

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

Ziraat Katılım Bankası Anonim Şirketi

**Consolidated Interim Financial Statements
As at and For Six-Month Period Ended
30 June 2017**

With Auditors' Review Report Thereon

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

9 August 2017

This report includes "Auditors' Review Report" comprising 2 pages and; "Consolidated Financial Statements and Related Disclosures and Footnotes" comprising 85 pages.



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REVIEW REPORT ON INTERIM CONSOLIDATED FINANCIAL INFORMATION

To the Board of Directors of Ziraat Katılım Bankası A.Ş.

Introduction

We have reviewed the accompanying consolidated statements of balance sheet of Ziraat Katılım Bankası A.Ş. (the "Bank") and its financial subsidiaries (together the "Group") as at 30 June 2017 and the consolidated statement of income, consolidated statement of income and expense items accounted under shareholders' equity, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows and a summary of significant accounting policies and other explanatory notes to the consolidated financial information for the six-month-period then ended. The Bank Management is responsible for the preparation and fair presentation of this interim financial information in accordance with the "Banking Regulation and Supervision Agency (BRSA) Accounting and Reporting Legislation" which includes "Regulation on Accounting Applications for Banks and Safeguarding of Documents" published in the Official Gazette no.26333 dated 1 November 2006, and other regulations on accounting records of Banks published by Banking Regulation and Supervision Agency and circulars and interpretations published by Banking Regulation and Supervision Authority and Turkish Accounting Standard 34 "Interim Financial Reporting" except for the matters regulated by afore-mentioned legislations. Our responsibility is to express a conclusion on these interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with the Standard on Review Engagements (SRE) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review of interim financial information is substantially less in scope than an audit conducted in accordance with the Auditing Standards of Turkey. Consequently, a review of the interim financial information does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



Conclusion

Based on our review nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not give a true view of the financial position of Ziraat Katılım Bankası A.Ş. at 30 June 2017 and of the results of its operations and its cash flows for the six-month-period then ended in all aspects in accordance with the BRSA Accounting and Financial Reporting Legislation.

Other Matter

The consolidated financial statements of the Bank as at and for the year ended 31 December 2016 and as at and for the six-month period ended 30 June 2016 were audited and reviewed by another auditor who expressed an unmodified opinion and an unmodified conclusion on 17 February 2017 and 9 August 2016, respectively.

Report on other legal and regulatory requirements

Based on our review, nothing has come to our attention that causes us to believe that the financial information provided in the accompanying interim activity report in Section Eight, is not consistent with the consolidated financial statements and disclosures in all material respects.

Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.
A member firm of KPMG International Cooperative

Erdal Tikmak,
Partner

9 August 2017
İstanbul, Turkey

Additional paragraph for convenience translation to English:

As explained in Section 3.1, the accompanying consolidated financial statements are not intended to present the financial position and results of operations in accordance with the accounting principles and practices generally accepted in countries and jurisdictions other than Turkey.



CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED CONSOLIDATED
INTERIM FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE I. OF SECTION THREE

THE CONSOLIDATED INTERIM FINANCIAL REPORT OF
ZİRAAT KATILIM BANKASI A.Ş. AS OF 30 JUNE 2017

The Bank's Headquarter Address: Hobyar Eminönü Mahallesi
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The consolidated financial report for six months includes the following sections 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:

- GENERAL INFORMATION ABOUT THE PARENT BANK
- UNCONSOLIDATED FINANCIAL STATEMENTS OF THE PARENT BANK
- EXPLANATIONS ON ACCOUNTING POLICIES
- EXPLANATIONS ON THE FINANCIAL POSITION OF THE BANK
- EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL STATEMENTS
- OTHER EXPLANATIONS AND NOTES
- EXPLANATIONS ON REVIEW REPORT
- INTERIM ACTIVITY REPORT

Subsidiaries financial statements have been consolidated in this consolidated interim financial report are as follows:

		Subsidiaries	Jointly Controlled Entities
1	Ziraat Katılım Varlık Kiralama AŞ	-	-

The accompanying consolidated financial statements for six months 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 reviewed.

Hüseyin AYDIN
Chairman of the Board

Metin ÖZDEMİR
Member of the Board,
CEO

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

Salim ALKAN
Member of the Board,
Member of the Audit Committee

Hakan AYDOĞAN
Financial Coordination and
Human Resources Deputy
General Manager

Osman ÇETİNER
President
of
Financial Coordination

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

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ZİRAAT KATILIM BANKASI AŞ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY - 30 JUNE 2017

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

SECTION ONE

GENERAL INFORMATION ABOUT THE GROUP

I. A 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 October 2014 which was published in the Official Gazette numbered as 29146 at 15 October 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 Parent 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 Parent Bank has begun its operations by opening its first branch in 29 May 2015. Governance body of the bank is in Istanbul. In accordance with the decision of the Parent Bank's Ordinary General Assembly Meeting held on 29 April 2016, the paid-in capital of the Parent Bank has been raised from TL 675,000 to TL 747,000 by cash amount to TL 72,000 and registered on 18 May 2016.

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 of the Bank, T.C Ziraat Bankası A.Ş has been transferred to the Turkey Wealth Fund according to enactment dated 24 January 2017, no 2017/9756 by the Council of Ministry. Transfer operations are continuing.

II. SHAREHOLDING STRUCTURE, SHAREHOLDERS JOINTLY OR INDIVIDUALLY HAVING DIRECT OR INDIRECT, CONTROL OVER THE MANAGEMENT AND SUPERVISION OF THE PARENT BANK AND THE DISCLOSURES ON ANY RELATED CHANGES IN THE CURRENT PERIOD, IF ANY AND INFORMATION ABOUT THE GROUP THAT THE PARENT BANK BELONGS TO

As at 30 June 2017 and 31 December 2016, Parent Bank’s major shareholders and capital are as follows:

Shareholders	30 June 2017		31 December 2016	
	Paid Capital	%	Paid Capital	%
T.C. Ziraat Bankası A.Ş. (*)	747,000	99,9999996	747,000	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	747,000	100.00	747,000	100.00

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

ZİRAAT KATILIM BANKASI AŞ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY - 30 JUNE 2017

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

GENERAL INFORMATION ABOUT THE BANK (Continued)

III. EXPLANATIONS ON THE TITLES OF CHAIRMAN AND MEMBERS OF THE BOARD OF DIRECTORS, MEMBERS OF THE 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
Yusuf DAĞCAN	Executive Vice President and Member of the BOD
Cemalettin BAŞLI	Member
Feyzi ÇUTUR	Member
Salim ALKAN	Member
Feyzi ÇUTUR	Member (Member of Audit Committee)
Salim ALKAN ^(**)	Member (Member of Audit Committee)
Assistant General Manager	
Hakan AYDOĞAN	Financial Coordination and Human Resources
Tahir DEMİRKIRAN	Loan Allocation and Management

^(*) As of 12 June 2017 was transferred to General Manager.

^(**) As of 12 June 2017 was transferred to Member of Audit Committee.

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 AŞ ^(*)	747,000	99,9999996	747,000	-
Ziraat Sigorta AŞ	-	0,0000001	-	-
Ziraat Hayat ve Emeklilik AŞ	-	0,0000001	-	-
Ziraat Teknoloji AŞ	-	0,0000001	-	-
Ziraat Yatırım Menkul Değerler AŞ	-	0,0000001	-	-
Total	747,000	100,00	747.000	-

^(*) All of the shares of the Parent of the Bank, T.C Ziraat Bankası A.Ş will be transferred to the Turkey Wealth Fund according to enactment dated 24 January 2017, no 2017/9756 by the Council of Ministry. Transfer operations are continuing.

ZİRAAT KATILIM BANKASI AŞ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY - 30 JUNE 2017

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

GENERAL INFORMATION ABOUT THE GROUP (Continued)

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

Operation field of Parent Bank is declared in the prime contract within the scope of Banking Law and other legislation codes. The Parent Bank collects funds with the scope of non-interest Banking Principles and provide all type of cash, non-cash funds within the scope of Islamic banking principles in any case. Moreover, the Parent 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 other accounts in its account records. Participation accounts are opened in 5 maturity groups as maturity to one month, maturity to three months (three months included), maturity to six months (six 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.

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 22 January 2016, Ziraat Katılım Varlık Kiralama A.Ş. was established to issue leasing certificates within the framework of the Communique on Leasing Certificates (III-61.1) issued by the CMB in the Official Gazette dated June7, 2013 and numbered 28760 with the permission from the Banking Regulation and Supervision Board and the CMB with TL 50 equity which is owned by the Parent Bank. The Parent Bank and subsidiaries consolidated with the Parent Bank are together referred as the “Group”.

As of 30 June 2017, Group operates with 743 workers (31 December 2016: 655 workers).

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 for Ziraat Katılım Bank from consolidated financial statements of Banks and Turkish Accounting standards. Bank’s subsidiary Ziraat Katılım Varlık Kiralama A.Ş is consolidated within the scope of full consolidation.

VII. EXISTING OR POTENTIAL, ACTUAL OR LEGAL OBSTACLES TO IMMEDIATE TRANSFER OF SHAREHOLDER’S EQUITY OR REPAYMENT OF DEBT BETWEEN THE PARENT BANK AND ITS SUBSIDIARIES

None.

ZİRAAT KATILIM BANKASI A.Ş.

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

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

SECTION TWO

CONSOLIDATED FINANCIAL STATEMENTS

I. CONSOLIDATED BALANCE SHEET (CONSOLIDATED STATEMENT OF FINANCIAL POSITION)	Note (Section Five I)	THOUSAND TURKISH LIRA					
		Reviewed Current Period (30/06/2017)			Audited Prior Period (31/12/2016)		
		TL	FC	Total	TL	FC	Total
ASSETS							
I. CASH BALANCES WITH THE CENTRAL BANK OF TURKEY	(1)	204,784	1,051,399	1,256,183	633,389	567,909	1,201,298
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS (Net)	(2)	14	4	18	7	1,152	1,159
2.1 Financial Assets Held for Trading		14	4	18	7	1,152	1,159
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		14	4	18	7	1,152	1,159
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)	504,601	289,681	794,282	6,561	461,893	468,454
IV. MONEY MARKET PLACEMENTS		-	-	-	-	-	-
V. FINANCIAL ASSETS AVAILABLE FOR SALE (Net)	(4)	495,647	7,253	502,900	407,515	7,168	414,683
5.1 Securities Representing a Share in Capital		4,719	-	4,719	4,719	-	4,719
5.2 Public Sector Debt Securities		-	-	-	-	-	-
5.3 Other Marketable Securities		490,928	7,253	498,181	402,796	7,168	409,964
VI. LOANS AND RECEIVABLES	(5)	6,837,528	1,088,229	7,925,757	4,949,028	608,914	5,557,942
6.1 Loans and receivables		6,817,438	1,088,229	7,905,667	4,942,377	608,914	5,551,291
6.1.1 Loans to Risk Group of the Bank		36,519	228,770	265,289	505,998	52,926	558,924
6.1.2 Public sector debt securities		-	-	-	-	-	-
6.1.3 Other		6,780,919	859,459	7,640,378	4,436,379	555,988	4,992,367
6.2 Non-performing loans		30,594	-	30,594	10,483	-	10,483
6.3 Specific provisions (-)		10,504	-	10,504	3,832	-	3,832
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)	291,141	-	291,141	221,373	-	221,373
11.1 Finance Lease Receivables		371,363	-	371,363	265,785	-	265,785
11.2 Operating Lease Receivables		-	-	-	-	-	-
11.3 Other		-	-	-	-	-	-
11.4 Unearned Income (-)		80,222	-	80,222	44,412	-	44,412
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)	44,183	-	44,183	43,643	-	43,643
XIV. INTANGIBLE ASSETS (Net)	(15)	22,634	-	22,634	22,905	-	22,905
14.1 Goodwill		-	-	-	-	-	-
14.2 Other		22,634	-	22,634	22,905	-	22,905
XV. REAL ESTATES FOR INVESTMENT PURPOSE (Net)	(12)	-	-	-	-	-	-
XVI. TAX ASSET	(16)	7,713	-	7,713	4,876	-	4,876
16.1 Current Tax Asset		-	-	-	-	-	-
16.2 Deferred Tax Asset		7,713	-	7,713	4,876	-	4,876
XVII. ASSETS HELD FOR SALE AND ASSETS HELD FROM DISCONTINUED OPERATIONS (Net)	(13)	-	-	-	-	-	-
17.1 Held for Sale		-	-	-	-	-	-
17.2 Held from Discontinued Operations		-	-	-	-	-	-
XVIII. OTHER ASSETS	(17)	80,383	244	80,627	22,980	143	23,123
TOTAL ASSETS		8,488,628	2,436,810	10,925,438	6,312,277	1,647,179	7,959,456

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

ZİRAAT KATILIM BANKASI AŞ

CONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION) AS OF 30 JUNE 2017

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

I. CONSOLIDATED BALANCE SHEET (CONSOLIDATED STATEMENT OF FINANCIAL POSITION)		THOUSAND TURKISH LIRA						
		Note (Section Five II)	Reviewed Current Period (30/06/2017)			Audited Prior Period (31/12/2016)		
			TL	FC	Total	TL	FC	Total
LIABILITIES AND EQUITY								
I.	FUND COLLECTED	(1)	4,874,838	2,514,731	7,389,569	3,776,737	1,859,209	5,635,946
1.1	Fund Collected Held By the Risk Group of the Bank		85,299	20,038	105,337	1,785	11	1,796
1.2	Other		4,789,539	2,494,693	7,284,232	3,774,952	1,859,198	5,634,150
II.	DERIVATIVE FINANCIAL LIABILITIES HELD FOR TRADING	(2)	82	2,844	2,926	-	-	-
III.	FUNDS BORROWED	(3)	-	1,678,469	1,678,469	-	1,185,762	1,185,762
IV.	MONEY MARKET BALANCES	(3)	61,791	-	61,791	133,668	-	133,668
V.	MARKETABLE SECURITIES ISSUED (Net)		202,597	-	202,597	101,459	-	101,459
VI.	MISCELLANEOUS PAYABLES		524,531	3,348	527,879	13,217	3,809	17,026
VII.	OTHER LIABILITIES	(4)	129,396	930	130,326	45,594	933	46,527
VIII.	FINANCE LEASE PAYABLES	(5)	-	-	-	-	-	-
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	(6)	-	-	-	-	-	-
9.1	Fair Value Hedges		-	-	-	-	-	-
9.2	Cash Flow Hedges		-	-	-	-	-	-
9.3	Hedges for Investments Made in Foreign Countries		-	-	-	-	-	-
X.	PROVISIONS	(7)	96,941	3,654	100,595	62,750	1,824	64,574
10.1	General Provisions		75,963	-	75,963	52,263	-	52,263
10.2	Restructuring Provisions		-	-	-	-	-	-
10.3	Employee Benefits Provisions		3,421	-	3,421	2,169	-	2,169
10.4	Insurance Technical Reserves (Net)		-	-	-	-	-	-
10.5	Other Provisions		17,557	3,654	21,211	8,318	1,824	10,142
XI.	TAX LIABILITY	(8)	16,013	-	16,013	9,873	-	9,873
11.1	Current Tax Liability		16,013	-	16,013	9,873	-	9,873
11.2	Deferred Tax Liability		-	-	-	-	-	-
XII.	LIABILITIES FOR ASSETS HELD FOR SALE AND HELD FROM DISCONTINUED OPERATIONS (Net)	(9)	-	-	-	-	-	-
12.1	Held for Sale		-	-	-	-	-	-
12.2	Held from Discontinued Operations		-	-	-	-	-	-
XIII.	SUBORDINATED LOANS	(10)	-	-	-	-	-	-
XIV.	SHAREHOLDERS' EQUITY	(11)	815,250	23	815,273	764,728	(107)	764,621
14.1	Paid-in Capital		747,000	-	747,000	747,000	-	747,000
14.2	Capital Reserves		(4,111)	23	(4,088)	(963)	(107)	(1,070)
14.2.1	Share Premium		-	-	-	-	-	-
14.2.2	Share Cancellation Profits		-	-	-	-	-	-
14.2.3	Marketable Securities Valuation Differences		(4,111)	23	(4,088)	(963)	(107)	(1,070)
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		-	-	-	-	-	-
14.3.1	Legal Reserves		-	-	-	-	-	-
14.3.2	Statutory Reserves		-	-	-	-	-	-
14.3.3	Extraordinary Reserves		-	-	-	-	-	-
14.3.4	Other Profit Reserves		-	-	-	-	-	-
14.4	Profit or Loss		72,361	-	72,361	18,691	-	18,691
14.4.1	Prior Years Profit/Loss		18,691	-	18,691	(11,982)	-	(11,982)
14.4.2	Net Period Profit/Loss		53,670	-	53,670	30,673	-	30,673
14.5	Minority Shares		-	-	-	-	-	-
TOTAL LIABILITIES AND EQUITY			6,721,439	4,203,999	10,925,438	4,908,026	3,051,430	7,959,456

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

ZİRAAT KATILIM BANKASI AŞ

CONSOLIDATED STATEMENT OF OFF-BALANCE SHEET COMMITMENTS AS OF 30 JUNE 2017

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

II. CONSOLIDATED STATEMENT OF OFF-BALANCE SHEET COMMITMENTS	Note (Section Five III)	THOUSAND TURKISH LIRA						
		Reviewed Current Period (30/06/2017)			Audited Prior Period (31/12/2016)			
		TL	FC	Total	TL	FC	Total	
A	OFF-BALANCE SHEET COMMITMENTS (I+II+III)	(1)	2,525,098	2,913,095	5,438,193	1,380,632	2,435,507	3,816,139
I.	GUARANTEES AND WARRANTIES		2,393,179	2,421,846	4,815,025	1,341,334	2,166,635	3,507,969
1.1	Letters of Guarantee		2,382,474	1,819,637	4,202,111	1,329,163	1,443,571	2,772,734
1.1.1	Guarantees Subject to State Tender Law		63,950	871,210	935,160	7,214	603,083	610,297
1.1.2	Guarantees Given for Foreign Trade Operations		2,172,988	-	2,172,988	1,208,028	-	1,208,028
1.1.3	Other Letters of Guarantee		145,536	948,427	1,093,963	113,921	840,488	954,409
1.2	Bank Acceptances		-	11,519	11,519	-	7,484	7,484
1.2.1	Import Letter of Acceptance		-	11,519	11,519	-	7,484	7,484
1.2.2	Other Bank Acceptances		-	-	-	-	-	-
1.3	Letters of Credit		755	300,108	300,863	-	188,475	188,475
1.3.1	Documentary Letters of Credit		755	300,108	300,863	-	188,475	188,475
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		9,950	286,214	296,164	12,000	520,131	532,131
1.7	Other Collaterals		-	4,368	4,368	171	6,974	7,145
II.	COMMITMENTS	(1)	61,462	22,959	84,421	39,298	9,200	48,498
2.1	Irrevocable Commitments		61,462	22,959	84,421	39,298	9,200	48,498
2.1.1	Forward asset purchase commitments		10,156	22,959	33,115	4,023	9,200	13,223
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		50,283	-	50,283	34,817	-	34,817
2.1.7	Tax and Fund Liabilities from Export Commitments		1,023	-	1,023	458	-	458
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		-	-	-	-	-	-
2.2	Revocable Commitments		-	-	-	-	-	-
2.2.1	Revocable Loan Granting Commitments		-	-	-	-	-	-
2.2.2	Other Revocable Commitments		-	-	-	-	-	-
III.	DERIVATIVE FINANCIAL INSTRUMENTS		70,457	468,290	538,747	-	259,672	259,672
3.1	Derivative financial instruments for hedging purposes		-	-	-	-	-	-
3.1.1	Fair value hedge		-	-	-	-	-	-
3.1.2	Cash flow hedge		-	-	-	-	-	-
3.1.3	Hedge of net investment in foreign operations		-	-	-	-	-	-
3.2	Held for trading transactions		70,457	468,290	538,747	-	259,672	259,672
3.2.1	Forward Foreign Currency Buy/Sell Transactions		70,457	468,290	538,747	-	259,672	259,672
3.2.1.1	Forward Foreign Currency Transactions-Buy		-	267,925	267,925	-	130,412	130,412
3.2.1.2	Forward Foreign Currency Transactions-Sell		70,457	200,365	270,822	-	129,260	129,260
3.2.2	Other Forward Buy/Sell Transaction		-	-	-	-	-	-
3.3	Other		-	-	-	-	-	-
B.	CUSTODY AND PLEDGES RECEIVED (IV+V+VI)		10,299,894	603,739	10,903,633	6,580,645	334,443	6,915,088
IV.	ITEMS HELD IN CUSTODY		278,532	186,035	464,567	197,945	103,513	301,458
4.1	Customer Fund and Portfolio Balances		-	-	-	-	-	-
4.2	Investment Securities Held in Custody		16,121	-	16,121	1,167	-	1,167
4.3	Checks Received for Collection		239,641	4,568	244,209	185,546	2,162	187,708
4.4	Commercial Notes Received for Collection		22,770	2,250	25,020	11,232	190	11,422
4.5	Other Assets Received for Collection		-	-	-	-	-	-
4.6	Assets Received for Public Offering		-	-	-	-	-	-
4.7	Other Items Under Custody		-	79,605	79,605	-	47,704	47,704
4.8	Custodians		-	99,612	99,612	-	53,457	53,457
V.	PLEDGES RECEIVED		10,021,362	417,704	10,439,066	6,382,700	230,930	6,613,630
5.1	Marketable Securities		690,367	157,070	847,437	6,979	-	6,979
5.2	Guarantee Notes		724,066	30,100	754,166	572,824	22,136	594,960
5.3	Commodity		633,816	-	633,816	419,001	-	419,001
5.4	Warranty		-	-	-	-	-	-
5.5	Properties		7,444,655	-	7,444,655	4,855,316	-	4,855,316
5.6	Other Pledged Items		528,458	230,534	758,992	528,580	208,794	737,374
5.7	Pledged Items-Depository		-	-	-	-	-	-
VI.	ACCEPTED INDEPENDENT GUARANTEES AND WARRANTIES		-	-	-	-	-	-
	TOTAL OFF-BALANCE SHEET COMMITMENTS (A+B)		12,824,992	3,516,834	16,341,826	7,961,277	2,769,950	10,731,227

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

ZİRAAT KATILIM BANKASI AŞ

CONSOLIDATED INCOME STATEMENT FOR THE PERIOD OF 1 JANUARY - 30 JUNE 2017

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

III. CONSOLIDATED INCOME STATEMENT					
INCOME AND EXPENSE ITEMS	Note (Section Five IV)	Reviewed	Reviewed	Reviewed	Reviewed
		Current Period	Prior Period	Current Period	Prior Period
		01/01-30/06/2017	01/01-30/06/2016	01/04-30/06/2017	01/04-30/06/2016
I. PROFIT SHARE INCOME	(1)	393,267	134,855	212,715	80,969
1.1 Profit share on loans		351,445	123,859	191,527	74,691
1.2 Profit share on reserve deposits		6,398	1,481	3,458	803
1.3 Profit share on banks		-	353	-	-
1.4 Profit share on money market placements		-	-	-	-
1.5 Profit share on marketable securities portfolio		21,088	8,257	10,474	4,818
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		21,088	8,072	10,474	4,633
1.5.4 Investments held-to-maturity		-	185	-	185
1.6 Finance lease income		13,728	903	6,804	655
1.7 Other profit share income		608	2	452	2
II. PROFIT SHARE EXPENSE	(2)	211,883	54,998	119,110	35,095
2.1 Expense on profit sharing accounts		186,987	43,349	104,101	26,789
2.2 Profit share expense on funds borrowed		16,975	9,468	10,049	7,018
2.3 Profit share expense on money market borrowings		1,524	2,181	1,146	1,288
2.4 Expense on securities issued		6,397	-	3,814	-
2.5 Other profit share expense		-	-	-	-
III. NET PROFIT SHARE INCOME (I - II)		181,384	79,857	93,605	45,874
IV. NET FEES AND COMMISSIONS INCOME/EXPENSE		13,767	4,892	7,708	2,197
4.1 Fees and commissions received		19,484	6,894	10,890	3,783
4.1.1 Non-cash loans		14,914	4,514	8,285	2,400
4.1.2 Other		4,570	2,380	2,605	1,383
4.2 Fees and commissions paid		5,717	2,002	3,182	1,586
4.2.1 Non-cash loans		-	-	-	-
4.2.2 Other		5,717	2,002	3,182	1,586
V. DIVIDEND INCOME		-	-	-	-
VI. NET TRADING INCOME	(3)	5,555	3,134	1,861	1,502
6.1 Capital market transaction gains / (losses)		(8)	-	(8)	-
6.2 Gains/ (losses) from derivative financial instruments		(8,849)	2,612	(8,061)	1,918
6.3 Foreign exchange gains / (losses)		14,412	522	9,930	(416)
VII. OTHER OPERATING INCOME	(4)	1,855	1,264	192	487
VIII. NET OPERATING INCOME (III+IV+V+VI+VII)		202,561	89,147	103,366	50,060
IX. PROVISION FOR LOAN LOSSES AND OTHER RECEIVABLES (-)	(6)	41,950	22,985	17,646	9,095
X. OTHER OPERATING EXPENSES (-)	(7)	90,988	61,277	48,534	34,940
XI. NET OPERATING INCOME/(LOSS) (VIII-IX-X)		69,623	4,885	37,186	6,025
XII. AMOUNT IN EXCESS RECORDED AS GAIN AFTER MERGER		-	-	-	-
XIII. GAIN / (LOSS) ON EQUITY METHOD		-	-	-	-
XIV. GAIN / (LOSS) ON NET MONETARY POSITION		-	-	-	-
PROFIT/(LOSS) BEFORE TAXES FROM CONTINUED OPERATIONS (XI+...+XIV)	(8)	69,623	4,885	37,186	6,025
XVI. TAX PROVISION FOR CONTINUED OPERATIONS (-)	(9)	(15,953)	(2,416)	(8,636)	(799)
16.1 Current Tax Provision		(18,546)	(4,501)	(8,938)	(2,114)
16.2 Deferred Tax Provision		2,593	2,085	302	1,315
XVII. NET PROFIT/(LOSS) FROM CONTINUED OPERATIONS (XV±XVI)	(10)	53,670	2,469	28,550	5,226
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		-	-	-	-
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)	53,670	2,469	28,550	5,226
23.1 Group profit/ loss		53,670	2,469	28,550	5,226
23.2 Minority shares profit/ loss		-	-	-	-
Earnings per share income/loss (full TL)		0,07185	0,00331	0,03825	0,00741

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

ZİRAAT KATILIM BANKASI AŞ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

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

IV. CONSOLIDATED STATEMENT OF PROFIT AND LOSS ACCOUNTED FOR UNDER EQUITY		
Consolidated Statement of Income and Expenses Accounted Under Equity	Reviewed Current Period 01/01/2017- 30/06/2017	Audited Prior Period 01/01/2016- 30/06/2016
I. ADDITIONS TO MARKETABLE SECURITIES VALUATION DIFFERENCES FOR AVAILABLE SALE FINANCIAL ASSETS	(3,262)	1,360
II. TANGIBLE ASSETS REVALUATION DIFFERENCES	-	-
III. INTANGIBLE ASSETS REVALUATION DIFFERENCES	-	-
IV. FOREIGN EXCHANGE DIFFERENCES FOR FOREIGN CURRENCY TRANSACTIONS	-	-
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	244	(272)
X. TOTAL NET PROFIT/LOSS ACCOUNTED FOR UNDER EQUITY (I+II+...+IX)	(3,018)	1,088
XI. PROFIT/LOSS	53,670	2,469
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 income statement	-	-
11.3 Reclassification of hedge of net investments in foreign operations to income statement	-	-
11.4 Other	53,670	2,469
XII. TOTAL PROFIT/LOSS ACCOUNTED FOR THE PERIOD (X±XI)	50,652	3,557

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

ZİRAAT KATILIM BANKASI AŞ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 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 V)	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
Prior Period 1 January -30 June 2016																				
I.	Balances at the beginning of period		675,000	-	-	-	-	-	-	-	-	(11,982)	1,512	-	-	-	-	664,530	-	664,530
II.	Corrections according to Turkish Accounting Standard No.8		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.1	Corrections of errors		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2	Changes in accounting policies		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
III.	Adjusted beginning balance (I + II)		675,000	-	-	-	-	-	-	-	-	(11,982)	1,512	-	-	-	-	664,530	-	664,530
	Changes in the period																			
IV.	Increase / decrease related to mergers		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
V.	Valuation difference of available-for-sale securities		-	-	-	-	-	-	-	-	-	-	1,088	-	-	-	-	1,088	-	1,088
VI.	Hedging transactions (effective portion)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6.1	Cash flow hedge		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6.2	Hedging of a net investment in foreign subsidiaries		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VII.	Revaluation fund on tangible assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VIII.	Revaluation fund on intangible assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IX.	Capital bonus of associates, subsidiaries and joint ventures		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
X.	Foreign exchange differences		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XI.	Changes related to sale of assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XII.	Changes related to reclassification of assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIII.	Effect of changes in equities of associates		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIV.	Capital increase		72,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	72,000	-	72,000
14.1	Cash		72,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	72,000	-	72,000
14.2	Domestic sources		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XV.	Issuances of share certificates		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVI.	Abolition profit of share certificates		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVII.	Capital reserves from inflation adjustments to paid-in capital		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVIII.	Others		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIX.	Current period net profit / loss		-	-	-	-	-	-	-	2,469	-	-	-	-	-	-	-	2,469	-	2,469
XX.	Profit distribution		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20.1	Dividends		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20.2	Transferred to reserves		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20.3	Others		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Balances at the end of period (III+IV+V+.....+XVIII+XIX+XX)		747,000	-	-	-	-	-	-	-	2,469	(11,982)	2,600	-	-	-	-	740,087	-	740,087

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

ZİRAAT KATILIM BANKASI AŞ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

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

V. CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY																				
THOUSAND TURKISH LIR Current Period 01 January 2017 – 30 June 2017		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
I.	Balances at the beginning of the period		747,000	-	-	-	-	-	-	-	-	18,691	(1,070)	-	-	-	-	764,621	-	764,621
II.	Changes in the period		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
III.	Increase / decrease related to mergers		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
III.	Valuation difference of available-for-sale securities		-	-	-	-	-	-	-	-	-	-	(3,018)	-	-	-	-	(3,018)	-	(3,018)
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		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12.1	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12.2	Domestic sources		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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		-	-	-	-	-	-	-	-	53,670	-	-	-	-	-	-	53,670	-	53,670
XVIII.	Profit distribution		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18.1	Dividends		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18.2	Transferred to reserves		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18.3	Others		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Balance at the end of the period (I+II+III+.....+XVI+XVII+XVIII)		747,000	-	-	-	-	-	-	-	53,670	18,691	(4,088)	-	-	-	-	815,273	-	815,273

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

ZİRAAT KATILIM BANKASI AŞ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

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

VI. CONSOLIDATED STATEMENT OF CASH FLOWS	Note (Section Five)	THOUSAND TURKISH LIRA	
		Reviewed Current Period 01/01/2017 - 30/06/2017	Reviewed Prior Period 01/01/2016 - 30/06/2016
A. CASH FLOWS FROM BANKING OPERATIONS			
1.1 Operating profit before changes in operating assets and liabilities		68,603	11,768
1.1.1 Profit share income received		356,473	104,980
1.1.2 Profit share expense paid		(193,600)	(45,587)
1.1.3 Dividend received		-	-
1.1.4 Fees and commissions received		19,484	6,894
1.1.5 Other income		408	5,414
1.1.6 Collections from previously written off loans		189	-
1.1.7 Payments to personnel and service suppliers		(40,763)	(30,645)
1.1.8 Taxes paid		(9,607)	(3,227)
1.1.9 Others		(63,981)	(26,061)
1.2 Changes in operating assets and liabilities		(198,005)	399,816
1.2.1 Net (increase)/decrease in held for trading financial assets		1,137	-
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		(483,705)	(264,516)
1.2.4 Net (increase) decrease in loans		(2,414,411)	(1,954,683)
1.2.5 Net (increase) decrease in other assets		(57,504)	(18,564)
1.2.6 Net increase (decrease) in bank deposits		63,038	-
1.2.7 Net increase (decrease) in other deposits		1,678,477	1,491,270
1.2.8 Net increase (decrease) in funds borrowed		489,032	1,007,156
1.2.9 Net increase (decrease) in due payables		-	-
1.2.10 Net increase (decrease) in other liabilities		525,931	139,153
I. Net cash provided from banking operations		(129,402)	411,584
B. CASH FLOWS FROM INVESTING ACTIVITIES			
II. Net cash provided from investing activities		(95,499)	(105,345)
2.1 Cash paid for purchase jointly controlled operations, associates and subsidiaries		-	(50)
2.2 Cash obtained from sale of jointly controlled operations, associates and subsidiaries		-	-
2.3 Fixed assets purchases		(7,282)	(7,791)
2.4 Fixed assets sales		-	-
2.5 Cash paid for purchase of financial assets available for sale		(88,217)	(88,256)
2.6 Cash obtained from sale of financial assets available for sale		-	-
2.7 Cash paid for purchase of investment securities		-	(7,685)
2.8 Cash obtained from sale of investment securities		-	-
2.9 Other		-	(1,563)
C. CASH FLOWS FROM FINANCING ACTIVITIES			
III. Net cash provided from financing activities		94,740	-
3.1 Cash obtained from funds borrowed and securities issued		300,000	-
3.2 Cash used for repayment of funds borrowed and securities issued		(205,260)	-
3.3 Marketable Securities Issued		-	-
3.4 Dividends paid		-	-
3.5 Payments for finance leases		-	-
3.6 Other		-	-
IV. Effect of change in foreign exchange rate on cash and cash equivalents		25,565	(2,136)
V. Net increase (decrease) in cash and cash equivalents (I + II + III + IV)		(104,596)	304,103
VI. Cash and cash equivalents at the beginning of the period		1,114,258	145,137
VII. Cash and cash equivalents at the end of the period		1,009,662	449,240

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017**

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

SECTION THREE

ACCOUNTING PRINCIPLES

I. EXPLANATIONS ON 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 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 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 Parent Bank maintains its books in Turkish Lira in accordance with the Banking Law, Turkish Commercial Code and Turkish Tax Legislation.

As of the date of 30 June 2017, balance sheet and off-balance sheet liabilities tables are comparatively given with December 31, 2016 balances and income statement, profit and loss accounted for under equity, cash flows and changes in shareholders’ equity tables are comparatively given with the accounting period ending on 30 June 2016.

Unless otherwise specified, all balances in the financial statements and footnotes are expressed in thousand Turkish Lira (“TL”).

The preparation of consolidated 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.

The amendments of TAS and TFRS which have entered into force as of 1 January 2017 have no material impact on the Parent’s bank accounting policies, financial position and performance. The amendments of TAS and TFRS will be effective as of 1 January 2018, except TFRS 9 Financial Instruments, will have no impact on the accounting policies, financial condition and performance of the Parent Bank. The Parent Bank has started works in order to comply with TFRS 9 Financial Instruments Standard which will be effective as of 1 January 2018.

The accounting policies and valuation principles applied in the preparation of these consolidated financial statements are defined and applied in accordance with TAS. Those accounting policies and valuation principles are explained in Notes II. to XXIV.

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 unconsolidated financial statements. Accordingly, these unconsolidated financial statements are not intended to present the financial position, results of operations and changes in financial position and cash flows in accordance with the accounting principles generally accepted in such countries and IFRS.

ZİRAAT KATILIM BANKASI AŞ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

(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 Parent Bank resources consists of shareholders equity. Bank evaluates its resources with commodity transactions, lease certificates and credits in high-yield and short-term. 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 in the income statement under the net foreign exchange income/expense account.

The Parent Bank is monitoring risks of liquidated receivables, doubtful fees, commission and other receivables with loans have the characteristics of loss and participation accounts make loan available risk belong to bank that are monitored in other receivables accounts with equities and make loans available special current accounts that are foreign currency and balance receivables, on the date of transition exchange to TL. Foreign currency credits make loans that are participation accounts and foreign exchange loans, risk that is belong to participation accounts appreciate with current accounts to exchange differences monitoring on the foreign exchange transactions profit or loss.

The foreign currency exchange differences resulting from the translation of debt securities issued and monetary financial instruments are reflected in the income statement. There are no foreign currency differences capitalized by the Parent Bank.

III. EXPLANATIONS ON INVESTMENTS IN ASSOCIATES, SUBSIDIARIES AND JOINT VENTURES

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.

ZİRAAT KATILIM BANKASI AŞ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

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

ACCOUNTING PRINCIPLES (Continued)

III. EXPLANATIONS ON INVESTMENTS IN ASSOCIATES, SUBSIDIARIES AND JOINT VENTURES (Continued)

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.

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

30 June 2017				
Title	Address (City / Country)	Main Activities	Parent Bank’s Share Percentage (%)	Parent Bank’s Risk Group Share Percentage (%)
Ziraat Katılım Varlık Kiralama AŞ	İstanbul/Türkiye	Kira Sertifikası İhracı	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 07 June 2013 and numbered 28760 serial: 3 no: 61.1 published in Official Gazette.

2. Consolidation principles of associates and joint ventures:

There is no jointly controlled subsidiaries as of the date of 30 June 2017.

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

4. Transactions with minority shareholders: None.

ZİRAAT KATILIM BANKASI AŞ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

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

ACCOUNTING PRINCIPLES (Continued)

III. EXPLANATIONS ON INVESTMENTS IN ASSOCIATES, SUBSIDIARIES AND JOINT VENTURES (Continued)

b. Presentation of unconsolidated 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.

The Parent Bank’s derivative transactions mostly include currency and precious metal swaps and foreign currency forward contracts in line with TAS 39 “Financial Instruments: Recognition and Measurement”. The Bank has no embedded derivative instruments separated from the articles of association.

Derivative instruments are recognized at fair value on contractual date and subsequently re-valued at their fair values and associated with the income statement. If the fair value of derivative financial instruments is positive, it is disclosed under the main account “Financial Assets at Fair Value through Profit or Loss” in “Trading Derivative Financial Assets” and if the fair value difference is negative, it is disclosed under “Financial Liabilities at Fair Value through Profit or Loss” in “Trading Derivative Financial Liabilities”. Fair value changes are recorded under “Derivative Financial Transactions Gains/Losses” in income statement.

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

V. EXPLANATIONS ON PROFIT SHARE INCOME AND EXPENSE

Profit share income and expenses are recognized on an accrual basis using the internal rate of return method in conformity with TAS 39 “Financial Instruments: Recognition and Measurement”. In accordance with the Communiqué on “Methods and Principles on Determining the Nature of Loans and Other Receivables and Allocation of Provisions” came into force after being published in the Official Gazette numbered 26333 dated 1 November 2006, no profit share income accrual is calculated for non-performing loans. Realized profit share accruals calculated for non-performing loans and recognized as income are reversed and profit share income related to these loans is recognized as profit only when collected.

The Parent 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.

ZİRAAT KATILIM BANKASI AŞ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

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

ACCOUNTING PRINCIPLES (Continued)

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

Financial instruments comprise financial assets and liabilities and derivative instruments. Financial assets mainly constitute the Bank’s commercial activities and operations. Financial assets are classified as investments held-to-maturity, bank loans and receivables, financial assets available for sale or held-for-trading at initial recognition.

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

Financial assets at fair value through profit or loss have two sub categories: “trading financial assets” and “financial assets through at fair value through profit/loss at initial recognition”.

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 Parent Bank has no financial assets at fair value through profit or loss other than trading financial assets.

b. Financial assets available for sale:

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.

ZİRAAT KATILIM BANKASI AŞ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

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

ACCOUNTING PRINCIPLES (Continued)

VII. EXPLANATIONS ON FINANCIAL ASSETS (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 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.

VIII. EXPLANATIONS ON IMPAIRMENT OF FINANCIAL ASSETS

A financial asset or a group of financial assets is subject to impairment loss only if there is an objective indication that the occurrence of one or more than one event (“loss event”) subsequent to the initial recognition of that asset has an effect on the reliable estimate of the expected future cash flows of the related financial asset and asset group.

If revalued amounts of financial assets at fair value through profit/loss is less than the prior revalued amounts, initially, value of prior records regarding the value increase are adjusted according to the recent value and if the impairment loss is more than the prior value increase, difference is reflected to “Impairment Expense for Marketable Securities”. If there is an increase in value, initially recognized impairment loss is reversed.

If financial assets available for sale are subject to permanent impairment, the amount is charged to “Impairment Expense for Marketable Securities” account in accordance with the related Turkish Accounting Standard.

The Parent Bank, loans and other receivables are classified in accordance with the Communiqué on “Methods and Principles on Determining the Nature of Loans, Other Receivables, and Allocation of Provisions” published in the Official Gazette numbered 26333 and dated 1 November 2006.

The provisions released in the same year are accounted by crediting the provision expenses account and the released parts of the previous years’ provisions are recorded to the “collections from prior years expense” account.

ZİRAAT KATILIM BANKASI AŞ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

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

ACCOUNTING PRINCIPLES (Continued)

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.

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

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 a 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.

A discontinued operation is a part of a parent bank’s business classified as sold or held-for-sale. The results of the discontinued operations are disclosed separately in the income statement.

As of 30 June 2017, the Parent Bank has no held for sale and discontinued operations (31 December 2016: None).

XII. EXPLANATIONS ON GOODWILL AND OTHER INTANGIBLE ASSETS

As of the balance sheet date, the Group 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.

ZİRAAT KATILIM BANKASI AŞ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

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

ACCOUNTING PRINCIPLES (Continued)

XII. EXPLANATIONS ON GOODWILL AND OTHER INTANGIBLE ASSETS (Continued)

The Group 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.

XIII. EXPLANATIONS ON TANGIBLE ASSETS

Property and equipment is measured at its cost when initially recognized 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;

Buildings	: 2%
Vehicles and Fixtures	: 2% – 20%

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.

There is no tangible assets that are held for sale.

XIV. EXPLANATIONS ON LEASING TRANSACTIONS

Group’s Transactions as a Lessee

Assets acquired under finance lease contracts are recorded both as an asset and a liability at the beginning date of the lease. The basis for the determination of these amounts is the lower of fair value of the leased asset or the present value of the lease payments. The direct costs incurred during a finance lease transaction are capitalized as additions to the cost of the leased asset. Lease payments include the financing costs incurred due to the leasing transaction and the principal amount of the leased asset for the current period.

Depreciation is calculated on a straight-line basis over the estimated useful life of the leased assets and if a diminution in recoverable value of the leased asset is identified, a provision for impairment is recognized. As of 30 June 2017, there is no financial leasing transaction.

The Parent Bank records financial lease payments made for branches as equal expense amounts within the lease period.

Group’s Transactions as a lessor

The Parent Bank, as a participation bank, acts as a lessor in finance leasing transactions. The Parent 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.

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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 Group 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 LIABILITIES RELATING TO EMPLOYEE BENEFITS

a. Defined contribution plans:

Liabilities related to severance pay and right to leave calculated according to the regulations of the TAS 19 "Accounting Standard of Employee Benefits", and liabilities related to future severance pay and right to leave calculated and reflected to the financial statements on the net present value.

Under the Turkish legislation as supplemented by union agreements, Employment Termination Benefit payments are made in case of retirement or employment termination or resignation depending on the arise of the legal conditions. 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).

The Parent bank benefits from independent actuaries on determination of obligation and makes assumptions on discount rate, employee turnover rate, and future raise in salaries. These assumptions are reviewed yearly. As of 30 June 2017, the Parent Bank’s employee termination benefit is TL 1,150 (31 December 2016: TL 780).

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 30 June 2016 the Parent Bank unused vacation liability is TL 2,271 (31 December 2016: TL 1,389).

The Group is not employing its personnel by means of limited-period contracts.

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ACCOUNTING PRINCIPLES (Continued)

XVI. EXPLANATIONS ON LIABILITIES RELATING TO EMPLOYEE BENEFITS (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. As of 30 June 2017 the number of beneficiaries of the Fund from the Bank (except the dependents), is 733.

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 cancelling the provisional article 23 of the Banking Law 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.

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.

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ACCOUNTING PRINCIPLES (Continued)

XVI. EXPLANATIONS ON LIABILITIES RELATING TO EMPLOYEE BENEFITS (Continued)

b. T.C. Ziraat Bankası and T. Halk Bankası Employee Pension Fund Foundations (TZHEMSAN) Liability (Continued)

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 2016 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

“Corporate Tax Law” No. 5520 was taken into effect after being published in the Official Gazette dated 21 June 2006 No.26205. Many clauses of the “New Tax Law” are effective from 1 January 2006. According to the New Tax Law, the corporate tax rate in Turkey is payable at the rate of 20% as of 1 January 2006. 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. No further tax is payable unless the profit is distributed.

Dividends paid to non-resident corporations, which have a place of business or permanent attorney in Turkey or to resident corporations are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 15%. An increase in capital via issuing bonus shares is not considered as profit distribution and no withholding tax incurs in such a case.

Corporations are required to pay advance corporate tax quarterly at a rate of 20% 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.

A 75% portion of the capital gains derived from the sale of equity investments and immovable properties held for at least two years is tax exempt, if such gains are added to paid-in capital in accordance with Corporate Tax Law or held in a special account under shareholders’ equity for five years.

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 finding.

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XVII. ACCOUNTING PRINCIPLES (Continued)

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.

The calculated 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.

XVIII. EXPLANATIONS ON ADDITIONAL DISCLOSURES ON BORROWINGS

The Group records borrowings in accordance with TAS 39 “Financial Instruments: Recognition and Measurement”. Borrowings, are recognized using the internal rate of return method in the following periods after the initial recognition. The Parent Bank has no borrowing that require hedging techniques for accounting and revaluation of debt instruments and liabilities representing the borrowings. There are no debt securities issued by the parent bank. The Parent Bank has issued borrowings as Sukuk issuances, this through its subsidiary Ziraat Katılım Varlık Kiralama A.Ş., these Sukuk issuances are provided to the qualified investors without being released through an IPO and the parent bank takes place during this operation as a fund user.

XIX. EXPLANATIONS ON SHARE CERTIFICATES ISSUED

Since the Group does not have issued shares, there are no transaction costs related to share issue in the current period.

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.

ZİRAAT KATILIM BANKASI AŞ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

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ACCOUNTING PRINCIPLES (Continued)

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 Bank, are disclosed in Note XII. of Section Four.

XXIV. EXPLANATIONS ON OTHER MATTERS

In the Ordinary General Meeting of the Parent Bank held on 13 July 2017, paid in capital increased to TL 1,250,000 with TL 500,000 in cash and TL 3,000 internal resources. With the capital advance permission letters of BRSA dated 24 March 2017 and numbered 4968 and dated 2 June 2017 and numbered 8500, it was paid by the Parent of the Bank, T.C Ziraat Bankası A.Ş.

With the decision of the Board of the Directors, numbered as 11/1 at 12 June 2017, Metin ÖZDEMİR was transferred to General Manager.

ZİRAAT KATILIM BANKASI AŞ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

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SECTION FOUR

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

I. EXPLANATIONS ON SHAREHOLDERS’ EQUITY

As of the 30 June 2017, current period equity balance of the Parent Bank is TL 1,221,295 (31 December 2016: TL 706,161) and capital adequacy standard ratio is 16.83% (31 December 2016: 12.46%).

Information Related To The Consolidated Components of Shareholders' Equity:

	Current Period 30.06.2017	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	747,000	
Share issue premiums	-	
Reserves	-	
Gains recognized in equity as per TAS	-	
Profit	72,361	
Current Period Profit	53,670	
Prior Period Profit	18,691	
Shares acquired free of charge from subsidiaries, affiliates and jointly controlled partnerships and cannot be recognized within profit for the period	-	
Minority shares	-	
Common Equity Tier 1 Capital Before Deductions	819,361	
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	4,088	
Improvement costs for operating leasing	16,860	
Goodwill (net of related tax liability)	-	
Other intangibles other than mortgage-servicing rights (net of related tax liability)	18,107	
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	-	
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	-	
Excess 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	39,055	
Total Common Equity Tier 1 Capital	780,306	

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

I. EXPLANATIONS ON SHAREHOLDERS’ EQUITY (Continued)

	Current Period 30.06.2017	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)	-	-
Shares of third parties on Tier II	-	-
Shares of third parties on Tier II (Temporary Article 3)	-	-
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 (-)	4,527	-
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	4,527	-
Total Additional Tier I Capital		
Total Tier I Capital (Tier I Capital=Common Equity+Additional Tier I Capital)	775,779	-
TIER II CAPITAL		
Debt instruments and share issue premiums deemed suitable by the BRSA ^(**)	500,000	-
Debt instruments and share issue premiums deemed suitable by BRSA (Temporary Article 4)	-	-
Shares of third parties on Tier II	-	-
Shares of third parties on Tier II (Temporary Article 3)	-	-
Provisions (Article 8 of the Regulation on the Equity of Banks)	26,314	-
Tier II Capital Before Deductions	526,314	-
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	526,314	-
Total Capital (The sum of Tier I Capital and Tier II Capital)	1,302,093	-

^(**) With the decision of the Banking Regulation and Supervision Agency dated 24 March 2017 and 02.06.2017 and numbered 4968 and 8500, the amount of TL 500,000 transferred to the Bank accounts for capital increase has been taken into consideration in the tier II capital account until the completion of the capital increase procedure.

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

I. EXPLANATIONS ON SHAREHOLDERS’ EQUITY (Continued)

	Current Period 30.06.2017	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 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 (-)	80,798	
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	1,221,295	
Total risk weighted amounts	7,255,377	
Capital Adequacy Ratios		
Consolidated Core Capital Adequacy Ratio	10.76	
Consolidated Tier 1 Capital Adequacy Ratio	10.69	
Consolidated Capital Adequacy Ratio	16.83	
BUFFERS		
Total Tier I 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 important bank bumper 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	6.25	
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 deferred tax assets based on temporary differences	-	
Limits related to provisions considered in Tier II calculation	-	
Limits related to provisions considered in Tier II calculation		
General provisions for standard based receivables (before tenthousandtwentyfive limitation)	26,314	
Up to 1.25% of total risk-weighted amount of general reserves for receivables where the standard approach used	26,314	
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	-	

ZİRAAT KATILIM BANKASI AŞ

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

I. EXPLANATIONS ON SHAREHOLDERS’ EQUITY (Continued)

	Prior Period 31.12.2016	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	747,000	
Share issue premiums	-	
Reserves	-	
Gains recognized in equity as per TAS	-	
Profit	30,673	
Current Period Profit	30,673	
Prior Period Profit	-	
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	777,673	
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	13,052	
Improvement costs for operating leasing	16,001	
Goodwill (net of related tax liability)	-	
Other intangibles other than mortgage-servicing rights (net of related tax liability)	13,742	
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	-	
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	-	
Excess 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	42,795	
Total Common Equity Tier 1 Capital	734,878	

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

I. EXPLANATIONS ON SHAREHOLDERS’ EQUITY (Continued)

	Prior Period 31.12.2016	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 (-)	9,162	
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	9,162	
Total Additional Tier I Capital		
Total Tier I Capital (Tier I Capital=Common Equity Additional Tier I Capital)	725,716	
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)	17,287	
Tier II Capital Before Deductions	17,287	
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	17,287	
Total Capital (The sum of Tier I Capital and Tier II Capital)	743,003	

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

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

I. EXPLANATIONS ON SHAREHOLDERS' EQUITY (Continued)

	Prior Period 31.12.2016	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 (-)	36,842	
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	706,161	
Total risk weighted amounts	5,666,714	
Capital Adequacy Ratios		
Core Capital Adequacy Ratio	12.97	
Tier 1 Capital Adequacy Ratio	12.81	
Capital Adequacy Ratio	12.46	
BUFFERS		
Total Tier I Capital Ratio (%)	3.13	
Capital conservation buffer requirement	0.63	
Bank specific counter-cyclical buffer requirement	2.50	
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	8.47	
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 deferred tax assets based on temporary differences	-	
Limits related to provisions considered in Tier II calculation	-	
Limits related to provisions considered in Tier II calculation		
General provisions for standard based receivables (before tenthousandtwentyfive limitation)	17,287	
Up to 1.25% of total risk-weighted amount of general reserves for receivables where the standard approach used	17,287	
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	-	

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

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

II. 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 Parent Bank is not exposed to significant currency risks. Risks are monitored by the currency risk tables prepared based on the standard method. Besides, VAR is calculated for foreign exchange position and reported to the related departments.

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) **Management policy for foreign currency risk:**

“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 US Dollar 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.

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

	USD	EUR	AUD	DKK	SEK	CHF	CAD	NOK	GBP	SAR	100JPY
22.06.2017	3.5153	3.9193	2.6236	0.5221	0.3985	3.5800	2.6309	0.4102	4.4318	0.9278	3.1250
23.06.2017	3.4970	3.9143	2.6200	0.5213	0.3973	3.5735	2.6115	0.4100	4.4356	0.9231	3.1110
28.06.2017	3.5115	3.9881	2.6458	0.5311	0.4056	3.6204	2.6617	0.4112	4.5256	0.9269	3.1000
29.06.2017	3.5107	4.0093	2.6682	0.5340	0.4098	3.6325	2.6760	0.4141	4.5453	0.9268	3.0870
30.06.2017	3.5157	4.0073	2.6692	0.5338	0.4125	3.6338	2.6796	0.4152	4.5468	0.9280	3.0970

- d) **Simple arithmetic average of the 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	100JPY
3.3982	3.8130	2.5406	0.5078	0.3872	3.4749	2.5265	0.3975	4.3336	0.8970	3.0300

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

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

II. EXPLANATIONS ON THE CONSOLIDATED CURRENCY RISK (Continued)

Information on the foreign currency risk of the Group:

	EUR	USD	Other FC ⁽⁴⁾	Total
Current Period				
Assets				
Cash (Cash in vault, effectives, money in transit, cheques purchased) and Balances with Central Bank of the Republic of Turkey	223,469	764,649	63,281	1,051,399
Banks ⁽¹⁾	108,918	137,150	43,613	289,681
Financial Assets at Fair Value Through Profit and Loss ⁽³⁾	-	-	-	-
Money Market Placements	-	-	-	-
Financial Assets Available-for-Sale	-	7,253	-	7,253
Loans	1,625,642	1,182,801	-	2,808,443
Subsidiaries, Associates, Entities Under Common, Control (Joint Ventures)	-	-	-	-
Investments Held-to-Maturity	-	-	-	-
Derivative Financial Assets for Hedging Purposes	-	-	-	-
Tangible Fixed Assets	-	-	-	-
Intangible Assets	-	-	-	-
Other Assets	10	234	-	244
Total Assets	1,958,039	2,092,087	106,894	4,157,020
Liabilities				
Current account and funds collected from Banks via participation accounts	80,355	95	-	80,450
Current and profit sharing accounts FC	923,278	1,406,780	104,223	2,434,281
Money market borrowings	-	-	-	-
Funds provided from other financial institutions	734,341	944,128	-	1,678,469
Marketable securities issued	-	-	-	-
Miscellaneous payables	573	2,775	-	3,348
Derivative financial liabilities for hedging purposes	-	-	-	-
Other liabilities	1,650	2,887	47	4,584
Total liabilities	1,740,197	2,356,665	104,270	4,201,132
Net balance sheet position	217,842	(264,579)	2,624	(44,113)
Net off-balance sheet position	(200,365)	267,925	-	67,560
Financial derivative assets	-	267,925	-	267,925
Financial derivative liabilities	(200,365)	-	-	(200,365)
Non-cash Loans	1,043,072	1,341,862	36,912	2,421,846
Prior Period				
Total Assets	1,473,863	1,513,755	56,584	3,044,202
Total Liabilities	1,422,716	1,573,932	54,888	3,051,536
Net Balance Sheet Position	51,147	(60,177)	1,696	(7,334)
Net Off-Balance Sheet Position ⁽²⁾	(129,260)	130,412	-	1,152
Financial Derivative Assets	-	130,412	-	130,412
Financial Derivative Liabilities	129,260	-	-	129,260
Non-cash Loans	930,417	1,200,728	35,490	2,166,635

⁽¹⁾ TL 521,504 equivalent of USD loans and TL 1,198,170 equivalent of EUR loans are originated from foreign currency indexed loan.

⁽²⁾ Indicates the net balance of receivables and payables on derivative financial instruments.

⁽³⁾ Derivative Financial Assets held for trading and liabilities are not included in the table.

⁽⁴⁾ Of the foreign currencies presented in the other foreign currency column of assets 93% is Gold, 3 % is GBP, and remaining 4% is other foreign currencies. Of the foreign currencies presented in the other foreign currency column of liabilities 95% is Gold, 4% is GBP and the remaining 1% is other foreign currencies

ZİRAAT KATILIM BANKASI AŞ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

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

III. EQUITY SHARE POSITION RISK ON 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 4,719 all of which are 100% risk weighted.

IV. EXPLANATIONS ON THE CONSOLIDATED LIQUIDITY RISK MANAGEMENT AND CONSOLIDATED 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 on weekly unconsolidated 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.

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

IV. EXPLANATIONS ON THE CONSOLIDATED LIQUIDITY RISK MANAGEMENT AND CONSOLIDATED LIQUIDITY COVERAGE RATIO (Continued)

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. For this reason, the assets and liabilities of the Bank are in harmony with the profit share ratios.

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.

- 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 the Parent 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.

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

The Parent banks 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 Bank’s 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

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

IV. EXPLANATIONS ON THE CONSOLIDATED LIQUIDITY RISK MANAGEMENT AND CONSOLIDATED LIQUIDITY COVERAGE RATIO (Continued)

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	1,376,153	852,474	1,142,866	620,071
High quality liquid assets	-	-	1,142,866	620,071
CASH OUTFLOWS	10,267,976	3,893,698	2,645,275	1,178,521
Real person deposits and retail deposits	3,449,253	1,264,186	325,617	126,419
Stable deposit	386,177	-	19,309	-
Deposit with low stability	3,063,076	1,264,186	306,308	126,419
Unsecured debts except real person deposits and retail deposits	3,404,746	1,331,962	1,986,896	854,084
Operational deposit	-	-	-	-
Non-operating deposits	-	-	-	-
Other unsecured debts	3,404,746	1,331,962	1,986,896	854,084
Secured debts	-	-	-	-
Other cash outflows	3,413,976	1,297,550	332,763	198,019
Derivative liabilities and margin obligations	134,028	104,297	134,028	104,297
Debt from structured financial instruments	-	-	-	-
Other off-balance sheet liabilities and commitments for the payment owed to financial markets	138,948	136,238	41,685	40,871
Revocable off-balance sheet obligations regardless of any other requirement and other contractual obligations	-	-	-	-
Other irrevocable or provisory revocable off-balance sheet liabilities	3,141,000	1,057,015	157,050	52,851
TOTAL CASH OUTFLOW	-	-	2,645,276	1,178,522
CASH INFLOWS	1,834,437	911,889	1,604,665	905,729
Secured receivables	-	-	-	-
Unsecured claims	1,700,758	788,064	1,470,987	781,904
Other cash inflows	133,678	123,824	133,678	123,824
TOTAL CASH INFLOWS	1,834,436	911,889	1,604,665	905,729
Applied maximum rate values	-	-	-	-
TOTAL High quality liquid asset STOCK	-	-	1,142,866	620,071
TOTAL NET CASH OUTFLOWS	-	-	1,042,202	342,941
LIQUIDITY COVERAGE RATIO (%)	-	-	110	181

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

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

IV. EXPLANATIONS ON THE CONSOLIDATED LIQUIDITY RISK MANAGEMENT AND CONSOLIDATED LIQUIDITY COVERAGE RATIO (Continued)

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	880,253	559,751	705,398	385,323
High quality liquid assets			705,398	385,323
CASH OUTFLOWS	6,260,670	2,337,819	1,527,873	635,354
Real person deposits and retail deposits	2,293,909	791,038	222,430	79,104
Stable deposit	139,215	-	6,961	-
Deposit with low stability	2,154,694	791,038	215,469	79,104
Unsecured debts except real person deposits and retail deposits	2,028,558	788,795	1,129,676	446,343
Operational deposit	-	-	-	-
Non-operating deposits	-	-	-	-
Other unsecured debts	2,028,558	788,795	1,129,676	446,343
Secured debts				
Other cash outflows	1,938,203	757,986	175,767	109,907
Derivative liabilities and margin obligations	69,556	62,399	69,556	62,399
Debt from structured financial instruments	-	-	-	-
Other off-balance sheet liabilities and commitments for the payment owed to financial markets	51,114	50,912	15,334	15,274
Revocable off-balance sheet obligations regardless of any other requirement and other contractual obligations	-	-	-	-
Other irrevocable or provisory revocable off-balance sheet liabilities	1,817,533	644,675	90,877	32,234
TOTAL CASH OUTFLOW	-	-	1,527,873	635,354
CASH INFLOWS	1,271,674	396,524	1,079,211	392,799
Secured receivables	-	-	-	-
Unsecured claims	1,200,669	336,832	1,008,206	333,107
Other cash inflows	71,005	59,692	71,005	59,692
TOTAL CASH INFLOWS	1,271,674	396,524	1,079,211	392,799
Applied maximum rate values	-	-	-	-
TOTAL High quality liquid asset STOCK	-	-	705,398	385,323
TOTAL NET CASH OUTFLOWS	-	-	493,665	257,730
LIQUIDITY COVERAGE RATIO (%)	-	-	153	186

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

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

IV. EXPLANATIONS ON THE CONSOLIDATED LIQUIDITY RISK MANAGEMENT AND CONSOLIDATED LIQUIDITY COVERAGE RATIO (Continued)

Breakdown of assets and liabilities according to their outstanding maturities:

Current Period	Demand	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Undistributed ^(*)	Total
Assets								
Cash (Cash in Vault, Effectives, Money in Transit, Cheques Purchased) and Balances with the Central Bank of the Republic of Turkey	218,836	1,037,347	-	-	-	-	-	1,256,183
Banks	794,282	-	-	-	-	-	-	794,282
Financial Assets at Fair Value Through Profit and Loss	18	-	-	-	-	-	-	18
Money Market Placements	-	-	-	-	-	-	-	-
Financial Assets Available-for-Sale	-	-	81,818	72,837	343,526	-	4,719	502,900
Loans Given	-	418,671	373,006	2,158,194	4,162,084	813,802	-	7,925,757
Investments Held-to-Maturity	-	-	-	-	-	-	-	-
Other Assets	155,158	8,655	219	6,257	183,079	92,930	-	446,298
Total Assets	1,168,294	1,464,673	455,043	2,237,288	4,688,689	906,732	4,719	10,925,438
Liabilities								
Funds Collected from Banks Via Current and Participation Accounts	20,261	65,254	-	-	-	-	-	85,515
Current and Participation Accounts	895,007	4,994,363	1,182,261	227,945	4,478	-	-	7,304,054
Funds Provided from Other Financial Instruments	-	183,588	263,316	1,087,844	143,721	-	-	1,678,469
Money Market Borrowings	-	61,791	-	-	-	-	-	61,791
Issued Marketable Securities	-	-	202,597	-	-	-	-	202,597
Sundry Creditors ^(**)	-	-	-	-	-	-	527,879	527,879
Other Liabilities ^(*)	-	-	-	-	-	-	1,065,133	1,065,133
Total Liabilities	915,268	5,304,996	1,648,174	1,315,789	148,199	-	1,593,012	10,925,438
Liquidity Gap	253,026	(3,840,323)	(1,193,131)	921,499	4,540,490	906,732	(1,588,293)	-

^(*) 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.

^(**) Includes the amount of TL 500,000 transferred to the Bank accounts for capital increase with the decision of the Banking Regulation and Supervision Agency dated 24 March 2017 and numbered 4968.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

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

IV. EXPLANATIONS ON THE CONSOLIDATED LIQUIDITY RISK MANAGEMENT AND CONSOLIDATED LIQUIDITY COVERAGE RATIO (Continued)

Breakdown of assets and liabilities according to their outstanding maturities: (continued)

	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	1,201,298	-	-	-	-	-	-	1,201,298
Banks	468,454	-	-	-	-	-	-	468,454
Financial Assets at Fair Value Through Profit and Loss	-	401	758	-	-	-	-	1,159
Money Market Placements	-	-	-	-	-	-	-	-
Financial Assets Available-for-Sale	4,719	-	38,459	88,862	282,643	-	-	414,683
Loans Given	-	660,696	303,334	1,354,397	2,733,895	505,620	-	5,557,942
Investments Held-to-Maturity	-	-	-	-	-	-	-	-
Other Assets	-	5,246	-	2,061	88,803	118,614	101,196	315,920
Total Assets	1,674,471	666,343	342,551	1,445,320	3,105,341	624,234	101,196	7,959,456
Liabilities								
Funds Collected from Banks Via Current and Participation Accounts	3,890	18,531	-	-	-	-	-	22,421
Current and Participation Accounts	829,114	3,749,936	715,251	317,985	1,239	-	-	5,613,525
Funds Provided from Other Financial Instruments	-	72,429	292,286	664,570	156,477	-	-	1,185,762
Money Market Borrowings	-	133,668	-	-	-	-	-	133,668
Issued Marketable Securities	-	-	101,459	-	-	-	-	101,459
Sundry Creditors	-	-	-	-	-	-	17,027	17,027
Other Liabilities ^(*)	-	-	-	-	-	-	885,594	885,594
Total Liabilities	833,004	3,974,564	1,108,996	982,555	157,716	-	902,621	7,959,456
Liquidity Gap	841,467	(3,308,221)	(766,445)	462,765	2,947,625	624,234	(801,425)	-

^(*) 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 and shareholders' equity in the liabilities are included under unallocated assets. The unallocated other liabilities column consists of equity and provisions.

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

V. EXPLANATIONS ON LEVERAGE RATIO

As of the 30 June 2017 Group’s leverage ratio is 5.1% calculated on the basis of three-month weighted average and ratio above the minimum rate (31 December 2016: 6.9%).

Leverage ratio disclosure as follows:

	Current Period (*)	Prior Period (*)
Balance sheet assets		
Balance sheet assets (Except for derivative financial instruments and credit derivatives, including warranties)	10,256,581	7,131,442
(Assets deducted from main capital)	(44,259)	(50,794)
Total risk amount of the balance sheet assets	10,212,322	7,080,648
Derivative financial instruments and credit derivatives		
Replacement cost of derivative financial instruments and credit derivatives	36	1,737
Potential credit risk amount of derivative financial instruments and credit derivatives	1,304	1,191
Total risk amount of derivative financial instruments and credit derivative	1,340	2,928
Security or secured financing transactions		
Risk amount of security or secured financing transactions (Except balance sheet)	11,837	65,628
Risk amount due to intermediated transactions	17,479	-
Total risk amount of security or secured financing transactions	29,316	65,628
Off-balance sheet transactions		
Gross nominal amount of off-balance sheet transactions	4,813,092	3,340,325
(Adjustment amount resulting from multiplying by credit conversion rates)	-	-
Risk amount of the off-balance sheet transactions	4,813,092	3,340,325
Equity and total risk		
Main capital	766,724	720,194
Total risk amount	15,056,069	10,489,529
Leverage ratio		
Leverage ratio	5.1%	6.9%

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

VI. EXPLANATIONS ON SECURITIZATION POSITIONS

None.

VII. 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 our 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 our 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.

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

VII. 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 analyzes, 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 our bank.

Our 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
1	Credit risk (excluding counterparty credit risk) (CCR)	6,939,427	5,513,200	555,154
2	Standardized approach (SA)	6,939,427	5,513,200	555,154
3	Internal rating-based (IRB) approach	-	-	-
4	Counterparty credit risk	1,427	1,290	114
5	Standardized approach for counterparty credit risk (SA-CCR)	1,427	1,290	114
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	29,313	20,700	2,345
17	Standardized approach (SA)	29,313	20,700	2,345
18	Internal model approaches (IMM)	-	-	-
19	Operational Risk	285,210	131,473	22,817
20	Basic Indicator Approach	285,210	131,473	22,817
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)	7,255,377	5,666,663	580,430

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

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

VII. EXPLANATIONS ON RISK MANAGEMENT (Continued)

a) Explanations to be Disclosed to the Public on Credit Risk

1. Credit quality of assets

Current Period		Carrying values under scope of regulatory consolidation		Provisions/Amortization and impairment	Net value (a+b+c)
		Defaulted exposures	Non-defaulted exposures		
1	Loans	30,594	8,196,809	10,504	8,216,899
2	Debt instruments	-	498,793	612	498,181
3	Off-balance sheet receivables	-	4,866,332	-	4,866,332
4	Total	30,594	13,561,934	11,116	13,581,412

Prior Period		Carrying values under scope of regulatory consolidation		Provisions/Amortization and impairment	Net value (a+b+c)
		Defaulted exposures	Non-defaulted exposures		
1	Loans	10,483	5,817,250	48,418	5,779,315
2	Debt instruments	-	410,212	248	409,964
3	Off-balance sheet receivables	-	3,540,291	29	3,540,262
4	Total	10,483	9,767,753	48,695	9,729,541

2. Default receivables and change in debt instrument stock

Current Period		
1	Prior report period default loans and debt instrument amount	10,483
2	Default credits and debt instruments since the last reporting period	20,111
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)	30,594

Prior Period		
1	Prior report period default loans and debt instrument amount	-
2	Default credits and debt instruments since the last reporting period	10,483
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)	10,483

3. Credit risk mitigation techniques

Current Period		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
1	Loans	7,193,032	1,023,867	682,789	912,559	650,130	-	-
2	Debt instruments	498,181	-	-	-	-	-	-
3	Total	7,691,213	1,023,867	682,789	912,559	650,130	-	-
4	Default	20,090	-	-	-	-	-	-

Prior Period		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
1	Loans	5,561,520	217,795	143,466	182,737	133,399	-	-
2	Debt instruments	409,964	-	-	-	-	-	-
3	Total	5,971,484	217,795	143,466	182,737	133,399	-	-
4	Default	10,483	-	-	-	-	-	-

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

VII. EXPLANATIONS ON RISK MANAGEMENT (Continued)

4. Exposure to credit risk and credit risk mitigation effects

Current Period		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
1	Exposures to central governments or central banks	1,322,428	-	1,878,299	130,131	72,269	4%
2	Exposures to regional governments or local authorities	-	-	16,632	125	8,379	50%
3	Exposures to public sector entities	10,806	1,223	10,806	612	11,401	100%
4	Exposures to multilateral development Banks	-	-	-	-	-	-
5	Exposures to international organizations	-	-	-	-	-	-
6	Exposures to institutions	1,045,153	3,123	1,045,153	3,098	342,080	33%
7	Exposures to corporates	3,149,612	3,972,596	2,727,531	2,485,973	5,127,642	98%
8	Retail exposures	929,081	744,168	701,032	354,175	780,262	74%
9	Exposures secured by residential property	564,861	4,060	564,861	1,650	198,907	35%
10	Exposures secured by commercial Real Estate	552,310	143,961	552,310	108,898	330,604	50%
11	Past-due loans	10,087	-	10,087	-	8,461	84%
12	Higher-risk categories by the Agency Board	3,182	-	3,182	-	4,773	150%
13	Exposures in the form of covered Bonds	-	-	-	-	-	-
14	Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
15	Exposures in the form of units or shares in collective investment undertakings (CIUs)	-	-	-	-	-	-
16	Other assets	91,060	-	91,060	-	56,031	62%
17	Investments in equities	-	-	-	-	-	-
18	Total	7,678,580	4,869,131	7,600,953	3,084,662	6,940,809	65%

Prior Period		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
1	Exposures to central governments or central banks	1,482,353	-	1,607,492	12,506	193,786	12%
2	Exposures to regional governments or local authorities	-	-	8,260	541	4,400	50%
3	Exposures to public sector entities	8,072	1,218	8,072	609	8,666	100%
4	Exposures to multilateral development Banks	-	-	-	-	-	-
5	Exposures to international organizations	-	-	-	-	-	-
6	Exposures to institutions	986,326	5,485	986,252	3,003	274,337	28%
7	Exposures to corporates	2,332,332	3,360,695	2,200,566	2,314,028	4,455,761	99%
8	Retail exposures	220,294	100,639	218,661	44,605	194,848	74%
9	Exposures secured by residential property	423,884	4,548	423,884	1,513	149,017	35%
10	Exposures secured by commercial Real Estate	315,158	73,162	315,158	60,998	188,078	50%
11	Past-due loans	4,102	-	4,102	-	3,145	77%
12	Higher-risk categories by the Agency Board	-	-	-	-	-	-
13	Exposures in the form of covered Bonds	-	-	-	-	-	-
14	Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
15	Exposures in the form of units or shares in collective investment undertakings (CIUs)	-	-	-	-	-	-
16	Other assets	73,763	-	73,763	-	41,213	56%
17	Investments in equities	-	-	-	-	-	-
18	Total	5,846,284	3,545,747	5,846,210	2,437,803	5,513,251	67%

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

VII. EXPLANATIONS ON RISK MANAGEMENT (Continued)

5. Receivables based on risk classes and risk weighted

	Risk classes/ Risk Weight Current Period	0%	10%	20%	35% (secured by real estate) (*)	50%	75%	100%	150%	200%	Others	Total credit risk exposure amount (after CCF and CRM)
1	Exposures to regional governments or local authorities	1,863,892	-	-	-	144,538	-	-	-	-	-	2,008,430
2	Exposures to regional governments or local authorities	-	-	-	-	16,757	-	-	-	-	-	16,757
3	Exposures to public sector entities	17	-	-	-	-	-	11,401	-	-	-	11,418
4	Exposures to multilateral development banks	-	-	-	-	-	-	-	-	-	-	-
5	Exposures to international organizations	-	-	-	-	-	-	-	-	-	-	-
6	Exposures to banks and financial intermediaries	-	-	607,168	-	440,872	-	211	-	-	-	1,048,251
7	Exposures to corporates	49,772	-	5,929	-	62,696	-	5,095,107	-	-	-	5,213,504
8	Retail exposures	11,141	-	5,068	-	-	1,038,999	-	-	-	-	1,055,207
9	Exposures secured by residential property	-	-	-	562,323	4,188	-	-	-	-	-	566,511
10	Exposures secured by commercial real estate	-	-	-	-	661,208	-	-	-	-	-	661,208
11	Past-due loans	-	-	-	-	3,252	-	6,835	-	-	-	10,087
12	Higher-risk categories by the Agency Board	-	-	-	-	-	-	-	3,182	-	-	3,182
13	Exposures in the form of covered bonds	-	-	-	-	-	-	-	-	-	-	-
14	Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-
15	Exposures in the form of units or shares in collective investment undertakings (CIUs)	-	-	-	-	-	-	-	-	-	-	-
16	Investments in equities	-	-	-	-	-	-	-	-	-	-	-
17	Other assets	35,029	-	-	-	-	-	56,031	-	-	-	91,060
18	Total	1,959,851	-	618,165	562,323	1,333,511	1,038,999	5,169,585	3,182	-	-	10,685,615

	Risk classes/ Risk Weight Prior Period	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)
1	Exposures to regional governments or local authorities	1,198,300	-	56,876	-	-	364,822	-	-	-	-	-	1,619,998
2	Exposures to regional governments or local authorities	-	-	2	-	-	8,799	-	-	-	-	-	8,801
3	Exposures to public sector entities	15	-	-	-	-	-	-	8,665	-	-	-	8,680
4	Exposures to multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-
5	Exposures to international organizations	-	-	-	-	-	-	-	-	-	-	-	-
6	Exposures to banks and financial intermediaries	-	-	739,142	-	-	247,209	-	2,904	-	-	-	989,255
7	Exposures to corporates	32,205	-	16,745	-	-	26,463	-	4,439,181	-	-	-	4,514,594
8	Retail exposures	2,324	-	1,561	-	-	-	259,381	-	-	-	-	263,266
9	Exposures secured by residential property	-	-	-	424,546	-	852	-	-	-	-	-	425,398
10	Exposures secured by commercial real estate	-	-	-	-	376,156	-	-	-	-	-	-	376,156
11	Past-due loans	-	-	-	-	-	1,915	-	2,187	-	-	-	4,102
12	Higher-risk categories by the Agency Board	-	-	-	-	-	-	-	-	-	-	-	-
13	Exposures in the form of covered bonds	-	-	-	-	-	-	-	-	-	-	-	-
14	Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-
15	Exposures in the form of units or shares in collective investment undertakings (CIUs)	-	-	-	-	-	-	-	-	-	-	-	-
16	Investments in equities	-	-	-	-	-	-	-	-	-	-	-	-
17	Other assets	32,550	-	-	-	-	-	-	41,163	-	-	-	73,713
18	Total	1,265,394	-	814,326	424,546	376,156	650,060	259,381	4,494,100	-	-	-	8,283,963

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

VII. EXPLANATIONS ON RISK MANAGEMENT (Continued)

b) Disclosures about counterparty credit risk

1. 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
	Current Period						
1	Standardized Approach - CCR (For Derivatives)	18	2,845	-	1,4	2,863	1,382
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)	-	-	-	-	-	-
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	-	-	-	-	-	1,382

		Replacement cost	Potential future exposure	EEPE(*)	Alpha used for computing regulatory EAD	EAD post CRM	Risk Weighted Amounts
	Prior Period						
1	Standardized Approach - CCR (For Derivatives)	1,160	1,370	-	1,4	2,531	1,243
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)	-	-	-	-	-	-
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	-	-	-	-	-	1,243

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

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

VII. EXPLANATIONS ON RISK MANAGEMENT (Continued)

a) Disclosures about counterparty credit risk

2. Capital requirement for loan valuation adjustments

	Current Period	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	2,863	45
4	Total subject to the CVA capital charge	2,863	45

	Prior Period	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	2,531	47
4	Total subject to the CVA capital charge	2,531	47

ZİRAAT KATILIM BANKASI AŞ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

(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 RISK MANAGEMENT (Continued)

3. Standard approach - counterparty credit risk by risk classes and risk weights

Risk weights (Current Period)										
Risk classes	0%	10%	20%	50%	75%	100%	150%	Other	Total credit risk (*)	
Claims from central governments and central banks	77,627	-	-	-	-	-	-	-	-	
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	-	-	164	2,699	-	-	-	-	1,382	
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	77,627	-	164	2,699	-	-	-	-	1,382	

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

ZİRAAT KATILIM BANKASI AŞ

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

VII. EXPLANATIONS ON RISK MANAGEMENT (Continued)

3. Standard approach - counterparty credit risk by risk classes and risk weights

Risk weights (Prior Period)										
Risk classes	0%	10%	20%	50%	75%	100%	150%	Other	Total credit risk (*)	
Claims from central governments and central banks	193,272	-	-	-	-	-	-	-	-	
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	-	-	74	2,457	-	-	-	-	1,243	
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	193,272	-	74	2,457	-	-	-	-	1,243	

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

ZİRAAT KATILIM BANKASI AŞ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

(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 RISK MANAGEMENT (Continued)

1. Collaterals for counterparty credit risk

Current Period	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	-	-	-	-	61,791	-
Cash – other currencies	-	-	-	-	-	-
Domestic sovereign debt	-	-	-	-	-	-
Other sovereign debt	-	-	-	-	-	-
Government agency debt	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	77,627
Total	-	-	-	-	61,791	77,627

Prior Period	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	-	-	-	-	133,668	-
Cash – other currencies	-	-	-	-	-	-
Domestic sovereign debt	-	-	-	-	-	-
Other sovereign debt	-	-	-	-	-	-
Government agency debt	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	193,272
Total	-	-	-	-	133,668	193,272

d) Credit Derivatives

None (31 December 2016: None).

e) Risks to the Central Counterparty

None (31 December 2016: None).

f) Securitization Explanations

None (31 December 2016: None).

g) Explanations on Market risk

Standard Approach

Current Period		Risk Weighted Amounts
Outright products		
1	Interest rate risk (general and specific)	-
2	Equity risk (general and specific)	-
3	Foreign exchange risk	29,313
4	Commodity risk	-
Options		
5	Simplified approach	-
6	Delta-plus method	-
7	Scenario approach	-
8	Securitization	-
9	Total	29,313

Prior Period		Risk Weighted Amounts
Outright products		
1	Interest rate risk (general and specific)	4,663
2	Equity risk (general and specific)	-
3	Foreign exchange risk	16,037
4	Commodity risk	-
Options		
5	Simplified approach	-
6	Delta-plus method	-
7	Scenario approach	-
8	Securitization	-
9	Total	20,700

ZİRAAT KATILIM BANKASI AŞ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

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

VIII. 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 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 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 basis have not been presented since the Bank uses the standard approach 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 - Back testing every Default Probability (DP) on every risk class

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

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

ZİRAAT KATILIM BANKASI AŞ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

(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 CONSOLIDATED OPERATING SEGMENTS (Continued)

Table for Segment Reporting:

Current Period	Retail Banking	Corporate/ Entrepreneurial Banking	Treasury/ Investment Banking	Other/ Undistributed	Total
OPERATING INCOME/EXPENSE					
Profit Shares Income	54,244	297,201	27,485	14,337	393,267
Profit Shares from Loans	54,244	297,201	-	-	351,445
Profit Shares from Banks	-	-	-	-	-
Profit Shares from Securities	-	-	21,088	-	21,088
Other Profit Shares	-	-	6,397	14,337	20,734
Profit Shares Expense	79,706	107,240	24,937	-	211,883
Profit Shares Expense on Participation Funds	79,706	107,240	41	-	186,987
Profit Shares Expense on Funds Borrowed	-	-	16,975	-	16,975
Profit Shares Expense on Money Market Transactions	-	-	1,524	-	1,524
Profit Shares Expense on Securities Issued	-	-	6,397	-	6,397
Other Profit Shares Expense	-	-	-	-	-
Net Profit Shares Income/Expense	(25,462)	189,961	2,548	14,337	181,384
Net Fees and Commission Income/Expense	2,000	14,914	-	(3,147)	13,767
Fees and Commissions Received	2,000	14,914	-	2,570	19,484
Fees and Commissions Paid	-	-	-	5,717	5,717
Dividend Income	-	-	-	-	-
Trading Income/Loss (Net)	-	-	5,555	-	5,555
Other Operating Income	-	-	-	1,855	1,855
Provision for Loans or Other Receivables Losses	4,559	26,062	-	11,329	41,950
Other Operating Expense	-	150	-	90,838	90,988
Income Before Tax	(28,021)	178,663	8,103	(89,122)	69,623
Tax Provision	-	-	-	(15,953)	(15,953)
Net Profit/Loss	(28,021)	178,663	8,103	(105,075)	53,670
SEGMENT ASSETS					
Financial Assets at FV Through P/L	-	-	18	-	18
Banks and Other Financial Institutions	-	-	794,282	-	794,282
Financial Assets Available for Sale (Net)	-	-	502,900	-	502,900
Loans	1,152,963	6,590,998	181,796	-	7,925,757
Held to Maturity Investments (Net)	-	-	-	-	-
Associates, Subsidiaries and Joint Ventures	-	-	-	-	-
Other Assets	-	-	-	1,702,481	1,702,481
Total Segment Assets	1,152,963	6,590,998	1,478,996	1,702,481	10,925,438
SEGMENT LIABILITIES					
Funds Collected	4,611,032	2,778,537	-	-	7,389,569
Derivative Financial Liabilities Held for Trading	-	-	2,926	-	2,926
Funds Borrowed	-	-	1,678,469	-	1,678,469
Money Market Funds	-	-	61,791	-	61,791
Securities Issued (Net)	-	-	202,597	-	202,597
Provisions	-	-	-	100,595	100,595
Other Liabilities	-	-	-	674,218	674,218
Shareholders' Equity	-	-	-	815,273	815,273
Total Segment Liabilities	4,611,032	2,778,537	1,945,783	1,590,086	10,925,438
OTHER SEGMENT ITEMS					
Capital Investment	-	-	-	-	-
Amortization Expense	-	-	-	7,013	7,013
Restructuring Costs	-	-	-	-	-

ZİRAAT KATILIM BANKASI AŞ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

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

IX. EXPLANATIONS ON CONSOLIDATED OPERATING SEGMENTS (Continued)

Table for Segment Reporting:

Prior Period (30 June 2016)	Retail Banking	Corporate/ Entrepreneurial Banking	Treasury/ Investment Banking	Other/ Undistributed	Total
OPERATING INCOME/EXPENSE					
Profit Shares Income	16,110	107,749	10,091	905	134,855
Profit Shares from Loans	16,110	107,749	-	-	123,859
Profit Shares from Banks	-	-	353	-	353
Profit Shares from Securities	-	-	8,257	-	8,257
Other Profit Shares	-	-	1,481	905	2,386
Profit Shares Expense	26,293	17,056	11,649	-	54,998
Profit Shares Expense on Participation Funds	26,293	17,056	-	-	43,349
Profit Shares Expense on Funds Borrowed	-	-	9,468	-	9,468
Profit Shares Expense on Money Market Transactions	-	-	2,181	-	2,181
Profit Shares Expense on Securities Issued	-	-	-	-	-
Other Profit Shares Expense	-	-	-	-	-
Net Profit Shares Income/Expense	(10,183)	90,693	(1,558)	905	79,857
Net Fees and Commission Income/Expense	-	4,514	-	378	4,892
Fees and Commissions Received	-	4,514	-	2,380	6,894
Fees and Commissions Paid	-	-	-	2,002	2,002
Dividend Income	-	-	-	-	-
Trading Income/Loss (Net)	-	-	3,134	-	3,134
Other Operating Income	-	1	-	1,263	1,264
Provision for Loans or Other Receivables Losses	2,529	17,037	-	3,419	22,985
Other Operating Expense	-	10	-	61,267	61,277
Income Before Tax	(12,712)	78,161	1,576	(62,140)	4,885
Tax Provision	-	-	-	(2,416)	(2,416)
Net Profit/Loss	(12,712)	78,161	1,576	(64,556)	2,469
SEGMENT ASSETS					
Financial Assets at FV Through P/L	-	-	1,159	-	1,159
Banks and Other Financial Institutions	-	-	468,454	-	468,454
Financial Assets Available for Sale (Net)	-	-	414,683	-	414,683
Loans	411,111	4,661,275	485,556	-	5,557,942
Held to Maturity Investments (Net)	-	-	-	-	-
Associates, Subsidiaries and Joint Ventures	-	-	-	-	-
Other Assets	-	-	-	1,517,218	1,517,218
Total Segment Assets	411,111	4,661,275	1,369,852	1,517,218	7,959,456
SEGMENT LIABILITIES					
Funds Collected	3,501,006	2,134,940	-	-	5,635,946
Derivative Financial Liabilities Held for Trading	-	-	-	-	-
Funds Borrowed	-	-	1,185,762	-	1,185,762
Money Market Funds	-	-	133,668	-	133,668
Securities Issued (Net)	-	-	101,459	-	101,459
Provisions	-	-	-	64,574	64,574
Other Liabilities	-	-	-	73,426	73,426
Shareholders' Equity	-	-	-	764,621	764,621
Total Segment Liabilities	3,501,006	2,134,940	1,420,889	902,621	7,959,456
OTHER SEGMENT ITEMS					
Capital Investment	-	-	-	-	-
Amortization Expense	-	-	-	-	-
Restructuring Costs	-	-	-	11,998	11,998

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017**

(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	20,992	14,037	18,396	14,154
Central Bank of the Republic of Turkey	183,792	1,037,362	614,993	553,755
Other	-	-	-	-
Total	204,784	1,051,399	633,389	567,909

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 10.5%; for deposits up to 6-months maturity 7.5%; for deposits up to 1-year maturity 5.5%; for deposits 1-year and longer maturity 4%; for TL liabilities other than deposits up to 1-year maturity 10.5%; for TL liabilities other than deposits between 1- and 3-years maturity 7%; for TL liabilities other than deposits more than 3-years maturity 4%; 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 24%; for FC liabilities other than deposits up to 2-years maturity 19%; for FC liabilities other than deposits up to 3-years maturity 14%; 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	180,335	16	613,239	15
Unrestricted Time Deposit	-	-	-	-
Restricted Time Deposit	-	-	-	-
Required Reserves ^(*)	3,457	1,037,346	1,754	553,740
Total	183,792	1,037,362	614,993	553,755

^(*) TL 389,886 in FC required reserves is the part of TL required reserves kept as FC. (31 December 2016: TL 197,419)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

(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 CONSOLIDATED ASSETS (Continued)

2. a) Information on financial assets at fair value through profit and loss given or blocked as collateral or subject to repurchase agreements:

As of 30 June 2017, there is no information on financial assets at fair value through profit and loss given or blocked as collateral or subject to repurchase agreements.

b) Positive differences related to the derivative financial assets held-for-trading:

	Current Period		Prior Period	
	TL	FC	TL	FC
Derivative Financial Assets Held-for-Trading				
Forward Transactions	14	4	7	1,152
Swap Transactions	-	-	-	-
Futures Transactions	-	-	-	-
Options	-	-	-	-
Other	-	-	-	-
Total	14	4	7	1,152

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

	Current Period		Prior Period	
	TL	FC	TL	FC
Banks				
Domestic Banks	504,601	250,661	6,561	227,676
Foreign Banks	-	39,020	-	234,217
Foreign Head Office and Branches	-	-	-	-
Total	504,601	289,681	6,561	461,893

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

	Current Period	Prior Period
Assets Subject to Repurchase Agreements	61,171	173,569
Assets Blocked/Given as Collateral	15,269	13,311
Total^(*)	76,440	186,880

(*) Rediscount amounts are not included in the table.

b) Information on financial assets available for sale:

	Current Period	Prior Period
Debt Securities	495,792	410,212
Quoted in Stock Exchange	488,541	403,044
Not Quoted in Stock Exchange	7,252	7,168
Share Certificates	7,719	4,719
Quoted in Stock Exchange	3,000	-
Not Quoted in Stock Exchange ^(*)	4,719	4,719
Provision for Impairment (-)	612	248
Total^(*)	502,900	414,683

(*) As of 30 June 2017, not quoted in stock exchange includes Credit Guarantee fund amounting to TL 4,719.

ZİRAAT KATILIM BANKASI AŞ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

(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 CONSOLIDATED ASSETS (Continued)

5. 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	265,289	-	480,455	-
Legal Entities	265,289	-	480,455	-
Individuals	-	-	-	-
Indirect Loans Granted to Shareholders	-	-	-	-
Loans Granted to Employees	785	-	441	-
Total (*)	266,074	-	480,896	-

(*) Include accrual amounts.

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

	Standard Loans and Other Receivables			Loans and Other Receivables Under Close Monitoring		
	Loans and Other Receivables	Restructured or Rescheduled		Loans and Other Receivables	Restructured or Rescheduled	
		Loans and other receivables with revised contract terms	Other		Loans and other receivables with revised contract terms	Other
Cash Loans						
Exports Loan	401,525	-	-	-	-	-
Imports Loans	279,647	-	-	-	-	-
Enterprise Loans	5,324,340	-	-	81,784	-	-
Consumer Loans	1,146,817	-	-	1,298	-	-
Credit Cards	-	-	-	-	-	-
Loans Given to Financial Sector	181,819	-	-	-	-	-
Other	247,176	-	-	357	-	-
Specialized Loans	-	-	-	-	-	-
Other Receivables	-	-	-	-	-	-
Profit Share Income	-	-	-	-	-	-
Accruals and Rediscount	237,546	-	-	3,358	-	-
Total	7,818,870	-	-	86,797	-	-

As of 30 June 2017, there are no loans and other receivables with revised contract terms.

ZİRAAT KATILIM BANKASI AŞ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

(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 CONSOLIDATED ASSETS (Continued)

5. Information related to loans: (Continued)

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

Extension Periods	Standard Loans and Other Receivables	Loans and Other Receivables Under Close Monitoring
0 - 6 Months	-	-
6 Months – 12 Months	-	-
1 - 2 Years	-	-
2 - 5 Years	-	-
5 Years and Over	-	-
Total	-	-

ZİRAAT KATILIM BANKASI AŞ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

(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 CONSOLIDATED ASSETS (Continued)

5. Information related to loans: (Continued)

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

	Short-Term	Medium and Long-Term	Total
Consumer Loans - TL	5,046	1,142,284	1,147,330
Real Estate Loans	3,328	1,058,319	1,061,647
Vehicle Loans	1,095	39,335	40,430
Consumer Loans	623	44,630	45,253
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	50	735	785
Housing Loans	-	-	-
Vehicle Loans	16	135	151
Consumer Loans	34	600	634
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 ⁽¹⁾	5,096	1,143,019	1,148,115

⁽¹⁾ Dividend rediscount amounting to TL 4,848 not included in the table.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

(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 CONSOLIDATED ASSETS (Continued)

5. Information related to loans: (Continued)

d) Information on commercial installment loans and corporate credit cards:

	Short-Term	Medium and Long-Term	Total
Commercial Installment Loans-TL	14,563	118,800	133,363
Business Loans	2,650	23,346	25,996
Vehicle Loans	11,913	95,454	107,367
Consumer Loans	-	-	-
Other	-	-	-
Commercial Installment Loans- Indexed to FC	2,312	21,820	24,132
Business Loans	-	-	-
Vehicle Loans	2,312	21,820	24,132
Consumer Loans	-	-	-
Other	-	-	-
Commercial Installment Loans - FC	-	-	-
Business Loans	-	-	-
Vehicle Loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
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	16,875	140,620	157,495

e) Breakdown of domestic and international loans:

	Current Period	Prior Period
Domestic Loans	7,664,763	5,344,762
Foreign Loans	-	-
Interest Income Accruals of Loans	240,904	206,529
Total	7,905,667	5,551,291

f) Loans Granted to Subsidiaries and Participations:

As of 30 June 2017, the subsidiaries has no loans granted to subsidiaries and participations. (31 December 2016: None)

g) Specific Provisions Provided Against Loans:

	Current Period	Prior Period
Loans and receivables with limited collectability	847	82
Loans and receivables with doubtful collectability	4,515	2,635
Uncollectible loans and receivables	5,142	1,115
Total	10,504	3,832

ZİRAAT KATILIM BANKASI AŞ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

(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 CONSOLIDATED ASSETS (Continued)

5. Information related to loans: (Continued)

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

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

As of 30 June 2017 the Bank has no loans and other receivables included in non-performing receivables which are restructured or rescheduled (31 December 2016: None)

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

	Group III:	Group IV:	Group V:
	Loans and other receivables with limited collectability	Loans and other receivables with doubtful collectability	Uncollectible loans and other receivables
Ending balance of prior period	408	8,960	1,115
Additions in the current period (+)	20,244	54	2
Transfers from other categories of non-performing loans (+)	-	14,551	7,763
Transfers to other categories of non-performing loans (-)	14,551	7,763	-
Collections in the current period (-)	142	47	-
Write offs (-)	-	-	-
Corporate and commercial loans	-	-	-
Retail loans	-	-	-
Credit cards	-	-	-
Other	-	-	-
Ending balance of the current period	5,959	15,755	8,880
Specific provisions (-)	847	4,515	5,142
Net balance at the balance sheet	5,112	11,240	3,738

3) Information on foreign currency non-performing loans:

As of 30 June 2017, the Bank has no receivable from foreign currency non-performing loans (31 December 2016: None).

ZİRAAT KATILIM BANKASI AŞ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

(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 CONSOLIDATED ASSETS (Continued)

4) 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)	5,112	11,240	3,738
Loans to Real Persons and Legal Entities (Gross)	5,959	15,491	8,880
Specific Provisions (-)	847	4,251	5,142
Loans to Real Persons and Legal Entities (Net)	5,112	11,240	3,738
Banks (Gross)	-	-	-
Specific Provisions (-)	-	-	-
Banks (Net)	-	-	-
Other Loans and Receivables (Gross)	-	264	-
Specific Provisions (-)	-	264	-
Other Loans and Receivables (Net)	-	-	-
Current Period (Net)	326	6,325	-
Loans to Real Persons and Legal Entities (Gross)	408	8,929	1,115
Specific Provisions (-)	82	2,604	1,115
Loans to Real Persons and Legal Entities (Net)	326	6,325	-
Banks (Gross)	-	-	-
Specific Provisions (-)	-	-	-
Banks (Net)	-	-	-
Other Loans and Receivables (Gross)	-	31	-
Specific Provisions (-)	-	31	-
Other Loans and Receivables (Net)	-	-	-

i) 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’s. 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.

j) Explanations on write-off policy:

The 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.

6. Information on held-to-maturity investments:

a) Information on comparative net values of held-to-maturity investments subject to repo transactions and given as a collateral/blocked:

As of 30 June 2017, the Parent Bank has no comparative net values of held-to-maturity investments subject to repo transactions and given as a collateral/blocked (31 December 2016: None).

b) Information on held-to-maturity government bonds and treasury bills:

As of 30 June 2017, the Parent Bank has no held-to-maturity government bonds and treasury bills (31 December 2016: None).

ZİRAAT KATILIM BANKASI AŞ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

(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 CONSOLIDATED ASSETS (Continued)

c) Information on held-to-maturity investments:

As of 30 June 2017, the Parent Bank has no held-to-maturity investment (31 December 2016: None)

d) Movements of held-to-maturity investments:

	Current Period	Prior Period
Beginning Balance	-	-
Foreign Currency Differences on Monetary Assets	-	-
Purchases During the Year	-	7,896
Disposals through Sales and Redemptions	-	7,896
Provision for Impairment (-)	-	-
Period End Balance	-	-

7. Information on subsidiaries (Net):

As of 30 June 2017, there are no subsidiary of the bank (31 December 2016: None).

8. Information on joint ventures (Net):

a) Information on unconsolidated associates:

As of 30 June 2017, there are no unconsolidated associates (31 December 2016: None)

b) 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 AŞ	Istanbul / TURKEY	100.00	100.00

Ziraat Katılım Varlık Kiralama A.Ş. was established as of 22 January 2016 by approval of Banking Regulations and Supervision Agency and Capital Market Board on purpose of issuing lease certificate according to no. 28760 Gazette, Lease Certificate Announcement of Capital Market Board (III-61.1) dated 7 June 2013.

	Total Assets ^(*)	Shareholders 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	202,779	52	-	6,881	-	1	1	-	-

(*) Unaudited financial statements used.

ZİRAAT KATILIM BANKASI AŞ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

(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 CONSOLIDATED ASSETS (Continued)

8. Information on joint ventures (Net): (Continued)

c) Information on consolidated subsidiaries:

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

(*) Paid Capital Increases made during the period are classified under “Purchases” account.

d) Sectoral information on consolidated subsidiaries and the related carrying amounts:

	Current Period	Prior Period
Ziraat Katılım Varlık Kiralama AŞ	50	50

e) Subsidiaries that are quoted on the stock exchange:

As of 30 June 2017, there are no subsidiaries that are quoted on the stock exchange (31 December 2016: None).

9. Information on entities under common control (joint ventures):

As of 30 June 2017, there are no entities under common control of the bank (31 December 2016: None).

10. Information on finance lease receivables:

	Current Period		Prior Period	
	Gross	Net	Gross	Net
Up to 1 year	2,043	1,948	30,000	29,769
1-5 years	227,180	192,463	115,828	106,645
Over 5 years	142,140	96,730	119,957	84,959
Total	371,363	291,141	265,785	221,373

11. Information on derivative financial assets for hedging purposes:

As of 30 June 2017, the group has no derivative financial assets for hedging purposes (31 December 2016: None).

12. Information on investment property:

As of 30 June 2017, the group has no investment property (31 December 2016: None).

ZİRAAT KATILIM BANKASI AŞ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

(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 CONSOLIDATED ASSETS (Continued)

13. Information on assets held for sale and tangibles corresponding discontinuing operations:

As of 30 June 2017, the group has no assets held for sale and tangibles corresponding discontinuing operations (31 December 2016: None).

14. Explanations on property and equipment:

	Immovables	Tangibles- Financial Leasing	Vehicles	Operational Leasing Development Costs	Other Tangibles	Total
Prior Period End:						
Cost	-	-	-	20,608	35,820	56,428
Accumulated Depreciation (-)	-	-	-	4,606	8,179	12,785
Net Book Value	-	-	-	16,002	27,641	43,643
Current Period End:						
Net Book Value at the Beginning of the Period	-	-	-	16,002	27,641	43,643
Change During the Period (Net)	-	-	-	858	(318)	540
Cost	-	-	-	3,092	3,198	6,290
Amortization Amount (Net) (-)	-	-	-	2,234	3,516	5,750
Depreciation (Net) (-)	-	-	-	-	-	-
Net Currency Translation from Foreign Subsidiaries (-)	-	-	-	-	-	-
Cost at Period End	-	-	-	23,700	39,018	62,718
Accumulated Depreciation at Period End (-)	-	-	-	6,840	11,695	18,535
Closing Net Book Value	-	-	-	16,860	27,323	44,183

15. 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	27,343	4,709	22,634	26,357	3,452	22,905
Total	27,343	4,709	22,634	26,357	3,452	22,905

16. Information on deferred tax asset:

The Parent Bank’s deferred tax asset is calculated as TL 10,219 (31 December 2016: TL 6,410) however it’s reflected on the financial statements as TL 7,713 (31 December 2016: TL 4,876) by offsetting with deferred tax asset.

17. Information on other assets:

As of 30 June 2017, other assets of banks not to exceed total balance sheet of 10%, exclude off-balance sheet liabilities.

ZİRAAT KATILIM BANKASI AŞ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

(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

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	133,030	-	-	-	-	-	-	-	133,030
II Real persons profit sharing accounts TL	-	254,517	1,727,924	30,636	-	24,899	104,621	-	2,142,597
III Other current accounts-TL	308,067	-	-	-	-	-	-	-	308,067
Public sector	44,484	-	-	-	-	-	-	-	44,484
Commercial sector	245,539	-	-	-	-	-	-	-	245,539
Other institutions	18,044	-	-	-	-	-	-	-	18,044
Commercial and other institutions	-	-	-	-	-	-	-	-	-
Banks and participation banks	-	-	-	-	-	-	-	-	-
Central Bank of Republic of Turkey	-	-	-	-	-	-	-	-	-
Domestic banks	-	-	-	-	-	-	-	-	-
Foreign banks	-	-	-	-	-	-	-	-	-
Participation banks	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-
IV. Profit sharing accounts-TL	-	211,525	1,777,325	212,600	-	31,046	58,617	-	2,291,113
Public sector	-	1,237	592,974	53,952	-	-	44,493	-	692,656
Commercial sector	-	207,433	924,726	154,028	-	14,793	12,239	-	1,313,219
Other institutions	-	2,855	254,580	4,620	-	16,253	1,885	-	280,193
Commercial and other institutions	-	-	-	-	-	-	-	-	-
Banks and participation banks	-	-	5,045	-	-	-	-	-	5,045
V. Real persons current accounts-FC	128,161	-	-	-	-	-	-	-	128,161
VI. Real persons profit sharing accounts-FC	-	78,107	1,013,224	33,182	-	19,557	48,205	-	1,192,275
VII. Other current accounts-FC	300,810	-	-	-	-	-	-	-	300,810
Commercial residents in Turkey	280,538	-	-	-	-	-	-	-	280,538
Commercial residents in Abroad	11	-	-	-	-	-	-	-	11
Banks and participation banks	20,261	-	-	-	-	-	-	-	20,261
Central Bank of Republic of Turkey	-	-	-	-	-	-	-	-	-
Domestic banks	-	-	-	-	-	-	-	-	-
Foreign banks	20,230	-	-	-	-	-	-	-	20,230
Participation banks	31	-	-	-	-	-	-	-	31
Others	-	-	-	-	-	-	-	-	-
VIII. Profit sharing accounts- FC	-	72,263	666,895	55,527	-	-	-	-	794,685
Public sector	-	1,309	14,573	-	-	-	-	-	15,882
Commercial sector	-	65,656	551,759	55,527	-	-	-	-	672,942
Other institutions	-	5,298	40,354	-	-	-	-	-	45,652
Commercial and other institutions	-	-	-	-	-	-	-	-	-
Banks and participation banks	-	60,209	-	-	-	-	-	-	60,209
IX. Precious metal funds	45,200	-	48,773	1,920	-	817	2,121	-	98,831
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)	915,268	616,412	5,234,141	333,865	-	76,319	213,564	-	7,389,569

ZİRAAT KATILIM BANKASI AŞ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

(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

a.1) Information on maturity structure of funds collected (Continued):

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	117,874	-	-	-	-	-	-	-	117,874
II. Real persons profit sharing accounts TL	-	187,577	1,323,135	25,311	-	15,106	47,811	-	1,598,940
III. Other current accounts-TL	389,920	-	-	-	-	-	-	-	389,920
Public sector	79,305	-	-	-	-	-	-	-	79,305
Commercial sector	300,725	-	-	-	-	-	-	-	300,725
Other institutions	9,890	-	-	-	-	-	-	-	9,890
Commercial and other institutions	-	-	-	-	-	-	-	-	-
Banks and participation banks	-	-	-	-	-	-	-	-	-
Central Bank of Republic of Turkey	-	-	-	-	-	-	-	-	-
Domestic banks	-	-	-	-	-	-	-	-	-
Foreign banks	-	-	-	-	-	-	-	-	-
Participation banks	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-
IV. Profit sharing accounts-TL	-	151,803	1,403,895	93,307	-	7,249	13,761	-	1,670,015
Public sector	-	103,874	463,565	32,036	-	-	-	-	599,475
Commercial sector	-	46,674	696,543	30,357	-	6,167	11,944	-	791,685
Other institutions	-	1,255	243,787	30,914	-	1,082	1,817	-	278,855
Commercial and other institutions	-	-	-	-	-	-	-	-	-
Banks and participation banks	-	-	-	-	-	-	-	-	-
V. Real persons current accounts-FC	58,097	-	-	-	-	-	-	-	58,097
VI. Real persons profit sharing accounts-FC	-	62,655	605,255	38,679	-	26,531	51,688	-	784,808
VII. Other current accounts-FC	243,408	-	-	-	-	-	-	-	243,408
Commercial residents in Turkey	239,462	-	-	-	-	-	-	-	239,462
Commercial residents in Abroad	-	-	-	-	-	-	-	-	-
Banks and participation banks	3,946	-	-	-	-	-	-	-	3,946
Central Bank of Republic of Turkey	-	-	-	-	-	-	-	-	-
Domestic banks	-	-	-	-	-	-	-	-	-
Foreign banks	3,946	-	-	-	-	-	-	-	3,946
Participation banks	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-
VIII. Profit sharing accounts- FC	-	27,383	588,263	104,768	-	-	-	-	720,414
Public sector	-	290	1,389	-	-	-	-	-	1,679
Commercial sector	-	27,090	475,748	104,768	-	-	-	-	607,606
Other institutions	-	3	92,595	-	-	-	-	-	92,598
Commercial and other institutions	-	-	-	-	-	-	-	-	-
Banks and participation banks	-	-	18,531	-	-	-	-	-	18,531
IX. Precious metal funds	23,705	-	27,239	289	-	856	381	-	52,470
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)	833,004	429,418	3,947,787	262,354	-	49,742	113,641	-	5,635,946

ZİRAAT KATILIM BANKASI AŞ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

(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)

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	1,716,145	1,273,216	1,973,260	1,337,842
TL accounts	1,326,849	1,014,137	948,777	702,666
FC accounts	389,296	259,079	1,024,483	635,176
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	346	263
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 derivative financial liabilities held for trading:

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

	Current Period		Prior Period	
	TL	FC	TL	FC
Derivative financial assets held for trading				
Forward transactions	82	2,844	-	-
Swap transactions	-	-	-	-
Futures transaction	-	-	-	-
Options transaction	-	-	-	-
Other	-	-	-	-
Total	82	2,844	-	-

ZİRAAT KATILIM BANKASI AŞ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

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EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED LIABILITIES (Continued)

3. Information on Borrowings and Issued Securities:

a) Information on banks and other financial institutions:

	Current Period		Prior Period	
	TL	FC	TL	FC
Borrowings from CBRT	-	-	-	-
Domestic Banks and Institutions	-	567,881	-	477,478
Foreign Banks, Institutions and Funds	-	1,110,588	-	708,284
Total	-	1,678,469	-	1,185,762

b) Information on maturity structure of borrowings:

	Current Period		Prior Period	
	TL	FC	TL	FC
Short-term	-	1,165,617	-	400,611
Medium and Long-Term	-	512,852	-	785,151
Total	-	1,678,469	-	1,185,762

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

68% of the Group’s liabilities consist of current and share profit account.

d) Funds provided under repurchasing agreements:

	Current Period		Prior Period	
	TL	FC	TL	FC
Domestic	61,791	-	133,668	-
Financial Institutions	61,791	-	133,668	-
Abroad	-	-	-	-
Financial Institutions	-	-	-	-
Total	61,791	-	133,668	-

e) Information on securities issued :

As of 30 June 2017, Group has a TL 202,597 securities issued (31 December 2016: TL 101,459).

4. If other liabilities exceed 10% of the balance sheet total, name and amount of sub-accounts constituting at least 20% of these liabilities:

Other liabilities component do not exceed 10% of total balance sheet.

5. Information on Financial Lease Obligations:

None.

6. Information on hedging derivative financial liabilities:

The Parent Bank has no hedging derivative financial liabilities.

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EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED LIABILITIES (Continued)

7. Information on provisions:

a) Information on general provisions:

	Current Period	Prior Period
General Provisions	75,963	52,263
I.For Loans and Receivables in Group I (Total)	67,780	47,667
Profit Sharing Accounts’ Share	48,266	34,600
The Bank’s Share	19,514	13,067
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)	1,672	595
Profit Sharing Accounts’ Share	1,384	376
The Bank’s Share	288	219
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	5,974	1,457
Other	537	2,544

b) Information on provisions related with foreign currency evaluation difference of foreign currency indexed loans and financial lease obligations:

As of 30 June 2017, principal amount of foreign exchange losses on foreign currency indexed loans and lease receivables amounting to TL 6,853 (31 December 2016: TL 174) have been netted off with the loans and lease receivables included in the balance sheet assets.

c) Information on special provisions related with uncompensated and non- liquidated non-cash loans:

Specific provisions for indemnified non-cash loans amount to TL 64 (31 December 2016: TL 29).

d) Information on other provisions:

1) Information on free provisions for possible risks:

As of 30 June 2017, there are no free provisions for possible risks (31 December 2016: None).

2) The names and amounts of sub-accounts of other provisions exceeding 10% of the total provision amount:

According to article 14 of regulation on procedures and principles for determination of qualifications of loans and other receivables and provision by banks, other provisions amounting to TL 21,135 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 2016: TL 9,810).

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EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED LIABILITIES (Continued)

e) Information on provisions for employee benefits:

e.1) Employment termination benefits and unused vacation rights

Under the Turkish Labor Law, the Parent 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 30 June 2017, the amount payable consists of one month’s salary limited to a maximum of TL 4,426 (full amount) (31 December 2016: TL 4,426 (full amount)) for each year of service.

In the Group’s financial statements according to TAS 19 - provisions were made for the employee benefits over the payables of non-discounted amounts as a return of services provided during the one accounting period.

The Parent Bank uses actuary method in the calculation and recognition of severance pay with in the standard of TAS 19 – “Turkish Accounting Standard on Employee Benefits”.

The Parent Bank used its own parameters in the calculation of the total liabilities which were calculated with the actuary assumptions.

	Current Period
Discount Rate (%)	4.10%
Entitled to pension possibility (%)	98%

e.2) Movements in the reserve for employment termination benefits during period are as follows:

	Current Period	Prior Period
Balance at the 1 January	780	-
Changes during the period	370	859
Paid during the period	-	-
Actuarial loss/(gain)	-	(79)
Balance at the end of the period	1,150	780

As of the date of 30 June 2017, Bank has a TL 2,271 short-run employees’ rights provision (31 December 2016: TL 1,389).

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 2016, no technical deficit has been reported.

8. Explanations on tax liability:

a) Explanations on current tax liability:

a.1) Information on tax provisions:

As of 30 June 2017, the Group’s corporate income tax liability is TL 5,490 after deducting temporary taxes paid during the period from the tax provisions (31 December 2016: TL 2,886).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

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EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED LIABILITIES (Continued)

a.2) Information on taxes payable:

	Current Period	Prior Period
Corporate Tax Payable	5,490	2,886
Taxation on Income From Securities	5,598	3,389
Property Tax	131	88
Banking Insurance Transactions Tax (BITT)	3,304	2,312
Foreign Exchange Transactions Tax	-	-
Value Added Tax Payable	494	236
Other	868	841
Total	15,885	9,752

a.3) Information on premiums:

	Current Period	Prior Period
Social Security Premiums - Employee	1	6
Social Security Premiums - Employer	4	9
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	42	34
Unemployment Insurance - Employer	81	67
Other	-	-
Total	128	116

b) Information on deferred tax liabilities, if any:

The Group's deferred tax liability amounts to TL 2,506 (31 December 2016: TL 1,534) and this amount is net off against the deferred tax asset and accordingly deferred tax asset amounting to TL 7,713 (31 December 2016: TL 4,876) is presented in the financial statements.

9. 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.

10. Explanations on subordinated debts:

The Group does not have any subordinated debts.

11. Information on shareholders' equity:

a) Presentation on paid-in capital:

	Current Period	Prior Period
Common stock	747,000	747,000
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:

The Group does not have a registered capital system.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

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EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED LIABILITIES (Continued)

c) Information on share capital increases and their sources; other information on increased capital shares in the current period:

With the decision of the Banking Regulation and Supervision Agency dated 24 March 2017 and 1 June 2017 and numbered 4968 and 7361, the amount of TL 500,000 transferred to the Parent Bank accounts for capital increase has been taken into consideration in the tier II capital account until the completion of the capital increase procedure.

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.

f) 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 group has no any uncertainty related to profitability and liquidity for the previous period (31 December 2016: None).

g) Information on preferred shares:

As of 30 June 2017, the group has no preferred shares (31 December 2016: None)

h) Information on marketable securities value increase fund:

	Current Period		Prior Period	
	TL	FC	TL	FC
From Subsidiaries, Associates and Entities under Common Control	-	-	-	-
Revaluation Difference	-	-	-	-
Foreign Exchange Difference	-	-	-	-
From Available for Sale Marketable Securities	(4,111)	23	(963)	(107)
Revaluation Difference	(5,027)	23	(1,573)	(107)
Deferred Tax Effect	916	-	610	-
Foreign Exchange Difference	-	-	-	-
Total	(4,111)	23	(963)	(107)

i) Information on minority shareholder:

None (31 December 2016: None)..

ZİRAAT KATILIM BANKASI AŞ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

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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	-	-
Other Irrevocable Commitments	-	-
Payment Commitments for Cheques	50,283	34,817
Loan Granting Commitments	-	-
Asset Purchase Commitments	33,115	13,223
Tax and Fund Liabilities from Export Commitments	1,023	458
Total	84,421	48,498

b) Nature and amount of possible losses and commitments arising from the off-balance sheet items including the below mentioned:

Bank has no possible losses arising from the off-balance sheet items (31 December 2016: None).

b.1) Non-cash loans including guarantees, acceptances, financial guarantees and other letter of credits:

	Current Period	Prior Period
Guarantee Letters	4,202,111	2,772,734
Letter of Credits	300,863	188,475
Bank Acceptances	11,519	7,484
Other Guarantees and Collaterals	300,532	539,276
Total	4,815,025	3,507,969

b.2) Certain guarantees, temporary guarantees, surety ships and similar transactions:

	Current Period	Prior Period
Letters of Temporary Guarantees	668,228	400,357
Letters of Certain Guarantees	1,915,502	1,031,833
Letters of Advance Guarantees	524,417	386,135
Letters of Guarantees given to Customs Offices	48,644	32,197
Other Letters of Guarantees	1,045,320	922,212
Total	4,202,111	2,772,734

b.3) Total non-cash loans:

	Current Period	Prior Period
Non-Cash Loans for Providing Cash Loans	1,045,320	922,212
With Original Maturity of One Year or Less	688,964	-
With Original Maturity of More than One Year	356,356	922,212
Other Non-Cash Loans	3,769,705	2,585,757
Total	4,815,025	3,507,969

ZİRAAT KATILIM BANKASI AŞ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

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IV. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED INCOME STATEMENT

1. a) Information on profit share received from loans:

	Current Period		Prior Period	
	TL	FC	TL	FC
Profit share on loans ⁽¹⁾	332,655	18,790	114,721	9,138
Short term loans	101,634	2,565	56,248	2,598
Medium and long term loans	230,994	16,225	58,473	6,540
Profit share on non-performing loans	27	-	-	-
Premiums received from resource utilization support fund	-	-	-	-

(1) Includes fees and commissions income on cash loans

b) Information on profit share received from banks:

	Current Period		Prior Period	
	TL	FC	TL	FC
The Central Bank of the Republic of Turkey	-	-	-	-
Domestic Banks	-	-	353	-
Foreign Banks	-	-	-	-
Branches and head office abroad	-	-	-	-
Total	-	-	353	-

c) Information on profit share income from securities portfolio:

	Current Period		Prior Period	
	TL	FC	TL	FC
Financial Assets Held for Trading	-	-	-	-
Financial Assets at Fair Value through Profit and Loss	-	-	-	-
Financial Assets Available-for-Sale	20,919	169	8,072	-
Investments Held-to-Maturity	-	-	185	-
Total	20,919	169	8,257	-

d) Information on profit share income received from associates and subsidiaries:

None (31 December 2016: None).

2. a) Information on profit share expense on borrowing:

	Current Period		Prior Period	
	TL	FC	TL	FC
Banks	1,584	6,839	3,214	4,984
Central Bank of the Republic of Turkey	-	-	-	-
Domestic Banks	1,584	5,299	3,214	2,056
Foreign Banks	-	1,540	-	2,928
Head Office and Branches	-	-	-	-
Other Institutions	-	8,552	-	1,270
Total	1,584	15,391	3,214	6,254

b) Information on profit share expense given to associates and subsidiaries:

None.

c) Information on profit share expense paid to securities issued:

As of 30 June 2017, profit share expense paid to securities issued is TL 6,397.

ZİRAAT KATILIM BANKASI AŞ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

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EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

IV. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED INCOME STATEMENT (Continued)

d) Distribution of profit share on funds based on maturity of funds:

Current Period	Profit Sharing 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	-	41	-	-	-	41
Real Person’s Non Commercial Participation Accounts	8,974	63,865	1,355	933	3,876	79,003
Public Sector Participation Accounts	5,062	16,574	3,316	-	883	25,835
Commercial Sector Participation Accounts	4,793	38,171	3,150	538	585	47,237
Other Institutions Participation Accounts	131	13,035	578	110	89	13,943
Total	18,960	131,686	8,399	1,581	5,433	166,059
Foreign Currency						
Funds Collected from Banks via Current and Participation Accounts	-	703	-	-	-	703
Real Person’s Non Commercial Participation Accounts	765	8,915	409	330	452	10,871
Public Sector Participation Accounts	7	73	-	-	-	80
Commercial Sector Participation Accounts	498	6,366	1,381	-	-	8,245
Other Institutions Participation Accounts	25	949	-	-	-	974
Public Sector Participation Accounts	55	-	-	-	-	55
Total	1,350	17,006	1,790	330	452	20,928
General Total	20,310	148,692	10,189	1,911	5,885	186,987

3. Information on dividend income:

None (30 June 2016: None).

4. a) Information on trading income/loss (Net):

	Current Period	Prior Period
Income	1,234,375	260,145
Foreign exchange gains	1,234,310	257,206
Gain on derivative financial instruments	64	2,939
Gain on capital market transactions	1	-
Losses (-)	1,228,820	257,011
Foreign exchange losses	1,219,898	256,684
Losses on derivative financial instruments	8,913	327
Losses on capital market transactions	9	-
Net	5,555	3,134

b) Information on profit/loss on derivative financial operations:

	Current Period	Prior Period
Effect of the change in exchange rates on profit/loss	(8,849)	2,612
Total	(8,849)	2,612

5. Information on other operating income:

Information on factors covering the recent developments which has significant effect on the Parent 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 Parent Bank’s income.

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EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

IV. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED INCOME STATEMENT (Continued)

6. Provision expenses for impairment on loans and other receivables:

	Current Period	Prior Period
Specific Provisions for Loans and Other Receivables	6,708	1
III. group loans and receivables	847	1
IV. group loans and receivables	3,456	-
V. group loans and receivables	2,405	-
General provision expenses	23,777	19,144
Provision expenses for possible losses	-	-
Impairment provision of marketable securities	100	47
Financial Assets at fair value through profit and loss	-	-
Investment securities available for sale	100	47
Impairment provision of associates, subsidiaries, joint ventures and held to maturity investments	-	-
Associates	-	-
Subsidiaries	-	-
Joint ventures	-	-
Held to maturity investments	-	-
Other (*)	11,365	3,793
Total	41,950	22,985

(*) 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 11,329 is reserved to use for general loan loss provision, specific provisions and the Participation Accounts allocated to premium of Guarantee of Deposit Insurance Fund.

7. Information on other operating expenses:

	Current Period	Prior Period
Personnel expenses	40,763	30,645
Reserve for Employee Termination Benefits	370	524
Bank Social Aid Provision Fund Deficit Provision	-	-
Tangible Fixed Assets Impairment Expense	-	-
Depreciation Expenses of Tangible Fixed Assets	5,756	4,520
Intangible Assets Impairment Expense	-	-
Goodwill Impairment Expense	-	-
Amortization Expenses of Intangible Assets	1,257	1,090
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	27,276	17,751
Operational Leasing Expenses	8,815	5,177
Maintenance Expenses	1,805	117
Advertisement Expenses	7,130	4,632
Other Expenses	9,526	7,825
Loss on Sales of Assets	-	-
Other (*)	15,566	6,747
Total	90,988	61,277

(*) The balance which forms the other item part, TL 9,304 (30 June 2016: TL 3,311) represents SDIF Premium amount and audit and consultancy fees and TL 3,988 (30 June 2016: TL 2,676) represents taxes, fees and funds and other services expenses.

ZİRAAT KATILIM BANKASI AŞ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

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EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

IV. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED INCOME STATEMENT (Continued)

8. Information on profit/loss from continued and discontinued operations before taxes:

As of 30 June 2017, the Group does not have any discontinuing operations. The compositions of the profit/loss before tax from the continuing operations are following:

	Current Period	Prior Period
Net Profit Share Income	181,384	79,857
Other Operating Expenses (-)	90,988	61,278
Provision for Loan or Other Receivables Losses (-)	41,950	22,985
Other Operating Income	1,855	1,264
Net Fees and Commissions Income	13,767	4,893
Dividend Income	-	-
Trading Income/Expense (Net)	5,555	3,134
Income/(Loss) from Continuing Operations	69,623	4,885

9. Information on tax provision for continued and discontinued operations:

As of 30 June 2017, the Group’s total tax provision expense amounting to TL 15,953 (30 June 2016: TL 2,416) consists of TL 18,546 (30 June 2016: TL 4,501) of current tax expense and TL 2,593 (30 June 2016: TL 2,085) of deferred tax expense.

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 53,670 (30 June 2016: TL 2,469).

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.

ZİRAAT KATILIM BANKASI AŞ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

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EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

V. EXPLANATIONS AND NOTES RELATED TO THE RISK GROUP OF THE PARENT BANK

- 1) a) Information on the volume of transactions relating to the 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	-	-	558,924	-	-	-
Balance at end of period	-	-	265,289	-	-	-
Profit share and commission income	-	-	2,107	-	-	-

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	-	-	337,726	-	-	-
Balance at end of period	-	-	558,924	-	-	-
Profit share and commission income	-	-	5,113	-	-	-

- c) 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						
Beginning of the period	-	-	1,796	-	-	-
Balance at the beginning of period	-	-	105,337	1,796	-	-
Profit share expense	-	-	1,415	-	-	-

- 2) Information on forward transactions, option agreements and similar transactions between the 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	-	-	259,672	-	-	-
Closing Balance	-	-	397,976	259,672	-	-
Total Profit/Loss	-	-	2,844	406	-	-
Risk Protection Oriented Processes	-	-	-	-	-	-
Opening Balance	-	-	-	-	-	-
Closing Balance	-	-	-	-	-	-
Total Profit/Loss	-	-	-	-	-	-

ZİRAAT KATILIM BANKASI AŞ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

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

V. EXPLANATIONS AND NOTES RELATED TO THE RISK GROUP OF THE PARENT BANK (Continued)

3) Information on remunerations provided to group top management:

The group has paid TL 1,191 to top management (30 June 2016: TL 1,313).

VI. INFORMATION ON THE BANK’S DOMESTIC AND FOREIGN BRANCHES AND FOREIGN REPRESENTATIVES OF THE BANK

None.

VII. SIGNIFICANT EVENTS AND MATTERS ARISING SUBSEQUENT TO BALANCE SHEET DATE

According to decision taken at the 2016 Ordinary General Assembly held on 13 June 2017, it has been decided to allocate financial obligations amountg to TL 11,439 from the TL 40,482 accounting profit and allocate TL 708 general legal reserves which is 5% of TL 14,150 net profit for the period after deduction of prior year’s loss amounting to TL 11,983. In addition, according to the decision, it has been decided to allocate TL 6,000 of the rest of the amount to personnel as additional bonus and TL 600 (10% of this amount) to provision and remaining TL 6,843 to Parent Bank.

ZİRAAT KATILIM BANKASI AŞ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

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

SECTION SIX

OTHER EXPLANATIONS AND NOTES

I. OTHER EXPLANATIONS ON THE BANK’S OPERATIONS

None.

II. EXPLANATIONS ON THE BANK’S CREDIT NOTES FROM CREDIT RATING AGENCIES

None.

SECTION SEVEN

EXPLANATIONS ON REVIEW REPORT

I. EXPLANATIONS ON THE REVIEW REPORT

As of 30 June 2017, unconsolidated financial statements and explanatory notes of the Bank disclosed herein were reviewed by Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (the Turkish member of KPMG International Cooperative, a Swiss entity) and Review Report dated 9 August 2017 is presented preceding the financial statements.

II. EXPLANATIONS AND NOTES PREPARED BY THE INDEPENDENT AUDITORS

None.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017**

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

Section Eight (*)

EXPLANATIONS ON INTERIM ACTIVITY REPORT

I. Chairman’s Assessment

It appears that consumer spending trends in the world's largest economies seem to have increased with the increase in employment in developed countries and the decline in unemployment rates, as well as the effect of lower fuel prices on the household-population budget. The increase in asset prices, the improvement in profit margins and the increasing tendency of consumption, are reviving in global economic activity as industrial production indices are rising.

In the second quarter of 2017, FED is raising interest rates for the second time in the year, while maintaining interest rate expectations for the foreseeable future. It appears that the US dollar is depreciating as inflation falls below the target of 2% in the US and the pressure of future interest rate increases, while the emerging currencies are registering value gains. The expectations of the FED to start a new increase in interest rates at the end of the year and the downsizing of the balance sheet in the last period of the year are strengthening. Fund flows to the emerging countries are expected to be less affected by the balance sheet reduction process when compared to the FED's interest rate increase decision.

There is skepticism about the expanding fiscal policy of Trump, which appears to be deprived of the support it needs in the American parliament. Problems that Trump has had in passing his election promises are also among the reasons for the pressure on the US dollar.

In the Eurozone, the economic recovery in the first quarter of the year has increased its strength in the second quarter of the year. Pioneering economic indicators, such as the revival seen in industrial production, the Purchasing Managers' Index (PMI), and the moderate rise seen in inflation are promising in terms of the economic program implemented in the Eurozone. In this context, the European Central Bank (ECB) signals that monetary policy will begin to normalize. Explaining that the ECB President Draghi is strengthening the euro area economy and voicing that inflationary pressures are temporary, the market has begun to interpret that the risk of deflation is reduced and inflationary risks become more pronounced.

During the past year, it has been seen that the populist movement in World politics is going up with Brexit and then Trump. However, in the elections that took place in France in March and then in Netherlands in May this year, the populist movement has lost its wind behind it. Thus, a considerable improvement in the political risk profile could be recorded in Europe. In this context, the euro has become stronger, with the highest levels of German 10-year bond interest since the beginning of 2016 tested. The European economy is expected to maintain its strong outlook in the second half of the year.

In the second quarter of 2017, in line with the acceleration of the entry of global capital into emerging countries, fund entry into our country has also increased. The decline in 10-year bond yields in the US and the fact that interest rates have stabilized, as well as the Fed's expectation of interest rate hikes, have been key factors in accelerating the flow of funds to emerging economies.

On the other hand, the Turkish economy, which has been growing well above expectations, has been affected positively by this decline in geopolitical risks as compared to other emerging countries. The continuation of the low course of US 10-year bond yields and continued fund inflows to Turkey, as well as other emerging countries within the global liquidity conditions, provide financing for the current account deficit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

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

EXPLANATIONS ON INTERIM ACTIVITY REPORT (Continued)

I. Chairman’s Assessment (Continued)

With the measures taken by the economy, the Turkish economy has performed well above expectations with a 5 percent growth rate in the first quarter of 2017. The global conjuncture supports the growth of emerging countries. In the first quarter of 2017, the possibility of catching a growth rate beyond the targets of the Medium Term Program by increasing the export increase of Turkey originating from the recovery of the domestic student and public expenditures which is the main component of the growth of the euro area in 2017 is increasing.

Oil prices, which averaged around USD 50 in the second quarter of 2017, continued to positively impact Turkey's import bill in the first half of the year, given the average of the past years. This situation was also reflected in Turkey's current account deficit and current account deficits were within the targets.

The Central Bank of the Republic of Turkey (CBRT), which has implemented strict monetary policy, taking into account global economic developments due to increased exchange rate volatility since the last quarter of 2016, continued to implement strict monetary policy in the second quarter of 2017. The CBRT has effectively used the effective funding channel by funding with different mechanisms to establish price stability. US 10-year bond yields, which were stabilized in the first half of this year, are still higher than last year, though the rapid rise in the last quarter of last year has forced the CBRT to be more cautious. The TL, which experienced a rapid depreciation last year, gained momentum in the second quarter of 2017, helping inflation to regain its downward trend.

Despite the volatility in the global economy, the Turkish banking sector continues its steady growth with its high asset quality and strong equity structure. The fact that the sector is constantly monitored by official authorities, the credits granted by the Credit Guarantee Fund to support the economy and the compliance studies for the Basel III standards are trusted in terms of risk management.

Ziraat Participation Bank achieved positive results by achieving its balance sheet targets in the second quarter of 2017. The murabaha syndication amounting to USD 155 million, which came to light in May this year, has been renewed to USD 236 million. Within the framework of customer-focused approach, the establishment of the second asset leasing company continues.

In Participation Banking, we have identified strategic priorities as an effective resource base. We aim to increase the participation banking pension of our country from the local and international markets by adding more value-added strategy and to gain domestic and foreign savings.

Ziraat Participation continued to grow by increasing the number of its branches from 44 in the first half of the year to 56. Participation increased its market share from 6% to 8% at the beginning of the year. Ziraat Participation Bank carries the title of the first public participation bank in Turkey and aims to respond to the needs of its customers in the best way by developing new products in line with the principles of “Participation Banking”.

Hüseyin AYDIN
Chairman

^(*) Unless otherwise stated amounts are expressed in Turkish Lira (“TL”) in section eight.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

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

EXPLANATIONS ON INTERIM ACTIVITY REPORT (Continued)

II. Assessment of General Manager

We see that the global economy has developed a positive picture in terms of the markets in the first half of 2017 with the developments experienced by sectoral and geopolitical risks, the confidence environment in Turkey has increased and the interest of domestic and foreign investors in real sector investments and capital markets continues to increase.

The Turkish economy, which achieved a 5% growth in the first quarter of the year, will move forward with a more robust approach to its 2023 targets with the positive atmosphere created by the results of the referendum in April 2017 and positive developments brought about by the New Government System.

Ziraat Participation Continues Growth Without Cutting Speed

In the second quarter of 2017, total fund disbursement volume increased by 40% to TL 12.7 billion by reaching TL 7.9 billion in cash financing and TL 4.8 billion in non-cash financing in the second quarter of 2017.

According to the first half of the year, it increased its collected funds by 31%, reaching a total fund size of TL 7.3 billion. Ziraat Participation, which increased its bank balance sheet size by 37% compared to the end of 2016 and increased to TL 10.9 billion, continued its growth without slowing down with its vision of becoming a leading participation bank.

Ziraat Participation, which achieved a net profit of TL 30.6 million at the end of 2016, reached a profit of TL 53.6 million in the first half of 2017.

In the second quarter of 2017, the contribution capital of TL 500 million provided by our founder to be used in capital increase has been a supporter of the rapid growth in our balance sheet items.

We Develop New Products to Increase Participation Banking Market Share

Focusing on the purpose of Ziraat Participation, we focused not only on numerical growth but also on the development of participation banking and on reaching wider masses.

Ziraat Participation is continuing its research and development activities in order to provide alternative solutions to its customers based on the principle of sharing more than "more than" principle and in accordance with the principles of participation banking. In this sense, we have cooperated with our universities to bring together theory and practice. By diversifying the product range, we aim to further increase the share of participation banking in the sector. The Ziraat Portfolio Short Term Rent Participation Fund, which was the founder of Ziraat Portföy Yönetimi A.Ş., was offered the opportunity to make alternative savings with newly developed products to the funds that wanted to evaluate their savings in interest-free instruments but were not transferred to the system due to maturity constraints. The new product has begun to be processed from our Ziraat Participation Branches in the first place.

We aim to increase the satisfaction of our customers by increasing our commercial and individual product diversity especially for SMEs. In this context, we started to implement the Ziraat Participation Golden Collection Day as of June in order to include the savings as gold in the economic system and to establish a new resource. By focusing on the collections of institutions, the new protocol was accelerated to work.

We will continue to support our SMEs

The most important role of Turkey in reaching the targets of 2023 falls to SMEs. In the first half of 2017, CGF support became an important milestone. We have made efforts to facilitate SMEs' access to low-cost financing. By renewing the contract with the new protocol, Portfolio Guarantee System has been continued to be used in addition to Equity and Treasury supported grants.

ZİRAAT KATILIM BANKASI AŞ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

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

EXPLANATIONS ON INTERIM ACTIVITY REPORT (Continued)

II. Assessment of General Manager (Continued)

Export Credits Bank of Turkey USD denominated Disbursements in the context of Export Credits before Dispatch (SBR) in 2016 within the scope of originated loans. In 2017, financing was also started in EUR and TL currencies besides USD currency before Export Credits.

Ziraat Participation will continue to contribute to the economy of our country in the coming period as a participation bank that has ethical and moral values that are in line with the principles of participation banking, and recommends more to customers at every stage.

Metin ÖZDEMİR
General Manager

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ZİRAAT KATILIM BANKASI AŞ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

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

EXPLANATIONS ON INTERIM ACTIVITY REPORT (Continued)

III. Shareholding Structure

Ziraat Katılım Bank’s paid in capital is TL 747,000,000 and this capital divided into 747,000,000 shares that each one of all worth 1.00 Turkish Lira. Members of the Board of Auditors, the General Manager and Assistant General Managers do not hold shares in the Bank.

Title	Share Amount (TL)	Number of Shares
T.C. Ziraat Bankası AŞ	746.999.996	746.999.996
Ziraat Sigorta AŞ	1	1
Ziraat Hayat ve Emeklilik AŞ	1	1
Ziraat Teknoloji AŞ	1	1
Ziraat Yatırım Menkul Değerler AŞ	1	1

IV. Changes in the Articles of Association

There is no change in the articles of association in the second quarter of the year 2017.

V. Main Financial Indicators

In the Bank assets, indicators take shares as follows; loans volume is TL 7,925,757 thousand with 73%, liquid assets and banks volume is TL 2,050,465 thousand with 19%, security volume is TL 502,918 thousand with 4% and other assets volume is TL 446,348 thousand with 4%.

ASSETS (THOUSAND TL)	30 June 2017	31 December 2016	Change (%)
Liquid Assets and Banks	2,050,465	1,669,752	23
Securities	502,918	415,842	21
Loans	7,925,757	5,557,942	43
Other Assets	446,298	315,971	41
Total Assets	10,925,438	7,959,507	37

In the Bank liabilities, indicators take shares as follows; deposit volume is TL 7,389,624 thousand with 68%, shareholders equity volume is TL 815,273 thousand with 8%, other liabilities volume is TL 774,808 thousand with 6% and resources out of deposit volume is TL 1,945,783 thousand with 18%.

LIABILITIES (THOUSAND TL)	30 June 2017	31 December 2016	Change (%)
Deposits	7,389,569	5,635,946	31
Resources Out of Deposit	1,945,783	1,420,889	37
Other Liabilities	774,813	137,995	462
Shareholders’ Equity	815,273	764,621	7
Total Liabilities	10,925,438	7,959,507	37

(*) Unless otherwise stated amounts are expressed in Turkish Lira (“TL”) in section eight.

ZİRAAT KATILIM BANKASI AŞ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

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

EXPLANATIONS ON INTERIM ACTIVITY REPORT (Continued)

VIII. Main Financial Indicators (Continued)

SELECTED PROFIT AND LOSS ITEMS (THOUSAND TL)	30 June 2017	30 June 2016	Change (%)
Dividend Income	393,267	134,855	192
Dividend Expense	211,883	54,998	286
Net Dividend Income/Expense	181,384	79,857	127
Net Fees and Commissions Income/Expense	13,767	4,892	181
Other Operating Income	1,855	1,264	47
Other Operating Expenses	90,988	61,277	49
Provision for Loan and Other Receivables	41,950	22,985	83
Profit/Loss Before Tax	69,623	4,885	1,325
Tax Provision	(15,953)	-2,416	560
Net Profit/Loss	53,670	2,469	2,074
RATIOS (%)	30 June 2017	31 December 2016	Change (%)
Capital Adequacy Ratio	16.83	12.46	35.1
Shareholders' Equity/Total Assets	7.5	9.6	(21.9)
Total Loans/Total Assets	72.5	69.8	3.9
Non-performing Loans (Gross) / Total Loans	0.4	0.2	100
Demand Deposit/Total Deposit	12.4	14.8	(16.2)
FC Assets/FC Liabilities	58.0	54.0	7.4
Liquid Assets/Total Assets	18.8	21.0	(10.5)

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ZİRAAT KATILIM BANKASI AŞ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

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

EXPLANATIONS ON INTERIM ACTIVITY REPORT (Continued)

VI. Information on Consolidated Subsidiary

ZİRAAT KATILIM VARLIK KİRALAMA AŞ:

As of 22 January 2016, Ziraat Katılım Varlık Kiralama A.Ş. was established to issue leasing certificates within the framework of the Communiqué on Leasing Certificates (III-61.1) issued by the CMB in the Official Gazette dated 7 June 2013 and numbered 28760 with the permission from the Banking Regulation and Supervision Board and the CMB with TL 50,000 equity which is owned by the Parent Bank.

Headquarter of Ziraat Katılım Varlık Kiralama A.Ş. is in Fatih/ ISTANBUL.

As of 30 June 2017, the company has no staff.

The lease certificates issued on 9 November 2016 and completed payments by Ziraat Katılım Varlık Kiralama A.Ş. with TL 100,000,000 nominal value, 91 days maturity, 8 February 2017 amortization date and permission of Stock Exchange dated 24 March 2016. The periodic profit share return rate is 2.51808, annual simple profit share ratio is 10.10%.

The lease certificates issued on 8 February 2017 and completed payments by Ziraat Katılım Varlık Kiralama A.Ş. with TL 100,000,000 nominal value, 93 days maturity, 12 May 2017 amortization date and permission of Stock Exchange dated 24 March 2016. The periodic profit share return rate is 2.74159, annual simple profit share ratio is 10.76%.

The lease certificates issued on 12 May 2017 and completed payments by Ziraat Katılım Varlık Kiralama A.Ş. with TL 100,000,000 nominal value, 90 days maturity, 10 August 2017 amortization date and permission of Stock Exchange dated 4 May 2017. The periodic profit share return rate is 2.93425, annual simple profit share ratio is 11.90%.

The lease certificates issued on 1 June 2017 and completed payments by Ziraat Katılım Varlık Kiralama A.Ş. with TL 100,000,000 nominal value, 89 days maturity, 29 August 2017 amortization date and permission of Stock Exchange dated 4 May 2017. The periodic profit share return rate is 2.92603, annual simple profit share ratio is 12%.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

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EXPLANATIONS ON INTERIM ACTIVITY REPORT (Continued)

VI. Expectations after the Interim Period

In the second quarter of 2017; financial markets are shaped by the monetary policies of the European Central Bank (ECB) and the Federal Reserve (FED), the weak economic data coming from the US economy and the acceleration of capital flows to emerging countries. The FED said in June that the US economy is nearing its full employment target, raising interest rates for the second time this year, and it has announced that it will shrink bilateral trade from this year. For the remainder of the year, it is predicted that future economic data will guide the FED's policy of interest to be implemented during the year. Despite the weak economic data about the US economy, the acceleration of recovery in the European economy and emergingdevelo countries, which have a large share in the world economy, has positively affected commodity prices. Recently, the growth rates in the Chinese economy have begun to accelerate slowly, which is another factor supporting commodity prices. The ECB and the Bank of Japan (BOJ) have announced that they will reduce the purchase of bonds and will continue to buy bonds until the end of the year and support the global economy by keeping interest rates at a low level. Nevertheless, it is also stated that the expansionary monetary policies implemented by the central banks, due to the high level of indebtedness in the global economy and the unfairness of the income distribution, can not achieve sustained growth in the long run. Therefore, it seems that different economic models are needed to provide sustainable growth based on competitive production and strong consumption, which will include the resolution of countries' debt problems.

Despite the weak economic data in the second quarter of 2017 in the US economy, the Fed has increased its interest rates by 25 basis points for the second time, suggesting that the US economy is nearing its full employment target. In addition, the FED has declared that it will reduce the amount of five billion dollar bilge from this year. However, the balance sheet reduction process is expected to be a gradual process. On the other hand, the obstacle Trump faced in implementing the election promises in the second quarter of the year was a serious skepticism about Trump's expanding fiscal policy. As a result, deteriorations in leading economic indicators such as PMI and factory orders in the US began to deteriorate and inflation fell below the FED target of two percent. It is estimated that the FED's interest rate will increase by 25 basis points at most once a year in the remaining part of the year, while the growth rate of the US economy is thought to have an effect on the FED's interest rate increase policy.

From the last quarter of 2016, economic recovery started in the Eurozone and in the second quarter of this year there was an acceleration in economic recovery. Industrial production, which is particularly good from expectations, and leading economic indicators such as PMI, which climbed to the 57 level, confirm that economic vitality continues in the Euro Area. The moderate rise seen in inflation is promising in terms of the economic program implemented in the Eurozone. The European Central Bank (ECB) has suggested that the asset buying program will reduce the volume of the asset purchase program from 80 billion to 60 billion euros and continue until the end of the year as a result of the monetary policy meeting in April, citing the recovery in the euro zone. At the meeting held in June, ECB President Draghi commented that the euro zone economy has strengthened and that the factors that suppress inflation are temporary, it has been interpreted that the risk of deflation is reduced by the markets and the inflationary risks are becoming clearer. In this context, the EUR appreciated against other currencies, primarily the US dollar, testing the highest levels since the beginning of 2016. However, despite the positive developments in the euro zone economy, the ECB is not expected to raise interest rates this year.

At the beginning of 2017, the US dollar rapidly appreciated as a result of Trump's expansionary fiscal policy election promises, and it is beginning to depreciate globally due to problems that Trump has experienced in meeting these challenges. In the second quarter of the year, there was no decline in orders that were rapidly increasing due to the envisaged expansionary fiscal policy, and recent inflation and PMI data confirm that the economic recovery in the US is slowing down. This has allowed US 10-year bond rates to stabilize below 2.50% again. These developments in the US economy led to a significant wave of buying in emerging market currencies in the second quarter of the year and also contributed to the appreciation of the currencies of these countries. Positive expectations for emerging countries are expected to continue until the end of the year.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 30 JUNE 2017

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

EXPLANATIONS ON INTERIM ACTIVITY REPORT (Continued)

VII. Expectations after the Interim Period (Continued)

In the second quarter of 2017, the revival of developments in the global economy in favor of emerging countries has also positively affected the Turkish market. While capital inflows to Turkey from abroad brought a decline in the interest rate on bonds, the appreciation in TL was seen. The Central Bank of the Republic of Turkey (CBRT) contributed to strengthening the TL by applying strict monetary policy during this period. In addition, the measures taken by the economic management, especially the Credit Guarantee Fund (KGF), have positively affected the Turkish economy, exceeding expectations in the first quarter of the year. In the upcoming period, while the recovery in the Eurozone is expected to increase Turkey's exports, it is anticipated that the increase in exports will continue to strengthen the TL and that Turkey will make an additional contribution to the growth of the economy.

In the first quarter of the year, the Turkish economy showed a performance well above expectations with a five percent growth rate with the measures taken by the economy. The fundamental building blocks of the Turkish economy, the knowledge and experience of the economy management, and the economic measures that support growth like the CGF are key factors in this rapid growth that took place in the first quarter of the year. Expansion in private sector investment and consumption is expected to increase in 2017, although public spending contributes to growth. On the other hand, the recovery in the euro area seems to have contributed to growth by positively affecting Turkey's exports. As the global conjuncture continues to support emerging markets and the recovery in the Eurozone continues to contribute to Turkey's export growth, there is a possibility that a growth rate in the direction of the Medium Term Program targets may be caught or even crossed.

The expenditures made for energy because Turkey purchases such commodities as oil and natural gas from other countries have a big share in Turkey's import bills. Oil prices, which averaged around \$ 50 in the second quarter of 2017, continued to positively impact Turkey's import bill in the first half of the year, given the average of the past years. This situation reflects Turkey's current account deficit as well as foreign trade deficit. It is expected that in the last quarter of 2016, the economic recovery in the Eurozone will accelerate in the second quarter of 2017 and the demand for Turkey's exported products will increase in the last half of the year and it is expected that Turkey will contribute to the current account balance.

Since the last quarter of last year, the depreciation in the TL and the high level of food prices have caused inflation to rise in double digits in the first quarter of 2017. However, due to the tight monetary policy imposed by the CBRT, the increase in the effective funding cost has enabled the TL to strengthen, while inflation has also affected the positive direction. On the other hand, seasonal effects, as well as the favorable outlook for food and energy prices, continued in the second quarter of the year, again leading to a downward trend in inflation. In the continuation of the year, it is expected that the food prices will continue to be relatively quiet while the TL will appreciate and that there will be a decline in the single hane again in the inflation.

In the second quarter of 2017, the hurdle President Trump fulfilled in his election promises began to raise concerns about the future of the US economy, creating doubts over Trump's promising expansionary fiscal policy. As a matter of fact, the leading economic figures and inflation data from the recent period have not met expectations. With the US 10-year bond interest rate and inflation retreating, this has accelerated the flow of capital to emerging markets and has allowed the currencies of these countries to appreciate. In this context, while TL appreciated again, TL-denominated assets also appreciated and the downward trend in inflation started to be seen again. With the support of the economic administration, Turkey is expected to grow by more than five percent in the first quarter of the year and expect the same growth performance to continue with the support of the global economic conjuncture. It is anticipated that the TL will remain strong with the support of the CBRT's tight monetary policy in the following period, and it is predicted that the inflation will also decline to single-digit again. On the other hand, expectations of growth in emerging countries over the targets of Turkey with the acceleration of capital inflow are included.

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