilities	-	-	-	-
Total Liabilities	-	6.280	-	6.280

XIV. EXPLANATIONS ON ACTIVITIES CARRIED OUT ON BEHALF AND ACCOUNT OF OTHER PARTIES

The Parent Bank does not provide trading, custody and fund management services on behalf of and account of the customers. The Bank does not make any lenient transaction contracts.

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

SECTION FIVE

EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS

I. EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED ASSETS

1.a) Information on cash and balances with Central Bank of the Republic of Turkey:

	Current Period		Prior Period	
	TL	FC	TL	FC
Cash in TL/Foreign Currency	22.196	30.965	18.236	22.888
Central Bank of the Republic of Turkey	311.614	1.642.538	287.567	1.314.998
Other	-	-	-	-
Total	333.810	1.673.503	305.803	1.337.886

1.a.1) Information on required reserves:

Banks that are established in Turkey or performing their operations by opening new branches in Turkey are subject to Communiqué on Required Reserves of Central Bank of the Republic of Turkey's numbered 2013/15. Based on accounting standards and registration layout for banks and companies, the items specified within the Communiqué, except from liabilities to Central Bank, Treasury, Domestic banks, and head offices and branches in Turkey of the banks established by international agreements, constitute required reserves liabilities.

As of the balance sheet date, according to CBRT's Communiqué about Required Reserves No. 2016/4, the required reserves ratios for commercial banks operating in Turkey are as follows: for demand deposits, notice deposits and for deposits up to 1-month maturity, and for deposits up to 3-months maturity 8%; for deposits up to 6-months maturity 5%; for deposits up to 1-year maturity 3%; for deposits 1-year and longer maturity 1,5%; for TL liabilities other than deposits up to 1-year maturity 8%; for TL liabilities other than deposits between 1- and 3-years maturity 4,5%; for TL liabilities other than deposits more than 3-years maturity 1,5%; according to CBRT's Communiqué about Required Reserves No. 2016/10 for FC deposit accounts, demand deposits, up to 1-month, up to 3-months, up to 6-months and up to 1-year maturity 12%; for FC deposit accounts with 1-year and longer maturity 8%, for FC liabilities other than deposits up to 1-year maturity 20%; for FC liabilities other than deposits up to 2-years maturity 15%; for FC liabilities other than deposits up to 3-years maturity 10%; for FC liabilities other than deposits up to 5-years maturity 6%; and for FC liabilities other than deposits more than 5-years maturity 4%.

b) Information on the account of the Central Bank of the Republic of Turkey:

	Current Period		Prior Period	
	TL	FC	TL	FC
Unrestricted Demand Deposit	299.510	5.190	282.078	18
Unrestricted Time Deposit	-	-	-	-
Restricted Time Deposit	-	-	-	-
Required Reserves (1)	12.104	1.637.348	5.489	1.314.980
Total	311.614	1.642.538	287.567	1.314.998

(1) TL 731.486 of the current period's FC required reserve is the part of the TL required reserves that are held in FC (31 December 2017: TL 659.896).

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

2. a) Information on banks and other financial institutions:

	Current Period		Prior Period	
	TL	FC	TL	FC
Banks				
Domestic Banks	4.935	620.370	3.320	210.669
Foreign Banks	-	162.366	-	64.592
Foreign Head Office and Branches	-	-	-	-
Total	4.935	782.736	3.320	275.261

b) Information on foreign banks accounts:

	Free Amount		Restricted Amount	
	Current Period	Prior Period	Current Period	Prior Period
European Union Countries	115.192	58.968	-	-
USA, Canada	43.985	3.983	-	-
OECD Countries ⁽¹⁾	1.205	709	-	-
Off-shore Banking Regions	-	-	-	-
Other	1.984	932	-	-
Total	162.366	64.592	-	-

⁽¹⁾ OECD countries except EU countries, USA and Canada

3. a) Explanation regarding the comparison of net values of financial assets through other comprehensive income available-for-sale given or blocked as collateral and subject to repurchase agreements:

	Current Period
Assets Subject to Repurchase Agreements	834.371
Assets Blocked/Given as Collateral	79.527
Total ^(*)	913.898

^(*) Accruals and provisions for impairment are not included.

Explanation regarding the comparison of net values of financial assets available-for-sale given or blocked as collateral and subject to repurchase agreements:

	Prior Period
Assets Subject to Repurchase Agreements	33.531
Assets Blocked/Given as Collateral	459.837
Total ^(*)	493.368

^(*) Accruals and provisions for impairment are not included.

b) Information on financial assets at fair value through other comprehensive income:

	Current Period
Debt Securities	1.335.443
Quoted in Stock Exchange	1.211.803
Not Quoted in Stock Exchange	123.640
Share Certificates	4.897
Quoted in Stock Exchange	-
Not Quoted in Stock Exchange ^(*)	4.897
Provision for Impairment (-)	35.978
Total	1.304.362

^(*) Not quoted on a stock exchange includes Credit Guarantee fund amounting to TL 4.987.

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

Information on available for sale financial assets:

	Prior Period
Debt Securities	527.845
Quoted in Stock Exchange	520.133
Not Quoted in Stock Exchange	7.712
Share Certificates	4.719
Quoted in Stock Exchange	-
Not Quoted in Stock Exchange (*)	4.719
Provision for Impairment (-)	8.391
Total	524.173

(*) Not quoted on a stock exchange includes Credit Guarantee fund amounting to TL 4.719.

4. Financial assets measured at amortized cost:

a) Explanations on comparative net values of information regarding the repurchase and sale transactions and blocked / blocked receivables:

As of 31 December 2018, the Group has no financial assets at fair value through profit or loss subject to repo transactions or given as collateral/blocked (31 December 2017: None).

b) Information on government debt securities measured at amortized cost:

As of 31 December 2018, the Group has no government debt securities measured at amortized cost.

b.1) Information on government debt securities held to maturity:

As of 31 December 2017, the Group has no government debt securities held to maturity.

c) Information on financial assets measured at amortized cost:

As of 31 December 2018, the Group has no financial assets measured at amortized cost.

c.1) Information on financial assets held to maturity:

As of 31 December 2017, the Group has no financial assets held to maturity.

5. Information on derivative financial assets

a) Information on derivative assets at fair value through profit or loss:

	Current Period	
	TL	FC
Derivative Financial Assets Held-for-Trading		
Forward Transactions	13	43
Swap Transactions	-	-
Futures Transactions	-	-
Options	-	-
Other	-	-
Total	13	43

ZİRAAT KATILIM BANKASI A.Ş.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

**EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)****I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)****b) Positive differences related to the derivative financial assets held-for-trading:**

	Prior Period	
	TL	FC
Derivative Financial Assets Held-for-Trading		
Forward Transactions	33	4
Swap Transactions	-	-
Futures Transactions	-	-
Options	-	-
Other	-	-
Total	33	4

6. Expected Loss Provisions:

As of 31 December 2018, the amount of expected loss provisions (Stage 1) for financial assets shown in the balance sheet is TL 1.175.

7. Information related to loans:**a) Information on all types of loans and advances given to shareholders and employees of the Group:**

	Current Period		Prior Period	
	Cash	Non-Cash	Cash	Non-Cash
Direct Loans Granted to Shareholders	1.973.285	-	759.146	-
Corporate Shareholders	1.973.285	-	759.146	-
Real Person Shareholders	-	-	-	-
Indirect Loans Granted to Shareholders	-	-	-	-
Loans Granted to Employees	2.513	-	1.112	-
Total (*)	1.975.798	-	760.258	-

(*) Includes rediscount amounts.

b) Information on the first and second group loans and other receivables including restructured or rescheduled loans:

Cash Loans	Standard Loans and Other Receivables	Loans Under Close Monitoring		
		Not Under the Scope of Restructuring or Rescheduling	Restructured or Rescheduled	
			Loans with revised contract terms	Refinancing
Loans				
Export Loans	919.989	19.615	-	-
Import Loans	132.346	5.140	-	-
Commercial Loans	10.227.864	686.133	158.827	-
Consumer Loans	1.600.211	5.808	-	-
Credit Cards	-	-	-	-
Loans Given to Financial Sector	2.000.462	-	-	-
Other	-	-	-	-
Other Receivables	535.613	33.084	-	-
Profit Share Income Accruals	511.624	70.419	3.234	-
Total	15.928.109	820.199	162.061	-

As of 31 December 2018, there are no loans and other receivables with revised contract terms (31 December 2017: None).

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

7. Information related to loans: (Continued)

General Provision	Standard Loans	Loans Under close monitoring
12 Month Expected Credit Losses	32.984	-
Significant Increase in Credit Risk	-	51.637

No. of extensions	Standard Loans and Other Receivables	Loans Under close monitoring and Other Receivables
1 or 2 Times Extended	-	162.061
3 - 4 or 5 Times Extended	-	-
Over 5 Times Extended	-	-
Total	-	162.061

Extension Periods	Standard Loans and Other Receivables	Loans Under close monitoring and Other Receivables
0 - 6 Months	-	68.208
6 Months – 12 Months	-	27.240
1 - 2 Years	-	38.018
2 - 5 Years	-	28.595
5 Years and Over	-	-
Total	-	162.061

c) Breakdown of Cash-loans based on maturity:

	Standard Loans and Other Receivables ⁽¹⁾	Loans and Other Receivables Under Close Monitoring ⁽¹⁾
		Loans and Receivables not subject to restructuring
Short term loans	7.727.182	234.398
Medium and Long-term loans	7.689.303	767.670
		Restructured Loans and receivables
		32.461
		129.600

⁽¹⁾ TL 585.277 accrual and rediscount amounts are not included related to loans in the table.

	Standard Loans and Other Receivables ⁽¹⁾	Loans and other receivables with revised contract terms	Loans and Other Receivables Under Close Monitoring ⁽¹⁾	Loans and other receivables with revised contract terms
	Loans and other receivables		Loans and other receivables	
Short term loans and other receivables	4.515.890	-	11.877	-
Loans	4.515.890	-	11.877	-
Other Receivables	-	-	-	-
Medium and Long-term loans and other receivables	6.439.420	-	25.972	-
Loans	6.439.420	-	25.972	-
Other receivables	-	-	-	-

⁽¹⁾ TL 364.832 accrual and rediscount amounts are not included related to loans in the table.

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

7. Information related to loans (Continued):

d) Information on consumer loans, individual credit cards, personnel loans and personnel credit cards:

Current Period	Short-Term	Medium and Long-Term	Total
Consumer Loans - TL	4.966	1.598.554	1.603.520
Real Estate Loans	1.203	1.453.270	1.454.473
Vehicle Loans	1.665	86.199	87.864
Consumer Loans	2.098	59.085	61.183
Other	-	-	-
Consumer Loans-FC Indexed	-	-	-
Housing Loans	-	-	-
Vehicle Loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Consumer Loans-FC	-	-	-
Housing Loans	-	-	-
Vehicle Loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Retail Credit Cards-TL	-	-	-
With Installment	-	-	-
Without Installment	-	-	-
Retail Credit Cards-FC	-	-	-
With Installment	-	-	-
Without Installment	-	-	-
Personnel Loans-TL	230	2.269	2.499
Housing Loans	-	-	-
Vehicle Loans	-	102	102
Consumer Loans	230	2.167	2.397
Other	-	-	-
Personnel Loans-FC Indexed	-	-	-
Housing Loans	-	-	-
Vehicle Loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Personnel Loans-FC	-	-	-
Housing Loans	-	-	-
Vehicle Loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Personnel Credit Cards-TL	-	-	-
With Installment	-	-	-
Without Installment	-	-	-
Personnel Credit Cards-FC	-	-	-
Installment based	-	-	-
Without Installment	-	-	-
Overdraft Account-TL (Real Person)	-	-	-
Overdraft Account-FC (Real Person)	-	-	-
Total (*)	5.196	1.600.823	1.606.019

(*) Dividend rediscount amounting to TL 8.546 not included in the table.

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

7. Information related to loans (Continued):

Prior Period	Short-Term	Medium and Long-Term	Total
Consumer Loans - TL	2.911	1.358.103	1.361.014
Real Estate Loans	1.016	1.242.469	1.243.485
Vehicle Loans	1.433	56.849	58.282
Consumer Loans	462	58.785	59.247
Other	-	-	-
Consumer Loans-FC Indexed	-	-	-
Housing Loans	-	-	-
Vehicle Loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Consumer Loans-FC	-	-	-
Housing Loans	-	-	-
Vehicle Loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Retail Credit Cards-TL	-	-	-
With Installment	-	-	-
Without Installment	-	-	-
Retail Credit Cards-FC	-	-	-
With Installment	-	-	-
Without Installment	-	-	-
Personnel Loans-TL	42	1.070	1.112
Housing Loans	-	-	-
Vehicle Loans	-	19	19
Consumer Loans	42	1.051	1.093
Other	-	-	-
Personnel Loans-FC Indexed	-	-	-
Housing Loans	-	-	-
Vehicle Loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Personnel Loans-FC	-	-	-
Housing Loans	-	-	-
Vehicle Loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Personnel Credit Cards-TL	-	-	-
With Installment	-	-	-
Without Installment	-	-	-
Personnel Credit Cards-FC	-	-	-
Installment based	-	-	-
Without Installment	-	-	-
Overdraft Account-TL (Real Person)	-	-	-
Overdraft Account-FC (Real Person)	-	-	-
Total (*)	2.953	1.359.173	1.362.126

(*) Dividend rediscount amounting to TL 5.347 not included in the table.

ZİRAAT KATILIM BANKASI A.Ş.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

**EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)****I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)****7. Information related to loans (Continued):****e) Information on installment commercial loans and corporate credit cards:**

Current Period	Short-Term	Medium and Long-Term	Total
Installment Commercial Loans-TL	63.605	185.523	249.128
Business Loans	16.487	25.816	42.303
Vehicle Loans	47.118	159.707	206.825
Consumer Loans	-	-	-
Other	-	-	-
Installment Commercial Loans-Indexed to FC	-	46.410	46.410
Business Loans	-	-	-
Vehicle Loans	-	46.410	46.410
Consumer Loans	-	-	-
Other	-	-	-
Installment Commercial Loans -FC	407	19.046	19.453
With Installment	-	-	-
Without Installment	407	19.046	19.453
With Installment	-	-	-
Without Installment	-	-	-
Corporate Credit Cards -TL	-	-	-
With Installment	-	-	-
Without Installment	-	-	-
Corporate Credit Cards -FC	-	-	-
With Installment	-	-	-
Without Installment	-	-	-
Overdraft Account-TL (Legal Entity)	-	-	-
Overdraft Account-FC (Legal Entity)	-	-	-
Total	64.012	250.979	314.991

ZİRAAT KATILIM BANKASI A.Ş.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

**EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)****I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)****7. Information related to loans (Continued):****e) Information on installment commercial loans and corporate credit cards:**

Prior Period	Short-Term	Medium and Long-Term	Total
Installment Commercial Loans-TL	29.835	175.252	205.087
With Installment	-	23.544	23.544
Without Installment	29.835	151.708	181.543
With Installment	-	-	-
Without Installment	-	-	-
Installment Commercial Loans-Indexed to FC	7.847	43.694	51.541
With Installment	-	-	-
Without Installment	7.847	43.694	51.541
With Installment	-	-	-
Without Installment	-	-	-
Installment Commercial Loans -FC	-	-	-
With Installment	-	-	-
Without Installment	-	-	-
With Installment	-	-	-
Without Installment	-	-	-
Corporate Credit Cards -TL	-	-	-
With Installment	-	-	-
Without Installment	-	-	-
Corporate Credit Cards -FC	-	-	-
With Installment	-	-	-
Without Installment	-	-	-
Overdraft Account-TL (Legal Entity)	-	-	-
Overdraft Account-FC (Legal Entity)	-	-	-
Total	37.682	218.946	256.628

f) Loans according to types of borrowers:

	Current Period	Prior Period
Public	279.744	758.279
Private	16.138.809	10.234.880
Profit Share Income Accruals and Rediscount	585.277	364.832
Total	17.003.830	11.357.991

g) Breakdown of domestic and international loans:

	Current Period	Prior Period
Domestic Loans	16.388.393	10.917.553
Foreign Loans	30.160	75.606
Profit Share Income Accruals of Loans	585.277	364.832
Total	17.003.830	11.357.991

h) Loans Granted to Subsidiaries and Participations:

As of 31 December 2018, the bank has no loans granted to subsidiaries and participations (31 December 2017: None).

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

7. Information related to loans (Continued):

i) Credit-Impaired Losses (Stage 3 / Specific Provision):

	Current Period
Loans and receivables with limited collectability	70.765
Loans and receivables with doubtful collectability	18.390
Uncollectible loans and receivables	34.623
Total	123.778

Specific provision provided for loans:

	Prior Period
Loans and receivables with limited collectability	1.449
Loans and receivables with doubtful collectability	2.866
Uncollectible loans and receivables	13.773
Total	18.088

j) Information on lease receivables

	Current Period		Prior Period	
	Gross	Net	Gross	Net
Less than 1 year	10.684	10.397	1.550	1.508
1-5 year	551.183	471.225	290.718	248.978
More than 5 years	282.163	222.212	187.183	122.458
Total	844.030	703.834	479.451	372.944

k) Information on non-performing receivables (net):

k.1) Information on loans and other receivables included in non-performing receivables which are restructured or rescheduled:

As of 31 December 2018 the Parent Bank has no loans and other receivables included in non-performing receivables which are restructured or rescheduled.

k.2) Information on the movement of total non-performing loans:

	Group III: Loans and other receivables with limited collectability	Group IV: Loans and other receivables with doubtful collectability	Group V: Uncollectible loans and other receivables
Ending balance of prior period	7.584	9.562	17.695
Additions in the current period (+)	215.020	3.315	6.301
Transfers from other categories of non-performing loans (+)	-	47.290	23.872
Transfers to other categories of non-performing loans (-)	47.290	23.872	-
Collections in the current period (-)	14.423	894	4.000
Write offs (-)	-	-	-
Corporate and commercial loans	-	-	-
Retail loans	-	-	-
Credit cards	-	-	-
Other	-	-	-
Ending balance of the current period	160.891	35.401	43.868
Special Provision	70.765	18.390	34.623
Net balance at the balance sheet	90.126	17.011	9.245

k.3) Information on foreign currency non-performing loans:

As of 31 December 2018, the Parent Bank has no foreign currency non-performing loans originated from foreign currency indexed loans (31 December 2017: None).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

7. Information related to loans (Continued):

1) Gross and net amounts of non-performing receivables according to user groups:

	Group III: Loans and other receivables with limited collectability	Group IV: Loans and other receivables with doubtful collectability	Group V: Uncollectible loans and other receivables
Current Period (Net)	90.126	17.011	9.245
Loans to Real Persons and Legal Entities (Gross)	160.891	35.401	43.868
Specific Provisions (-)	70.765	18.390	34.623
Loans to Real Persons and Legal Entities (Net)	90.126	17.011	9.245
Banks (Gross)	-	-	-
Specific Provisions (-)	-	-	-
Banks (Net)	-	-	-
Other Loans and Receivables (Gross)	-	-	-
Specific Provisions (-)	-	-	-
Other Loans and Receivables (Net)	-	-	-
Prior Period (Net)	6.135	6.696	3.922
Loans to Real Persons and Legal Entities (Gross)	7.584	9.146	17.695
Specific Provisions (-)	1.449	2.450	13.773
Loans to Real Persons and Legal Entities (Net)	6.135	6.696	3.922
Banks (Gross)	-	-	-
Specific Provisions (-)	-	-	-
Banks (Net)	-	-	-
Other Loans and Receivables (Gross)	-	416	-
Specific Provisions (-)	-	416	-
Other Loans and Receivables (Net)	-	-	-

Information on accruals, valuation differences and related provisions calculated for non performing loans for Banks which are providing expected credit loss according to TFRS 9:

	Group III: Loans with limited collectability	Group IV: Loans with doubtful collectability	Group V: Uncollectible loans
Period End Balance			
Profit Share Accrual and Valuation Differences Provision	1.667	1.989	3.215
Provision Amount (-)	749	1.001	2.483

m) Information on liquidating policy of uncollectible loans and other receivables:

Execution proceedings are carried out for the collection of receivables from loan services of the Parent Bank. During this process, tangible guarantees constituting guarantees of receivables of the Bank and assets of the debtor(s) are realized while receivables of the Bank are also tried to be collected and liquidated by means of administrative procedures.

n) Explanations on write-off policy:

The Parent Bank writes off the receivables from its records with the actualized circumstances of deaths of the debtor and/or the related people, refusals of the heritage by the heritors within the legal time limits, becoming legally and effectively impossible of the collection of the receivable, and the given financial accountability decision on the related personnel of the considered receivable.

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

8. Information on assets related to trading investments and discontinued operations:

As of 31 December 2018, the amount of assets due to trading is TL 4.259 (31 December 2017: TL 3.561).

	Current Period	Prior Period
Beginning Balance (Net)	3.561	-
Changes During the Period (Net)	698	3.561
Amount of depreciation	-	-
Provision for Impairment	-	-
Period End Balance (Net)	4.259	3.561

As of 31 December 2018, the Parent Bank has no discontinued operations (31 December 2017: None).

9. Equity Investments

a) Information about investments in associates (Net):

As of 31 December 2018, the Parent Bank has no investments in associates (31 December 2017: None).

b) Information on subsidiaries (Net):

b.1) Information on unconsolidated subsidiaries:

As of 31 December 2018, the Parent Bank has no unconsolidated associates (31 December 2017: None).

b.2) Information on consolidated subsidiaries:

	Name	Address (City/Country)	Bank's share percentage – if different voting percentage (%)	Risk share percentage of other shareholders (%)
1	Ziraat Katılım Varlık Kiralama A.Ş.	İstanbul / TÜRKİYE	100	100
2	ZKB Varlık Kiralama A.Ş.	İstanbul / TÜRKİYE	100	100

	Total Assets	Sharehold ers Equity	Total Fixed Assets	Dividend or profit share income	Income from marketable securities	Current Period Income/Loss	Prior period income/loss	Fair Value	Needed shareholders Equity
1 ^(*)	1.275.973	67	-	140.417	-	14	2	-	-
2 ^(*)	100.611	41	-	356	-	4	(13)	-	-

(1) Audited financial statements used.

	Current Period	Prior Period
Balance at the beginning of the year	100	50
Movements during the year		50
Included in the scope of consolidation	-	50
Purchases	-	-
Bonus Share	-	-
Dividends from current year income	-	-
Transfers to available for sale financial assets	-	-
Sales	-	-
Revaluation increase	-	-
Balance at the end of the year	100	100
Capital commitments	-	-
Share percentage at the end of the year (%)	-	-

(*) Paid capital increases during the period are shown under "Purchases".

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

9. Equity Investments

b.3) Sectoral information on consolidated subsidiaries and the related carrying amounts:

	Current Period	Prior Period
Banks	-	-
Insurance Companies	-	-
Factoring Companies	-	-
Leasing Companies	-	-
Finance Companies	-	-
Other Financial Subsidiaries	100	100

b.4) Subsidiaries that are quoted on the stock exchange:

As of 31 December 2018, the Parent Bank has no subsidiaries are quoted on the stock exchange (31 December 2017: None).

c) Information on entities under common control (joint ventures):

As of 31 December 2018, there are no entities under common control of the Parent Bank (31 December 2017: None).

10. Explanations on property and equipment:

	Immovables	Tangibles- Financial Leasing	Vehicles	Operational Leasing Development Costs	Other Tangibles	Total
Prior Period End:						
Cost	-	-	-	25.251	47.138	72.389
Accumulated Depreciation (-)	-	-	-	9.264	15.890	25.154
Net Book Value	-	-	-	15.987	31.248	47.235
Current Period End:						
Net Book Value at the Beginning of the Period	-	-	-	15.987	31.248	47.235
Change During the Period (Net)	-	-	-	2.396	2.485	4.881
Cost	-	-	-	7.778	12.428	20.206
Amortization (Net) (-)	-	-	-	5.382	9.943	15.325
Provision for Impairment (-)	-	-	-	-	-	-
Net Currency Translation from Foreign Subsidiaries (-)	-	-	-	-	-	-
Cost at Period End	-	-	-	33.029	59.566	92.595
Accumulated Depreciation at Period End (-)	-	-	-	14.646	25.833	40.479
Closing Net Book Value	-	-	-	18.383	33.733	52.116

- a) The impairment provision set or cancelled in the current period according to the asset groups not individually significant but materially affecting the overall financial statements, and the reason and conditions for this: None.
- b) Pledges, mortgages and other restrictions on the tangible fixed assets, expenses arising from the construction for tangible fixed assets, commitments given for the purchases of tangible fixed assets: None.

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

11. Information on intangible assets:

	Current Period			Prior Period		
	Book Value	Accumulated Depreciation	Net Value	Book Value	Accumulated Depreciation	Net Value
Leasehold Improvements	-	-	-	-	-	-
Establishment Costs	-	-	-	-	-	-
Goodwill	-	-	-	-	-	-
Intangible Rights	93.038	12.642	80.396	69.787	6.507	63.280
Total	93.038	12.642	80.396	69.787	6.507	63.280

- a) In case an intangible asset that is significant for the financial statements as a whole, its book value, definition and remaining depreciation period: None.
- b) Information on intangible assets acquired under government incentives and recorded with fair value at initial recognition: None.
- c) The method in which intangible assets acquired under government incentives and recorded with fair value at initial recognition are valued after the first registration date: None.
- ç) Book value of intangible assets with restrictions on use or pledged: None.
- d) Amount of commitments given for acquisition of intangible asset: None.
- e) Intangible assets based on revalued asset type: None.
- f) Total amount of research and development expenses recorded in the period, if any: None.
- g) Positive or negative consolidation goodwill that are originated from partnerships which their financial statements are consolidated: Not applied to the financial statements with consolidation.
- h) Information on goodwill: None.

12. Information on the investment properties:

As of 31 December 2018, the Parent Bank has no investment properties (31 December 2017: None).

13. Information on the current period assets related to tax:

As of 31 December 2018, the Bank has no assets related to tax (31 December 2017: None).

14. Information on deferred tax asset:

The Bank's deferred tax asset is calculated as TL 52.497 (31 December 2017: TL 16.094) however it's reflected on the financial statements as TL 49.870 (31 December 2017: TL 14.093) by offsetting with deferred tax liability.

	Current Period	Prior Period
Deferred tax asset	52.497	16.094
Deferred tax liability	2.627	2.001
Net deferred tax asset	49.870	14.093
Net deferred tax income/loss	626	5.835

	Current Period	Prior Period
Severance pay	3.850	466
Short-term employee rights	2.839	138
Revaluation of financial assets	8.395	296
Other	34.786	13.193
Net deferred tax asset	49.870	14.093

	Current Period	Prior Period
As of January 1	14.093	4.876
Deferred tax Income/(Loss) (Net)	22.034	5.835
Deferred Tax Accounted for Under Equity	6.270	3.382
IFRS 9 Transition Effect	7.473	-
Deferred tax asset	49.870	14.093

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”))

EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

15. Information on other assets:

As of 31 December 2018, other assets of the Parent Bank do not to exceed total balance sheet of 10%, exclude off-balance sheet liabilities.

ZİRAAT KATILIM BANKASI A.Ş.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

**EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)****II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES****1. a) Information on funds collected:****a.1) Information on maturity structure of funds collected:**

Current Period	Demand	Up to 1 Month	Up to 3 Months	Up to 6 months	Up to 9 months	Up to 1 year	1 year and over	Accumulated profit sharing accounts	Total
I. Real persons current accounts-TL	210.639	-	-	-	-	-	-	-	210.639
II. Real persons profit sharing accounts TL	-	526.001	2.948.826	43.992	-	42.916	193.315	-	3.755.050
III. Other current accounts-TL	516.931	-	-	-	-	-	-	-	516.931
Public sector	73.337	-	-	-	-	-	-	-	73.337
Commercial sector	418.653	-	-	-	-	-	-	-	418.653
Other institutions	24.611	-	-	-	-	-	-	-	24.611
Commercial and other institutions	320	-	-	-	-	-	-	-	320
Banks and participation banks	10	-	-	-	-	-	-	-	10
Central Bank of Republic of Turkey	-	-	-	-	-	-	-	-	-
Domestic banks	10	-	-	-	-	-	-	-	10
Foreign banks	-	-	-	-	-	-	-	-	-
Participation banks	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-
IV. Profit sharing accounts-TL	-	131.511	2.740.290	569.720	-	205.889	118.404	-	3.765.814
Public sector	-	2.668	495.707	421.827	-	61.901	-	-	982.103
Commercial sector	-	119.643	1.748.933	38.685	-	80.988	10.913	-	1.999.162
Other institutions	-	9.200	455.352	109.208	-	63.000	107.491	-	744.251
Commercial and other institutions	-	-	-	-	-	-	-	-	-
Banks and participation banks	-	-	40.298	-	-	-	-	-	40.298
V. Real persons current accounts-FC	347.441	-	-	-	-	-	-	-	347.441
VI. Real persons profit sharing accounts-FC	-	331.243	2.000.912	54.701	-	50.881	355.122	-	2.792.859
VII. Other current accounts-FC	1.183.202	-	-	-	-	-	-	-	1.183.202
Commercial residents in Turkey	1.168.785	-	-	-	-	-	-	-	1.168.785
Commercial residents in Abroad	8.509	-	-	-	-	-	-	-	8.509
Banks and participation banks	5.908	-	-	-	-	-	-	-	5.908
Central Bank of Republic of Turkey	-	-	-	-	-	-	-	-	-
Domestic banks	-	-	-	-	-	-	-	-	-
Foreign banks	5.908	-	-	-	-	-	-	-	5.908
Participation banks	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-
VIII. Profit sharing accounts-FC	-	110.668	1.701.594	91.086	-	174.589	110.506	-	2.188.443
Public sector	-	674	12.007	-	-	-	-	-	12.681
Commercial sector	-	109.994	1.524.756	91.044	-	174.589	110.506	-	2.010.889
Other institutions	-	-	164.789	42	-	-	-	-	164.831
Commercial and other institutions	-	-	42	-	-	-	-	-	42
Banks and participation banks	-	-	-	-	-	-	-	-	-
IX. Precious metal funds	123.111	-	257.538	4.514	-	2.333	3.108	-	390.604
X. Profit sharing accounts special funds - TL	-	-	-	-	-	-	-	-	-
Residents in Turkey	-	-	-	-	-	-	-	-	-
Residents Abroad	-	-	-	-	-	-	-	-	-
XI. Profit sharing accounts special funds - FC	-	-	-	-	-	-	-	-	-
Residents in Turkey	-	-	-	-	-	-	-	-	-
Residents Abroad	-	-	-	-	-	-	-	-	-
Total I+II+.....+IX+X+XI	2.381.324	1.099.423	9.649.160	764.013	-	476.608	780.455	-	15.150.983

ZİRAAT KATILIM BANKASI A.Ş.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

**EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)****II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES****a.1) Information on maturity structure of funds collected:**

Prior Period	Demand	Up to 1 Month	Up to 3 Months	Up to 6 months	Up to 9 months	Up to 1 year	1 year and over	Accumulated profit sharing accounts	Total
I. Real persons current accounts-TL	169.913	-	-	-	-	-	-	-	169.913
II. Real persons profit sharing accounts TL	-	339.006	2.206.716	26.540	-	29.403	67.732	-	2.669.397
III. Other current accounts-TL	431.162	-	-	-	-	-	-	-	431.162
Public sector	99.145	-	-	-	-	-	-	-	99.145
Commercial sector	317.559	-	-	-	-	-	-	-	317.559
Other institutions	14.432	-	-	-	-	-	-	-	14.432
Commercial and other institutions	23	-	-	-	-	-	-	-	23
Banks and participation banks	3	-	-	-	-	-	-	-	3
Central Bank of Republic of Turkey	-	-	-	-	-	-	-	-	-
Domestic banks	3	-	-	-	-	-	-	-	3
Foreign banks	-	-	-	-	-	-	-	-	-
Participation banks	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-
IV. Profit sharing accounts-TL	-	288.729	2.247.646	321.549	-	156.951	60.491	-	3.075.366
Public sector	-	166.212	581.393	196.370	-	25.827	-	-	969.802
Commercial sector	-	117.818	1.472.701	118.790	-	13.825	10.444	-	1.733.578
Other institutions	-	4.699	188.545	6.389	-	117.299	50.047	-	366.979
Commercial and other institutions	-	-	-	-	-	-	-	-	-
Banks and participation banks	-	-	5.007	-	-	-	-	-	5.007
V. Real persons current accounts-FC	162.883	-	-	-	-	-	-	-	162.883
VI. Real persons profit sharing accounts-FC	-	150.266	1.350.227	36.220	-	41.553	61.061	-	1.639.327
VII. Other current accounts-FC	824.647	-	-	-	-	-	-	-	824.647
Commercial residents in Turkey	816.850	-	-	-	-	-	-	-	816.850
Commercial residents in Abroad	7.462	-	-	-	-	-	-	-	7.462
Banks and participation banks	335	-	-	-	-	-	-	-	335
Central Bank of Republic of Turkey	-	-	-	-	-	-	-	-	-
Domestic banks	-	-	-	-	-	-	-	-	-
Foreign banks	263	-	-	-	-	-	-	-	263
Participation banks	72	-	-	-	-	-	-	-	72
Others	-	-	-	-	-	-	-	-	-
VIII. Profit sharing accounts-FC	-	37.478	848.801	18.769	-	-	-	-	905.048
Public sector	-	1.948	15.379	-	-	-	-	-	17.327
Commercial sector	-	35.503	580.639	18.744	-	-	-	-	634.886
Other institutions	-	27	244.731	25	-	-	-	-	244.783
Commercial and other institutions	-	-	8.052	-	-	-	-	-	8.052
Banks and participation banks	-	-	-	-	-	-	-	-	-
IX. Precious metal funds	62.451	-	77.863	2.277	-	1.310	2.842	-	146.743
X. Profit sharing accounts special funds - TL	-	-	-	-	-	-	-	-	-
Residents in Turkey	-	-	-	-	-	-	-	-	-
Residents Abroad	-	-	-	-	-	-	-	-	-
XI. Profit sharing accounts special funds - FC	-	-	-	-	-	-	-	-	-
Residents in Turkey	-	-	-	-	-	-	-	-	-
Residents Abroad	-	-	-	-	-	-	-	-	-
Total I+II+.....+IX+X+XI	1.651.056	815.479	6.731.253	405.355	-	229.217	192.126	-	10.024.486

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES (Continued)

a.2) Exceeding Amounts of Insurance Limit:

i. Information's on current and profit share accounts within the scope of Saving Deposit/Saving Deposit Insurance Fund:

	Under the guarantee of saving deposit insurance	Exceeding the limit of saving deposit	Under the guarantee of saving deposit insurance	Exceeding the limit of saving deposit
	Current Period	Prior Period	Current Period	Prior Period
Real persons current and profit sharing accounts that are not subject to commercial activities	2.956.961	2.166.684	4.505.214	2.609.688
TL accounts	2.123.545	1.651.791	1.842.492	1.187.518
FC accounts	833.416	514.893	2.662.722	1.422.170
Foreign branches' deposits under foreign authorities' insurance	-	-	-	-
Off-shore banking regions' under foreign authorities' insurance	-	-	-	-

ii. Amounts which are not within the scope of insurance:

Current and Profit Share Accounts of the real persons who are not within the scope of Saving Deposits Insurance Fund:

	Current Period	Prior Period
Foreign branches' profit sharing accounts and other accounts	-	-
Profit sharing accounts and other accounts of controlling shareholders and profit sharing accounts of their mother, father, spouse, children in care	-	-
Profit sharing account and other accounts of President and Members of Board of Directors, CEO and Vice Presidents and profit sharing accounts of their mother, father, spouse and children in care	520	431
Profit sharing account and other accounts within the scope of the property holdings derived from crime defined in article 282 of Turkish Criminal Law No:5237 dated 26 September 2004	-	-
Profit sharing accounts in participation banks which are established in Turkey in order to engage in off-shore banking activities solely	-	-

2. Information on funds borrowed:

a) Information on banks and other financial institutions:

	Current Period		Prior Period	
	TL	FC	TL	FC
Borrowings from the CBRT	-	-	410.436	-
From Domestic Banks and Institutions	16.648	1.594.136	8.938	523.098
From Foreign Banks, Institutions and Funds	-	375.993	-	1.106.838
Total	16.648	1.970.129	419.374	1.629.936

b) Information on maturity structure of borrowings:

	Current Period		Prior Period	
	TL	FC	TL	FC
Short-term	16.648	1.368.797	419.374	291.782
Medium and Long-term	-	601.332	-	1.338.154
Total	16.648	1.970.129	419.374	1.629.936

c) Explanations Related to the Concentrations of the Bank's Major Liabilities: Concentrations of the Bank's major liabilities, funder customer, segments or other criteria which are seen risk concentrations:

68% of Goup's liabilities consists of current and share profit account.

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES (Continued)

3. Funds provided under repurchasing agreements:

	Current Period		Prior Period	
	TL	FC	TL	FC
Domestic	864.414	-	32.462	-
Financial Institutions	864.414	-	32.462	-
Abroad	-	-	-	-
Financial Institutions	-	-	-	-
Total	864.414	-	32.462	-

4. Information on securities issued:

	Current Period		Prior Period	
	TL	FC	TL	FC
Bonds	-	-	-	-
Asset Based Securities	1.375.097	-	557.804	-
Government Bonds	-	-	-	-
Total	1.375.097	-	557.804	-

5. Information on financial liabilities at fair value through profit and loss:

None.

6. Information on derivative financial liabilities:

	Current Period	
	TL	FC
Forward transactions	-	6.145
Swap transactions	-	-
Futures transaction	-	-
Options transaction	-	-
Other	-	-
Total	-	6.145

Negative differences table regarding to derivative financial liabilities held for trading:

	Prior Period	
	TL	FC
Derivative financial assets held for trading		
Forward transactions	-	6.280
Swap transactions	-	-
Futures transaction	-	-
Options transaction	-	-
Other	-	-
Total	-	6.280

7. Information on Financial Lease Obligations:

	Current Period	
	Gross	Net
Less than 1 year	422	415
Between 1-5 years	-	-
More than 5 years	-	-
Total	422	415

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES (Continued)

8. Information on provisions:

a) Information on general provisions:

	Prior Period
General Provisions	99.082
I.For Loans and Receivables in Group I (Total)	89.433
Profit Sharing Accounts' Share	62.132
The Bank's Share	27.301
Other	-
I.Additional Provision for Loans and Receivables with Extended Maturities	-
Profit Sharing Accounts' Share	-
The Bank's Share	-
Other	-
II.Loans and Receivables in Group II (Total)	714
Profit Sharing Accounts' Share	603
The Bank's Share	111
Other	-
II.Additional Provision for Loans and Receivables with Extended Maturities	-
Profit Sharing Accounts' Share	-
The Bank's Share	-
Other	-
Provisions for Non Cash Loans	8.111
Other	824

b) Information on provisions related with foreign currency evaluation difference of foreign currency indexed loans and Financial Lease Obligations:

Provisions related with foreign currency evaluation difference of foreign currency indexed loans and financial lease obligation is TL 202 (31 December 2017: TL 6.045).

c) Information on special provisions related with uncompensated and non- liquidated non-cash loans:

Specific provisions for indemnified non-cash loans amount to TL 5.888 (31 December 2017: TL 177).

d) Information on other provisions:

d.1) Information on free provisions for possible risks:

Considering the circumstances that may arise from any changes in the economy or market conditions, the Bank management decided to make provision amounting to TL 30.000 in line with the conservatism principle. (31 December 2017: None)

d.2) The names and amounts of sub-accounts of other provisions exceeding 10% of the total provision amount:

According to article 19 of regulation on procedures and principles for determination of qualifications of loans and other receivables and provision by banks, other provisions amounting to TL 48.204 is reserved to use for general loan loss provision, specific provisions and the Participation Accounts allocated to premium of Guarantee of Deposit Insurance Fund (31 December 2017: TL 36.398).

The Bank has provided specific provisions amounting to TL 5.888 for non-cash loans that are not indemnified, amounting TL 20.110 for the expected credit loss for stage 1 and 2 non-cash loans and amounting TL 6.121 for other provisions.

In accordance with the Bank's management decision, taking into account the possible developments in the economy and markets, and the prudence principle, a free provision has been provided in addition to the Reporting Standards requirements amounting to TL 1.475.000.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

**EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)****II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES (Continued)****8. Information on provisions:****e) Information on provisions for employee benefits:****e.1) Employment termination benefits and unused vacation rights**

Under the Turkish Labor Law, the Bank is required to pay termination benefits to each employee who has completed at least one year of service, excluding resignation or misconduct, whose employment is terminated without due cause, is called up for military service, dies or retires or earns the right to retire. As of the date of 31 December 2018, the amount payable consists of one month's salary limited to a maximum of TL 6.018 (full TL) (31 December 2017: TL 4.732 (full TL)) for each year of service.

The Bank uses actuarial method in the calculation and recognition of severance pay with in the standard of TAS 19 – "Turkish Accounting Standard on Employee Benefits".

The Bank used its own parameters in the calculation of the total liabilities which were calculated with the actuary assumptions.

	Current Period	Prior Period
Discount Rate (%)	3,84	4,77

e.2) Severance Pay and Unused Permission Rights

	Current Period	Prior Period
Balance as of 1 January	2.330	780
Current Service Cost	1.285	1.014
profit share cost	276	85
Paid compensations	(112)	(41)
Loss / (Earnings) resulting from Reduction / Dismissal of Payments/Benefits	24	21
Actuarial loss/(gain)	1.253	471
Balance at the end of the period	5.056	2.330

As of 31 December 2018, the Bank has a TL 3.584 short-run employees' rights provision (31 December 2017: TL 2.389).

e.3) Retirement Benefits

Based on the results of the actuarial report, which is calculated with the actuarial interest rate 9,80% as determined in the Law numbered 5754, published on the Official Gazette dated 8 May 2008 and numbered 26870, as of 31 December 2017, no technical deficit has been reported.

As of the balance sheet date, the Bank's liability for the benefits to be transferred to SGK is the estimated amount of payment that will be required to be made during the transfer to SGK. The actuarial parameters and the results used in the measurement of this amount reflect the provisions of Law No. 5754 on the pension and health benefits to be transferred to the SGK (9,80% real discount rate, etc.) published in the Official Gazette dated 8 May 2008 and numbered 26870.

The basic actuarial assumptions used are as follows:

	Current Period	Prior Period
Discount rates		
- Pension benefits will be transferred to SGK	9,80%	9,80%
- Health benefits will be transferred to SGK	9,80%	9,80%

e.4) Additional Bonus Provision to be paid to Personnel

The Bank has allocated a provision amounting to TL 13.000 based on the bonus to be paid by the resolution of the General Assembly.

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES (Continued)

9. Explanations on tax liability:

a) Explanations on current tax liability:

a.1) Information on tax provisions:

As of 31 December 2018, the Group's corporate income tax liability is TL 25.602 after deducting temporary taxes paid during the period from the tax provisions (31 December 2017: TL 12.996).

b) Information on taxes payable:

	Current Period	Prior Period
Corporate Tax Payable	25.602	12.996
Taxation on Income From Securities	10.438	7.251
Property Tax	177	132
Banking Insurance Transactions Tax (BITT)	10.467	5.074
Foreign Exchange Transactions Tax	-	-
Value Added Tax Payable	5.521	571
Other	1.593	1.140
Total	53.798	27.164

c) Information on premiums:

	Current Period	Prior Period
Social Security Premiums – Employee	1	-
Social Security Premiums – Employer	1	2
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	62	92
Unemployment Insurance – Employer	125	183
Other	-	-
Total	189	277

10) Information on deferred tax liabilities, if any:

The Group's deferred tax liability amounts to TL 2.627 (31 December 2017: TL 2.001) and this amount is net off against the deferred tax asset and accordingly deferred tax asset amounting to TL 49.870 (31 December 2017: TL 14.093) is presented in the financial statements.

11. Information on payables for assets held for sale and discontinued operations:

The Group does not have any payables for assets held for sale and discontinued operations (31 December 2017: None).

12. Explanations on subordinated debts:

The Group does not have any subordinated debts (31 December 2017: None).

13. If the other liabilities of the balance exceed 10% of the balance sheet total, the names and amounts of the sub-accounts constituting at least 20% of them:

The amount of other liabilities of balance sheet does not exceed 10% of total amount of balance sheet.

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES (Continued)

14. Information on shareholders' equity:

a) Presentation on paid-in capital:

	Current Period	Prior Period
Common stock	1.750.000	1.250.000
Preferred stock	-	-

b) Paid-in capital amount, explanation whether the registered capital system is applicable by the Bank, if so the registered capital ceiling amount:

According to decision taken at the 2017 Ordinary General Assembly held on 17 April 2018, it has been decided to allocate financial obligations amounting to TL 46.907 from the TL 199.974 accounting profit and allocate TL 7.653 general legal reserves which is 5% of TL 153.067 net profit for the period, and it has been decided to allocate TL 10,000 of the rest of the amount to personnel as additional bonus and TL 1.000 (10% of this amount) to provision and remaining TL 134.414 to the Parent Bank. The Bank's paid-in capital was increased to TL 1,750,000 in 2017 Extraordinary General Assembly Meeting held on September 20, 2018 by increasing the paid-in capital of TL 500,000.

c) Information on share capital increases and their sources; other information on increased capital shares in the current period:

At the 2017 Extraordinary General Assembly meeting held on 20 September 2018, the Bank decided to increase the share capital by TL 500,000 in cash. (31 December 2017: None)

d) Information on additions from capital reserves to capital in the current period:

None.

e) Capital commitments in the last fiscal year and continue until the end of the following interim period, general purpose of these commitments and estimated resources required for these commitments:

There is no capital commitment for the last financial year and the end of the following interim period (31 December 2017: None).

e) Indicators of the Group's income, profitability and liquidity for the previous periods and possible effects of future assumptions based on the uncertainty of these indicators on the Bank's equity:

The Parent Bank has no any uncertainty related to profitability and liquidity according to the prior period's indicators. (31 December 2017: None).

f) Information on preferred shares:

As of 31 December 2018, the Bank has no preferred shares (31 December 2017: None).

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED LIABILITIES (Continued)

14. Information on shareholders' equity: (Continued)

g) Information on marketable securities value increase fund:

	Current Period	
	TL	FC
From Subsidiaries, Associates and Entities under Common Control	-	-
Revaluation Difference	-	-
Foreign Exchange Difference	-	-
Financial Assets at Fair Value Through Other Comprehensive Income	(38.639)	305
Revaluation Difference	(48.964)	305
Deferred Tax Effect	10.325	-
Foreign Exchange Difference	-	-
Total	(38.639)	305

Information on marketable securities value increase fund:

	Prior Period	
	TL	FC
From Subsidiaries, Associates and Entities under Common Control	-	-
Revaluation Difference	-	-
Foreign Exchange Difference	-	-
From Available for Sale Marketable Securities	(14.901)	(11)
Revaluation Difference	(18.955)	(11)
Deferred Tax Effect	4.054	-
Foreign Exchange Difference	-	-
Total	(14.901)	(11)

III. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED OFF-BALANCE SHEET ACCOUNTS

1. Information on off-balance sheet liabilities:

a) Nature and amount of irrevocable loan commitments:

	Current Period	Prior Period
Commitments for Credit Card Expenditure Limits	88.064	61.911
Other Irrevocable Commitments	-	-
Payment Commitments for Cheques	102.994	64.845
Loan Granting Commitments	6.925	1.966
Asset Purchase Commitments	-	-
Tax and Fund Liabilities from Export Commitments	160.832	4.034
Total	358.815	132.756

b) Nature and amount of possible losses and commitments arising from the off-balance sheet items including the below mentioned:

The amount of provision for possible losses arising from the off-balance sheet items is TL 5.888 (31 December 2017: None).

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

III. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED OFF-BALANCE SHEET ACCOUNTS (Continued)

1. Information on off-balance sheet liabilities (Continued):

b.1) Non-cash loans including guarantees, acceptances, financial guarantees and other letter of credits:

	Current Period	Prior Period
Guarantee Letters	8.640.366	5.322.130
Letter of Credits	3.591	4.784
Bank Acceptances	616.808	447.193
Other Contingencies	1.022.677	337.431
Total	10.283.442	6.111.538

b.2) Certain guarantees, temporary guarantees, surety ships and similar transactions:

	Current Period	Prior Period
Letters of Temporary Guarantees	411.354	603.757
Letters of Certain Guarantees	3.893.325	2.715.331
Letters of Advance Guarantees	1.018.357	399.756
Letters of Guarantees given to Customs Offices	73.926	45.753
Other Letters of Guarantees	3.243.404	1.557.533
Total	8.640.366	5.322.130

b.3) Total non-cash loans:

	Current Period	Prior Period
Non-Cash Loans for Providing Cash Loans	3.243.412	1.557.532
With Original Maturity of One Year or Less	1.727.495	775.726
With Original Maturity of More than One Year	1.515.917	781.806
Other Non-Cash Loans	7.040.030	4.554.006
Total	10.283.442	6.111.538

ZİRAAT KATILIM BANKASI A.Ş.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2018**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

**EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)****III. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED OFF-BALANCE
SHEET ACCOUNTS (Continued)****1. Information on off-balance sheet liabilities (Continued):****c) Information on sectoral risk concentrations of non-cash loans:**

	Current Period				Prior Period			
	TL	(%)	FC	(%)	TL	(%)	FC	(%)
Agricultural	181.687	4	28.512	-	8.342	-	22.951	1
Farming and Raising Livestock	178.724	4	28.512	-	5.256	-	22.951	1
Forestry	2.704	-	-	-	3.021	-	-	-
Fishing	259	-	-	-	65	-	-	-
Manufacturing	651.919	16	4.052.882	66	488.281	15	2.031.214	69
Mining and Quarrying	15.827	-	165.716	3	13.043	-	12.224	-
Production	587.506	15	3.885.497	63	398.007	13	2.006.707	68
Electric, Gas and Water	48.586	1	1.669	-	77.231	2	12.283	1
Construction	2.052.481	49	638.842	10	1.574.071	50	407.646	14
Services	1.283.715	31	1.422.151	23	1.040.680	33	446.492	15
Wholesale and Retail Trade	647.427	15	1.031.680	17	537.314	17	349.915	12
Hotel, Food and Beverage Services	26.535	1	77.873	1	14.605	1	18.603	1
Transportation and Telecommunication	50.412	1	106.827	2	38.920	1	1.164	-
Financial Institutions	21.804	1	15.668	-	5.846	-	317	-
Real Estate and Leasing Services	483.921	12	172.876	3	441.401	14	69.025	2
Self-employment Services	-	-	-	-	-	-	-	-
Education Services	1.397	-	14.824	-	89	-	7.468	-
Health and Social Services	52.219	1	2.403	-	2.505	-	-	-
Other	10.359	-	70.812	1	62.002	2	29.859	1
Total	4.180.161	100	6.213.199	100	3.173.376	100	2.938.162	100

d) Information on the non-cash loans classified under Group I and Group II:

	Group I		Group II	
	TL	FC	TL	FC
Non-Cash Loans	3.960.993	6.141.519	109.248	71.682
Letters of Guarantee	3.949.647	4.512.996	109.248	68.475
Bank Acceptances	-	3.591	-	-
Letters of Credit	5.584	611.224	-	-
Endorsements	-	-	-	-
Underwriting Commitments	-	-	-	-
Factoring Guarantees	-	-	-	-
Other Commitments and Contingencies	5.762	1.013.708	-	3.207

**EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)**

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

III. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED OFF-BALANCE SHEET ACCOUNTS (Continued)

2. Explanations on derivative transactions:

	Current Period	Prior Period
Types of Trading Transactions		
Foreign Currency Related Derivative Transactions (I)	2.410.970	1.264.078
Forward Transactions	2.410.970	1.264.078
Swap Transactions	-	-
Futures Transactions	-	-
Option Transactions	-	-
Interest Related Derivative Transactions (II)	-	-
A. Total Trading Derivative Transactions (I+II)	2.410.970	1.264.078
Types of Hedging Derivative Transactions	-	-
Fair Value Hedges	-	-
Cash Flow Hedges	-	-
Foreign Currency Investment Hedges	-	-
B. Total Hedging Derivative Transactions	-	-
Total Derivative Transactions (A+B)	2.410.970	1.264.078

The Parent Bank has no derivative transaction held for cash flow hedges. There are no income and expenses before ex ante and accounted on the basis of this prediction; however operations that is inferred as not actualize and by the reason of unrelated with income statements in the current period.

Current Period	Up to 1 month	1-3 Months	3-12 Months	1-5 Years	Over 5 years	Total
Financial assets for trading						
Foreign Exchange derivatives:	-	(1.830)	-	-	-	(1.830)
– Addition	-	1.204.570	-	-	-	1.204.570
– Disposal	-	(1.206.400)	-	-	-	(1.206.400)
Hedging Transactions	-	-	-	-	-	-
Foreign Exchange derivatives:	-	-	-	-	-	-
– Addition	-	-	-	-	-	-
– Disposal	-	-	-	-	-	-
Total cash addition	-	1.204.570	-	-	-	1.204.570
Total cash disposal	-	(1.206.400)	-	-	-	(1.206.400)

Prior Period	Up to 1 month	1-3 Months	3-12 Months	1-5 Years	Over 5 years	Total
Financial assets for trading						
Foreign Exchange derivatives:	(3.672)	(1.518)	-	-	-	(5.190)
– Addition	313.645	315.799	-	-	-	629.444
– Disposal	(317.317)	(317.317)	-	-	-	(634.634)
Hedging Transactions	-	-	-	-	-	-
Foreign Exchange derivatives:	-	-	-	-	-	-
– Addition	-	-	-	-	-	-
– Disposal	-	-	-	-	-	-
Total cash addition	313.645	315.799	-	-	-	629.444
Total cash disposal	(317.317)	(317.317)	-	-	-	(634.634)

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

III. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED OFF-BALANCE SHEET ACCOUNTS (Continued)

3. Explanations on contingent assets and liabilities:

Provision is allocated for transactions with complete and accurate data that may have an effect on the financial structure of the Bank and otherwise, provision is provided based on the estimations.

The Parent Bank's liability resulting from the cheques given to its customers amounts to TL 102.994 (31 December 2017: 64.845 TL).

As of the balance sheet date, there are no probable contingent liabilities resulting from past events whose amount can be reliably measured.

4. Explanations on services in the name of others:

The Parent Bank provides custody services for purchases and sales of government bonds on behalf of real and legal persons, intermediates in repurchase and sale transactions, and provides safe deposit box services. The Bank does not provide consultancy and management services.

IV. EXPLANATIONS AND NOTES RELATED TO THE STATEMENT OF CONSOLIDATED PROFIT OR LOSS

1. a) Information on profit share received from loans:

	Current Period		Prior Period	
	TL	FC	TL	FC
Profit share on loans (*)	1.675.313	177.215	835.038	50.714
Short term loans	623.639	51.587	257.556	8.131
Medium and long term loans	1.046.597	125.628	577.142	42.583
Profit share on non-performing loans	5.077	-	340	-
Premiums received from resource utilization support fund	-	-	-	-

(*) Includes fees and commissions income on cash loans

b) Information on profit share received from banks:

None (31 December 2017: None).

c) Information on profit share income from securities portfolio:

	Current Period	
	TL	FC
Financial Assets at Fair Value through Profit and Loss	-	-
Financial Assets at Fair Value through Other Comprehensive Income	136.686	256
Investments Held-to-Maturity Financial Assets Measured by Amortized Cost	-	-
Total	136.686	256

Information on profit share income from securities portfolio:

	Prior Period	
	TL	FC
Financial Assets Held for Trading	-	-
Financial Assets Available-for-Sale	48.298	336
Investments Held-to-Maturity	-	-
Total	48.298	336

d) Information on profit share income received from associates and subsidiaries:

ZİRAAT KATILIM BANKASI A.Ş.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

None (31 December 2017: None).

**EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)****IV. EXPLANATIONS AND NOTES RELATED TO THE STATEMENT OF CONSOLIDATED
PROFIT OR LOSS (Continued)****2. a) Information on profit share expense on borrowing:**

	Current Period		Prior Period	
	TL	FC	TL	FC
Banks	7.496	27.931	2.855	15.750
Central Bank of the Republic of Turkey	6.488	-	510	-
Domestic Banks	1.008	21.331	2.345	12.706
Foreign Banks	-	6.600	-	3.044
Head Office and Branches	-	-	-	-
Other Institutions	-	19.549	-	20.100
Total	7.496	47.480	2.855	35.850

b) Information on profit share expense given to associates and subsidiaries:

None (31 December 2017: None).

c) Information on profit share expense paid to securities issued:

The amount of profit share paid to issued securities TL 140.695 (31 December 2017: 25.409).

d) Distribution of profit share on funds based on maturity of funds:

Current Period	Participation Accounts					Total
	Up to 1 month	Up to 3 months	Up to 6 months	Up to 1 year	Over 1 year	
Account Name						
Turkish Lira						
Funds Collected from Banks via Current and Participation Accounts	-	6.838	-	-	-	6.838
Real Person's Non Commercial Participation Accounts	45.160	340.583	4.692	3.984	19.211	413.630
Public Sector Participation Accounts	7.102	68.859	33.883	9.568	7.978	127.390
Commercial Sector Participation Accounts	23.149	266.330	14.446	7.858	1.735	313.518
Other Institutions Participation Accounts	1.606	66.650	6.409	15.364	890	90.919
Total	77.017	749.260	59.430	36.774	29.814	952.295
Foreign Currency						
Funds Collected from Banks via Current and Participation Accounts	-	84	-	-	-	84
Real Person's Non Commercial Participation Accounts	5.139	51.055	1.403	1.290	7.518	66.405
Public Sector Participation Accounts	20	1.047	-	-	-	1.067
Commercial Sector Participation Accounts	2.469	60.992	1.697	4.730	2.322	72.210
Other Institutions Participation Accounts	-	3.187	-	-	-	3.187
Public Sector Participation Accounts	3.995	-	-	-	-	3.995
Total	11.623	116.365	3.100	6.020	9.840	146.948
Grand Total	88.640	865.625	62.530	42.794	39.654	1.099.243

ZİRAAT KATILIM BANKASI A.Ş.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

**EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)****IV. EXPLANATIONS AND NOTES RELATED TO THE STATEMENT OF CONSOLIDATED
PROFIT OR LOSS (Continued)****d) Distribution of profit share on funds based on maturity of funds (Continued):**

Prior Period	Participation Accounts					
	Up to 1 month	Up to 1 month	Up to 1 month	Up to 1 month	Up to 1 month	Up to 1 month
Account Name						
Turkish Lira						
Funds Collected from Banks via Current and Participation Accounts	-	382	-	-	-	382
Real Person's Non Commercial Participation Accounts	22.143	154.037	2.551	2.151	5.314	186.196
Public Sector Participation Accounts	12.124	41.864	7.226	628	3.738	65.580
Commercial Sector Participation Accounts	12.841	106.338	10.505	1.412	1.180	132.276
Other Institutions Participation Accounts	364	26.903	800	4.401	188	32.656
Total	47.472	329.524	21.082	8.592	10.420	417.090
Foreign Currency						
Funds Collected from Banks via Current and Participation Accounts	-	1.007	-	-	-	1.007
Real Person's Non Commercial Participation Accounts	2.083	23.498	905	687	1.120	28.293
Public Sector Participation Accounts	15	309	-	-	-	324
Commercial Sector Participation Accounts	1.166	16.985	2.149	-	-	20.300
Other Institutions Participation Accounts	55	3.482	-	-	-	3.537
Public Sector Participation Accounts	583	-	-	-	-	583
Total	3.902	45.281	3.054	687	1.120	54.044
Grand Total	51.374	374.805	24.136	9.279	11.540	471.134

3. Information on dividend income:

As of 31 December 2018, the Parent Bank's divided income is TL 177 (31 December 2017: None).

4. a. Information on trading income/loss (Net)

	Current Period	Prior Period
Income	10.743.441	2.847.899
Foreign exchange gains	10.638.239	2.832.166
Gain on derivative financial instruments	104.993	15.707
Gain on capital market transactions	209	26
Losses (-)	10.685.660	2.836.343
Foreign exchange losses	10.639.430	2.793.077
Losses on derivative financial instruments	43.625	42.389
Losses on capital market transactions	2.605	877
Net	57.781	11.556

b. Information on profit/loss on derivative financial operations:

	Current Period	Prior Period
Effect of the change in exchange rates on profit/loss	(61.368)	(26.682)
Total	(61.368)	(26.682)

5. Information on other operating income:**Information on factors covering the recent developments which has significant effect on the Bank's income and the extent of effect on income:**

There are no significant matters covering the recent developments which have significant effect on the Bank's income.

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

IV. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS (Continued)

6. Provision expenses for impairment on loans and other receivables:

	Current Period
Expected Credit Loss	203.793
12 month expected credit loss (stage 1)	36.406
Significant increase in credit risk (stage 2)	56.148
Non-performing loans (stage 3)	111.239
Marketable Securities Impairment Expense	-
Financial Assets at Fair Value through Profit or Loss	-
Available-for-sale Financial Assets Fair Value Through Other Comprehensive Income	-
Investments in Associates, Subsidiaries and Held-to-maturity Securities Value Decrease	-
Investments in Associates	-
Subsidiaries	-
Joint Ventures	-
Other (*)	52.228
Total	256.021

(*) According to article 19 of regulation on procedures and principles for determination of qualifications of loans and other receivables and provision by banks, other amounting to TL 18.014 is reserved to use for expected credit loss provision, specific provisions and the Participation Accounts allocated to premium of Guarantee of Deposit Insurance Fund.

	Prior Period
Specific Provisions for Loans and Other Receivables	14.721
III. group loans and receivables	1.449
IV. group loans and receivables	2.841
V. group loans and receivables	10.431
General provision expenses	46.896
Provision expenses for possible losses	-
Impairment provision of marketable securities	165
Financial Assets at fair value through profit and loss	-
Investment securities available for sale	165
Impairment provision of associates, subsidiaries, joint ventures and held to maturity investments	-
Associates	-
Subsidiaries	-
Joint ventures	-
Held to maturity investments	-
Other(*)	28.361
Total	90.143

(*) According to article 14 of regulation on procedures and principles for determination of qualifications of loans and other receivables and provision by banks, other amounting to TL 26.313 is reserved to use for general loan loss provision, specific provisions and the Participation Accounts allocated to premium of Guarantee of Deposit Insurance Fund.

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

IV. EXPLANATIONS AND NOTES RELATED TO THE STATEMENT OF CONSOLIDATED PROFIT OR LOSS (Continued)

7. Information on other operating expenses:

	Current Period
Personnel expenses ^(**)	123.973
Reserve for Employee Termination Benefits	1.473
Bank Social Aid Provision Fund Deficit Provision	
Tangible Fixed Assets Impairment Expense	
Depreciation Expenses of Tangible Fixed Assets	15.325
Intangible Assets Impairment Expense	-
Goodwill Impairment Expense	-
Amortization Expenses of Intangible Assets	6.135
Impairment Expense for Equity Shares subject to the Equity Method	
Impairment Expense for Investment Securities that will be Disposed	
Amortization Expenses of Investment Securities that will be Disposed	
Impairment Expense for Property, Plant and Equipment Held for Sale and Discontinuing Operations	
Other Operating Expenses	86.973
Operational Leasing Expenses	26.900
Maintenance Expenses	6.197
Advertisement Expenses	16.362
Other Expenses	37.514
Loss on Sales of Assets	-
Other ^(*)	65.282
Total	299.161

^(*) The balance which forms the other item part, TL 20.412 represents Saving Deposit Insurance Fund ("SDIF") Premium amount and audit and consultancy fees and TL 17.883 represents taxes, fees and funds and other services expenses.

^(**) "Personnel Expenses", which is not included in "Other Operating Expenses" in the income statement, is included in this table.

	Prior Period
Personnel expenses	86.969
Reserve for Employee Termination Benefits	1.550
Bank Social Aid Provision Fund Deficit Provision	-
Tangible Fixed Assets Impairment Expense	-
Depreciation Expenses of Tangible Fixed Assets	12.456
Intangible Assets Impairment Expense	-
Goodwill Impairment Expense	-
Amortization Expenses of Intangible Assets	3.055
Impairment Expense for Equity Shares subject to the Equity Method	-
Impairment Expense for Investment Securities that will be Disposed	-
Amortization Expenses of Investment Securities that will be Disposed	-
Impairment Expense for Property, Plant and Equipment Held for Sale and Discontinuing Operations	-
Other Operating Expenses	60.668
Operational Leasing Expenses	18.882
Maintenance Expenses	4.521
Advertisement Expenses	14.949
Other Expenses	22.316
Loss on Sales of Assets	-
Other ^(*)	32.833
Total	197.531

^(*) The prior balance which forms the other item part, TL 20.805 represents SDIF Premium amount and audit and consultancy fees and TL 9.264 represents taxes, fees and funds and other services expenses.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

**EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)****IV. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED STATEMENT OF
PROFIT OR LOSS (Continued)****8. Information on profit/loss from continued and discontinued operations before taxes:**

As of 31 December 2018, The Group does not have any discontinuing operations. The compositions of the profit/loss before tax from the continuing operations are following:

	Current Period
Net Profit Share Income	770.834
Net Fees and Commissions Income	60.727
Personnel Expenses	123.973
Dividend Income	177
Trading Income/Expense (Net)	57.781
Other Operating Income	80.212
Expected Loss Provision (-)	256.021
Other Operating Expenses (-)	175.188
Income/(Loss) from Continuing Operations	414.549

	Prior Period
Net Profit Share Income	443.086
Net Fees and Commissions Income	30.343
Dividend Income	-
Trading Income/Expense (Net)	11.556
Other Operating Income	2.663
Loan and other receivables impairment provision (-)	90.143
Other Operating Expenses (-)	197.531
Income/(Loss) from Continuing Operations	199.974

9. Information on tax provision for continued and discontinued operations:

As of 31 December 2018, the Group's total tax provision expense amounting to TL 91.884 (31 December 2017: TL 41.072) consists of TL 113.918 (31 December 2017: TL 46.907) of current tax expense and TL 22.034 (31 December 2017: TL 5.835) of deferred tax income.

10. Explanation on net income/loss for the period for continuing and discontinued operations:

The Group's net operating income after tax amounts to TL 322.665 (31 December 2017: TL 158.902).

11. Information on net profit/loss:

- a) **Nature, amount and frequency of income and expenses arising from ordinary banking activities, if required for the understanding the performance of the Bank in the current period:**

The Parent Bank, mainly utilizes its resources from domestic current and profit shares, securities and interbank operations. Besides, it obtains income via commissions taken from non-cash loans, other banking operations.

- b) **The effect of the change in accounting estimates to the net profit/loss; including the effects to the future period, if any:**

As of the balance sheet date, there is no change in accounting estimates that may require further explanations in the current period.

12. If other items in the income statement exceed 10% of the income statement total, sub-accounts constituting at least 20% of these items are shown below:

None (31 December 2017: None).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”))

**EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)**

V. EXPLANATIONS AND NOTES RELATED TO CHANGES IN SHAREHOLDERS’ EQUITY

a) Explanations on profit distribution:

In accordance with the decision taken in the General Assembly of the year 2017, which was carried out on 17 April 2018, from TL 199.974 net profit, TL 46.907 is transferred as fiscal charge. 5% of remaining TL 153.067 , TL 7.653 is separated as legal reserve. TL 10.000 was decided to be paid to employees and 10% of this amount, TL 1.000 has been allocated as reserves. Remaining amount, TL 134.414, has been left in the Parent Bank. Paid-in capital is raised by TL 500.000 in cash from TL 1.250.000 to TL 1.750.000.

The Parent Bank is planning to distribute its profit for 2018 in line with the Articles of Incorporation in 2017. However, as of the date of preparation of the financial statements, no decision on profit distribution has been made.

b) Explanations on Financial Assets at Fair Value Through Other Comprehensive Income

Explanations on Financial Assets at Fair Value Through Other Comprehensive Income were presented under Section Five and 1.3-b footnote.

c) Profit reserves:

As of balance sheet date, profit reserves are TL 158.593, legal reserves are TL 9.961, extraordinary reserves are TL 138.256, and other profit reserves are TL 10.376.

d) Explanations on Previous Year’s Profit/Loss:

None.

VI. EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED STATEMENT OF CASH FLOWS

1. Explanations about other cash flows items and the effect of changes in foreign exchange rates on cash and cash equivalents:

“Operating Profit before Changes in Operating Assets and Liabilities” amounting to TL 121.921 is composed mainly from interest received from loans and securities amounting to TL 823.676 and interest paid to deposit and money market operations which is amounting to TL 491.718 Other earnings consists primarily net fee, commission income and other operation losses.

The effect of change in foreign exchange rate on cash and cash equivalents is calculated approximately TL 303.391 as of 31 December 2018 (31 December 2017: TL 51.176)

Cash in TL, cash in foreign currency, Central Bank of the Republic of Turkey, money in transit, bank cheques purchased and cash on money market operations are defined as “cash”; interbank money transactions placements having maturities less than three months, and time deposits in banks are defined as “cash equivalents”.

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

VI. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

Period opening and end cash and cash equivalents balance:

Period opening	Current Period	Prior Period
Cash in TL and in Foreign Currency	41.124	32.550
Central Bank of the Republic of Turkey and Other Banks	560.677	1.081.708
Money Market Operations	-	-
Total Cash and Cash Equivalents	601.801	1.114.258

Period End	Current Period	Prior Period
Cash in TL and in Foreign Currency	53.161	41.124
Central Bank of the Republic of Turkey and Other Banks	1.092.371	560.677
Money Market Operations	-	-
Total Cash and Cash Equivalents	1.145.532	601.801

VII. EXPLANATIONS AND NOTES RELATED TO THE RISK GROUP OF THE PARENT BANK

1) a) Information on the volume of transactions relating to the Parent Bank's risk group, outstanding loans and funds collected and income and expenses for the period:

Current Period

Risk group of the Bank	Investment in associates, subsidiaries and joint ventures (business partnerships)		Direct and indirect shareholders of the Bank		Other real or legal persons included in the risk group	
	Cash	Non-Cash	Cash	Non-Cash	Cash	Non-Cash
Loans and other receivables	-	-	-	-	-	-
Balance at beginning of period	-	-	758.988	-	-	-
Balance at end of period	-	-	2.180.316	-	-	-
Profit share and commission income	-	-	28.471	-	-	-

Prior Period

Risk group of the Bank	Investment in associates, subsidiaries and joint ventures (business partnerships)		Direct and indirect shareholders of the Bank		Other real or legal persons included in the risk group	
	Cash	Non-Cash	Cash	Non-Cash	Cash	Non-Cash
Loans and other receivables	-	-	-	-	-	-
Balance at beginning of period	-	-	558.924	-	-	-
Balance at end of period	-	-	758.988	-	-	-
Profit share and commission income	-	-	8.248	-	-	-

b) Current and profit sharing account held by the Parent Bank's risk group:

Risk group of the Bank	Investment in associates, subsidiaries and joint ventures (business partnerships)		Direct and indirect shareholders of the bank		Other real or legal persons included in the risk group	
	Current period	Prior period	Current period	Prior period	Current period	Prior period
Current and profit sharing accounts	-	-	8.159	1.796	-	-
Balance at the beginning of period	-	-	42.411	8.159	-	-
Balance at the end of period	-	-	2.563	2.314	-	-
Profit share expense	-	-	2.563	2.314	-	-

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

VII. EXPLANATIONS AND NOTES RELATED TO THE RISK GROUP OF THE CONSOLIDATED BANK (Continued)

c) Information on loans received from the Parent Bank's risk group:

Risk group of the Bank	Investment in associates, subsidiaries and joint ventures (business partnerships)		Direct and indirect shareholders of the bank		Other real or legal persons included in the risk group	
	Current period	Prior period	Current period	Prior period	Current period	Prior period
Funds Borrowed						
Balance at the beginning of period	557.814	101.459	-	-	-	-
Balance at the end of period	1.375.097	557.814	-	-	-	-
Profit share paid expense	140.695	13.303	-	-	-	-

2) Information on forward transactions, option agreements and similar transactions between the Consolidated Bank's risk group:

Risk Group of the Bank	Subsidiaries, Associates and Entities Under Common Control (Joint Ventures)		Direct or Indirect Shareholders of the Bank		Other Real and Legal Persons in the Risk Group	
	Current Period	Prior Period	Current Period	Prior Period	Current Period	Prior Period
The Fair Value Differences Through Profit and Loss	-	-	-	-	-	-
Opening Balance	-	-	1.264.078	259.672	-	-
Closing Balance	-	-	2.401.773	1.264.078	-	-
Total Profit/Loss	-	-	6.145	6.280	-	-
Risk Protection Oriented Processes	-	-	-	-	-	-
Opening Balance	-	-	-	-	-	-
Closing Balance	-	-	-	-	-	-
Total Profit/Loss	-	-	-	-	-	-

3) Information on remunerations provided to top management:

The Group has paid TL 3.503 to top management (31 December 2017: TL 2.717).

VIII. SIGNIFICANT EVENTS AND MATTERS ARISING SUBSEQUENT TO BALANCE SHEET DATE

As of 1 January 2019, the Company's short term borrowings are as follows:

Non-interest bearing note at 11 January 2019

Ziraat Katılım Varlık Kiralama A.Ş. has issued a lease certificate with the ISIN code TRDZKVK41915 amounting to TL 300,000,000 on 11 January 2019 with a simple annual rate of return of 22,25%, with a maturity of 98 days, dated 19 April 2019.

The details of the distribution of sukuk issuance for the year 11 January 2019 of 300.000.000 TL are as follows:

First Income Distribution Amount 19 April 2019	17.921.910
Lease Certificate Fee Amount 19 April 2019	300.000.000

Non-interest bearing note at 25 January 2019

Ziraat Katılım Varlık Kiralama A.Ş. has issued a lease certificate with the ISIN code TRDZKVK51914 amounting to TL 400,000,000 on 25 January 2019 with a simple annual rate of return of 21,00%, with a maturity of 98 days, dated 3 May 2019.

The details of the distribution of sukuk issuance for the year 11 January 2019 of 300.000.000 TL are as follows:

First Income Distribution Amount 3 May 2019	22.553.440
Lease Certificate Fee Amount 3 May 2019	400.000.000

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

IX. EXPLANATIONS AND NOTES RELATED TO DOMESTIC, FOREIGN, OFF-SHORE BRANCHES OR AFFILIATES AND FOREIGN REPRESENTATIVES OF THE PARENT BANK

1) Domestic and foreign branches and representative offices of the Parent Bank:

	Number	Number of Employees			
Domestic branches (*)	80	1.042			
			Country		
Foreign representative offices	-	-	-		
				Total Assets	Legal Equity
Foreign branches	-	-	-	-	-
Off shore banking branches	-	-	-	-	-

(*) The number of head office staff has been included in the number of domestic branch employees.

2) Explanations on the opening and closing of branches or representative office of the Parent Bank in Turkey and abroad, and the significant change in its organization:

In 2018, 17 new branches (31 December 2017: 19 Branches) have been opened in Turkey.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”))

SECTION SIX**OTHER EXPLANATIONS AND NOTES****I. INFORMATION ON THE GROUP’S RATING THAT HAS BEEN DETERMINED BY INTERNATIONAL RATING AGENCIES**

Fitch Ratings: 1 October 2018	Note	Explanation
Long Term Foreign Currency Credit Rating	B +	It is in a very speculative level under the investment class.
Short Term Foreign Currency Credit Rating	B	It is in a speculative level under the investment class.
Long Term Turkish Lira Credit Rating	BB+	It is in a speculative level under the investment class.
Short Term Turkish Lira Credit Rating	B	It is in a speculative level under the investment class.
National Long Term Credit Rating	AAA(tur)	Top level investment grade.
Support	3	The probability of external support is reasonable.

II. OTHER EXPLANATIONS ON GROUP’S OPERATIONS

None.

SECTION SEVEN**EXPLANATIONS ON INDEPENDENT AUDITOR’S REPORT****I. EXPLANATIONS ON THE INDEPENDENT AUDITOR’S REPORT**

As of 31 December 2018, consolidated financial statements and explanatory notes of the Parent Bank disclosed herein were audited by KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.(the Turkish member of KPMG International Cooperative, a Swiss Entity) and Audit Report dated 18 February 2019 is presented preceding the financial statements.

II. EXPLANATIONS AND NOTES PREPARED BY THE INDEPENDENT AUDITORS

None.