

## **Ziraat Katılım Bankası Anonim Şirketi**

Consolidated financial statements  
as of 31 December 2017  
together with independent auditors' report  
*(Convenience translation of the independent auditors' report and  
financial statements originally issued in Turkish,  
see Note I in section three)*

5 February 2018

*This report contains "independent auditors' report"  
comprising 3 pages and; "Consolidated Financial  
Statements and Related Disclosures and Footnotes"  
comprising 102 pages.*

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

## INDEPENDENT AUDITOR'S REPORT

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

### A) Audit of Consolidated Financial Statements

#### *Opinion*

We have audited the consolidated financial statements of Ziraat Katılım Bankası A.Ş. ("the Bank") and its financial subsidiaries (together the "Group") which comprise the consolidated balance sheet as at 31 December 2017 and the consolidated statement of income, consolidated statement of income and expense items under shareholders' equity, consolidated statement of changes in shareholders' equity, consolidated statement of cash flows for the year then ended, and consolidated notes, comprising a summary of significant accounting policies and other explanatory information.

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

#### *Basis for Opinion*

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

### *Other Matter*

The consolidated financial statements of the Bank as at and for the year ended 31 December 2016 was audited by another auditor who expressed an unmodified opinion on those consolidated statements on 17 February 2017.

### *Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements*

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

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

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

### *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements*

Responsibilities of auditors in an audit are as follows:

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with BRSA Auditing Regulation and Standards on Auditing issued by POA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

## **B) Other Legal and Regulatory Requirements**

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

Pursuant to the fourth paragraph of Article 402 of the TCC; the Board of Directors provided us the necessary explanations and required documents in connection with the audit.

### **Additional paragraph for convenience translation to English:**

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

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

Erdal Tıkmak SMMM  
Partner

5 February 2018  
İstanbul, Turkey

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

**THE CONSOLIDATED FINANCIAL REPORT OF  
ZİRAAT KATILIM BANKASI A.Ş. FOR THE YEAR ENDED 31 DECEMBER 2017**

The Bank's Headquarter Address: Hobyar Eminönü Mahallesi  
Hayri Efendi Cad. Bahçekapı No: 12 34112 Fatih / İSTANBUL  
Phone: (212) 404 11 00  
Facsimile: (212) 404 10 81  
Website: www.ziraatkatilim.com.tr  
E-mail: bilgi@ziraatkatilim.com.tr

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

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

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

**SUBSIDIARIES**

ZİRAAT KATILIM VARLIK KİRALAMA A.Ş.  
ZKB VARLIK KİRALAMA A.Ş.

The consolidated financial reports, and explanations and footnotes in this report are prepared in accordance with the Regulation on Banks' Accounting Applications and Principles and Procedures Concerning the Preservation of Documents, Turkish Accounting Standards, Turkish Financial Reporting Standards and annexes interpretations thereof and are denominated as TL thousand unless otherwise specified, are held to subject to independent audit and presented enclosed.

\_\_\_\_\_  
Hüseyin AYDIN  
Chairman of the Board

\_\_\_\_\_  
Metin ÖZDEMİR  
Member of the Board,  
CEO

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

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

\_\_\_\_\_  
Osman KARATÜRK  
Financial Coordination and  
Human Resources Deputy  
General Manager

\_\_\_\_\_  
Gürkan ÇAKIR  
Vice President  
of Financial Reporting

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

Name-Surname/Position : Tuncay KAMIŞ / Financial Reporting Manager  
Telephone : 0 212 404 13 35  
Facsimile : 0 212 404 10 81

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD OF 1 JANUARY – 31 DECEMBER 2017**

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

**SECTION ONE****GENERAL INFORMATION ABOUT THE GROUP****I. HISTORY OF THE PARENT BANK INCLUDING ITS INCORPORATION DATE, INITIAL LEGAL STATUS AND AMENDMENTS TO LEGAL STATUS:**

Ziraat Participation Bank is founded by permission of Banking Regulation and Supervision Agency numbered as 6046 at 10 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. In accordance with the decision of the Bank's Ordinary General Assembly Meeting held on July 13, 2017, the paid-in capital of the Parent Bank has been raised to TL 1,250,000 by increasing the amount of cash by TL 500,000 and by increasing the amount of internal resources by TL 3,000. Governance body of the bank is in Istanbul.

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

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

The Parent Bank’s main partner T.C Ziraat Bankası A.Ş has been transferred to the Turkey Asset Fund according to enactment dated 24 January 2017, no 2017/9756 by the Council of Ministry.

**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 of 31 December 2017 and 31 December 2016, main shareholders and capital amounts as follows:

| Name of Shareholders                    | 31 December 2017 |               | 31 December 2016 |               |
|---|------------------|---------------|------------------|---------------|
|   | Paid-in Capital  | %             | Paid-in Capital  | %             |
| T.C. Ziraat Bankası A.Ş. <sup>(*)</sup> | 1,250,000        | 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     |
| <b>Total</b>                            | <b>1,250,000</b> | <b>100.00</b> | <b>747,000</b>   | <b>100.00</b> |

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

## ZİRAAT KATILIM BANKASI A.Ş.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY – 31 DECEMBER 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   |
|-------------------------------------|---|
| <b>Board of Directors</b>           |   |
| Hüseyin AYDIN                       | Chairman  |
| Metin ÖZDEMİR                       | General Manager and Member of the BOD, Member of Pricing Committee, President of Credit Committee, Member of Corporate Management Committee |
| Yusuf DAĞCAN                        | Executive Vice President and Member of the BOD  |
| Cemalettin BAŞLI                    | Member  |
| Feyzi ÇUTUR                         | Member  |
| Salim ALKAN                         | Member, President of Corporate Management Committee   |
| <b>Assistant General Manager</b>    |   |
| Mehmet Said GÜL <sup>(*)</sup>      | Information Technologies and Operation  |
| Osman KARAKÜTÜK <sup>(**)</sup>     | Treasury and Internal Operations  |
| Temel Tayyar YEŞİL <sup>(***)</sup> | Marketing   |
| Tahir DEMİRKIRAN                    | Loan Allocation and Management  |

<sup>(\*)</sup> As of 24 August 2017 was transferred to Information Technologies and Operation Assistant General Manager.

<sup>(\*\*)</sup> As of 15 August 2017 was transferred to Treasury and Internal Operations Assistant General Manager.

<sup>(\*\*\*)</sup> As of 18 July 2017 was transferred to Marketing Assistant General Manager.

Chairman and members of the Board of Directors have no 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<br>(Nominal) | Shareholding<br>Percentage | Paid<br>Shares   | Unpaid<br>Shares |
|--|---------------------------|----------------------------|------------------|------------------|
| T.C.Ziraat Bankası A.Ş. <sup>(*)</sup> | 1,250,000                 | 99.9999996                 | 1,250,000        | -                |
| Ziraat Sigorta A.Ş.                    | -                         | 0.0000001                  | -                | -                |
| Ziraat Hayat ve Emeklilik A.Ş.         | -                         | 0.0000001                  | -                | -                |
| Ziraat Teknoloji A.Ş.                  | -                         | 0.0000001                  | -                | -                |
| Ziraat Yatırım Menkul Değerler A.Ş.    | -                         | 0.0000001                  | -                | -                |
| <b>Total</b>                           | <b>1,250,000</b>          | <b>100.00</b>              | <b>1,250,000</b> | <b>-</b>         |

<sup>(\*)</sup> As of 31 December 2016, the main shareholder of the bank is the Undersecretariat of Treasury, which is also the only shareholder of Ziraat Bank A.Ş. All of the shares of the Parent of the Bank, T.C Ziraat Bankası A.Ş has been transferred to the Turkey Asset Fund according to enactment dated 24 January 2017, no 2017/9756 by the Council of Ministry.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD OF 1 JANUARY – 31 DECEMBER 2017**

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

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**GENERAL INFORMATION ABOUT THE GROUP (Continued)**

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

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

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

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. (“Company”) was established to issue leasing certificates within the framework of the Communique on Leasing Certificates (III-61.1) issued by the Capital Markets Board (“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 equity which is owned by the Parent Bank. In 19 July 2017, ZKB Varlık Kiralama Anonim Şirketi was established with paid-in capital of TL 50 by Parent Bank. The company started its operations in 8 September 2017 after its registration is completed. The Parent Bank and subsidiaries consolidated with the Parent Bank are together referred as the “Group”.

As of 31 December 2017, Group operates with 890 workers (31 December 2016: 655).

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

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

**VII. 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 DECEMBER 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<br>(Section<br>Five I) | THOUSAND OF TURKISH LIRA                  |                  |                   |   |                  |                  |  |
|---------------|--|-----------------------------|---|------------------|-------------------|---|------------------|------------------|--|
|               |  |                             | Audited<br>Current Period<br>(31/12/2017) |                  |                   | Audited<br>Prior Period<br>(31/12/2016) |                  |                  |  |
|               |  |                             | TL  | FC               | Total             | TL                                      | FC               | Total            |  |
|               | <b>ASSETS</b>  |                             |   |                  |                   |   |                  |                  |  |
| <b>I.</b>     | <b>CASH BALANCES WITH THE CENTRAL BANK OF TURKEY</b>                           | <b>(1)</b>                  | <b>305,803</b>                            | <b>1,337,886</b> | <b>1,643,689</b>  | <b>633,389</b>                          | <b>567,909</b>   | <b>1,201,298</b> |  |
| <b>II.</b>    | <b>FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS (Net)</b>            | <b>(2)</b>                  | <b>33</b>                                 | <b>4</b>         | <b>37</b>         | <b>7</b>                                | <b>1,152</b>     | <b>1,159</b>     |  |
| 2.1           | Financial Assets Held for Trading  |                             | 33  | 4                | 37                | 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                                   |                             | 33  | 4                | 37                | 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  |                             | -   | -                | -                 | -                                       | -                | -                |  |
| <b>III.</b>   | <b>BANKS</b>   | <b>(3)</b>                  | <b>3,320</b>                              | <b>275,261</b>   | <b>278,581</b>    | <b>6,561</b>                            | <b>461,893</b>   | <b>468,454</b>   |  |
| <b>IV.</b>    | <b>MONEY MARKET PLACEMENTS</b>   |                             |   |                  |                   |   |                  |                  |  |
| <b>V.</b>     | <b>FINANCIAL ASSETS AVAILABLE FOR SALE (Net)</b>                               | <b>(4)</b>                  | <b>516,461</b>                            | <b>7,712</b>     | <b>524,173</b>    | <b>407,515</b>                          | <b>7,168</b>     | <b>414,683</b>   |  |
| 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  |                             | 511,742                                   | 7,712            | 519,454           | 402,796                                 | 7,168            | 409,964          |  |
| <b>VI.</b>    | <b>LOANS AND RECEIVABLES</b>   | <b>(5)</b>                  | <b>9,656,012</b>                          | <b>1,718,732</b> | <b>11,374,744</b> | <b>4,949,028</b>                        | <b>608,914</b>   | <b>5,557,942</b> |  |
| 6.1           | Loans and receivables  |                             | 9,639,259                                 | 1,718,732        | 11,357,991        | 4,942,377                               | 608,914          | 5,551,291        |  |
| 6.1.1         | Loans to Risk Group of the Bank  |                             | 400,452                                   | 358,536          | 758,988           | 505,998                                 | 52,926           | 558,924          |  |
| 6.1.2         | Public sector debt securities  |                             | -   | -                | -                 | -                                       | -                | -                |  |
| 6.1.3         | Other  |                             | 9,238,807                                 | 1,360,196        | 10,599,003        | 4,436,379                               | 555,988          | 4,992,367        |  |
| 6.2           | Non-performing loans   |                             | 34,841                                    | -                | 34,841            | 10,483                                  | -                | 10,483           |  |
| 6.3           | Specific provisions (-)  |                             | 18,088                                    | -                | 18,088            | 3,832                                   | -                | 3,832            |  |
| <b>VII.</b>   | <b>INVESTMENTS HELD TO MATURITY (Net)</b>                                      | <b>(6)</b>                  |   |                  |                   |   |                  |                  |  |
| <b>VIII.</b>  | <b>INVESTMENTS IN ASSOCIATES (Net)</b>   | <b>(7)</b>                  |   |                  |                   |   |                  |                  |  |
| 8.1           | Accounted with Equity Method   |                             | -   | -                | -                 | -                                       | -                | -                |  |
| 8.2           | Unconsolidated Associates  |                             | -   | -                | -                 | -                                       | -                | -                |  |
| 8.2.1         | Financial investments  |                             | -   | -                | -                 | -                                       | -                | -                |  |
| 8.2.2         | Non-financial investments  |                             | -   | -                | -                 | -                                       | -                | -                |  |
| <b>IX.</b>    | <b>INVESTMENTS IN SUBSIDIARIES (Net)</b>                                       | <b>(8)</b>                  |   |                  |                   |   |                  |                  |  |
| 9.1           | Unconsolidated financial subsidiaries  |                             | -   | -                | -                 | -                                       | -                | -                |  |
| 9.2           | Unconsolidated non-financial subsidiaries                                      |                             | -   | -                | -                 | -                                       | -                | -                |  |
| <b>X.</b>     | <b>ENTITIES UNDER COMMON CONTROL (JOINT VENT.) (Net)</b>                       | <b>(9)</b>                  |   |                  |                   |   |                  |                  |  |
| 10.1          | Consolidated under equity method   |                             | -   | -                | -                 | -                                       | -                | -                |  |
| 10.2          | Unconsolidated   |                             | -   | -                | -                 | -                                       | -                | -                |  |
| 10.2.1        | Financial subsidiaries   |                             | -   | -                | -                 | -                                       | -                | -                |  |
| 10.2.2        | Non-financial subsidiaries   |                             | -   | -                | -                 | -                                       | -                | -                |  |
| <b>XI.</b>    | <b>RECEIVABLES FROM LEASING TRANSACTIONS</b>                                   | <b>(10)</b>                 | <b>372,944</b>                            |                  | <b>372,944</b>    | <b>221,373</b>                          |                  | <b>221,373</b>   |  |
| 11.1          | Finance Lease Receivables  |                             | 479,451                                   | -                | 479,451           | 265,785                                 | -                | 265,785          |  |
| 11.2          | Operating Lease Receivables  |                             | -   | -                | -                 | -                                       | -                | -                |  |
| 11.3          | Other  |                             | -   | -                | -                 | -                                       | -                | -                |  |
| 11.4          | Unearned Income ( - )  |                             | 106,507                                   | -                | 106,507           | 44,412                                  | -                | 44,412           |  |
| <b>XII.</b>   | <b>DERIVATIVE FINANCIAL ASSETS FOR HEDGING PURPOSE</b>                         | <b>(11)</b>                 |   |                  |                   |   |                  |                  |  |
| 12.1          | Fair Value Hedges  |                             | -   | -                | -                 | -                                       | -                | -                |  |
| 12.2          | Cash Flow Hedges   |                             | -   | -                | -                 | -                                       | -                | -                |  |
| 12.3          | Hedges for Investments Made in Foreign Countries                               |                             | -   | -                | -                 | -                                       | -                | -                |  |
| <b>XIII.</b>  | <b>TANGIBLE ASSETS (Net)</b>   | <b>(14)</b>                 | <b>47,235</b>                             |                  | <b>47,235</b>     | <b>43,643</b>                           |                  | <b>43,643</b>    |  |
| <b>XIV.</b>   | <b>INTANGIBLE ASSETS (Net)</b>   | <b>(15)</b>                 | <b>63,280</b>                             |                  | <b>63,280</b>     | <b>22,905</b>                           |                  | <b>22,905</b>    |  |
| 14.1          | Goodwill   |                             | -   | -                | -                 | -                                       | -                | -                |  |
| 14.2          | Other  |                             | 63,280                                    | -                | 63,280            | 22,905                                  | -                | 22,905           |  |
| <b>XV.</b>    | <b>REAL ESTATES FOR INVESTMENT PURPOSE (Net)</b>                               | <b>(12)</b>                 |   |                  |                   |   |                  |                  |  |
| <b>XVI.</b>   | <b>TAX ASSET</b>   | <b>(16)</b>                 | <b>14,093</b>                             |                  | <b>14,093</b>     | <b>4,876</b>                            |                  | <b>4,876</b>     |  |
| 16.1          | Current Tax Asset  |                             | -   | -                | -                 | -                                       | -                | -                |  |
| 16.2          | Deferred Tax Asset   |                             | 14,093                                    | -                | 14,093            | 4,876                                   | -                | 4,876            |  |
| <b>XVII.</b>  | <b>ASSETS HELD FOR SALE AND ASSETS HELD FROM DISCONTINUED OPERATIONS (Net)</b> | <b>(13)</b>                 | <b>3,561</b>                              |                  | <b>3,561</b>      |   |                  |                  |  |
| 17.1          | Held for Sale  |                             | 3,561                                     | -                | 3,561             | -                                       | -                | -                |  |
| 17.2          | Held from Discontinued Operations  |                             | -   | -                | -                 | -                                       | -                | -                |  |
| <b>XVIII.</b> | <b>OTHER ASSETS</b>  | <b>(17)</b>                 | <b>27,580</b>                             | <b>122</b>       | <b>27,702</b>     | <b>22,980</b>                           | <b>143</b>       | <b>23,123</b>    |  |
|               | <b>TOTAL ASSETS</b>  |                             | <b>11,010,322</b>                         | <b>3,339,717</b> | <b>14,350,039</b> | <b>6,312,277</b>                        | <b>1,647,179</b> | <b>7,959,456</b> |  |

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

**ZİRAAT KATILIM BANKASI A.Ş.**

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

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

| I. CONSOLIDATED BALANCE SHEET (CONSOLIDATED STATEMENT OF FINANCIAL POSITION)                             |      | THOUSAND OF TURKISH LIRA     |   |                   |                  |   |                  |       |
|--|------|------------------------------|---|-------------------|------------------|---|------------------|-------|
|  |      | Note<br>(Section<br>Five II) | Audited<br>Current Period<br>(31/12/2017) |                   |                  | Audited<br>Prior Period<br>(31/12/2016) |                  |       |
|  |      |                              | TL  | FC                | Total            | TL                                      | FC               | Total |
| <b>LIABILITIES AND EQUITY</b>  |      |                              |   |                   |                  |   |                  |       |
| <b>I. FUND COLLECTED</b>   | (1)  | <b>6,345,837</b>             | <b>3,678,649</b>                          | <b>10,024,486</b> | <b>3,776,737</b> | <b>1,859,209</b>                        | <b>5,635,946</b> |       |
| 1.1 Fund Collected Held By the Risk Group of the Bank  |      | 8,156                        | 3   | 8,159             | 1,785            | 11                                      | 1,796            |       |
| 1.2 Other  |      | 6,337,681                    | 3,678,646                                 | 10,016,327        | 3,774,952        | 1,859,198                               | 5,634,150        |       |
| <b>II. DERIVATIVE FINANCIAL LIABILITIES HELD FOR TRADING</b>   | (2)  |                              | <b>6,280</b>                              | <b>6,280</b>      | -                | -                                       | -                |       |
| <b>III. FUNDS BORROWED</b>   | (3)  | <b>419,374</b>               | <b>1,629,936</b>                          | <b>2,049,310</b>  | -                | <b>1,185,762</b>                        | <b>1,185,762</b> |       |
| <b>IV. MONEY MARKET BALANCES</b>   | (4)  | <b>32,462</b>                | -   | <b>32,462</b>     | <b>133,668</b>   | -                                       | <b>133,668</b>   |       |
| <b>V. MARKETABLE SECURITIES ISSUED (Net)</b>   | (5)  | <b>557,804</b>               | -   | <b>557,804</b>    | <b>101,459</b>   | -                                       | <b>101,459</b>   |       |
| <b>VI. MISCELLANEOUS PAYABLES</b>  |      | <b>27,253</b>                | <b>8,462</b>                              | <b>35,715</b>     | <b>13,217</b>    | <b>3,809</b>                            | <b>17,026</b>    |       |
| <b>VII. OTHER LIABILITIES</b>  | (6)  | <b>69,368</b>                | <b>1,202</b>                              | <b>70,570</b>     | <b>45,594</b>    | <b>933</b>                              | <b>46,527</b>    |       |
| <b>VIII. FINANCE LEASE PAYABLES</b>  | (7)  | -                            | -   | -                 | -                | -                                       | -                |       |
| 8.1 Finance Lease Payables   |      | -                            | -   | -                 | -                | -                                       | -                |       |
| 8.2 Operating Lease Payables   |      | -                            | -   | -                 | -                | -                                       | -                |       |
| 8.3 Other  |      | -                            | -   | -                 | -                | -                                       | -                |       |
| 8.4 Deferred Finance Lease Expenses (-)  |      | -                            | -   | -                 | -                | -                                       | -                |       |
| <b>IX. DERIVATIVE FINANCIAL LIABILITIES FOR HEDGING</b>  | (8)  | -                            | -   | -                 | -                | -                                       | -                |       |
| 9.1 Fair Value Hedges  |      | -                            | -   | -                 | -                | -                                       | -                |       |
| 9.2 Cash Flow Hedges   |      | -                            | -   | -                 | -                | -                                       | -                |       |
| 9.3 Hedges for Investments Made in Foreign Countries   |      | -                            | -   | -                 | -                | -                                       | -                |       |
| <b>X. PROVISIONS</b>   | (9)  | <b>138,685</b>               | <b>3,605</b>                              | <b>142,290</b>    | <b>62,750</b>    | <b>1,824</b>                            | <b>64,574</b>    |       |
| 10.1 General Provisions  |      | 99,082                       | -   | 99,082            | 52,263           | -                                       | 52,263           |       |
| 10.2 Restructuring Provisions  |      | -                            | -   | -                 | -                | -                                       | -                |       |
| 10.3 Employee Benefits Provisions  |      | 4,719                        | -   | 4,719             | 2,169            | -                                       | 2,169            |       |
| 10.4 Insurance Technical Reserves (Net)  |      | -                            | -   | -                 | -                | -                                       | -                |       |
| 10.5 Other Provisions  |      | 34,884                       | 3,605                                     | 38,489            | 8,318            | 1,824                                   | 10,142           |       |
| <b>XI. TAX LIABILITY</b>   | (10) | <b>27,441</b>                | -   | <b>27,441</b>     | <b>9,873</b>     | -                                       | <b>9,873</b>     |       |
| 11.1 Current Tax Liability   |      | 27,441                       | -   | 27,441            | 9,873            | -                                       | 9,873            |       |
| 11.2 Deferred Tax Liability  |      | -                            | -   | -                 | -                | -                                       | -                |       |
| <b>LIABILITIES FOR ASSETS HELD FOR SALE AND HELD FROM DISCONTINUED OPERATIONS (Net)</b>                  | (11) | -                            | -   | -                 | -                | -                                       | -                |       |
| 12.1 Held for Sale   |      | -                            | -   | -                 | -                | -                                       | -                |       |
| 12.2 Held from Discontinued Operations   |      | -                            | -   | -                 | -                | -                                       | -                |       |
| <b>XIII. SUBORDINATED LOANS</b>  | (12) | -                            | -   | -                 | -                | -                                       | -                |       |
| <b>XIV. SHAREHOLDERS' EQUITY</b>   | (13) | <b>1,403,692</b>             | <b>(11)</b>                               | <b>1,403,681</b>  | <b>764,728</b>   | <b>(107)</b>                            | <b>764,621</b>   |       |
| 14.1 Paid-in Capital   |      | 1,250,000                    | -   | 1,250,000         | 747,000          | -                                       | 747,000          |       |
| 14.2 Capital Reserves  |      | (14,901)                     | (11)                                      | (14,912)          | (963)            | (107)                                   | (1,070)          |       |
| 14.2.1 Share Premium   |      | -                            | -   | -                 | -                | -                                       | -                |       |
| 14.2.2 Share Cancellation Profits  |      | -                            | -   | -                 | -                | -                                       | -                |       |
| 14.2.3 Marketable Securities Valuation Differences   |      | (14,901)                     | (11)                                      | (14,912)          | (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   |      | 9,691                        | -   | 9,691             | -                | -                                       | -                |       |
| 14.3.1 Legal Reserves  |      | 1,308                        | -   | 1,308             | -                | -                                       | -                |       |
| 14.3.2 Statutory Reserves  |      | -                            | -   | -                 | -                | -                                       | -                |       |
| 14.3.3 Extraordinary Reserves  |      | 3,843                        | -   | 3,843             | -                | -                                       | -                |       |
| 14.3.4 Other Profit Reserves   |      | 4,540                        | -   | 4,540             | -                | -                                       | -                |       |
| 14.4 Profit or Loss  |      | 158,902                      | -   | 158,902           | 18,691           | -                                       | 18,691           |       |
| 14.4.1 Prior Years Profit/Loss   |      | -                            | -   | -                 | (11,982)         | -                                       | (11,982)         |       |
| 14.4.2 Net Period Profit/Loss  |      | 158,902                      | -   | 158,902           | 30,673           | -                                       | 30,673           |       |
|  |      | -                            | -   | -                 | -                | -                                       | -                |       |
| <b>TOTAL LIABILITIES AND EQUITY</b>  |      | <b>9,021,916</b>             | <b>5,328,123</b>                          | <b>14,350,039</b> | <b>4,908,026</b> | <b>3,051,430</b>                        | <b>7,959,456</b> |       |

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

**ZİRAAT KATILIM BANKASI A.Ş.**

**CONSOLIDATED STATEMENT OF OFF-BALANCE SHEET ACCOUNTS  
AS OF 31 DECEMBER 2017**

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

| II.   | CONSOLIDATED STATEMENT OF OFF-BALANCE SHEET ACCOUNTS             | Note<br>(Section<br>Five III) | THOUSAND TURKISH LIRA                     |                  |                   |   |                  |                   |
|---|--|-------------------------------|---|------------------|-------------------|---|------------------|-------------------|
|   |  |                               | Audited<br>Current Period<br>(31/12/2017) |                  |                   | Audited<br>Prior Period<br>(31/12/2016) |                  |                   |
|   |  |                               | TL  | FC               | Total             | TL                                      | FC               | Total             |
| <b>A</b>                                      | <b>OFF-BALANCE SHEET ACCOUNTS (I+II+III)</b>                     | (1)                           | <b>3,274,276</b>                          | <b>4,234,096</b> | <b>7,508,372</b>  | <b>1,380,632</b>                        | <b>2,435,507</b> | <b>3,816,139</b>  |
| <b>I.</b>                                     | <b>GUARANTEES AND WARRANTIES</b>                                 |                               | <b>3,173,375</b>                          | <b>2,938,163</b> | <b>6,111,538</b>  | <b>1,341,334</b>                        | <b>2,166,635</b> | <b>3,507,969</b>  |
| 1.1   | Letters of Guarantee   |                               | 3,169,925                                 | 2,152,205        | 5,322,130         | 1,329,163                               | 1,443,571        | 2,772,734         |
| 1.1.1   | Guarantees Subject to State Tender Law                           |                               | 111,858                                   | 696,422          | 808,280           | 7,214                                   | 603,083          | 610,297           |
| 1.1.2   | Guarantees Given for Foreign Trade Operations                    |                               | 2,910,565                                 | -                | 2,910,565         | 1,208,028                               | -                | 1,208,028         |
| 1.1.3   | Other Letters of Guarantee                                       |                               | 147,502                                   | 1,455,783        | 1,603,285         | 113,921                                 | 840,488          | 954,409           |
| 1.2   | Bank Acceptances   |                               | -   | 4,784            | 4,784             | -                                       | 7,484            | 7,484             |
| 1.2.1   | Import Letter of Acceptance                                      |                               | -   | 4,784            | 4,784             | -                                       | 7,484            | 7,484             |
| 1.2.2   | Other Bank Acceptances   |                               | -   | -                | -                 | -                                       | -                | -                 |
| 1.3   | Letters of Credit  |                               | -   | 447,193          | 447,193           | -                                       | 188,475          | 188,475           |
| 1.3.1   | Documentary Letters of Credit                                    |                               | -   | 447,193          | 447,193           | -                                       | 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   |                               | 3,450                                     | 329,962          | 333,412           | 12,000                                  | 520,131          | 532,131           |
| 1.7   | Other Collaterals  |                               | -   | 4,019            | 4,019             | 171                                     | 6,974            | 7,145             |
| <b>II.</b>                                    | <b>COMMITMENTS</b>   | (1)                           | <b>100,901</b>                            | <b>31,855</b>    | <b>132,756</b>    | <b>39,298</b>                           | <b>9,200</b>     | <b>48,498</b>     |
| 2.1   | Irrevocable Commitments  |                               | 100,901                                   | 31,855           | 132,756           | 39,298                                  | 9,200            | 48,498            |
| 2.1.1   | Forward asset purchase commitments                               |                               | 30,056                                    | 31,855           | 61,911            | 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                                    |                               | 64,845                                    | -                | 64,845            | 34,817                                  | -                | 34,817            |
| 2.1.7   | Tax and Fund Liabilities from Export Commitments                 |                               | 1,966                                     | -                | 1,966             | 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                                    |                               | 4,034                                     | -                | 4,034             | -                                       | -                | -                 |
| 2.2   | Revocable Commitments  |                               | -   | -                | -                 | -                                       | -                | -                 |
| 2.2.1   | Revocable Loan Granting Commitments                              |                               | -   | -                | -                 | -                                       | -                | -                 |
| 2.2.2   | Other Revocable Commitments                                      |                               | -   | -                | -                 | -                                       | -                | -                 |
| <b>III.</b>                                   | <b>DERIVATIVE FINANCIAL INSTRUMENTS</b>                          | (2)                           | -   | <b>1,264,078</b> | <b>1,264,078</b>  | -                                       | <b>259,672</b>   | <b>259,672</b>    |
| 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                                    |                               | -   | 1,264,078        | 1,264,078         | -                                       | 259,672          | 259,672           |
| 3.2.1   | Forward Foreign Currency Buy/Sell Transactions                   |                               | -   | 1,264,078        | 1,264,078         | -                                       | 259,672          | 259,672           |
| 3.2.1.1                                       | Forward Foreign Currency Transactions-Buy                        |                               | -   | 629,444          | 629,444           | -                                       | 130,412          | 130,412           |
| 3.2.1.2                                       | Forward Foreign Currency Transactions-Sell                       |                               | -   | 634,634          | 634,634           | -                                       | 129,260          | 129,260           |
| 3.2.2   | Other Forward Buy/Sell Transaction                               |                               | -   | -                | -                 | -                                       | -                | -                 |
| 3.3   | Other  |                               | -   | -                | -                 | -                                       | -                | -                 |
| <b>B.</b>                                     | <b>CUSTODY AND PLEDGES RECEIVED (IV+V+VI)</b>                    |                               | <b>12,684,779</b>                         | <b>946,613</b>   | <b>13,631,392</b> | <b>6,580,645</b>                        | <b>334,443</b>   | <b>6,915,088</b>  |
| <b>IV.</b>                                    | <b>ITEMS HELD IN CUSTODY</b>                                     |                               | <b>447,409</b>                            | <b>252,379</b>   | <b>699,788</b>    | <b>197,945</b>                          | <b>103,513</b>   | <b>301,458</b>    |
| 4.1   | Customer Fund and Portfolio Balances                             |                               | -   | -                | -                 | -                                       | -                | -                 |
| 4.2   | Investment Securities Held in Custody                            |                               | 119,399                                   | -                | 119,399           | 1,167                                   | -                | 1,167             |
| 4.3   | Checks Received for Collection                                   |                               | 307,270                                   | 2,778            | 310,048           | 185,546                                 | 2,162            | 187,708           |
| 4.4   | Commercial Notes Received for Collection                         |                               | 20,465                                    | 4,592            | 25,057            | 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  |                               | 275                                       | 97,500           | 97,775            | -                                       | 47,704           | 47,704            |
| 4.8   | Custodians   |                               | -   | 147,509          | 147,509           | -                                       | 53,457           | 53,457            |
| <b>V.</b>                                     | <b>PLEDGES RECEIVED</b>  |                               | <b>12,237,370</b>                         | <b>694,234</b>   | <b>12,931,604</b> | <b>6,382,700</b>                        | <b>230,930</b>   | <b>6,613,630</b>  |
| 5.1   | Marketable Securities  |                               | 1,189,468                                 | 331,670          | 1,521,138         | 6,979                                   | -                | 6,979             |
| 5.2   | Guarantee Notes  |                               | 864,266                                   | 35,828           | 900,094           | 572,824                                 | 22,136           | 594,960           |
| 5.3   | Commodity  |                               | 830,495                                   | 27               | 830,522           | 419,001                                 | -                | 419,001           |
| 5.4   | Warranty   |                               | -   | -                | -                 | -                                       | -                | -                 |
| 5.5   | Properties   |                               | 8,755,047                                 | -                | 8,755,047         | 4,855,316                               | -                | 4,855,316         |
| 5.6   | Other Pledged Items  |                               | 598,094                                   | 326,709          | 924,803           | 528,580                                 | 208,794          | 737,374           |
| 5.7   | Pledged Items-Depository   |                               | -   | -                | -                 | -                                       | -                | -                 |
| <b>VI.</b>                                    | <b>ACCEPTED INDEPENDENT GUARANTEES AND WARRANTIES</b>            |                               | -   | -                | -                 | -                                       | -                | -                 |
| <b>TOTAL OFF-BALANCE SHEET ACCOUNTS (A+B)</b> |  |                               | <b>15,959,055</b>                         | <b>5,180,709</b> | <b>21,139,764</b> | <b>7,961,277</b>                        | <b>2,769,950</b> | <b>10,731,227</b> |

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

**ZİRAAT KATILIM BANKASI A.Ş.**

**CONSOLIDATED INCOME STATEMENT  
FOR THE PERIOD OF 1 JANUARY - 31 DECEMBER 2017**

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

| III. CONSOLIDATED INCOME STATEMENT  |                              | THOUSAND OF TURKISH LIRA                      |   |
|---|------------------------------|---|---|
| INCOME AND EXPENSE ITEMS  | Note<br>(Section<br>Five IV) | Audited<br>Current Period<br>01/01-31/12/2017 | Audited<br>Prior Period<br>01/01-31/12/2016 |
| <b>I. PROFIT SHARE INCOME</b>   | <b>(1)</b>                   | <b>981,392</b>                                | <b>390,742</b>                              |
| 1.1 Profit share on loans   |                              | 885,752                                       | 356,285                                     |
| 1.2 Profit share on reserve deposits  |                              | 16,396  | 4,359                                       |
| 1.3 Profit share on banks   |                              | -   | 353   |
| 1.4 Profit share on money market placements   |                              | -   | -   |
| 1.5 Profit share on marketable securities portfolio   |                              | 48,634  | 24,499                                      |
| 1.5.1 Held-for-trading financial assets   |                              | -   | -   |
| 1.5.2 Financial assets at fair value through profit and loss                                  |                              | -   | -   |
| 1.5.3 Available-for-sale financial assets   |                              | 48,634  | 24,101                                      |
| 1.5.4 Investments held-to-maturity  |                              | -   | 398   |
| 1.6 Finance lease income  |                              | 29,782  | 4,973                                       |
| 1.7 Other profit share income   |                              | 828   | 273   |
| <b>II. PROFIT SHARE EXPENSE</b>   | <b>(2)</b>                   | <b>538,306</b>                                | <b>180,885</b>                              |
| 2.1 Expense on profit sharing accounts  |                              | 471,134                                       | 148,335                                     |
| 2.2 Profit share expense on funds borrowed  |                              | 38,705  | 25,052                                      |
| 2.3 Profit share expense on money market borrowings   |                              | 3,058   | 7,498                                       |
| 2.4 Expense on securities issued  |                              | 25,409  | -   |
| 2.5 Other profit share expense  |                              | -   | -   |
| <b>III. NET PROFIT SHARE INCOME (I - II)</b>  |                              | <b>443,086</b>                                | <b>209,857</b>                              |
| <b>IV. NET FEES AND COMMISSIONS INCOME/EXPENSE</b>  |                              | <b>30,343</b>                                 | <b>14,205</b>                               |
| 4.1 Fees and commissions received   |                              | 45,743  | 20,587                                      |
| 4.1.1 Non-cash loans  |                              | 35,266  | 12,749                                      |
| 4.1.2 Other   |                              | 10,477  | 7,838                                       |
| 4.2 Fees and commissions paid   |                              | 15,400  | 6,382                                       |
| 4.2.1 Non-cash loans  |                              | 4   | 1   |
| 4.2.2 Other   |                              | 15,396  | 6,381                                       |
| <b>V. DIVIDEND INCOME</b>   | <b>(3)</b>                   | <b>-</b>                                      | <b>-</b>                                    |
| <b>VI. NET TRADING INCOME</b>   | <b>(4)</b>                   | <b>11,556</b>                                 | <b>7,030</b>                                |
| 6.1 Capital market transaction gains / (losses)   |                              | (851)   | -   |
| 6.2 Gains/ (losses) from derivative financial instruments                                     |                              | (26,682)                                      | 10,675                                      |
| 6.3 Foreign exchange gains / (losses)   |                              | 39,089  | (3,645)                                     |
| <b>VII. OTHER OPERATING INCOME</b>  | <b>(5)</b>                   | <b>2,663</b>                                  | <b>1,739</b>                                |
| <b>VIII. NET OPERATING INCOME (III+IV+V+VI+VII)</b>   |                              | <b>487,648</b>                                | <b>232,831</b>                              |
| <b>IX. PROVISION FOR LOAN LOSSES AND OTHER RECEIVABLES (-)</b>                                | <b>(6)</b>                   | <b>90,143</b>                                 | <b>51,770</b>                               |
| <b>X. OTHER OPERATING EXPENSES (-)</b>  | <b>(7)</b>                   | <b>197,531</b>                                | <b>140,579</b>                              |
| <b>XI. NET OPERATING INCOME/(LOSS) (VIII-IX-X)</b>  |                              | <b>199,974</b>                                | <b>40,482</b>                               |
| <b>XII. AMOUNT IN EXCESS RECORDED AS GAIN AFTER MERGER</b>                                    |                              | <b>-</b>                                      | <b>-</b>                                    |
| <b>XIII. GAIN / (LOSS) ON EQUITY METHOD</b>   |                              | <b>-</b>                                      | <b>-</b>                                    |
| <b>XIV. GAIN / (LOSS) ON NET MONETARY POSITION</b>  |                              | <b>-</b>                                      | <b>-</b>                                    |
| <b>PROFIT/(LOSS) BEFORE TAXES FROM CONTINUED OPERATIONS (XI+...+XIV)</b>                      | <b>(8)</b>                   | <b>199,974</b>                                | <b>40,482</b>                               |
| <b>XVI. TAX PROVISION FOR CONTINUED OPERATIONS (-)</b>  | <b>(9)</b>                   | <b>(41,072)</b>                               | <b>(9,809)</b>                              |
| 16.1 Current Tax Provision  |                              | (46,907)                                      | (14,349)                                    |
| 16.2 Deferred Tax Provision   |                              | 5,835   | 4,540                                       |
| <b>XVII. NET PROFIT/(LOSS) FROM CONTINUED OPERATIONS (XV±XVI)</b>                             | <b>(10)</b>                  | <b>158,902</b>                                | <b>30,673</b>                               |
| <b>XVIII. INCOME FROM DISCONTINUED OPERATIONS</b>   |                              | <b>-</b>                                      | <b>-</b>                                    |
| 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  |                              | -   | -   |
| <b>XIX. LOSS FROM DISCONTINUED OPERATIONS (-)</b>   |                              | <b>-</b>                                      | <b>-</b>                                    |
| 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  |                              | -   | -   |
| <b>PROFIT/LOSSES BEFORE TAXES FROM DISCONTINUED OPERATIONS (XVIII-XIX)</b>                    |                              | <b>-</b>                                      | <b>-</b>                                    |
| <b>XXI. PROVISION FOR INCOME TAXES FROM DISCONTINUED OPERATIONS (±)</b>                       |                              | <b>-</b>                                      | <b>-</b>                                    |
| 21.1 Current tax provision  |                              | -   | -   |
| 21.2 Deferred tax provision   |                              | -   | -   |
| <b>XXII. NET PROFIT/LOSS FROM DISCONTINUED OPERATIONS (XX±XXI)</b>                            |                              | <b>-</b>                                      | <b>-</b>                                    |
| <b>XXIII. NET PROFIT/LOSS (XVII+XXII)</b>   | <b>(11)</b>                  | <b>158,902</b>                                | <b>30,673</b>                               |
| 23.1 Group profit/ loss   |                              | 158,902                                       | 30,673                                      |
| 23.2 Minority shares profit/ loss   |                              | -   | -   |
| Earnings per share income/loss (full TL)  |                              | 0,1615  | 0,0426                                      |

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

**ZİRAAT KATILIM BANKASI A.Ş.****CONSOLIDATED STATEMENT OF PROFIT AND LOSS ITEMS  
ACCOUNTED UNDER SHAREHOLDERS' EQUITY  
FOR THE PERIOD OF 1 JANUARY - 31 DECEMBER 2017**

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

| <b>IV.</b>   | <b>CONSOLIDATED STATEMENT OF PROFIT AND LOSS ITEMS ACCOUNTED UNDER SHAREHOLDERS' EQUITY</b>  | <b>Audited<br/>Current Period<br/>01/01-31/12/2017</b> | <b>Audited<br/>Prior Period<br/>01/01-31/12/2016</b> |
|--------------|--|--|--|
|              | <b>ADDITIONS TO MARKETABLE SECURITIES VALUATION DIFFERENCES FOR AVAILABLE SALE</b>   |  |  |
| <b>I.</b>    | <b>FINANCIAL ASSETS</b>  | <b>(17,225)</b>  | <b>(3,228)</b>                                       |
| <b>II.</b>   | <b>TANGIBLE ASSETS REVALUATION DIFFERENCES</b>   | -  | -  |
| <b>III.</b>  | <b>INTANGIBLE ASSETS REVALUATION DIFFERENCES</b>   | -  | -  |
| <b>IV.</b>   | <b>FOREIGN EXCHANGE DIFFERENCES FOR FOREIGN CURRENCY TRANSACTIONS</b>  | -  | -  |
| <b>V.</b>    | <b>PROFIT/LOSS FROM DERIVATIVE FINANCIAL INSTRUMENTS FOR CASH FLOW HEDGE PURPOSES<br/>(EFFECTIVE PORTION OF FAIR VALUE DIFFERENCES)</b>                      | -  | -  |
| <b>VI.</b>   | <b>PROFIT/LOSS FROM DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGE OF NET INVESTMENT IN<br/>FOREIGN OPERATIONS (EFFECTIVE PORTION OF FAIR VALUE DIFFERENCES)</b> | -  | -  |
| <b>VII.</b>  | <b>THE EFFECT OF CORRECTION OF ERRORS AND CHANGES IN ACCOUNTING POLICIES</b>   | -  | -  |
| <b>VIII.</b> | <b>OTHER PROFIT LOSS ITEMS ACCOUNTED FOR UNDER EQUITY DUE TO TAS</b>   | -  | -  |
| <b>IX.</b>   | <b>DEFERRED TAX OF VALUATION DIFFERENCES</b>   | <b>3,382</b>   | <b>646</b>   |
| <b>X.</b>    | <b>TOTAL NET PROFIT/LOSS ACCOUNTED FOR UNDER EQUITY (I+II+...+IX)</b>  | <b>(13,843)</b>  | <b>(2,582)</b>                                       |
| <b>XI.</b>   | <b>PROFIT/LOSS</b>   | <b>158,902</b>   | <b>30,673</b>  |
| 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  | 158,902  | 30,673   |
| <b>XII.</b>  | <b>TOTAL PROFIT/LOSS ACCOUNTED FOR THE PERIOD (X±XI)</b>   | <b>145,059</b>   | <b>28,091</b>  |

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

ZİRAAT KATILIM BANKASI A.Ş.

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE PERIOD OF 1 JANUARY - 31 DECEMBER 2017**

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

| V. CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY |   |                    |   |                  |                                  |                   |                    |                           |                   |  |  |   |  |  |                |   |   |                          |                                  |
|---|---|--------------------|---|------------------|----------------------------------|-------------------|--------------------|---------------------------|-------------------|--|--|---|--|--|----------------|---|---|--------------------------|----------------------------------|
| THOUSAND TURKISH LIRA   |   |                    |   |                  |                                  |                   |                    |                           |                   |  |  |   |  |  |                |   |   |                          |                                  |
| Audited<br>Prior Period<br>1 January 2016 - 31 December 2016  | Note<br>(Section<br>Five V)   | Paid-in<br>Capital | Capital<br>Reserves from<br>Inflation<br>Adjustments<br>to Paid-in<br>Capital | Share<br>Premium | Share<br>Cancellation<br>Profits | Legal<br>Reserves | Status<br>Reserves | Extraordinary<br>Reserves | Other<br>Reserves | Current<br>Period Net<br>Profit / (Loss) | Prior Period<br>Net<br>Profit / (Loss) | Valuation<br>Differences<br>of Securities | Revaluation<br>Fund on<br>Tangible and<br>Intangible<br>Assets | Non-paid up<br>shares from<br>partnerships | Hedge<br>Funds | Revaluation Fund on<br>Assets Held for Sale<br>and Discontinued<br>Operations | Total Equity<br>Excluding<br>Minority<br>Shareholders | Minority<br>Shareholders | Total<br>Shareholders'<br>Equity |
| <b>I.</b>   | <b>Balances at the beginning of period</b>                                | 675,000            | -   | -                | -                                | -                 | -                  | -                         | -                 | -  | (11,982)                               | 1,512                                     | -  | -  | -              | -   | 664,530   | -                        | 664,530                          |
| <b>II.</b>  | <b>Corrections according to Turkish<br/>Accounting Standard No.8</b>      | -                  | -   | -                | -                                | -                 | -                  | -                         | -                 | -  | -                                      | -   | -  | -  | -              | -   | -   | -                        | -                                |
| 2.1   | Corrections of errors   | -                  | -   | -                | -                                | -                 | -                  | -                         | -                 | -  | -                                      | -   | -  | -  | -              | -   | -   | -                        | -                                |
| 2.2   | Changes in accounting policies  | -                  | -   | -                | -                                | -                 | -                  | -                         | -                 | -  | -                                      | -   | -  | -  | -              | -   | -   | -                        | -                                |
| <b>III.</b>   | <b>Adjusted beginning balance (I + II)</b>                                | 675,000            | -   | -                | -                                | -                 | -                  | -                         | -                 | -  | (11,982)                               | 1,512                                     | -  | -  | -              | -   | 664,530   | -                        | 664,530                          |
|   | <b>Changes in the period</b>  | -                  | -   | -                | -                                | -                 | -                  | -                         | -                 | -  | -                                      | -   | -  | -  | -              | -   | -   | -                        | -                                |
| <b>IV.</b>  | <b>Increase / decrease related to mergers</b>                             | -                  | -   | -                | -                                | -                 | -                  | -                         | -                 | -  | -                                      | -   | -  | -  | -              | -   | -   | -                        | -                                |
| <b>V.</b>   | <b>Valuation difference of available-for-sale<br/>securities</b>          | -                  | -   | -                | -                                | -                 | -                  | -                         | -                 | -  | -                                      | (2,582)                                   | -  | -  | -              | -   | (2,582)   | -                        | (2,582)                          |
| <b>VI.</b>  | <b>Hedging transactions (effective portion)</b>                           | -                  | -   | -                | -                                | -                 | -                  | -                         | -                 | -  | -                                      | -   | -  | -  | -              | -   | -   | -                        | -                                |
| 6.1   | Cash flow hedge   | -                  | -   | -                | -                                | -                 | -                  | -                         | -                 | -  | -                                      | -   | -  | -  | -              | -   | -   | -                        | -                                |
| 6.2   | Hedging of a net investment in foreign<br>subsidiaries                    | -                  | -   | -                | -                                | -                 | -                  | -                         | -                 | -  | -                                      | -   | -  | -  | -              | -   | -   | -                        | -                                |
| <b>VII.</b>   | <b>Revaluation fund on tangible assets</b>                                | -                  | -   | -                | -                                | -                 | -                  | -                         | -                 | -  | -                                      | -   | -  | -  | -              | -   | -   | -                        | -                                |
| <b>VIII.</b>  | <b>Revaluation fund on intangible assets</b>                              | -                  | -   | -                | -                                | -                 | -                  | -                         | -                 | -  | -                                      | -   | -  | -  | -              | -   | -   | -                        | -                                |
| <b>IX.</b>  | <b>Capital bonus of associates, subsidiaries<br/>and joint ventures</b>   | -                  | -   | -                | -                                | -                 | -                  | -                         | -                 | -  | -                                      | -   | -  | -  | -              | -   | -   | -                        | -                                |
| <b>X.</b>   | <b>Foreign exchange differences</b>                                       | -                  | -   | -                | -                                | -                 | -                  | -                         | -                 | -  | -                                      | -   | -  | -  | -              | -   | -   | -                        | -                                |
| <b>XI.</b>  | <b>Changes related to sale of assets</b>                                  | -                  | -   | -                | -                                | -                 | -                  | -                         | -                 | -  | -                                      | -   | -  | -  | -              | -   | -   | -                        | -                                |
| <b>XII.</b>   | <b>Changes related to reclassification of<br/>assets</b>                  | -                  | -   | -                | -                                | -                 | -                  | -                         | -                 | -  | -                                      | -   | -  | -  | -              | -   | -   | -                        | -                                |
| <b>XIII.</b>  | <b>Effect of changes in equities of associates</b>                        | -                  | -   | -                | -                                | -                 | -                  | -                         | -                 | -  | -                                      | -   | -  | -  | -              | -   | -   | -                        | -                                |
| <b>XIV.</b>   | <b>Capital increase</b>   | 72,000             | -   | -                | -                                | -                 | -                  | -                         | -                 | -  | -                                      | -   | -  | -  | -              | -   | 72,000  | -                        | 72,000                           |
| 14.1  | Cash  | 72,000             | -   | -                | -                                | -                 | -                  | -                         | -                 | -  | -                                      | -   | -  | -  | -              | -   | 72,000  | -                        | 72,000                           |
| 14.2  | Domestic sources  | -                  | -   | -                | -                                | -                 | -                  | -                         | -                 | -  | -                                      | -   | -  | -  | -              | -   | -   | -                        | -                                |
| <b>XV.</b>  | <b>Issuances of share certificates</b>                                    | -                  | -   | -                | -                                | -                 | -                  | -                         | -                 | -  | -                                      | -   | -  | -  | -              | -   | -   | -                        | -                                |
| <b>XVI.</b>   | <b>Abolition profit of share certificates</b>                             | -                  | -   | -                | -                                | -                 | -                  | -                         | -                 | -  | -                                      | -   | -  | -  | -              | -   | -   | -                        | -                                |
| <b>XVII.</b>  | <b>Capital reserves from inflation<br/>adjustments to paid-in capital</b> | -                  | -   | -                | -                                | -                 | -                  | -                         | -                 | -  | -                                      | -   | -  | -  | -              | -   | -   | -                        | -                                |
| <b>XVIII.</b>   | <b>Others</b>   | -                  | -   | -                | -                                | -                 | -                  | -                         | -                 | -  | -                                      | -   | -  | -  | -              | -   | -   | -                        | -                                |
| <b>XIX.</b>   | <b>Current period net profit / loss</b>                                   | -                  | -   | -                | -                                | -                 | -                  | -                         | -                 | 30,673                                   | -                                      | -   | -  | -  | -              | -   | 30,673  | -                        | 30,673                           |
| <b>XX.</b>  | <b>Profit distribution</b>  | -                  | -   | -                | -                                | -                 | -                  | -                         | -                 | -  | -                                      | -   | -  | -  | -              | -   | -   | -                        | -                                |
| 20.1  | Dividends   | -                  | -   | -                | -                                | -                 | -                  | -                         | -                 | -  | -                                      | -   | -  | -  | -              | -   | -   | -                        | -                                |
| 20.2  | Transferred to reserves   | -                  | -   | -                | -                                | -                 | -                  | -                         | -                 | -  | -                                      | -   | -  | -  | -              | -   | -   | -                        | -                                |
| 20.3  | Others  | -                  | -   | -                | -                                | -                 | -                  | -                         | -                 | -  | -                                      | -   | -  | -  | -              | -   | -   | -                        | -                                |
|   | <b>Balances at the end of period<br/>(III+IV+V+.....+XVIII+XIX+XX)</b>    | 747,000            | -   | -                | -                                | -                 | -                  | -                         | -                 | 30,673                                   | (11,982)                               | (1,070)                                   | -  | -  | -              | -   | 764,621   | -                        | 764,621                          |

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

**ZİRAAT KATILIM BANKASI A.Ş.**
**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE PERIOD OF 1 JANUARY - 31 DECEMBER 2017**

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

| V. CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  |   |                           |                    |  |                  |                                  |                   |                    |                           |                   |  |  |   |  |  |                |   |   |                          |                                  |
|--|---|---------------------------|--------------------|--|------------------|----------------------------------|-------------------|--------------------|---------------------------|-------------------|--|--|---|--|--|----------------|---|---|--------------------------|----------------------------------|
| THOUSAND TURKISH LIRA  |   | Note<br>(Section<br>Five) | Paid-in<br>Capital | Capital<br>Reserves<br>from<br>Inflation<br>Adjustments<br>to Paid-in<br>Capital | Share<br>Premium | Share<br>Cancellation<br>Profits | Legal<br>Reserves | Status<br>Reserves | Extraordinary<br>Reserves | Other<br>Reserves | Current<br>Period<br>Net<br>Profit /<br>(Loss) | Prior<br>Period<br>Net<br>Profit /<br>(Loss) | Valuation<br>Differences<br>of Securities | Revaluation<br>Fund on<br>Tangible and<br>Intangible<br>Assets | Non-paid up<br>shares from<br>partnerships | Hedge<br>Funds | Revaluation<br>Fund on Assets<br>Held for Sale<br>and<br>Discontinued<br>Operations | Total Equity<br>Excluding<br>Minority<br>Shareholders | Minority<br>Shareholders | Total<br>Shareholders'<br>Equity |
| Audited<br>Current Period<br>1 January 2017 – 31 December 2017 |   |                           |                    |  |                  |                                  |                   |                    |                           |                   |  |  |   |  |  |                |   |   |                          |                                  |
| I.   | Balances at the beginning of the period                             |                           | 747,000            | -  | -                | -                                | -                 | -                  | -                         | -                 | 30,673   | (11,982)                                     | (1,070)                                   | -  | -  | -              | -   | 764,621   | -                        | 764,621                          |
|  | Changes in the period   |                           | -                  | -  | -                | -                                | -                 | -                  | -                         | -                 | -  | -  | -   | -  | -  | -              | -   | -   | -                        | -                                |
| II.  | Increase / decrease related to mergers                              |                           | -                  | -  | -                | -                                | -                 | -                  | -                         | -                 | -  | -  | -   | -  | -  | -              | -   | -   | -                        | -                                |
|  | Valuation difference of available-for-sale securities               |                           | -                  | -  | -                | -                                | -                 | -                  | -                         | -                 | -  | -  | (13,842)                                  | -  | -  | -              | -   | (13,842)  | -                        | (13,842)                         |
| III.   | 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                               |                           | -                  | -  | -                | -                                | -                 | -                  | -                         | -                 | -  | -  | -   | -  | -  | -              | -   | -   | -                        | -                                |
|  | Capital bonus of associates, subsidiaries and joint ventures        |                           | -                  | -  | -                | -                                | -                 | -                  | -                         | -                 | -  | -  | -   | -  | -  | -              | -   | -   | -                        | -                                |
| VII.   | Foreign exchange differences  |                           | -                  | -  | -                | -                                | -                 | -                  | -                         | -                 | -  | -  | -   | -  | -  | -              | -   | -   | -                        | -                                |
| VIII.  | Changes related to sale of assets                                   |                           | -                  | -  | -                | -                                | -                 | -                  | -                         | -                 | -  | -  | -   | -  | -  | -              | -   | -   | -                        | -                                |
| IX.  | Changes related to reclassification of assets                       |                           | -                  | -  | -                | -                                | -                 | -                  | -                         | -                 | -  | -  | -   | -  | -  | -              | -   | -   | -                        | -                                |
| X.   | Effect of changes in equities of associates                         |                           | -                  | -  | -                | -                                | -                 | -                  | -                         | -                 | -  | -  | -   | -  | -  | -              | -   | -   | -                        | -                                |
| XI.  | Capital increase  |                           | 503,000            | -  | -                | -                                | -                 | -                  | -                         | -                 | -  | (3,000)                                      | -   | -  | -  | -              | -   | 500,000   | -                        | 500,000                          |
| 12.1   | Cash  |                           | 500,000            | -  | -                | -                                | -                 | -                  | -                         | -                 | -  | -  | -   | -  | -  | -              | -   | 500,000   | -                        | 500,000                          |
| 12.2   | Domestic sources  |                           | 3,000              | -  | -                | -                                | -                 | -                  | -                         | -                 | -  | (3,000)                                      | -   | -  | -  | -              | -   | -   | -                        | -                                |
| XIII.  | Issuances of share certificates                                     |                           | -                  | -  | -                | -                                | -                 | -                  | -                         | -                 | -  | -  | -   | -  | -  | -              | -   | -   | -                        | -                                |
| XIV.   | Abolition profit of share certificates                              |                           | -                  | -  | -                | -                                | -                 | -                  | -                         | -                 | -  | -  | -   | -  | -  | -              | -   | -   | -                        | -                                |
|  | Capital reserves from inflation adjustments to paid-in capital      |                           | -                  | -  | -                | -                                | -                 | -                  | -                         | -                 | -  | -  | -   | -  | -  | -              | -   | -   | -                        | -                                |
| XV.  | Others  |                           | -                  | -  | -                | -                                | -                 | -                  | -                         | -                 | -  | -  | -   | -  | -  | -              | -   | -   | -                        | -                                |
| XVI.   | Others  |                           | -                  | -  | -                | -                                | -                 | -                  | -                         | -                 | -  | -  | -   | -  | -  | -              | -   | -   | -                        | -                                |
| XVII.  | Current period net profit / loss                                    |                           | -                  | -  | -                | -                                | -                 | -                  | -                         | 158,902           | -  | -  | -   | -  | -  | -              | -   | 158,902   | -                        | 158,902                          |
| XVIII.   | Profit distribution   |                           | -                  | -  | -                | -                                | -                 | -                  | -                         | (30,673)          | 14,982   | -  | -   | -  | -  | -              | -   | (6,000)   | -                        | (6,000)                          |
| 18.1   | Dividends   |                           | -                  | -  | -                | -                                | -                 | -                  | -                         | -                 | (6,000)  | -  | -   | -  | -  | -              | -   | (6,000)   | -                        | (6,000)                          |
| 18.2   | Transferred to reserves   |                           | -                  | -  | -                | -                                | 1,308             | -                  | 3,843                     | 4,540             | -  | (9,691)                                      | -   | -  | -  | -              | -   | -   | -                        | -                                |
| 18.3   | Others  |                           | -                  | -  | -                | -                                | -                 | -                  | -                         | (30,673)          | 30,673   | -  | -   | -  | -  | -              | -   | -   | -                        | -                                |
|  | Balance at the end of the period<br>(I+II+III+.....+XVI+XVII+XVIII) |                           | 1,250,000          | -  | -                | -                                | 1,308             | -                  | 3,843                     | 4,540             | 158,902  | -  | (14,912)                                  | -  | -  | -              | -   | 1,403,681   | -                        | 1,403,681                        |

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



**ZİRAAT KATILIM BANKASI A.Ş.**

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE PERIOD OF 1 JANUARY - 31 DECEMBER 2017**

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

|   |                           | THOUSAND TURKISH LIRA                         |   |
|---|---------------------------|---|---|
| VI. CONSOLIDATED STATEMENT OF CASH FLOWS  | Note<br>(Section<br>Five) | Audited<br>Current Period<br>01/01–31/12/2017 | Audited<br>Prior Period<br>01/01-31/12/2016 |
| <b>A. CASH FLOWS FROM BANKING OPERATIONS</b>  |                           |   |   |
| <b>1.1 Operating profit before changes in operating assets and liabilities</b>            |                           | <b>121,921</b>                                | <b>(82,076)</b>                             |
| 1.1.1 Profit share income received  |                           | 823,676                                       | 197,015                                     |
| 1.1.2 Profit share expense paid   |                           | (491,718)                                     | (161,638)                                   |
| 1.1.3 Dividend received   |                           | -   | -   |
| 1.1.4 Fees and commissions received   |                           | 45,743  | 20,587                                      |
| 1.1.5 Other income  |                           | 762   | 10,480                                      |
| 1.1.6 Collections from previously written off loans                                       |                           | 12,807  | 54  |
| 1.1.7 Payments to personnel and service suppliers   |                           | (86,969)                                      | (65,101)                                    |
| 1.1.8 Taxes paid  |                           | (29,546)                                      | (16,340)                                    |
| 1.1.9 Others  |                           | (152,834)                                     | (67,133)                                    |
| <b>1.2 Changes in operating assets and liabilities</b>                                    |                           | <b>(1,451,586)</b>                            | <b>1,108,717</b>                            |
| 1.2.1 Net (increase)/decrease in held for trading financial assets                        |                           | 1,118   | (417)                                       |
| 1.2.2 Net (increase) decrease in fair value through profit/loss financial assets          |                           | -   | -   |
| 1.2.3 Net (increase) decrease in due from banks and other financial institutions          |                           | (755,341)                                     | (488,504)                                   |
| 1.2.4 Net (increase) decrease in loans  |                           | (5,824,304)                                   | (3,892,066)                                 |
| 1.2.5 Net (increase) decrease in other assets   |                           | (8,140)                                       | (91,363)                                    |
| 1.2.6 Net increase (decrease) in bank deposits  |                           | (17,131)                                      | -   |
| 1.2.7 Net increase (decrease) in other deposits   |                           | 4,371,041                                     | 4,365,509                                   |
| 1.2.8 Net increase (decrease) in funds borrowed   |                           | 885,232                                       | 1,016,741                                   |
| 1.2.9 Net increase (decrease) in due payables   |                           | -   | -   |
| 1.2.10 Net increase (decrease) in other liabilities                                       |                           | (104,061)                                     | 198,817                                     |
| <b>I. Net cash provided from banking operations</b>                                       |                           | <b>(1,329,665)</b>                            | <b>1,026,641</b>                            |
| <b>B. CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                           |   |   |
| <b>II. Net cash provided from investing activities</b>                                    |                           | <b>(155,126)</b>                              | <b>(305,963)</b>                            |
| 2.1 Cash paid for purchase jointly controlled operations, associates and subsidiaries     |                           | -   | -   |
| 2.2 Cash obtained from sale of jointly controlled operations, associates and subsidiaries |                           | -   | -   |
| 2.3 Fixed assets purchases  |                           | (59,478)                                      | (15,724)                                    |
| 2.4 Fixed assets sales  |                           | -   | -   |
| 2.5 Cash paid for purchase of financial assets available for sale                         |                           | (95,648)                                      | (286,056)                                   |
| 2.6 Cash obtained from sale of financial assets available for sale                        |                           | -   | -   |
| 2.7 Cash paid for purchase of investment securities                                       |                           | -   | -   |
| 2.8 Cash obtained from sale of investment securities                                      |                           | -   | -   |
| 2.9 Other   |                           | -   | (4,183)                                     |
| <b>C. CASH FLOWS FROM FINANCING ACTIVITIES</b>  |                           |   |   |
| <b>III. Net cash provided from financing activities</b>                                   |                           | <b>921,158</b>                                | <b>101,459</b>                              |
| 3.1 Cash obtained from funds borrowed and securities issued                               |                           | 1,100,000                                     | -   |
| 3.2 Cash used for repayment of funds borrowed and securities issued                       |                           | (669,064)                                     | -   |
| 3.3 Capital Instruments Issued  |                           | 500,000                                       | 101,459                                     |
| 3.4 Dividends paid  |                           | (6,000)                                       | -   |
| 3.5 Payments for finance leases   |                           | (8,318)                                       | -   |
| 3.6 Other   |                           | 4,540   | -   |
| <b>IV. Effect of change in foreign exchange rate on cash and cash equivalents</b>         |                           | <b>51,176</b>                                 | <b>146,984</b>                              |
| <b>V. Net increase (decrease) in cash and cash equivalents (I + II + III + IV)</b>        |                           | <b>(512,457)</b>                              | <b>969,121</b>                              |
| <b>VI. Cash and cash equivalents at the beginning of the period</b>                       | (1)                       | <b>1,114,258</b>                              | <b>145,137</b>                              |
| <b>VII. Cash and cash equivalents at the end of the period</b>                            | (1)                       | <b>601,801</b>                                | <b>1,114,258</b>                            |

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

**ZİRAAT KATILIM BANKASI A.Ş.**

**CONSOLIDATED STATEMENT OF PROFIT DISTRIBUTION  
FOR THE PERIOD OF 1 JANUARY - 31 DECEMBER 2017**

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

| VII. CONSOLIDATED STATEMENT OF PROFIT DISTRIBUTION                 | Audited<br>Current Period <sup>(*)</sup><br>(31/12/2017) | Audited<br>Prior Period <sup>(**)</sup><br>(31/12/2016) |
|--|--|---|
| <b>I. DISTRIBUTION OF THE CURRENT YEAR INCOME</b>                  |  |   |
| 1.1 Current Year Income ( Loss )                                   | 199,974  | 40,482  |
| 1.2 Taxes and Duties Payable (-) <sup>(***)</sup>                  | 46,907   | 14,349  |
| 1.2.1 Corporate Tax (Income Tax)                                   | 46,907   | 14,349  |
| 1.2.2 Income withholding tax                                       | -  | -   |
| 1.2.3 Other taxes and duties                                       | -  | -   |
| <b>A. NET INCOME FOR THE YEAR (1.1-1.2)</b>                        | <b>153,067</b>   | <b>26,133</b>   |
| 1.3 Prior Year Losses (-)  | -  | 11,983  |
| 1.4 First Legal Reserves (-)                                       | -  | 708   |
| 1.5 Other Statutory Reserves (-)                                   | -  | -   |
| <b>B. NET INCOME AVAILABLE FOR DISTRIBUTION [(A-(1.3+1.4+1.5)]</b> | <b>153,067</b>   | <b>13,442</b>   |
| 1.6 First Dividend to Shareholders (-)                             | -  | -   |
| 1.6.1 To Owners of Ordinary Shares                                 | -  | -   |
| 1.6.2 To Owners of Privileged Shares                               | -  | -   |
| 1.6.3 To Owners of Preferred Shares                                | -  | -   |
| 1.6.4 To Profit Sharing Bonds                                      | -  | -   |
| 1.6.5 To Holders of Profit and Loss Sharing Certificates           | -  | -   |
| 1.7 Dividends to Personnel (-)                                     | -  | 6,000   |
| 1.8 Dividends to Board of Directors (-)                            | -  | -   |
| 1.9 Second Dividend to Shareholders (-)                            | -  | -   |
| 1.9.1 To Owners of Ordinary Shares                                 | -  | -   |
| 1.9.2 To Owners of Privileged Shares                               | -  | -   |
| 1.9.3 To Owners of Preferred Shares                                | -  | -   |
| 1.9.4 To Profit Sharing Bonds                                      | -  | -   |
| 1.9.5 To Holders of Profit and Loss Sharing Certificates           | -  | -   |
| 1.10 Second Legal Reserves (-)                                     | -  | 600   |
| 1.11 Statutory Reserves (-)  | -  | -   |
| 1.12 Extraordinary Reserves  | -  | 6,843   |
| 1.13 Other Reserves  | -  | -   |
| 1.14 Special Funds   | -  | -   |
| <b>II. DISTRIBUTION OF RESERVES</b>                                |  |   |
| 2.1 Appropriated Reserves  | -  | -   |
| 2.2 Second Legal Reserves (-)                                      | -  | -   |
| 2.3 Dividends to Shareholders (-)                                  | -  | -   |
| 2.3.1 To Owners of Ordinary Shares                                 | -  | -   |
| 2.3.2 To Owners of Privileged Shares                               | -  | -   |
| 2.3.3 To Owners of Preferred Shares                                | -  | -   |
| 2.3.4 To Profit Sharing Bonds                                      | -  | -   |
| 2.3.5 To Holders of Profit and Loss Sharing Certificates           | -  | -   |
| 2.4 Dividends to Personnel (-)                                     | -  | -   |
| 2.5 Dividends to Board of Directors (-)                            | -  | -   |
| <b>III. EARNINGS PER SHARE</b>                                     |  |   |
| 3.1 To Owners of Ordinary Shares                                   | 0.1556   | 0.0349  |
| 3.2 To Owners of Ordinary Shares ( % )                             | 15.5551  | 3.4984  |
| 3.3 To Owners of Privileged Shares                                 | -  | -   |
| 3.4 To Owners of Privileged Shares ( % )                           | -  | -   |
| <b>IV. DIVIDEND PER SHARE</b>                                      |  |   |
| 4.1 To Owners of Ordinary Shares                                   | -  | -   |
| 4.2 To Owners of Ordinary Shares ( % )                             | -  | -   |
| 4.3 To Owners of Privileged Shares                                 | -  | -   |
| 4.4 To Owners of Privileged Shares ( % )                           | -  | -   |

(\*) Profit distribution is decided by the General Assembly. As of reporting date, General Assembly meeting has not been held yet on the profit distribution for the year 2017.

(\*\*) Deferred tax related to current year, amount of TL 4,540 is not subject to profit distribution.

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD OF 1 JANUARY - 31 DECEMBER 2017**

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

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**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 and Turkish Financial Reporting Standards (“TFRS”) and related appendices and interpretations (referred as “Turkish Accounting Standards” or “TAS”) put into effect by Public Oversight Accounting and Auditing Standards Authority (“POA”) (“all referred as BRSA Principles”).

The 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.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD OF 1 JANUARY - 31 DECEMBER 2017**

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

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**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 Bank.

The Parent Bank performs Balance Sheet and Equity Management by Asset-Liability Committee with the inclusion of risk limits by considering market structure and by aiming to maximize profit.

**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 A.Ş.

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

| Title                               | Address (City / Country) | Main Activities        | 31 December 2017                   |   |
|-------------------------------------|--------------------------|------------------------|------------------------------------|---|
|                                     |                          |                        | Parent Bank’s Share Percentage (%) | Parent Bank’s Risk Group Share Percentage (%) |
| Ziraat Katılım Varlık Kiralama A.Ş. | İstanbul/Turkey          | Rent Certificate Issue | 100                                | 100   |
| ZKB Varlık Kiralama A.Ş.            | İstanbul/Turkey          | Rent Certificate Issue | 100                                | 100   |

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

#### 2. Consolidation principles of associates and joint ventures:

As of the date of 31 December 2017, there is no jointly controlled subsidiaries.

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

#### 4. Transactions with minority shareholders: None.

#### b. Presentation of 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.

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**ACCOUNTING PRINCIPLES (Continued)**

**IV. EXPLANATIONS ON FORWARD AND OPTION CONTRACTS AND DERIVATIVE INSTRUMENTS (Continued)**

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.

**VI. EXPLANATIONS ON FEES AND COMMISSION INCOME AND EXPENSES**

Commission income from banking, agency, and 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.

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**ACCOUNTING PRINCIPLES (Continued)**

**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 does not have any financial assets classified as "financial assets at fair value through profit or loss" other than those held for trading purposes.

**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.

**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.

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**ACCOUNTING PRINCIPLES (Continued)**

**VII. EXPLANATIONS ON FINANCIAL ASSETS (Continued)**

**c. Loans and receivables (Continued):**

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

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

**d. Held to maturity financial assets:**

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

Investments held to maturity are subsequently measured at amortized cost with internal rate of return, and they are accounted in the profit and loss table as profit share income gained by securities.

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.

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 “Other Operating Income” account.



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**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 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. INFORMATION ON ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS AND EXPLANATIONS ON LIABILITIES RELATED WITH THESE ASSETS**

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 the 31 December 2017, the Parent Bank’s held for sale assets is TL 3,561 (31 December 2016: None).

**XII. EXPLANATIONS ON GOODWILL AND OTHER INTANGIBLE ASSETS**

As of the balance sheet date, the parent bank has no goodwill within the financial statements.

**XII. EXPLANATIONS ON GOODWILL AND OTHER INTANGIBLE ASSETS**

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

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

The 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.

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**ACCOUNTING PRINCIPLES (Continued)**

**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;

|  |                            |
|--|----------------------------|
| Vehicles and Fixtures  | : 2% – 25%                 |
| Operational Leasehold Improvements Cost (Leasehold Improvements) | : Leasing period – 5 years |

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

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

There is no tangible assets that are held for sale.

**XIV. EXPLANATIONS ON LEASING TRANSACTIONS**

*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 31 December 2017, the parent bank does not contain any financial leasing transactions.

*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, Employment Termination Benefit payments are made in case of retirement or employment termination or resignation. 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 31 December 2017, the Parent Bank’s employee termination benefit liability is TL 2,330 (31 December 2016: 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 31 December 2016 the Parent Bank unused vacation liability is TL 2,389 (31 December 2016: 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 20<sup>th</sup> provisional article of Social Security Law Act numbered 506. As of 31 December 2017 the number of personnel who benefit from the Fund is 880.

In accordance with 23rd provisional clause of the Banking Law numbered 5411, the pension fund established within Social Security Law is expected to be transferred to the Social Security Institution by three years following the declaration of the Banking Law numbered 5411. Procedures and principles of the transfer are determined by the decision of Council of Ministers numbered 2006/11345 dated 30 November 2006. However, the 1st paragraph of the 1st article of the 23rd provisional clause of Banking Law numbered 5411 allowing pension funds to be transferred to Social Security Institution (“SSI”) is annulled following the resolution of Constitutional Court declared in the Official Gazette dated 31 March 2007 numbered 26479 E.2005/139, K.2007/13 and K.2007/33.

With the publication of the reasoning of the decision, the Grand National Assembly of Turkey (“GNAT”) started to work on new legal arrangements regarding the transfer of the fund members to SSI and the related articles of the “Law Regarding the Changes in Social Insurance and General Health Insurance Law and Other Related Laws and Regulations” No 5754 (“the New Law”) regulating the transfer of the funds were approved by the GNAT on 17 April 2008. The New Law was published in the Official Gazette dated 8 May 2008, numbered 26870 and came into force.

According to the new law bank pension funds participants and salaried members or the rightful owners would be transferred to Social Security Institution and would be subject to its legislation within three years beginning from the date of publication without any required transaction. Three years transfer period would be extended by two years at most with the decision of Council of Ministers. In accordance with the related legislation, as of the transfer date, the cash value of the liabilities will be calculated by considering the income and expenses of the transferred funds by the insurance branches and by using the actuarial interest rate of 9.80%. Moreover, 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.

In accordance with 58th article and 7th provisional article of the Banking Law, restricting banks from transferring any funds to the pension funds in order to compensate the actuarial deficits effective from 1 January 2008, has been delayed up to 5 years.

Based on the Council of Ministers’ decree numbered 2011/1559 and issued in the Official Gazette numbered 27900, dated 9 April 2011, and 20<sup>th</sup> provisional article of law numbered 506, the deadline for transferring banks, insurance and reinsurance companies, chambers of commerce, chambers of industry, exchange markets and 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 two years.

Besides, the phrase of “two years” in Clause (2), Article 1 of the temporary 20th provision of the law numbered 5510 is revised as “four years” with the law numbered 6283 amending on the Social Insurance and General Health Insurance Law, published in the Official Gazette numbered 28227, dated 8 March 2012.

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 2017 which is prepared in accordance with the new law and the rate determined as 9.80%, concluded no technical deficit arises in the above mentioned fund. Since the Bank has no legal right to hold the present value of any economic benefits available in the form of refunds from Pension Fund or reductions in future contributions to Pension Fund, no asset is recognized in the Bank’s financial statements.

**XVII. EXPLANATIONS ON TAXATION**

**a. Current Tax**

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

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

Corporations are required to pay advance corporate tax quarterly at a rate of 22% on their corporate income. Advance tax is declared by the 14th and paid by the 17th day of the second month following each calendar quarter end. Advance tax paid by corporations for the current period is credited against the annual corporation tax calculated on the annual corporate income in the following year. Despite the offset, if there is temporary prepaid tax remaining, this balance can be refunded or used to offset any other financial liabilities to the government.

According to 5.1.e. article of Corporation Tax Law which is important tax exemption that is applied by banks, corporations’ 50% of revenues that occur from selling of their real estates, are in assets, that belong to the corporations at least two years (730 days), 75% of revenues that occur from selling their founding bonds that are belong to the corporations as long as time of participation stocks, redeemed shares and option to call are exempted from Corporation Tax (It was changed with 89th article of code 7061 that entries into force in 5 December 2017. According to dated 23 December 2017 3rd article of Corporation Tax Code (CTC) 14 annunciation this exemption will apply as ratio of 75% for selling that made till the 5 December 2017, after this date it will apply as ratio of 50%).

This exemption applies to the period the sale is made and the part of return on sales that benefits from the exemption is held in a special fund in the liabilities account until the end of the fifth year started from the following year sale is made. However, the sales payment must be collected until the end of the second calendar year following the year in which the sale is made. Taxes which are not realized in time due to the exemption that hits uncollected sales payment are considered tax loss.

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**ACCOUNTING PRINCIPLES (Continued)**

**XVII. EXPLANATIONS ON TAXATION (Continued)**

**a. Current Tax (Continued)**

Taxes which does not accrue on time because the applying exemption for the transfer of the expemted part of revenue to the other accounts with other ways out of capitalizing in five years or withdrawn from company or transferring from limited taxpayer corporations to the headquarters, are considered as tax loss. This is also be applicable in the condition of liquidation of business.( Except transfers and divisions that make according to this code).

Moreover, according to 5.1.f. article of Corporation Tax Law; corporations which have been fallen to legal proceedings because of owe to the bank or Savings Deposit Insurance Funds, and their warranters' real estates, participation stocks, founding bonds, redeemed shares, options to call of mortgagors' revenues that used for against debts or transferring to SDIF, 75% of real estates, and 50% others are exempted from Corporation tax (It was changed with 89th article of code 7061 that entries into force in 5 December 2017. According to dated 23 December 2017 3rd article of Corporation Tax Code (CTC) 14 annunciation this exemption will apply as ratio of 75% for selling that made till the 5 December 2017, after this date it will apply as ratio of 50%).

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

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

**b. Deferred Tax**

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

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences. However, deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized as deferred tax liability or asset if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date. Carrying amount of a deferred tax asset can be reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied in the period in which the liability is settled or the asset realized and reflected in the statement of income as expense or income. Moreover, if the deferred tax is related with items directly recorded under the equity in the same or different period, deferred tax is associated directly with equity.

Deferred tax asset and deferred tax liability are presented as net in these financial statements.

The deferred tax benefit is not taken into account in profit distribution in accordance with the relevant circular of BRSA.

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**ACCOUNTING PRINCIPLES (Continued)**

**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. and ZKB 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 ISSUANCE OF SHARE CERTIFICATES**

In the Ordinary General Meeting of the Bank held on July 13, 2017, the paid-up capital increased to TL 1,250,000 by TL 500,000 in cash and TL 3,000 in internal resources.

**XX. EXPLANATIONS ON AVALIZED DRAFTS AND ACCEPTANCES**

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

**XXI. EXPLANATIONS ON GOVERNMENT GRANTS**

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

**XXII. EXPLANATION ON CASH AND CASH EQUIVALENTS**

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

For the purposes of the cash flow statement, “Cash” includes cash, effectives, gold, and 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.

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**ACCOUNTING PRINCIPLES (Continued)**

**XXIV. EXPLANATIONS ON OTHER MATTERS**

*Developments related to TFRS 9 Transition Process*

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

The Bank set up a project team consisting of themselves from Finance, Risk and Information Technology Departments independent advisors for the purpose of adaptation of TFRS 9 into its financial reporting process. As a result of statistical models, calculation methods and applying new methods that is developed by project team, expected transition impact about accounting policy was calculated. Such change in accounting policy is not expected to have a significant impact on the Bank's equity. The controls and developments regarding the implementation of TFRS 9 are in progress.



**ZİRAAT KATILIM BANKASI A.Ş.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD OF 1 JANUARY - 31 DECEMBER 2017**

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

**SECTION FOUR**

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

**I. EXPLANATIONS ON SHAREHOLDERS’ EQUITY**

As of the 31 December 2017, current period equity balance of the Group is TL 1,259,583 (31 December 2016: 706,161) and capital adequacy standard ratio is 13.06% (31 December 2016: 12.46%).

**Information Related To The Consolidated Components of Shareholders' Equity:**

|   | Current Period<br>31.12.2017 | Amounts related<br>to treatment<br>before 1/1/2014(*) |
|---|------------------------------|---|
| <b>COMMON EQUITY TIER 1 CAPITAL</b>   |                              |   |
| Paid-in capital following all debts in terms of claim in liquidation of the Bank  | 1,250,000                    |   |
| Share issue premiums  | -                            |   |
| Reserves  | 9,691                        |   |
| Gains recognized in equity as per TAS   | -                            |   |
| Profit  | 158,902                      |   |
| Current Period Profit   | 158,902                      |   |
| Prior Period Profit   | -                            |   |
| Shares acquired free of charge from subsidiaries, affiliates and jointly controlled partnerships and cannot be recognized within profit for the period  | -                            |   |
| <b>Common Equity Tier 1 Capital Before Deductions</b>   | <b>1,418,593</b>             |   |
| <b>Deductions from Common Equity Tier 1 Capital</b>   |                              |   |
| Common Equity as per the 1st clause of Provisional Article 9 of the Regulation on the Equity of Banks   | -                            |   |
| Portion of the current and prior periods' losses which cannot be covered through reserves and losses reflected in equity in accordance with TAS   | 14,912                       |   |
| Improvement costs for operating leasing   | 15,987                       |   |
| Goodwill (net of related tax liability)   | -                            |   |
| Other intangibles other than mortgage-servicing rights (net of related tax liability)   | 50,624                       |   |
| Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)   | -                            |   |
| Differences are not recognized at the fair value of assets and liabilities subject to hedge of cash flow risk   | -                            |   |
| Communiqué Related to Principles of the amount credit risk calculated with the Internal Ratings Based Approach, total expected loss amount exceeds the total provision  | -                            |   |
| Gains arising from securitization transactions  | -                            |   |
| Unrealized gains and losses due to changes in own credit risk on fair valued liabilities  | -                            |   |
| Defined-benefit pension fund net assets   | -                            |   |
| Direct and indirect investments of the Bank in its own Common Equity  | -                            |   |
| Shares obtained contrary to the 4th clause of the 56th Article of the Law   | -                            |   |
| Portion of the total of net long positions of investments made in equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or less of the issued common share capital exceeding 10% of Common Equity of the Bank | -                            |   |
| Portion of the total of net long positions of investments made in equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital exceeding 10% of Common Equity of the Bank | -                            |   |
| Portion of mortgage servicing rights exceeding 10% of the Common Equity   | -                            |   |
| Portion of deferred tax assets based on temporary differences exceeding 10% of the Common Equity  | -                            |   |
| 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   | -                            |   |
| <b>Total Deductions From Common Equity Tier 1 Capital</b>   | <b>81,523</b>                |   |
| <b>Total Common Equity Tier 1 Capital</b>   | <b>1,337,070</b>             |   |

# ZİRAAT KATILIM BANKASI A.Ş.

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

#### II. EXPLANATIONS ON SHAREHOLDERS’ EQUITY (Continued)

|   | Current Period<br>31.12.2017 | Amounts related<br>to treatment<br>before 1/1/2014(*) |
|---|------------------------------|---|
| <b>ADDITIONAL TIER 1 CAPITAL</b>  |                              |   |
| Preferred Stock not included in Common Equity and the Related Share Premiums  | -                            |   |
| Debt instruments and premiums approved by BRSA  | -                            |   |
| Debt instruments and premiums approved by BRSA(Temporary Article 4)   | -                            |   |
| <b>Additional Tier I Capital before Deductions</b>  | -                            |   |
| <b>Deductions from Additional Tier I Capital</b>  | -                            |   |
| 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   | -                            |   |
| <b>Transition from the Core Capital to Continue to deduce Components</b>  | -                            |   |
| Goodwill and other intangible assets and related deferred tax liabilities which will not deducted from Common Equity Tier 1 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks’ Own Funds (-)                                | -                            |   |
| Net deferred tax asset/liability which is not deducted from Common Equity Tier 1 capital for the purposes of the sub-paragraph of the Provisional Article 2 of the Regulation on Banks’ Own Funds (-)   | 12,656                       |   |
| Deductions to be made from common equity in the case that adequate Additional Tier I Capital or Tier II Capital is not available (-)  | -                            |   |
| <b>Total Deductions From Additional Tier I Capital</b>  | -                            |   |
| <b>Total Additional Tier I Capital</b>  | <b>12,656</b>                |   |
| <b>Total Tier I Capital (Tier I Capital=Common Equity Additional Tier I Capital)</b>  |                              |   |
| <b>TIER II CAPITAL</b>  | <b>1,324,414</b>             |   |
| 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)   | -                            |   |
| <b>Tier II Capital Before Deductions</b>  | <b>36,348</b>                |   |
| <b>Deductions From Tier II Capital</b>  | <b>36,348</b>                |   |
| 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 (-)   | -                            |   |
| <b>Total Deductions from Tier II Capital</b>  | <b>-</b>                     |   |
| <b>Total Tier II Capital</b>  | <b>36,348</b>                |   |
| <b>Total Capital (The sum of Tier I Capital and Tier II Capital)</b>  | <b>1,360,762</b>             |   |

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY - 31 DECEMBER 2017

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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<br>31.12.2017 | Amounts related<br>to<br>treatment before<br>1/1/2014(*) |
|--|------------------------------|--|
| <b>Total of Original Capital and Supplementary Capital ( Total Capital)</b>  |                              |  |
| Deductions from Capital Loans granted contrary to the 50th and 51th Article of the Law   | -                            |  |
| Net Book Values of Movables and Immovable Exceeding the Limit Defined in the Article 57, Clause 1 of the Banking Law and the Assets Acquired against Overdue Receivables and Held for Sale but Retained more than Five Years   | -                            |  |
| Other items to be defined by the BRSA (-)  | 101,179                      |  |
| <b>In transition from Total Core Capital and Supplementary Capital (the capital) to Continue to Download Components</b>  |                              |  |
| 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 (-)               | -                            |  |
| <b>TOTAL CAPITAL</b>   |                              |  |
| Total Capital  | 1,259,583                    |  |
| Total risk weighted amounts  | 9,643,419                    |  |
| <b>Capital Adequacy Ratios</b>   |                              |  |
| Core Capital Adequacy Ratio  | 13,87                        |  |
| Tier I Capital Adequacy Ratio  | 13,73                        |  |
| Capital Adequacy Ratio   | 13,06                        |  |
| <b>BUFFERS</b>   |                              |  |
| Total Tier I Capital Ratio (%)   | 1,25                         |  |
| Capital conservation buffer requirement  | 1,25                         |  |
| Bank specific counter-cyclical buffer requirement  | 0,00                         |  |
| The ratio of Additional Common Equity Tier 1 capital which will be calculated by the first paragraph of the Article 4 of Regulation on Capital Conservation and Countercyclical Capital buffers to Risk Weighted Assets  | 9,36                         |  |
| <b>Amounts below the Excess Limits as per the Deduction Principles</b>   |                              |  |
| 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   | -                            |  |
| <b>Limits related to provisions considered in Tier II calculation</b>  |                              |  |
| General provisions for standard based receivables (before tenthousandtwentyfive limitation)  | 36,348                       |  |
| Up to 1.25% of total risk-weighted amount of general reserves for receivables where the standard approach used   | 36,348                       |  |
| Excess amount of total provision amount to credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation  | -                            |  |
| Excess amount of total provision amount to &0,6 of risk weighted receivables of credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation   | -                            |  |
| <b>Debt instruments subjected to Article 4 (to be implemented between January 1, 2018 and January 1, 2022)</b>   |                              |  |
| 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 A.Ş.**

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

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

**I. EXPLANATIONS ON SHAREHOLDERS’ EQUITY (Continued)**

**Information related to the debt instruments which will be included in the calculation of equity:**

None.

**Information on reconciliation between balance sheet balances and the items of the total capital  
and equity table:**

The difference between Total Capital and Equity in the consolidated balance sheet mainly arises from the general provisions. In the calculation of Total Capital, general provision up to 1.25% of the credit risk is taken into consideration as Tier II Capital. On the other hand, in the calculation of the Total capital, improvement costs for operating leases followed under tangible assets in the balance sheet, intangible assets and related deferred tax liabilities, net book value of immovable properties that are acquired against overdue receivables and retained more than five years, other items defined by the regulator are taken into consideration as amounts deducted from total capital.

# ZİRAAT KATILIM BANKASI A.Ş.

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

#### I. EXPLANATIONS ON SHAREHOLDERS’ EQUITY (Continued)

|   | Prior Period<br>31.12.2016 | Amounts related<br>to treatment<br>before 1/1/2014(*) |
|---|----------------------------|---|
| <b>COMMON EQUITY TIER 1 CAPITAL</b>   |                            |   |
| 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  | -                          |   |
| <b>Common Equity Tier 1 Capital Before Deductions</b>   | <b>777,673</b>             |   |
| <b>Deductions from Common Equity Tier 1 Capital</b>   |                            |   |
| 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   | -                          |   |
| <b>Total Deductions From Common Equity Tier 1 Capital</b>   | <b>42,795</b>              |   |
| <b>Total Common Equity Tier 1 Capital</b>   | <b>734,878</b>             |   |

# ZİRAAT KATILIM BANKASI A.Ş.

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

#### I. EXPLANATIONS ON SHAREHOLDERS’ EQUITY (Continued)

|   | Prior Period<br>31.12.2016 | Amounts related<br>to treatment<br>before 1/1/2014(*) |
|---|----------------------------|---|
| <b>ADDITIONAL TIER I CAPITAL</b>  |                            |   |
| Preferred Stock not Included in Common Equity and the Related Share Premiums  | -                          |   |
| Debt instruments and premiums approved by BRSA  | -                          |   |
| Debt instruments and premiums approved by BRSA(Temporary Article 4)   | -                          |   |
| <b>Additional Tier I Capital before Deductions</b>  | -                          |   |
| <b>Deductions from Additional Tier I Capital</b>  |                            |   |
| 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   | -                          |   |
| <b>Transition from the Core Capital to Continue to deduce Components</b>  |                            |   |
| Goodwill and other intangible assets and related deferred tax liabilities which will not deducted from Common Equity Tier 1 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on 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 (-)  | -                          |   |
| <b>Total Deductions From Additional Tier I Capital</b>  | <b>9,162</b>               |   |
| <b>Total Additional Tier I Capital</b>  |                            |   |
| <b>Total Tier I Capital (Tier I Capital=Common Equity Additional Tier I Capital)</b>  | <b>725,716</b>             |   |
| <b>TIER II CAPITAL</b>  |                            |   |
| 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                     |   |
| <b>Tier II Capital Before Deductions</b>  | <b>17,287</b>              |   |
| <b>Deductions From Tier II Capital</b>  |                            |   |
| 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 (-)   | -                          |   |
| <b>Total Deductions from Tier II Capital</b>  | <b>-</b>                   |   |
| <b>Total Tier II Capital</b>  | <b>17,287</b>              |   |
| <b>Total Capital (The sum of Tier I Capital and Tier II Capital)</b>  | <b>743,003</b>             |   |

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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<br>31.12.2016 | Amounts related<br>to<br>treatment before<br>1/1/2014(*) |
|--|----------------------------|--|
| <b>Total of Original Capital and Supplementary Capital ( Total Capital)</b>  |                            |  |
| 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                     |  |
| <b>In transition from Total Core Capital and Supplementary Capital (the capital) to Continue to Download Components</b>  |                            |  |
| 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 (-)               | -                          |  |
| <b>TOTAL CAPITAL</b>   |                            |  |
| Total Capital  | 706,161                    |  |
| Total risk weighted amounts  | 5,666,714                  |  |
| <b>Capital Adequacy Ratios</b>   |                            |  |
| Core Capital Adequacy Ratio  | 12.97                      |  |
| Tier I Capital Adequacy Ratio  | 12.81                      |  |
| Capital Adequacy Ratio   | 12.46                      |  |
| <b>BUFFERS</b>   |                            |  |
| 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                       |  |
| <b>Amounts below the Excess Limits as per the Deduction Principles</b>   |                            |  |
| 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   | -                          |  |
| <b>Limits related to provisions considered in Tier II calculation</b>  |                            |  |
| 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   | -                          |  |
| <b>Debt instruments subjected to Article 4 (to be implemented between January 1, 2018 and January 1, 2022)</b>   |                            |  |
| 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 A.Ş.

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

##### I. EXPLANATIONS ON SHAREHOLDERS’ EQUITY (Continued)

**Information on reconciliation between balance sheet balances and the items of the total capital and equity table:**

| Current Period                    | Balance Sheet Value | Amount Considered in Equity Calculation |
|-----------------------------------|---------------------|---|
| Shareholder’s equity              | 1,403,681           | 1,403,681                               |
| Operating lease development costs | 15,987              | (15,987)                                |
| Goodwill and intangible assets    | 63,280              | (63,280)                                |
| General provisions                | 99,082              | 36,348                                  |
| Subordinated loans                | -                   | -                                       |
| Other values deducted from equity | 101,178             | (101,178)                               |
| Equity                            |                     | 1,259,583                               |

##### II. EXPLANATIONS ON CREDIT RISK

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

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

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

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

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

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

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



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD OF 1 JANUARY - 31 DECEMBER 2017**

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

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

**II. EXPLANATIONS ON CREDIT RISK (Continued)**

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

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

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

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

The receivable of the Parent Bank from its top 100 and 200 cash loan customers share in total cash loans ratio is 50.43 % and 60.57% (31 December 2016: 57.63% and 67.30%).

The receivable of the Parent Bank from its top 100 and 200 non-cash loan customers share in total non-cash loans ratio is 56.73% and 71.10% (31 December 2016: 74.75% and 87.76%).

The receivable of the Parent Bank from its top 100 and 200 cash and non-cash receivables loan customers share in total cash and non-cash receivables loans ratio is 41.28% and 52.90% (31 December 2016: 69.19% and 75.14%).

The Parent Banks general loan loss provision amount for its credit risk is TL 99,082 (31 December 2016: TL 52,263).

ZİRAAT KATILIM BANKASI A.Ş.

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

II. EXPLANATIONS ON CREDIT RISK (Continued)

|   | Conditional and unconditional receivables from central governments or central banks | Conditional and unconditional receivables from regional or local governments | Conditional and unconditional receivables from administrative units and non-commercial enterprises | Conditional and unconditional receivables from multilateral development banks | Conditional and unconditional receivables from international organizations | Conditional and unconditional receivables from banks and brokerage houses | Conditional and unconditional corporate receivables | Conditional and unconditional retail receivables | Conditional and unconditional receivables secured by mortgages | Past due receivables | Receivables defined in high risk category by BRSA | Securities collateralized by mortgages | Securitization positions | Short-term receivables from banks, brokerage houses and corporates | Investments similar to collective investment funds | Other receivables | Total             |
|---|---|--|--|---|--|---|---|--|--|----------------------|---|--|--------------------------|--|--|-------------------|-------------------|
| <b>Current Period</b>                         |   |  |  |   |  |   |   |  |  |                      |   |  |                          |  |  |                   |                   |
| Domestic                                      | 2,178,097   | -  | 84,658   | -   | -  | 1,270,572   | 8,382,582   | 1,033,272  | 1,294,917  | 7,793                | 2,027   | -                                      | -                        | -  | -  | 103,065           | 14,356,982        |
| European Union Countries                      | -   | -  | -  | -   | -  | 58,927  | -   | -  | -  | -                    | -   | -                                      | -                        | -  | -  | -                 | 58,927            |
| OECD Countries <sup>(1)</sup>                 | -   | -  | -  | -   | -  | 750   | -   | -  | -  | -                    | -   | -                                      | -                        | -  | -  | -                 | 750               |
| Off-shore Banking                             | -   | -  | -  | -   | -  | -   | -   | -  | -  | -                    | -   | -                                      | -                        | -  | -  | -                 | -                 |
| Regions                                       | -   | -  | -  | -   | -  | 3   | -   | -  | -  | -                    | -   | -                                      | -                        | -  | -  | -                 | 3                 |
| USA, Canada                                   | -   | -  | -  | -   | -  | 3,983   | -   | -  | -  | -                    | -   | -                                      | -                        | -  | -  | -                 | 3,983             |
| Other Countries                               | -   | -  | -  | -   | -  | 76,780  | -   | -  | -  | -                    | -   | -                                      | -                        | -  | -  | -                 | 76,780            |
| Subsidiaries, Associates and Joint Ventures   | -   | -  | -  | -   | -  | -   | -   | -  | -  | -                    | -   | -                                      | -                        | -  | -  | -                 | -                 |
| Unallocated Assets/Liabilities <sup>(2)</sup> | -   | -  | -  | -   | -  | -   | -   | -  | -  | -                    | -   | -                                      | -                        | -  | -  | -                 | -                 |
| <b>Total</b>                                  | <b>2,178,097</b>  | <b>-</b>   | <b>84,658</b>  | <b>-</b>  | <b>-</b>   | <b>1,411,015</b>  | <b>8,382,582</b>                                    | <b>1,033,272</b>                                 | <b>1,294,917</b>   | <b>7,793</b>         | <b>2,027</b>                                      | <b>-</b>                               | <b>-</b>                 | <b>-</b>   | <b>-</b>   | <b>103,065</b>    | <b>14,497,425</b> |

|   | Conditional and unconditional receivables from central governments or central banks | Conditional and unconditional receivables from regional or local governments | Conditional and unconditional receivables from administrative units and non-commercial enterprises | Conditional and unconditional receivables from multilateral development banks | Conditional and unconditional receivables from international organizations | Conditional and unconditional receivables from banks and brokerage houses | Conditional and unconditional corporate receivables | Conditional and unconditional retail receivables | Conditional and unconditional receivables secured by mortgages | Past due receivables | Receivables defined in high risk category by BRSA | Securities collateralized by mortgages | Securitization positions | Short-term receivables from banks, brokerage houses and corporates | Investments similar to collective investment funds | Other receivables | Total            |
|---|---|--|--|---|--|---|---|--|--|----------------------|---|--|--------------------------|--|--|-------------------|------------------|
| <b>Prior Period</b>                           |   |  |  |   |  |   |   |  |  |                      |   |  |                          |  |  |                   |                  |
| Domestic                                      | 1,482,353   | -  | 8,680  | -   | -  | 752,133   | 4,659,408   | 264,899  | 801,553  | 4,102                | -   | -                                      | -                        | -  | -  | 73,713            | 8,046,841        |
| European Union Countries                      | -   | -  | -  | -   | -  | 233,710   | -   | -  | -  | -                    | -   | -                                      | -                        | -  | -  | -                 | 233,710          |
| OECD Countries <sup>(1)</sup>                 | -   | -  | -  | -   | -  | 449   | -   | -  | -  | -                    | -   | -                                      | -                        | -  | -  | -                 | 449              |
| Off-shore Banking                             | -   | -  | -  | -   | -  | -   | -   | -  | -  | -                    | -   | -                                      | -                        | -  | -  | -                 | -                |
| Regions                                       | -   | -  | -  | -   | -  | 3   | -   | -  | -  | -                    | -   | -                                      | -                        | -  | -  | -                 | 3                |
| USA, Canada                                   | -   | -  | -  | -   | -  | 8   | -   | -  | -  | -                    | -   | -                                      | -                        | -  | -  | -                 | 8                |
| Other Countries                               | -   | -  | -  | -   | -  | 2,952   | -   | -  | -  | -                    | -   | -                                      | -                        | -  | -  | -                 | 2,952            |
| Subsidiaries, Associates and Joint Ventures   | -   | -  | -  | -   | -  | -   | -   | -  | -  | -                    | -   | -                                      | -                        | -  | -  | -                 | -                |
| Unallocated Assets/Liabilities <sup>(2)</sup> | -   | -  | -  | -   | -  | -   | -   | -  | -  | -                    | -   | -                                      | -                        | -  | -  | -                 | -                |
| <b>Total</b>                                  | <b>1,482,353</b>  | <b>-</b>   | <b>8,680</b>   | <b>-</b>  | <b>-</b>   | <b>989,255</b>  | <b>4,659,408</b>                                    | <b>264,899</b>                                   | <b>801,553</b>   | <b>4,102</b>         | <b>-</b>  | <b>-</b>                               | <b>-</b>                 | <b>-</b>   | <b>-</b>   | <b>73,713</b>     | <b>8,283,963</b> |

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

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

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

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

II. EXPLANATIONS ON CREDIT RISK (Continued)

Risk Profile by Sectors or Counterparties

| Current Period                       | Risk Classes   |  |  |   |  |   |   |  |  |                      |   |  |                          |  | TL | FC | Total          |  |                   |                   |
|--------------------------------------|--|--|--|---|--|---|---|--|--|----------------------|---|--|--------------------------|--|----|----|----------------|--|-------------------|-------------------|
|                                      | Conditional and unconditional receivables from central banks | Conditional and unconditional receivables from regional or local governments | Conditional and unconditional receivables from administrative units and non-commercial enterprises | Conditional and unconditional receivables from multilateral development banks | Conditional and unconditional receivables from international organizations | Conditional and unconditional receivables from banks and brokerage houses | Conditional and unconditional corporate receivables | Conditional and unconditional retail receivables | Conditional and unconditional receivables secured by mortgages | Past due receivables | Receivables defined in high risk category by BRSA | Securities collateralized by mortgages | Securitization positions | Short-term from banks, brokerage houses and corporates |    |    |                | Investments similar to collective investment funds | Other receivables |                   |
| <b>Sectors/Counter Parties</b>       |  |  |  |   |  |   |   |  |  |                      |   |  |                          |  |    |    |                |  |                   |                   |
| Agriculture                          |  |  |  |   |  | 79,855  | 11,587  | 5,767  |  |                      |   |  |                          |  |    |    | 80,833         | 16,376   | 97,209            |                   |
| Farming and Stockbreeding            |  |  |  |   |  | 77,031  | 7,439   | 5,542  |  |                      |   |  |                          |  |    |    | 73,636         | 16,376   | 90,012            |                   |
| Forestry                             |  |  |  |   |  | 1,418   | 4,148   |  |  |                      |   |  |                          |  |    |    | 5,566          |  | 5,566             |                   |
| Fishing                              |  |  |  |   |  | 1,406   |   | 225  |  |                      |   |  |                          |  |    |    | 1,631          |  | 1,631             |                   |
| Manufacturing                        |  |  |  |   |  | 3,447,915   | 260,712   | 127,328  | 47   | 229                  |   |  |                          |  |    |    | 1,739,873      | 2,096,358  | 3,836,231         |                   |
| Mining and Quarrying                 |  |  |  |   |  | 91,600  | 3,122   |  |  |                      |   |  |                          |  |    |    | 45,244         | 49,478   | 94,722            |                   |
| Production                           |  |  |  |   |  | 3,212,657   | 256,586   | 122,465  | 47   | 229                  |   |  |                          |  |    |    | 1,547,561      | 2,044,423  | 3,591,984         |                   |
| Electric, Gas and Water              |  |  |  |   |  | 143,658   | 1,004   | 4,863  |  |                      |   |  |                          |  |    |    | 147,068        | 2,457  | 149,525           |                   |
| Construction                         |  |  |  |   |  | 1,946,310   | 102,837   | 329,227  | 2,534  | 205                  |   |  |                          |  |    |    | 1,973,162      | 407,951  | 2,381,113         |                   |
| Services                             | 2,178,097  |  | 82,903   |   | 1,411,015  | 2,827,739   | 424,957   | 242,649  | 5,212  | 1,432                |   |  |                          |  |    |    | 4,977,304      | 2,196,700  | 7,174,004         |                   |
| Wholesale and Retail Trade           |  |  |  |   |  | 1,716,082   | 324,489   | 111,785  | 5,212  | 1,432                |   |  |                          |  |    |    | 1,864,225      | 294,775  | 2,159,000         |                   |
| Hotel Food and Beverage Services     |  |  |  |   |  | 25,548  | 11,493  | 8,209  |  |                      |   |  |                          |  |    |    | 32,992         | 12,258   | 45,250            |                   |
| Transportation and Telecommunication |  |  |  |   |  | 74,349  | 21,148  | 798  |  |                      |   |  |                          |  |    |    | 95,713         | 582  | 96,295            |                   |
| Financial Institutions               | 2,178,097  |  | 82,900   |   | 1,411,015  | 185,623   | 884   |  |  |                      |   |  |                          |  |    |    | 2,203,350      | 1,655,169  | 3,858,519         |                   |
| Real Estate and Leasing Services     |  |  |  |   |  | 701,029   | 59,107  | 109,863  |  |                      |   |  |                          |  |    |    | 723,955        | 146,044  | 869,999           |                   |
| Self-Employment Services             |  |  |  |   |  |   |   |  |  |                      |   |  |                          |  |    |    |                |  |                   |                   |
| Education Services                   |  |  |  |   |  | 29,830  | 3,250   | 11,659   |  |                      |   |  |                          |  |    |    | 37,271         | 7,468  | 44,739            |                   |
| Health and Social Services           |  |  |  |   |  | 95,278  | 4,586   | 335  |  |                      |   |  |                          |  |    |    | 19,798         | 80,404   | 100,202           |                   |
| Other                                |  |  |  |   |  | 80,762  | 233,179   | 589,946  |  | 162                  |   |  |                          |  |    |    | 955,904        | 52,965   | 1,008,869         |                   |
| <b>Total</b>                         | <b>2,178,097</b>   |  | <b>84,658</b>  |   | <b>1,411,015</b>   | <b>8,382,581</b>  | <b>1,033,272</b>                                    | <b>1,294,917</b>                                 | <b>7,793</b>   | <b>2,028</b>         |   |  |                          |  |    |    | <b>103,065</b> | <b>9,727,076</b>                                   | <b>4,770,350</b>  | <b>14,497,426</b> |

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

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

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

II. EXPLANATIONS ON CREDIT RISK (Continued)

Risk Profile by Sectors or Counterparties (Continued)

| Prior Period                         | Risk Classes   |  |  |   |  |   |   |  |  |                      |   |  |                          |  |  | TL            | FC               | Total            |                   |
|--------------------------------------|--|--|--|---|--|---|---|--|--|----------------------|---|--|--------------------------|--|--|---------------|------------------|------------------|-------------------|
|                                      | Conditional and unconditional receivables from central banks | Conditional and unconditional receivables from regional or local governments | Conditional and unconditional receivables from administrative units and non-commercial enterprises | Conditional and unconditional receivables from multilateral development banks | Conditional and unconditional receivables from international organizations | Conditional and unconditional receivables from banks and brokerage houses | Conditional and unconditional corporate receivables | Conditional and unconditional retail receivables | Conditional and unconditional receivables secured by mortgages | Past due receivables | Receivables defined in high risk category by BRSA | Securities collateralized by mortgages | Securitization positions | Short-term from banks, brokerage houses and corporates | Investments similar to collective investment funds |               |                  |                  | Other receivables |
| <b>Sectors/Counter Parties</b>       |  |  |  |   |  |   |   |  |  |                      |   |  |                          |  |  |               |                  |                  |                   |
| Agriculture                          | -  | -  | -  | -   | -  | 36,258  | 3,565   | 6,267  | 40   | -                    | -   | -                                      | -                        | -  | -  | -             | 46,029           | 101              | 46,130            |
| Farming and Stockbreeding            | -  | -  | -  | -   | -  | 29,916  | 2,341   | 1,877  | 40   | -                    | -   | -                                      | -                        | -  | -  | -             | 34,073           | 101              | 34,174            |
| Forestry                             | -  | -  | -  | -   | -  | 6,170   | 1,219   | 4,390  | -  | -                    | -   | -                                      | -                        | -  | -  | -             | 11,779           | -                | 11,779            |
| Fishing                              | -  | -  | -  | -   | -  | 172   | 5   | -  | -  | -                    | -   | -                                      | -                        | -  | -  | -             | 177              | -                | 177               |
| Manufacturing                        | -  | 6,489  | -  | -   | -  | 2,089,278   | 72,612  | 240,146  | 615  | -                    | -   | -                                      | -                        | -  | -  | -             | 1,300,865        | 1,108,275        | 2,409,140         |
| Mining and Quarrying                 | -  | -  | -  | -   | -  | 46,840  | 3,595   | 11,177   | -  | -                    | -   | -                                      | -                        | -  | -  | -             | 57,458           | 4,154            | 61,612            |
| Production                           | -  | -  | 6,489  | -   | -  | 1,918,055   | 68,625  | 228,755  | 615  | -                    | -   | -                                      | -                        | -  | -  | -             | 1,118,418        | 1,104,121        | 2,222,539         |
| Electric, Gas and Water              | -  | -  | -  | -   | -  | 124,383   | 392   | 214  | -  | -                    | -   | -                                      | -                        | -  | -  | -             | 124,989          | -                | 124,989           |
| Construction                         | -  | -  | -  | -   | -  | 853,759   | 16,810  | 118,737  | -  | -                    | -   | -                                      | -                        | -  | -  | -             | 673,378          | 315,928          | 989,306           |
| Services                             | 1,482,353  | -  | -  | -   | -  | 989,255   | 1,631,954   | 58,270   | 115,516  | 1,277                | -   | -                                      | -                        | -  | -  | -             | 2,851,402        | 1,427,223        | 4,278,625         |
| Wholesale and Retail Trade           | -  | -  | -  | -   | -  | 981,203   | 44,011  | 68,550   | 1,277  | -                    | -   | -                                      | -                        | -  | -  | -             | 768,276          | 326,765          | 1,095,041         |
| Hotel Food and Beverage Services     | -  | -  | -  | -   | -  | 88,373  | 2,910   | 260  | -  | -                    | -   | -                                      | -                        | -  | -  | -             | 33,583           | 57,960           | 91,543            |
| Transportation and Telecommunication | -  | -  | -  | -   | -  | 338,699   | 2,269   | 441  | -  | -                    | -   | -                                      | -                        | -  | -  | -             | 141,304          | 200,105          | 341,409           |
| Financial Institutions               | 1,482,353  | -  | -  | -   | -  | 989,255   | 55,072  | 401  | 1,801  | -                    | -   | -                                      | -                        | -  | -  | -             | 1,735,977        | 792,905          | 2,528,882         |
| Real Estate and Leasing Services     | -  | -  | -  | -   | -  | 144,163   | 7,267   | 33,387   | -  | -                    | -   | -                                      | -                        | -  | -  | -             | 142,087          | 42,730           | 184,817           |
| Self-Employment Services             | -  | -  | -  | -   | -  | -   | -   | -  | -  | -                    | -   | -                                      | -                        | -  | -  | -             | -                | -                | -                 |
| Education Services                   | -  | -  | -  | -   | -  | 11,396  | 87  | 10,991   | -  | -                    | -   | -                                      | -                        | -  | -  | -             | 15,716           | 6,758            | 22,474            |
| Health and Social Services           | -  | -  | -  | -   | -  | 13,048  | 1,325   | 86   | -  | -                    | -   | -                                      | -                        | -  | -  | -             | 14,459           | -                | 14,459            |
| Other                                | -  | -  | 2,191  | -   | -  | 48,159  | 113,642   | 320,887  | 2,170  | -                    | -   | -                                      | -                        | -  | -  | -             | 73,713           | 521,149          | 594,862           |
| <b>Total</b>                         | <b>1,482,353</b>   | <b>-</b>   | <b>8,680</b>   | <b>-</b>  | <b>-</b>   | <b>989,255</b>  | <b>4,659,408</b>                                    | <b>264,899</b>                                   | <b>801,553</b>   | <b>4,102</b>         | <b>-</b>  | <b>-</b>                               | <b>-</b>                 | <b>-</b>   | <b>-</b>   | <b>73,713</b> | <b>5,392,823</b> | <b>2,891,140</b> | <b>8,283,963</b>  |

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

## ZİRAAT KATILIM BANKASI A.Ş.

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

#### II. EXPLANATIONS ON CREDIT RISK (Continued)

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

| Exposure Classifications   | Term to Maturity |                  |                  |                  |                  |
|--|------------------|------------------|------------------|------------------|------------------|
|  | 1 Month          | 1-3 Months       | 3-6 Months       | 6-12 Months      | Over 1 Year      |
| Conditional and unconditional exposures to central governments or central banks                    | 1,602,564        | 632              | -                | 61,297           | 453,287          |
| Conditional and unconditional exposures to regional governments or local authorities               | -                | -                | -                | -                | -                |
| Conditional and unconditional receivables from administrative units and non-commercial enterprises | -                | -                | -                | 80,437           | 4,220            |
| Conditional and unconditional exposures to multilateral development banks                          | -                | -                | -                | -                | -                |
| Conditional and unconditional exposures to international organizations                             | -                | -                | -                | -                | -                |
| Conditional and unconditional exposures to banks and brokerage houses                              | 1,327,759        | 83,232           | -                | -                | 25               |
| Conditional and unconditional exposures to corporates  | 380,314          | 828,448          | 1,437,815        | 1,644,591        | 4,091,412        |
| Conditional and unconditional retail exposures   | 22,012           | 68,225           | 106,903          | 160,522          | 675,609          |
| Conditional and unconditional exposures secured by real estate property                            | 8,957            | 23,070           | 39,936           | 70,256           | 1,152,698        |
| Past due receivables   | 7,793            | -                | -                | -                | -                |
| Receivables defined in high risk category by BRSA  | 2,027            | -                | -                | -                | -                |
| Exposures in the form of bonds secured by mortgages  | -                | -                | -                | -                | -                |
| Securitization Positions   | -                | -                | -                | -                | -                |
| Short term exposures to banks, brokerage houses and corporates                                     | -                | -                | -                | -                | -                |
| Exposures in the form of collective investment undertakings  | -                | -                | -                | -                | -                |
| Other Receivables  | 41,124           | -                | -                | -                | -                |
| <b>Grand Total</b>   | <b>3,392,550</b> | <b>1,003,607</b> | <b>1,584,654</b> | <b>2,017,103</b> | <b>6,377,251</b> |

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

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

Rating Scores are used in the following risk classes;

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

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

**ZİRAAT KATILIM BANKASI A.Ş.**

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

**II. EXPLANATIONS ON CREDIT RISK (Continued)**

**Analysis of maturity-bearing exposures according to remaining maturities (Continued):**

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

**Exposures by risk weights:**

|   | Risk Weights                            | 0%        | 10% | 20%     | 35%     | 50%       | 75%       | 100%      | 150%  | 200% | 250% | 1250% | Deductions from Equity |
|---|---|-----------|-----|---------|---------|-----------|-----------|-----------|-------|------|------|-------|------------------------|
| 1 | Exposures before Credit Risk Mitigation | 2,211,492 | -   | 937,054 | 674,564 | 1,249,465 | 1,032,453 | 8,390,371 | 2,027 | -    | -    | -     | 79,267                 |
| 2 | Exposures after Credit Risk Mitigation  | 3,030,371 | -   | 971,009 | 674,564 | 1,518,727 | 740,926   | 7,559,802 | 2,027 | -    | -    | -     | 79,267                 |

Prepared with the amounts after conversion rate to credit.

**Information on Significant Sectors or Counterparty Based:**

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

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

|                                 | Credits          |                  |                   |               |
|---------------------------------|------------------|------------------|-------------------|---------------|
|                                 | Impaired Credits | Past Due Credits | Value Adjustments | Provisions    |
| <b>Agriculture</b>              |                  |                  |                   |               |
| Farming and Stockbreeding       | -                | -                | -                 | -             |
| Forestry                        | -                | -                | -                 | -             |
| Fishery                         | -                | -                | -                 | -             |
| <b>Manufacturing</b>            | 9,718            | 17,308           | 346               | 5,453         |
| Mining and Quarrying            | -                | 1,304            | 26                | -             |
| Production                      | 9,718            | 16,004           | 320               | 5,453         |
| Electricity, Gas and Water      | -                | -                | -                 | -             |
| <b>Construction</b>             | 5,214            | 10,393           | 208               | 2,023         |
| <b>Services</b>                 | 12,800           | 8,041            | 161               | 8,607         |
| Wholesale and Retail Trade      | 12,800           | 5,795            | 116               | 8,607         |
| Accommodation and Dining        | -                | 2,246            | 45                | -             |
| Transportation and Telecom.     | -                | -                | -                 | -             |
| Financial Institutions          | -                | -                | -                 | -             |
| Real Estate and Rental Services | -                | -                | -                 | -             |
| Professional Services           | -                | -                | -                 | -             |
| Educational Services            | -                | -                | -                 | -             |
| Health and Social Services      | -                | -                | -                 | -             |
| <b>Other</b>                    | 7,109            | 2,107            | 142               | 2,005         |
| <b>Total</b>                    | <b>34,841</b>    | <b>37,849</b>    | <b>857</b>        | <b>18,088</b> |

## ZİRAAT KATILIM BANKASI A.Ş.

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

#### II. EXPLANATIONS ON CREDIT RISK (Continued)

##### Information about Value Adjustment and Change in Provisions:

|   |                     | Opening<br>Balance | Provision for Period | Provision<br>Reversals | Other<br>Adjustments | Closing Balance |
|---|---------------------|--------------------|----------------------|------------------------|----------------------|-----------------|
| 1 | Specific Provisions | 3,832              | 14,746               | (490)                  | -                    | 18,088          |
| 2 | General Provisions  | 52,263             | 46,895               | (76)                   | -                    | 99,082          |

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

|  | Current Period    | Prior Period      |
|--|-------------------|-------------------|
| Financial Assets at Fair Value Through Profit/Loss           | 37                | 1,159             |
| Banks  | 278,581           | 468,454           |
| Interbank Money Market Placements                            | -                 | -                 |
| Available-for-sale Financial Assets                          | 519,454           | 409,964           |
| Held-to-maturity Investments                                 | -                 | -                 |
| Loans  | 11,374,744        | 5,557,942         |
| Receivables From Leasing Transactions                        | 372,944           | 221,373           |
| Other Assets   | -                 | -                 |
| <b>Total credit risk exposure of balance sheet items</b>     | <b>12,545,760</b> | <b>6,658,892</b>  |
| Financial Guarantees   | 6,111,538         | 3,507,969         |
| Commitments  | 132,756           | 48,498            |
| <b>Total credit risk exposure of off-balance sheet items</b> | <b>6,244,294</b>  | <b>3,556,467</b>  |
| <b>Total credit risk exposure</b>                            | <b>18,790,054</b> | <b>10,215,359</b> |

##### Information about credit quality per class of financial assets:

|  | Current Period                      |                                 |            | Prior Period                        |                                 |           |
|--|-------------------------------------|---------------------------------|------------|-------------------------------------|---------------------------------|-----------|
|  | Neither past<br>due nor<br>impaired | Past due<br>but not<br>impaired | Total      | Neither past<br>due nor<br>impaired | Past due<br>but not<br>impaired | Total     |
| <b>Financial Assets</b>                                  |                                     |                                 |            |                                     |                                 |           |
| Banks  | 278,581                             | -                               | 278,581    | 468,454                             | -                               | 468,454   |
| Financial Assets at Fair Value<br>Through Profit or Loss | 37                                  | -                               | 37         | 1,159                               | -                               | 1,159     |
| Loans :  | 11,318,542                          | 39,449                          | 11,357,991 | 5,521,127                           | 30,164                          | 5,551,291 |
| Corporate/Entrepreneurial<br>Loans                       | 9,952,953                           | 37,565                          | 9,990,518  | 4,763,415                           | 28,884                          | 4,792,299 |
| Consumer Loans   | 1,365,589                           | 1,884                           | 1,367,473  | 757,712                             | 1,280                           | 758,992   |
| Specialized Loans  | -                                   | -                               | -          | -                                   | -                               | -         |
| Available-for-sale Financial<br>Assets                   | 519,454                             | -                               | 519,454    | 414,683                             | -                               | 414,683   |
| Held-to-maturity Investments                             | -                                   | -                               | -          | -                                   | -                               | -         |

#### III. EXPLANATIONS ON COUNTERCYCLICAL CAPITAL BUFFER CALCULATIONS RISK

According to the Board resolution of BRSA, the transactions made between the banks are not involved to the counter-cyclical buffer ratio calculation. Within this scope as of 31 December 2017 the Parent Bank does not have any receivables from abroad apart from the Banks, however the Parent Bank discretely uses the uppermost ratio determined by BRSA, which is 0%.

**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 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 Bank’s policy is to avoid carrying significant position by means of foreign currency management. Therefore, the Bank is not exposed to significant currency risks. Risks are monitored by the currency risk tables prepared based on the standard method. Besides, VAR is calculated for daily 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” are prepared periodically in order to define liquidity and interest rate risks at US Dollar and Euro, which are mainly used by the 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 Parent Bank for the last 5 business days prior to the financial statement date:**

|            | USD    | EUR    | AUD    | DKK    | SEK    | CHF    | CAD    | NOK    | GBP    | SAR    | 100JPY |
|------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| 25.12.2017 | 3.7960 | 4.5060 | 2.9045 | 0.5995 | 0.4503 | 3.8013 | 2.9530 | 0.4522 | 5.0556 | 1.0118 | 3.3170 |
| 26.12.2017 | 3.8037 | 4.5124 | 2.9082 | 0.6003 | 0.4512 | 3.8067 | 2.9642 | 0.4518 | 5.0602 | 1.0139 | 3.3250 |
| 27.12.2017 | 3.8172 | 4.5426 | 2.9343 | 0.6042 | 0.4563 | 3.8252 | 2.9895 | 0.4554 | 5.0983 | 1.0175 | 3.3350 |
| 28.12.2017 | 3.7688 | 4.5012 | 2.9088 | 0.5987 | 0.4530 | 3.8119 | 2.9624 | 0.4519 | 5.0473 | 1.0045 | 3.3060 |
| 29.12.2017 | 3.7803 | 4.5331 | 2.9236 | 0.6028 | 0.4560 | 3.8321 | 2.9800 | 0.4562 | 5.0886 | 1.0077 | 3.3260 |

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

| USD    | EUR    | AUD    | DKK    | SEK    | CHF    | CAD    | NOK    | GBP    | SAR    | 100JPY |
|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| 3.6411 | 4.1123 | 2.7615 | 0.5473 | 0.4222 | 3.6605 | 2.7783 | 0.4360 | 4.6731 | 0.9652 | 3.2136 |



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

#### IV. EXPLANATIONS ON THE CONSOLIDATED CURRENCY RISK (Continued)

##### Information on the foreign currency risk of the Group:

|  | EUR              | USD              | Other FC <sup>(4)</sup> | Total            |
|--|------------------|------------------|-------------------------|------------------|
| <b>Current Period</b>  |                  |                  |                         |                  |
| <b>Assets</b>  |                  |                  |                         |                  |
| Cash (Cash in vault, effectives, money in transit, cheques purchased) and Balances with Central Bank of the Republic of Turkey | 241,011          | 1,000,225        | 96,650                  | 1,337,886        |
| Banks  | 170,847          | 43,049           | 61,365                  | 275,261          |
| Financial Assets at Fair Value Through Profit and Loss <sup>(3)</sup>  | -                | -                | -                       | -                |
| Money Market Placements  | -                | -                | -                       | -                |
| Financial Assets Available-for-Sale  | -                | 7,712            | -                       | 7,712            |
| Loans <sup>(1)</sup>   | 2,115,434        | 1,633,582        | -                       | 3,749,016        |
| 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   | -                | 122              | -                       | 122              |
| <b>Total Assets</b>  | <b>2,527,292</b> | <b>2,684,690</b> | <b>158,015</b>          | <b>5,369,997</b> |
| <b>Liabilities</b>   |                  |                  |                         |                  |
| Current account and funds collected from Banks via participation accounts  | 212              | 123              | -                       | 335              |
| Current and profit sharing accounts FC   | 1,176,999        | 2,346,390        | 154,925                 | 3,678,314        |
| Money market borrowings  | -                | -                | -                       | -                |
| Funds provided from other financial institutions   | 699,236          | 930,700          | -                       | 1,629,936        |
| Marketable securities issued   | -                | -                | -                       | -                |
| Miscellaneous payables   | 3,542            | 4,920            | -                       | 8,462            |
| Derivative financial liabilities for hedging purposes  | -                | -                | -                       | -                |
| Other liabilities  | 1,962            | 2,784            | 61                      | 4,807            |
| <b>Total liabilities</b>   | <b>1,881,951</b> | <b>3,284,917</b> | <b>154,986</b>          | <b>5,321,854</b> |
| <b>Net balance sheet position</b>  | <b>645,341</b>   | <b>(600,227)</b> | <b>3,029</b>            | <b>48,143</b>    |
| <b>Net off-balance sheet position</b>  | <b>(634,634)</b> | <b>629,444</b>   | <b>-</b>                | <b>(5,190)</b>   |
| Financial derivative assets  | -                | 629,444          | -                       | 629,444          |
| Financial derivative liabilities   | 634,634          | -                | -                       | 634,634          |
| <b>Non-cash Loans</b>  | <b>1,604,487</b> | <b>1,294,816</b> | <b>38,860</b>           | <b>2,938,163</b> |
| <b>Prior Period</b>  |                  |                  |                         |                  |
| Total Assets   | 1,473,863        | 1,513,755        | 56,584                  | 3,044,202        |
| Total Liabilities  | 1,422,716        | 1,573,933        | 54,888                  | 3,051,537        |
| <b>Net Balance Sheet Position</b>  | <b>51,147</b>    | <b>(60,177)</b>  | <b>1,696</b>            | <b>(7,334)</b>   |
| <b>Net Off-Balance Sheet Position <sup>(2)</sup></b>   | <b>(129,260)</b> | <b>130,412</b>   | <b>-</b>                | <b>1,152</b>     |
| Financial Derivative Assets  | -                | 130,412          | -                       | 130,412          |
| Financial Derivative Liabilities   | 129,260          | -                | -                       | 129,260          |
| <b>Non-cash Loans</b>  | <b>930,417</b>   | <b>1,200,728</b> | <b>35,490</b>           | <b>2,166,635</b> |

- (1) TL 665,300 equivalent of USD loans and TL 1,364,984 equivalent of EUR loans are originated as foreign currency indexed loan.
- (2) Indicates the net balance of receivables and payables on derivative financial instruments.
- (3) Derivative Financial Assets and Derivative Financial Liabilities are not included to the table.
- (4) Of the foreign currencies presented in the other foreign currency column of assets 93% is Gold, 4% is GBP and the remaining 3% 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.

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

**V. EQUITY SHARE POSITION RISK ON BANKING ACCOUNTS**

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

According to the standard method of credit risk, equity investments in banking accounts are TL 7,181 all of which are 100% risk weighted (31 December 2016: 4,719).

**VI. EXPLANATIONS ON THE CONSOLIDATED LIQUIDITY RISK MANAGEMENT AND CONSOLIDATED LIQUIDITY COVERAGE RATIO**

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

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

**1) Liquidity Risk:**

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

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

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

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

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

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

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

**c) The Parent Bank’s 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 parent bank.

**d) Evaluation of the Parent Bank’s 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.

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

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

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

| Current Period  | Consideration Ratio Not Applied Total Value (*) |                  | Consideration Ratio Applied Total Value (*) |                  |
|---|---|------------------|---|------------------|
|   | TL+FC   | FC               | TL+FC                                       | FC               |
| <b>HIGH QUALITY LIQUID ASSETS</b>   | <b>2,018,345</b>                                | <b>1,283,032</b> | <b>2,018,345</b>                            | <b>1,283,032</b> |
| High quality liquid assets  | -   | -                | 2,018,345                                   | 1,283,032        |
| <b>CASH OUTFLOWS</b>  | <b>13,514,181</b>                               | <b>5,333,357</b> | <b>3,430,342</b>                            | <b>1,768,038</b> |
| Real person deposits and retail deposits  | 4,591,572                                       | 1,821,619        | 420,669                                     | 182,162          |
| Stable deposit  | 769,765   | -                | 38,488                                      | -                |
| Deposit with low stability  | 3,821,807                                       | 1,821,619        | 382,181                                     | 182,162          |
| Unsecured debts except real person deposits and retail deposits   | 4,153,603                                       | 1,651,717        | 2,238,483                                   | 966,394          |
| Operational deposit   | -   | -                | -   | -                |
| Non-operating deposits  | -   | -                | -   | -                |
| Other unsecured debts   | 4,153,603                                       | 1,651,717        | 2,238,483                                   | 966,394          |
| Secured debts   | -   | -                | -   | -                |
| Other cash outflows   | 4,769,006                                       | 1,860,021        | 771,190                                     | 619,482          |
| Derivative liabilities and margin obligations   | 526,520   | 520,140          | 526,520                                     | 520,140          |
| Debt from structured financial instruments  | -   | -                | -   | -                |
| Other off-balance sheet liabilities and commitments for the payment owed to financial markets                 | 130,168   | 129,394          | 39,054                                      | 38,818           |
| Revocable off-balance sheet obligations regardless of any other requirement and other contractual obligations | -   | -                | -   | -                |
| Other irrevocable or provisory revocable off-balance sheet liabilities  | 4,112,318                                       | 1,210,487        | 205,616                                     | 60,524           |
| <b>TOTAL CASH OUTFLOW</b>   | <b>-</b>  | <b>-</b>         | <b>3,430,342</b>                            | <b>1,768,038</b> |
| <b>CASH INFLOWS</b>   | <b>2,225,933</b>                                | <b>1,091,482</b> | <b>1,865,202</b>                            | <b>1,080,505</b> |
| Secured receivables   | -   | -                | -   | -                |
| Unsecured claims  | 1,700,461                                       | 584,029          | 1,339,730                                   | 573,052          |
| Other cash inflows  | 525,472   | 507,453          | 525,472                                     | 507,453          |
| <b>TOTAL CASH INFLOWS</b>   | <b>2,225,933</b>                                | <b>1,091,482</b> | <b>1,865,202</b>                            | <b>1,080,505</b> |
| Applied maximum rate values   | -   | -                | -   | -                |
| <b>TOTAL High quality liquid asset STOCK</b>  | <b>-</b>  | <b>-</b>         | <b>2,018,345</b>                            | <b>1,283,032</b> |
| <b>TOTAL NET CASH OUTFLOWS</b>  | <b>-</b>  | <b>-</b>         | <b>1,565,140</b>                            | <b>687,533</b>   |
| <b>LIQUIDITY COVERAGE RATIO (%)</b>   | <b>-</b>  | <b>-</b>         | <b>129</b>                                  | <b>187</b>       |

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

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

| Prior Period  | Consideration Ratio Not Applied Total Value (*) |                  | Consideration Ratio Applied Total Value (*) |                |
|---|---|------------------|---|----------------|
|   | TL+FC   | FC               | TL+FC                                       | FC             |
| <b>HIGH QUALITY LIQUID ASSETS</b>   | <b>880,253</b>                                  | <b>559,751</b>   | <b>705,398</b>                              | <b>385,323</b> |
| High quality liquid assets  |   |                  | 705,398                                     | 385,323        |
| <b>CASH OUTFLOWS</b>  | <b>6,260,670</b>                                | <b>2,337,819</b> | <b>1,527,873</b>                            | <b>635,354</b> |
| 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         |
| <b>TOTAL CASH OUTFLOW</b>   | <b>-</b>  | <b>-</b>         | <b>1,527,873</b>                            | <b>635,354</b> |
| <b>CASH INFLOWS</b>   | <b>1,271,674</b>                                | <b>396,524</b>   | <b>1,079,211</b>                            | <b>392,799</b> |
| 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         |
| <b>TOTAL CASH INFLOWS</b>   | <b>1,271,674</b>                                | <b>396,524</b>   | <b>1,079,211</b>                            | <b>392,799</b> |
| Applied maximum rate values   | -   | -                | -   | -              |
| <b>TOTAL High quality liquid asset STOCK</b>  | <b>-</b>  | <b>-</b>         | <b>705,398</b>                              | <b>385,323</b> |
| <b>TOTAL NET CASH OUTFLOWS</b>  | <b>-</b>  | <b>-</b>         | <b>448,662</b>                              | <b>242,555</b> |
| <b>LIQUIDITY COVERAGE RATIO (%)</b>   | <b>-</b>  | <b>-</b>         | <b>153</b>                                  | <b>186</b>     |

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

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

**Breakdown of assets and liabilities according to their outstanding maturities:**

|  | Demand           | Up to 1 Month      | 1-3 Months       | 3-12 Months      | 1-5 Years        | 5 Years and Over | Undistributed <sup>(*)</sup> | Total             |
|--|------------------|--------------------|------------------|------------------|------------------|------------------|------------------------------|-------------------|
| <b>Current Period</b>  |                  |                    |                  |                  |                  |                  |                              |                   |
| <b>Assets</b>  |                  |                    |                  |                  |                  |                  |                              |                   |
| Cash (Cash in Vault, Effectives, Money in Transit, Cheques Purchased) and Balances with the Central Bank of the Republic of Turkey | 323,220          | 1,320,469          | -                | -                | -                | -                | -                            | 1,643,689         |
| Banks  | 278,581          | -                  | -                | -                | -                | -                | -                            | 278,581           |
| Financial Assets at Fair Value Through Profit and Loss   | 37               | -                  | -                | -                | -                | -                | -                            | 37                |
| Money Market Placements  | -                | -                  | -                | -                | -                | -                | -                            | -                 |
| Financial Assets Available-for-Sale  | 2,462            | -                  | 2,406            | 61,297           | 453,289          | -                | 4,719                        | 524,173           |
| Loans Given  | -                | 1,444,299          | 841,762          | 2,870,892        | 5,212,023        | 1,005,768        | -                            | 11,374,744        |
| Investments Held-to-Maturity   | -                | -                  | -                | -                | -                | -                | -                            | -                 |
| Other Assets   | 155,871          | 8,934              | 515              | 3,173            | 280,272          | 80,050           | -                            | 528,815           |
| <b>Total Assets</b>  | <b>760,171</b>   | <b>2,773,702</b>   | <b>844,683</b>   | <b>2,935,362</b> | <b>5,945,584</b> | <b>1,085,818</b> | <b>4,719</b>                 | <b>14,350,039</b> |
| <b>Liabilities</b>   |                  |                    |                  |                  |                  |                  |                              |                   |
| Funds Collected from Banks Via Current and Participation Accounts  | 339              | 5,007              | -                | -                | -                | -                | -                            | 5,346             |
| Current and Participation Accounts   | 1,650,719        | 6,769,575          | 1,248,662        | 346,236          | 3,948            | -                | -                            | 10,019,140        |
| Funds Provided from Other Financial Instruments  | -                | 620,612            | 89,900           | 1,144,308        | 194,490          | -                | -                            | 2,049,310         |
| Money Market Borrowings  | -                | 32,462             | -                | -                | -                | -                | -                            | 32,462            |
| Issued Marketable Securities   | -                | 7,804              | 450,000          | 100,000          | -                | -                | -                            | 557,804           |
| Sundry Creditors   | -                | -                  | -                | -                | -                | -                | 35,715                       | 35,715            |
| Other Liabilities *  | -                | -                  | -                | -                | -                | -                | 1,650,262                    | 1,650,262         |
| <b>Total Liabilities</b>   | <b>1,651,058</b> | <b>7,435,460</b>   | <b>1,788,562</b> | <b>1,590,544</b> | <b>198,438</b>   | <b>-</b>         | <b>1,685,977</b>             | <b>14,350,039</b> |
| <b>Liquidity Gap</b>   | <b>(890,887)</b> | <b>(4,661,758)</b> | <b>(943,879)</b> | <b>1,344,818</b> | <b>5,747,146</b> | <b>1,085,818</b> | <b>(1,681,258)</b>           | <b>-</b>          |

(\*) 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)

#### VI. 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 <sup>(*)</sup> | Total            |
|--|------------------|--------------------|------------------|------------------|------------------|------------------|------------------------------|------------------|
| <b>Prior Period</b>  |                  |                    |                  |                  |                  |                  |                              |                  |
| <b>Assets</b>  |                  |                    |                  |                  |                  |                  |                              |                  |
| 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          |
| <b>Total Assets</b>  | <b>1,674,471</b> | <b>666,343</b>     | <b>342,551</b>   | <b>1,445,320</b> | <b>3,105,341</b> | <b>624,234</b>   | <b>101,196</b>               | <b>7,959,456</b> |
| <b>Liabilities</b>   |                  |                    |                  |                  |                  |                  |                              |                  |
| 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          |
| <b>Total Liabilities</b>   | <b>833,004</b>   | <b>3,974,564</b>   | <b>1,108,996</b> | <b>982,555</b>   | <b>157,716</b>   | <b>-</b>         | <b>902,621</b>               | <b>7,959,456</b> |
| <b>Liquidity Gap</b>   | <b>841,467</b>   | <b>(3,308,221)</b> | <b>(766,445)</b> | <b>462,765</b>   | <b>2,947,625</b> | <b>624,234</b>   | <b>(801,425)</b>             | <b>-</b>         |

(\*) Equity, provisions and other liabilities included in other active accounts and liabilities that are not required to convert into cash in a short period of time, which are necessary for the continuation of banking activities such as fixed assets from the active accounts that constitute the balance sheet, are shown in this column. The undistributed column consists of equity and provision accounts.

##### Presentation of liabilities according to their remaining maturities:

|   | Up to 1 Month    | 1-3 Months       | 3-12 Months      | 1-5 Years      | Over 5 Years | Total             |
|---|------------------|------------------|------------------|----------------|--------------|-------------------|
| <b>Current Period</b>   |                  |                  |                  |                |              |                   |
| Current account and funds collected from banks via participation accounts | 5,007            | -                | -                | -              | -            | 5,007             |
| Other current and profit sharing accounts                                 | 6,769,575        | 1,248,661        | 346,235          | 3,949          | -            | 8,368,421         |
| Funds borrowed from other financial institutions                          | 620,611          | 89,900           | 1,144,308        | 194,490        | -            | 2,049,310         |
| Funds borrowed from Interbank money market                                | 32,462           | -                | -                | -              | -            | 32,462            |
| <b>Total</b>  | <b>7,427,655</b> | <b>1,338,561</b> | <b>1,490,543</b> | <b>198,439</b> | <b>-</b>     | <b>10,455,198</b> |
|   | 18,531           | -                | -                | -              | -            | 18,531            |
| <b>Prior Period</b>   | 3,749,936        | 715,251          | 317,985          | 1,239          | -            | 4,784,411         |
| Current account and funds collected from banks via participation accounts | 72,429           | 393,745          | 664,570          | 156,477        | -            | 1,287,221         |
| Other current and profit sharing accounts                                 | 133,668          | -                | -                | -              | -            | 133,668           |
| <b>Total</b>  | <b>3,974,564</b> | <b>1,108,996</b> | <b>982,555</b>   | <b>157,716</b> | <b>-</b>     | <b>6,223,831</b>  |

As of the 31 December 2017, the leverage ratio of the Group was calculated from the arithmetic average of the last three months is 6.6%. This ratio is above the required minimum rate.

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

##### VII. EXPLANATIONS ON LEVERAGE RATIO

Leverage ratio disclosure as follows:

| <b>Balance sheet assets</b>   | <b>Current Period (*)</b> | <b>Prior Period (*)</b> |
|---|---------------------------|-------------------------|
| Balance sheet assets (Except for derivative financial instruments and credit derivatives, including warranties) | 13,721,760                | 7,131,391               |
| (Assets deducted from main capital)   | (81,514)                  | (50,794)                |
| <b>Total risk amount of the balance sheet assets</b>  | <b>13,640,246</b>         | <b>7,080,597</b>        |
| <b>Derivative financial instruments and credit derivatives</b>  |                           |                         |
| Replacement cost of derivative financial instruments and credit derivatives                                     | 630                       | 1,737                   |
| Potential credit risk amount of derivative financial instruments and credit derivatives                         | 6,357                     | 1,191                   |
| <b>Total risk amount of derivative financial instruments and credit derivative</b>                              | <b>6,987</b>              | <b>2,928</b>            |
| <b>Security or secured financing transactions</b>   |                           |                         |
| Risk amount of security or secured financing transactions (Except balance sheet)                                | 160,316                   | 65,628                  |
| Risk amount due to intermediated transactions   | -                         | -                       |
| <b>Total risk amount of security or secured financing transactions</b>  | <b>160,316</b>            | <b>65,628</b>           |
| <b>Off-balance sheet transactions</b>   |                           |                         |
| Gross nominal amount of off-balance sheet transactions  | 6,207,549                 | 3,340,325               |
| (Adjustment amount resulting from multiplying by credit conversion rates)                                       | -                         | -                       |
| <b>Risk amount of the off-balance sheet transactions</b>  | <b>6,207,549</b>          | <b>3,340,325</b>        |
| <b>Equity and total risk</b>  |                           |                         |
| Main capital  | 1,318,315                 | 720,194                 |
| <b>Total risk amount</b>  | <b>20,015,098</b>         | <b>10,489,478</b>       |
| <b>Leverage ratio</b>   |                           |                         |
| Leverage ratio  | 6.6                       | 6.9                     |

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

##### VIII. EXPLANATIONS ON SECURITIZATION POSITIONS

None.

##### IX. EXPLANATIONS ON RISK MANAGEMENT

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

Within the scope of risk management, there are many risks that affect 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.

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.



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

##### IX. EXPLANATIONS ON RISK MANAGEMENT (Continued)

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)                                | 9,308,200            | 5,513,200        | 744,656                     |
| 2  | Standardized approach (SA)  | 9,308,200            | 5,513,200        | 744,656                     |
| 3  | Internal rating-based (IRB) approach  | -                    | -                | -                           |
| 4  | Counterparty credit risk  | 5,091                | 1,290            | 407                         |
| 5  | Standardized approach for counterparty credit risk (SA-CCR)                           | 5,091                | 1,290            | 407                         |
| 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   | 44,918               | 20,700           | 3,593                       |
| 17 | Standardized approach (SA)  | 44,918               | 20,700           | 3,593                       |
| 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 | <b>Total (1+4+7+8+9+10+11+12+16+19+23+24)</b>   | <b>9,643,419</b>     | <b>5,666,663</b> | <b>771,473</b>              |

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

#### IX. EXPLANATIONS ON RISK MANAGEMENT (Continued)

##### 2. Linkages Between Financial Statements and Regulatory Exposures

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

|   | Carrying values of items in accordance with TAS         |                                  |   |                                      | Not subject to capital requirements or subject to deduction from capital |
|---|---|----------------------------------|---|--------------------------------------|--|
|   | Carrying values under scope of regulatory consolidation | Subject to credit risk framework | Subject to counterparty credit risk framework | Subject to the market risk framework |  |
| <b>Assets</b>   |   |                                  |   |                                      |  |
| Cash and balances at central bank   | 1,643,689   | 1,643,689                        | -   | 1,337,886                            | -  |
| Financial assets held for trading   | 37  | -                                | 37  | -                                    | -  |
| Financial assets designated at fair value through profit or loss          | -   | -                                | -   | 4                                    | -  |
| Banks   | 278,581   | 278,581                          | -   | 275,261                              | -  |
| Receivables from money markets  | -   | -                                | -   | -                                    | -  |
| Financial assets available for sale (net)                                 | 524,173   | 524,173                          | 501,421                                       | 7,712                                | -  |
| Loans and receivables   | 11,374,744  | 11,374,744                       | -   | 1,718,732                            | -  |
| Factoring receivables   | -   | -                                | -   | -                                    | -  |
| Held to maturity investments (net)  | -   | -                                | -   | -                                    | -  |
| Investments in associates (net)   | -   | -                                | -   | -                                    | -  |
| Investments in subsidiaries (net)   | -   | -                                | -   | -                                    | -  |
| Investments in joint ventures (net)                                       | -   | -                                | -   | -                                    | -  |
| Leasing receivables   | 372,944   | 372,944                          | -   | -                                    | -  |
| Derivative financial assets held for hedges                               | -   | -                                | -   | -                                    | -  |
| Tangible assets (net)   | 47,235  | 31,248                           | -   | -                                    | 15,987   |
| Intangible assets (net)   | 63,280  | -                                | -   | -                                    | 63,280   |
| Investment properties (net)   | -   | -                                | -   | -                                    | -  |
| Tax assets  | 14,093  | 14,093                           | -   | -                                    | -  |
| Non-current assets and disposal groups classified as held for sale (net)  | 3,561   | 3,561                            | -   | -                                    | -  |
| Other assets  | 27,702  | 27,702                           | -   | 122                                  | -  |
| <b>Total Assets</b>   | <b>14,350,039</b>                                       | <b>14,270,735</b>                | <b>501,458</b>                                | <b>3,339,717</b>                     | <b>79,267</b>  |
| <b>Liabilities</b>  |   |                                  |   |                                      |  |
| Deposits  | 10,024,486  | -                                | -   | 3,678,649                            | -  |
| Derivative financial liabilities held for trading                         | 6,280   | -                                | -   | 6,280                                | -  |
| Loans   | 2,049,310   | -                                | -   | 1,629,936                            | -  |
| Debt to money markets   | 32,462  | -                                | 32,462  | -                                    | -  |
| Debt securities in issue  | 557,804   | -                                | -   | -                                    | -  |
| Funds   | -   | -                                | -   | -                                    | -  |
| Various Debts   | 35,715  | -                                | -   | 8,462                                | -  |
| Other Debts   | 70,570  | -                                | -   | 1,202                                | -  |
| Factoring debts   | -   | -                                | -   | -                                    | -  |
| Debts from leasing transactions   | -   | -                                | -   | -                                    | -  |
| Derivative financial liabilities held for hedge                           | -   | -                                | -   | 3,605                                | -  |
| Provisions  | 142,290   | -                                | -   | -                                    | -  |
| Tax liability   | 27,441  | -                                | -   | -                                    | -  |
| Liabilities included in disposal groups classified as held for sale (net) | -   | -                                | -   | -                                    | -  |
| Subordinated Debts  | -   | -                                | -   | -                                    | -  |
| Equity  | 1,403,681   | -                                | -   | -                                    | -  |
| <b>Total Liabilities</b>  | <b>14,350,039</b>                                       | <b>-</b>                         | <b>32,462</b>                                 | <b>5,328,134</b>                     | <b>-</b>   |

(\*) Indicating the Parent Bank's consolidated financial statements.

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY - 31 DECEMBER 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 RISK MANAGEMENT (Continued)

##### 2. Linkages Between Financial Statements and Regulatory Exposures

##### b) Main sources of differences between regulatory exposure amounts and carrying values in financial statements

|  | Total             | Items subject to credit risk framework | Items subject to counterparty credit risk framework | Items subject to market risk framework | Total     |
|--|-------------------|--|---|--|-----------|
| Asset carrying value amount under scope of regulatory consolidation                    | 14,350,039        | 14,270,735                             | -   | 501,458                                | 3,339,717 |
| Liabilities carrying value amount under regulatory scope of consolidation              | 32,462            | -                                      | -   | 32,462                                 | -         |
| <b>Total net amount under regulatory scope of consolidation</b>                        | <b>14,317,577</b> | <b>14,270,735</b>                      | <b>-</b>  | <b>468,996</b>                         | <b>-</b>  |
| Off-balance sheet amounts  | 7,508,372         | 6,182,382                              | -   | 1,325,989                              | -         |
| Differences in valuations  | -                 | -                                      | -   | -                                      | -         |
| Differences due to different netting rules, other than those already included in row 2 | -                 | -                                      | -   | -                                      | -         |
| Differences due to consideration of provisions   | -                 | -                                      | -   | -                                      | -         |
| Differences due to prudential filters  | -                 | -                                      | -   | -                                      | -         |
| <b>Exposure amounts considered for regulatory purposes</b>                             | <b>-</b>          | <b>-</b>                               | <b>-</b>  | <b>-</b>                               | <b>-</b>  |

##### 3. Explanations on Credit Risk

##### 3.1) General information about credit risk

##### a) General qualitative information about credit risk

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

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

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY - 31 DECEMBER 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 RISK MANAGEMENT (Continued)

##### 3. 1) General information about credit risk (Continued)

##### a) General qualitative information about credit risk (Continued)

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

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

##### b) Credit quality of assets

|                               | Defaulted exposures | Non-defaulted exposures | Provisions/Amortization and impairment | Net value         |
|-------------------------------|---------------------|-------------------------|--|-------------------|
| Loans                         | 34,841              | 11,730,936              | 18,088                                 | 11,747,689        |
| Debt instruments              | -                   | 524,845                 | 7,853                                  | 516,992           |
| Off-balance sheet receivables | -                   | 6,182,098               | 177                                    | 6,181,921         |
| <b>Total</b>                  | <b>34,841</b>       | <b>18,437,879</b>       | <b>26,118</b>                          | <b>18,446,602</b> |

(\*) Financial Lease amount of TL 372,944 is included to the table.

##### c) Default receivables and change in debt instrument stock

|   |  |        |
|---|--|--------|
| 1 | Prior report period default loans and debt instrument amount               | 10,483 |
| 2 | Default credits and debt instruments since the last reporting period       | 24,358 |
| 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) | 34,841 |

##### d) Additional disclosures about the credit quality of assets

##### i. The scope and definitions of “past due” and “impaired” exposures used for accounting purposes and the differences, if any, between the definition of past due and default for accounting and regulatory purposes

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

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

**IX. EXPLANATIONS ON RISK MANAGEMENT (Continued)**

**1) General information about credit risk (Continued)**

**d) Additional disclosures about the credit quality of assets (Continued)**

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

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

**iii. Definitions of methods used when setting the allowance**

Within the framework of the Provisions Regulation and related provisions, the Bank allocates general provision at 20%, 50% and 100% special allowances for receivables over 90 days, at the ratios specified in the regulation for the receivables specified in the regulation.

**iv. The Banks own definition of a restructured exposure**

As of 31 December 2017, the Bank has no restructured exposure (31 December 2016: None).

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

|                           | <b>Loans and Receivables</b> | <b>Loan Under Follow Up</b> | <b>Special Provision</b> | <b>Total</b>      |
|---------------------------|------------------------------|-----------------------------|--------------------------|-------------------|
| Domestic                  | 11,282,385                   | 34,841                      | 18,088                   | 11,299,138        |
| European countries        | -                            | -                           | -                        | -                 |
| USA, Canada               | -                            | -                           | -                        | -                 |
| OECD Countries            | -                            | -                           | -                        | -                 |
| Off-shore banking regions | -                            | -                           | -                        | -                 |
| Other foreign countries   | 75,606                       | -                           | -                        | 75,606            |
| <b>Total</b>              | <b>11,357,991</b>            | <b>34,841</b>               | <b>18,088</b>            | <b>11,374,744</b> |

**ZİRAAT KATILIM BANKASI A.Ş.**

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

**IX. EXPLANATIONS ON RISK MANAGEMENT (Continued)**

- 1) **General information about credit risk (Continued)**
- d) **Additional disclosures about the credit quality of assets (Continued)**
- v. **Breakdown of receivables according to geographical areas, breakdown by sector and remaining demand, geographical segments and sectoral provision amount and related provisions and write-off (Continued)**

|                                 | Loans and Receivables | Loans under follow up | Special Provisions | Total             |
|---------------------------------|-----------------------|-----------------------|--------------------|-------------------|
| Agriculture                     | 207,642               | -                     | -                  | 207,642           |
| Farming and Stockbreeding       | 150,319               | -                     | -                  | 150,319           |
| Forestry                        | 52,615                | -                     | -                  | 52,615            |
| Fishery                         | 4,708                 | -                     | -                  | 4,708             |
| Manufacturing                   | 4,477,817             | 9,718                 | 5,453              | 4,482,082         |
| Mining and Quarrying            | 286,181               | -                     | -                  | 286,181           |
| Production                      | 4,026,740             | 9,718                 | 5,453              | 4,031,005         |
| Electricity, Gas and Water      | 164,896               | -                     | -                  | 164,896           |
| Construction                    | 1,501,198             | 5,214                 | 2,023              | 1,504,389         |
| Services                        | 3,505,472             | 12,800                | 8,607              | 3,509,665         |
| Wholesale and Retail Trade      | 1,402,871             | 12,800                | 8,607              | 1,407,064         |
| Accommodation and Dining        | 74,150                | -                     | -                  | 74,150            |
| Transportation and Telecom      | 427,308               | -                     | -                  | 427,308           |
| Financial Institutions          | -                     | -                     | -                  | -                 |
| Real Estate and Rental Services | 1,461,198             | -                     | -                  | 1,461,198         |
| Professional Services           | -                     | -                     | -                  | -                 |
| Educational Services            | 34,531                | -                     | -                  | 34,531            |
| Health and Social Services      | 105,414               | -                     | -                  | 105,414           |
| Other                           | 1,665,862             | 7,109                 | 2,005              | 1,670,966         |
| <b>Total</b>                    | <b>11,357,991</b>     | <b>34,841</b>         | <b>18,088</b>      | <b>11,374,744</b> |

|                       | Demand | Up to 1 month | 1-3 Month | 3-12 Months | 1-5 years | Over 5 years | Undistributed | Total      |
|-----------------------|--------|---------------|-----------|-------------|-----------|--------------|---------------|------------|
| <b>Current Period</b> |        |               |           |             |           |              |               |            |
| Loans given           | -      | 1,444,299     | 841,762   | 2,870,892   | 5,212,023 | 1,005,768    | -             | 11,374,744 |

|                     | Demand | Up to 1 month | 1-3 Month | 3-12 Months | 1-5 years | Over 5 years | Undistributed | Total     |
|---------------------|--------|---------------|-----------|-------------|-----------|--------------|---------------|-----------|
| <b>Prior Period</b> |        |               |           |             |           |              |               |           |
| Loans given         | -      | 660,696       | 303,334   | 1,354,397   | 2,733,895 | 505,620      | -             | 5,557,942 |

vi. **Aging analysis for past due receivables**

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

| <b>Current Period</b>           | <b>Up to 1 month</b> | <b>1-2 months</b> | <b>2-3 Months</b> | <b>Total</b>  |
|---------------------------------|----------------------|-------------------|-------------------|---------------|
| Loans and Receivables           | -                    | -                 | -                 | -             |
| Corporate/Entrepreneurial Loans | 35,808               | 7,192             | 4,553             | 47,553        |
| Consumer loans                  | 1,429                | 801               | -                 | 2,230         |
| <b>Total</b>                    | <b>37,237</b>        | <b>7,993</b>      | <b>4,553</b>      | <b>49,783</b> |

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

**IX. EXPLANATIONS ON RISK MANAGEMENT (Continued)**

**3. Explanations on Credit Risk (Continued)**

**3.2) Credit risk mitigation**

**a) Qualitative disclosure requirements related to credit risk mitigation techniques**

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

The transactions that the bank makes in the context of market risk are not covered.

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

**b) Credit risk mitigation techniques - Overview**

|                  | Unsecured receivables: Amount assessed pursuant to TAS | Claims secured by guarantee | Collateralized portions of collateralized receivables | Receivables protected by financial guarantees | Collateralized portions of receivables protected by financial guarantees | Loans protected by credit derivatives | Collateralized portions of receivables protected by credit derivatives |
|------------------|--|-----------------------------|---|---|--|---------------------------------------|--|
| Loans            | 9,934,785  | 1,812,904                   | 971,403   | 1,390,238                                     | 914,450  | -                                     | -  |
| Debt instruments | 516,992  | -                           | -   | -   | -  | -                                     | -  |
| <b>Total</b>     | <b>10,451,777</b>                                      | <b>1,812,904</b>            | <b>971,403</b>  | <b>1,390,238</b>                              | <b>914,450</b>   | -                                     | -  |
| Default          | 34,841   | -                           | -   | -   | -  | -                                     | -  |

**3.3) Credit risk under standardized approach**

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

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

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

IX. EXPLANATIONS ON RISK MANAGEMENT (Continued)

3.3) Credit risk under standardized approach (Continued)

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

| Risk classes  | The credit conversion rate and the credit amount before the credit risk reduction |                          | The credit conversion rate and the credit amount after the credit risk reduction |                          | Risk weighted amount and risk weighted amount density |                              |
|---|---|--------------------------|--|--------------------------|---|------------------------------|
|   | On-balance sheet amount   | Off-balance sheet amount | On-balance sheet amount  | Off-balance sheet amount | Risk weighted amount                                  | Risk weighted amount density |
| Exposures to central governments or central banks                                     | 2,178,097   | -                        | 3,077,345  | 112,088                  | 129,914   | 4%                           |
| Exposures to regional governments or local authorities                                | -   | -                        | 15,203   | 1,960                    | 8,582   | 50%                          |
| Exposures to public sector entities   | 84,058  | 1,237                    | 84,058   | 600                      | 84,641  | 100%                         |
| Exposures to multilateral development Banks   | -   | -                        | -  | -                        | -   | 0%                           |
| Exposures to international organizations  | -   | -                        | -  | -                        | -   | 0%                           |
| Exposures to institutions   | 1,410,765   | 276                      | 1,410,764  | 251                      | 428,318   | 30%                          |
| Exposures to corporates   | 4,849,702   | 5,513,892                | 4,179,866  | 3,450,504                | 7,482,028   | 98%                          |
| Retail exposures  | 790,764   | 495,340                  | 546,150  | 210,835                  | 556,881   | 74%                          |
| Exposures secured by residential property   | 652,679   | 45,011                   | 652,679  | 22,205                   | 236,257   | 35%                          |
| Exposures secured by commercial Real Estate   | 524,560   | 126,443                  | 524,561  | 95,473                   | 310,017   | 50%                          |
| Past-due loans  | 7,794   | -                        | 7,793  | -                        | 6,581   | 84%                          |
| Higher-risk categories by the Agency Board  | 2,027   | -                        | 2,027  | -                        | 3,041   | 150%                         |
| Exposures in the form of covered Bonds  | -   | -                        | -  | -                        | -   | 0%                           |
| Exposures to institutions and corporates with a short-term credit assessment          | -   | -                        | -  | -                        | -   | 0%                           |
| Exposures in the form of units or shares in collective investment undertakings (CIUs) | -   | -                        | -  | -                        | -   | 0%                           |
| Other assets  | 103,065   | -                        | 103,065  | -                        | 61,941  | 60%                          |
| Investments in equities   | -   | -                        | -  | -                        | -   | 0%                           |
| <b>Total</b>  | <b>10,603,511</b>   | <b>6,182,199</b>         | <b>10,603,511</b>  | <b>3,893,916</b>         | <b>9,308,201</b>                                      | <b>64%</b>                   |



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

IX. EXPLANATIONS ON RISK MANAGEMENT (Continued)

3.3) Credit risk under standardized approach (Continued)

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

| Risk classes/ Risk Weight   | 0%               | 10%      | 20%            | 35% (secured<br>by real estate) (*) | 50% (secured<br>by real estate) (*) | 50% (*)        | 75%            | 100%             | 150%         | 200%     | Others   | Total credit risk<br>exposure amount<br>(after CCF and<br>CRM) |
|---|------------------|----------|----------------|-------------------------------------|-------------------------------------|----------------|----------------|------------------|--------------|----------|----------|--|
| Exposures to regional governments or local authorities                                | 2,929,605        | -        | -              | -                                   | -                                   | 259,828        | -              | -                | -            | -        | -        | 3,189,433  |
| Exposures to regional governments or local authorities                                | -                | -        | -              | -                                   | -                                   | 17,163         | -              | -                | -            | -        | -        | 17,163   |
| Exposures to public sector entities   | 17               | -        | -              | -                                   | -                                   | -              | -              | 84,641           | -            | -        | -        | 84,658   |
| Exposures to multilateral development banks   | -                | -        | -              | -                                   | -                                   | -              | -              | -                | -            | -        | -        | -  |
| Exposures to international organizations  | -                | -        | -              | -                                   | -                                   | -              | -              | -                | -            | -        | -        | -  |
| Exposures to banks and financial intermediaries                                       | -                | -        | 924,341        | -                                   | -                                   | 486,448        | -              | 226              | -            | -        | -        | 1,411,015  |
| Exposures to corporates   | 48,271           | -        | 42,782         | -                                   | -                                   | 131,691        | -              | 7,407,626        | -            | -        | -        | 7,630,370  |
| Retail exposures  | 11,354           | -        | 3,886          | -                                   | -                                   | 819            | 740,926        | -                | -            | -        | -        | 756,985  |
| Exposures secured by residential property   | -                | -        | -              | 674,565                             | 319                                 | -              | -              | -                | -            | -        | -        | 674,884  |
| Exposures secured by commercial real estate   | -                | -        | -              | -                                   | 620,034                             | -              | -              | -                | -            | -        | -        | 620,034  |
| Past-due loans  | -                | -        | -              | -                                   | -                                   | 2,424          | -              | 5,369            | -            | -        | -        | 7,793  |
| Higher-risk categories by the Agency Board  | -                | -        | -              | -                                   | -                                   | -              | -              | -                | 2,027        | -        | -        | 2,027  |
| Exposures in the form of covered bonds  | -                | -        | -              | -                                   | -                                   | -              | -              | -                | -            | -        | -        | -  |
| Exposures to institutions and corporates with a short-term credit assessment          | -                | -        | -              | -                                   | -                                   | -              | -              | -                | -            | -        | -        | -  |
| Exposures in the form of units or shares in collective investment undertakings (CIUs) | -                | -        | -              | -                                   | -                                   | -              | -              | -                | -            | -        | -        | -  |
| Investments in equities   | -                | -        | -              | -                                   | -                                   | -              | -              | -                | -            | -        | -        | -  |
| Other assets  | 41,124           | -        | -              | -                                   | -                                   | -              | -              | 61,941           | -            | -        | -        | 103,065  |
| <b>Total</b>  | <b>3,030,371</b> | <b>-</b> | <b>971,009</b> | <b>674,565</b>                      | <b>620,353</b>                      | <b>898,373</b> | <b>740,926</b> | <b>7,559,803</b> | <b>2,027</b> | <b>-</b> | <b>-</b> | <b>14,497,427</b>  |

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

**X. EXPLANATIONS ON HEDGE TRANSACTIONS**

It is essential to be bordered with limits compatible with risk profile of risk levels and risk toleration so as to prevent to considerably affect from the negativeness that can occur while 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 carried out in the Bank and the liquidity risk of FX and TL is limited by the transactions made.

**4) 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 October 23, 2015 and became effective as of March 31, 2016. The following tables which have to be presented on a quarterly basis have not been presented since the Bank does not use 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)

**XI. EXPLANATION ON COUNTERPARTY CREDIT RISK**

**a) Qualitative disclosures about counterparty credit risk**

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

Within the scope of management of counterparty credit risk; monitoring and control functions of the counterparty credit risk in line with the structure, size and complexity of the products and activities of the counterparty.

The counterparty of the counterparty will ensure that the credit risk level is above the minimum limits set in the legal regulations style directing is essential.

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

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

**XI. EXPLANATION ON COUNTERPARTY CREDIT RISK (Continued)**

**b) Evaluation of counterparty credit risk according to measurement methods**

|          |   | Replacement cost | Potential future exposure | EEPE(*) | Alpha used for computing regulatory EAD | EAD post CRM | Risk Weighted Amounts |
|----------|---|------------------|---------------------------|---------|---|--------------|-----------------------|
| 1        | Standardized Approach - CCR (For Derivatives)   | 37               | 6,604                     |         | 1,4                                     | 6,641        | 3,216                 |
| 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   |                  |                           |         |   | -            | -                     |
| <b>6</b> | <b>Total</b>  |                  |                           |         |   |              | <b>3,216</b>          |

(\*) Effective expected position amount

**c) Capital requirement for loan valuation adjustments**

|          |   | EAD post-CRM | Risk Weighted Amounts |
|----------|---|--------------|-----------------------|
|          | Total portfolios subject to the Advanced CVA capital charge   |              |                       |
| 1        | (i) VaR component (including the 3×multiplier)                |              | -                     |
| 2        | (ii) Stressed VaR component (including the 3×multiplier)      |              | -                     |
| 3        | All portfolios subject to the Standardized CVA capital charge | 6,641        | 1,875                 |
| <b>4</b> | <b>Total subject to the CVA capital charge</b>                | <b>6,641</b> | <b>1,875</b>          |

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

XI. EXPLANATION ON COUNTERPARTY CREDIT RISK (Continued)

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

| Risk weights<br>Risk classes   | 0%             | 10%      | 20%        | 50%          | 75%      | 100%     | 150%     | Other    | Total credit risk <sup>(*)</sup> |
|--|----------------|----------|------------|--------------|----------|----------|----------|----------|----------------------------------|
| Claims from central governments and central banks  | 501,421        | -        | -          | -            | -        | -        | -        | -        | -                                |
| 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   | -              | -        | 347        | 6,294        | -        | -        | -        | -        | 3,216                            |
| Corporates   | -              | -        | -          | -            | -        | -        | -        | -        | -                                |
| Retail portfolios  | -              | -        | -          | -            | -        | -        | -        | -        | -                                |
| Claims on landed real estate   | -              | -        | -          | -            | -        | -        | -        | -        | -                                |
| Past due loans   | -              | -        | -          | -            | -        | -        | -        | -        | -                                |
| Claims which are determined as high risk by the board of BRSA                                  | -              | -        | -          | -            | -        | -        | -        | -        | -                                |
| Mortgage securities  | -              | -        | -          | -            | -        | -        | -        | -        | -                                |
| Securitization positions   | -              | -        | -          | -            | -        | -        | -        | -        | -                                |
| Claims from corporates, banks and financial intermediaries which have short term credit rating | -              | -        | -          | -            | -        | -        | -        | -        | -                                |
| Investments which are qualified as collective investment institutions                          | -              | -        | -          | -            | -        | -        | -        | -        | -                                |
| Stock investment   | -              | -        | -          | -            | -        | -        | -        | -        | -                                |
| Other claims   | -              | -        | -          | -            | -        | -        | -        | -        | -                                |
| Other assets   | -              | -        | -          | -            | -        | -        | -        | -        | -                                |
| <b>Total</b>   | <b>501,421</b> | <b>-</b> | <b>347</b> | <b>6,294</b> | <b>-</b> | <b>-</b> | <b>-</b> | <b>-</b> | <b>3,216</b>                     |

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

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

None.

e) Collaterals for counterparty credit risk

|                          | Collateral used in derivative transactions |              |                                 |              | Other transaction guarantees      |                                 |
|--------------------------|--|--------------|---------------------------------|--------------|-----------------------------------|---------------------------------|
|                          | Fair value of collateral received          |              | Fair value of posted collateral |              | Fair value of collateral received | Fair value of posted collateral |
|                          | Segregated                                 | Unsegregated | Segregated                      | Unsegregated |                                   |                                 |
| Cash – domestic currency | -  | -            | -                               | -            | 32,462                            | -                               |
| Cash – other currencies  | -  | -            | -                               | -            | -                                 | -                               |
| Domestic sovereign debt  | -  | -            | -                               | -            | -                                 | -                               |
| Other sovereign debt     | -  | -            | -                               | -            | -                                 | -                               |
| Government agency debt   | -  | -            | -                               | -            | -                                 | -                               |
| Corporate bonds          | -  | -            | -                               | -            | -                                 | -                               |
| Equity securities        | -  | -            | -                               | -            | -                                 | -                               |
| Other collateral         | -  | -            | -                               | -            | -                                 | 501,421                         |
| <b>Total</b>             | <b>-</b>                                   | <b>-</b>     | <b>-</b>                        | <b>-</b>     | <b>32,462</b>                     | <b>501,421</b>                  |

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

**XI. EXPLANATION ON COUNTERPARTY CREDIT RISK (Continued)**

**f) Credit Derivatives**

None.

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

None.

**h) Risks to the Central Counterparty**

None.

**5. Securitization Explanations**

As of 31 December 2017, there is no securitization position in the Bank.

**6. Explanations on Market risk**

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

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

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

In this context, as a minimum;

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

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

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

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

**XI. EXPLANATION ON COUNTERPARTY CREDIT RISK (Continued)**

**6. Explanations on Market Risk (Continued)**

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

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

As a minimum under Market Risks:

- Standard Method: Market Risk Reporting Set published by BRSA in accordance with the disclosures.
- Risk Exposure Value Analysis: Historical Simulation, Parametric, EWMA or using a different method deemed appropriate by the Bank.
- Internal Capital Requirement: The parameters, which are determined by BRSA and/or by the Bank, and which could affect the financial power of the Bank and the stress tests and/or scenario analysis related to these parameters and the capital level that compensates the risks that the Bank has been exposed or would be exposed are calculated with a predictive perspective with the appropriate methods.

**b) Standard Approach**

|   |   | Risk Weighted Amounts |
|---|---|-----------------------|
|   | Outright products                         | -                     |
| 1 | Interest rate risk (general and specific) | 15,763                |
| 2 | Equity risk (general and specific)        | -                     |
| 3 | Foreign exchange risk                     | 29,155                |
| 4 | Commodity risk                            | -                     |
|   | Options                                   | -                     |
| 5 | Simplified approach                       | -                     |
| 6 | Delta-plus method                         | -                     |
| 7 | Scenario approach                         | -                     |
| 8 | Securitization                            | -                     |
| 9 | <b>Total</b>                              | <b>44,918</b>         |

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 October 23, 2015 and became effective as of March 31, 2016. The following tables which have to be presented on a quarterly basis have not been presented since the Bank does not use the standard approach for the calculation of market risks:

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

**7. Explanations on Operational Risk**

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

|                                    | 31.12.2015 | 31.12.2016 | 31.12.2017 | Total/Number of positive gross income years | Rate (%) | Total   |
|------------------------------------|------------|------------|------------|---|----------|---------|
| Gross income                       | 71,409     | 232,815    | 482,004    | 262,076                                     | 15       | 39,311  |
| Amount subject to Operational Risk | -          | -          | -          | -   | -        | 285,210 |

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

**XII. EXPLANATIONS ON CONSOLIDATED OPERATING SEGMENTS**

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

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

**Table for Segment Reporting:**

| <b>Current Period</b>                                  | <b>Retail Banking</b> | <b>Corporate/ Entrepreneurial Banking</b> | <b>Treasury/ Investment Banking</b> | <b>Other/ Undistributed</b> | <b>Total</b>      |
|--|-----------------------|---|-------------------------------------|-----------------------------|-------------------|
| <b>OPERATING INCOME/EXPENSE</b>                        |                       |   |                                     |                             |                   |
| <b>Profit Shares Income</b>                            | <b>127,919</b>        | <b>757,833</b>                            | <b>65,030</b>                       | <b>30,610</b>               | <b>981,392</b>    |
| Profit Shares from Loans                               | 127,919               | 757,833                                   | -                                   | -                           | 885,752           |
| Profit Shares from Banks                               | -                     | -   | -                                   | -                           | -                 |
| Profit Shares from Securities                          | -                     | -   | 48,634                              | -                           | 48,634            |
| Other Profit Shares                                    | -                     | -   | 16,396                              | 30,610                      | 47,006            |
| <b>Profit Shares Expense</b>                           | <b>187,203</b>        | <b>283,549</b>                            | <b>67,554</b>                       | -                           | <b>538,306</b>    |
| Profit Shares Expense on Participation Funds           | 187,203               | 283,549                                   | 382                                 | -                           | 471,134           |
| Profit Shares Expense on Funds Borrowed                | -                     | -   | 38,705                              | -                           | 38,705            |
| Profit Shares Expense on Money Market Transactions     | -                     | -   | 3,058                               | -                           | 3,058             |
| Profit Shares Expense on Securities Issued             | -                     | -   | 25,409                              | -                           | 25,409            |
| Other Profit Shares Expense                            | -                     | -   | -                                   | -                           | -                 |
| <b>Net Profit Shares Income/Expense</b>                | <b>(59,284)</b>       | <b>474,284</b>                            | <b>(2,524)</b>                      | <b>30,610</b>               | <b>443,086</b>    |
| <b>Net Fees and Commission Income/Expense</b>          | <b>2,000</b>          | <b>35,266</b>                             | -                                   | <b>(6,923)</b>              | <b>30,343</b>     |
| Fees and Commissions Received                          | 2,000                 | 35,266                                    | -                                   | 8,477                       | 45,743            |
| Fees and Commissions Paid                              | -                     | -   | -                                   | 15,400                      | 15,400            |
| <b>Dividend Income</b>                                 | -                     | -   | -                                   | -                           | -                 |
| <b>Trading Income/Loss (Net)</b>                       | -                     | -   | <b>11,556</b>                       | -                           | <b>11,556</b>     |
| <b>Other Operating Income</b>                          | -                     | <b>2</b>                                  | -                                   | <b>2,661</b>                | <b>2,663</b>      |
| <b>Provision for Loans or Other Receivables Losses</b> | <b>9,420</b>          | <b>61,562</b>                             | -                                   | <b>19,161</b>               | <b>90,143</b>     |
| <b>Other Operating Expense</b>                         | -                     | <b>366</b>                                | -                                   | <b>197,165</b>              | <b>197,531</b>    |
| <b>Income Before Tax</b>                               | <b>(66,704)</b>       | <b>447,624</b>                            | <b>9,032</b>                        | <b>(189,978)</b>            | <b>199,974</b>    |
| <b>Tax Provision</b>                                   | -                     | -   | -                                   | <b>(41,072)</b>             | <b>(41,072)</b>   |
| <b>Net Profit/Loss</b>                                 | <b>(66,704)</b>       | <b>447,624</b>                            | <b>9,032</b>                        | <b>(231,050)</b>            | <b>158,902</b>    |
| <b>SEGMENT ASSETS</b>                                  |                       |   |                                     |                             |                   |
| Financial Assets at FV Through P/L                     | -                     | -   | 37                                  | -                           | 37                |
| Banks and Other Financial Institutions                 | -                     | -   | 278,581                             | -                           | 278,581           |
| Financial Assets Available for Sale (Net)              | -                     | -   | 524,173                             | -                           | 524,173           |
| Loans  | 1,367,454             | 8,891,170                                 | 1,116,120                           | -                           | 11,374,744        |
| Held to Maturity Investments (Net)                     | -                     | -   | -                                   | -                           | -                 |
| Associates, Subsidiaries and Joint Ventures            | -                     | -   | -                                   | -                           | -                 |
| Other Assets   | -                     | -   | -                                   | 2,172,504                   | 2,172,504         |
| <b>TOTAL SEGMENT ASSETS</b>                            | <b>1,367,454</b>      | <b>8,891,170</b>                          | <b>1,918,911</b>                    | <b>2,172,504</b>            | <b>14,350,039</b> |
| <b>SEGMENT LIABILITIES</b>                             |                       |   |                                     |                             |                   |
| Funds Collected  | 6,370,882             | 3,653,604                                 | -                                   | -                           | 10,024,486        |
| Derivative Financial Liabilities Held for Trading      | -                     | -   | 6,280                               | -                           | 6,280             |
| Funds Borrowed   | -                     | -   | 2,049,310                           | -                           | 2,049,310         |
| Securities Issued (Net)                                | -                     | -   | 32,462                              | -                           | 32,462            |
| Money Market Funds                                     | -                     | -   | 557,804                             | -                           | 557,804           |
| Provisions   | -                     | -   | -                                   | 142,290                     | 142,290           |
| Other Liabilities                                      | -                     | -   | -                                   | 133,726                     | 133,726           |
| Shareholders' Equity                                   | -                     | -   | -                                   | 1,403,681                   | 1,403,681         |
| <b>TOTAL SEGMENT LIABILITIES</b>                       | <b>6,370,882</b>      | <b>3,653,604</b>                          | <b>2,645,856</b>                    | <b>1,679,697</b>            | <b>14,350,039</b> |

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

XII. EXPLANATIONS ON CONSOLIDATED OPERATING SEGMENTS (Continued)

Table for Segment Reporting:

| Prior Period                                       | Retail<br>Banking | Corporate/<br>Entrepreneurial<br>Banking | Treasury/<br>Investment<br>Banking | Other/<br>Undistributed | Total            |
|--|-------------------|--|------------------------------------|-------------------------|------------------|
| <b>OPERATING INCOME/EXPENSE</b>                    |                   |  |                                    |                         |                  |
| Profit Shares Income                               | 51,842            | 304,443                                  | 29,211                             | 5,246                   | 390,742          |
| Profit Shares from Loans                           | 51,842            | 304,443                                  | -                                  | -                       | 356,285          |
| Profit Shares from Banks                           | -                 | -  | 353                                | -                       | 353              |
| Profit Shares from Securities                      | -                 | -  | 24,499                             | -                       | 24,499           |
| Other Profit Shares                                | -                 | -  | 4,359                              | 5,246                   | 9,605            |
| Profit Shares Expense                              | 83,476            | 64,859                                   | 32,550                             | -                       | 180,885          |
| Profit Shares Expense on Participation Funds       | 83,476            | 64,859                                   | -                                  | -                       | 148,335          |
| Profit Shares Expense on Funds Borrowed            | -                 | -  | 25,052                             | -                       | 25,052           |
| Profit Shares Expense on Money Market Transactions | -                 | -  | 7,498                              | -                       | 7,498            |
| Profit Shares Expense on Securities Issued         | -                 | -  | -                                  | -                       | -                |
| Other Profit Shares Expense                        | -                 | -  | -                                  | -                       | -                |
| Net Profit Shares Income/Expense                   | (31,634)          | 239,584                                  | (3,339)                            | 5,246                   | 209,857          |
| Net Fees and Commission Income/Expense             | 3,528             | 12,749                                   | -                                  | (2,072)                 | 14,205           |
| Fees and Commissions Received                      | 3,528             | 12,749                                   | -                                  | 4,310                   | 20,587           |
| Fees and Commissions Paid                          | -                 | -  | -                                  | 6,382                   | 6,382            |
| Dividend Income                                    | -                 | -  | -                                  | -                       | -                |
| Trading Income/Loss (Net)                          | -                 | -  | 7,030                              | -                       | 7,030            |
| Other Operating Income                             | -                 | -  | -                                  | 1,739                   | 1,739            |
| Provision for Loans or Other Receivables Losses    | 3,473             | 39,372                                   | -                                  | 8,925                   | 51,770           |
| Other Operating Expense                            | -                 | 16                                       | -                                  | 140,563                 | 140,579          |
| Income Before Tax                                  | (31,579)          | 212,945                                  | 3,691                              | (144,575)               | 40,482           |
| Tax Provision                                      | -                 | -  | -                                  | (9,809)                 | (9,809)          |
| Net Profit/Loss                                    | -                 | -  | -                                  | 30,673                  | 30,673           |
| <b>SEGMENT ASSETS</b>                              |                   |  |                                    |                         |                  |
| 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        |
| <b>TOTAL SEGMENT ASSETS</b>                        | <b>411,111</b>    | <b>4,661,275</b>                         | <b>1,369,852</b>                   | <b>1,517,218</b>        | <b>7,959,456</b> |
| <b>SEGMENT LIABILITIES</b>                         |                   |  |                                    |                         |                  |
| 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        |
| Securities Issued (Net)                            | -                 | -  | 133,668                            | -                       | 133,668          |
| Money Market Funds                                 | -                 | -  | 101,459                            | -                       | 101,459          |
| Provisions   | -                 | -  | -                                  | 64,574                  | 64,574           |
| Other Liabilities                                  | -                 | -  | -                                  | 73,426                  | 73,426           |
| Shareholders' Equity                               | -                 | -  | -                                  | 764,621                 | 764,621          |
| <b>TOTAL SEGMENT LIABILITIES</b>                   | <b>3,501,006</b>  | <b>2,134,940</b>                         | <b>1,420,889</b>                   | <b>902,621</b>          | <b>7,959,456</b> |



## ZİRAAT KATILIM BANKASI A.Ş.

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

#### XIII. EXPLANATIONS RELATED TO PRESENTATION OF FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE

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

|   | Book Value        |                  | Fair Value        |                  |
|---|-------------------|------------------|-------------------|------------------|
|   | Current Period    | Prior Period     | Current Period    | Prior Period     |
| <b>Financial Assets</b>   | <b>12,177,498</b> | <b>6,441,079</b> | <b>12,177,498</b> | <b>6,441,079</b> |
| Due from Interbank Money Market   | -                 | -                | -                 | -                |
| Banks   | 278,581           | 468,454          | 278,581           | 468,454          |
| Available-for-sale Financial Assets                                       | 524,173           | 414,683          | 524,173           | 414,683          |
| Held-to-maturity Investments  | -                 | -                | -                 | -                |
| Loans   | 11,374,744        | 5,557,942        | 11,374,744        | 5,557,942        |
| <b>Financial Liabilities</b>  | <b>12,667,315</b> | <b>6,940,193</b> | <b>12,667,315</b> | <b>6,940,193</b> |
| Current account and funds collected from banks via participation accounts | 5,346             | 22,421           | 5,346             | 22,421           |
| Other current and profit sharing accounts                                 | 10,019,140        | 5,613,525        | 10,019,140        | 5,613,525        |
| Funds Borrowed from Other Financial Institutions                          | 2,049,310         | 1,185,762        | 2,049,310         | 1,185,762        |
| Issued Marketable Securities  | 557,804           | 101,459          | 557,804           | 101,459          |
| Miscellaneous Payables  | 35,715            | 17,026           | 35,715            | 17,026           |

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

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

The fair value of financial assets held to maturity is determined based on quoted market prices for marketable securities of the same quality in terms of market prices or other terms such as when the price cannot be determined.

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

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

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

XIII. EXPLANATIONS RELATED TO PRESENTATION OF FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE (Continued)

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

| Current Period                             | Level 1 | Level 2 | Level 3 | Total   |
|--|---------|---------|---------|---------|
| <b>Financial Assets at FV Through P/L</b>  | -       | 37      | -       | 37      |
| Government Debt Securities                 | -       | -       | -       | -       |
| Share Certificates                         | -       | -       | -       | -       |
| Trading Derivative Financial Assets        | -       | 37      | -       | 37      |
| Hedging Derivative Financial Assets        | -       | -       | -       | -       |
| Other Marketable Securities                | -       | -       | -       | -       |
| <b>Available-for-Sale Financial Assets</b> | 511,742 | 7,712   | -       | 519,454 |
| Equity Securities                          | -       | -       | -       | -       |
| Government Debt Securities                 | -       | -       | -       | -       |
| Other Marketable Securities                | 511,742 | 7,712   | -       | 519,454 |
| <b>Total Assets</b>                        | 511,742 | 7,749   | -       | 519,491 |
| Trading Derivative Financial Liabilities   | -       | 6,280   | -       | 6,280   |
| Hedging Derivative Financial Liabilities   | -       | -       | -       | -       |
| <b>Total Liabilities</b>                   | -       | 6,280   | -       | 6,280   |

| Prior Period                               | Level 1 | Level 2 | Level 3 | Total   |
|--|---------|---------|---------|---------|
| <b>Financial Assets at FV Through P/L</b>  | 1,159   | -       | -       | 1,159   |
| Government Debt Securities                 | -       | -       | -       | -       |
| Share Certificates                         | -       | -       | -       | -       |
| Trading Derivative Financial Assets        | 1,159   | -       | -       | 1,159   |
| Hedging Derivative Financial Assets        | -       | -       | -       | -       |
| Other Marketable Securities                | -       | -       | -       | -       |
| <b>Available-for-Sale Financial Assets</b> | 409,964 | 4,719   | -       | 414,683 |
| Equity Securities                          | -       | 4,719   | -       | 4,719   |
| Government Debt Securities                 | -       | -       | -       | -       |
| Other Marketable Securities                | 409,964 | -       | -       | 409,964 |
| <b>Total Assets</b>                        | 411,123 | 4,719   | -       | 415,842 |
| Trading Derivative Financial Liabilities   | -       | -       | -       | -       |
| Hedging Derivative Financial Liabilities   | -       | -       | -       | -       |
| <b>Total Liabilities</b>                   | -       | -       | -       | -       |

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

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

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**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            | 18,236         | 22,888           | 18,396         | 14,154         |
| Central Bank of the Republic of Turkey | 287,567        | 1,314,998        | 614,993        | 553,755        |
| Other                                  | -              | -                | -              | -              |
| <b>Total</b>                           | <b>305,803</b> | <b>1,337,886</b> | <b>633,389</b> | <b>567,909</b> |

**1. a.1) Information on required reserves:**

Banks, which were established in Turkey and opened with the aim of opening branches in Turkey, were tied to the Communiqué on Required Reserves of Central Bank of the Republic of Turkey’s numbered 2013/15. The items on the Communiqué, based on the accounting standards and recording forms of the banks and the firms, except for the liabilities to the CBRT, Undersecretariat of Treasury, domestic banks and the Turkey headquarters and branches of the banks established by international agreements; forms the liabilities that require to maintain reserves.

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      | 282,078        | 18               | 613,239        | 15             |
| Unrestricted Time Deposit        | -              | -                | -              | -              |
| Restricted Time Deposit          | -              | -                | -              | -              |
| Required Reserves <sup>(1)</sup> | 5,489          | 1,314,980        | 1,754          | 553,740        |
| <b>Total</b>                     | <b>287,567</b> | <b>1,314,998</b> | <b>614,993</b> | <b>553,755</b> |

<sup>(1)</sup> TL 659,836 of the current period’s FC required reserve is the part of the TL required reserves that are held in FC (31 December 2016: 197,419).

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**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:**

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                         | 33             | 4        | 7            | 1,152        |
| Swap Transactions                            | -              | -        | -            | -            |
| Futures Transactions                         | -              | -        | -            | -            |
| Options                                      | -              | -        | -            | -            |
| Other  | -              | -        | -            | -            |
| <b>Total</b>                                 | <b>33</b>      | <b>4</b> | <b>7</b>     | <b>1,152</b> |

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

|                                  | Current Period |                | Prior Period |                |
|----------------------------------|----------------|----------------|--------------|----------------|
|                                  | TL             | FC             | TL           | FC             |
| Banks                            |                |                |              |                |
| Domestic Banks                   | 3,320          | 210,669        | 6,561        | 227,676        |
| Foreign Banks                    | -              | 64,592         | -            | 234,217        |
| Foreign Head Office and Branches | -              | -              | -            | -              |
| <b>Total</b>                     | <b>3,320</b>   | <b>275,261</b> | <b>6,561</b> | <b>461,893</b> |

**b) Information on foreign banks accounts:**

|                               | Free Amount    |                | Restricted Amount |              |
|-------------------------------|----------------|----------------|-------------------|--------------|
|                               | Current Period | Prior Period   | Current Period    | Prior Period |
| European Union Countries      | 58,968         | 233,717        | -                 | -            |
| USA, Canada                   | 3,983          | 8              | -                 | -            |
| OECD Countries <sup>(1)</sup> | 709            | 442            | -                 | -            |
| Off-shore Banking Regions     | -              | -              | -                 | -            |
| Other                         | 932            | 50             | -                 | -            |
| <b>Total</b>                  | <b>64,592</b>  | <b>234,217</b> | <b>-</b>          | <b>-</b>     |

<sup>(1)</sup> OECD countries except EU countries, USA and Canada

**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 | 33,531         | 173,569        |
| Assets Blocked/Given as Collateral      | 459,837        | 13,311         |
| <b>Total</b>                            | <b>493,368</b> | <b>186,880</b> |

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EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)

I. EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED ASSETS (Continued)

b) Information on financial assets available for sale:

|                              | Current Period | Prior Period   |
|------------------------------|----------------|----------------|
| Debt Securities              | 527,845        | 410,212        |
| Quoted in Stock Exchange     | 520,133        | 403,044        |
| Not Quoted in Stock Exchange | 7,712          | 7,168          |
| Share Certificates           | 4,719          | 4,719          |
| Quoted in Stock Exchange     | -              | -              |
| Not Quoted in Stock Exchange | 4,719          | 4,719          |
| Provision for Impairment (-) | 8,391          | 248            |
| <b>Total</b>                 | <b>524,173</b> | <b>414,683</b> |

(\*) The Credit Guarantee Fund amounting to TL 4,719 is presented on the non-traded line.

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 |
| <b>Direct Loans Granted to Shareholders</b>   | 759,146        | -        | 480,455        | -        |
| Legal Entities                                | 759,146        | -        | 480,455        | -        |
| Individuals                                   | -              | -        | -              | -        |
| <b>Indirect Loans Granted to Shareholders</b> | -              | -        | -              | -        |
| <b>Loans Granted to Employees</b>             | 1,112          | -        | 441            | -        |
| <b>Total</b>                                  | <b>760,258</b> | <b>-</b> | <b>480,896</b> | <b>-</b> |

(\*) Consolidated rediscounts are included in the table.

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    |
| <b>Cash Loans</b>               |                                      |   |          |  |   |          |
| <b>Loans</b>                    |                                      |   |          |  |   |          |
| Exports Loan                    | 586,847                              | -   | -        | -  | -   | -        |
| Imports Loans                   | 204,174                              | -   | -        | -  | -   | -        |
| Enterprise Loans                | 7,312,724                            | -   | -        | 35,703   | -   | -        |
| Consumer Loans                  | 1,360,278                            | -   | -        | 1,848  | -   | -        |
| Credit Cards                    | -                                    | -   | -        | -  | -   | -        |
| Loans Given to Financial Sector | 1,111,295                            | -   | -        | -  | -   | -        |
| Other                           | 379,992                              | -   | -        | 298  | -   | -        |
| Directed Loans                  | -                                    | -   | -        | -  | -   | -        |
| <b>Other Receivables</b>        |                                      |   |          |  |   |          |
| Profit Share Income             | -                                    | -   | -        | -  | -   | -        |
| Accruals and Rediscount         | 363,232                              | -   | -        | 1,600  | -   | -        |
| <b>Total</b>                    | <b>11,318,542</b>                    | <b>-</b>  | <b>-</b> | <b>39,449</b>                                      | <b>-</b>  | <b>-</b> |

As of 31 December 2017, there are no loans and other receivables with revised contract terms (31 December 2016: None).

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**EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)**

**I. EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED ASSETS (Continued)**

**5. Information related to loans: (Continued)**

|                           | Standard Loans and Other<br>Receivables | Loans and Other Receivables<br>Under Close<br>Monitoring |
|---------------------------|---|--|
| <b>No. of extensions</b>  |   |  |
| 1 or 2 Times Extended     | -                                       | -  |
| 3 - 4 or 5 Times Extended | -                                       | -  |
| Over 5 Times Extended     | -                                       | -  |
| <b>Total</b>              | -                                       | -  |

|                          | Standard Loans and Other<br>Receivables | Loans and Other<br>Receivables<br>Under Close<br>Monitoring |
|--------------------------|---|---|
| <b>Extension Periods</b> |   |   |
| 0 - 6 Months             | -                                       | -   |
| 6 Months – 12 Months     | -                                       | -   |
| 1 - 2 Years              | -                                       | -   |
| 2 - 5 Years              | -                                       | -   |
| 5 Years and Over         | -                                       | -   |
| <b>Total</b>             | -                                       | -   |

**c) Breakdown of Cash-loans based on maturity:**

|  | Standard Loans and Other<br>Receivables <sup>(1)</sup> |  | Loans and Other Receivables Under<br>Close Monitoring <sup>(1)</sup> |  |
|--|--|--|--|--|
|  | Loans and other<br>receivables                         | Loans and other<br>receivables with<br>revised contract<br>terms | Loans and other<br>receivables                                       | Loans and other<br>receivables with<br>revised contract<br>terms |
| Short term loans and other<br>receivables              | 4,515,890  | -  | 11,877   | -  |
| Loans  | 4,515,890  | -  | 11,877   | -  |
| Other Receivables                                      | -  | -  | -  | -  |
| Medium and Long-term<br>loans and other<br>receivables | 6,439,420  | -  | 25,972   | -  |
| Loans  | 6,439,420  | -  | 25,972   | -  |
| Other receivables                                      | -  | -  | -  | -  |

<sup>(1)</sup> TL 364,832 accrual and rediscount amounts are not included related to loans in the table.

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EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)

I. EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED ASSETS (Continued)

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

5. Information related to loans (Continued):

|   | Short-Term   | Medium and Long-Term | Total            |
|---|--------------|----------------------|------------------|
| <b>Consumer Loans - TL</b>                | <b>2,911</b> | <b>1,358,103</b>     | <b>1,361,014</b> |
| Housing Loans                             | 1,016        | 1,242,469            | 1,243,485        |
| Vehicle Loans                             | 1,433        | 56,849               | 58,282           |
| Consumer Loans                            | 462          | 58,785               | 59,247           |
| Other                                     | -            | -                    | -                |
| <b>Consumer Loans-FC Indexed</b>          | -            | -                    | -                |
| Housing Loans                             | -            | -                    | -                |
| Vehicle Loans                             | -            | -                    | -                |
| Consumer Loans                            | -            | -                    | -                |
| Other                                     | -            | -                    | -                |
| <b>Consumer Loans-FC</b>                  | -            | -                    | -                |
| Housing Loans                             | -            | -                    | -                |
| Vehicle Loans                             | -            | -                    | -                |
| Consumer Loans                            | -            | -                    | -                |
| Other                                     | -            | -                    | -                |
| <b>Retail Credit Cards-TL</b>             | -            | -                    | -                |
| With Installment                          | -            | -                    | -                |
| Without Installment                       | -            | -                    | -                |
| <b>Retail Credit Cards-FC</b>             | -            | -                    | -                |
| With Installment                          | -            | -                    | -                |
| Without Installment                       | -            | -                    | -                |
| <b>Personnel Loans-TL</b>                 | <b>42</b>    | <b>1,070</b>         | <b>1,112</b>     |
| Housing Loans                             | -            | -                    | -                |
| Vehicle Loans                             | -            | 19                   | 19               |
| Consumer Loans                            | 42           | 1,051                | 1,093            |
| Other                                     | -            | -                    | -                |
| <b>Personnel Loans-FC Indexed</b>         | -            | -                    | -                |
| Housing Loans                             | -            | -                    | -                |
| Vehicle Loans                             | -            | -                    | -                |
| Consumer Loans                            | -            | -                    | -                |
| Other                                     | -            | -                    | -                |
| <b>Personnel Loans-FC</b>                 | -            | -                    | -                |
| Housing Loans                             | -            | -                    | -                |
| Vehicle Loans                             | -            | -                    | -                |
| Consumer Loans                            | -            | -                    | -                |
| Other                                     | -            | -                    | -                |
| <b>Personnel Credit Cards-TL</b>          | -            | -                    | -                |
| With Installment                          | -            | -                    | -                |
| Without Installment                       | -            | -                    | -                |
| <b>Personnel Credit Cards-FC</b>          | -            | -                    | -                |
| With Installment                          | -            | -                    | -                |
| Without Installment                       | -            | -                    | -                |
| <b>Overdraft Account-TL (Real Person)</b> | -            | -                    | -                |
| <b>Overdraft Account-FC (Real Person)</b> | -            | -                    | -                |
| <b>Total <sup>(1)</sup></b>               | <b>2,953</b> | <b>1,359,173</b>     | <b>1,362,126</b> |

(1) Dividend rediscount amounting to TL 5,347 not included in the table.

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**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          |
|--|---------------|----------------------|----------------|
| <b>Commercial Installment Loans-TL</b>             | <b>29,835</b> | <b>175,252</b>       | <b>205,087</b> |
| Business Loans                                     | -             | 23,544               | 23,544         |
| Vehicle Loans                                      | 29,835        | 151,708              | 181,543        |
| Consumer Loans                                     | -             | -                    | -              |
| Other  | -             | -                    | -              |
| <b>Commercial Installment Loans- Indexed to FC</b> | <b>7,847</b>  | <b>43,694</b>        | <b>51,541</b>  |
| Business Loans                                     | -             | -                    | -              |
| Vehicle Loans                                      | 7,847         | 43,694               | 51,541         |
| Consumer Loans                                     | -             | -                    | -              |
| Other  | -             | -                    | -              |
| <b>Commercial Installment Loans - FC</b>           | <b>-</b>      | <b>-</b>             | <b>-</b>       |
| Business Loans                                     | -             | -                    | -              |
| Vehicle Loans                                      | -             | -                    | -              |
| Consumer Loans                                     | -             | -                    | -              |
| Other  | -             | -                    | -              |
| <b>Corporate Credit Cards-TL</b>                   | <b>-</b>      | <b>-</b>             | <b>-</b>       |
| With Installment                                   | -             | -                    | -              |
| Without Installment                                | -             | -                    | -              |
| <b>Corporate Credit Cards-FC</b>                   | <b>-</b>      | <b>-</b>             | <b>-</b>       |
| With Installment                                   | -             | -                    | -              |
| Without Installment                                | -             | -                    | -              |
| <b>Overdraft Account-TL (Legal Entity)</b>         | <b>-</b>      | <b>-</b>             | <b>-</b>       |
| <b>Overdraft Account-FC (Legal Entity)</b>         | <b>-</b>      | <b>-</b>             | <b>-</b>       |
| <b>Total</b>                                       | <b>37,682</b> | <b>218,946</b>       | <b>256,628</b> |

**e) Breakdown of domestic and international loans:**

|                                   | Current Period    | Prior Period     |
|-----------------------------------|-------------------|------------------|
| Domestic Loans                    | 758,279           | 25,000           |
| Foreign Loans                     | 10,234,880        | 5,319,762        |
| Interest Income Accruals of Loans | 364,832           | 206,529          |
| <b>Total</b>                      | <b>11,357,991</b> | <b>5,551,291</b> |

**f) Breakdown of domestic and foreign loans:**

|   | Current Period    | Prior Period     |
|---|-------------------|------------------|
| Domestic Loans                              | 10,917,553        | 5,344,762        |
| Foreign Loans                               | 75,606            | -                |
| Profit Share Income Accruals and Rediscount | 364,832           | 206,529          |
| <b>Total</b>                                | <b>11,357,991</b> | <b>5,551,291</b> |

**g) Loans Granted to Subsidiaries and Participations:**

As of 31 December 2017, Parent bank has no loans granted to subsidiaries (31 December 2016: None).



## ZİRAAT KATILIM BANKASI A.Ş.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY - 31 DECEMBER 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) Specific Provisions Provided Against Loans:

|  | Current Period | Prior Period |
|--|----------------|--------------|
| Loans and receivables with limited collectability  | 1,449          | 82           |
| Loans and receivables with doubtful collectability | 2,866          | 2,635        |
| Uncollectible loans and receivables                | 13,773         | 1,115        |
| <b>Total</b>                                       | <b>18,088</b>  | <b>3,832</b> |

##### i) Information on non-performing receivables (net):

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

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

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

|   | Group III:<br>Loans and other<br>receivables with<br>limited collectability | Group IV:<br>Loans and other<br>receivables with<br>doubtful<br>collectability | Group V:<br>Uncollectible loans<br>and other<br>receivables |
|---|---|--|---|
| <b>Ending balance of prior period</b>                       | 406   | 8,961  | 1,116   |
| Additions in the current period (+)                         | 35,170  | 1,982  | 13  |
| Transfers from other categories of non-performing loans (+) | -   | 23,944   | 20,783  |
| Transfers to other categories of non-performing loans (-)   | 23,944  | 20,783   | -   |
| Collections in the current period (-)                       | 4,048   | 4,542  | 4,217   |
| Write offs (-)  | -   | -  | -   |
| Corporate and commercial loans                              | -   | -  | -   |
| Retail loans  | -   | -  | -   |
| Credit cards  | -   | -  | -   |
| Other   | -   | -  | -   |
| <b>Ending balance of the current period</b>                 | <b>7,584</b>  | <b>9,562</b>   | <b>17,695</b>   |
| Specific provisions (-)                                     | 1,449   | 2,866  | 13,773  |
| <b>Net balance at the balance sheet</b>                     | <b>6,135</b>  | <b>6,696</b>   | <b>3,922</b>  |

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

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

## ZİRAAT KATILIM BANKASI A.Ş.

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

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

|  | 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 |
| <b>Current Period (Net)</b>                      | <b>6,135</b>  | <b>6,696</b>   | <b>3,922</b>                              |
| Loans to Real Persons and Legal Entities (Gross) | 7,584   | 9,146  | 17,695                                    |
| Specific Provisions (-)                          | 1,449   | 2,450  | 13,773                                    |
| Loans to Real Persons and Legal Entities (Net)   | 6,135   | 6,696  | 3,922                                     |
| Banks (Gross)                                    | -   | -  | -   |
| Specific Provisions (-)                          | -   | -  | -   |
| Banks (Net)                                      | -   | -  | -   |
| Other Loans and Receivables (Gross)              | -   | 416  | -   |
| Specific Provisions (-)                          | -   | 416  | -   |
| Other Loans and Receivables (Net)                | -   | -  | -   |
| <b>Prior Period (Net)</b>                        | <b>326</b>  | <b>6,325</b>   |   |
| 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)                | -   | -  | -   |

###### k) 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 Parent 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.

###### l) Explanations on write-off policy:

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

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

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

As of 31 December 2017, Parent Bank has no held-to-maturity government bonds (31 December 2016: None).

###### c) The Parent Bank has no held-to-maturity investments (31 December 2016: None).

## ZİRAAT KATILIM BANKASI A.Ş.

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

###### 6. Information on held-to-maturity investments (Continued):

###### d) Movements of held-to-maturity investments:

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

###### 7. Information on subsidiaries (Net):

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

###### 8. Information on joint ventures (net):

###### a) Information on unconsolidated associates:

As of 31 December 2017, there are no unconsolidated associates.

###### b) Information on consolidated subsidiaries:

|   | Name                                | Address<br>(City/Country) | Bank's share<br>percentage – if<br>different voting<br>percentage (%) | Risk share<br>percentage of<br>other<br>shareholders (%) |
|---|-------------------------------------|---------------------------|---|--|
| 1 | Ziraat Katılım Varlık Kiralama A.Ş. | İstanbul / TURKEY         | 100.00  | 100.00   |
| 2 | ZKB Varlık Kiralama A.Ş.            | İstanbul / 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. ZKB Varlık Kiralama Anonim Şirketi was established on 19 July 2017 with TL 50 capital amount paid by the Bank. It began to operate after the registration on 8 September 2017.

|                  | Total<br>assets | Shareholders'<br>equity | Total<br>fixed<br>assets | Dividend or<br>profit share<br>income | Income<br>from<br>marketable<br>securities | Current<br>period<br>income/Loss | Prior period<br>income/loss | Fair<br>Value | Needed<br>shareholders'<br>equity |
|------------------|-----------------|-------------------------|--------------------------|---------------------------------------|--|----------------------------------|-----------------------------|---------------|-----------------------------------|
| 1 <sup>(*)</sup> | 557.873         | 53                      | -                        | 26.922                                | -  | 2                                | 1                           | -             | -                                 |
| 2 <sup>(*)</sup> | 51              | 37                      | -                        | -                                     | -  | (13)                             | -                           | -             | -                                 |

(\*) Audited financial statements are used.

# ZİRAAT KATILIM BANKASI A.Ş.

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

##### 6. Information on held-to-maturity investments (Continued):

##### c) Information on consolidated subsidiaries:

|  | Current Period | Prior Period |
|--|----------------|--------------|
| <b>Balance at the beginning of the year</b>      | <b>50</b>      | <b>-</b>     |
| <b>Movements during the year</b>                 | <b>50</b>      | <b>50</b>    |
| Purchases <sup>(1)</sup>                         | 50             | 50           |
| Bonus Share                                      | -              | -            |
| Dividends from current year income               | -              | -            |
| Transfers to available for sale financial assets | -              | -            |
| Sales  | -              | -            |
| Revaluation increase                             | -              | -            |
| Specific provision for impairment(-)             | -              | -            |
| <b>Balance at the end of the year</b>            | <b>100</b>     | <b>50</b>    |
| Capital commitments                              | -              | -            |
| Share percentage at the end of the year (%)      | -              | -            |

<sup>(1)</sup> 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 A.Ş. | 50             | 50           |
| ZKB Varlık Kiralama A.Ş.            | 50             | -            |

##### e) Subsidiaries that are quoted on the stock exchange:

As of 31 December 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 31 December 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 | 1,550          | 1,508          | 30,000         | 29,769         |
| 1-4 years    | 290,718        | 248,978        | 115,828        | 106,645        |
| Over 4 years | 187,183        | 122,458        | 119,957        | 84,959         |
| <b>Total</b> | <b>479,451</b> | <b>372,944</b> | <b>265,785</b> | <b>221,373</b> |

#### 11. Information on derivative financial assets for hedging purposes:

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

#### 12. Information on investment property:

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD OF 1 JANUARY - 31 DECEMBER 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 31 December 2016, the group has TL 3,561 for assets held for sale and tangibles corresponding discontinuing operations (31 December 2016: None).

|   | Current Period | Prior Period |
|---|----------------|--------------|
| Net book value at the beginning of the period | -              | -            |
| Changes during the period (Net)               | 3,561          | -            |
| Depreciation value                            | -              | -            |
| Decrease in value                             | -              | -            |
| Net book value at the end of the period       | 3,561          | -            |

**14. Explanations on property and equipment:**

|  | Immovable | Tangibles-<br>Financial<br>Leasing | Vehicles | Operational<br>Leasing<br>Development<br>Costs | Other<br>Tangibles | Total         |
|--|-----------|------------------------------------|----------|--|--------------------|---------------|
| <b>Prior Period End:</b>                               |           |                                    |          |  |                    |               |
| Cost   | -         | -                                  | -        | 20,608   | 35,820             | 56,428        |
| Accumulated Depreciation (-)                           | -         | -                                  | -        | 4,606  | 8,179              | 12,785        |
| <b>Net Book Value</b>                                  | -         | -                                  | -        | <b>16,002</b>                                  | <b>27,641</b>      | <b>43,643</b> |
| <b>Current Period End:</b>                             |           |                                    |          |  |                    |               |
| Net Book Value at the Beginning of the Period          | -         | -                                  | -        | 16,002   | 27,641             | 43,643        |
| Change During the Period (Net)                         | -         | -                                  | -        | (15)   | 3,607              | 3,592         |
| Cost   | -         | -                                  | -        | 4,643  | 11,318             | 15,961        |
| Amortization Amount (Net) (-)                          | -         | -                                  | -        | 4,658  | 7,711              | 12,369        |
| Depreciation (Net) (-)                                 | -         | -                                  | -        | -  | -                  | -             |
| Net Currency Translation from Foreign Subsidiaries (-) | -         | -                                  | -        | -  | -                  | -             |
| Cost at Period End                                     | -         | -                                  | -        | 25,251   | 47,138             | 72,389        |
| Accumulated Depreciation at Period End (-)             | -         | -                                  | -        | 9,264  | 15,890             | 25,154        |
| <b>Closing Net Book Value</b>                          | -         | -                                  | -        | <b>15,987</b>                                  | <b>31,248</b>      | <b>47,235</b> |

- a) Amounts of value decrease or cancellation recorded or the amounts canceled in the current period and not individually significant in terms of the financial statements as a whole but significant in terms of the aggregate of the financial statements: None.
- b) Pledges, mortgages and other restrictions on tangible fixed assets, amount of expenditures made during construction of tangible fixed assets, commitments to purchase fixed assets: None.

## ZİRAAT KATILIM BANKASI A.Ş.

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

##### 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      | 69,787         | 6,507                    | 63,280        | 26,357        | 3,452                    | 22,905        |
| <b>Total</b>           | <b>69,787</b>  | <b>6,507</b>             | <b>63,280</b> | <b>26,357</b> | <b>3,452</b>             | <b>22,905</b> |

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

##### 16. Information on deferred tax asset:

The Parent Bank’s deferred tax asset is calculated as TL 16,094 (31 December 2016: TL 6,410) however it’s reflected on the financial statements as TL 14,093 (31 December 2016: TL 4,876) by offsetting with deferred tax liability.

|                              | Current Period | Prior Period |
|------------------------------|----------------|--------------|
| Deferred tax asset           | 16,094         | 6,410        |
| Deferred tax liability       | 2,001          | 1,534        |
| Net deferred tax asset       | 14,093         | 4,876        |
| Net deferred tax income/loss | 5,835          | 4,540        |

|                                 | Current Period | Prior Period |
|---------------------------------|----------------|--------------|
| Severance pay                   | 466            | 156          |
| Short-term employee rights      | 138            | 114          |
| Revaluation of financial assets | 296            | 1,099        |
| Other                           | 13,193         | 3,507        |
| <b>Net deferred tax asset</b>   | <b>14,093</b>  | <b>4,876</b> |

|   | Current Period | Prior Period |
|---|----------------|--------------|
| <b>As of January 1</b>                  | <b>4,876</b>   | <b>(652)</b> |
| Deferred tax Income/(Loss) (Net)        | 5,835          | 4,540        |
| Deferred Tax Accounted for Under Equity | 3,382          | 988          |
| <b>Deferred tax asset</b>               | <b>14,093</b>  | <b>4,876</b> |

##### 17. Information on other assets:

As of 31 December 2017, other assets of banks not to exceed total balance sheet of 10%, exclude off-balance sheet liabilities.

ZİRAAT KATILIM BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD OF 1 JANUARY - 31 DECEMBER 2017

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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            | 169,913          | -              | -                | -              | -              | -              | -               | -                                   | 169,913           |
| II. Real persons profit sharing accounts TL    | -                | 339,006        | 2,206,716        | 26,540         | -              | 29,403         | 67,732          | -                                   | 2,669,397         |
| III. Other current accounts-TL                 | 431,162          | -              | -                | -              | -              | -              | -               | -                                   | 431,162           |
| Public sector                                  | 99,145           | -              | -                | -              | -              | -              | -               | -                                   | 99,145            |
| Commercial sector                              | 317,559          | -              | -                | -              | -              | -              | -               | -                                   | 317,559           |
| Other institutions                             | 14,432           | -              | -                | -              | -              | -              | -               | -                                   | 14,432            |
| Commercial and other institutions              | 23               | -              | -                | -              | -              | -              | -               | -                                   | 23                |
| Banks and participation banks                  | 3                | -              | -                | -              | -              | -              | -               | -                                   | 3                 |
| Central Bank of Republic of Turkey             | -                | -              | -                | -              | -              | -              | -               | -                                   | -                 |
| Domestic banks                                 | 3                | -              | -                | -              | -              | -              | -               | -                                   | 3                 |
| Foreign banks                                  | -                | -              | -                | -              | -              | -              | -               | -                                   | -                 |
| Participation banks                            | -                | -              | -                | -              | -              | -              | -               | -                                   | -                 |
| Others   | -                | -              | -                | -              | -              | -              | -               | -                                   | -                 |
| IV. Profit sharing accounts-TL                 | -                | 288,729        | 2,247,646        | 321,549        | -              | 156,951        | 60,491          | -                                   | 3,075,366         |
| Public sector                                  | -                | 166,212        | 581,393          | 196,370        | -              | 25,827         | -               | -                                   | 969,802           |
| Commercial sector                              | -                | 117,818        | 1,472,701        | 118,790        | -              | 13,825         | 10,444          | -                                   | 1,733,578         |
| Other institutions                             | -                | 4,699          | 188,545          | 6,389          | -              | 117,299        | 50,047          | -                                   | 366,979           |
| Commercial and other institutions              | -                | -              | -                | -              | -              | -              | -               | -                                   | -                 |
| Banks and participation banks                  | -                | -              | 5,007            | -              | -              | -              | -               | -                                   | 5,007             |
| V. Real persons current accounts-FC            | 162,883          | -              | -                | -              | -              | -              | -               | -                                   | 162,883           |
| VI. Real persons profit sharing accounts-FC    | -                | 150,266        | 1,350,227        | 36,220         | -              | 41,553         | 61,061          | -                                   | 1,639,327         |
| VII. Other current accounts-FC                 | 824,647          | -              | -                | -              | -              | -              | -               | -                                   | 824,647           |
| Commercial residents in Turkey                 | 816,850          | -              | -                | -              | -              | -              | -               | -                                   | 816,850           |
| Commercial residents in Abroad                 | 7,462            | -              | -                | -              | -              | -              | -               | -                                   | 7,462             |
| Banks and participation banks                  | 335              | -              | -                | -              | -              | -              | -               | -                                   | 335               |
| Central Bank of Republic of Turkey             | -                | -              | -                | -              | -              | -              | -               | -                                   | -                 |
| Domestic banks                                 | -                | -              | -                | -              | -              | -              | -               | -                                   | -                 |
| Foreign banks                                  | 263              | -              | -                | -              | -              | -              | -               | -                                   | 263               |
| Participation banks                            | 72               | -              | -                | -              | -              | -              | -               | -                                   | 72                |
| Others   | -                | -              | -                | -              | -              | -              | -               | -                                   | -                 |
| VIII. Profit sharing accounts- FC              | -                | 37,478         | 848,801          | 18,769         | -              | -              | -               | -                                   | 905,048           |
| Public sector                                  | -                | 1,948          | 15,379           | -              | -              | -              | -               | -                                   | 17,327            |
| Commercial sector                              | -                | 35,503         | 580,639          | 18,744         | -              | -              | -               | -                                   | 634,886           |
| Other institutions                             | -                | 27             | 244,731          | 25             | -              | -              | -               | -                                   | 244,783           |
| Commercial and other institutions              | -                | -              | 8,052            | -              | -              | -              | -               | -                                   | 8,052             |
| Banks and participation banks                  | -                | -              | -                | -              | -              | -              | -               | -                                   | -                 |
| IX. Precious metal funds                       | 62,451           | -              | 77,863           | 2,277          | -              | 1,310          | 2,842           | -                                   | 146,743           |
| X. Profit sharing accounts special funds - TL  | -                | -              | -                | -              | -              | -              | -               | -                                   | -                 |
| Residents in Turkey                            | -                | -              | -                | -              | -              | -              | -               | -                                   | -                 |
| Residents Abroad                               | -                | -              | -                | -              | -              | -              | -               | -                                   | -                 |
| XI. Profit sharing accounts special funds - FC | -                | -              | -                | -              | -              | -              | -               | -                                   | -                 |
| Residents in Turkey                            | -                | -              | -                | -              | -              | -              | -               | -                                   | -                 |
| Residents Abroad                               | -                | -              | -                | -              | -              | -              | -               | -                                   | -                 |
| <b>Total (I+II+.....+IX+X+XI)</b>              | <b>1,651,056</b> | <b>815,479</b> | <b>6,731,253</b> | <b>405,355</b> | <b>-</b>       | <b>229,217</b> | <b>192,126</b>  | <b>-</b>                            | <b>10,024,486</b> |

ZİRAAT KATILIM BANKASI A.Ş.

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

| 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                               | -              | -              | -                | -              | -              | -             | -               | -                                   | -                |
| <b>Total (I+II+.....+IX+X+XI)</b>              | <b>833,004</b> | <b>429,418</b> | <b>3,947,787</b> | <b>262,354</b> | <b>-</b>       | <b>49,742</b> | <b>113,641</b>  | <b>-</b>                            | <b>5,635,946</b> |



**ZİRAAT KATILIM BANKASI A.Ş.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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(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 LIABILITIES (Continued)**

**a.2) Exceeding Amounts of Insurance Limit:**

**i) Information’s on current and profit share accounts within the scope of Saving Deposit/Saving Deposit Insurance Fund:**

|  | Under the<br>guarantee of<br>saving<br>deposit insurance | Exceeding the<br>limit of saving<br>Deposit | Under the<br>guarantee of<br>saving<br>deposit insurance | Exceeding the<br>limit of saving<br>Deposit |
|--|--|---|--|---|
|  | Current Period   | Prior Period                                | Current Period   | Prior Period                                |
| Real persons current and profit sharing accounts that are not subject to commercial activities | 2,166,684  | 1,273,216                                   | 2,609,688  | 1,337,842                                   |
| TL accounts  | 1,651,791  | 1,014,137                                   | 1,187,518  | 702,666                                     |
| FC accounts  | 514,893  | 259,079                                     | 1,422,170  | 635,176                                     |
| Foreign branches’ deposits under foreign authorities’ insurance                                | -  | -   | -  | -   |
| Off-shore banking regions’ under foreign authorities’ insurance                                | -  | -   | -  | -   |

**Amounts which are not within the scope of insurance:**

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

|  | Prior Period | Current 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 | 431          | 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:**

**a) 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 |                |              |              |          |
| Spots  | -              | 6,280        | -            | -        |
| Swaps  | -              | -            | -            | -        |
| Futures                                      | -              | -            | -            | -        |
| Options                                      | -              | -            | -            | -        |
| Other  | -              | -            | -            | -        |
| <b>Total</b>                                 | <b>-</b>       | <b>6,280</b> | <b>-</b>     | <b>-</b> |

## ZİRAAT KATILIM BANKASI A.Ş.

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

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

|                                       | Current Period |                  | Prior Period |                  |
|---------------------------------------|----------------|------------------|--------------|------------------|
|                                       | TL             | FC               | TL           | FC               |
| Borrowings from CBRT                  | 410,436        | -                | -            | -                |
| Domestic Banks and Institutions       | 8,938          | 523,098          | -            | 477,478          |
| Foreign Banks, Institutions and Funds | -              | 1,106,838        | -            | 708,284          |
| <b>Total</b>                          | <b>419,374</b> | <b>1,629,936</b> | <b>-</b>     | <b>1,185,762</b> |

##### b) Information on maturity structure of borrowings:

|                      | Current Period |                  | Prior Period |                  |
|----------------------|----------------|------------------|--------------|------------------|
|                      | TL             | FC               | TL           | FC               |
| Short-term           | 419,374        | 291,782          | -            | 400,611          |
| Medium and Long-Term | -              | 1,338,154        | -            | 785,151          |
| <b>Total</b>         | <b>419,374</b> | <b>1,629,936</b> | <b>-</b>     | <b>1,185,762</b> |

##### c) Further information is disclosed for the areas of the Group’s liability concentrations. Main liability concentration areas are fund suppliers, sector groups or other risk concentration criteria:

70% of the Group’s liabilities consist of current and share profit account.

##### 4. Funds provided under repurchasing agreements:

|                        | Current Period |          | Prior Period   |          |
|------------------------|----------------|----------|----------------|----------|
|                        | TL             | FC       | TL             | FC       |
| <b>Domestic</b>        | <b>32,462</b>  | <b>-</b> | <b>133,668</b> | <b>-</b> |
| Financial Institutions | 32,462         | -        | 133,668        | -        |
| Other Institutions     | -              | -        | -              | -        |
| Real Persons           | -              | -        | -              | -        |
| <b>Abroad</b>          | <b>-</b>       | <b>-</b> | <b>-</b>       | <b>-</b> |
| Financial Institutions | -              | -        | -              | -        |
| Other Institutions     | -              | -        | -              | -        |
| Real Persons           | -              | -        | -              | -        |
| <b>Total</b>           | <b>32,462</b>  | <b>-</b> | <b>133,668</b> | <b>-</b> |

##### 5. Information on securities issued :

|                        | Current Period |          | Prior Period   |          |
|------------------------|----------------|----------|----------------|----------|
|                        | TL             | FC       | TL             | FC       |
| Bonds                  | -              | -        | -              | -        |
| Asset Based Securities | 557,804        | -        | 101,459        | -        |
| Stocks                 | -              | -        | -              | -        |
| <b>Total</b>           | <b>557,804</b> | <b>-</b> | <b>101,459</b> | <b>-</b> |

As of 31 December 2017, Group has a TL 557,804 securities issued (31 December 2016: 101,459).

##### 6. 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.

## ZİRAAT KATILIM BANKASI A.Ş.

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

##### 7. Information on Financial Lease Obligations:

None.

##### 8. Information on hedging derivative financial liabilities:

The parent bank has no hedging derivative financial liabilities.

##### 9. Information on provisions:

###### a) Information on general provisions:

|  | Current Period | Prior Period  |
|--|----------------|---------------|
| <b>General Provisions</b>  | <b>99,082</b>  | <b>52,263</b> |
| I.For Loans and Receivables in Group I (Total)                             | 89,433         | 47,667        |
| Profit Sharing Accounts’ Share   | 62,132         | 34,600        |
| The Bank’s Share   | 27,301         | 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)                              | 714            | 595           |
| Profit Sharing Accounts’ Share   | 603            | 376           |
| The Bank’s Share   | 111            | 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  | 8,111          | 1,457         |
| Other  | 824            | 2,544         |

###### b) Information on provisions related with foreign currency evaluation difference of foreign currency indexed loans and Financial Lease Obligations:

As of 31 December 2017, exchange rate differences of principal amount of TL 6,045 (December 31, 2016: TL 174) are netted off with the loans and lease receivables included in the assets of the balance sheet.

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

Specific provisions for unindemnified non-cash loans amount to TL 177 (31 December 2016: TL 29).

###### d) Information on other provisions:

###### d.1) Information on free provisions for possible risks:

None (31 December 2016: None).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)**

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

**d) Information on other provisions (Continued):**

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

Other provisions amounting to TL 36,398 are reserved for the purpose of meeting the portion of private and general provisions and the portion of Savings Deposits Insurance Fund premium account in accordance with Article 14 of the Regulation on the Procedures and Principles for the Determination of the Qualifications of Loans and Other Receivables and Liquidations (31 December 2016: TL 9,810).

**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 31 December 2017, the amount payable consists of one month’s salary limited to a maximum of TL 4,732 (full amount) (31 December 2016: TL 4,297 (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.

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

|                   | <b>Current Period</b> |
|-------------------|-----------------------|
| Discount Rate (%) | 4.77                  |

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

|   | <b>Current Period</b> | <b>Prior Period</b> |
|---|-----------------------|---------------------|
| Balance at the 1 January                | 780                   | -                   |
| Changes during the period               | 1,550                 | 859                 |
| Paid during the period                  | -                     | -                   |
| Actuarial Loss/(Gain)                   | -                     | (79)                |
| <b>Balance at the end of the period</b> | <b>2,330</b>          | <b>780</b>          |

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

**e.3) Pension Rights**

According to technical balance sheet reports prepared by using technical interest rate of 9.80% in the frame of Law No. 5754 published in the Official Gazette dated May 8, 2008 and numbered 26870, technical deficit for the Fund was not reported as of 31 December 2017.

The actuarial parameters and results used in measuring the amount of the liability are as follows: The Act No. 5754 published in the Official Gazette dated May 8, 2008, numbered 26870, (9.80% real discount rate, etc.) pertaining to pension and health benefits to be transferred.

The basic actuarial assumptions used are as follows:

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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 (Continued):**

**e.3) Pension Rights (Continued)**

|                                       | <b>Current Period</b> | <b>Prior Period</b> |
|---------------------------------------|-----------------------|---------------------|
| Discount Rates                        |                       |                     |
| - Pension benefits transferred to SSF | 9.80%                 | 9.80%               |
| - Health benefits transferred to SSF  | 9.80%                 | 9.80%               |

The CSO 1980 Female / Male mortality table was used to represent mortality rates both before and after retirement.

**8. Explanations on tax liability:**

**a) Explanations on current tax liability:**

**a.1) Information on tax provisions:**

As of 31 December 2017, the Group’s corporate income tax liability is TL 12,996 after deducting temporary taxes paid during the period from the tax provisions (31 December 2016: 2,886).

**a.2) Information on taxes payable:**

|   | <b>Current Period</b> | <b>Prior Period</b> |
|---|-----------------------|---------------------|
| Corporate Tax Payable                     | 12,996                | 2,886               |
| Taxation on Income From Securities        | 7,251                 | 3,389               |
| Property Tax                              | 132                   | 88                  |
| Banking Insurance Transactions Tax (BITT) | 5,074                 | 2,312               |
| Foreign Exchange Transactions Tax         | -                     | -                   |
| Value Added Tax Payable                   | 571                   | 236                 |
| Other                                     | 1,140                 | 841                 |
| <b>Total</b>                              | <b>27,164</b>         | <b>9,752</b>        |

**a.3) Information on premiums:**

|  | <b>Current Period</b> | <b>Prior Period</b> |
|--|-----------------------|---------------------|
| Social Security Premiums - Employee                    | -                     | 6                   |
| Social Security Premiums - Employer                    | 2                     | 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                      | 92                    | 34                  |
| Unemployment Insurance - Employer                      | 183                   | 67                  |
| Other  | -                     | -                   |
| <b>Total</b>   | <b>277</b>            | <b>116</b>          |

**b) Information on deferred tax liabilities, if any:**

The Group’s deferred tax liability amounts to TL 2,001 (31 December 2016: 1,534) and this amount is net off against the deferred tax asset and accordingly deferred tax asset amounting to TL 14,093 (31 December 2016: 4,876) is presented in the financial statements.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)**

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

**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 (31 December 2016: None).

**10. Explanations on subordinated debts:**

The Group does not have any subordinated debts (31 December 2016: None).

**11. Information on shareholders’ equity:**

**a) Presentation on paid-in capital:**

|                 | <b>Current Period</b> | <b>Prior Period</b> |
|-----------------|-----------------------|---------------------|
| Common stock    | 1,250,000             | 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.

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

Accordingly to the decision of the Bank’s ordinary meeting of the general assembly, which took place on 13 July 2017, TL 11,439 of balance sheet profit amounting to TL 40,482 is separated as fiscal charge. After the deduction of TL 11,983 of prior year net loss, TL 708 of remaining TL 14,150 net profit’s 5% is separated as legal reserve. TL 6,000 from the remaining balance is decided to be paid as a bonus to the personnel. Over 10% of this amount, TL 600 is decided to be separated as contingency reserve. Finally, the last remaining TL 6,843 is decided to be left to the Parent Bank. Paid-in capital is raised by TL 500,000 in cash and TL 3,000 in internal resources.

**d) Information on additions from capital reserves to capital in the current period:**

At the Ordinary General Assembly Meeting of the Parent Bank held on July 13, 2017, it was decided to increase the capital from the internal resources of 3,000 TL (31 December 2016: 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 2017: None).

## ZİRAAT KATILIM BANKASI A.Ş.

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

##### 11. Information on shareholders’ equity (Continued):

##### g) Information on preferred shares:

As of 31 December 2017, the group has no preferred shares (31 December 2017: 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                   | (14,901)        | (11)        | (963)        | (107)        |
| Revaluation Difference  | (18,955)        | (11)        | (1,573)      | (107)        |
| Deferred Tax Effect   | 4,054           | -           | 610          | -            |
| Foreign Exchange Difference                                     | -               | -           | -            | -            |
| <b>Total</b>  | <b>(14,901)</b> | <b>(11)</b> | <b>(963)</b> | <b>(107)</b> |

##### i) Information on minority shareholder:

None.

#### 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                            | 61,911         | 13,223        |
| Other Irrevocable Commitments   | -              | -             |
| Payment Commitments for Cheques   | 64,845         | 34,817        |
| Loan Granting Commitments   | 1,966          | 458           |
| Asset Purchase Commitments  | -              | -             |
| Promotion Campaigns Commitments Relating to Credit Card and Bank Services | 4,034          | -             |
| <b>Total</b>  | <b>132,756</b> | <b>48,498</b> |

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

The Parent Bank has no possible losses arising from the off-balance sheet items (31 December 2017: None).

**ZİRAAT KATILIM BANKASI A.Ş.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD OF 1 JANUARY - 31 DECEMBER 2017**

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

**EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)****III. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED OFF-BALANCE SHEET ACCOUNTS****1. Information on off-balance sheet liabilities (Continued):****b.1) Non-cash loans including guarantees, acceptances, financial guarantees and other letter of credits:**

|                     | <b>Current Period</b> | <b>Current Period</b> |
|---------------------|-----------------------|-----------------------|
| Guarantee Letters   | 5,322,130             | 2,772,734             |
| Letter of Credits   | 447,193               | 188,475               |
| Bank Acceptances    | 4,784                 | 7,484                 |
| Other Contingencies | 337,431               | 539,276               |
| <b>Total</b>        | <b>6,111,538</b>      | <b>3,507,969</b>      |

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

|  | <b>Current Period</b> | <b>Current Period</b> |
|--|-----------------------|-----------------------|
| Letters of Temporary Guarantees                | 603,757               | 400,357               |
| Letters of Certain Guarantees                  | 2,715,331             | 1,031,833             |
| Letters of Advance Guarantees                  | 399,756               | 386,135               |
| Letters of Guarantees given to Customs Offices | 45,753                | 32,197                |
| Other Letters of Guarantees                    | 1,557,533             | 922,212               |
| <b>Total</b>                                   | <b>5,322,130</b>      | <b>2,772,734</b>      |

**b.3) Total non-cash loans:**

|  | <b>Current Period</b> | <b>Current Period</b> |
|--|-----------------------|-----------------------|
| <b>Non-Cash Loans for Providing Cash Loans</b> | <b>1,557,532</b>      | <b>922,212</b>        |
| With Original Maturity of One Year or Less     | 775,726               | -                     |
| With Original Maturity of More than One Year   | 781,806               | 922,212               |
| <b>Other Non-Cash Loans</b>                    | <b>4,554,006</b>      | <b>2,585,757</b>      |
| <b>Total</b>                                   | <b>6,111,538</b>      | <b>3,507,969</b>      |



**ZİRAAT KATILIM BANKASI A.Ş.**

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**EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)**

**III. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED OFF-BALANCE SHEET ACCOUNTS (Continued)**

**1. Information on off-balance sheet liabilities: (Continued)**

**c) Information on sectoral risk concentrations of non-cash loans:**

|                                      | Current Period   |            |                  |            | Prior Period     |            |                  |            |
|--------------------------------------|------------------|------------|------------------|------------|------------------|------------|------------------|------------|
|                                      | TL               | (%)        | FC               | (%)        | TL               | (%)        | FC               | (%)        |
| Agricultural                         | 8,342            | -          | 22,951           | 1          | 3,518            | -          | -                | -          |
| Farming and Raising Livestock        | 5,256            | -          | 22,951           | 1          | 3,518            | -          | -                | -          |
| Forestry                             | 3,021            | -          | -                | -          | -                | -          | -                | -          |
| Fishing                              | 65               | -          | -                | -          | -                | -          | -                | -          |
| Manufacturing                        | 488,281          | 15         | 2,031,214        | 69         | 154,819          | 12         | 1,056,107        | 49         |
| Mining and Quarrying                 | 13,043           | -          | 12,224           | -          | 10,562           | 1          | 2,986            | -          |
| Production                           | 398,007          | 13         | 2,006,707        | 68         | 144,257          | 11         | 1,053,121        | 49         |
| Electric, Gas and Water              | 77,231           | 2          | 12,283           | 1          | -                | -          | -                | -          |
| Construction                         | 1,574,071        | 50         | 407,646          | 14         | 699,949          | 52         | 501,191          | 23         |
| Services                             | 1,040,680        | 33         | 446,492          | 15         | 362,391          | 28         | 510,134          | 24         |
| Wholesale and Retail Trade           | 537,314          | 17         | 349,915          | 12         | 329,458          | 25         | 275,016          | 13         |
| Hotel, Food and Beverage Services    | 14,605           | 1          | 18,603           | 1          | 9,531            | 1          | 62,561           | 3          |
| Transportation and Telecommunication | 38,920           | 1          | 1,164            | -          | 22,768           | 2          | 172,557          | 8          |
| Financial Institutions               | 5,846            | -          | 317              | -          | -                | -          | -                | -          |
| Real Estate and Leasing Services     | 441,401          | 14         | 69,025           | 2          | 55               | -          | -                | -          |
| Self-employment Services             | -                | -          | -                | -          | -                | -          | -                | -          |
| Education Services                   | 89               | -          | 7,468            | -          | 89               | -          | -                | -          |
| Health and Social Services           | 2,505            | -          | -                | -          | 490              | -          | -                | -          |
| Other                                | 62,002           | 2          | 29,859           | 1          | 120,657          | 8          | 99,203           | 4          |
| <b>Total</b>                         | <b>3,173,376</b> | <b>100</b> | <b>2,938,162</b> | <b>100</b> | <b>1,341,334</b> | <b>100</b> | <b>2,166,635</b> | <b>100</b> |

**d) Information on the non-cash loans classified under Group I and Group II:**

|                                     | Group I   |           | Group II |        |
|-------------------------------------|-----------|-----------|----------|--------|
|                                     | TL        | FC        | TL       | FC     |
| <b>Non-Cash Loans</b>               | 3,117,804 | 2,919,306 | 55,571   | 18,857 |
| Letters of Guarantee                | 3,114,354 | 2,136,897 | 55,571   | 15,308 |
| Bank Acceptances                    | -         | 4,784     | -        | -      |
| Letters of Credit                   | -         | 443,644   | -        | 3,549  |
| Endorsements                        | -         | -         | -        | -      |
| Underwriting Commitments            | -         | -         | -        | -      |
| Factoring Guarantees                | -         | -         | -        | -      |
| Other Commitments and Contingencies | 3,450     | 333,981   | -        | -      |

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EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)

III. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED OFF-BALANCE SHEET ACCOUNTS (Continued)

2. Explanations on derivative transactions:

|  | Current Period   | Prior Period   |
|--|------------------|----------------|
| <b>Types of Trading Transactions</b>                   |                  |                |
| Foreign Currency Related Derivative Transactions: (I)  | 1,264,078        | 259,672        |
| Forward Transactions                                   | 1,264,078        | 259,672        |
| Swap Transactions                                      | -                | -              |
| Futures Transactions                                   | -                | -              |
| Option Transactions                                    | -                | -              |
| Interest Related Derivative Transactions (II)          | -                | -              |
| <b>A. Total Trading Derivative Transactions (I+II)</b> | <b>1,264,078</b> | <b>259,672</b> |
| <b>Types of Hedging Derivative Transactions</b>        | -                | -              |
| Fair Value Hedges                                      | -                | -              |
| Cash Flow Hedges                                       | -                | -              |
| Foreign Currency Investment Hedges                     | -                | -              |
| <b>B. Total Hedging Derivative Transactions</b>        | -                | -              |
| <b>Total Derivative Transactions (A+B)</b>             | <b>1,264,078</b> | <b>259,672</b> |

The Parent bank has no derivative transaction held for cash flow hedges. There are no income and expenses before ex ante and accounted on the basis of this prediction; however operations that is inferred as not actualize and by the reason of unrelated with income statements in the current period.

| Current Period                      | Up to 1 month    | 1-3 Months       | 3-12 Months | 1-5 Years | Over 5 years | Total            |
|-------------------------------------|------------------|------------------|-------------|-----------|--------------|------------------|
| <b>Financial assets for trading</b> |                  |                  |             |           |              |                  |
| Foreign Exchange derivatives:       | (3,672)          | (1,518)          | -           | -         | -            | (5,190)          |
| – Addition                          | 313,645          | 315,799          | -           | -         | -            | 629,444          |
| – Disposal                          | (317,317)        | (317,317)        | -           | -         | -            | (634,634)        |
| <b>Hedging Transactions</b>         | -                | -                | -           | -         | -            | -                |
| Foreign Exchange derivatives:       | -                | -                | -           | -         | -            | -                |
| – Addition                          | -                | -                | -           | -         | -            | -                |
| – Disposal                          | -                | -                | -           | -         | -            | -                |
| <b>Total cash addition</b>          | <b>313,645</b>   | <b>315,799</b>   | -           | -         | -            | <b>629,444</b>   |
| <b>Total cash disposal</b>          | <b>(317,317)</b> | <b>(317,317)</b> | -           | -         | -            | <b>(634,634)</b> |

| Prior Period                        | Up to 1 month   | 1-3 Months      | 3-12 Months | 1-5 Years | Over 5 years | Total            |
|-------------------------------------|-----------------|-----------------|-------------|-----------|--------------|------------------|
| <b>Financial assets for trading</b> |                 |                 |             |           |              |                  |
| Foreign Exchange derivatives:       | 394             | 758             | -           | -         | -            | 1,152            |
| – Addition                          | 37,044          | 93,368          | -           | -         | -            | 130,412          |
| – Disposal                          | (36,650)        | (92,610)        | -           | -         | -            | (129,260)        |
| <b>Hedging Transactions</b>         | -               | -               | -           | -         | -            | -                |
| Foreign Exchange derivatives:       | -               | -               | -           | -         | -            | -                |
| – Addition                          | -               | -               | -           | -         | -            | -                |
| – Disposal                          | -               | -               | -           | -         | -            | -                |
| <b>Total cash addition</b>          | <b>37,044</b>   | <b>93,368</b>   | -           | -         | -            | <b>130,412</b>   |
| <b>Total cash disposal</b>          | <b>(36,650)</b> | <b>(92,610)</b> | -           | -         | -            | <b>(129,260)</b> |

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**EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)**

**III. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED OFF-BALANCE SHEET ACCOUNTS (Continued)**

**3. Explanations on contingent assets and liabilities:**

Provision is allocated for transactions with complete and accurate data that may have an effect on the financial structure of the Bank and otherwise, provision is provided based on the estimations.

The Bank’s liability resulting from the cheques given to its customers amounts to TL 64,845 (31 December 2016: TL 34,817).

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

**4. Explanations on services in the name of others:**

The Bank provides safe deposit box services for real and legal persons. The Bank does not provide consultancy and management services.

**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     |
| <b>Profit share on loans <sup>(1)</sup></b>              | <b>835,038</b> | <b>50,714</b> | 333,620      | 22,665 |
| Short term loans   | 257,556        | 8,131         | 149,469      | 4,033  |
| Medium and long term loans                               | 577,142        | 42,583        | 184,151      | 18,632 |
| Profit share on non-performing loans                     | 340            | -             | -            | -      |
| Premiums received from resource utilization support fund | -              | -             | -            | -      |

<sup>(1)</sup> 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            | -              | -  | -            | -  |
| <b>Total</b>                               | -              | -  | 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                    | 48,298         | 336        | 23,834        | 267        |
| Investments Held-to-Maturity                           | -              | -          | 398           | -          |
| <b>Total</b>   | <b>48,298</b>  | <b>336</b> | <b>24,232</b> | <b>267</b> |

**ZİRAAT KATILIM BANKASI A.Ş.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD OF 1 JANUARY - 31 DECEMBER 2017**

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

**EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)**

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

**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                                  | 2,855          | 15,750        | 2,065        | 11,617        |
| Central Bank of the Republic of Turkey | 510            | -             | -            | -             |
| Domestic Banks                         | 2,345          | 12,706        | 2,065        | 6,405         |
| Foreign Banks                          | -              | 3,044         | -            | 5,212         |
| Head Office and Branches               | -              | -             | -            | -             |
| Other Institutions                     | -              | 20,100        | 6,395        | 4,975         |
| <b>Total</b>                           | <b>2,855</b>   | <b>35,850</b> | <b>8,460</b> | <b>16,592</b> |

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

None (31 December 2016: None).

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

As of 31 December 2017, profit share expense paid to securities issued is TL 25,409 (31 December 2016:None).

**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   |                |
| <b>Account name</b>  |                         |                |                |              |               |                |
| <b>TL</b>  |                         |                |                |              |               |                |
| Collected funds from banks through current and profit share accounts | -                       | 382            | -              | -            | -             | 382            |
| Real person's non-trading profit sharing account                     | 22,143                  | 154,037        | 2,551          | 2,151        | 5,314         | 186,196        |
| Public sector profit sharing account                                 | 12,124                  | 41,864         | 7,226          | 628          | 3,738         | 65,580         |
| Commercial sector profit sharing account                             | 12,841                  | 106,338        | 10,505         | 1,412        | 1,180         | 132,276        |
| Other institutions profit sharing account                            | 364                     | 26,903         | 800            | 4,401        | 188           | 32,656         |
| <b>Total</b>   | <b>47,472</b>           | <b>329,524</b> | <b>21,082</b>  | <b>8,592</b> | <b>10,420</b> | <b>417,090</b> |
| <b>FC</b>  |                         |                |                |              |               |                |
| Collected funds from banks through current and profit share accounts | -                       | 1,007          | -              | -            | -             | 1,007          |
| Real person's non-trading profit sharing account                     | 2,083                   | 23,498         | 905            | 687          | 1,120         | 28,293         |
| Public sector profit sharing account                                 | 15                      | 309            | -              | -            | -             | 324            |
| Commercial sector profit sharing account                             | 1,166                   | 16,985         | 2,149          | -            | -             | 20,300         |
| Other institutions profit sharing account                            | 55                      | 3,482          | -              | -            | -             | 3,537          |
| Precious Metal Accounts  | 583                     | -              | -              | -            | -             | 583            |
| <b>Total</b>   | <b>3,902</b>            | <b>45,281</b>  | <b>3,054</b>   | <b>687</b>   | <b>1,120</b>  | <b>54,044</b>  |
| <b>General Total</b>   | <b>51,374</b>           | <b>374,805</b> | <b>24,136</b>  | <b>9,279</b> | <b>11,540</b> | <b>479,134</b> |

## ZİRAAT KATILIM BANKASI A.Ş.

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

##### 3. Information on dividend income:

None.

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

|  | Current Period   | Prior Period     |
|--|------------------|------------------|
| <b>Income</b>                              | <b>2,847,899</b> | <b>1,170,436</b> |
| Foreign exchange gains                     | 2,832,166        | 1,159,044        |
| Gain on derivative financial instruments   | 15,707           | 11,392           |
| Gain on capital market transactions        | 26               | -                |
| <b>Losses (-)</b>                          | <b>2,836,343</b> | <b>1,163,406</b> |
| Foreign exchange losses                    | 2,793,077        | 1,162,689        |
| Losses on derivative financial instruments | 42,389           | 717              |
| Losses on capital market transactions      | 877              | -                |
| <b>Net</b>                                 | <b>11,556</b>    | <b>7,030</b>     |

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

|   | Current Period  | Prior Period  |
|---|-----------------|---------------|
| Effect of the change in exchange rates on profit/loss | (26,682)        | 10,675        |
| <b>Total</b>  | <b>(26,682)</b> | <b>10,675</b> |

##### 5. Information on other operating income:

**Information on factors covering the recent developments which has significant effect on the Bank's income and the extent of effect on income:**

There is no information on factors covering the recent developments which has significant effect on the banks income and the extent of effect on income.

**ZİRAAT KATILIM BANKASI A.Ş.**

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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:**

|   | <b>Current Period</b> | <b>Prior Period</b> |
|---|-----------------------|---------------------|
| Specific Provisions for Loans and Other Receivables   | 14,721                | 3,832               |
| III. group loans and receivables  | 1,449                 | 82                  |
| IV. group loans and receivables   | 2,841                 | 2,603               |
| V. group loans and receivables  | 10,431                | 1,147               |
| General provision expenses  | 46,896                | 38,687              |
| Provision expenses for possible losses  | -                     | -                   |
| Impairment provision of marketable securities   | 165                   | 142                 |
| Financial Assets at fair value through profit and loss  | -                     | -                   |
| Investment securities available for sale  | 165                   | 142                 |
| Impairment provision of associates, subsidiaries, joint ventures and held to maturity investments | -                     | -                   |
| Associates  | -                     | -                   |
| Subsidiaries  | -                     | -                   |
| Joint ventures  | -                     | -                   |
| Held to maturity investments  | -                     | -                   |
| Other (*)   | 28,361                | 9,109               |
| <b>Total</b>  | <b>90,143</b>         | <b>51,770</b>       |

(\*) TL 26.313 of other item is the provision amount used for meeting the portion of special and general provisions and the portion of the Savings Deposit Insurance Fund premium accounted for participation accounts in accordance with Article 14 of the Regulation on the Procedures and Principles for the Determination of the Qualifications of Loans and Other Receivables.

**7. Information on other operating expenses:**

|   | <b>Current Period</b> | <b>Prior Period</b> |
|---|-----------------------|---------------------|
| Personnel expenses  | 86,969                | 65,101              |
| Reserve for Employee Termination Benefits   | 1,550                 | 780                 |
| Bank Social Aid Provision Fund Deficit Provision  | -                     | -                   |
| Tangible Fixed Assets Impairment Expense  | -                     | -                   |
| Depreciation Expenses of Tangible Fixed Assets  | 12,456                | 9,722               |
| Intangible Assets Impairment Expense  | -                     | -                   |
| Goodwill Impairment Expense   | -                     | -                   |
| Amortization Expenses of Intangible Assets  | 3,055                 | 2,275               |
| Impairment Expense for Equity Shares subject to the Equity Method                               | -                     | -                   |
| Impairment Expense for Investment Securities that will be Disposed                              | -                     | -                   |
| Amortization Expenses of Investment Securities that will be Disposed                            | -                     | -                   |
| Impairment Expense for Property, Plant and Equipment Held for Sale and Discontinuing Operations | -                     | -                   |
| Other Operating Expenses  | 60,668                | 42,824              |
| Operational Leasing Expenses  | 18,882                | 12,291              |
| Maintenance Expenses  | 4,521                 | 392                 |
| Advertisement Expenses  | 14,949                | 10,823              |
| Other Expenses  | 22,316                | 19,318              |
| Loss on Sales of Assets   | -                     | -                   |
| Other (*)   | 32,833                | 19,877              |
| <b>Total</b>  | <b>197,531</b>        | <b>140,579</b>      |

(\*) The balance which forms the other item part, TL 20,805 (31 December 2016: TL 8,503) represents TMSF Premium amount and audit and consultancy fees and TL 9,264 (31 December 2016: TL 11,374) represents taxes, fees and funds and other services expenses.

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

|  | <b>Current Period</b> | <b>Prior Period</b> |
|--|-----------------------|---------------------|
| Net Profit Share Income                            | 443,086               | 209,857             |
| Other Operating Expenses (-)                       | 30,343                | 14,205              |
| Provision for Loan or Other Receivables Losses (-) | -                     | -                   |
| Other Operating Income                             | 11,556                | 7,030               |
| Net Fees and Commissions Income                    | 2,663                 | 1,739               |
| Dividend Income                                    | 90,143                | 51,770              |
| Trading Income/Expense (Net)                       | 197,531               | 140,579             |
| <b>Income/(Loss) from Continuing Operations</b>    | <b>199,974</b>        | <b>40,482</b>       |

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

As of 31 December 2017, the Bank’s total tax provision expense amounting to TL 41,072 (31 December 2016: TL 9,809) is consisted from TL 46,907 (31 December 2016: TL 14,349) of current tax expense, and TL 5,835 (31 December 2016: TL 4,540) is deferred tax income.

**10. Explanation on net income/loss for the period for continuing and discontinued operations:**

The Group’s net operating income after tax amounts to TL 158,902 (31 December 2016: TL 30,673).

**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 utilizes its resources from equity capital, domestic current and participation accounts, as loan securities and interbank operations. Additionally, the parent bank generates an income from 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.

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**EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)**

**V. EXPLANATIONS AND NOTES RELATED TO CHANGES IN SHAREHOLDERS' EQUITY**

**a) Explanations on inflation adjustment differences for equity items:**

In accordance with the decision taken in the General Assembly of the year 2017, which was carried out on 13 July 2017, from TL 11,439 net profit, TL 40,482 is transferred as fiscal charge. Prior year's net loss TL 11,983 is deducted and TL 14,150 is remained as net profit. 5% of this amount, TL 708 is separated as legal reserve. TL 6,000 was decided to be paid to employees and 10% of this amount, TL 600 has been allocated as reserves. remaining amount, TL 6,843, has been left in the Bank. Paid-in capital is raised by TL 500,000 in cash and TL 3,000 in internal resources.

The Bank is planning to distribute its profit for 2017 in line with the Articles of Incorporation in 2017. However, as of the date of preparation of the financial statements, no decision on profit distribution has been made.

**b) Explanations on Available For Sale Financial Assets:**

Available for sale financial assets are not included in the current income statement, until their collections, disposals, sales or losses are realized and those assets are recognized under the “Marketable Securities Revaluation Fund” under equity. In accordance with TAS 39 and due to the change in the Bank's intention to hold the previously classified as available for sale securities to maturity the Bank has reclassified the securities under available for sale portfolio to held to maturity portfolio. The valuation differences of these securities is presented under shareholders' equity as a “Marketable Securities Valuation Differences” and transferred to profit/loss with subject to redemption with proportional to the maturity of security.

**b) Explanations on Available For Sale Financial Assets (Continued):**

Investments in subsidiaries and entities under common control that are in foreign currency are followed at their fair values. The valuation report prepared by the valuation company for the said partnerships has been determined as fair value and the valuation differences have been added to the associate values and accounted under "Equity Value Increase Fund" account under equity.

**c) Profit reserves:**

As of balance sheet date, profit reserves are TL 9,691, legal reserves are TL 1,308, extraordinary reserves are TL 3,843, and other profit reserves are TL 4,540.

**d) Information on Prior Year Profit/Loss:**

None.

**VI. EXPLANATIONS AND NOTES RELATED TO STATEMENT OF CASH FLOWS**

**1. Explanations about other cash flows items and the effect of changes in foreign exchange rates on cash and cash equivalents:**

“Operating Profit before Changes in Operating Assets and Liabilities” amounting to TL 121,921 is composed mainly from interest received from loans and securities amounting to TL 823,676 and interest paid to deposit and money market operations which is amounting to TL 491,718. Other earnings consists primarily net fee, commission income and other operation losses.

The effect of change in foreign exchange rate on cash and cash equivalents is calculated approximately TL 51,176 as of 31 December 2017 (31 December 2016: TL 146,984).



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**EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)**

**VI. EXPLANATIONS AND NOTES RELATED TO STATEMENT OF CASH FLOWS (Continued)**

**1. Explanations about other cash flows items and the effect of changes in foreign exchange rates on cash and cash equivalents (Continued):**

Cash in TL, cash in foreign currency, Central Bank of the Republic of Turkey, money in transit, bank cheques purchased and cash on money market operations are defined as “cash”; interbank money transactions placements having maturities less than three months, and time deposits in banks are defined as “cash equivalents”.

**Period opening and end cash and cash equivalents balance:**

| <b>Period opening</b>                                  | <b>Current Period</b> | <b>Prior Period</b> |
|--|-----------------------|---------------------|
| Cash in TL and in Foreign Currency                     | 32,550                | 8,623               |
| Central Bank of the Republic of Turkey and Other Banks | 1,081,708             | 136,514             |
| Money Market Operations                                | -                     | -                   |
| <b>Total Cash and Cash Equivalents</b>                 | <b>1,114,258</b>      | <b>145,137</b>      |

| <b>Period End</b>                                      | <b>Current Period</b> | <b>Prior Period</b> |
|--|-----------------------|---------------------|
| Cash in TL and in Foreign Currency                     | 41,124                | 32,550              |
| Central Bank of the Republic of Turkey and Other Banks | 560,676               | 1,081,708           |
| Money Market Operations                                | -                     | -                   |
| <b>Total Cash and Cash Equivalents</b>                 | <b>601,800</b>        | <b>1,114,258</b>    |

**VII. 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**

| <b>Risk group of the Bank</b>             | <b>Investment in associates, subsidiaries and joint ventures (business partnerships)</b> |                 | <b>Direct and indirect shareholders of the Bank</b> |                 | <b>Other real or legal persons included in the risk group</b> |                 |
|---|--|-----------------|---|-----------------|---|-----------------|
|   | <b>Cash</b>  | <b>Non-Cash</b> | <b>Cash</b>   | <b>Non-Cash</b> | <b>Cash</b>   | <b>Non-Cash</b> |
| Loans and other receivables               | -  | -               | -   | -               | -   | -               |
| Balance at beginning of period            | -  | -               | 558,924   | -               | -   | -               |
| Balance at end of period                  | -  | -               | 758,988   | -               | -   | -               |
| <b>Profit share and commission income</b> | -  | -               | <b>8,248</b>  | -               | -   | -               |

**Prior Period**

| <b>Risk group of the Bank</b>             | <b>Investment in associates, subsidiaries and joint ventures (business partnerships)</b> |                 | <b>Direct and indirect shareholders of the Bank</b> |                 | <b>Other real or legal persons included in the risk group</b> |                 |
|---|--|-----------------|---|-----------------|---|-----------------|
|   | <b>Cash</b>  | <b>Non-Cash</b> | <b>Cash</b>   | <b>Non-Cash</b> | <b>Cash</b>   | <b>Non-Cash</b> |
| Loans and other receivables               | -  | -               | -   | -               | -   | -               |
| Balance at beginning of period            | -  | -               | 337,726   | -               | -   | -               |
| Balance at end of period                  | -  | -               | 558,924   | -               | -   | -               |
| <b>Profit share and commission income</b> | -  | -               | <b>11,533</b>                                       | -               | -   | -               |

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**EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)**

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

- 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 (Continued):**

- b) **Current and profit sharing account held by the 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 |   |              |  |              |  |              |
| Balance at the beginning of period  | -   | -            | 1,796  | 891          | -  | -            |
| Balance at the end of period        | -   | -            | 8,159  | 1,796        | -  | -            |
| Profit share expense                | -   | -            | 2,314  | 2            | -  | -            |

- 2) **Information on forward transactions, option agreements and similar transactions between the Bank’s risk groups:**

| 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                                     | 159,609       | -  | -            |
| Closing Balance                                    | -   | -            | 1,264,078                                   | 259,672       | -  | -            |
| <b>Total Profit/Loss</b>                           | -   | -            | <b>6,280</b>                                | <b>10,675</b> | -  | -            |
| Risk Protection Oriented Processes                 | -   | -            | -   | -             | -  | -            |
| Opening Balance                                    | -   | -            | -   | -             | -  | -            |
| Closing Balance                                    | -   | -            | -   | -             | -  | -            |
| <b>Total Profit/Loss</b>                           | -   | -            | -   | -             | -  | -            |

- 3) **Information on remunerations provided to group top management:**

The group has paid TL 2,717 to top management as total benefit (31 December 2016:2,625).

**VIII. SIGNIFICANT EVENTS AND MATTERS ARISING SUBSEQUENT TO BALANCE SHEET DATE**

None.

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 1 JANUARY - 31 DECEMBER 2017

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#### EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

##### 1) Information on domestic and foreign branches and representatives of the Bank:

|                                      | Number | Number of Employees |                             |              |                            |
|--------------------------------------|--------|---------------------|-----------------------------|--------------|----------------------------|
| Domestic Branch <sup>(1)</sup>       | 63     | 890                 |                             |              |                            |
|                                      |        |                     | Country of<br>Incorporation |              |                            |
| Foreign Representative Office        | -      | -                   | -                           |              |                            |
|                                      |        |                     |                             | Total assets | Statutory Share<br>Capital |
| Foreign branch                       | -      | -                   | -                           | -            | -                          |
| Off-shore Banking Region<br>Branches | -      | -                   | -                           | -            | -                          |

(1) The number of employees in Head Office are not included in the number of employees in domestic branches.

##### 2) Explanations on domestic and abroad branch and agency openings or closings, significantly organization altering of the Bank:

The Bank opened 19 domestic branches during the year 2017 (31 December 2016: 22 Branches).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

**SECTION SIX**

**OTHER EXPLANATIONS AND NOTES**

**I. INFORMATION ON THE BANK’S RATING THAT HAS BEEN DETERMINED BY INTERNATIONAL RATING AGENCIES**

| Fitch Ratings: 26 May 2017                | Note     | Explanation   |
|---|----------|---|
| Long Term Foreign Currency Credit Rating  | BB +     | It is in a speculative level under the investment class.                                |
| Short Term Foreign Currency Credit Rating | B        | It is in a speculative level under the investment class.                                |
| Long Term Turkish Lira Credit Rating      | BBB-     | It is in an investmentable level. Indicates that the Bank's creditworthiness is "good". |
| Short Term Turkish Lira Credit Rating     | F3       | It is in an investmentable level. Indicates that the debt payment power is sufficient.  |
| National Long Term Credit Rating          | AAA(tur) | Top level investment grade.   |
| Support                                   | 3        | The probability of external support is reasonable.                                      |

**II. OTHER EXPLANATIONS ON GROUP’S OPERATIONS**

None.

**SECTION SEVEN**

**EXPLANATIONS ON INDEPENDENT AUDITOR’S REPORT**

**I. EXPLANATIONS ON THE INDEPENDENT AUDITOR’S REPORT**

As of 31 December 2017, consolidated financial statements and explanatory notes of the Bank disclosed herein were audited by KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (the Turkish member of KPMG International Cooperative, a Swiss entity) and Audit Report dated 5 February 2018 is presented preceding the financial statements.

**II. EXPLANATIONS AND NOTES PREPARED BY THE INDEPENDENT AUDITORS**

None.