

INDEPENDENT AUDITOR'S REPORT



KPMG Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.
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To the Board of Directors of Türkiye Cumhuriyeti Ziraat Bankası A.Ş.

A) Report on the Audit of the Consolidated Financial Statements

Qualified Opinion

We have audited the accompanying consolidated financial statements of Türkiye Cumhuriyeti Ziraat Bankası A.Ş. (the “Bank”) and its consolidated financial affiliates (together will be referred as to (the “Group”) which comprise the consolidated statement of financial position 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 notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, except for the effect of the matter described in the Basis for Qualified Opinion section of our report, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2017, and its financial performance and its 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 (“TAS”) for the matters not regulated by the aforementioned legislations.

Basis for Qualified Opinion

As mentioned in section five footnote II.9.4.1, the accompanying consolidated financial statements as at 31 December 2017 include a free reserve provision of TL 1,475,000 thousands, of which TL 530,000 thousands have been recognized as expense in the current period and the remaining portion had been recognized as expense in prior periods, which is provided by the Bank management for the possible effects of the negative circumstances which may arise in the economy or market conditions.

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

Key Audit Matters

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

Impairment of loans

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

<i>Key audit matter</i>	<i>How the matter is addressed in our audit</i>
<p>As of 31 December 2017, loans and other receivables comprise 69% of Group's total assets.</p> <p>The Group recognizes its loans and other receivables in accordance with the Regulation on Identification of and Provision against Non-Performing Loans and Other Receivables (the "Regulation") published on the Official Gazette No. 26333 dated 1 November 2006. In accordance with the mentioned Regulation, the assessment of impairment is basically related to the proper classification of loan and other receivables. The classification of loans and other receivables is performed in accordance with the criteria in the Regulation. Those include both objective and subjective criteria which management judgment is applied. Because of subjective criteria there is a risk of misclassification of loans and receivables which prevent any determination of impairment.</p> <p>Disclosures related to the Group's credit risk are presented in Section IV, No II "Explanations on the Consolidated Credit Risk.</p>	<p>Our procedures for testing the classification of loans and advances in accordance with the Regulation and key assumptions made by management include below:</p> <ul style="list-style-type: none"> · We tested the design and operating effectiveness of the controls on lending, collateralization, collection, follow-up, classification and impairment procedures. · We performed loan reviews for selected loan samples which include a detailed examination of loan files and related information. In this context, the current status of the loan customer has been evaluated. · We tested the appropriateness of the provisions in accordance with the Regulation.

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Pension plan

Refer to Section III No: XVII and Section V Note II.9.5.3 to the consolidated financial statements relating to the details of accounting policies and significant judgments for pension plan.

Key audit matter	How the matter was addressed in our audit
<p>The Group's defined benefit pension plan (the "Plan") is managed by "T.C. Ziraat Bankası ve T. Halk Bankası Mensupları Emekli ve Yardım Sandığı (TZHEMSAN) Vakfı" (the "Fund") established as per the provisional article 20 of the Social Security Law No. 506 and the Bank's employees are the members of this Fund (TZHEMSAN). As disclosed in the section III No XVII, the Plan is composed of benefits which are subject to transfer to Social Security Foundation ("SSF") as per the Social Security Law no.5510 provisional article 20, and other social rights and pension benefits provided by the Group that are not transferable to SSF. The Council of Ministers has been authorized to determine the transfer date. Following the transfer, the non-transferable social rights and pension benefits provided under the Plan will be covered by the funds and the institutions that employ the funds' members.</p> <p>As of 31 December 2017, the Group's transferrable liabilities are calculated by an independent actuary using the actuarial assumptions regulated by Law, and in accordance with the Decision of the Council of Ministers announced in the Official Gazette dated 15 December 2006 and No.26377. The valuation of the Pension Fund liabilities requires judgment in determining appropriate assumptions such as defining the transferrable social benefits, discount rates, salary increases, inflation levels, demographic assumptions, and the impact of changes in Pension Plan. Management uses independent actuaries to assist in assessing the uncertainty around these assumptions.</p> <p>Considering the subjectivity of key judgments and assumptions explained in Section V No: II.9.5.3, plus the uncertainty around the transfer date and basis of the transfer calculation given the fact that the technical interest rate is prescribed under the law, we considered this to be a key audit matter.</p>	<p>Our procedures for testing the defined benefit pension plan in accordance with the key assumptions made by management include below:</p> <ul style="list-style-type: none"> · We have involved our own actuarial specialist to assess the appropriateness of the actuarial assumptions and calculations performed by the external actuary. · We have assessed whether there have been any significant changes in actuarial assumptions, methods and underlying regulations used in calculations. Significant changes during the period in pension plan benefits, plan assets or membership profiles which affect liabilities have been evaluated. · Additionally, the adequacy of financial statement disclosures, including disclosures of key assumptions and judgments have been evaluated. · We have evaluated whether the TZHEMSAN plan assets are adequate to cover the Pension Plan liabilities, under the methods and assumptions used.

Other Matter

The consolidated financial statements of the Group as at and for the year ended 31 December 2016 was audited by another auditor who expressed a qualified opinion due to the free reserve provisions on 17 February 2017.

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

Management is responsible for the preparation and fair presentation of these 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 TSA 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 TSA we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

B) 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
23 February 2018
İstanbul, Turkey

Türkiye Cumhuriyeti Ziraat Bankası A.Ş.

THE CONSOLIDATED FINANCIAL REPORT OF TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş. AS OF 31 DECEMBER 2017

The Parent Bank's Headquarter Address: Anafartalar Mahallesi Atatürk Bulvarı
No: 8 06050-Altındağ/ANKARA
Phone: (312) 584 20 00
Facsimile: (312) 584 49 63
Website: www.ziraatbank.com.tr

The consolidated year end financial report includes the following sections in accordance with the "Communiqué on the Financial Statements and Related Explanation and Notes that will be Publicly Announced" as sanctioned by the Banking Regulation and Supervision Agency.

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

Within the framework of this financial report, our consolidated financial statements of subsidiaries, associates and jointly controlled entities are as follows:

DOMESTIC SUBSIDIARIES

Ziraat Hayat ve Emeklilik A.Ş.
Ziraat Sigorta A.Ş.
Ziraat Finansal Kiralama A.Ş.
Ziraat Yatırım Menkul Değerler A.Ş.
Ziraat Portföy Yönetimi A.Ş.
Ziraat Katılım Bankası A.Ş.
Ziraat Gayrimenkul Yatırım Ortaklığı A.Ş.

ASSOCIATES

Arap Türk Bankası A.Ş.

FOREIGN SUBSIDIARIES

Ziraat Bank International A.G.
Ziraat Bank BH d.d.
Ziraat Bank (Moscow) JSC
Kazakhstan Ziraat Int. Bank
Ziraat Bank Azerbaycan ASC
Ziraat Bank Montenegro AD
JSC Ziraat Bank Georgia
Ziraat Bank Uzbekistan JSC

JOINT VENTURES

Turkmen Turkish Joint Stock Commercial Bank

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



Muharrem KARSLI
Chairman of the Board,
Member of the Audit Committee



Hüseyin AYDIN
Member of the Board,
CEO



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



Ali KIRBAŞ
Banking Operations and Communication
Executive Vice President



Atakan BEKTAŞ
Senior Vice President
of Reporting and Data Management

For the questions regarding this financial report, contact details of the personnel in charge are presented below:

Name/Title : Serkan ÖZKAN/Financial Statements Manager
Telephone Number : 0312 584 59 32
Fax Number : 0312 584 59 38

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Türkiye Cumhuriyeti Ziraat Bankası A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2017

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

(Convenience Translation of Publicly Announced Unconsolidated Financial Statements Originally Issued in Turkish, See in Note I. of Section Three)

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, IF ANY

The foundation of Türkiye Cumhuriyeti Ziraat Bankası A.Ş. (“Ziraat Bankası”, “the Bank” or “the Parent Bank”) is based on Government Funds established in 1863. In 1883, Government Funds were replaced with Benefit Funds. The Bank was officially established by the re-organization of the Benefit Funds in 1888, to grant loans to farmers, to accept interest-bearing deposits and to act as a moneylender and an intermediary for agricultural operations. All shares of the Bank, which was given the authority to perform all the banking activities, belonged to the Republic of Turkey Prime Ministry Undersecretariat of Treasury (“Treasury”) transferred to the Turkish Wealth Fund with the decision of the Council of Ministers numbered 2017/9756 dated 24 January 2017. The Bank’s head office is located in Ankara.

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

The total share capital of the Parent Bank is TL 5,600,000. This capital is divided into 5,600,000,000 registered share with a nominal value of TL 1 each and is fully paid. The Parent Bank’s sole shareholder is the Turkish Wealth Fund.

The decision of increasing the capital of the Parent Bank by TL 500,000 to TL 5,600,000 is approved in General Assembly in 9 June 2017. Increase of capital and amendments according to the relevant materials of the Articles of Association was registered on 11 July 2017. It has been announced in the Trade Registry Gazette numbered 9367 dated 14 July 2017. The offsetting transactions of the mentioned capital increase was accounted on 3 August 2017 accordance with the permission from the Banking Regulation and Supervision Agency.

Türkiye Cumhuriyeti Ziraat Bankası A.Ş.

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III. INFORMATION ON THE BOARD OF DIRECTORS, MEMBERS OF THE AUDIT COMMITTEE, CEO AND EXECUTIVE VICE PRESIDENTS, CHANGES IN THESE MATTERS (IF ANY) AND SHARES OF THE PARENT BANK THEY POSSESS

Name	Administrative Function
Members of the Board of Directors	
Muharrem KARSLI	Chairman
Hüseyin AYDIN	CEO and Member
Yusuf DAĞCAN	Vice Chairman and Member
Cemalettin BAŞLI	Member
Feyzi ÇUTUR	Member
Metin ÖZDEMİR	Member
Mustafa ÇETİN	Member
Salim ALKAN	Member
Yusuf BİLMEZ	Member
Audit Committee Members	
Muharrem KARSLI	Member
Feyzi ÇUTUR	Member
Executive Vice Presidents	
Ali KIRBAŞ	Banking Operations and Communication
Alpaslan ÇAKAR	Payment Systems
Bilgehan KURU	Treasury and International Banking
Bülent SUER	Internal Operations
Mehmet Cengiz GÖĞEBAKAN	Loan Policies
Musa ARDA	Loan Allocation and Management
Peyami Ömer ÖZDİLEK	Human Resources
Süleyman TÜRETKEN	Branch Banking
Yüksel CESUR	Internal Systems

The Parent Bank’s Chairman and Members of the Board of Directors, Members of the Audit Committee, General Manager and Deputy General Managers do not own any shares of the Bank.

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

Name/Trade Name	Amount of Share	Percentage of Share %	Paid-in Shares	Unpaid Shares
Turkish Wealth Fund	5,600,000	100	5,600,000	-

The Parent Bank’s sole shareholder is the Turkish Wealth Fund.

Türkiye Cumhuriyeti Ziraat Bankası A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2017

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(Convenience Translation of Publicly Announced Unconsolidated Financial Statements Originally Issued in Turkish, See in Note I. of Section Three)

V. SUMMARY INFORMATION ON THE PARENT BANK’S ACTIVITIES AND SERVICES

The purpose of activity of the Parent Bank is stated in articles of association as to perform all kinds of banking activities including acceptance of deposits. For this purpose, the Parent Bank can perform all sorts of operations, without prejudice to the provisions of the banking regulations and other legislations, such as launching all kinds of cash and non-cash loans in terms of Turkish Lira and foreign currencies, acting as an intermediary in trade and issue of the financial instruments that are used in local and international markets, performing investment banking transactions, forwards dealing in domestic and foreign futures markets, providing funds from interbank money market, domestic and foreign markets, making all kinds of capital market transactions, acting as an intermediary in export and import transactions, acting as an agency for insurance and other financial institutions, participating in all sort of partnership that is founded by domestic or foreign banks or participated by them within the terms of the related legislation or establishing new partnerships for this purpose, performing all kinds of conservative transactions, such as; acquiring limited real and personal claims like all kinds of movable and immovable goods, industrial and intellectual properties, right of usufruct, easement, superficies and disposing and transferring acquired properties and rights, placing pledge and mortgage on those properties and rights, releasing pledged and mortgaged items and declaring leasing agreements and sale commitments to the Registry Office.

As of 31 December 2017, the Parent Bank carries its activities with a grand total of 1,781 branches; 1,759 domestic branches including 20 corporate branches, 95 entrepreneurial branches, 1,639 branches and 5 mobile branches (31 December 2016: 1,786 domestic branches including 1,606 branches, 20 corporate branches, 79 entrepreneurial branches, 76 dynamic entrepreneurial branches, 5 mobile branches) and 22 branches abroad London branch in England, Baghdad and Arbil branches in Iraq, Athens, Komotini, Xanthi and Rhodes branches in Greece, Sofia, Plovdiv, Kardzhali and Varna branches in Bulgaria, Jeddah branch in Saudi Arabia, Pristina branch in Kosovo, Bahrain branch in Bahrain, Lefkoşa, Girne, Güzelyurt, Gazimağusa, Gönnyeli, Akdoğan, Karaoğlanoğlu and İskele branches in Turkish Republic of Northern Cyprus. The Parent Bank also has a representative office in Tehran, Iran.

The Parent Bank signed a contract with T. İş Bankası A.Ş. on 22 January 2007 to provide longer installment plan and bonus points to their credit card users and benefit from all the advantages within Maximum credit card at merchants that are a part of Maximum plan. Also with this contract Ziraat Bank has the right to register members for Maximum. Transactions between the two banks are administered by Bankalararası Kart Merkezi. Moreover, the project, which was launched in 2017, has reached the final stage for the establishment of the card branding and loyalty program of Ziraat Bank and it is planned to be put into practice in February 2018. Within the scope of the program, the credit card product will be presented together to the users with the Bank card product by one plastic. In addition, bank card products and credit cards, where the Bank is the leader, will have new features that are winning and budget-friendly

Başakkart is a bank card through which demand deposit accounts and agricultural loan accounts can be linked. Bank can associate Başakkart with enterprise loans below TL 100 and agricultural loan limits in line with the demands of the customers. All limits of loan accounts assigned to the Başakkart can be used via POS machines of the Bank in Başakkart Member Business points for the purchase of agricultural inputs (feed, grain, fuel, etc.). According to preferences of customers, maximum 90% of cash limits of loan accounts can be used through the branches/ATMs of the Bank. Repayments regarding the transactions with Başakkart can be made through the branches of the Bank. Agricultural products/services obtained by using Başakkart are repaid without any interest charge within the time periods defined by the Bank.

The Parent Bank and consolidated subsidiaries which presented in Section Three, Note III are together referred as the “Group”.

As of 31 December 2017, the number of the Group’s employees is 26,918 (31 December 2016: 27,030).

Türkiye Cumhuriyeti Ziraat Bankası A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2017

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

(Convenience Translation of Publicly Announced Unconsolidated Financial Statements Originally Issued in Turkish, See in Note I. of Section Three)

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

According to Communiqué regarding the Preparation of the Consolidated Financial Statements and Turkish Accounting Standards, Arap Türk Bankası A.Ş., one of the associates of the Parent Bank, and Turkmen Turkish Joint Stock Commercial Bank which is an entity of Parent Bank under common control will be taken into the scope of consolidation “Equity Method” in accompanying consolidated financial statements of the Bank.

Ziraat Teknoloji A.Ş., which is subsidiary of the Bank, is not consolidated into the Bank’s consolidated financial statements in accordance with Communiqué of the Preparation Consolidated Financial Statements since this entity is not financial institution. Kredi Kayıt Bürosu and Bankalararası Kart Merkezi which are associates of the bank are not consolidated but carried at cost since these entities are not controlled by the Bank and are not financial subsidiaries.

All other subsidiaries are fully consolidated.

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

None.

SECTION TWO

FINANCIAL STATEMENTS

- I. Consolidated Balance Sheet
- II. Consolidated Statement of Off-balance sheet items
- III. Consolidated Income statement
- IV. Consolidated Statement of income and expense items accounted under shareholders’ equity
- V. Consolidated Statement of changes in shareholders’ equity
- VI. Consolidated Statement of cash flows
- VII. Statement of profit appropriation

Türkiye Cumhuriyeti Ziraat Bankası 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").)

(Convenience Translation of Publicly Announced Unconsolidated Financial Statements Originally Issued in Turkish, See in Note I. of Section Three)

I. CONSOLIDATED BALANCE SHEET (CONSOLIDATED STATEMENT OF FINANCIAL POSITION)		Note (Section Five I)	Current Period (31/12/2017)			Prior Period (31/12/2016)		
ASSETS	TL		FC	Total	TL	FC	Total	
I.	CASH BALANCES WITH THE CENTRAL BANK OF TURKEY	(1)	5,277,535	40,942,802	46,220,337	8,174,747	32,470,758	40,645,505
II.	FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT or (LOSS) (Net)	(2)	904,588	563,275	1,467,863	1,232,112	487,459	1,719,571
2.1	Financial Assets Held for Trading		904,588	563,275	1,467,863	1,232,112	487,459	1,719,571
2.1.1	Public Sector Debt Securities		24,367	37,470	61,837	35,694	5,131	40,825
2.1.2	Securities Representing a Share in Capital		5	-	5	-	-	-
2.1.3	Derivative Financial Assets Held for Trading	(3)	880,049	516,718	1,396,767	1,196,418	482,328	1,678,746
2.1.4	Other Marketable Securities		167	9,087	9,254	-	-	-
2.2	Financial Assets at Fair Value Through Profit or Loss		-	-	-	-	-	-
2.2.1	Public Sector Debt Securities		-	-	-	-	-	-
2.2.2	Securities Representing a Share in Capital		-	-	-	-	-	-
2.2.3	Loans		-	-	-	-	-	-
2.2.4	Other Marketable Securities		-	-	-	-	-	-
III.	BANKS	(4)	2,373,229	3,258,911	5,632,140	1,586,083	2,733,983	4,320,066
IV.	MONEY MARKET PLACEMENTS		40,122	92,263	132,385	33,968	218,976	252,944
4.1	Interbank Money Market Placements		-	24,171	24,171	-	113,813	113,813
4.2	Istanbul Stock Exchange Money Market Placements		38,043	-	38,043	30,800	-	30,800
4.3	Receivables from Reverse Repurchase Agreements		2,079	68,092	70,171	3,168	105,163	108,331
V.	FINANCIAL ASSETS AVAILABLE FOR SALE (Net)	(5, 6)	45,961,580	17,676,651	63,638,231	44,271,134	14,857,080	59,128,214
5.1	Securities Representing a Share in Capital		118,095	845,817	963,912	109,021	540,377	649,398
5.2	Public Sector Debt Securities		45,331,743	16,690,632	62,022,375	43,700,624	14,199,635	57,900,259
5.3	Other Marketable Securities		511,742	140,202	651,944	461,489	117,068	578,557
VI.	LOANS AND RECEIVABLES	(7)	231,413,967	85,606,521	317,020,488	173,678,548	70,395,797	244,074,345
6.1	Loans and Receivables		231,188,481	85,606,521	316,795,002	173,427,099	70,395,797	243,822,896
6.1.1	Loans Granted to Risk Group of The Bank		-	-	-	-	22,397	22,397
6.1.2	Public Sector Debt Securities		-	-	-	-	-	-
6.1.3	Other		231,188,481	85,606,521	316,795,002	173,427,099	70,373,400	243,800,499
6.2	Loans under Follow-up		4,790,067	238,900	5,028,967	4,210,742	169,748	4,380,490
6.3	Specific Provisions (-)		4,564,581	238,900	4,803,481	3,959,293	169,748	4,129,041
VII.	FACTORING RECEIVABLES		-	1,614	1,614	-	-	-
VIII.	INVESTMENTS HELD TO MATURITY (Net)	(8)	2,863,604	4,762,159	7,625,763	3,630,564	5,164,351	8,794,915
8.1	Public Sector Debt Securities		2,757,318	4,761,212	7,518,530	3,491,761	5,156,130	8,647,891
8.2	Other Marketable Securities		106,286	947	107,233	138,803	8,221	147,024
IX.	INVESTMENTS IN ASSOCIATES (Net)	(9)	127,251	1,168	128,419	104,935	951	105,886
9.1	Accounted with Equity Method		121,185	-	121,185	98,869	-	98,869
9.2	Unconsolidated Associates		6,066	1,168	7,234	6,066	951	7,017
9.2.1	Financial Associates		-	-	-	-	-	-
9.2.2	Non-financial Associates		6,066	1,168	7,234	6,066	951	7,017
X.	INVESTMENTS IN SUBSIDIARIES (Net)	(10)	7,583	-	7,583	7,457	-	7,457
10.1	Unconsolidated Financial Subsidiaries		1,346	-	1,346	1,220	-	1,220
10.2	Unconsolidated Non-Financial Subsidiaries		6,237	-	6,237	6,237	-	6,237
XI.	ENTITIES UNDER COMMON CONTROL (Net)	(11)	-	52,036	52,036	-	101,105	101,105
11.1	Accounted with Equity Method		-	52,036	52,036	-	101,105	101,105
11.2	Unconsolidated Entities Under Common Control		-	-	-	-	-	-
11.2.1	Financial Entities Under Common Control		-	-	-	-	-	-
11.2.2	Non Financial Entities Under Common Control		-	-	-	-	-	-
XII.	RECEIVABLES FROM LEASING TRANSACTIONS	(12)	852,715	2,028,804	2,881,519	705,449	1,778,218	2,483,667
12.1	Finance Lease Receivables		1,073,052	2,278,160	3,351,212	855,662	2,000,508	2,856,170
12.2	Operating Lease Receivables		-	-	-	-	-	-
12.3	Other		-	-	-	-	-	-
12.4	Unearned Income (-)		220,337	249,356	469,693	150,213	222,290	372,503
XIII.	DERIVATIVE FINANCIAL ASSETS FOR HEDGING PURPOSES	(13)	-	-	-	-	-	-
13.1	Fair Value Hedges		-	-	-	-	-	-
13.2	Cash Flow Hedges		-	-	-	-	-	-
13.3	Hedges for Investments Made in Foreign Countries		-	-	-	-	-	-
XIV.	TANGIBLE ASSETS (Net)	(16)	6,535,523	144,109	6,679,632	5,749,260	122,749	5,872,009
XV.	INTANGIBLE ASSETS (Net)	(17)	494,932	37,156	532,088	333,302	34,562	367,864
15.1	Goodwill		-	-	-	-	-	-
15.2	Other		494,932	37,156	532,088	333,302	34,562	367,864
XVI.	REAL ESTATES FOR INVESTMENT PURPOSE (Net)	(14)	-	-	-	643,290	-	643,290
XVII.	TAX ASSET		32,197	8,858	41,055	87,690	5,914	93,604
17.1	Current Tax Asset		5,741	5,520	11,261	1,121	5,914	7,035
17.2	Deferred Tax Asset	(18)	26,456	3,338	29,794	86,569	-	86,569
XVIII.	ASSETS HELD FOR SALE AND ASSETS HELD FROM DISCONTINUED OPERATIONS (Net)	(15)	674,731	88	674,819	562,983	32	563,015
18.1	Held for Sale		674,731	88	674,819	562,983	32	563,015
18.2	Held from Discontinued Operations		-	-	-	-	-	-
XIX.	OTHER ASSETS	(19)	2,858,008	1,332,149	4,190,157	1,398,325	1,310,143	2,708,468
TOTAL ASSETS			300,417,565	156,508,564	456,926,129	242,199,847	129,682,078	371,881,925

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

Türkiye Cumhuriyeti Ziraat Bankası 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").)

(Convenience Translation of Publicly Announced Unconsolidated Financial Statements Originally Issued in Turkish, See in Note I. of Section Three)

I. CONSOLIDATED BALANCE SHEET (CONSOLIDATED STATEMENT OF FINANCIAL POSITION)							
LIABILITIES AND EQUITY	Note (Section Five II)	Current Period (31/12/2017)			Prior Period (31/12/2016)		
		TL	FC	Total	TL	FC	Total
I. DEPOSITS	(1)	167,014,412	115,555,201	282,569,613	152,475,037	80,436,956	232,911,993
1.1 Deposits Held By the Risk Group of the Bank		30,053	14,053	44,106	33,645	18,875	52,520
1.2 Other		166,984,359	115,541,148	282,525,507	152,441,392	80,418,081	232,859,473
II. DERIVATIVE FINANCIAL LIABILITIES HELD FOR TRADING	(2)	235,506	313,404	548,910	239,703	413,662	653,365
III. FUNDS BORROWED	(3)	1,763,056	29,355,197	31,118,253	1,338,546	23,087,983	24,426,529
IV. MONEY MARKET BALANCES		43,189,819	13,119,704	56,309,523	35,075,206	12,270,423	47,345,629
4.1 Interbank Money Market Borrowings		41,850,000	19,335	41,869,335	4,640,000	-	4,640,000
4.2 Istanbul Stock Exchange Takasbank Borrowings		-	-	-	50,000	-	50,000
4.3 Funds Provided under Repurchase Agreements	(4)	1,339,819	13,100,369	14,440,188	30,385,206	12,270,423	42,655,629
V. MARKETABLE SECURITIES ISSUED (Net)	(5)	4,298,047	9,176,233	13,474,280	2,390,059	4,680,692	7,070,751
5.1 Bills		3,562,491	-	3,562,491	2,156,778	-	2,156,778
5.2 Asset-backed Securities		557,804	-	557,804	101,459	-	101,459
5.3 Bonds		177,752	9,176,233	9,353,985	131,822	4,680,692	4,812,514
VI. FUNDS		6,030,575	-	6,030,575	6,020,839	-	6,020,839
6.1 Borrower Funds		-	-	-	-	-	-
6.2 Other		6,030,575	-	6,030,575	6,020,839	-	6,020,839
VII. MISCELLANEOUS PAYABLES		2,474,671	1,668,719	4,143,390	1,305,967	1,260,934	2,566,901
VIII. OTHER LIABILITIES	(6)	1,947,850	628,104	2,575,954	3,046,595	479,291	3,525,886
IX. FACTORING PAYABLES		-	-	-	-	-	-
X. PAYABLES FROM LEASING TRANSACTIONS (Net)	(7)	-	-	-	-	-	-
10.1 Finance Lease Payables		-	-	-	-	-	-
10.2 Operating Lease Payables		-	-	-	-	-	-
10.3 Other		-	-	-	-	-	-
10.4 Deferred Finance Lease Expenses (-)		-	-	-	-	-	-
XI. DERIVATIVE FINANCIAL LIABILITIES FOR HEDGING	(8)	-	-	-	-	-	-
11.1 Fair Value Hedges		-	-	-	-	-	-
11.2 Cash Flow Hedges		-	-	-	-	-	-
11.3 Hedges for Investments Made in Foreign Countries		-	-	-	-	-	-
XII. PROVISIONS	(9)	10,170,466	191,571	10,362,037	7,378,704	159,957	7,538,661
12.1 General Provisions		5,500,371	134,827	5,635,198	3,983,630	58,795	4,042,425
12.2 Restructuring Provisions		-	-	-	-	-	-
12.3 Employee Benefits Provisions		1,325,862	3,058	1,328,920	885,586	1,888	887,474
12.4 Insurance Technical Reserves (Net)		1,514,046	-	1,514,046	1,294,767	-	1,294,767
12.5 Other Provisions		1,830,187	53,686	1,883,873	1,214,721	99,274	1,313,995
XIII. TAX LIABILITY	(10)	1,304,963	5,475	1,310,438	899,544	10,030	909,574
13.1 Current Tax Liability		999,597	3,741	1,003,338	899,544	6,567	906,111
13.2 Deferred Tax Liability		305,366	1,734	307,100	-	3,463	3,463
XIV. LIABILITIES FOR ASSETS HELD FOR SALE AND HELD FROM DISCONTINUED OPERATIONS (Net)	(11)	-	-	-	-	-	-
14.1 Held for Sale		-	-	-	-	-	-
14.2 Held from Discontinued Operations		-	-	-	-	-	-
XV. SUBORDINATED LOANS	(12)	-	-	-	-	-	-
XVI. SHAREHOLDERS' EQUITY	(13)	47,619,530	863,626	48,483,156	39,451,361	(539,564)	38,911,797
16.1 Paid-in Capital		5,600,000	-	5,600,000	5,100,000	-	5,100,000
16.2 Capital Reserves		2,168,384	863,626	3,032,010	3,270,984	(539,564)	2,731,420
16.2.1 Share Premium		-	-	-	-	-	-
16.2.2 Share Cancellation Profits		-	-	-	-	-	-
16.2.3 Marketable Securities Valuation Differences		(1,798,011)	844,055	(953,956)	(844,719)	(549,296)	(1,394,015)
16.2.4 Tangible Assets Revaluation Reserves		4,051,876	12,475	4,064,351	4,178,008	9,732	4,187,740
16.2.5 Intangible Assets Revaluation Reserves		-	-	-	-	-	-
16.2.6 Revaluation Reserves of Real Estates for Investment Purpose		-	-	-	-	-	-
16.2.7 Bonus Shares of Subsidiaries, Associates and Entities Under Common Control		17,388	-	17,388	17,388	-	17,388
16.2.8 Hedging Funds (Effective Portion)		-	-	-	-	-	-
16.2.9 Value Increase on Assets Held for Sale		-	-	-	-	-	-
16.2.10 Other Capital Reserves		(102,869)	7,096	(95,773)	(79,693)	-	(79,693)
16.3 Profit Reserves		30,317,558	-	30,317,558	22,871,718	-	22,871,718
16.3.1 Legal Reserves		3,824,868	-	3,824,868	3,393,778	-	3,393,778
16.3.2 Statutory Reserves		-	-	-	-	-	-
16.3.3 Extraordinary Reserves		24,836,410	-	24,836,410	18,052,605	-	18,052,605
16.3.4 Other Profit Reserves		1,656,280	-	1,656,280	1,425,335	-	1,425,335
16.4 Profit or Loss		9,531,923	-	9,531,923	8,207,208	-	8,207,208
16.4.1 Prior Years Profit/Loss		647,804	-	647,804	1,322,284	-	1,322,284
16.4.2 Net Period Profit/Loss		8,884,119	-	8,884,119	6,884,924	-	6,884,924
16.5 Minority Shares		1,665	-	1,665	1,451	-	1,451
TOTAL LIABILITIES AND EQUITY		286,048,895	170,877,234	456,926,129	249,621,561	122,260,364	371,881,925

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

Türkiye Cumhuriyeti Ziraat Bankası A.Ş.

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

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

(Convenience Translation of Publicly Announced Unconsolidated Financial Statements Originally Issued in Turkish, See in Note I. of Section Three)

II. CONSOLIDATED STATEMENT OF OFF-BALANCE SHEET COMMITMENTS	Note (Section Five III)	Current Period (31/12/2017)			Prior Period (31/12/2016)		
		TL	FC	Total	TL	FC	Total
A OFF-BALANCE SHEET COMMITMENTS (I+II+III)		73,022,242	160,157,172	233,179,414	61,626,173	127,615,763	189,241,936
I. GUARANTEES AND WARRANTIES	(1),(3)	36,067,838	66,258,784	102,326,622	26,076,864	56,644,251	82,721,115
1.1 Letters of Guarantee		35,800,639	45,354,359	81,154,998	25,872,985	42,719,354	68,592,339
1.1.1 Guarantees Subject to State Tender Law		1,676,924	8,472,455	10,149,379	1,490,146	7,994,602	9,484,748
1.1.2 Guarantees Given for Foreign Trade Operations		30,334,670	34,377,923	64,712,593	21,980,667	33,311,238	55,291,905
1.1.3 Other Letters of Guarantee		3,789,045	2,503,981	6,293,026	2,402,172	1,413,514	3,815,686
1.2 Bank Acceptances		30,004	6,277,094	6,307,098	34,549	4,227,349	4,261,898
1.2.1 Import Letter of Acceptance		30,004	6,270,461	6,300,465	29,427	4,224,206	4,253,633
1.2.2 Other Bank Acceptances		-	6,633	6,633	5,122	3,143	8,265
1.3 Letters of Credit		233,745	14,291,714	14,525,459	157,159	9,170,443	9,327,602
1.3.1 Documentary Letters of Credit		233,745	14,202,295	14,436,040	157,159	9,125,262	9,282,421
1.3.2 Other Letters of Credit		-	89,419	89,419	-	45,181	45,181
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 Purchase Guarantees on Marketable Security Issuance		-	-	-	-	-	-
1.7 Factoring Guarantees		-	1,635	1,635	-	-	-
1.8 Other Guarantees		3,450	329,962	333,412	12,000	520,131	532,131
1.9 Other Collaterals		-	4,020	4,020	171	6,974	7,145
II. COMMITMENTS	(1),(3)	23,846,740	11,162,799	35,009,539	18,528,082	6,321,850	24,849,932
2.1 Irrevocable Commitments		23,810,655	8,857,039	32,667,694	18,508,007	5,047,801	23,555,808
2.1.1 Asset Purchase and Sale Commitments		232,731	4,596,925	4,829,656	372,517	1,764,007	2,136,524
2.1.2 Deposit Purchase and Sales Commitments		-	-	-	-	-	-
2.1.3 Share Capital Commitments to Associates and Subsidiaries		-	-	-	-	-	-
2.1.4 Loan Granting Commitments		5,048,840	15,021	5,063,861	3,538,378	204,109	3,742,487
2.1.5 Securities Issue Brokerage Commitments		-	-	-	-	-	-
2.1.6 Commitments for Reserve Deposit Requirements		-	-	-	-	-	-
2.1.7 Commitments for Cheques		3,761,911	23	3,761,934	3,173,733	34	3,173,767
2.1.8 Tax and Fund Liabilities from Export Commitments		1,966	-	1,966	458	-	458
2.1.9 Commitments for Credit Card Limits		8,645,831	19,817	8,665,648	7,258,758	17,155	7,275,913
2.1.10 Commitments for Credit Cards and Banking Services Promotions		26,137	-	26,137	22,138	-	22,138
2.1.11 Receivables from Short Sale Commitments of Marketable Securities		-	-	-	-	-	-
2.1.12 Payables for Short Sale Commitments of Marketable Securities		-	-	-	-	-	-
2.1.13 Other Irrevocable Commitments		6,093,239	4,225,253	10,318,492	4,142,025	3,062,496	7,204,521
2.2 Revocable Commitments		36,085	2,305,760	2,341,845	20,075	1,274,049	1,294,124
2.2.1 Revocable Loan Granting Commitments		-	3,356	3,356	-	3,966	3,966
2.2.2 Other Revocable Commitments		36,085	2,302,404	2,338,489	20,075	1,270,083	1,290,158
III. DERIVATIVE FINANCIAL INSTRUMENTS	(2)	13,107,664	82,735,589	95,843,253	17,021,227	64,649,662	81,670,889
3.1 Hedging Derivative Financial Instruments		-	-	-	-	-	-
3.1.1 Transactions for Fair Value Hedge		-	-	-	-	-	-
3.1.2 Transactions for Cash Flow Hedge		-	-	-	-	-	-
3.1.3 Transactions for Foreign Net Investment Hedge		-	-	-	-	-	-

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

Türkiye Cumhuriyeti Ziraat Bankası A.Ş.

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

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

(Convenience Translation of Publicly Announced Unconsolidated Financial Statements Originally Issued in Turkish, See in Note I. of Section Three)

II. CONSOLIDATED STATEMENT OF OFF-BALANCE SHEET COMMITMENTS		Note (Section Five III)	Current Period (31/12/2017)			Prior Period (31/12/2016)		
			TL	FC	Total	TL	FC	Total
3.2.1	Forward Foreign Currency Buy/Sell Transactions		3,617,638	5,662,634	9,280,272	1,353,480	3,719,751	5,073,231
3.2.1.1	Forward Foreign Currency Transactions-Buy		1,536,329	3,100,467	4,636,796	628,181	1,913,250	2,541,431
3.2.1.2	Forward Foreign Currency Transactions-Sell		2,081,309	2,562,167	4,643,476	725,299	1,806,501	2,531,800
3.2.2	Swap Transactions Related to Foreign Currency and Interest Rates		9,122,190	76,717,313	85,839,503	15,656,747	60,918,593	76,575,340
3.2.2.1	Foreign Currency Swap-Buy		426,798	37,618,583	38,045,381	13,485,251	20,739,673	34,224,924
3.2.2.2	Foreign Currency Swap-Sell		8,695,392	28,602,108	37,297,500	2,171,496	30,856,286	33,027,782
3.2.2.3	Interest Rate Swap-Buy		-	5,248,311	5,248,311	-	4,661,317	4,661,317
3.2.2.4	Interest Rate Swap-Sell		-	5,248,311	5,248,311	-	4,661,317	4,661,317
3.2.3	Foreign Currency, Interest rate and Securities Options		367,836	355,642	723,478	11,000	11,318	22,318
3.2.3.1	Foreign Currency Options-Buy		183,918	177,821	361,739	5,500	5,659	11,159
3.2.3.2	Foreign Currency Options-Sell		183,918	177,821	361,739	5,500	5,659	11,159
3.2.3.3	Interest Rate Options-Buy		-	-	-	-	-	-
3.2.3.4	Interest Rate Options-Sell		-	-	-	-	-	-
3.2.3.5	Securities Options-Buy		-	-	-	-	-	-
3.2.3.6	Securities Options-Sell		-	-	-	-	-	-
3.2.4	Foreign Currency Futures		-	-	-	-	-	-
3.2.4.1	Foreign Currency Futures-Buy		-	-	-	-	-	-
3.2.4.2	Foreign Currency Futures-Sell		-	-	-	-	-	-
3.2.5	Interest Rate Futures		-	-	-	-	-	-
3.2.5.1	Interest Rate Futures-Buy		-	-	-	-	-	-
3.2.5.2	Interest Rate Futures-Sell		-	-	-	-	-	-
3.2.6	Other		-	-	-	-	-	-
B.	CUSTODY AND PLEDGES RECEIVED (IV+V+VI)		1,132,404,895	169,456,560	1,301,861,455	933,725,665	147,072,049	1,080,797,714
IV.	ITEMS HELD IN CUSTODY		367,086,784	19,908,153	386,994,937	251,122,581	14,575,165	265,697,746
4.1	Customer Fund and Portfolio Balances		-	-	-	-	-	-
4.2	Investment Securities Held in Custody		8,329,436	7,039,458	15,368,894	3,549,338	6,213,402	9,762,740
4.3	Checks Received for Collection		9,077,998	938,449	10,016,447	6,276,854	553,317	6,830,171
4.4	Commercial Notes Received for Collection		8,110,316	569,700	8,680,016	6,345,097	568,396	6,913,493
4.5	Other Assets Received for Collection		8,816	-	8,816	8,834	-	8,834
4.6	Assets Received for Public Offering		328,865,001	8,857	328,873,858	230,498,311	3,354	230,501,665
4.7	Other Items Under Custody		12,693,018	11,200,593	23,893,611	4,441,948	7,179,931	11,621,879
4.8	Custodians		2,199	151,096	153,295	2,199	56,765	58,964
V.	PLEDGES RECEIVED		764,354,880	147,468,325	911,823,205	682,010,015	130,623,295	812,633,310
5.1	Marketable Securities		2,713,833	383,446	3,097,279	1,557,574	37,532	1,595,106
5.2	Guarantee Notes		16,070,650	2,895,574	18,966,224	14,412,792	2,535,527	16,948,319
5.3	Commodity		1,923,260	81,296	2,004,556	1,508,261	70,224	1,578,485
5.4	Warranty		-	-	-	-	-	-
5.5	Immovable		670,555,120	110,699,922	781,255,042	601,855,777	103,085,496	704,941,273
5.6	Other Pledged Items		73,086,808	33,393,966	106,480,774	62,670,402	24,881,798	87,552,200
5.7	Pledged Items-Depository		5,209	14,121	19,330	5,209	12,718	17,927
VI.	ACCEPTED INDEPENDENT GUARANTEES AND WARRANTIES		963,231	2,080,082	3,043,313	593,069	1,873,589	2,466,658
TOTAL OFF-BALANCE SHEET COMMITMENTS (A+B)			1,205,427,137	329,613,732	1,535,040,869	995,351,838	274,687,812	1,270,039,650

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

Türkiye Cumhuriyeti Ziraat Bankası A.Ş.

CONSOLIDATED STATEMENT OF INCOME AS OF 31 DECEMBER 2017

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

(Convenience Translation of Publicly Announced Unconsolidated Financial Statements Originally Issued in Turkish, See in Note I. of Section Three)

III. CONSOLIDATED INCOME STATEMENT		Note (Section Five IV)	Current Period 01/01-31/12/2017	Prior Period 01/01-31/12/2016
	INCOME AND EXPENSE ITEMS			
I.	INTEREST INCOME	(1)	37,104,621	28,245,867
1.1	Interest Income from Loans		29,559,462	22,087,279
1.2	Interest Income from Reserve Deposits		395,544	189,263
1.3	Interest Income from Banks		271,352	220,658
1.4	Interest Income from Money Market Placements		347,886	12,888
1.5	Interest Income from Marketable Securities		6,250,242	5,527,745
1.5.1	Financial Assets Held for Trading		6,138	3,300
1.5.2	Financial Assets at Fair Value through Profit and Loss		-	6,757
1.5.3	Financial Assets Available-for-Sale		5,579,005	4,736,009
1.5.4	Investments Held-to-Maturity		665,099	781,679
1.6	Finance Lease Income		197,759	169,087
1.7	Other Interest Income		82,376	38,947
II.	INTEREST EXPENSES	(2)	18,990,284	13,571,301
2.1	Interest Expense on Deposits		12,605,985	10,058,576
2.2	Interest on Borrowings		721,937	527,712
2.3	Interest on Money Market Borrowings		4,848,800	2,532,653
2.4	Interest on Marketable Securities Issued		724,924	397,521
2.5	Other Interest Expense		88,638	54,839
III.	NET INTEREST INCOME/EXPENSES (I - II)		18,114,337	14,674,566
IV.	NET FEES AND COMMISSIONS INCOME/EXPENSES		1,943,504	1,516,567
4.1	Fees and Commissions Received		2,406,518	1,874,407
4.1.1	Non-cash Loans		506,128	358,369
4.1.2	Other	(12)	1,900,390	1,516,038
4.2	Fees and Commissions Paid		463,014	357,840
4.2.1	Non-cash Loans		560	4,624
4.2.2	Other		462,454	353,216
V.	DIVIDEND INCOME	(3)	7,749	32,901
VI.	TRADING PROFIT/LOSS (Net)	(4)	(845,653)	(169,993)
6.1	Profit/Loss from Capital Market Operations		44,164	31,757
6.2	Profit/losses on Derivative Financial Transactions		(865,123)	(1,817,527)
6.3	Profit/Loss from Foreign Exchanges		(24,694)	1,615,777
VII.	OTHER OPERATING INCOME	(5)	3,737,922	3,227,587
VIII.	TOTAL OPERATING INCOMES/EXPENSES (III+IV+V+VI+VII)		22,957,859	19,281,628
IX.	PROVISION FOR LOSSES ON LOANS OR OTHER RECEIVABLES (-)	(6)	3,493,344	3,576,252
X.	OTHER OPERATING EXPENSES (-)	(7)	7,969,003	6,687,827
XI.	NET OPERATING PROFIT/LOSS (VIII-IX-X)		11,495,512	9,017,549
XII.	GAINS RECORDED AFTER MERGER		-	-
XIII.	PROFIT/LOSS ON EQUITY METHOD APPLIED SUBSIDIARIES		20,359	21,914
XIV.	GAIN/LOSS ON NET MONETARY POSITION		-	-
XV.	INCOME BEFORE TAXES FROM CONTINUING OPERATIONS (XI+...+XIV)	(8)	11,515,871	9,039,463
XVI.	PROVISION FOR TAXES ON INCOME FROM CONTINUING OPERATIONS (±)	(9)	(2,631,539)	(2,154,328)
16.1	Current Tax Provision		(2,601,014)	(2,061,503)
16.2	Deferred Tax Provision		(30,525)	(92,825)
XVII.	NET PROFIT/LOSSES FROM CONTINUING OPERATIONS (XV±XVI)	(10)	8,884,332	6,885,135
XVIII.	INCOME FROM DISCONTINUED OPERATIONS		-	-
18.1	Income from Non-current Assets Held for Sale		-	-
18.2	Profit from Sales of Associates, Subsidiaries and Joint Ventures (Business Partners)		-	-
18.3	Other Income from Discontinued Operations		-	-
XIX.	EXPENSES FROM DISCONTINUED OPERATIONS (-)		-	-
19.1	Expenses for Non-current Assets Held for Sale		-	-
19.2	Loss from Sales of Associates, Subsidiaries and Joint Ventures (Business Partners)		-	-
19.3	Other Expenses from Discontinued Operations		-	-
XX.	PROFIT/LOSSES BEFORE TAXES FROM DISCONTINUED OPERATIONS (XVIII-XIX)		-	-
XXI.	PROVISION FOR INCOME TAXES FROM DISCONTINUED OPERATIONS (±)		-	-
21.1	Current tax provision		-	-
21.2	Deferred tax provision		-	-
XXII.	NET PROFIT/LOSSES FROM DISCONTINUED OPERATIONS (XX±XXI)		-	-
XXIII.	NET PROFIT/LOSSES (XVII+XXII)	(11)	8,884,332	6,885,135
23.1	Group's Profit/Loss		8,884,119	6,884,924
23.2	Minority Shares Profit/Loss		213	211
	Earnings/Loss per Share		1.675	1.361

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

Türkiye Cumhuriyeti Ziraat Bankası A.Ş.

CONSOLIDATED STATEMENT OF INCOME AND EXPENSE ITEMS ACCOUNTED UNDER SHAREHOLDERS' EQUITY AS OF 31 DECEMBER

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

(Convenience Translation of Publicly Announced Unconsolidated Financial Statements Originally Issued in Turkish, See in Note I. of Section Three)

IV. CONSOLIDATED STATEMENT OF INCOME AND EXPENSE ITEMS ACCOUNTED UNDER SHAREHOLDERS' EQUITY		
PROFIT AND LOSS ITEMS ACCOUNTED UNDER SHAREHOLDERS' EQUITY	Current Period (01/01-31/12/2017)	Prior Period (01/01-31/12/2016)
I. ADDITIONS TO THE MARKETABLE SECURITY VALUATION DIFFERENCES ON AVAILABLE FOR SALE FINANCIAL ASSETS	564,179	(1,142,948)
II. TANGIBLE ASSETS REVALUATION DIFFERENCES	93,433	793,533
III. INTANGIBLE ASSETS REVALUATION DIFFERENCES	-	-
IV. CURRENCY TRANSLATION DIFFERENCES FOR FOREIGN CURRENCY TRANSACTIONS	424,682	169,453
V. PROFIT OR LOSS ON CASH FLOW HEDGE DERIVATIVE FINANCIAL ASSETS (Effective Part of Fair Value Differences)	-	-
VI. PROFIT/LOSS FROM FOREIGN INVESTMENT HEDGE DERIVATIVE FINANCIAL ASSETS (Effective Part of Fair Value Changes)	-	-
VII. EFFECTS OF CHANGES IN ACCOUNTING POLICY AND ADJUSTMENT OF ERRORS	-	-
VIII. OTHER INCOME AND EXPENSE ITEMS ACCOUNTED UNDER SHAREHOLDERS' EQUITY ACCORDING TO TAS	(51,321)	6,909
IX. DEFERRED TAXES RELATED TO VALUATION DIFFERENCES	(330,677)	(88,539)
X. NET PROFIT OR LOSS ACCOUNTED DIRECTLY UNDER SHAREHOLDERS' EQUITY (I+II+...+IX)	700,296	(261,592)
XI. CURRENT YEAR PROFIT/LOSS	8,884,332	6,885,135
11.1 Net change in fair value of marketable securities (transfer to profit-loss)	44,164	31,757
11.2 Reclassification of cash flow hedge transactions and presentation of the related under income statement	-	-
11.3 Reclassification of foreign net investment hedge transactions and presentation of the related part under income statement	-	-
11.4 Other	8,840,168	6,853,378
XII. TOTAL PROFIT/LOSS RELATED TO THE PERIOD (X±XI)	9,584,628	6,623,543

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

Türkiye Cumhuriyeti Ziraat Bankası A.Ş.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AS OF 31 DECEMBER 2016

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

(Convenience Translation of Publicly Announced Unconsolidated Financial Statements Originally Issued in Turkish, See in Note I. of Section Three)

V. CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

31 December 2016		Note (Section Five V)	Paid-in Capital	Adjustment to Paid-in Capital	Share Premium	Share Cancl. Profits	Legal Reserves	Statutory Reserves
I.	Balances at beginning of the period		5,000,000	-	-	-	3,061,444	-
	Changes During the Period							
II.	Increase/Decrease Related to Merger		-	-	-	-	-	-
III.	Marketable Securities Valuation Differences		-	-	-	-	21,038	-
IV.	Hedging Funds (Active Part)		-	-	-	-	-	-
4.1	Cash-Flow Hedge		-	-	-	-	-	-
4.2	Hedges for Investments Made in Foreign Countries		-	-	-	-	-	-
V.	Revaluation Differences of Tangible Assets		-	-	-	-	-	-
VI.	Revaluation Differences of Intangible Assets		-	-	-	-	-	-
VII.	Bonus Shares of Associates, Subsidiaries and Entities under Common Control (Business Partners)		-	-	-	-	-	-
VIII.	Foreign Exchange Differences		-	-	-	-	28,972	-
IX.	Changes Resulted from Disposal of Assets		-	-	-	-	-	-
X.	Changes Resulted from Reclassification of Assets		-	-	-	-	-	-
XI.	Effect of Changes in Shareholders' Equity of Associates to the Bank's Shareholders' Equity		-	-	-	-	-	-
XII.	Increase in Capital		100,000	-	-	-	-	-
12.1	Cash		72,000	-	-	-	-	-
12.2	From Internal Resources		28,000	-	-	-	-	-
XIII.	Issuance of Share Certificates		-	-	-	-	-	-
XIV.	Share Cancellation Profits		-	-	-	-	-	-
XV.	Adjustment to Paid-in Capital		-	-	-	-	-	-
XVI.	Other		-	-	-	-	-	-
XVII.	Net Profit or Losses		-	-	-	-	-	-
XVIII.	Profit Distribution		-	-	-	-	282,324	-
18.1	Dividend Distributed		-	-	-	-	-	-
18.2	Transfers to Legal Reserves		-	-	-	-	282,324	-
18.3	Other		-	-	-	-	-	-
	Balance at the End of the Period (I+II+III+.....+XVI+ XVII+XVIII)		5,100,000	-	-	-	3,393,778	-

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

Extraordinary Reserves	Other Reserves	Current Period Net Profit/(Loss)	Prior Period Net Profit/(Loss)	Marketable Sec. Valuation Differences	Rev. Diff. in Tangible and Intang. Assets	Bonus Shares from Investments	Hedging Funds	Rev. Diff. in Tangible Held for Sale/Disc. Operat.	Minority Shares	Total Equity
13,659,246	1,340,115	-	5,564,157	(505,167)	3,614,614	17,388	-	-	1,145	31,752,942
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	(1,029,329)	-	-	-	-	(1,407)	(1,009,698)
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	573,126	-	-	-	-	573,126
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	140,481	-	-	-	-	-	169,453
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
(28,000)	-	-	-	-	-	-	-	-	-	72,000
(28,000)	-	-	-	-	-	-	-	-	-	72,000
-	-	-	-	-	-	-	-	-	-	-
-	5,527	-	920,597	-	-	-	-	-	1,502	927,626
-	-	6,884,924	-	-	-	-	-	-	211	6,885,135
4,421,359	-	-	(5,162,470)	-	-	-	-	-	-	(458,787)
-	-	-	(458,787)	-	-	-	-	-	-	(458,787)
4,421,359	-	-	(4,703,683)	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
18,052,605	1,345,642	6,884,924	1,322,284	(1,394,015)	4,187,740	17,388	-	-	1,451	38,911,797

Türkiye Cumhuriyeti Ziraat Bankası A.Ş.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AS OF 31 DECEMBER 2017

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

(Convenience Translation of Publicly Announced Unconsolidated Financial Statements Originally Issued in Turkish, See in Note I. of Section Three)

V. CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Note (Section Five V)	Paid-in Capital	Adjustment to Paid-in Capital	Share Premium	Share Cancl. Profits	Legal Reserves	Statutory Reserves
31 December 2017							
I. Balance at the Beginning of the Period		5,100,000	-	-	-	3,393,778	-
Changes During the Period							
II. Increase/Decrease Related to Merger		-	-	-	-	-	-
III. Marketable Securities Valuation Differences		-	-	-	-	-	-
IV. Hedging Funds (Active Part)		-	-	-	-	-	-
4.1 Cash-Flow Hedge		-	-	-	-	-	-
4.2 Hedges for Investments Made in Foreign Countries		-	-	-	-	-	-
V. Revaluation Differences of Tangible Assets		-	-	-	-	-	-
VI. Revaluation Differences of Intangible Assets		-	-	-	-	-	-
VII. Bonus Shares of Associates, Subsidiaries and Entities under Common Control (Business Partners)		-	-	-	-	-	-
VIII. Foreign Exchange Differences		-	-	-	-	-	-
IX. Changes Resulted from Disposal of Assets		-	-	-	-	-	-
X. Changes Resulted from Reclassification of Assets		-	-	-	-	-	-
XI. Effect of Changes in Shareholders' Equity of Associates to the Bank's Shareholders' Equity		-	-	-	-	-	-
XII. Increase in Capital		500,000	-	-	-	-	-
12.1 Cash		500,000	-	-	-	-	-
12.2 From Internal Resources		-	-	-	-	-	-
XIII. Issuance of Share Certificates		-	-	-	-	-	-
XIV. Share Cancellation Profits		-	-	-	-	-	-
XV. Adjustment to Paid-in Capital		-	-	-	-	-	-
XVI. Other		-	-	-	-	-	-
XVII. Net Profit or Losses		-	-	-	-	-	-
XVIII. Profit Distribution		-	-	-	-	431,090	-
18.1 Dividend Distributed		-	-	-	-	-	-
18.2 Transfers to Legal Reserves		-	-	-	-	431,090	-
18.3 Other		-	-	-	-	-	-
Balance at the End of the Period (I+II+III+.....+ XVI+XVII+XVIII)		5,600,000	-	-	-	3,824,868	-

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

	Extraordinary Reserves	Other Reserves	Current Period Net Profit/(Loss)	Prior Period Net Profit/(Loss)	Marketable Sec. Valuation Differences	Rev. Diff. in Tangible and Intang. Assets	Bonus Shares from Investments	Hedging Funds	Rev. Diff. in Tangible Held for Sale/Disc. Operat.	Minority Shares	Total Equity
	18,052,605	1,345,642	-	8,207,208	(1,394,015)	4,187,740	17,388	-	-	1,451	38,911,797
	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	440,059	-	-	-	-	1	440,060
	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	(123,389)	-	-	-	-	(123,389)
	-	-	-	-	-	-	-	-	-	-	-
	-	424,682	-	-	-	-	-	-	-	-	424,682
	-	-	-	-	-	-	-	-	-	-	-
	-	(16,966)	-	7,448	-	-	-	-	-	-	(9,518)
	-	-	-	-	-	-	-	-	-	-	500,000
	-	-	-	-	-	-	-	-	-	-	500,000
	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-
	-	(41,057)	-	-	-	-	-	-	-	-	(41,057)
	-	-	8,884,119	-	-	-	-	-	-	-	8,884,332
	6,783,805	(151,794)	-	(7,566,852)	-	-	-	-	-	213	(503,751)
	-	-	-	(503,751)	-	-	-	-	-	-	(503,751)
	6,783,805	(151,794)	-	(7,063,101)	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-
	24,836,410	1,560,507	8,884,119	647,804	(953,956)	4,064,351	17,388	-	-	1,665	48,483,156

Türkiye Cumhuriyeti Ziraat Bankası A.Ş.
**CONSOLIDATED STATEMENT OF
 CASH FLOWS AS OF 31 DECEMBER 2017**

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

(Convenience Translation of Publicly Announced Unconsolidated Financial Statements Originally Issued in Turkish, See in Note I. of Section Three)

VI. CONSOLIDATED STATEMENT OF CASH FLOWS		Note (Section Five VI)	Current Period 31/12/2017	Prior Period 31/12/2016
A.	CASH FLOWS FROM BANKING OPERATIONS			
1.1	Operating Profit Before Changes in Operating Assets and Liabilities		7,704,826	8,121,027
1.1.1	Interest Received		35,748,972	27,012,143
1.1.2	Interest Paid		(18,665,259)	(13,228,937)
1.1.3	Dividend Received		7,031	32,901
1.1.4	Fees and Commissions Received		2,406,518	1,870,333
1.1.5	Other Income		1,185,821	1,859,502
1.1.6	Collections from Previously Written-off Loans and Other Receivables		1,520,060	1,320,006
1.1.7	Payments to Personnel and Service Suppliers		(2,867,747)	(2,503,144)
1.1.8	Taxes Paid		(2,978,291)	(2,461,592)
1.1.9	Other		(8,652,279)	(5,780,185)
1.2	Changes in Operating Assets and Liabilities		(12,513,361)	1,773,837
1.2.1	Net (Increase)/Decrease in Trading Securities		(247,731)	(8,198)
1.2.2	Net (Increase)/Decrease in Fair Value Through Profit/Loss Financial Assets			-
1.2.3	Net (Increase)/Decrease in Banks		(8,129,980)	3,585,434
1.2.4	Net (Increase)/Decrease in Loans		(70,981,593)	(50,566,370)
1.2.5	Net (Increase)/Decrease in Other Assets		(1,168,360)	(1,463,783)
1.2.6	Net Increase/(Decrease) in Bank Deposits		12,445,351	1,922,269
1.2.7	Net Increase/(Decrease) in Other Deposits		44,255,334	44,174,863
1.2.8	Net Increase/(Decrease) in Funds Borrowed		7,240,990	3,596,415
1.2.9	Net Increase/(Decrease) in Payables			-
1.2.10	Net Increase/(Decrease) in Other Liabilities		4,072,628	533,207
I.	Net Cash Provided from Banking Operations		(4,808,535)	9,894,864
B.	CASH FLOWS FROM INVESTMENT ACTIVITIES			
II.	Net Cash Provided from Investing Activities		(5,098,534)	(5,106,003)
2.1	Cash Paid for Purchase of Associates, Subsidiaries and Entities under Common Control		-	-
2.2	Cash Obtained from Sale of Associates, Subsidiaries and Entities under Common Control		-	-
2.3	Fixed Assets Purchases		(531,876)	(121,439)
2.4	Fixed Assets Sales		230,588	267,620
2.5	Cash for Purchase of Financial Assets Available for Sale		(18,982,629)	(15,709,293)
2.6	Cash Obtained from Sale of financial Assets Available for Sale		16,074,784	11,685,516
2.7	Cash Paid for Purchase of Investment Securities		(433,646)	(937,418)
2.8	Cash Obtained from Sale of Investment Securities		1,910,559	2,841,260
2.9	Other		(3,366,314)	(3,132,249)
C.	CASH FLOWS FROM FINANCING ACTIVITIES			
III.	Net Cash Provided from Financing Activities		6,442,188	809,398
3.1	Cash from Funds Borrowed and Securities Issued		9,272,510	4,030,931
3.2	Cash Used for Repayment of Funds Borrowed and Securities Issued		(3,076,164)	(2,990,333)
3.3	Marketable Securities Issued		500,000	-
3.4	Dividends Paid		(250,000)	(231,200)
3.5	Payments for Finance Leases		(8,698)	-
3.6	Other		4,540	-
IV.	Effect of Change in Foreign Exchange Rate on Cash and Cash Equivalents	(1)	1,404,479	1,183,517
V.	Net Decrease/Increase in Cash and Cash Equivalents (I+II+III+IV)		(2,060,402)	6,781,776
VI.	Cash and Cash Equivalents at the Beginning of the Period	(1)	15,899,913	9,118,137
VII.	Cash and Cash Equivalents at the End of the Period	(1)	13,839,511	15,899,913

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

Türkiye Cumhuriyeti Ziraat Bankası A.Ş.
STATEMENT OF PROFIT APPROPRIATION
AS OF 31 DECEMBER 2017

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

(Convenience Translation of Publicly Announced Unconsolidated Financial Statements Originally Issued in Turkish, See in Note I. of Section Three)

VII. STATEMENT OF PROFIT APPROPRIATION ^(*)		Current Period (31/12/2017)	Prior Period ^(**) (31/12/2016)
I.	DISTRIBUTION OF CURRENT YEAR INCOME		
1.1	Current Year Income	10,286,699	8,569,135
1.2	Taxes And Duties Payable (-)	2,346,578	1,992,715
1.2.1	Corporate Tax (Income tax)	2,300,432	1,895,194
1.2.2	Income withholding tax	-	-
1.2.3	Other taxes and duties	46,146	97,521
A.	NET INCOME FOR THE YEAR (1.1-1.2)	7,940,121	6,576,420
1.3	Prior Year Losses (-)	-	-
1.4	First Legal Reserves (-)	-	328,821
1.5	Other Statutory Reserves (-)	-	-
B.	NET INCOME AVAILABLE FOR DISTRIBUTION [(A)-(1.3+1.4+1.5)]	-	6,247,599
1.6	First Dividend To Shareholders (-)	-	255,000
1.6.1	To Owners Of Ordinary Shares	-	255,000
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 (-)	-	230,000
1.8	Dividends To Board Of Directors (-)	-	-
1.9	Second Dividend To Shareholders (-)	-	39,118
1.9.1	To Owners Of Ordinary Shares	-	39,118
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 (-)	-	26,912
1.11	Statutory Reserves (-)	-	-
1.12	Extraordinary Reserves	-	5,696,569
1.13	Other Reserves	-	-
1.14	Special Funds	-	-
II.	DISTRIBUTION OF RESERVES		
2.1	Appropriated Reserves	-	-
2.2	Second Legal Reserves (-)	-	-
2.3	Dividends To Shareholders (-)	-	-
2.3.1	To Owners Of Ordinary Shares	-	-
2.3.2	To Owners Of Privileged Shares	-	-
2.3.3	To Owners Of Preferred Shares	-	-
2.3.4	To Profit Sharing Bonds	-	-
2.3.5	To Holders Of Profit And Loss Sharing Certificates	-	-
2.4	Dividends To Personnel (-)	-	-
2.5	Dividends To Board Of Directors (-)	-	-
III.	EARNINGS PER SHARE		
3.1	To Owners Of Ordinary Shares	1.4966	1.2999
3.2	To Owners Of Ordinary Shares (%)	149.66	129.99
3.3	To Owners Of Privileged Shares	-	-
3.4	To Owners Of Privileged Shares (%)	-	-
IV.	DIVIDEND PER SHARE		
4.1	To Owners Of Ordinary Shares	-	0.05
4.2	To Owners Of Ordinary Shares (%)	-	5.00
4.3	To Owners Of Privileged Shares	-	-
4.4	To Owners Of Privileged Shares (%)	-	-

^(*) Profit distribution is approved by the Parent Bank's Ordinary General Assembly. As of the date of preparation of the financial statements, the meeting for Ordinary General Assembly has not been held.

^(**) The profit distribution table for the prior period becomes definite with the decision of the Ordinary General Assembly after the publishing of 31 December 2016 audited financial statements and is rearranged in this direction.

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

Türkiye Cumhuriyeti Ziraat Bankası A.Ş.

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

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SECTION THREE

EXPLANATIONS ON ACCOUNTING POLICIES

I. BASIS OF PRESENTATION

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

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

Financial statements of subsidiaries in abroad are prepared in accordance with prevalent law and legislation in their country, adjustments and reclassifications are reflected on the purpose of fair presentation pursuant to TFRS.

The consolidated financial statements have been prepared in thousands of Turkish Lira (TL), under the historical cost convention as modified in accordance with inflation adjustments applied until 31 December 2004, except for the financial assets and liabilities carried at fair value.

As of 31 December 2017 balance sheet and statement of off-balance sheet commitments income statement, statement of income and expense items accounted under shareholders’ equity, statement of cash flows and statement of changes in shareholders’ equity are presented comparatively with balances as of 31 December 2016.

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

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

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

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.

II. EXPLANATIONS ON THE STRATEGY OF USING FINANCIAL INSTRUMENTS AND FOREIGN CURRENCY TRANSACTIONS

Main activity of the Parent Bank comprises banking services, such as; launching all kinds of cash and non-cash loans in terms of Turkish Lira and foreign currencies, performing transactions in local, international money and capital markets, supporting agricultural sector financially and collecting deposits in Turkish Lira and foreign currencies. The Parent Bank’s main funding source is Turkish Lira deposits, repurchase agreements, issued securities, shareholders’ equity and government funds transferred from the budget, ministerial offices and other public resources to the Parent Bank by means of legislative and administrative decisions. The Parent Bank directs these funds to assets with high return and low risk. These assets include predominantly domestic government bonds and loans. The Parent Bank’s liquidity structure covers the financing of all liabilities at due date. Although most of the sources in the Parent Bank’s balance sheet are with fixed interest

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rate, some of the securities in assets have floating interest rate. Since the remaining time to re-pricing date of sources is short, cost of sources is repriced in short periods based on the market conditions. Moreover, the Parent Bank adopts high return principle for its long-term placements.

Loans and securities are instruments from which the Parent Bank gets returns above the average returns within its lines of activity. Letter of guarantees, bank loans, commercial letters of credit, repayment commitments for cheques and expense limit commitments for credit cards are the most important risk areas within the off-balance sheet accounts.

Since the Parent Bank’s total debt to the market is low among its total liabilities, the Parent Bank can borrow easily from short-term markets, such as; Borsa Istanbul (“BIST”), Central Bank of the Republic of Turkey, Money Market or Interbank Money Market in case of need. In case of a liquidity crisis, the deposit base of the Bank is not presumed to be significantly affected from such a case since the Parent Bank is a public bank with an extensive branch network.

Cost and return of foreign currency assets are subject to a close follow up. Positive margin of profit is sustained by adjusting deposit interest rates in line with the market interest rates.

Foreign currency operations are recognized at transaction date and valued by Parent Bank’s prevailing counter currency buying rate. At period ends, foreign currency asset and liability balances are valued at the Parent Bank’s period end counter currency buying rates and translated to Turkish currency and the resulting exchange differences are recognized as a “Foreign exchange gain or loss”.

Foreign currency capital amounts transferred to the equity participations operating abroad are evaluated and presented on the financial statements with the exchange rate on the date of the transfer.

Assets and liabilities and income statement items of the abroad branches of the Parent Bank are translated into Turkish Lira with the Bank’s prevailing counter currency buying rates at the balance sheet date.

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

1. 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”).

1.1. Consolidation Principles for Subsidiaries

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

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

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

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

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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		31 December 2016	
			Parent Bank's Share Percentage (%)	Parent Bank's Risk Group Share Percentage (%)	Parent Bank's Share Percentage (%)	Parent Bank's Risk Group Share Percentage (%)
Ziraat Hayat ve Emeklilik A.Ş.	İstanbul/Turkey	Insurance	100.00	100.00	100.00	100.00
Ziraat Sigorta A.Ş.	İstanbul/Turkey	Insurance	100.00	100.00	100.00	100.00
Ziraat Finansal Kiralama A.Ş.	İstanbul/Turkey	Leasing	100.00	100.00	100.00	100.00
Ziraat Yatırım Menkul Değerler A.Ş.	İstanbul/Turkey	Brokerage Houses	99.60	99.60	99.60	99.60
Ziraat Portföy Yönetimi A.Ş.	İstanbul/Turkey	Portfolio Management	99.70	99.80	99.70	99.80
Ziraat Katılım Bankası A.Ş.	İstanbul/Turkey	Banking	100.00	100.00	100.00	100.00
Ziraat Gayrimenkul Yatırım Ortaklığı A.Ş.	İstanbul/Turkey	Real Estate	100.00	100.00	100.00	100.00
Ziraat Bank International AG	Frankfurt/Germany	Banking	100.00	100.00	100.00	100.00
Ziraat Bank BH d.d.	Sarajevo/Bosnia and Herzegovina	Banking	100.00	100.00	100.00	100.00
Ziraat Bank (Moscow) JSC	Moscow/Russia	Banking	100.00	100.00	100.00	100.00
Kazakhstan Ziraat Int. Bank	Almaty/Kazakhstan	Banking	99.58	99.58	99.58	99.58
Ziraat Bank Azerbaycan ASC	Baku/Azerbaijan	Banking	100.00	100.00	100.00	100.00
Ziraat Bank Montenegro AD	Podgorica/Montenegro	Banking	100.00	100.00	100.00	100.00
JSC Ziraat Bank Georgia	Tbilisi/Georgia	Banking	100.00	100.00	-	-
Ziraat Bank Uzbekistan JSC ^(*)	Tashkent/Uzbekistan	Banking	100.00	100.00	50.00	50.00

^(*) The share of partnership in Uzbekistan has increased to 100% and its status become subsidiary from entity under common control and continues its operations as Ziraat Bank Uzbekistan JSC.

1.2. Consolidation Principles of Associates and Joint Ventures

An Associate is a partnership with which the Parent Bank participates in its capital and has significant effect on it although it has no capital or management control, whose main operation is banking and which operates according to special legislation with permission and license and is established abroad. The related associate is consolidated with equity method in accordance with materiality principle.

Significant effect refers to the participation power on the constitution of the financial and management policies of the participated associate. If the Parent Bank has 10% or more voting right on the associate, as long as it is not proved otherwise, it will be accepted that the Parent Bank has significant effect on that associate.

Equity method is an accounting method which foresees the increase or decrease of the book value of capital share in an associate from the changed amount in the associate participating shareholder's equity during the period by the portion of the participant and the deduction of the dividend from the associate from the changed value of the associate amount.

The associates and joint ventures consolidated with the equity method, their title, place of incorporation, main activities, effective shareholding rates and direct and indirect shareholding rates are as follows:

Title	Address (City/Country)	Main Activities	31 December 2017		31 December 2016	
			Parent Bank's Share Percentage (%)	Parent Bank's Risk Group Share Percentage (%)	Parent Bank's Share Percentage (%)	Parent Bank's Risk Group Share Percentage (%)
Turkmen Turkish Joint Stock Commercial Bank	Ashkhabad/ Turkmenistan	Banking	50.00	50.00	50.00	50.00
Arap Türk Bankası A.Ş.	İstanbul/Turkey	Banking	15.43	15.43	15.43	15.43

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1.3. Principles Applied During Share Transfer, Merger and Acquisition

Acquisition of entities are accounted by the purchase method on the date of purchase when the control is being transferred to the Group. Control explains managing power of Group on entity’s financial and operational policies for the purpose of providing benefit from operations of entity. While evaluating control, executable potential voting rights are taken consideration by Group.

The Group has increased the share of partnership from 50% to 100% in Uzbekistan and its status become subsidiary from entity under common control and continues its operations as Ziraat Bank Uzbekistan JSC in the current period. After this transaction this company is started to be consolidated as subsidiary. This status change was made in accordance with the relevant accounting standard.

1.4. Transactions with Minority Shareholders

The Group considers transactions with minority shareholders as transactions within the Group. For acquisitions from minority shareholders, the difference between the acquisition cost and related portion of net assets’ booked value is deducted from equity. Profit or loss resulting from sales to minority shareholders is booked under equity.

1.5. Presentation of Unconsolidated Subsidiaries and Associates in Consolidated Financial Statements

Turkish lira denominated unconsolidated associates and subsidiaries are booked at cost value, less any impairment if any, and recognized in the consolidated financial statements.

IV. EXPLANATIONS ON FORWARD TRANSACTIONS, OPTIONS AND DERIVATIVE INSTRUMENTS

The Group’s derivative transactions include cross swap transactions related to currency, swap transactions related to interest rates, currency and precious metal swaps, long-term financing transactions, full indemnity options and forward foreign currency buy/sell transaction contracts. The Group has no embedded derivative instruments separated from the articles of association.

The derivative instruments of the Group are classified as trading or hedging instruments in accordance with Turkish Accounting Standard on TAS 39 “Financial Instruments: Recognition and Measurement”. The Group has no derivative instruments for hedging purposes as of the balance sheet date. Accordingly, the Group is not subject to conditions whether derivative instruments do not meet the determination criteria for being classified as hedging instruments or whether such derivative transactions are finalized through sale, term expiry or fulfillment of obligations under the contract.

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 fair values of the derivative financial instruments are calculated using quoted market prices or by using discounted cash flow models.

Liabilities and receivables arising from the derivative instruments are followed in the off-balance sheet accounts from their contractual values.

V. EXPLANATIONS ON INTEREST INCOME AND EXPENSE

Interest 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 interest accrual is calculated for non-performing loans.

The Group cancels uncollected accruing interest and accrual income on non-performing loans and if such amounts are collected, these amounts are recorded as income.

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VI. EXPLANATIONS ON FEE AND COMMISSION INCOME AND EXPENSE

Commission income from banking, agency and intermediary services is recognized as income on the date they are collected. Whereas, commission income from individual, corporate and entrepreneurial 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.

VII. EXPLANATIONS ON FINANCIAL ASSETS

Financial instruments comprise financial assets and liabilities and derivative instruments. They are included in the balance sheet of the Group, if the Group is a legal party to these instruments.

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

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.

The value difference between the settlement date and transaction date of financial assets accounted with their acquisition cost are subjected to rediscount (valuation).

Financial Assets at Fair Value Through Profit or Loss

In Group, financial assets, which are classified as “financial assets at fair value through profit or loss”, are trading financial assets and are either acquired for generating profit from short-term fluctuations in the price or dealer’s margin, or are the financial assets included in a portfolio in which a pattern of short-term profit making exists independent from the acquisition purpose.

Trading securities are initially recognized at cost. The cost of the securities is recognized as fair value. Subsequently, trading securities are carried at fair value in the financial statements.

Government bonds and treasury bills included in held for trading and available for sale portfolios traded in BIST are carried at weighted average exchange prices of BIST as of the balance sheet date and those securities that are not traded in BIST are carried at prices of the Central Bank of the Republic of Turkey. Eurobonds are carried at prices in the over the counter markets. The positive difference between the cost and fair value of held for trading securities is accounted under “Other Interest and Income Accrual” and the negative difference is accounted under “Impairment Loss for Marketable Securities” account. The positive difference between the cost and amortized cost is accounted under “Interest income” account; the negative difference is accounted as impairment loss. The positive difference between the fair value and amortized cost is accounted under “Profit from Capital Market Operations” account and the negative difference is accounted under “Loss from Capital Market Operations” account.

Held-to-Maturity Financial Assets

Investments held to maturity include financial assets other than bank loans and receivables and those where there is an intention of holding until maturity and the relevant conditions for fulfillment of such intention, including the funding ability, and where there are fixed or determinable payments with fixed maturity. Marketable securities classified as Financial Assets Held to Maturity may subject to exchange-repurchase bids or refundment transactions within the scope of early redemption.

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

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

Interests received from investments held to maturity are recognized as an interest income and are initially recognized at cost.

Loans and Receivables

Loans and receivables represent financial assets other than those held for trading or held for sale in a short period generated through providing cash, assets or rendering services to the debtor.

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

The Group sets specific and general provisions for loans and other receivables in accordance with the regulations stated by the Communiqué published on the Official Gazette numbered 26333 and dated 1 November 2006 on “Methods and Principles on Determining the Nature of Loans and Other Receivables and Allocation of Provisions”. However, there is no judgement in the related Regulation and the BRSA’s related disclosures that would prevent further provision of the minimum amounts required. The Group reserves specific provisions for non-performing loans over the minimum ratios specified in the Regulation without considering the collaterals. Allocated provisions are deducted from the income for the period. If the receivables for which provisions were set in the previous years are collected, provision for allowances are released and recognized as income under “Other Operating Income” account. Releases of current period provisions are made by the reversal of the amount from the “Provision for Impairment of Loans and Other Receivables” account.

Available-for-Sale Financial Assets

Available-for-sale financial assets are defined as 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 interest income accruals or impairment provision. Furthermore, amortized cost using the effective interest method and cost value is compared and the difference is booked as interest income or impairment expense. Fair value and amortised 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 amortised cost using the effective interest method or appropriate valuation methods.

Regarding the banking operations of Ziraat Bank, there exist ineffective shares of Kredi Garanti Fonu, Turkish Trade Bank in receivership, Borsa İstanbul, Borica Bank Services AD, Central Bank of the Republic of Turkey and Milli Reasürans T.A.Ş. The related investments are classified under available-for-sale financial assets and are carried out at book value. The reason to explain the necessary action is the inability to reliably measure the subject asset type at fair 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 Expenses for Marketable Securities” account in accordance with the related Turkish Accounting Standard.

If subsidiaries, associates, entities under common control and assets held to maturity are subject to permanent impairment, the amount is charged to “Impairment Expenses for Subsidiaries, Associates, and Assets Held to Maturity”.

The principles for the accounting of provisions for loans and receivables are explained in detail in Note VII. of this section.

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IX. EXPLANATIONS ON OFFSETTING 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 Group 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 SECURITIES LENDING TRANSACTIONS

Securities subject to repurchase agreements are classified under after “held for trading”, “available for sale” and/or “held-to-maturity” Group’s portfolios and they are valued based on the revaluation principles of the related portfolios. Funds obtained by these agreements are followed under the “Funds from Repurchase Agreements” account in the balance sheet and interest expense accrual is calculated using the internal rate of return method.

Funds given against securities purchased under agreements (“Reverse Repo”) to resell are accounted under “Receivables from Reverse Repurchase Agreements” on the balance sheet and interest income accrual is calculated using internal rate of return method.

As of the balance sheet date, the Group has no securities lending transactions.

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

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

The assets that meet the criteria of being classified under assets held for sale are measured at the lower of their book values or fair value less costs to be incurred for sale, depreciation for these assets is ceased and these assets are presented separately in the balance sheet. In order for an asset to be classified as an asset held for sale, the related asset (or the asset group to be disposed) shall be ready to be sold immediately under usual conditions and should have a high possibility to be sold. To have a high possibility of sale, a plan should have been made for the sale of the asset (or the asset group to be disposed) and an active program should have been started by the management, aiming to complete the plan and determine the buyers.

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

A discontinued operation is a part of an entity which is classified as to be disposed or held for sale. The results related to discontinuing operations are presented separately in the income statement. The Group does not have any discontinued operations.

XII. EXPLANATIONS ON GOODWILL AND OTHER INTANGIBLE ASSETS

As at the balance sheet date, the Group has no goodwill within the financial statements.

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

Other intangible assets are amortized by using the straight line method based on their useful lives. Useful lives 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. Amortization method used in the current period is not subject to any change. Depreciation period is 5 years (20% annual depreciation rate) for establishment/formation expenses for other intangible assets with uncertain leasing period or leasing period over 5 years and depreciation rate is proportional with period for those with certain leasing period.

The Group recognizes its software costs incurred under the intangible assets-intangible rights account and the expenses that do qualify as development are added to software’s initial costs and amortized over 3 years considering the useful lives. The Parent Bank has determined estimated useful lives of the intangible assets between 3 and 15 years and it applies depreciation rates between 6.67% to 33.3%.

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XIII. EXPLANATIONS ON PROPERTY AND EQUIPMENT

Tangible assets are measured at its cost when initially recognised and any directly attributable costs of setting the asset in working order for its intended use are included in the initial measurement. As of 31 January 2014 the Parent Bank has changed its accounting policies and has decided to pursue the real estates registered in its portfolio at fair values. In this context, for all real estates registered in the Group’s inventory, appraisal study was carried by independent expertise companies, and from 31 December 2016 valuation results are reflected in the accounting records. As of 30 January 2014, the net book amount of the Group’s real estates of the tangible assets before valuation was TL 816,950. The difference from the fair valuation of the real estates of the Group amounting to TL 4,064,351 net is followed under shareholders’ equity as of 31 December 2017.

Tangible assets (except for immovables) are presented in the financial statements over their remaining cost after deducting accumulated depreciation from cost amounts and after deducting accumulated depreciation from their fair values. Tangible assets are depreciated over their estimated useful lives using the straight-line method. The amortization method applied in the current period has not been changed.

Applied depreciation rates are as follows;

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

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

Ordinary maintenance and repair expenses of tangible fixed assets items are recognized as expenses. Investment expenditures that increase the future benefit by enhancing the capacity of tangible assets are capitalized. The investment expenditures include the cost components which are used either to increase the useful life or the capacity of the asset or the quality of the product or to decrease the costs.

There are no mortgages, pledges or similar precautionary measures on tangible fixed assets or commitments given for the purchase or any restrictions designated for the use of those tangible fixed assets

XIV. EXPLANATIONS ON INVESTMENT PROPERTY

Investment properties consist of assets held for rent and/or gain on valuation. The related real estates, which the Group owns, are shown in the attached consolidated financial statements by fair value method within the framework of TAS 40 “Investment Property”. Gains and losses arising from changes in fair value of investment properties are recognized in profit or loss when incurred.

XV. EXPLANATIONS ON LEASING TRANSACTIONS

The Group performs financial operations as “Lessor” and “Lessee”.

1. Accounting of Leasing Transactions for the Lessee

Financial Lease

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

Operational Lease

Leases, in which the majority of risk and return of property belongs to lessor, are classified as operating lease. Payments that are made as operating leases are accounted in income statements with linear method during the lease period.

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2. Accounting of Leasing Transactions for Lessor

Subject to financial leasing in the consolidated balance sheet of the entity is shown as a receivable equal to net leasing. The interest income is determined so as to form a fixed revenue return ratio using net investment method related to lease asset of the lessor, and the portion of interest income which does not take part in the related term is followed under the unearned interest income account

XVI. EXPLANATIONS ON PROVISIONS, CONTINGENT ASSET AND 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 from The Parent Bank 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 in the Group, the asset and the related income are recognized in the financial statements in which the change occurs.

XVII. EXPLANATIONS ON OBLIGATIONS RELATED TO EMPLOYEE RIGHTS

Employment Termination and Vacation Benefits

The Group recognizes its liabilities of employment terminations and vacation benefits in accordance with TAS 19 “Turkish Accounting Standard about Benefits for Employee” and estimates the net present value of future liabilities arising from employment terminations and vacation benefits and reflects this provision amount in the financial statements.

Under the Turkish legislation as supplemented by union agreements, Employment Termination Benefit payments are made in case of retirement or employment termination or resignation depending on the arise of the legal conditions. According to the related legislation, depending on the status and position of the employee in the Group and social security institution, retirement bonus pension/severance payments are calculated for the hours that the personnel has worked. The assumptions based on the calculation are below.

The Parent Bank uses independent actuaries in determining liability, and also makes assumptions about issues such as discount rate and inflation. These assumptions are reviewed on an sixth month basis. Retirement benefit obligation of the Parent Bank is TL 813,548 (31 December 2016: TL 690,189). Furthermore, Group’s total Retirement benefit obligation is TL 820,157 (31 December 2016: TL 695,237)

	Current Period 31.12.2017	Prior Period 31.12.2016
Discount Rate	12.10%	11.40%
Inflation	8.90%	8.00%

Communiqué on “Turkish Accounting Standard (TAS19) about Benefits for Employee (No:9)” published in Official Gazette by Public Oversight Accounting and Auditing Standards Authority (“POA”) on 12 March 2013 numbered 28585, was entered into force for the account periods starting after 31 December 2012 on accounting treatment of actuarial profit and loss resulting from changes in actuarial assumptions or differences between actual and actuarial assumptions. Actuarial loss amounting to TL 95,773 was classified as “Other Reserves” under shareholders’ equity in the financials by the Group.

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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.

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

Liability of T.C. Ziraat Bankası and T. Halk Bankası Members Pension and Relief Fund (TZHEMSAN)

Some of the Parent Bank’s and Ziraat Katılım Bankası A.Ş.’s personnel are the members of T.C. Ziraat Bankası and T. Halk Bankası A.Ş. Employees’ Pension Fund (“Fund”) which was established by 20th provisional article of Social Security Law Act numbered 506. As of 31 December 2017 the number of personnel who benefit from the Fund, excluding dependents, is 22,531 (31 December 2016: 22,221). 18,723 of these members are active while 3,808 are passive members. (31 December 2016: 18,450 active members, 3,771 passive members).

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 20th 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.

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.

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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 Parent 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 Parent Bank's and Ziraat Katılım Bankası A.Ş.'s financial statements.

XVIII. EXPLANATIONS ON TAXATION

Current Tax

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

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

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

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

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

Taxes which does not accrue on time because the applying exemption for the transfer of the exempted 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.

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Tax rates used in tax calculation considering the related countries’ tax legislation as of 31 December 2017 are presented below:

Russia	20%
Kazakhstan	20%
Germany	15%
Bosnia Herzegovina	10%
Azerbaijan	20%
Montenegro	9%
Georgia	15%
Uzbekistan	15%

Deferred Tax

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

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

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

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

Deferred tax asset and deferred tax liability are presented as net in these financial statements through offsetting them on individual financial statements of consolidated subsidiaries.

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

XIX. EXPLANATIONS ON INSURANCE TECHNICAL RESERVES

1. Technical Reserves

Reserve for Unearned Premiums

Reserve for unearned premiums represents the proportions of the premiums written in a period that relate to the period of risk subsequent to the balance sheet date, without deductions of commission or any other expense.

Unexpired Risk Provision

Within the framework of Regulation on Technical Reserves, insurance companies are required to account for an unexpired risk reserve against the probability that, future losses incurred from in force policies may exceed the unearned premium reserve accounted for the related policies considering expected ratios. Expected loss ratio is calculated by dividing the current year incurred losses to current year earned premiums. In accordance with “the circular about the Change of Unexpired Risks Reserve Calculation” numbered 2012/15 published by Treasury, if the loss ratio for a branch is higher than 95%, net unexpired risk reserve for that branch is calculated by multiplying the ratio in excess of 95% with net unearned premium reserve for the related branch; and gross unexpired risk reserve for that branch is calculated by multiplying the ratio in excess of 95% with gross unearned premium reserve for the related branch. The difference between gross and net amounts is considered as the reinsurance share.

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Reserve for Outstanding Claims

Insurance companies provide reserve for outstanding claims, incurred and reported but not yet settled in the current or previous years based on reported balances or estimates when actual balances are not exactly known and incurred but not yet reported claims. Within the calculation of reserve for outstanding claims, incurred and reported but not yet settled, entire shares of expense required for maturation of compensation reports including calculated or estimated expert, referee, consultant, court and communication expenses are taken into account and subrogation, salvage and similar revenue items are not discounted. Incurred subrogation, salvage and similar revenue items whose codes of practice will be determined by the undersecretariat are shown under the related credit account of the asset side of the balance sheet and interrelated with period income in condition that subrogation of rights has been gained.

Mathematical Provisions

Mathematical provisions indicate sum of bonus provisions and actuarial mathematical provisions calculated separately according to technical principles in tariff for each agreement in force. Life branch mathematical provision of the company consists of actuarial mathematical provisions calculated for long-term life insurances on credit. Actuarial mathematical provisions are the differences between risk premiums taken for risks undertaken by the Company and cash values of the liabilities to beneficiaries and insureds.

XX. EXPLANATIONS ON BORROWINGS

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

If required, the Group borrows from domestic and foreign real people and entities with debt instruments such as bill/bond issuance. These transactions are recognized at fair value including acquisition costs at the transaction date while accounted with effective interest rate method over their discounted costs in the following periods.

The Group has issued no convertible bonds and has no instruments representing its own borrowings.

XXI. EXPLANATIONS ON ISSUANCE OF SHARE CERTIFICATES

The decision of increasing the capital of the Parent Bank by TL 500,000 to TL 5,600,000 is approved in General Assembly in 9 June 2017. Increase of capital and amendments according to the relevant materials of the Articles of Association was registered on 11 July 2017. It has been announced in the Trade Registry Gazette numbered 9367 dated 14 July 2017. The offsetting transactions of the mentioned capital increase was accounted on 3 August 2017 accordance with the permission from the Banking Regulation and Supervision Agency.

XXII. EXPLANATIONS ON AVALIZED DRAFTS AND ACCEPTANCES

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

XXIII. EXPLANATIONS ON GOVERNMENT GRANTS

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

XXIV. 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, 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.

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XXV. EXPLANATIONS ON SEGMENT REPORTING

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

XXVI. EXPLANATIONS ON OTHER MATTERS

Explanations on Profit Distribution

In accordance with the decision taken in the General Assembly of the year 2016, which was carried out on 9 June 2017, from TL 6,576,420 net profit, which is subject to distribution, TL 328,821 is transferred to first legal reserve and TL 26,912 is transferred to second legal reserve TL 230,000 was decided to be paid to employees and TL 255,000 for the first legal reserve, TL 39,118 for second legal reserve in total a payment of gross amounting to TL 294,118 is decided to be distributed to Treasury. In this framework, the portion of the profit amounting to TL 5,696,569 has been left in the Bank and dividend payment has been made to the Treasury on 14 June 2017. Additionally, reserves amounting to TL 45,317 has been allocated from retained earnings amounting to TL 906,345 and remaining amount, TL 861,028, has been left in the Parent Bank. In accordance with the decision taken at the General Assembly Meeting, the remaining amount, TL 20,367, of the total amount which was decided to be paid to employees has been transferred to “profit reserve” account.

The Parent Bank is planning to distribute its 2017 profit in accordance with its articles of association. However, as of the report date, there is no decision taken regarding the profit distribution.

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 Parent Bank created a project team from Finance, Risk and Information Technology Departments includes advisors for the purpose of adaptation of TFRS 9 financial reporting process. As a result of statistical models, calculation methods and applying new methods that is developed by project team, expected transition effects about accounting policy was calculated. The mentioned Accounting policy change is expected to affect Bank’s balance sheet equity approximately between 8-12% positively. The controls and developments regarding the implementation of TFRS 9 are in progress.

SECTION FOUR

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

I. EXPLANATIONS ON THE COMPONENTS OF CONSOLIDATED SHAREHOLDERS’ EQUITY

Total capital and Capital adequacy ratio have been calculated in accordance with the “Regulation on Equity of Banks” and “Regulation on Measurement and Assessment of Capital Adequacy of Banks”.

As of 31 December 2017 Group’s total capital has been calculated as TL 51,743,724 (31 December 2016: TL 41,715,232), capital adequacy ratio is 14.60% (31 December 2016: 14.60%). The capital adequacy ratio of the Group is above the minimum ratio required by the legislation.

Türkiye Cumhuriyeti Ziraat Bankası A.Ş.
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(Convenience Translation of Publicly Announced Unconsolidated Financial Statements Originally Issued in Turkish, See in Note I. of Section Three)

1. Information Related to The Components of Shareholders' Equity

	Current Period 31 December 2017	Amount as per the regulation before 1/1/2014*
COMMON EQUITY TIER 1 CAPITAL		
Paid-in capital following all debts in terms of claim in liquidation of the Bank	5,600,000	-
Share issue premiums	-	-
Reserves	30,317,558	-
Gains recognized in equity as per TAS	4,911,781	-
Profit	9,531,923	-
Current period profit	8,884,119	-
Prior period profit	647,804	-
Shares acquired free of charge from subsidiaries, affiliates and jointly controlled partnerships and cannot be recognised within profit for the period	17,388	-
Minorities' Share	178	-
Common Equity Tier 1 Capital Before Deductions	50,378,828	-
Deductions from Common Equity Tier 1 Capital		
Common Equity as per the 1 st 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	1,897,159	-
Improvement costs for operating leasing	83,440	-
Goodwill netted with related deferred tax liabilities	-	-
Other intangible assets netted with related deferred tax liabilities except mortgage servicing rights	425,670	532,088
Deferred tax assets that rely on future profitability excluding those arising from temporary differences netted with related deferred 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 on its own Tier I Capital	-	-
Shares obtained contrary to the 4 th clause of the 56 th 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 2 nd 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	-	-

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	Current Period 31 December 2017	Amount as per the regulation before 1/1/2014*
Total Deductions from Common Equity Tier I Capital	2,406,269	-
Total Common Equity Tier I Capital	47,972,559	-
ADDITIONAL TIER I CAPITAL		-
Preferred stock not included in Common Equity Tier I Capital and the related share premiums	-	-
Debt instruments and the related issuance premiums defined by the BRSA	-	-
Debt instruments and the related issuance premiums defined by the BRSA (Covered by Temporary Article 4)	-	-
Third parties' share in the Additional Tier I capital	-	-
Third parties' share in the Additional Tier I capital (Covered by Temporary Article 3)	-	-
Additional Tier I Capital before Deductions		-
Deductions from Additional Tier I Capital		-
Direct and Indirect Investments of the Bank on 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	-	-
Items to be Deducted from Tier I Capital during the Transition Period		-
Goodwill and other intangible assets and related deferred tax liabilities which will not deducted from Common Equity Tier I capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	106,418	-
Net deferred tax asset/liability which is not deducted from Common Equity Tier I capital for the purposes of the sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	-	-
Deductions to be made from common equity in the case that adequate Additional Tier I Capital or Tier II Capital is not available (-)	-	-
Total Deductions from Additional Tier I Capital	-	-
Total Additional Tier I Capital		-
Total Tier I Capital (Tier I Capital= Common Equity Tier I Capital + Additional Tier I Capital)	47,866,141	-
TIER II CAPITAL		-
Debt Instruments and the Related Issuance Premiums Defined by the BRSA	-	-
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Covered by Temporary Article 4)	-	-
Third parties' share in the Tier II Capital	-	-
Third parties' share in the Tier II Capital (Temporary Article 3)	-	-
Provisions (Amounts explained in the first paragraph of the article 8 of the Regulation on the Equity of Banks)	3,879,292	-
Total Deductions from Tier II Capital	3,879,292	-
Deductions from Tier II Capital		-
Direct and indirect investments of the Bank on its own Tier II Capital (-)	-	-
Investments of Bank to Banks that invest on Bank's Tier 2 and components of equity issued by financial institutions with the conditions declared in Article 8	-	-
Portion of the total of net long positions of investments made in equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or less of the issued common share capital exceeding 10% of Common Equity of the Bank (-)	-	-
Portion of the total of net long positions of investments made in Additional Tier I Capital item of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital of Common Equity of the Bank	-	-
Other items to be defined by the BRSA (-)	-	-
Total Deductions from Tier II Capital	-	-
Total Tier II Capital	3,879,292	-
Total Equity (Total Tier I and Tier II Capital)	51,745,433	-
Total Tier I and Tier II Capital (Total Equity)	51,745,433	-
Loans Granted against the Articles 50 and 51 of the Banking Law	-	-

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	Current Period 31 December 2017	Amount as per the regulation before 1/1/2014*
Net book values of movables and immovables exceeding the limit defined in the Article 57, Clause 1 of the Banking Law and the assets acquired against overdue receivables and held for sale but retained more than five years	-	-
Other items to be defined by the BRSA	1,709	-
Items to be Deducted from the Sum of Tier I and Tier II Capital (Capital) During the Transition Period		-
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 be 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 be 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 be 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	-	-
CAPITAL		-
Total Capital (Total of Tier I Capital and Tier II Capital)	51,743,724	-
Total Risk Weighted Assets	354,454,906	-
CAPITAL ADEQUACY RATIOS		-
Core Capital Adequacy Ratio (%)	13.53	-
Tier 1 Capital Adequacy Ratio (%)	13.50	-
Capital Adequacy Ratio (%)	14.60	-
BUFFERS		-
Total additional core capital requirement ratio (a+b+c)	2.28	-
a) Capital conservation buffer requirement (%)	1.25	-
b) Bank specific countercyclical buffer requirement (%)	0.026	-
c) Higher bank buffer requirement ratio (%)	1.00	-
Additional CET 1 Capital Over Total Risk Weighted Assets Ratio Calculated According to the Article 4 of Capital Conservation and Counter-Cyclical Capital Buffers Regulation	5.53	-
Amounts Lower than Excesses as per Deduction Rules		-
Remaining Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital	156,212	-
Remaining Total of Net Long Positions of the Investments in Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% or less of the Issued Share Capital	68,380	-
Remaining Mortgage Servicing Rights	-	-
Net Deferred Tax Assets arising from Temporary Differences	29,794	-
Limits for Provisions Used in Tier II Capital Calculation		-
General provisions for standard based receivables (before tenthousandtwentyfive limitation)	5,635,198	-
Up to 1.25% of total risk-weighted amount of general reserves for receivables where the standard approach used	3,879,292	-
Excess amount of total provision amount to credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation	-	-
Excess amount of total provision amount to 0.6% of risk weighted receivables of credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation	-	-
Debt instruments subjected to Article 4 (to be implemented between January 1, 2018 and January 1, 2022)		-
Upper Limit for Additional Tier I Capital Items subjected to Temporary Article 4	-	-
Amounts Excess the Limits of Additional Tier I Capital subjected to temporary Article 4	-	-
Upper limit for Additional Tier II Capital subjected to temporary Article 4	-	-
Amounts Excess the Limits of Additional Tier II Capital subjected to temporary Article 4	-	-

*) Amounts considered within transition provisions

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	Prior Period 31 December 2016	Amount as per the regulation before 1/1/2014*
COMMON EQUITY TIER 1 CAPITAL		
Paid-in capital following all debts in terms of claim in liquidation of the Bank	5,100,000	-
Share issue premiums	-	-
Reserves	22,871,718	-
Gains recognized in equity as per TAS	4,804,405	-
Profit	8,207,208	-
Current Period Profit	6,884,924	-
Prior Period Profit	1,322,284	-
Shares acquired free of charge from subsidiaries, affiliates and jointly controlled partnerships and cannot be recognised within profit for the period	17,388	-
Minority Share	139	-
Common Equity Tier 1 Capital Before Deductions	41,000,858	-
Deductions from Common Equity Tier 1 Capital		
Common Equity as per the 1 st 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	2,090,373	-
Improvement costs for operating leasing	100,306	-
Goodwill (net of related tax liability)	-	-
Other intangibles other than mortgage-servicing rights (net of related tax liability)	220,718	367,865
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 4 th clause of the 56 th 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 2 nd clause of the Provisional Article 2 of the Regulation on the Equity of Banks	-	-
Excess amount arising from the net long positions of investments in common equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital	-	-
Excess amount arising from mortgage servicing rights	-	-
Excess amount arising from deferred tax assets based on temporary differences	-	-
Other items to be Defined by the BRSA (-)	-	-
Deductions to be made from common equity due to insufficient Additional Tier I Capital or Tier II Capital	-	-
Total Deductions from Common Equity Tier I Capital	2,411,397	-
Total Common Equity Tier I Capital	38,589,461	-

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	Prior Period 31 December 2016	Amount as per the regulation before 1/1/2014*
ADDITIONAL TIER I CAPITAL		
Preferred Stock not Included in Common Equity Tier I Capital and the Related Share Premiums	-	-
Debt instruments and premiums approved by BRSA	-	-
Debt instruments and premiums approved by BRSA (Temporary Article 4)	-	-
Additional Tier I Capital before Deductions	-	-
Deductions from Additional Tier I Capital		
Direct and Indirect Investments of the Bank on its own Additional Tier I Capital (-)	-	-
Investments of Bank to Banks that invest in Bank's additional equity and components of equity issued by financial institutions with compatible with Article 7.	-	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital	-	-
The Total of Net Long Position of the Direct or Indirect Investments in Additional Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital	-	-
Other Items to be defined by the BRSA (-)	-	-
Transition from the Core Capital to Continue to deduce Components		
Goodwill and other intangible assets and related deferred tax liabilities which will not deducted from Common Equity Tier 1 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	147,146	-
Net deferred tax asset/liability which is not deducted from Common Equity Tier 1 capital for the purposes of the sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	-	-
Deductions to be made from common equity in the case that adequate Additional Tier I Capital or Tier II Capital is not available (-)	-	-
Total Deductions from Additional Tier I Capital	-	-
Total Additional Tier I Capital	-	-
Total Tier I Capital (Tier I Capital= Common Equity Tier I Capital + Additional Tier I Capital)	38,442,315	-
TIER II CAPITAL		
Debt instruments and share issue premiums deemed suitable by the BRSA	-	-
Debt instruments and share issue premiums deemed suitable by BRSA (Temporary Article 4)	-	-
Provisions (Article 8 of the Regulation on the Equity of Banks)	3,313,441	-
Tier II Capital Before Deductions	3,313,441	-
Deductions from Tier II Capital		
Direct and Indirect Investments of the Bank on its own Tier II Capital (-)	-	-
Investments of Bank to Banks that invest on Bank's Tier 2 and components of equity issued by financial institutions with the conditions declared in Article 8.	-	-
Portion of the total of net long positions of investments made in equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or less of the issued common share capital exceeding 10% of Common Equity of the Bank (-)	-	-
Portion of the total of net long positions of investments made in Additional Tier I Capital item of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital exceeding 10% of Common Equity of the Bank	-	-
Other items to be defined by the BRSA (-)	-	-
Total Deductions from Tier II Capital	-	-
Total Tier II Capital	3,313,441	-
Total Capital (The sum of Tier I Capital and Tier II Capital)	41,755,756	-

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	Prior Period 31 December 2016	Amount as per the regulation before 1/1/2014*
Deductions from Total Capital	41,755,756	-
Deductions from Capital Loans granted contrary to the 50 th and 51 st Article of the Law	-	-
Net Book Values of Movables and Immovables Exceeding the Limit Defined in the Article 57, Clause 1 of the Banking Law and the Assets Acquired against Overdue Receivables and Held for Sale but Retained more than Five Years	38,071	-
Other items to be defined by the BRSA (-)	2,453	-
In transition from Total Core Capital and Supplementary Capital (the capital) to Continue to Download Components		
The Sum of net long positions of investments (the portion which exceeds the 10% of Banks Common Equity) in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity which will not deducted from Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	-	-
The Sum of net long positions of investments in the Additional Tier 1 capital and Tier 2 capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity which will not deducted from Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	-	-
The Sum of net long positions of investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity, mortgage servicing rights, deferred tax assets arising from temporary differences which will not deducted from Common Equity Tier1 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	-	-
CAPITAL		
Total Capital (Total of Tier I Capital and Tier II Capital)	41,715,232	-
Total Risk Weighted Assets	300,953,790	-
CAPITAL ADEQUACY RATIOS		
CET 1 Capital Ratio (%)	12.82	-
Tier I Capital Ratio (%)	12.77	-
Capital Adequacy Ratio (%)	13.86	-
BUFFERS		
Bank-specific total CET 1 Capital Ratio		
Capital Conservation Buffer Ratio (%)	0.63	-
Bank-specific Counter-Cyclical Capital Buffer Ratio (%)	0.01	-
Additional CET 1 Capital Over Total Risk Weighted Assets Ratio Calculated According to the Article 4 of Capital Conservation and Counter-Cyclical Capital Buffers Regulation	4.82	-
Amounts Lower than Excesses as per Deduction Rules		
Remaining Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital	153,707	-
Remaining Total of Net Long Positions of the Investments in Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% or less of the Issued Share Capital	97,415	-
Remaining Mortgage Servicing Rights	-	-
Net Deferred Tax Assets arising from Temporary Differences	86,569	-
Limits for Provisions Used in Tier II Capital Calculation		
General Loan Provisions for Exposures in Standard Approach (before limit of one hundred and twenty five per the thousand)	4,042,425	-
General Loan Provisions for Exposures in Standard Approach Limited by 1.25% of Risk Weighted Assets	3,313,441	-
Total Loan Provision that Exceeds Total Expected Loss Calculated According to Communique on Calculation of Credit Risk by Internal Ratings Based Approach	-	-
Total Loan Provision that Exceeds Total Expected Loss Calculated According to Communique on Calculation of Credit Risk by Internal Ratings Based Approach, Limited by 0.6% Risk Weighted Assets	-	-
Debt Instruments Covered by Temporary Article 4 (effective between 1.1.2018-1.1.2022)		
Upper Limit for Additional Tier I Capital Items subject to Temporary Article 4	-	-
Amount of Additional Tier I Capital Items Subject to Temporary Article 4 that Exceeds Upper Limit	-	-
Upper Limit for Additional Tier II Capital Items subject to Temporary Article 4	-	-
Amount of Additional Tier II Capital Items Subject to Temporary Article 4 that Exceeds Upper Limit	-	-

(*) Amounts considered within transition provisions

2. Information Related to the Components which Subject to Temporary Implementation in the Calculation of Equity

None.

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3. Necessary Explanations in Order to Reach An Agreement Between the Statement Of Shareholders’ Equity and Balance-Sheet Amounts

The difference between Total Capital and Equity in the consolidated balance sheet mainly arises from the general provision. In the calculation of Total Capital, general provision up to 1.25% credit risk is taken into consideration as Tier II Capital. Besides, losses that are subject to deductions from Common Equity Tier I and reflected to Equity in line with the TAS, are determined by excluding the losses related to cash flow hedge transactions. 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 other items defined by the regulator are taken into consideration as amounts deducted from Total Capital.

II. EXPLANATIONS ON THE CONSOLIDATED CREDIT RISK

1. Information on Credit Risk

Credit risk is the possibility of loss that the Group may be exposed due to the partial or complete default of the debtor by not complying to the obligations of the agreement made, or due to the decrease in credit worthiness.

The limits of the credit customers are identified, after combined assessment of various factors like the financial and non-financial information of the credit customers, credit requirements, sectoral and geographical features and, in conformity with the legal legislation, in line with the credit authorization limits of the branches, Regional Managements, Group Presidencies, Department Presidencies, Assistant General Management, General Manager, Credit Committee and Board of Directors.

The global limits identified related the credit portfolio are approved by the Board of Directors and revised when required. The identified limits are allocated by related departments on Regional Managements basis by considering the factors like portfolio structure, potentials of the customers and credit, regional and sectoral characteristics, competencies of the personnel.

In order to prevent the risk intensity on the corporate and entrepreneurial loan portfolio, limits are determined and followed on the basis of group companies, private and public firms, and different debtor groups. The Parent Bank’s credit authority limits on given consumer loans are defined with the separation of type and guarantee and these limits are updated according to economic conjuncture and demands of Regional Managements/Branches.

In line with the budgeted targets, TL/FC Cash/Non-Cash/Corporate/Entrepreneurial loan placements are issued and followed on sectoral and regional basis.

The loans issued by the branches are periodically analyzed on the basis of the limits, subjects, guarantees, maturities, accounts followed, outstanding balances, numbers of the customers, and followed on customer and regional basis.

After the opening of the lines of the corporate/entrepreneurial loans, the firms are continued to be monitored and the changes at the financial structures and market relations of the credit firms are followed. The credit limits are identified and approved for one year and renewed in case of no negative change in the situation of the customer (financial structure, market, guarantee, etc.).

The Parent Bank is assessing credibility of the customer as the essential factor in issuing credits and creditors’ credit worthiness are ascertained during credit application and limit allocation/renewal. Documents to be obtained during the application are evidently mentioned in regulations and appropriateness of the documents obtained during application is controlled by internal audit departments. The Parent Bank considers guarantees as important in minimization and elimination of the risk. As a result of policies and process based on obtaining reliable and robust guarantees, the Parent Bank’s credit risk significantly declines.

On January 2011 the Parent Bank started applying internal ratings processes as a decision support system for analyzing credit worthiness and determining credit allocation for corporate/entrepreneurial consumer loans.

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The Parent Bank is not engaging in credit transactions that are not defined at the legislation and not put into the practice.

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

Identification of limits for domestic and foreign banks are done by rating which is determined by considering the needs of clients and departments together with financial and economic conditions of the banks and their countries. When banks and/or countries are financially or economically risky, identified limits can be restricted with maturity, amount or type of transaction or use of credit is called off.

Foreign financial institution and country risks of the Parent Bank are generally taken on financial institutions and countries which are rated by international rating institutions. Treasury operations are executed in the frame of pre-determined authorization and limits, these authorization and limits are monitored. Client transactions within the context of Fund Management are done in the frame of general loan limits determined for the clients.

The Parent Bank engages in foreign currency swaps and forward transactions considering its asset-liability balance and legal limits. These are not considered to generate material risk given the amount of these transactions in the balance sheet.

In line with the regulation on provisions, if the cash risk of a customer classified as nonperforming, the non-cash is classified as nonperforming under the same group where the cash risks were already followed and specific provision is reserved.

Restructured and rescheduled loans are also booked in line with procedures and under accounts defined by the related regulation. Furthermore, they are monitored by the Parent Bank in line with credit risk policies. In this context, financial situation and commercial operations of related customers are analyzed and in terms of restructured plan, whether principal and interest payments have been paid is being checked and necessary measures are taken.

The percentage of top 100 and top 200 cash loans of the Group in the total cash loan portfolio is 23% and 28% respectively (31 December 2016: 26% and 31%).

The percentage of top 100 and top 200 non-cash loans of the Group in the total non-cash loan portfolio is 50% and 62% respectively (31 December 2016: 57% and 67%).

The percentage of top 100 and top 200 cash and non-cash loans of the Group in the total cash and non-cash loan portfolio is 21% and 26% respectively (31 December 2016: 27% and 34%).

General provision made by the Group for the credit risk is TL 5,635,198 (31 December 2016: TL 4,042,425).

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(Convenience Translation of Publicly Announced Unconsolidated Financial Statements Originally Issued in Turkish, See in Note I. of Section Three)

2. The Profile of Important Risks of Important Regions

	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 organisations	Conditional and unconditional receivables from banks and brokerage houses	Conditional and unconditional corporate receivables
Current Period							
Domestic	75,265,929	644,283	652,406	-	-	7,401,426	181,255,187
European Union Countries	27,917	-	-	-	-	24,055,991	1,952,422
OECD Countries ⁽¹⁾	-	-	-	-	-	679,480	51,003
Off-shore Banking Regions	-	-	-	-	-	221,401	283,110
USA, Canada	-	-	-	-	-	2,108,446	1,473,286
Other Countries	553,705	7,995	23	-	-	810,351	3,850,086
Subsidiaries, Associates and Joint Ventures	-	-	-	-	-	1,018,461	6,522
Unallocated Assets/Liabilities ⁽²⁾	-	-	-	-	-	-	-
Total	75,847,551	652,278	652,429	-	-	36,295,556	188,871,616

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

⁽¹⁾ OECD Countries other than EU countries, USA and Canada⁽²⁾ Assets and liabilities that could not be distributed on a consistent basis.

	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 organisations	Conditional and unconditional receivables from banks and brokerage houses	Conditional and unconditional corporate receivables
Prior Period							
Domestic	81,494,892	565,919	556,142	-	-	35,659,916	141,901,115
European Union Countries	90,707	-	-	-	-	20,866,347	250,162
OECD Countries ⁽¹⁾	-	-	-	-	-	580,628	-
Off-shore Banking Regions	-	-	-	-	-	18,223	-
USA, Canada	902,384	-	-	-	-	2,170,335	182,428
Other Countries	987,708	19,131	202	-	-	1,312,871	2,365,345
Subsidiaries, Associates and Joint Ventures	-	-	-	-	-	110,453	2,756,198
Unallocated Assets/Liabilities ⁽²⁾	-	-	-	-	-	-	-
Total	83,475,691	585,050	556,344	-	-	60,718,773	147,455,248

Prepared with the numbers after conversion rate to credit and before credit risk reduction.

⁽¹⁾ OECD Countries other than EU countries, USA and Canada⁽²⁾ Assets and liabilities that could not be distributed on a consistent basis.

	Conditional and unconditional retail receivables	Conditional and unconditional receivables secured by mortgages	Past due receivables	Receivables defined in high risk category by BRSA	Securities collateralised by mortgages	Securitisation positions	Short-term receivables from banks, brokerage houses and corporates	Investments similar to collective investment funds	Investments in Equity Instruments	Other receivables	Total
	121,526,030	47,607,741	-	552,922	-	-	-	1,199,276	116,361	20,567,359	456,788,920
	119,532	-	-	-	-	-	-	-	1,582	67,943	26,225,387
	-	-	-	-	-	-	-	-	-	-	730,483
	-	-	-	-	-	-	-	-	-	-	504,511
	491	-	-	-	-	-	-	-	-	-	3,582,223
	149,524	14,155	-	900,844	-	-	-	-	26,266	87,964	6,400,913
	6,066	-	-	-	-	-	-	-	-	-	1,031,049
	-	-	-	-	-	-	-	-	-	-	-
	121,801,643	47,621,896	-	1,453,766	-	-	-	1,199,276	144,209	20,723,266	495,263,486

	Conditional and unconditional retail receivables	Conditional and unconditional receivables secured by mortgages	Past due receivables	Receivables defined in high risk category by BRSA	Securities collateralised by mortgages	Securitisation positions	Short-term receivables from banks, brokerage houses and corporates	Investments similar to collective investment funds	Investments in Equity Instruments	Other Receivables	Total
	90,940,885	36,926,407	-	317,409	-	-	-	1,690,437	108,269	17,916,021	408,077,412
	51,486	-	-	2,352	-	-	-	-	5	1,621	21,262,680
	-	-	-	-	-	-	-	-	-	-	580,628
	-	-	-	-	-	-	-	-	-	-	18,223
	851	-	-	-	-	-	-	-	-	-	3,255,998
	214,851	4,987	-	8,932	-	-	-	-	16,177	106,908	5,037,112
	95,256	-	-	-	-	-	-	-	-	-	2,961,907
	-	-	-	-	-	-	-	-	-	-	-
	91,303,329	36,931,394	-	328,693	-	-	-	1,690,437	124,451	18,024,550	441,193,960

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3. Risk Profile by Sectors or Counterparties

Current Period Sectors/Counter Parties	Risk Classes								
	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 organisations	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
Agriculture	955	873	12,484	-	-	-	2,535,564	4,897,362	923,014
Farming and Stockbreeding	359	529	8,789	-	-	-	2,083,448	4,087,431	781,167
Forestry	596	9	17	-	-	-	292,976	161,127	16,607
Fishing	-	335	3,678	-	-	-	159,140	648,804	125,240
Manufacturing	59,644	4,306	24,574	-	-	-	72,711,951	7,624,224	1,282,114
Mining and Quarrying	-	28	20	-	-	-	5,281,465	136,470	10,155
Production	59,644	513	17,903	-	-	-	50,429,522	7,414,515	1,210,388
Electric, Gas and Water	-	3,765	6,651	-	-	-	17,000,964	73,239	61,571
Construction	-	19	32,953	-	-	-	32,414,489	4,164,129	823,346
Services	6,170,310	5,861	409,066	-	-	26,334,184	64,696,030	23,624,020	3,909,971
Wholesale and Retail Trade	113	1,315	4,005	-	-	-	19,728,420	16,449,171	2,189,105
Hotel Food and Beverage Services	671	95	3,878	-	-	-	3,818,691	1,414,294	422,841
Transportation and Telecommunication	1,213	636	262,693	-	-	-	8,145,651	2,558,014	431,149
Financial Institutions	5,983,839	760	23,238	-	-	25,053,482	13,710,545	399,463	2,005
Real Estate and Leasing Services	113,624	934	1,022	-	-	1,280,702	18,395,693	2,187,180	743,226
Self Employment Services	-	-	-	-	-	-	-	-	-
Education Services	68,494	14	98,139	-	-	-	336,916	214,021	29,998
Health and Social Services	2,356	2,107	16,091	-	-	-	560,114	401,877	91,647
Other	69,616,642	641,219	173,352	-	-	9,961,372	16,513,582	81,491,908	40,683,451
Total	75,847,551	652,278	652,429	-	-	36,295,556	188,871,616	121,801,643	47,621,896

Prepared with the numbers after conversion rate to credit and before credit risk reduction.

Risk Classes										
Past due receivables	Receivables defined in high risk category by BRSA	Securities collateralised by mortgages	Securitisation positions	Short-term Receivables from banks, brokerage houses and corporate	Investments similar to collective investment funds	Investments in Equity Instruments ⁽³⁾	Other receivables	TL	FC	Total
-	15,941	-	-	-	-	-	354,858	8,233,364	507,687	8,741,051
-	15,298	-	-	-	-	-	350,881	7,135,750	192,152	7,327,902
-	202	-	-	-	-	-	1,040	235,186	237,388	472,574
-	441	-	-	-	-	-	2,937	862,428	78,147	940,575
-	40,886	-	-	-	-	-	180,431	34,217,961	47,710,169	81,928,130
-	706	-	-	-	-	-	33	1,129,681	4,299,196	5,428,877
-	40,151	-	-	-	-	-	180,238	28,498,568	30,854,306	59,352,874
-	29	-	-	-	-	-	160	4,589,712	12,556,667	17,146,379
-	26,716	-	-	-	52,385	-	36,474	14,526,065	23,024,446	37,550,511
-	303,154	-	-	-	1,146,891	144,209	287,228	63,148,306	63,882,618	127,030,924
-	182,064	-	-	-	-	-	58,802	31,423,049	7,189,946	38,612,995
-	115,343	-	-	-	-	-	5,933	2,243,004	3,538,742	5,781,746
-	1,521	-	-	-	-	-	19,566	4,223,912	7,196,531	11,420,443
-	-	-	-	-	268,569	143,781	197,735	13,075,382	32,708,035	45,783,417
-	3,686	-	-	-	878,322	-	4,576	10,638,060	12,970,905	23,608,965
-	-	-	-	-	-	-	-	-	-	-
-	166	-	-	-	-	-	169	587,950	159,967	747,917
-	374	-	-	-	-	428	447	956,949	118,492	1,075,441
-	1,067,069	-	-	-	-	-	19,864,275	171,174,231	68,838,639	240,012,870
-	1,453,766	-	-	-	1,199,276	144,209	20,723,266	291,299,927	203,963,559	495,263,486

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Prior Period Sectors/Counter Parties	Risk Classes									
	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 organisations	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	
Agriculture	702	1,482	7,029	-	-	-	5,548,643	3,505,501	817,466	
Farming and Stockbreeding	207	401	6,838	-	-	-	5,134,000	3,052,231	701,481	
Forestry	495	19	15	-	-	-	289,016	95,127	24,753	
Fishing	-	1,062	176	-	-	-	125,627	358,143	91,232	
Manufacturing	61,780	1,878	34,153	-	-	-	58,742,461	5,001,098	1,273,596	
Mining and Quarrying	-	28	18	-	-	-	4,636,921	93,345	15,466	
Production	61,769	557	34,126	-	-	-	40,126,593	4,882,437	1,209,498	
Electric, Gas and Water	11	1,293	9	-	-	-	13,978,947	25,316	48,632	
Construction	2	17	35,024	-	-	-	24,751,829	2,484,734	1,197,335	
Services	4,706,730	3,191	359,674	-	-	37,671,538	45,771,291	14,339,452	4,523,846	
Wholesale and Retail Trade	194	974	5,266	-	-	-	16,161,645	9,956,769	1,979,728	
Hotel Food and Beverage Services	553	92	1,617	-	-	-	3,255,399	793,261	314,825	
Transportation and Telecommunication	1,135	230	240,829	-	-	-	7,833,000	1,717,855	308,005	
Financial Institutions	4,546,680	742	28,560	-	-	36,609,842	8,154,742	344,920	1,789	
Real Estate and Leasing Services	77,823	621	5,897	-	-	1,061,696	9,443,830	1,187,505	1,711,146	
Self Employment Services	-	-	-	-	-	-	5	-	-	
Education Services	71,623	13	57,499	-	-	-	206,370	117,682	40,692	
Health and Social Services	8,722	519	20,006	-	-	-	716,300	221,460	167,661	
Other	78,706,477	578,482	120,464	-	-	23,047,235	12,641,024	65,972,544	29,119,151	
Total	83,475,691	585,050	556,344	-	-	60,718,773	147,455,248	91,303,329	36,931,394	

Prepared with the numbers after conversion rate to credit and before credit risk reduction.

Risk Classes											
Past due receivables	Receivables defined in high risk category by BRSA	Securities collateralised by mortgages	Securitisation positions	Short-term Receivables from banks, brokerage houses and corporate	Investments similar to collective investment funds	Investments in Equity Instruments ⁽³⁾	Other receivables	TL	FC	Total	
-	3,415	-	-	-	-	-	376,398	9,755,635	505,001	10,260,636	
-	2,068	-	-	-	-	-	372,845	9,147,991	122,080	9,270,071	
-	221	-	-	-	-	-	1,277	154,897	256,026	410,923	
-	1,126	-	-	-	-	-	2,276	452,747	126,895	579,642	
-	16,577	-	-	-	-	-	189,306	24,811,195	40,509,654	65,320,849	
-	111	-	-	-	-	-	228	871,956	3,874,161	4,746,117	
-	13,082	-	-	-	-	-	188,900	19,664,555	26,852,407	46,516,962	
-	3,384	-	-	-	-	-	178	4,274,684	9,783,086	14,057,770	
-	24,060	-	-	-	44,445	-	38,133	9,197,463	19,378,116	28,575,579	
-	23,109	-	-	-	1,629,184	124,451	85,707	73,781,636	35,456,537	109,238,173	
-	14,293	-	-	-	-	-	55,447	22,019,263	6,155,053	28,174,316	
-	1,861	-	-	-	-	-	5,327	1,568,326	2,804,609	4,372,935	
-	2,148	-	-	-	-	-	19,387	2,999,659	7,122,930	10,122,589	
-	2,419	-	-	-	1,409,018	124,052	728	40,819,172	10,404,320	51,223,492	
-	1,811	-	-	-	220,166	-	3,883	5,314,326	8,400,052	13,714,378	
-	-	-	-	-	-	-	-	-	5	5	
-	128	-	-	-	-	-	245	396,355	97,897	494,252	
-	449	-	-	-	-	399	690	664,535	471,671	1,136,206	
-	261,532	-	-	-	16,808	-	17,335,006	158,909,402	68,889,321	227,798,723	
-	328,693	-	-	-	1,690,437	124,451	18,024,550	276,455,331	164,738,629	441,193,960	

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4. Analysis of Maturity-Bearing Exposures According to Remaining Maturities

	Term to Maturity				
	1 Month	1-3 Months	3-6 Months	6-12 Months	Over 1 Year
Exposure Classifications					
Conditional and unconditional exposures to central governments or central banks	1,387,023	317,877	361,058	3,649,803	70,131,790
Conditional and unconditional exposures to regional governments or local authorities	18,243	21	-	77,433	556,581
Conditional and unconditional receivables from administrative units and non-commercial enterprises	13,280	2,694	8,350	131,817	496,288
Conditional and unconditional exposures to multilateral development banks	-	-	-	-	-
Conditional and unconditional exposures to international organisations	-	-	-	-	-
Conditional and unconditional exposures to banks and brokerage houses	17,779,569	7,053,443	2,657,175	3,126,047	5,679,322
Conditional and unconditional exposures to corporates	1,836,284	4,482,760	3,499,798	46,853,190	132,199,584
Conditional and unconditional retail exposures	1,080,347	318,001	796,283	30,696,020	88,910,992
Conditional and unconditional exposures secured by real estate property	1,658	13,096	17,770	6,269,599	41,319,773
Past due receivables	-	-	-	-	-
Receivables defined in high risk category by BRSA	320,539	9,066	108,711	246,153	769,297
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	91,131	-	-	31,268	1,076,877
Investments in Equity Instruments	-	-	-	-	144,209
Grand Total	22,528,074	12,196,958	7,449,145	91,081,330	341,284,713

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

Grades of Fitch Ratings International Rating Agency and The Islamic International Rating Agency (IIRA) 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”. Counter parties resident are accepted as “gradeless” and take risk weight suited for “gradeless” category in relevant risk class.

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.

5. 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	69,031,962	-	16,210,820	-	40,924,004	167,535,150	200,107,784	1,453,766	-	-	-	617,237
2	Exposures after Credit Risk Mitigation	98,399,031	-	10,790,410	40,264,374	50,833,939	108,105,150	185,417,955	1,452,627	-	-	-	617,237

Prepared with the numbers after conversion rate to credit.

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6. Information in Terms of Major Sectors and Type of Counterparties

Impaired Credits

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 “Specific Provision” calculation is made within the scope of Regulation on Provisions.

Past Due Credits

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
Agriculture	685,172	1,192,641	44,518	466,542
Farming and Stockbreeding	678,882	1,186,381	44,284	460,252
Forestry	3,140	4,301	161	3,140
Fishery	3,150	1,959	73	3,150
Manufacturing	961,019	806,177	29,740	961,019
Mining and Quarrying	15,292	8,511	295	15,292
Production	930,922	604,988	22,253	930,922
Electricity, Gas and Water	14,805	192,678	7,192	14,805
Construction	997,569	461,872	17,061	990,908
Services	1,195,192	2,046,428	70,890	1,195,192
Wholesale and Retail Trade	977,823	1,222,626	42,310	977,823
Accommodation and Dining	50,878	325,123	10,247	50,878
Transportation and Telecom.	58,676	86,017	3,211	58,676
Financial Institutions	5,348	8,468	105	5,348
Real Estate and Rental Services	70,307	203,605	7,560	70,307
Professional Services	235	809	-	235
Educational Services	14,938	24,339	908	14,938
Health and Social Services	16,987	175,441	6,549	16,987
Other	1,190,015	994,037	74,108	1,189,820
Total	5,028,967	5,501,155	236,317	4,803,481

^(*) Valuation adjustments represent general provisions reserved for overdue loans.

7. Information about Value Adjustment and Change in Provisions

		Opening Balance	Provisions Set in Current Period	Provision Reversals	Other Adjustments	Closing Balance
1	Specific Provisions	4,129,041	1,226,192	(551,752)	-	4,803,481
2	General Provisions	4,042,425	1,605,626	(12,853)	-	5,635,198

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The table below shows the maximum credit sensitivity of financial statement items.

	Current Period	Prior Period
Financial Assets at Fair Value Through Profit/Loss	1,467,863	1,719,571
Banks	5,632,140	4,320,066
Interbank Money Market Placements	132,385	252,944
Available-for-sale Financial Assets	63,638,231	59,128,214
Held-to-maturity Investments	7,625,763	8,794,915
Loans	317,020,488	244,074,345
Other Assets	2,186,895	2,272,834
Total credit risk exposure of balance sheet items	397,703,765	320,562,889
Financial Guarantees	102,326,622	82,721,115
Commitments	35,009,539	24,849,932
Total credit risk exposure of off-balance sheet items	137,336,161	107,571,047
Total credit risk exposure	535,039,926	428,133,936

8 Information about Credit Quality per Class of Financial Assets

	Current Period			Prior Period		
	Neither past due nor impaired	Past due but not impaired	Total	Neither past due nor impaired	Past due but not impaired	Total
Financial Assets						
Banks	5,632,140	-	5,632,140	4,320,066	-	4,320,066
Financial Assets at Fair Value Through Profit or Loss	1,467,863	-	1,467,863	1,719,571	-	1,719,571
Loans	311,293,848	5,501,154	316,795,002	239,371,301	4,451,595	243,822,896
Corporate/Entrepreneurial Loans	172,508,184	3,451,287	175,959,471	130,127,678	2,405,053	132,532,731
Consumer Loans	85,552,624	858,408	86,411,032	64,001,050	1,071,525	65,072,575
Specialized Loans	53,233,040	1,191,459	54,424,499	45,242,573	975,017	46,217,590
Available-for-sale Financial Assets	63,638,231	-	63,638,231	59,128,214	-	59,128,214
Held-to-maturity Investments	7,625,763	-	7,625,763	8,794,915	-	8,794,915

Carrying amount of financial assets which maturity or agreement terms have been renegotiated by managements of the Parent Bank and other subsidiaries are below.

	Current Period	Prior Period
Banks	-	-
Financial Assets at Fair Value Through Profit or Loss	-	-
Loans ^(*)	11,442,115	8,113,296
Corporate/Entrepreneurial Loans	4,385,615	3,081,574
Consumer Loans	1,560,437	1,397,886
Specialized Loans	5,496,063	3,633,836
Other	-	-
Available-for-sale Financial Assets	-	-
Held-to-maturity Investments	-	-

^(*) Accruals amounting to TL 509,525 are not included.

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III. RISKS INCLUDING THE CAPITAL CAPACITY BUFFER CALCULATIONS

Country	Banking Accounts	Trading Accounts	TOTAL
	RWA	RWA	
Bosnia and Herzegovina	3,590,608	-	3,590,608
Germany	2,301,506	3,502	2,305,008
USA	2,221,782	2,949	2,224,731
United Kingdom	948,706	872,493	1,821,199
Kazakhstan	591,988	-	591,988
Iraq	586,744	-	586,744
France	367,879	205,576	573,455
Uzbekistan	470,348	-	470,348
Holland	392,178	54,228	446,406
Turkish Republic of Northern Cyprus	417,619	1,327	418,946
Other	3,146,990	66,587	3,213,577

IV. EXPLANATIONS ON THE CONSOLIDATED CURRENCY RISK

1. Whether the Parent Bank is Exposed to Foreign Currency Risk, Whether the Effects of This Matter Are Estimated, Whether Limits for The Daily Followed Positions are Determined by the Board of Directors

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

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

2. Hedge Against Foreign Exchange Debt Instruments and Net Foreign Exchange Investments by Hedging Derivative Instruments, If Material

None.

3. Management Policy for Foreign Currency Risk

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

4. 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	100 JPY
25.12.2017	3.7897	4.4965	2.9291	0.6047	0.4544	3.8346	2.9786	0.4551	5.0676	1.0106	3.3466
26.12.2017	3.7898	4.4993	2.9265	0.6044	0.4544	3.8327	2.9834	0.4541	5.0628	1.0106	3.3464
27.12.2017	3.8030	4.5267	2.9534	0.6081	0.4593	3.8488	3.0108	0.4577	5.1013	1.0141	3.3566
28.12.2017	3.7559	4.4876	2.9274	0.6029	0.4561	3.8385	2.9818	0.4539	5.0510	1.0016	3.3291
29.12.2017	3.7748	4.5268	2.9449	0.6072	0.4595	3.8657	3.0019	0.4587	5.0991	1.0051	3.3504
31.12.2017	3.7748	4.5268	2.9449	0.6072	0.4595	3.8657	3.0019	0.4587	5.0991	1.0051	3.3504

5. Simple Arithmetic Average of the Parent Bank's Current Foreign Exchange Bid Rates for the Last 30 Days Prior to the Balance Sheet Date

USD	EUR	AUD	DKK	SEK	CHF	CAD	NOK	GBP	SAR	100 JPY
3,8240	4.5266	2.9256	0.6082	0.4560	3.8713	2.9973	0.4592	5.1258	1.0196	3.3865

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6. Information on the Foreign Currency Risk of the Group

	EUR	USD	Other FC	Total
Current Period				
Assets				
Cash (Cash in vault, effectives, money in transit, cheques purchased) and Balances with Central Bank of the Republic of Turkey	9,695,055	21,830,193	9,417,554	40,942,802
Banks	992,355	1,554,604	711,952	3,258,911
Financial Assets at Fair Value Through Profit and Loss ⁽⁴⁾	-	14,221	32,336	46,557
Money Market Placements	-	4,827	87,436	92,263
Financial Assets Available-for-Sale	4,147,890	13,453,249	75,512	17,676,651
Loans ⁽¹⁾	37,869,334	49,521,771	2,404,215	89,795,320
Subsidiaries, Associates, Entities Under Common Control (Joint Ventures) ⁽³⁾	-	52,036	1,168	53,204
Investments Held-to-Maturity	668,717	4,092,857	585	4,762,159
Derivative Financial Assets for Hedging Purposes	-	-	-	-
Tangible Fixed Assets	12,067	249	131,793	144,109
Intangible Assets	18,234	493	18,429	37,156
Other Assets ⁽⁵⁾	2,230,275	1,007,003	107,705	3,344,983
Total Assets ⁽⁴⁾	55,633,927	91,531,503	12,988,685	160,154,115
Liabilities				
Interbank Deposits	5,900,445	4,486,387	245,529	10,632,361
Foreign Currency Deposits	60,769,152	36,812,564	7,341,124	104,922,840
Money Market Borrowings	374,971	12,725,398	19,335	13,119,704
Funds Provided from Other Financial Institutions	8,145,101	21,206,531	3,565	29,355,197
Issued Marketable Securities	45,724	9,094,163	36,346	9,176,233
Sundry Creditors	1,586,036	52,403	30,280	1,668,719
Derivative Financial Liabilities for Hedging Purposes	-	-	-	-
Other Liabilities	359,525	359,919	105,706	825,150
Total Liabilities	77,180,954	84,737,365	7,781,885	169,700,204
Net Balance Sheet Position	(21,547,027)	6,794,138	5,206,800	(9,546,089)
Net Off-Balance Sheet Position ⁽²⁾	22,012,420	(9,288,810)	(3,168,835)	9,554,775
Financial Derivative Assets	26,541,737	17,055,288	2,548,157	46,145,182
Financial Derivative Liabilities	4,529,317	26,344,098	5,716,992	36,590,407
Non-Cash Loans	26,178,914	35,515,822	4,564,048	66,258,784
Prior Period				
Total Assets	43,032,975	79,657,615	9,112,394	131,802,984
Total Liabilities	58,372,001	59,133,108	4,881,157	122,386,266
Net Balance Sheet Position	(15,339,026)	20,524,507	4,231,237	9,416,718
Net Off-Balance Sheet Position ⁽²⁾	14,918,785	(22,310,574)	(2,618,075)	(10,009,864)
Financial Derivative Assets	17,015,895	7,710,930	2,593,074	27,319,899
Financial Derivative Liabilities	2,097,110	30,021,504	5,211,149	37,329,763
Non-Cash Loans	19,785,282	32,994,991	3,863,978	56,644,251

⁽¹⁾ TL 2,021,754 equivalent of USD, TL 2,165,005 equivalent of EUR and TL 2,040 equivalent of GBP loans are originated as foreign currency indexed loans (31 December 2016: TL 1,290,033 equivalent of USD and TL 1,335,293 equivalent of EUR).

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

⁽³⁾ The foreign currency capital investments to Subsidiaries, Associates and Joint Ventures are evaluated with historical rates on the date of the fair value determination and capital investments made in the subsequent periods are evaluated with the rates on the date of the capital investment and followed with TL currency equivalents. No exchange rate difference arises from such investments.

⁽⁴⁾ Derivative financial assets held for trading and liabilities are not included in the table.

⁽⁵⁾ Prepaid expenses amounting TL 26,530 among other expenses are not included in the table.

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V. EXPLANATIONS ON THE CONSOLIDATED INTEREST RATE RISK

1. Information Related to Interest Rate Sensitivity Of Assets, Liabilities and Off-Balance Sheet Items

(Based on days to repricing dates)

Current Period	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Non-Interest Bearing	Total
Assets							
Cash (Cash in Vault, Effectives, Money in Transit, Cheques Purchased) and Balances with Central Bank of the Republic of Turkey	34,986,464	-	-	-	-	11,233,873	46,220,337
Banks	2,587,026	1,110,786	53,308	-	-	1,881,020	5,632,140
Financial Assets at Fair Value Through Profit and Loss	650,931	466,520	282,567	62,631	5,010	204	1,467,863
Money Market Placements	132,385	-	-	-	-	-	132,385
Financial Assets Available-for-Sale	4,475,074	6,406,801	14,676,889	16,496,888	20,572,603	1,009,976	63,638,231
Loans Given ⁽⁴⁾	80,254,771	22,495,445	77,822,618	109,794,406	26,427,762	225,486	317,020,488
Investments Held-to-Maturity	2,841,118	38,661	1,314,541	1,628,610	1,802,833	-	7,625,763
Other Assets ⁽³⁾	202,210	222,845	637,881	1,478,947	313,647	12,333,392	15,188,922
Total Assets ⁽¹⁾	126,129,979	30,741,058	94,787,804	129,461,482	49,121,855	26,683,951	456,926,129
Liabilities							
Interbank Deposits	8,208,140	2,058,662	2,903,605	75,510	-	2,104,256	15,350,173
Other Deposits	137,118,504	26,369,070	31,962,941	2,134,968	128,701	69,505,256	267,219,440
Money Market Borrowings	52,098,847	1,842,847	1,524,704	843,125	-	-	56,309,523
Sundry Creditors	20,832	-	11,339	-	-	4,111,219	4,143,390
Issued Marketable Securities	1,037,916	2,031,130	1,369,741	7,147,958	1,887,400	135	13,474,280
Funds Provided from Other Financial Institutions	4,371,514	7,108,659	15,502,599	3,126,560	1,008,921	-	31,118,253
Other Liabilities ^{(2) (5)}	1,377,415	297,811	430,455	6,571,837	19,889	60,613,663	69,311,070
Total Liabilities ⁽¹⁾	204,233,168	39,708,179	53,705,384	19,899,958	3,044,911	136,334,529	456,926,129
Balance Sheet Long Position	-	-	41,082,420	109,561,524	46,076,944	-	196,720,888
Balance Sheet Short Position	(78,103,189)	(8,967,121)	-	-	-	(109,650,578)	(196,720,888)
Off-Balance Sheet Long Position	793,471	1,712,937	-	-	-	-	2,506,408
Off-Balance Sheet Short Position	319,906	314,728	(9,626)	(1,113,533)	-	-	(488,525)
Total Position	(76,989,812)	(6,939,456)	41,072,794	108,447,991	46,076,944	(109,650,578)	2,017,883

⁽¹⁾ Balances without fixed maturity are shown in the “Up to 1 Month” and “Non-Interest Bearing” columns.⁽²⁾ TL 5,972,568 of fund balance, whose risk does not belong to the Parent Bank, in other liabilities is shown under the “1 - 5 Years” column TL 58,007 of fund balance is not granted as loan and is shown under the “Non-Interest Bearing” column.⁽³⁾ Deferred tax asset is shown under the “Non-Interest Bearing” column.⁽⁴⁾ Net balance of loans under follow-up is shown under the “Non-Interest Bearing” column in loans given.⁽⁵⁾ Total shareholders' equity is shown under the “Non-Interest Bearing” column. (Based on days to repricing dates)

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Prior Period	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Non-Interest Bearing	Total
Assets							
Cash (Cash in Vault, Effectives, Money in Transit, Cheques Purchased) and Balances with the Central Bank of the Republic of Turkey	26,781,761	-	-	-	-	13,863,744	40,645,505
Banks	1,477,014	428,485	52,425	-	-	2,362,142	4,320,066
Financial Assets at Fair Value Through Profit and Loss	557,806	715,937	377,618	63,530	4,433	247	1,719,571
Money Market Placements	252,944	-	-	-	-	-	252,944
Financial Assets Available-for-Sale	6,262,067	6,231,045	10,886,839	16,553,494	18,466,636	728,133	59,128,214
Loans Given	71,989,277	19,739,060	54,872,411	77,739,693	19,482,455	251,449	244,074,345
Investments Held-to-Maturity	3,616,855	830,145	71,144	2,594,090	1,682,681	-	8,794,915
Other Assets	185,447	167,603	603,548	1,421,095	183,447	10,385,225	12,946,365
Total Assets	111,123,171	28,112,275	66,863,985	98,371,902	39,819,652	27,590,940	371,881,925
Liabilities							
Interbank Deposits	6,867,493	1,597,664	2,014,652	-	-	1,496,123	11,975,932
Other Deposits	116,331,186	25,869,031	22,188,911	1,412,078	119,357	55,015,498	220,936,061
Money Market Borrowings	41,796,418	3,747,109	1,085,940	716,162	-	-	47,345,629
Sundry Creditors	32,684	22,243	26,398	1,089	-	2,484,487	2,566,901
Issued Marketable Securities	836,455	1,468,491	391,680	4,374,125	-	-	7,070,751
Funds Provided from Other Financial Institutions	4,098,207	4,683,460	11,771,437	2,443,385	1,430,040	-	24,426,529
Other Liabilities	1,082,103	511,427	565,202	6,511,950	33,307	48,856,133	57,560,122
Total Liabilities	171,044,546	37,899,425	38,044,220	15,458,789	1,582,704	107,852,241	371,881,925
Balance Sheet Long Position	-	-	28,819,765	82,913,113	38,236,948	-	149,969,826
Balance Sheet Short Position	(59,921,375)	(9,787,150)	-	-	-	(80,261,301)	(149,969,826)
Off Balance Sheet Long Position	808,683	2,200,356	-	-	-	-	3,009,039
Off Balance Sheet Short Position	-	-	(373,698)	(1,428,568)	-	-	(1,802,266)
Total Position	(59,112,692)	(7,586,794)	28,446,067	81,484,545	38,236,948	(80,261,301)	1,206,773

⁽¹⁾ Balances without fixed maturity are shown in the “Up to 1 Month” and “Non-Interest Bearing” columns.⁽²⁾ TL 5,950,057 of fund balance, whose risk does not belong to the Parent Bank, in other liabilities is shown under the “1 - 5 Years” column. TL 70,782 of fund balance is not granted as loan and is shown under the “Non-Interest Bearing” column.⁽³⁾ Deferred tax asset is shown under the “Non-Interest Bearing” column.⁽⁴⁾ Net balance of loans under follow-up is shown under the “Non-Interest Bearing” column in loans given.⁽⁵⁾ Total shareholders’ equity is shown under the “Non-Interest Bearing” column.

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2. Average Interest Rate Applied to the Monetary Financial Instruments (Represents the Values Belonging to the Parent Bank) (%)

	EUR	USD	JPY	TL
Current Period				
Assets				
Cash (Cash in Vault, Effectives, Money in Transit, Cheques Purchased) and Balances with the Central Bank of the Republic of Turkey ⁽¹⁾	-	0.81	-	3.99
Banks	0.42	2.28	-	12.28
Financial Assets at Fair Value Through Profit and Loss	-	5.36	-	10.72
Money Market Placements	-	-	-	-
Financial Assets Available-for-Sale	4.74	5.61	-	9.90
Loans Given ⁽²⁾	4.51	6.02	-	13.44
Investments Held-to-Maturity	6.63	7.20	-	11.05
Liabilities				
Interbank Deposits ⁽³⁾	0.48	1.57	-	12.47
Other Deposits ⁽⁴⁾	1.05	1.73	-	7.67
Money Market Borrowings	0.92	2.44	-	12.74
Sundry Creditors	-	-	-	-
Issued Marketable Securities	1.00	4.74	1.50	13.72
Funds Provided from Other Financial Institutions	1.21	3.02	-	10.51

⁽¹⁾ The ratio on TL column denotes the interest rates applied for required reserve at CBRT.⁽²⁾ Credit card loan balances are not included.⁽³⁾ Rates shown in the table are calculated by using the annual domestic simple interest rates, except for foreign currency interbank deposits.⁽⁴⁾ Rates include also demand deposit data.

	EUR	USD	JPY	TL
Prior Period				
Assets				
Cash (Cash in Vault, Effectives, Money in Transit, Cheques Purchased) and Balances with the Central Bank of the Republic of Turkey ⁽¹⁾	0.03	0.49	-	3.36
Banks	1.56	2.82	-	8.44
Financial Assets at Fair Value Through Profit and Loss	-	5.36	-	7.98
Money Market Placements	-	-	-	-
Financial Assets Available-for-Sale	4.73	5.64	-	9.20
Loans Given ⁽²⁾	4.30	5.52	-	12.82
Investments Held-to-Maturity	6.48	7.20	-	9.75
Liabilities				
Interbank Deposits ⁽³⁾	0.45	1.09	-	8.24
Other Deposits ⁽⁴⁾	0.94	1.14	-	6.52
Money Market Borrowings	0.95	1.82	-	8.55
Sundry Creditors	-	-	-	-
Issued Marketable Securities	-	4.37	-	9.77
Funds Provided from Other Financial Institutions	0.92	2.23	-	8.38

⁽¹⁾ The ratio on TL column denotes the interest rates applied for required reserve at CBRT.⁽²⁾ Credit card loan balances are not included.⁽³⁾ Rates shown in the table are calculated by using the annual domestic simple interest rates, except for foreign currency interbank deposits.⁽⁴⁾ Rates include also demand deposit data.

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VI. EXPLANATIONS ON THE POSITION RISK OF CONSOLIDATED EQUITY SECURITIES

1. Equity Securities Position Risk Derived from Banking Books

Comparison with the Market Value if the Market Value Is Significantly Different from the Fair Value for Balance Sheet, Fair And Market Values of Equity Shares

Current Period	Comparison		
	Balance Sheet Value	Fair Value	Market Value
Investments in Equity Instruments			
1. Investment in Equity Instruments Group A	-	-	-
Traded on Stock Exchange	-	-	-
2. Investment in Equity Instruments Group B	-	-	-
Traded on Stock Exchange	-	-	-
3. Investment in Equity Instruments Group C	-	-	-
Traded on Stock Exchange	-	-	-
4. Investment in Equity Instruments Group Other	-	-	-
Other ^(*)	144,209	144,209	-

^(*) The market values are taken into account as fair values because the equity investments are not traded in the stock exchange.

Prior Period	Comparison		
	Balance Sheet Value	Fair Value	Market Value
Investments in Equity Instruments			
1. Investment in Equity Instruments Group A	-	-	-
Traded on Stock Exchange	-	-	-
2. Investment in Equity Instruments Group B	-	-	-
Traded on Stock Exchange	-	-	-
3. Investment in Equity Instruments Group C	-	-	-
Traded on Stock Exchange	-	-	-
4. Investment in Equity Instruments Group Other	-	-	-
Other ^(*)	124,451	124,451	-

^(*) The market values are taken into account as fair values because the equity investments are not traded in the stock exchange.

The Breakdown of Capital Requirements on The Basis of Related Investments in Equity Instruments Depending on the Method of the Calculation of Capital Requirement Which Is Chosen By Bank Among Approaches That Are Allowed to be Used Within the Communiqué Regarding Credit Risk Standard Method or the Calculation Of Counterparty Credit Risk Based Upon Interior Rating Approaches

The investments in equity instruments, partaking in banking accounts according to the credit risk standard method, are amounted TL 144,209 and 100% of them are risk weighted. (31 December 2016: are amounted TL 124,451 and 100% of them are risk weighted).

VII. EXPLANATIONS ON THE CONSOLIDATED LIQUIDITY RISK MANAGEMENT AND CONSOLIDATED LIQUIDITY COVERAGE RATIO

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

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 Parent Bank’s liquidity and in the worst case scenario and the loss associated with it. The renewal of deposits which constitutes the Parent Bank’s most crucial funding resource is monitored on a daily basis. Besides, in order to compare the Bank’s level of liquidity risk with the sector, average remaining maturity structure of Bank-Sector and legal liquidity rates are monitored.

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1. Liquidity Risk

Explanations Related to the Liquidity Risk Management Including the Parent Bank’s Risk Capacity, Responsibilities and Structure of Liquidity Risk Management, Reporting of Liquidity Risk in Internal Banking, The Strategy of Liquidity Risk and How to Provide the Communication of Policies and Implementations with Board of Directors and Business Lines

The Parent Bank’s risk capacity, risk appetite, responsibilities and tasks of liquidity risk management and share issues of points related liquidity risk management with bank network are explained in “Regulations of Risk Management, Stress Test Program and Isedes Regulations” of the Parent Bank. In this context, liquidity risk strategies, policies and their implementations are published in periodically on weeks, months and years with all of the units with board directors in bank. Moreover, analyses done and reports are handled in the Assets-Liability Commission Conferences, Board of Director is informed by Audit Commission.

Liquidity Management and the Degree of Centralization of Fund Strategies, the Information about the Procedure Between Bank and the Partners of Bank

Continuously the information exchange is actualized about the liquidity need and surpluses between the Parent Bank and its partners, the compulsory directions and treats are moderated by Treasury Management and International Banking Assistant General Management to direct liquidity risk and surpluses in effective way.

Explanation Related to Policies Regarding Fund Resources Times Variations of Funding Strategy of Bank

The Parent Bank’s fundamental funding resources are deposits, the strategy of preserving the common base structure of deposits are sustained. Moreover, within the diversification strategy of resources structure, long-term and appropriate costed resources rate that are out of deposits are aimed to be raised. In the resources out of deposits; repurchase agreements, post finance, syndication credits, credits assured by international finance associations, exported securities, capital market transactions and credits taken by bilateral agreements are placed.

Explanation Related to Liquidity Management as Currencies Forming at Least 5 Percentage of Aggregate Liabilities of the Parent Bank

The Parent Bank’s total liabilities are consisted of mostly TL, USD and EUR currencies. Besides these currencies, valid for other currencies, daily and long-term cash flows are pursued and liquidity management is formed in effective way by some projections are being performed regarding future.

Information Related to the Techniques about the Reduction of Current Liquidity Risk

The Parent Bank’s source of funds is mainly formed of deposits. The Parent Bank’s deposits do not fluctuate considerably in line with the broadly dispersed customer network. Besides, in order to increase the fund range and decrease the maturity gap between assets and liabilities, giving weight to liabilities other than deposits such as bond/bill issuance, repo and funds borrowed.

As for the asset side of the Parent Bank, within the scope of reformatting short-term cash cycle, dissonance reducing the maturity of asset and liability, the policy for shortening the average maturity on loans being pursued.

Explanation Regarding the Usage of the Stress Test

In the presence of unexpected negative circumstances, stress tests being done in order to test the endurance of the Parent Bank. These actions have been shared with key management and all related units for the purpose of taking necessary precautions. Additionally, stress tests also taken into consideration on subjects like the Parent Bank’s estimated financial position for the next period, the progress of legal ratios and the liquidity need in short and long term as part of budget practices.

General Information on Liquidity Urgent and Unexpected Situation Plan

The internal and external sources which can be used in an emergency case to satisfy the liquidity need are periodically followed and the borrowing limits of the Parent Bank from organized market and other banks are on the level where they meet the structural liquidity deficits on different maturity segments. The Parent Bank lines off its exposition to liquidity risk by limits that are approved from Board of Directors and within the frame of “Regulation on Risk Management, Stress Test Program and the Parent Bank’s Internal Capital Adequacy Assessment Process (ICAAP)”.

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2. Liquidity Coverage Ratio

Within the framework of “Regulation on Calculation of Liquidity Covered Rate of Banks” published in the Official Gazette dated 21 March 2014 and numbered 28948 by the BRSA, the Parent Bank calculates the Liquidity Cover Rate and transmits it to the BRSA on a monthly basis. In the last three months (October, November, December) the consolidation ratios were respectively for FC 181.79% and for the total 96.49% at October; for FC 199.41% and for the total 92.73% at November; for FC 207.67% and for the total 86.31% at December (31 December 2016: In the last three months, the consolidation ratios were respectively for FC 86.61% and for the total 81.65% at October; for FC 92.29% and for the total 76.33% at November; for FC 102.33% and for the total 77.90% at December).

Current Period	Total Unweighted Value (average) ⁽¹⁾		Total Weighted Value (average) ⁽¹⁾	
	TL+FC	FC	TL+FC	FC
High Quality Liquid Assets				
High Quality Liquid Assets			51,969,108	42,724,037
Cash Outflows				
Retail and Small Business Customers, of which;	183,599,877	73,938,183	15,184,556	7,393,818
Stable deposits	63,508,627	-	3,175,431	-
Less stable deposits	120,091,250	73,938,183	12,009,125	7,393,818
Unsecured wholesale funding, of which;	87,300,313	35,897,745	47,013,225	21,610,215
Operational deposit	5,207,052	651,604	1,301,763	162,901
Non-operational deposits	66,176,640	26,149,586	30,641,992	13,170,168
Other unsecured funding	15,916,621	9,096,555	15,069,470	8,277,146
Secured funding			-	-
Other cash outflows, of which;	40,073,487	10,183,005	10,396,630	6,002,182
Derivatives cash outflow and liquidity needs related to market valuation changes on derivatives or other transactions	2,470,900	2,833,447	2,470,900	2,833,447
Obligations related to structured financial products	-	-	-	-
Commitments related to debts to financial markets and other off-balance sheet obligations	37,602,587	7,349,558	7,925,730	3,168,735
Other revocable off-balance sheet commitments and contractual obligations	244,960	217,867	12,248	10,893
Other irrevocable or conditionally revocable off-balance sheet obligations	39,616,655	27,946,305	2,465,677	1,815,226
Total Cash Outflows			75,072,336	36,832,334
Cash Inflows				
Secured lending	-	-	-	-
Unsecured lending	25,040,855	7,349,811	17,444,144	5,913,101
Other cash inflows	1,059,177	9,126,013	1,056,421	9,123,257
Total Cash Inflows	26,100,032	16,475,824	18,500,565	15,036,358
			Total Adjusted Value	
Total HQLA Stock			51,969,108	42,724,037
Total Net Cash Outflows			56,571,771	21,795,976
Liquidity Coverage Ratio (%)			91.86	196.02

⁽¹⁾ Simple arithmetic average for the last three months calculated by the monthly simple arithmetic average values.

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Prior Period	Total Unweighted Value (Average) ^(*)		Total Weighted Value (Average) ^(*)	
	TL+FC	FC	TL+FC	FC
High Quality Liquid Assets				
High Quality Liquid Assets			47,060,923	26,647,052
Cash Outflows				
Retail and Small Business Customers, of which;	143,898,400	51,675,017	11,622,939	5,167,502
Stable deposits	55,338,033	-	2,766,902	-
Less stable deposits	88,560,367	51,675,017	8,856,037	5,167,502
Unsecured wholesale funding, of which;	80,482,580	24,151,123	46,653,885	16,242,578
Operational deposit	1,687,101	291,581	421,775	72,895
Non-operational deposits	67,505,167	17,490,912	34,986,034	9,818,460
Other unsecured funding	11,290,312	6,368,630	11,246,076	6,351,223
Secured funding			-	-
Other cash outflows, of which;	20,783,315	13,237,304	5,963,394	11,556,687
Derivatives cash outflow and liquidity needs related to market valuation changes on derivatives or other transactions	2,133,363	10,295,383	2,133,363	10,295,383
Obligations related to structured financial products	-	-	-	-
Commitments related to debts to financial markets and other off-balance sheet obligations	18,649,952	2,941,921	3,830,031	1,261,304
Other revocable off-balance sheet commitments and contractual obligations	39,627	21,913	1,981	1,096
Other irrevocable or conditionally revocable off-balance sheet obligations	40,843,572	24,557,903	9,739,071	3,337,772
Total Cash Outflows			73,981,270	36,305,635
Cash Inflows				
Secured lending	-	-	-	-
Unsecured lending	17,850,713	7,875,744	12,618,858	6,975,435
Other cash inflows	1,480,005	780,641	1,465,414	766,050
Total Cash Inflows	19,330,718	8,656,385	14,084,272	7,741,485
			Total Adjusted Value	
Total HQLA Stock			47,060,923	26,647,052
Total Net Cash Outflows			59,896,998	28,564,150
Liquidity Coverage Ratio (%)			78.57	93.29

(*) Simple arithmetic average for the last three months calculated by the monthly simple arithmetic average values.

3. Minimum Statements Concerning Liquidity Coverage Ratio by Banks

Important Points Affecting the Results of Liquidity Coverage Ratio and the Changes of the Considered Items in the Course of Time to Calculate This Ratio

Bank deposit, which has not a fluctuant structure, together with constituting an important part of its sources and liquidity coverage ratio, in proportion to other deposits, public deposits can cause periodic changes within total deposits. When comparing with the prior period, the percentage of the total deposit in financial statement does not change and has an increasing sail.

As well as its low turn into cash ratio, since the non-cash loans has a remarkable extent in proportion to financial statement, they have an influence on the calculation of liquidity coverage ratio. Comparing to previous periods, non-cash loans are tend to increase.

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As a warrant of increasing repo transactions in time, bond and bill has been used which issuance by the Republic of Turkey Prime Ministry Undersecretariat of Treasury. Making repo transactions with these securities that consisting a huge part of the security portfolio, affect free securities which are accepted in high quality liquid asset classification in calculation of liquidity coverage ratio. Since the securities used in repo transactions lose the characteristic of being free, even if all other conditions fulfilled, they are not considered as high quality liquid asset.

High Quality Liquid Assets are Comprised to Which Items

All of the high-quality liquid assets of the calculation of Liquidity Coverage Ratio are First Quality Liquid Assets. These; cash, the accounts in Central Bank, reserve requirements and securities from the portfolio (The important part of bonds and T-bills issued by Republic of Turkey Prime Ministry Undersecretariat of Treasury, other bonds).

Funds are Comprised of Which Items and Their Volume in All Funds

The major part of the resources of funds in Bank is comprised of deposits, the remaining is divided according to their share in the balance sheet as repo, borrowings, and issued securities.

Information about Cash Out-Flows Arising from Derivative Operations and Margin Operations Likely to Processing

Derivative operations in Bank are carried out on the purpose of protection from the risks that may exist or occur in the balance sheet, liquidity management, or meet customer demand. Customer operations are carried out under the “Framework Agreement on Purchase and Sale of Derivative Instruments” or ISDA (International Swaps and Derivatives Association) and CSA (Credit Support Annex) with additional, as well as operations performed by the banks is performed again ISDA and CSA contracts signed. Operations performed under the said contracts in the determined periods are subject to daily market valuation and additional collateralization as cash. Operations could create additional collateral input or output depending on market valuation.

The Concentration Limits Regarding Collateral and Counterparty and Product Based Fund Resources

For the counterparty and product based concentration limits are determined under “Regulation on Risk Management, Stress Test Program and the Bank’s Internal Capital Adequacy Assessment Process (ICAAP)” with the approval of The Bank’s Top Management. These limits are followed in particular frequency. Besides, It has reported to the relevant units and The Bank’s Top Management. There is no excess regarding the limits during operating period.

Liquidity Risk And Needed Funding on The Basis of the Bank Itself, the Branches in Foreign Countries and the Partnerships Consolidated by Considering Operational and Legal Factors Preventing Liquidity Transfer

The needed and surplus of liquidity of the branches in foreign countries of the Parent Bank and partnerships consolidated are followed and managed regularly. There is no constraint of operational and legal factors preventing liquidity transfer. In the analysis made, it is observed that the impact of the foreign branches and subsidiaries on the Parent Bank’s liquidity structure remain limited comparing to the size of the balance sheet. The need and surplus of the liquidity is encountered properly between partnerships, as well as the branches abroad.

Explanations of Cash in-Flow And Cash Out-Flow Items That are Considered to be Related to Liquidity Profile of the Bank and to be Placed on the Calculation of Liquidity Coverage Ratio But Not on the Second Paragraph of the Disclosure Template

All items on the calculation of liquidity coverage ratio are included in calculation in aggregated form on the table. In this context, there is no point included in the calculation of liquidity coverage ratio and not included in the disclosure template.

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4. Presentation of Assets and Liabilities According to Their Remaining Maturities

	Demand	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Undistributed ^{(1) (2)}	Total
Current Period								
Assets								
Cash (Cash in vault, effectives, Money in transit, cheques purchased) and Balances with the Central Bank of Turkey	44,899,868	1,320,469	-	-	-	-	-	46,220,337
Banks	1,881,020	2,574,567	1,123,245	53,308	-	-	-	5,632,140
Financial Assets at Fair Value Through Profit and Loss	204	650,930	609,322	132,851	57,074	5,011	12,471	1,467,863
Money Market Placements	-	132,385	-	-	-	-	-	132,385
Financial Assets Available-for-Sale	62,401	304,508	1,535,034	6,247,687	23,378,405	31,146,284	963,912	63,638,231
Loans Given	-	12,619,158	20,021,874	108,426,306	136,421,696	37,779,465	1,751,989	317,020,488
Investments Held-to-Maturity	-	1,134,478	38,661	1,314,541	3,335,250	1,802,833	-	7,625,763
Other Assets	4,075,589	193,219	300,553	587,907	1,570,962	363,352	8,097,340	15,188,922
Total Assets	50,919,082	18,929,714	23,628,689	116,762,600	164,763,387	71,096,945	10,825,712	456,926,129
Liabilities								
Interbank Deposits	2,104,256	8,208,140	2,058,662	2,903,605	75,510	-	-	15,350,173
Other Deposits	69,505,256	137,110,843	26,399,245	31,844,494	2,199,022	160,580	-	267,219,440
Funds Provided from Other Financial Institutions	-	1,436,655	4,286,456	16,673,023	6,071,384	2,650,735	-	31,118,253
Money Market Borrowings	-	52,098,847	1,842,847	1,524,704	843,125	-	-	56,309,523
Issued Marketable Securities	-	1,037,916	2,024,684	1,351,793	7,172,352	1,887,400	135	13,474,280
Sundry Creditors	2,545,305	1,550,908	-	11,339	-	-	35,838	4,143,390
Other Liabilities ⁽³⁾	5,899,394	899,574	728,373	402,335	6,571,837	1,335,437	53,474,120	69,311,070
Total Liabilities	80,054,211	202,342,883	37,340,267	54,711,293	22,933,230	6,034,152	53,510,093	456,926,129
Liquidity Gap	(29,135,129)	(183,413,169)	(13,711,578)	62,051,307	141,830,157	65,062,793	(42,684,381)	-
Net Off-Balance Sheet Position	-	289,511	(50,634)	(18,587)	520,911	-	-	741,201
Financial Derivative Assets	-	31,372,193	5,138,945	4,045,596	2,487,182	-	-	43,043,916
Financial Derivative Liabilities	-	31,082,682	5,189,579	4,064,183	1,966,271	-	-	42,302,715
Non-cash Loans	44,309,179	4,153,866	4,677,686	25,135,933	20,450,899	3,599,059	-	102,326,622
Prior Period								
Total Assets	46,662,136	14,372,061	20,611,306	99,482,203	128,430,398	54,624,698	7,699,123	371,881,925
Total Liabilities	64,339,267	167,591,756	36,429,622	39,802,556	17,974,768	3,641,949	42,102,007	371,881,925
Liquidity Gap	(17,677,131)	(153,219,695)	(15,818,316)	59,679,647	110,455,630	50,982,749	(34,402,884)	-
Net Off-Balance Sheet Position	-	101,816	(4,584)	511,465	598,076	-	-	1,206,773
Financial Derivative Assets	-	23,887,140	7,574,728	2,638,403	2,677,243	-	-	36,777,514
Financial Derivative Liabilities	-	23,785,324	7,579,312	2,126,938	2,079,167	-	-	35,570,741
Non-cash Loans	39,328,862	1,045,731	5,027,611	18,874,379	14,761,801	3,682,731	-	82,721,115

⁽¹⁾ Assets which are required for banking operations and could not be converted into cash in short-term, such as; tangible assets, associates, subsidiaries and entities under common control, office supply inventory, prepaid expenses and net non-performing loans as well as securities representing a share in capital; and other liabilities such as provisions which are not considered as payables and equity are classified as undistributed.

⁽²⁾ Deferred tax asset is included under the “Undistributed” column.

⁽³⁾ TL 5,972,568 of the funds balance, whose risk is not born by the Parent Bank, is included in other liabilities and shown under the “1-5 years” column, fund balance amounted to TL 58,007 is not granted as loan and is included under “Up to One Month” column.

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5. Presentation of Liabilities According to Their Remaining Maturities

	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Total
Current Period ^(*)						
Bank deposits	10,323,344	2,062,576	2,914,582	78,044	-	15,378,546
Other deposits	206,995,434	26,630,764	32,466,021	2,229,065	199,114	268,520,398
Funds borrowed from other financial institutions	1,443,218	4,345,334	17,052,210	6,862,001	3,928,073	33,630,836
Funds borrowed from Interbank money market	52,168,911	1,849,922	1,542,807	846,503	-	56,408,143
Total	270,930,907	34,888,596	53,975,620	10,015,613	4,127,187	373,937,923
Prior Period ^(*)						
Bank deposits	8,607,501	1,603,770	2,025,178	-	-	12,236,449
Other deposits	168,765,620	26,250,886	23,335,495	1,628,281	53,240	220,033,522
Funds borrowed from other financial institutions	1,500,321	2,564,338	13,190,000	4,825,200	1,528,815	23,608,674
Funds borrowed from Interbank money market	41,818,169	3,757,618	1,101,437	734,017	-	47,411,241
Total	220,691,611	34,176,612	39,652,110	7,187,498	1,582,055	303,289,886

^(*) Amounts related with the fund balances are not included in the table since decomposition on the basis of their remaining maturities could not be performed.

VIII. EXPLANATIONS ON CONSOLIDATED LEVERAGE

1. Explanations on the Difference Between the Prior and Current Period of Leverage Ratio

The Parent Bank’s leverage calculated by force of the regulation “Regulation on Measurement and Assessment of Leverage Ratios of Banks” is 7.98% (31 December 2016: 8.00%). The decrease on leverage results occur from the increase on total risk amount. The regulation sentenced the minimum leverage as 3%.

	Current Period ^(*)	Prior Period ^(*)
Balance sheet assets		
On-balance sheet items (excluding derivative financial instruments and credit derivatives but including collateral)	452,721,717	359,875,628
(Assets deducted in determining Tier 1 capital)	(2,586,076)	(2,072,001)
Total on-balance sheet risks (sum of lines 1 and 2)	450,135,641	357,803,627
Derivative financial instruments and credit derivatives		
Replacement cost associated with all derivative financial instruments and credit Derivatives	1,590,316	1,516,660
Add-on amounts for PFE associated with all derivative financial instruments and credit derivatives	500,985	394,485
Total risks of derivative financial instruments and credit derivatives	2,091,301	1,911,145
Securities or commodity financing transactions (SCFT)		
Risks from SCFT assets	5,102,788	4,889,181
Risks from brokerage activities related exposures	-	-
Total risks related with securities or commodity financing transactions	5,102,788	4,889,181
Other off-balance sheet transactions		
Gross notional amounts of off-balance sheet transactions	136,027,916	105,343,560
(Adjustments for conversion to credit equivalent amounts)	(1,937,432)	(1,415,380)
Total risks of off-balance sheet items	134,090,484	103,928,180
Capital and total risks		
Tier 1 capital	47,185,249	37,505,342
Total risks	591,420,214	468,532,133
Leverage ratio		
Leverage ratio (%)	7.98	8.00

^(*) Three month average of the amounts in the table are taken.

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2. An Extract Comparison Table of Total Risks Placed in Consolidated Financial Statements Coordinated in Accordance With TAS

	Current Period ^(*)	Prior Period ^(*)
Total assets in consolidated financial statements prepared in accordance with Turkish Accounting Standards ^(**)	456,979,890	371,924,474
The difference between total assets prepared in accordance with Turkish Accounting Standards and total assets in consolidated financial statements prepared in accordance with the communiqué “Preparation of Consolidated Financial Statements”	53,761	42,549
The difference between the amounts of derivative financial instruments and credit derivatives in consolidated financial statements prepared in accordance with the communiqué “Preparation of Consolidated Financial Statements” and risk amounts of such instruments	97,270,270	76,404,601
The difference between the amounts of securities or commodity financing transactions in consolidated financial statements prepared in accordance with the communiqué “Preparation of Consolidated Financial Statements” and risk amounts of such instruments	14,574,814	39,216,454
The difference between the amounts of off-balance items in consolidated financial statements prepared in accordance with the communiqué “Preparation of Consolidated Financial Statements” and risk amounts of such items	1,937,432	1,415,380
Other differences between the amounts in consolidated financial statements prepared in accordance with the communiqué “Preparation of Consolidated Financial Statements” and risk amounts of such items	(18,087,286)	(42,588,977)
Total Risk Amount	591,420,214	468,532,133

^(*) The amounts shown in the table are 3 month averages.

^(**) The current year balance of the Consolidated Financial Statements prepared in accordance with paragraph 6 of Article 5 of the Communiqué on Preparation of Consolidated Financial Statements of Banks has been prepared by using the temporary financial statements dated 31 December 2017 of the nonfinancial subsidiaries.

IX. EXPLANATIONS ON CONSOLIDATED RISK MANAGEMENT

This section contains notes and explanations regarding the “Communiqué on Disclosures about Risk Management to be Announced to Public by Banks” released by the Banking Regulation and Supervision Agency (BRSA), published in the Official Gazette no. 29511 on 23 October 2015 and became effective as of 31 March 2016.

As part of its controlling activities, the Risk Management Group Presidency conducts controls on Risk Management Explanations. Two different control processes, e.g. Calculation of Capital Adequacy process and other Risk Management processes, are conducted by the relevant unit periodically in line with capital adequacy control points and guidelines as well as control points for other Risk management field of activity and guideline.

Furthermore, as part of legislation compliance controls, compliance of all activities, new transactions and products planned by the Bank with relevant laws, legislation, internal Bank policies and banking practices is controlled. Accordingly, compliance of legislative regulations regarding Risk Management Explanations with internal Bank practices is also controlled.

Controlling activities conducted by the Head Office Units are performed in line with the control periods determined by considering functions of Units and risks they bear, job definitions of the Units and their impact on the Bank’s balance sheet. Control processes by the Head Office Units are performed based on control points determined according to processes, duties and powers of unit’s field of activity and control techniques are elaborated in the head office control guideline.

1. Explanations on Risk Management and Risk Weighted Amount

1.1 Bank’s Risk Management Approach

It Has to Do With How The Business Model Determines the Bank’s Risk Profile; How It Interacts With It (E.G. Key Risks Related To The Business Model and How Each of These Risks Is Reflected on Explanations); and How The Bank’s Risk Profile Interacts With The Risk Appetite Approved by The Board of Directors

While risk appetite determines the Bank’s risk level, risk capacity determines its risk appetite and, therefore, risk profile. Local and international conjuncture is also considered to determine the risk level. Establishment of forward-looking strategies and policies is also considered in this regard. The Bank’s risk level is restricted to the limits consistent with its risk appetite.

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Risk limits are determined in accordance with the level of risks that may be assumed by the Bank, its activities, size and complexity of its products and services. The limits are revised and, if needed, updated regularly in line with the developments in market conditions, the Bank’s strategy and risk appetite.

Critical thresholds (signal and limit values) indicating that limits are approached due to internal or external developments have been identified. In the event that these values are approached or exceeded, relevant units take required actions.

Parameters regarding signal and limit structure as well as limit values of parameters are determined in coordination with the relevant units and implemented upon approval of the Audit Commission and Board of Directors.

Signal and limit values based on risk weighted assets are monitored by the Bank’s Risk Management Group Presidency regularly and actual values are reported periodically to the Bank’s Top Management.

Risk Management Structure: Responsibilities Distributed at The Bank (E.G. Supervision And Delegation Of Authority); Segregation of Duties by Risk Type, Business Unit, Etc.; Relations Between Structures Included In Risk Management Processes (E.G. Board of Directors, Top Management, Separate Risk Committee, Risk Management Unit, Compliance and Internal Audit Function)

The Bank’s Top Management and relevant units perform their risk management duties, authorities and responsibilities in line with the relevant legal legislation and internal Bank regulations.

Structure of the Bank’s risk management is consistent with the Regulation on Internal Systems and Internal Capital Adequacy Assessment Processes of Banks. Accordingly, internal system units consisting of the Inspection Board Presidency, Internal Control and Compliance Group Presidency and Risk Management Group Presidency report to the Audit Committee and Board of Directors through the Vice President who is responsible for internal systems and operates separate from executive units.

Risk measurement and monitoring activities are conducted as part of risk management and the results are considered in strategic decision-making process by relevant units and bodies. Risk management operations are conducted in accordance with the Regulation on the Internal Systems and Internal Capital Adequacy Assessment Processes of Banks, issued by the BRSA, within the scope of Regulation on Risk Management, Stress Test Program and the Bank’s Internal Capital Adequacy Assessment Process (“ICAAP”) approved by the Bank’s Board of Directors.

Organizational structure of the Bank’s Risk Management Group Presidency consists of credit risk management, market risk management, operational risk management and statement risks management units. Duties of risk management:

- Ensuring identification, measurement, reporting, monitoring and control of risks exposed through policies, practices and limits established to monitor, control and revise, when necessary, the risk-return structure of the Bank’s cash flows in the future, quality and level of its associated activities
- Conducting stress tests and scenario analyses
- Establishing and maintaining a system that will ensure determination of capital required to cover significant risks exposed or possible risks and assessment of capital adequacy/requirement level in line with the strategic goals
- Preparing ICAAP reports periodically.

ICAAP analyses and activities are validated by a team that reports to the Audit Committee independently from the team that develops and implements the methodology of such activities. The same team issues a Validation Report as well. Analyses and activities conducted within the process, including validation activities are reviewed by the Inspection Board Presidency and a Review Report is issued for the results.

Channels Used for Disseminating and Implementing Risk Culture Within The Bank (E.G. Codes Of Conduct, Manuals Including Operational Limits or Procedures To Be Performed When Risk Thresholds Are Exceeded, Procedures for Identifying and Sharing Risk Issues Between Business Units And Risk Units)

The Bank exercises maximum efforts to perceive both risks and returns accurately during its activities and maintain its perspective for disseminating risk culture across the Bank. Accordingly, goals, vision and strategic approaches are shared in large group meetings held by the Bank’s Top Management with employees.

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Signal and limit structure established based on risk weighted assets is one of the channels used to disseminate risk culture within the Bank. Parameters for signal and limit structure and limit values of parameters are determined by risk management by consulting the relevant units and approved by the Board of Directors.

It is ensured that risk signal and limit structure is forwarded to relevant units in the Bank and the structure is understood by the staff. Usage levels for signal and risk parameters are subject to reports submitted to the Top Management.

If limits are exceeded, the Bank’s Top Management is notified. In such a case, matters such as risk mitigation, risk transfer or risk-averse, increasing collaterals and so on can be considered as part of required actions. If limits are exceeded, forward-looking strategies and policies of the Bank—including budget figures—can be reviewed or, where necessary, revised.

Another channel used to disseminate the risk culture is in the scope of ICAAP activities. It is essential to include assessment results for capital adequacy in the ICAAP Report covering all significant risks of the Bank. The report is prepared in coordination with risk management and with participation from other relevant units. Similarly, the Bank’s budget goals for the upcoming years are also established with the participation of relevant units. The Bank’s Top Management and relevant units conduct their ICAAP duties, authorities and responsibilities in line with the Bank regulations and relevant legal legislation.

Principal Elements and Scope of Risk Measurement Systems

The Bank’s risk measurement system functions in line with the best practices, legal regulations, fields of activity and product ranges in a consistent, reliable and integrated way. Regarding the inclusion of risk measurement results in decision-making processes, reports are elaborated with extensive explanations and assumptions to avoid any misinterpretation that may arise from errors and deficiencies.

Required activities are performed to engage in design, selection, implementation and pre-approval processes for risk measurement models; review accuracy, reliability and performance of models regularly through various methodologies and make required revisions accordingly; and report results of analyses conducted with such models.

The Bank’s capital adequacy ratio is calculated in accordance with the Communiqué on Measurement and Assessment of Capital Adequacy of Banks, Communiqué on Credit Risk Mitigation Techniques and other relevant legal regulations.

Counter parties/operations related to the credit risk are separated on the basis of risk classes mentioned in Appendix-1 of the Communiqué on Measurement and Assessment of Capital Adequacy of Banks, and each of them is assigned by the weight of risk in line with the matters specified for relevant risk class. Then, they are subject to risk mitigation in accordance with the principles of Communiqué on Credit Risk Mitigation Techniques and weighted based on the risk weights.

After deduction of specific provisions in accordance with Communiqué on Methods and Principles for the Determination of Loans and Other Receivables to be Reserved for and Allocation of Reserves, non-cash loans and commitments are included in the calculation of credit-risk-weighted amount with loan conversion rates presented in article 5 of Communiqué on Measurement and Assessment of Capital Adequacy of Banks.

Trading accounts and the values deducted from the capital base in the shareholders’ equity computation are excluded from calculation of credit risk-weighted assets.

Calculations regarding to the counter party credit risk are made for repurchase agreement and derivative transactions. These transactions are added to the calculations after applying the rates presented in the amendments of the Communiqué on Measurement and Assessment of Capital Adequacy of Banks and Communiqué on Credit Risk Mitigation Techniques.

Calculations regarding counter parties credit risks are made with the basic financial collateral method and extensive collateral method for banking accounts and trading accounts respectively.

The amount subject to the total market risk is calculated through the standard method. Furthermore, value at risk forecasts are made on a daily basis and backward testing is performed so as to measure performance of the model.

Liquidity Coverage Ratio and Liquidity Risk Analysis reports for the liquidity risk are prepared in accordance with the relevant regulations. Furthermore, stress test is performed to assess maturity mismatch between sources and uses, contractual maturities as well as behavioral maturities of assets and liabilities, the Bank’s liquidity requirement in a worst case scenario and relevant damages that may be incurred based on scenario and sensitivity analysis activities.

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Control of interest rate risk on banking accounts entails monitoring rate and maturity mismatch between sources and uses of fixed and variable interest rates, contractual maturities as well as behavioral maturities assets and liabilities and the effects of the usual and unusual changes in interest rates which is possibly uptrend and downtrend.

Explanations Provided to The Board of Directors and Top Management on Risk Reporting Processes, Particularly Scope and Main Contents of Reporting

It is essential to inform the Top Management about developments and results of the analysis and activities conducted in order to achieve efficiency in risk management. Accordingly, a reporting system for informing Top Management is established and required measures are taken for healthy functioning of the system.

Informing process as part of reporting should be based on the most current data available on a periodical basis. Reports issued contain, at minimum, information on risk amount and development, legal capital requirement, legal ratios for liquidity and interest rate risks, stress test analysis results, effect of such results on capital adequacy level and ratios, realization level of risk limits and limitations, and assumptions of risk measurement method used.

As part of the reporting system, an information systems infrastructure is established for external reporting and required actions are taken to fulfill legal obligations fully in a timely manner in this regard.

Explanations On Stress Test (E.G. Assets Subject To Stress Test, Scenarios Applied, Methodologies Used And The Use Of Stress Test In Risk Management)

Stress test is intended to pre-assess the effect of negative developments in specified risk factors on amounts subject to risk and capital adequacy/requirement level.

Conducting the stress test periodically is essential, and test result must be included in internal reporting and considered in strategic decision-making process or capital management. Results of stress test analysis are considered while establishing risk management policies.

In stress test activities, shock is applied to risk factors determined (factors specific to debtor or transaction or macroeconomic variables such as exchange rate, price, interest and so on), and the effects of results on risk-weighted asset amount and capital adequacy ratio are identified. Accordingly, risk factors are identified first and then assumptions to be implemented are determined and possible losses in the future are estimated. Stress test activities include creating scenarios, which are unlikely, if not impossible, and which may affect the Bank's risk level significantly.

The results of stress test are subject to internal Bank reporting and ICAAP Report. The results of stress test may be used in processes to determine the Bank's risk appetite or risk limits and identify new and current business strategies as a planning instrument and their effect on capital utilization.

Analyses of credit risk based on internal and external risk factors, counter party credit risk, liquidity risk, interest rate risk, operational risk and market risk are conducted in the case of stress tests which are subject to internal reporting.

The Board of Directors is responsible for assessing the results of the Stress Test Program and taking actions based on the results. Accordingly, actions such as revision of risk appetite, strategy and risk limits or restriction of activities to specific sectors or portfolios can be taken.

The Bank's Risk Management, Aversion and Mitigation Strategies And Processes Based On Business Model And Monitoring Processes For Continuous Efficiency Of Safeguards And Mitigants

Amounts subject to credit risk can be mitigated by using one or more risk mitigation techniques in line with the legal regulations.

Funded or unfunded credit safeguard instruments are considered while using the risk mitigation technique. Whether credit safeguard instruments meet minimum compulsory conditions specified in legal regulations is checked via the system.

The Bank performs risk mitigation with a simple financial method. Credibilities of guarantors are monitored and assessed in the scope of credit revision maturity.

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All Bank employees are responsible for control and mitigation of operational risks based on their job definitions and business processes. All Bank units are obliged to take risk mitigation measures for mitigation of operational risks that may occur in their respective fields of activity through insurance and other risk transfer mechanisms.

The Bank's market risk is mitigated through derivatives or other financial products by considering current conjuncture and risk appetite, risk capacity and risk level. Long term liabilities are obtained and the interest rate risk arising from liquidity and banking accounts is limited through the transactions performed.

Diversification of resources is deemed important for managing the liquidity risk that may occur. While the Bank's fundamental funding resources are deposits, the strategy of preserving the common base structure of deposits is sustained. Besides, liabilities other than deposits such as bond/bill issuance, repo and credits are deemed important for increasing the fund range and decreasing the maturity gap between assets and liabilities. As for the asset side of the Bank, policies intended to reduce average credit maturity are pursued as part of measures to improve short term cash cycle and minimize maturity mismatch between assets and liabilities. As part of management of interest rate risk, measures are taken to reduce repricing maturity mismatch of interest sensitive assets and liabilities.

Overview of Risk Weighted Amounts

		Risk Weighted Amount		Minimum Capital Requirement
		Current Period	Prior Period	Current Period
1	Credit Risk (excluding counterparty credit risk)	305,800,542	260,065,282	24,464,043
2	Standardised approach	305,800,542	260,065,282	24,464,043
3	Internal rating-based approach	-	-	-
4	Counterparty credit risk	3,434,653	3,323,247	274,772
5	Standardised approach for counterparty credit risk	3,434,653	3,323,247	274,772
6	Internal model method	-	-	-
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	1,108,145	1,686,718	88,652
10	Investments made in collective investment companies-1250% weighted risk approach	-	-	-
11	Settlement risk	-	-	-
12	Securitization positions in banking accounts	-	-	-
13	IRB ratings-based approach	-	-	-
14	IRB Supervisory Formula approach	-	-	-
15	SA/simplified supervisory formula approach	-	-	-
16	Market risk	18,965,749	15,358,775	1,517,260
17	Standardised approach	18,965,749	15,358,775	1,517,260
18	Internal model approaches	-	-	-
19	Operational risk	25,145,817	20,519,768	2,011,665
20	Basic Indicator approach	25,145,817	20,519,768	2,011,665
21	Standard approach	-	-	-
22	Advanced measurement approach	-	-	-
23	The amount of the discount threshold under the equity (subject to a 250% risk weight)	-	-	-
24	Floor adjustment	-	-	-
25	Total (1+4+7+8+9+10+11+12+16+19+23+24)	354,454,906	300,953,790	28,356,392

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2. Connections between Consolidated Financial Statements and Risk Amounts

Differences Between Accounting Consolidation and Legal Consolidation and Matching of the Subject

	Amount assessed in accordance with TAS as reported in financial statements ^(*)	Valued amount according to TAS within legal consolidation	Value of items according to TAS				Not subject to capital obligation or is deducted from capital
			Subject to Credit Risk	Subject to Counterparty Credit Risk	Securitization positions	Subject to Market Risk	
Assets							
Cash Balances with the Central Bank of Turkey	46,220,337	46,220,337	46,220,337	-	-	-	-
Financial Assets Held for Trading	1,467,863	1,467,863	-	1,396,767	-	71,096	-
Financial Assets at Fair Value Through Profit or Loss (Net)	-	-	-	-	-	-	-
Banks	5,632,140	5,632,140	5,632,140	-	-	-	-
Receivables from Money Market	132,385	132,385	62,214	70,171	-	-	-
Financial Assets Available for Sale (Net)	63,638,231	63,638,231	18,613,864	2,179,191	-	42,845,176	-
Loan and Receivables	317,020,488	317,020,488	317,018,779	-	-	-	1,709
Factoring Receivables	1,614	1,614	1,614	-	-	-	-
Investments Held To Maturity (Net)	7,625,763	7,625,763	5,315,124	2,310,639	-	-	-
Associates (Net)	146,075	128,419	128,419	-	-	-	-
Subsidiaries (Net)	1,346	7,583	7,583	-	-	-	-
Entities Under Common Control (Net)	52,036	52,036	52,036	-	-	-	-
Receivables from Leasing Transactions	2,881,519	2,881,519	2,881,519	-	-	-	-
Derivative Financial Assets for Hedging Purposes	-	-	-	-	-	-	-
Tangible Assets (Net)	6,682,102	6,679,632	6,596,192	-	-	-	83,440
Intangible Assets (Net)	548,753	532,088	-	-	-	-	532,088
Real Estates for Investment Purposes (Net)	-	-	-	-	-	-	-
Tax Asset	41,055	41,055	41,055	-	-	-	-
Assets Held for Sale and Assets Held from Discontinued Operations (Net)	674,819	674,819	674,819	-	-	-	-
Other Assets	4,213,364	4,190,157	4,190,157	-	-	-	-
Total Assets	456,979,890	456,926,129	407,435,852	5,956,768	-	42,916,272	617,237
Liabilities	282,549,116	282,569,613	-	-	-	-	-
Deposits	548,910	548,910	-	-	-	-	-
Derivative Financial Liabilities Held for Trading	31,118,253	31,118,253	-	2,726,897	-	-	-
Funds Borrowed	56,309,523	56,309,523	-	14,440,188	-	-	-
Money Market Debts	13,474,280	13,474,280	-	-	-	-	-
Marketable Securities Issued	6,030,575	6,030,575	-	-	-	-	-
Funds	4,179,377	4,143,390	-	-	-	-	-
Miscellaneous Payables	2,575,954	2,575,954	-	-	-	-	-
Other Liabilities	-	-	-	-	-	-	-
Factoring payables	-	-	-	-	-	-	-
Payables from Leasing Transactions (Net)	-	-	-	-	-	-	-
Provisions	10,375,563	10,362,037	-	-	-	-	-
Tax Liabilities	1,310,438	1,310,438	-	-	-	-	-
Liabilities for Assets Held for Sale and Held from Discontinued Operations (Net)	-	-	-	-	-	-	-
Subordinated Loans	-	-	-	-	-	-	-
Shareholders' Equity	48,507,901	48,483,156	-	-	-	-	-
Total Liabilities	456,979,890	456,926,129	-	17,167,085	-	-	-

^(*) The current account balance of the Consolidated Financial Statements prepared in accordance with paragraph 5 of Article 6 of the Communiqué on Preparation of Consolidated Financial Statements of Banks has been prepared by using the temporary financial statements of the non-financial associates as of 31 December 2017

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The Main Sources of The Differences Between The Risk Amounts and The Amounts Assessed in Accordance with TAS in The Consolidated Financial Statements

	Total	Subject to Credit Risk	Securitization Positions	Subject to Counterparty Credit Risk	Subject to Market Risk
Assets valued under legal consolidation in accordance with TAS	456,926,129	407,435,852	-	5,956,768	42,916,272
Estimated amounts of liabilities under legal consolidation in accordance with TAS	-	-	-	17,167,085	-
Total net amount under legal consolidation	456,926,129	407,435,852	-	(11,210,317)	42,916,272
Off-balance sheet items	180,798,732	58,591,260	-	48,292,227	-
Valuation Differences	-	-	-	-	-
Differences arising from different netting rules (except for placed in line 2)	-	-	-	-	-
Differences arising from consideration of provisions	-	-	-	-	-
Differences arising from the applications of the Institution	-	-	-	-	-
Risk Amounts	637,724,861	466,027,112	-	37,081,910	42,916,272

Explanations on the differences between the amounts assessed in accordance with TAS and the risk amounts

There is no significant difference between the financial statement values of the assets and liabilities with the values included in the capital adequacy calculation.

3. Credit Risk Explanations

3.1 Transformation of Bank's Business Model into Components in Credit Risk Profile

The banks must allocate risk limits approved by board of directors of the banks and monitor limit utilization pursuant to Article 38 of the Regulation on the Internal Systems and Internal Capital Adequacy Assessment Processes of Banks issued by the BRSA and published in the Official Gazette no. 29057 dated 11 July 2014. Furthermore, pursuant to paragraph 5 of the same article, it is expected to establish a signal structure that will serve as an early warning mechanism in addition to the limit structure.

Additionally, principle 5 of the Guideline for Counter Party Credit Risk Management announced to the public by the BRSA with the Agency Decision no. 6827 dated 31 March 2016 states that banks must allocate a limit for counter party credit risk (CCR).

Pursuant to aforementioned regulations, to what extent the Bank gets closer to allocated limits approved by the board of directors or to what extent these levels were exceeded must be monitored by the risk management unit which was structured independent from executive units. This practice that was included in monitoring function of the risk management unit is significant as it presents a legal obligation and it helps optimization of resource utilization.

As part of the variation in customer segmentation due to changing organizational structure of the Bank, credit risk signal and limit parameters were determined on the basis of corporate, entrepreneur and personal segment in line with the customer segment structure and they are updated according to the changes in the segmentation structure. Signal and limit values for counter party credit risk transactions were determined separately for banking accounts and trading accounts based on portfolio type. Calculations were made based on ratio of risk weighted asset amounts calculated for relevant parameters to total credit and market risk weighted asset amounts and they are reported to the Bank's Top Management periodically through relevant units.

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In an attempt to prevent significant effects of unfavorable developments in the portfolio subject to market risk, it is essential to restrict risk level to the limits in line with the Bank’s risk appetite. Market risk limits were determined as interest rate risk and currency risk limits. Current values for such limits are calculated on a daily basis with market data and reported to the Bank’s Top Management through relevant units. Market risk signal and limit values are monitored dynamically in the light of market developments and, if necessary, updated based on the developments in the Bank’s strategy and risk appetite.

3.2. Criteria and Approach Adopted for Determining Credit Risk Policy and Credit Risk Limits

As part of credit risk management, the Bank’s risk management team conducts the functions of identification, measurement, monitoring and controlling of credit risk in line with the structure, size, complexity and growth rate of products and activities and reports the analysis, including stress test, and its results to the Bank’s Top Management.

In an attempt to prevent significant effects of unfavorable developments in the portfolio subject to credit risk, credit risk level was restricted to the limits in line with the Bank’s risk appetite. The limits are revised and, if needed, updated regularly in line with the developments in market conditions, the Bank’s strategy and risk appetite.

There is a signal and limit structure in place, indicating that credit risk limits are almost reached as a result of internal and external developments. Parameters for signal and limit structure and limit values of parameters are determined by risk management by consulting the relevant units. The approval of Audit Committee and Board of Directors is sought in order to implement parameters and signal/limit threshold values within the Bank. It is ensured that risk signal and limit structure is forwarded to relevant units in the Bank and the structure is understood by the relevant staff. Actual values are monitored closely by the risk management. Actual values regarding signal and limit parameters are reported to the Bank’s Top Management.

3.3. Structure and Organization of Credit Risk Management and Control Function

The Bank’s internal system units consist of the Inspection Board Presidency, Internal Control and Compliance Presidency and Risk Management Group Presidency. Credit risk management is one of the four services under the Risk Management Group Presidency.

Activities conducted at the credit risk management unit, which is subject to inspection and controlling activities periodically, aim to establish and maintain a credit risk management infrastructure that is structured enough to meet legal obligations and flexible enough to accommodate the best practices. Accordingly, capital amount that should be reserved for credit risk is calculated; risk mitigation techniques are implemented; stress tests are conducted; credit risk signal and limit structures are monitored; activities are conducted to calculate credit risk with advanced methods and developments that may affect the Bank’s credit risk are monitored. Analyses conducted are reported to the Top Management and relevant units periodically.

3.4 Relationship between Credit Risk Management, Risk Control, Legal Compliance And Internal Audit Functions

Risk Management Group Presidency goes through inspection and control activities periodically. In case of any findings, they are reported and required activities are performed.

Furthermore, inspection and control units involve in the process also for the ICAAP activities that constitute a significant part of risk management activities. Accordingly, ICAAP analyses and activities are validated by Internal Control and Compliance Group Presidency that reports to the Audit Commission independent from the team that develops and implements the methodology of the ICAAP analyses. The same team issues a Validation Report as well. The entire ICAAP process is subject to an inspection by the Inspection Board Presidency and reported through Examination Report issued.

3.5. Scope and Main Content for Reporting to Top Management and Board Members on Credit Risk Management Function and Credit Risk Exposed

It is essential to inform the Bank’s Top Management about developments in credit risk management and results of the analysis and activities conducted in order to achieve efficiency in risk management. Accordingly, a reporting system for informing the Bank’s Top Management on credit risk management is established and required measures are taken for healthy functioning of the system.

Informing process as part of reporting should be based on the most current data available on a periodical basis.

Reports issued contain, at a minimum, information on risk amount and development, legal capital requirement, stress test analysis results, effect of such results on capital adequacy level, realization level of risk limits and limitations and assumptions of risk measurement method used.

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3.6. Credit Quality of Assets

	Defaulted	Non-defaulted	Allowances/amortisation and impairments	Net values
Loans	5,028,967	316,795,002	4,803,481	317,020,488
Debt Securities	-	74,462,980	1,731,123	72,731,857
Off-balance Sheet Exposure	-	135,132,373	138,057	134,994,316
Total	5,028,967	526,390,355	6,672,661	524,746,661

3.7. Changes in the Defaulted Receivables and Debt Instruments

1	Defaulted loans and debt securities at end of the previous reporting period	4,380,490
2	Loans and debt securities that have defaulted since the last reporting period	2,168,537
3	Receivables back to non-defaulted status	37,244
4	Amounts written off	-
5	Other changes	(1,482,816)
6	Defaulted loans and debt securities at end of the reporting period (1+2-3-4±5) definitions	5,028,967

3.8. Additional Explanations on Credit Quality of Assets

Differences between Definitions and Explanations of “Deferred” Receivables and Receivables for Which “Provision Was Allocated”, and Definitions of “Deferred” and “Provision of Allocation”, If Any

The Bank classifies its credits and other receivables and allocates specific and general provisions pursuant to the “Communiqué on Methods and Principles for Determining the Nature of Loans and Other Receivables and Allocation of Provisions” published in the Official Gazette no. 26333 dated 1 November 2006. The term “deferred receivables” is used for credits named “Loans under Close Monitoring” whose maturity is deferred for up to 90 days as of the end of period without any impairments as well as for credits named “Non-performing Loans” whose maturity is deferred for more than 90 days or subject to impairment. In practice, the Bank sets general provisions for credits classified as “Standard Credits” and “Under Close Monitoring” and specific provisions for credits classified as “Non-performing Loans”.

The Portion That Is Not Considered Within The Scope of “Allocation of Provision” Among Deferred Receivables (Over 90 Days) and Reasons for This Practice

The Bank transfers credits whose maturity is deferred for more than 90 days automatically to monitoring accounts pursuant to the classification provisions of Regulation on Provisions, and allocates provision of respective class; whereas it does not allocate specific or general provisions for fund-based credits classified as “Non-performing Loans” pursuant to Article 13 “Exceptions” of the Regulation on Provisions as the relevant risk is not assumed by the Bank.

Definitions of Methods Used for Determining Provision Amount

The Bank sets specific and general provisions for loans and other receivables in accordance with the regulations stated by the Communiqué published on the Official Gazette numbered 26333 and dated 1 November 2006 on “Methods and Principles on Determining the Nature of Loans and Other Receivables and Allocation of Provisions”. However, there is no judgement in the related Regulation and the BRSA’s related disclosures that would prevent further provision of the minimum amounts required.

Definitions of Restructured Receivables

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

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Breakdown of The Group's Receivables by Geographic Regions, Sectors and Remaining Maturity; Receivable Amounts Subject to Allocation of Provision by Geographic Regions and Sectors and Their Respective Provisions; Amounts Removed from The Assets

	Loans and Receivables	Loans under Follow-up	Specific Provisions	Total
Domestic	303,192,432	4,954,178	4,728,692	303,417,918
EU Countries	1,097,186	21,156	21,156	1,097,186
USA, Canada	27,527	-	-	27,527
OECD Countries	5,346,543	801	801	5,346,543
Off-shore banking region	11,035	-	-	11,035
Other Foreign Countries	7,120,279	52,832	52,832	7,120,279
Total	316,795,002	5,028,967	4,803,481	317,020,488

	Loans and Receivables	Loans under Follow-up	Specific Provisions	Total
Agriculture	58,900,428	689,624	470,994	59,119,058
Farming and Stockbreeding	58,133,194	683,304	464,674	58,351,824
Forestry	431,331	3,170	3,170	431,331
Fishing	335,903	3,150	3,150	335,903
Manufacturing	64,234,900	1,027,320	1,027,320	64,234,900
Mining and Quarrying	5,345,493	15,292	15,292	5,345,493
Production	44,205,446	997,223	997,223	44,205,446
Electric, Gas and Water	14,683,961	14,805	14,805	14,683,961
Construction	25,040,723	1,010,049	1,003,388	25,047,384
Services	73,347,405	1,232,512	1,232,512	73,347,405
Wholesale and Retail Trade	29,936,775	1,004,240	1,004,240	29,936,775
Hotel Food and Beverage Services	5,470,621	53,331	53,331	5,470,621
Transportation and Telecommunication	9,186,186	65,891	65,891	9,186,186
Financial Institutions	5,896,835	5,348	5,348	5,896,835
Real Estate and Leasing Services	21,396,933	71,542	71,542	21,396,933
Self Employment Services	864	235	235	864
Education Services	607,472	14,938	14,938	607,472
Health and Social Services	851,719	16,987	16,987	851,719
Other	95,271,546	1,069,462	1,069,267	95,271,741
Total	316,795,002	5,028,967	4,803,481	317,020,488

	Demand	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Non-distributable	Total
Current Period								
Loans Granted	-	12,619,158	20,021,874	108,426,306	136,421,696	37,779,465	1,751,989	317,020,488

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Aging Analysis for Deferred Receivables

The Aging Analysis regarding the loans which are overdue but yet have not lost its value has been presented below;

Current Period	Up to 1 Month	1-2 Months	2-3 Months	Total
Loans and Receivables ⁽¹⁾				
Corporate/Entrepreneur Loans	183,818	40,551	94,113	318,482
Retail Loans	46,378	9,079	3,665	59,122
Specialized Loans	650,860	113,326	46,076	810,262
Total	881,056	162,956	143,854	1,187,866

⁽¹⁾ The amounts in the table are the installment amounts due for installment loans and the overdue principal amounts for other loans and the sum of remaining principal amounts of installment loans is TL 4,313,289.

Breakdown of Restructured Receivables by Allocation of Provision

Out of the Group’s total restructured loans amounting to TL 12,141,548, a portion of TL 11,951,640 consists of performing loans and remaining portion of TL 189,908 consists of non-performing loans. While the specific provision allocated for non-performing loans amounts to TL 189,215, no specific provision was allocated for non-performing loans of TL 693, whose risk is not assumed by the Parent Bank.

3.9. Credit Risk Mitigation

3.9.1 Qualitative Requirements To Be Disclosed To Public Regarding Credit Risk Mitigation Techniques

Basic Characteristics of Policies and Processes on The Extent of Utilization of on-Balance Sheet and Off-Balance Sheet Netting

The practice of on-balance sheet and off-balance sheet netting is not used while mitigating credit risk within the Bank.

3.10 Credit Risk Mitigation Techniques - Overview

	Unsecured receivables: Amount assessed pursuant to TAS	Receivables secured by guarantee	Collateralized portions of collateralized receivables	Receivables protected by financial guarantees	Collateralized portions of receivables protected by financial guarantees	Receivables protected by credit derivatives	Collateralized portions of receivables protected by credit derivatives
Loans	279,574,611	9,363,583	1,229,502	28,082,294	22,633,132	-	-
Debt instruments	72,731,857	-	-	-	-	-	-
Total	352,306,468	9,363,583	1,229,502	28,082,294	22,633,132	-	-
Default	5,028,967	-	-	-	-	-	-

3.11 Credit Risk If Standard Approach Is Used

3.11.1. Qualitative Explanations on Ratings Used by The Banks While Calculating Credit Risk with Standard Approach

Names of Credit Rating Agencies (CRA) and Export Rating Agencies (ERA) Used by The Bank and The Reasons In Case of Any Change During The Reporting Period

The Bank uses ratings of Fitch Ratings International Rating Agency and The Islamic International Rating Agency (IIRA) while calculating the amount subject to credit risk through standard approach.

Risk Classes Using CRA and ERA Ratings

Grades of Fitch Ratings International Rating Agency are used for Receivables from Banks and Brokerage Houses. Resident counter parties are accepted as “gradeless” and take risk weight appropriate for “gradeless” category in relevant risk class.

Rating grades are used in risk classes of Receivables from Central Governments or Central Banks and Receivables from Banks and Brokerage Houses.

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Explanation on How Credit Rating of Debtor Is Used For Other Assets Of Debtor In Banking Accounts

For determination of risk weight regarding items included in banking accounts which are subject to issue or issuer rating, issue rating is considered first, and issuer’s credit rating is considered in the absence of issue rating.

Matching Rating Grades on The Basis of Risk

Rating grade assigned by a credit rating agency that is not listed in the BRSA’s matching table is not used in calculations.

3.12. Standardised Approach – Credit Risk Exposure and Credit Risk Mitigation (CRM) Effects

	The credit conversion rate and the credit amount before the credit risk mitigation		The credit conversion rate and the credit amount after the credit risk mitigation		Risk weighted amount and risk weighted amount density	
	Balance sheet amount	Off-balance sheet amount	Balance sheet amount	Off-balance sheet amount	Risk Weighted Average amount	Risk Weighted Average amount density
Risk classes						
Exposures to sovereigns and their central banks	75,394,429	1,038,524	98,885,484	1,349,004	13,455,561	13.4%
Exposures to regional and local governments	587,481	250,973	552,719	87,005	302,111	47.2%
Exposures to administrative bodies and non-commercial entities	265,860	839,262	672,079	394,194	595,666	55.9%
Exposures to multilateral development banks	-	-	-	-	-	-
Exposures to international organizations	-	-	-	-	-	-
Exposures to banks and brokerage houses	30,986,562	11,528,627	31,329,544	5,724,699	8,999,727	24.3%
Exposures to corporates	140,836,527	92,127,308	129,254,159	47,236,484	173,970,630	98.6%
Retail exposures	117,848,737	25,803,736	105,559,266	3,418,145	81,131,739	74.4%
Exposures secured by residential property	40,322,262	71,565	40,254,872	34,154	14,107,921	35.0%
Exposures secured by commercial property	7,047,490	416,229	6,781,281	209,935	3,568,296	51.0%
Past-due items	-	-	-	-	-	-
Exposures in high-risk categories	1,338,433	246,328	1,338,377	115,333	2,179,008	149.9%
Exposures in the form of bonds secured by mortgages	-	-	-	-	-	-
Short term exposures to banks, brokerage houses and corporates	-	-	-	-	-	-
Exposures in the form of collective investment undertakings	1,176,969	45,897	1,176,969	22,307	1,108,145	92.4%
Other exposures	20,723,266	-	20,723,267	-	10,780,327	52.0%
Equity share investments	144,209	-	144,209	-	144,209	100.0%
Total	436,672,225	132,368,449	436,672,226	58,591,260	310,343,340	62.7%

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3.13. Standard Approach: Receivables related with Risk Classes and Risk Weights

Risk Classes/Risk Weight	0%	10%	20%	35% secured by property mortgage	50% secured by property mortgage	50% ⁽¹⁾	75%	100%	150%	200%	Others	Total risk amount (post-CCF and CRM)
Exposures to sovereigns and their central banks	73,768,405	-	1,050	-	-	26,019,364	-	445,669	-	-	-	100,234,488
Exposures to regional and local government	43,442	-	34	-	-	588,288	-	7,960	-	-	-	639,724
Exposures to administrative bodies and non-commercial entities	90,553	-	64	-	-	760,006	-	215,650	-	-	-	1,066,273
Exposures to multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-
Exposures to international organizations	-	-	-	-	-	-	-	-	-	-	-	-
Exposures to banks and brokerage houses	13,546,044	-	10,177,499	-	-	12,732,946	-	597,754	-	-	-	37,054,243
Exposures to corporates	295,791	-	343,733	-	-	3,898,470	-	171,952,649	-	-	-	176,490,643
Retail exposures	607,878	-	264,383	-	-	-	108,105,150	-	-	-	-	108,977,411
Exposures secured by residential property	7,861	-	1,751	40,264,374	-	-	-	15,040	-	-	-	40,289,026
Exposures secured by commercial property	4,238	-	1,562	-	6,834,865	-	-	150,551	-	-	-	6,991,216
Past-due items	-	-	-	-	-	-	-	-	-	-	-	-
Exposures in high-risk categories	752	-	329	-	-	-	-	2	1,452,627	-	-	1,453,710
Exposures in the form of bonds secured by mortgages	-	-	-	-	-	-	-	-	-	-	-	-
Short term exposures to banks, brokerage houses and corporates	-	-	-	-	-	-	-	-	-	-	-	-
Exposures in the form of collective investment undertakings	91,131	-	-	-	-	-	-	1,108,145	-	-	-	1,199,276
Equity share investments	-	-	-	-	-	-	-	144,209	-	-	-	144,209
Other exposures	9,942,936	-	5	-	-	-	-	10,780,326	-	-	-	20,723,267
Total	98,399,031	-	10,790,410	40,264,374	6,834,865	43,999,074	108,105,150	185,417,955	1,452,627	-	-	495,263,486

⁽¹⁾ “Demonstrates all receivables that are consisting of 50% risk weighted and out of the line “Exposures secured by commercial property.”

3.14. Credit Risk Under Internal Ratings-Based (IRB) Approach

Standard approach is used in the Bank’s credit risk calculations.

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3.15. Counter Party Credit Risk Explanations

Risk Management Goals and Policies for CCR

As part of the Bank’s counter party credit risk management, the functions of identification, measurement, monitoring and controlling of counter party credit risk are conducted in line with the structure, size, complexity and growth rate of products and activities, and the analysis, including stress test, and its results are reported to the Top Management.

As part of capital adequacy ratio calculations, activities for counter party credit risk are an integral part of planning, monitoring and controlling of total risk profile, and counter party credit risk management is integrated to periodic risk management process.

In the scope of counter party risk management, it is aimed to meet legal obligations and to establish and maintain counter party credit risk management infrastructure that is flexible and structured enough to accommodate the best practices. Accordingly, it is planned to conduct stress test activities, improve counter party credit risk signal and limit structure and conduct relevant monitoring function.

Operational Limit Allocation Method Specified in The Scope Of Internal Capital Calculated for CCR and CCP Risks

Critical thresholds (signal and limit values) indicating that limits are approached due to internal or external developments have been identified. In the event that these values are approached or exceeded, relevant units take required actions.

Parameters for signal and limit structure and limit values of parameters are determined by consulting the relevant units and implemented at the Bank upon approval of the Audit Committee and Board of Directors.

Internal limits are determined by considering the Bank’s budget, strategy and expectations for upcoming years, developments in Turkey and abroad, and historical realization of risks.

Policies for Establishing Guarantee and Other Risk Mitigation and CCR, Including CCP Risk

In an attempt to identify the counter party credit risk that the Bank may face, risk measurement and monitoring activities are performed and their results are considered in strategic decision-making process.

Our risk management structure involves activities to ensure that counter party credit risk measurement system functions and is maintained in line with the best practices, legal regulations, fields of activity and product ranges in a consistent, reliable and integrated way.

As part of counter party credit risk management, stress test scenarios were created by anticipating any unfavorable developments in macroeconomic conditions and the Bank’s balance sheet. Results of stress test analysis are considered while establishing risk management policies.

Amount subject to counter party credit risk is calculated with appraisal method based on its fair value in accordance with the Communiqué on Measurement and Assessment of Capital Adequacy of Banks and provisions in Appendix-2, and reported on a monthly basis. Accordingly, replacement cost and potential counter party credit risk amounts are calculated. Furthermore, capital obligation is also calculated for credit appraisal adjustment for all derivatives.

Additionally, compliance of transactions posing counter party credit risk with thresholds within signal and limit structure is monitored and research is conducted for counter party credit risk calculations with advanced methods.

Rules for Countertrend Risk

Boasting a strong lending and collateralization structure, the Bank avoids collateralization in positive correlation with the debtor’s credibility and activities in connection with risk mitigation techniques are performed by considering qualitative criteria specified in legal legislation for calculation of amount subject to credit risk.

Amount of Additional Collateral That The Bank Must Submit In Case of A Decline In Credit Rating

As the Bank has no transactions in connection with credit rating, there is not any additional collateral amount it must pay.

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3.16. Evaluation of Counterparty Credit Risk In Accordance With The Measurement Methods

	Replacement cost	Potential future exposure	EEPE Amount ^(*)	Alpha used for computing regulatory exposure at default	Exposure at default post Credit Risk Mitigation	Risk weighted amounts
Valuation Method according to fair value - CCR (for derivatives)	1,222,532	472,091			1,694,623	689,801
1 Standardised approach - CCR (for derivatives)	-	-		1.4		
2 Internal Model Method (for derivatives, Repo Transactions, Marketable Securities or Commodity lending or borrowing transactions, transactions with a long settlement time, Marketable Security transactions with credit)			-	-	-	-
3 Simple Approach for credit risk mitigation (for derivatives, Repo Transactions, Marketable Securities or Commodity lending or borrowing transactions, transactions with a long settlement time, Marketable Security transactions with credit)					9,347,972	1,661,979
4 Comprehensive Approach for credit risk mitigation (for derivatives, Repo Transactions, Marketable Securities or Commodity lending or borrowing transactions, transactions with a long settlement time, Marketable Security transactions with credit)					3,292,474	1,049,737
5 Commodity lending or borrowing transactions, transactions with a long settlement time, Marketable Security transactions with credit					-	-
6 Total						3,401,517

(*) Effective Expected Positive Exposure

3.17. Consolidated Capital Requirement for Credit Valuation Adjustment

	Exposure at default post-CRM	RWA
Total portfolios subject to the Advanced CVA capital charge	-	-
1 (i) Value at Risk (VaR) component (including the 3×multiplier)		-
2 (ii) Stressed VaR component (including the 3×multiplier)		-
3 All portfolios subject to the Standardised CVA capital charge	1,694,623	33,136
4 Total subject to the CVA capital charge	1,694,623	33,136

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3.18. Standard Approach - Counterparty Credit Risk by Risk Classes and Risk Weights

Risk Weight										Total credit risk exposure ^(*)
Regulatory portfolio	0%	10%	20%	50%	75%	100%	150%	Other		
Exposures to sovereigns and their central banks	1,202,647	-	-	-	-	68,092	-	-	-	1,270,739
Exposures to regional and local governments	18,243	-	-	-	-	-	-	-	-	18,243
Exposures to administrative bodies and non-commercial entities	10,861	-	-	-	-	-	-	-	-	10,861
Exposures to multilateral development banks	-	-	-	-	-	-	-	-	-	-
Exposures to international organizations	-	-	-	-	-	-	-	-	-	-
Exposures to banks and brokerage houses	13,520,606	-	5,417,224	4,288,280	-	1,412	-	-	-	23,227,522
Exposures to corporates	8,396	-	-	-	-	135,429	-	-	-	143,825
Retail exposures	7,618	-	-	-	2,846	-	-	-	-	10,464
Exposures secured by residential property	-	-	-	-	-	-	-	-	-	-
Past-due items	-	-	-	-	-	-	-	-	-	-
Exposures in high-risk categories	-	-	-	-	-	-	-	-	-	-
Mortgage securities	-	-	-	-	-	-	-	-	-	-
Securitization positions	-	-	-	-	-	-	-	-	-	-
Short term exposures to banks, brokerage houses and corporates	-	-	-	-	-	-	-	-	-	-
Exposures in the form of collective investment undertakings	91,131	-	-	-	-	-	-	-	-	91,131
Equity share investments	-	-	-	-	-	-	-	-	-	-
Other exposures	-	-	-	-	-	-	-	-	-	-
Other assets ^(**)	-	-	-	-	-	-	-	-	-	-
Total	14,859,502	-	5,417,224	4,288,280	2,846	204,933	-	-	-	24,772,785

^(*) Total credit exposure: the amount relevant for the capital requirements calculation, having applied CRM techniques.^(**) Other assets: the amount excludes exposures to “Central counterparty” which are reported in Counterparty credit risk

3.19. Risk Classes and Counterparty Credit Risk Explanations (Internal Rating-Based)

None.

Collaterals for Consolidated CCR

	Collateral for Derivative Transactions				Collateral for Other Transactions	
	Collateral Received		Collateral Given		Collateral Received	Collateral Given
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash-domestic currency	-	-	-	-	2,213,213	-
Cash-foreign currency	-	-	-	-	14,791,915	-
Domestic sovereign debts	-	-	-	-	1,961	-
Other sovereign debts	-	-	-	-	68,040	-
Government agency debts	-	-	-	-	-	-
Corporate debts	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
Total	-	-	-	-	17,075,129	-

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Credit Derivatives

None.

Risk Weight Changes Under CCR on The Internal Modeling Management Methods.

None.

Exposures To Central Counterparties (CCP)

None.

Explanations on Securitization Disclosures

None.

4. Market Risk Explanations

4.1. The Bank’s Process And Strategies: A Disclosure on The Bank’s Strategic Goals for Trading Activities Is Made in A Manner That Includes Processes For Identification, Measurement, Monitoring And Controlling Of The Bank’s Market Risks, Hedging Processes And Strategies/Processes for Monitoring Continuity of Hedging Efficiency

For the purposes of market risk aversion in line with financial risk management, the Bank has identified market risk management activities in accordance with the Communiqué on Measurement and Assessment of Capital Adequacy of Banks and the Regulation on the Internal Systems and Internal Capital Adequacy Assessment Processes of Banks and has taken required precautions.

The Bank’s market risk management policies and implementation procedures have been specified in the scope of the Regulation on Risk Management, Stress Test Program and ICAAP approved by the Board of Directors.

The Bank ensures that measurement, monitoring, limiting, stress test and scenario analysis activities are conducted in line with the structure and complexity of its positions for market risk management and their results are reported periodically. Activities sustained are conducted over a trading portfolio specified by the Bank’s Treasury Management and other activities subject to market risk.

The amount subject to market risk is calculated and monitored with standard method and advanced measurement method at the Bank. Furthermore, scenario analysis and stress tests are also conducted periodically.

4.2. Organization and Structure of Market Risk Management Function: Definition of Market Risk Management Structure Established for Implementation of The Bank’s Strategies and Processes As Mentioned in Line “4.1.” and Definition of Communication Mechanism And Relationship Between Different Parties Involved in Market Risk Management

Market risk management is a subunit of Risk Management Group Presidency, one of internal systems units established independently from executive units of the Bank.

Market risk management activities are conducted in line with the Regulation on Risk Management, Stress Test Program and ICAAP approved with the Board Decision no. 15/18 dated 28 April 2015 and performed by aiming the best practices in this structure.

The Bank’s trading activities and transactions subject to market risk are monitored and measured regularly, and required practices are performed for risk management. Required reports on market risk are submitted to relevant units and the Bank’s Top Management regularly.

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4.3. Structure and Scope of Risk Reporting and/or Measurement Systems

The amount subject to the Bank’s market risk is calculated on a monthly basis with the standard method and included in the Bank’s capital adequacy ratio.

Apart from the standard method, Value at Risk (VaR) estimations are made for trading accounts on a daily basis and reported to relevant units. VaR calculated with Historical Simulation Method is used in daily reporting and limit measurement with a confidence level of 99%. VaR can be calculated with Parametric and Monte Carlo Methods in addition to Historical Simulation Method. Backward testing is performed so as to measure performance of used model and monitor market realization. Also, the Bank performs stress tests and scenario analyses on a daily and monthly basis so as to observe the effect of excessive market fluctuations that are not covered in the models on the Bank’s financial position. Scenario analysis and stress test activities are audited and improved regularly in line with the market dynamics.

The market risk exposure is restricted with VaR-based limits (interest rate and currency risk limit) within the context of the Regulation on Risk Management, Stress Test Program and ICAAP. Market risk limits are determined by the Bank’s Board of Directors.

Standardised Approach

	Risk Weighted Amount
Outright products	
1 Interest rate risk (general and specific)	16,149,450
2 Equity risk (general and specific)	1,639,080
3 Foreign exchange risk	1,177,219
4 Commodity Risk	-
Options	
5 Simplified Approach	-
6 Delta-plus method	-
7 Scenario approach	-
8 Securitisation	-
9 Total	18,965,749

Standard method is being used in calculation of the market risk of the Group.

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5. Explanations on the Operational Risk

In the Parent Bank, Amount subject to Operational Risk is calculated with Basic Indicator Approach based on yearly. The parameter which determines the amount subject to operational risk in Basic Indicator Approach is gross revenue. Yearly gross revenue is calculated by adding net interest incomes to net fees and commission income, dividend income obtained from shares excluding shares of subsidiaries and associates, trading profit/loss (net) and other operating incomes and also by deducting profit/loss gained from sale of assets monitored out of purchase-sale account, extraordinary incomes, operating expense made against support service and amounts compensated from insurance.

Within the scope of the performances for modeling with the Advanced Measurement Approach of operational risk, based on the data in Operational Risk Loss database, Operational Value at Risk (OpVAR) measurements are calculated using Monte Carlo Simulation within the scope of Loss Distribution Method.

	31.12.2014	31.12.2015	31.12.2016	Total/ Positive GI year number	Ratio (%)	Total
Gross income	10,389,823	12,794,636	17,048,849	13,411,103	15	2,011,665
Amount subject to Operational Risk						25,145,817

6. Explanations on the Interest Rate Risk for Banking Accounts

Banking accounts interest rate risk management strategy policy and implementation procedures are determined within the context of “Regulation on Risk Management, Stress Test Program and the Bank’s Internal Capital Adequacy Assessment Process (“ICAAP”)”.

The Parent Bank performs scenario analysis with measurements that are suitable for structure and complexity of positions related to the market risk management, limiting, scenario analysis and stress test and also reports the findings cyclically. Bank’s perform analysis related to interest rate risks for the entire balance sheet. New products and services are also evaluated from the point of interest rate risk that is originated from banking accounts.

In the risk management, the following methods are followed at minimum level: The follow-up of rate and maturity mismatch between sources and uses of fixed and variable interest rates, the analysis and follow-up of the effects of the usual and unusual changes in interest rates which is possibly uptrend and downtrend on the interest margin and on the current value of assets and liabilities, the analysis and follow-up of contractual maturities as well as behavioral maturities assets and liabilities, monitoring closely of interest margins for provided Turkish Liras and foreign currency, the follow-up of the effects of interest rate changes on Bank’s economic value and capital requirement, the follow-up of potential impacts of valuation methods, the calculation and the determination of the size of interest rate shock in Bank’s internal applications, the follow-up of yield curve, basis risk and option risk. Also, in order to limit the impact of interest rate changes on Bank’s financial structure, the interest rate risk limit arising from banking accounts which is approved by the Board of Directors is followed monthly.

Currency	Applied Shock (+/-x basis points)	Gains/Losses	Gains/Shareholders' Equity- Losses/Shareholders' Equity
1. TL	500	(8,225,752)	(16.42%)
2. TL	(400)	8,041,194	16.05%
3. EURO	200	79,838	0.16%
4. EURO	(200)	214,983	0.43%
5. USD	200	(661,922)	(1.32%)
6. USD	(200)	926,963	1.85%
Total (for negative shocks)		9,183,140	18.33%
Total (for positive shocks)		(8,807,836)	(17.58%)

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X. 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 Group has operations in retail banking, corporate and entrepreneurial banking, specialized banking, investment banking and international banking areas.

Known as having the most extensive branch network in retail banking sector, the Parent Bank renders services, such as; deposits, consumer loans, loans originated from funds whose risk does not belong to the Bank, credit cards, automatic payment, cheques and notes, money transfer order, foreign exchange transactions, internet banking, mobile banking, safe-deposit box and insurance brokerage services. Moreover, existing instruments are improved and new banking instruments are created in order to benefit from services undertaken as being a state bank in increasing the profitability of the Parent Bank. By “Finart” system, which is working in a centralized manner, the Parent Bank has the technical infrastructure required by modern banking sector to meet its clients’ needs.

In the context of corporate and entrepreneurial banking, the Group gives loans for operations, mid-term and long-term investment loans, foreign trade financing loans, letters of credit and guarantees in Turkish Lira and foreign currencies; renders project financing, other corporate finance related services, foreign exchange transactions and banking services to large-scale corporate clients and middle-small scale enterprises.

As the Parent Bank is the main financial institution that meets the financing needs of agricultural sector in Turkey, it agricultural operations and investment loans from its own sources for vegetable and animal production, fishery products and agricultural mechanization directly to producers and the Central Union of Turkish Agricultural Credit Cooperatives. Besides, it gives support to entities and enterprises having operations in agricultural sector by acting as an intermediary for loans originated from funds.

Treasury transactions and international banking activities like spot and forward TC, FC, precious Metals, securities, foreign currency swaps and forward transactions on national and international organized and over the counter money and capital markets are carried out by the Treasury Management and International Banking Assistant General Management. The Parent Bank’s liquidity, securities portfolio, deposit and non-deposit management activities are performed. In addition, the submission and marketing of treasury products to customers through branches and distribution channels and the financing of companies’ foreign trade transactions are carried on. The Business Unit provides services in: trading in securities, public offering as an agency by the name of Ziraat Yatırım Menkul Değerler A.Ş., intermediary for purchases and sales of investment funds founded by Ziraat Portföy Yönetimi A.Ş and other portfolio management companies, record keeping of financial instruments and individual portfolios. Beside these, between the functions of the Business Unit there are; providing long-term financing from banks and international financial institutions, issuing bonds and bills to foreign and domestic markets in order to diversify funding sources, carrying out relations with correspondent banks and relations between the Parent Bank and international investors.

Besides, the Parent Bank has commission revenue from insurance and other finance institutions by rendering agency services through its Branches.

As of 31 December 2017, explanations on segment reporting as shown on the following page are in line with Communiqué on “Financial Statements to be Publicly Announced and the Accompanying Policies and Disclosures”.

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

(Convenience Translation of Publicly Announced Unconsolidated Financial Statements Originally Issued in Turkish, See in Note I. of Section Three)

1. Table for Segment Reporting

	Retail Banking	Corporate/ Entrepreneurial Banking	Specialized Banking	Treasury/ Investment Banking	Consolidation Corrections	Other/ Undistributed	Total
Current Period 31 December 2017							
OPERATING INCOME/EXPENSE							
Interest Income	9,239,085	13,996,880	5,666,738	7,761,386	-	440,532	37,104,621
Interest Income from Loans	9,239,085	13,996,880	5,666,738	617,901	-	38,858	29,559,462
Interest Income from Banks	-	-	-	161,413	-	109,939	271,352
Interest Income from Securities	-	-	-	6,246,957	-	3,285	6,250,242
Other Interest Income	-	-	-	735,115	-	288,450	1,023,565
Interest Expense	7,867,279	3,910,137	-	7,081,634	-	131,234	18,990,284
Interest Expense on Deposits	7,867,279	3,910,137	-	822,819	-	5,750	12,605,985
Interest Expense on Funds Borrowed	-	-	-	706,871	-	15,066	721,937
Interest Expense on Money Market Transactions	-	-	-	4,848,800	-	-	4,848,800
Interest Expense on Securities Issued	-	-	-	703,144	-	21,780	724,924
Other Interest Expense	-	-	-	-	-	88,638	88,638
Net Interest Income/Expense	1,371,806	10,086,743	5,666,738	679,752	-	309,298	18,114,337
Net Fees and Commission Income/Expense	1,423,588	588,016	108,385	(345,522)	-	169,037	1,943,504
Fees and Commissions Received	1,423,588	598,132	108,441	6,835	-	269,522	2,406,518
Fees and Commissions Paid	-	10,116	56	352,357	-	100,485	463,014
Dividend Income	-	-	-	284,531	(282,201)	5,419	7,749
Trading Income/Loss (Net)	-	-	-	(774,694)	(52,863)	(18,096)	(845,653)
Other Operating Income	39,539	347,455	22,212	1,807	(158,008)	3,484,917	3,737,922
Provision for Loans or Other Receivables Losses	769,220	1,479,692	491,575	254	2,466	750,137	3,493,344
Other Operating Expense	117,315	808,918	51,861	-	(101)	6,991,010	7,969,003
Income Before Tax	1,948,398	8,733,604	5,253,899	(154,380)	(495,437)	(3,790,572)	11,495,512
Profit/Loss on Equity Method Applied Subsidiaries	-	-	-	-	20,359	-	20,359
Tax Provision	-	-	-	-	-	(2,631,539)	(2,631,539)
Net Profit/Loss	1,948,398	8,733,604	5,253,899	(154,380)	(475,078)	(6,422,111)	8,884,332
SEGMENT ASSETS							
Financial Assets at FV Through P/L	-	-	-	1,439,036	-	28,827	1,467,863
Banks and Other Financial Institutions	-	-	-	4,074,040	-	1,690,485	5,764,525
Financial Assets Available for Sale (Net)	-	-	-	63,625,878	1,727	10,626	63,638,231
Loans	86,409,546	164,623,963	54,642,948	11,336,455	-	7,576	317,020,488
Held to Maturity Investments (Net)	-	-	-	7,595,887	-	29,876	7,625,763
Associates, Subsidiaries and Joint Ventures	-	-	-	5,313,062	(5,161,312)	36,288	188,038
Other Assets	-	-	-	-	(104,524)	61,325,745	61,221,221
Total Segment Assets	86,409,546	164,623,963	54,642,948	93,384,358	(5,264,109)	63,129,423	456,926,129
SEGMENT LIABILITIES							
Deposits	199,692,047	61,906,376	-	16,842,602	-	4,128,588	282,569,613
Derivative Financial Liabilities Held for Trading	-	-	-	547,769	-	1,141	548,910
Funds Borrowed	-	-	-	30,458,041	-	660,212	31,118,253
Money Market Funds	-	-	-	56,309,523	-	-	56,309,523
Securities Issued (Net)	-	-	-	13,296,528	-	177,752	13,474,280
Provisions	-	-	-	-	25,094	10,336,943	10,362,037
Other Liabilities	-	-	-	-	(104,524)	14,164,881	14,060,357
Shareholders' Equity	-	-	-	-	(5,184,680)	53,667,836	48,483,156
Total Segment Liabilities	199,692,047	61,906,376	-	117,454,463	(5,264,110)	83,137,353	456,926,129
OTHER SEGMENT ITEMS							
Capital Investment	-	-	-	-	-	-	-
Amortization Expense	-	-	-	-	-	341,282	341,282
Restructuring Costs	-	-	-	-	-	-	-

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

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	Retail Banking	Corporate/ Entrepreneurial Banking	Specialized Banking	Treasury/ Investment Banking	Consolidation Corrections	Other/ Undistributed	Total
Prior Period 31 December 2016							
OPERATING INCOME/EXPENSE							
Interest Income	6,926,242	10,029,557	4,629,522	6,303,425	-	357,121	28,245,867
Interest Income from Loans	6,926,242	9,979,925	4,629,507	525,514	-	26,091	22,087,279
Interest Income from Banks	-	48,786	-	67,023	-	104,849	220,658
Interest Income from Securities	-	846	-	5,515,852	-	11,047	5,527,745
Other Interest Income	-	-	15	195,036	-	215,134	410,185
Interest Expense	6,594,586	3,039,158	-	3,827,398	-	110,159	13,571,301
Interest Expense on Deposits	6,594,586	3,031,889	-	429,875	-	2,226	10,058,576
Interest Expense on Funds Borrowed	-	7,127	-	482,575	-	38,010	527,712
Interest Expense on Money Market Transactions	-	-	-	2,532,649	-	4	2,532,653
Interest Expense on Securities Issued	-	-	-	382,299	-	15,222	397,521
Other Interest Expense	-	142	-	-	-	54,697	54,839
Net Interest Income/Expense	331,656	6,990,399	4,629,522	2,476,027	-	246,962	14,674,566
Net Fees and Commission Income/Expense	1,063,047	404,876	105,147	(243,219)	-	186,716	1,516,567
Fees and Commissions Received	1,063,047	411,353	105,147	4,128	-	290,732	1,874,407
Fees and Commissions Paid	-	6,477	-	247,347	-	104,016	357,840
Dividend Income	-	-	-	259,184	(231,293)	5,010	32,901
Trading Income/Loss (Net)	-	12,698	-	(180,806)	-	(1,885)	(169,993)
Other Operating Income	35,620	304,484	34,836	-	-	2,852,647	3,227,587
Provision for Loans or Other Receivables Losses	958,623	1,829,617	693,715	119	(924)	95,102	3,576,252
Other Operating Expense	76,486	297,851	49,083	-	(1,351)	6,265,758	6,687,827
Income Before Tax	395,214	5,584,989	4,026,707	2,311,067	(229,018)	(3,071,410)	9,017,549
Profit/Loss on Equity Method	-	-	-	-	21,914	-	21,914
Tax Provision	-	-	-	-	-	(2,154,328)	(2,154,328)
Net Profit/Loss	395,214	5,584,989	4,026,707	2,311,067	(207,104)	(5,225,738)	6,885,135
SEGMENT ASSETS							
Financial Assets at FV Through P/L	-	9,042	-	1,684,798	-	25,731	1,719,571
Banks and Other Financial Institutions	-	767,830	-	2,904,692	-	900,488	4,573,010
Financial Assets Available for Sale (Net)	-	-	-	59,119,312	147	8,755	59,128,214
Loans	63,876,189	122,691,522	46,461,974	10,701,124	-	343,536	244,074,345
Held to Maturity Investments (Net)	-	15,975	-	8,749,464	-	29,476	8,794,915
Associates, Subsidiaries and Joint Ventures	-	951	-	4,311,740	(4,125,232)	26,989	214,448
Other Assets	-	247,399	-	-	(6,135)	53,136,158	53,377,422
Total Segment Assets	63,876,189	123,732,719	46,461,974	87,471,130	(4,131,220)	54,471,133	371,881,925
SEGMENT LIABILITIES							
Deposits	157,246,729	60,890,317	10,183	13,325,891	-	1,438,873	232,911,993
Derivative Financial Liabilities Held for Trading	-	-	-	642,476	-	10,889	653,365
Funds Borrowed	-	16,458	-	23,459,531	-	950,540	24,426,529
Money Market Funds	-	-	-	47,345,629	-	-	47,345,629
Securities Issued (Net)	-	4,469	-	6,934,460	-	131,822	7,070,751
Provisions	824	22,114	-	-	22,628	7,493,095	7,538,661
Other Liabilities	-	38,425	-	-	(6,135)	12,990,910	13,023,200
Shareholders' Equity	-	252,276	-	-	(4,147,715)	42,807,236	38,911,797
Total Segment Liabilities	157,247,553	61,224,059	10,183	91,707,987	(4,131,222)	65,823,365	371,881,925
OTHER SEGMENT ITEMS							
Capital Investment	-	-	-	-	-	-	-
Amortization Expense	-	-	-	-	-	376,382	376,382
Restructuring Costs	-	-	-	-	-	-	-

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

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XI. EXPLANATIONS RELATED TO PRESENTATION OF FINANCIAL ASSETS AND LIABILITIES AT THEIR FAIR VALUES

1. Information Regarding The Fair Value of Financial Assets and Liabilities

	Book Value		Fair Value	
	Current Period	Prior Period	Current Period	Prior Period
Financial Assets	394,049,007	316,570,484	394,457,489	316,981,873
Due from Interbank Money Market	132,385	252,944	132,385	252,944
Banks	5,632,140	4,320,066	5,632,140	4,320,066
Available-for-Sale Financial Assets	63,638,231	59,128,214	63,638,231	59,128,214
Held-to-Maturity Investments	7,625,763	8,794,915	8,034,245	9,206,304
Loans	317,020,488	244,074,345	317,020,488	244,074,345
Financial Liabilities	331,305,536	266,976,174	331,305,536	266,976,174
Bank Deposits	15,350,173	11,975,932	15,350,173	11,975,932
Other Deposits	267,219,440	220,936,061	267,219,440	220,936,061
Funds Borrowed from Other Financial Institutions	31,118,253	24,426,529	31,118,253	24,426,529
Issued Marketable Securities	13,474,280	7,070,751	13,474,280	7,070,751
Miscellaneous Payables	4,143,390	2,566,901	4,143,390	2,566,901

Receivables from money markets, receivables from banks and bank deposits are of short term nature, therefore carrying values are considered as fair value.

In determination of book and fair value of available-for-sale securities, market prices are taken into consideration. If these securities are not traded in an active market, the indicator prices calculated by CBRT are taken into account.

The fair value of held to maturity financial assets is calculated by considering market prices. In cases where these prices cannot be determined, the fair value is assessed on the basis of market prices quoted for securities that have the same attributes in terms of interest, maturity and other terms.

The fair value of loans and other deposits represent the sum of the cost and the accrued interest.

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2. 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 Parent Bank’s balance sheet, are presented with respect to such basis of classification in the table below:

Current Period	Level 1	Level 2	Level 3	Total
Financial Assets at Fair Value Through Profit or (Loss) (Net)	71,096	1,396,767	-	1,467,863
Government Debt Securities	61,837	-	-	61,837
Share Certificates	5	-	-	5
Trading Derivative Financial Assets	-	1,396,767	-	1,396,767
Hedging Derivative Financial Assets	-	-	-	-
Other Marketable Securities	9,254	-	-	9,254
Available-for-Sale Financial Assets (Net)	62,890,403	724,642	-	63,615,045
Equity Securities ⁽¹⁾	820,208	120,518	-	940,726
Government Debt Securities	62,022,375	-	-	62,022,375
Other Marketable Securities	47,820	604,124	-	651,944
Total Assets	62,961,499	2,121,409	-	65,082,908
Trading Derivative Financial Liabilities	-	548,910	-	548,910
Hedging Derivative Financial Liabilities	-	-	-	-
Total Liabilities	-	548,910	-	548,910

⁽¹⁾ Since equity securities under the heading of financial assets available for sale amounting to TL 23,186 are not quoted in an active market, they are presented with their acquisition costs in the financial statements and are not included in the table above

Prior Period	Level 1	Level 2	Level 3	Total
Financial Assets at Fair Value Through Profit or (Loss) (Net)	52,184	1,667,387	-	1,719,571
Government Debt Securities	40,825	-	-	40,825
Share Certificates	-	-	-	-
Trading Derivative Financial Assets	11,359	1,667,387	-	1,678,746
Hedging Derivative Financial Assets	-	-	-	-
Other Marketable Securities	-	-	-	-
Available-for-Sale Financial Assets (Net)	58,518,529	586,499	-	59,105,028
Equity Securities ⁽¹⁾	526,528	99,684	-	626,212
Government Debt Securities	57,900,259	-	-	57,900,259
Other Marketable Securities	91,742	486,815	-	578,557
Total Assets	58,570,713	2,253,886	-	60,824,599
Trading Derivative Financial Liabilities	9,737	643,628	-	653,365
Hedging Derivative Financial Liabilities	-	-	-	-
Total Liabilities	9,737	643,628	-	653,365

⁽¹⁾ Since equity securities under the heading of financial assets available for sale amounting to TL 23,186 are not quoted in an active market, they are presented with their acquisition costs in the financial statements and are not included in the table above

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

1. Transaction, Custody, Management and Consultancy Services of the Parent Bank on behalf of Third Parties

The Parent Bank acts as an intermediary for purchases and sales of government securities on behalf of real persons and corporate, conducts repo transactions, and provides custody services. The Parent Bank does not provide consultancy and management services.

2. Transactions With Other Financial Institutions Under Fiduciary Transaction Agreements and Financial Services Rendered To Other Financial Institutions Under The Scope of Fiduciary Transactions and The Effects of Such Services To The Financial Position of The Parent Bank or The Group

The Parent Bank has no fiduciary transactions.

SECTION FIVE

EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS

I. EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED ASSETS

1. 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	2,312,736	1,475,343	1,738,822	1,053,954
Central Bank of the Republic of Turkey	2,964,799	39,313,476	6,432,150	31,248,539
Other	-	153,983	3,775	168,265
Total	5,277,535	40,942,802	8,174,747	32,470,758

Information on Required Reserves

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

As of the balance sheet date, according to CBRT's Communiqué about Required Reserves No. 2016/4, the required reserves ratios for commercial banks operating in Turkey are as follows: for demand deposits, notice deposits and for deposits up to 1-month maturity, and for deposits up to 3-months maturity 10.5%; for deposits up to 6-months maturity 7.5%; for deposits up to 1-year maturity 5.5%; for deposits 1-year and longer maturity 4%; for TL liabilities other than deposits up to 1-year maturity 10.5%; for TL liabilities other than deposits between 1- and 3-years maturity 7%; for TL liabilities other than deposits more than 3-years maturity 4%; according to CBRT's Communiqué about Required Reserves No. 2017/2 for FC deposit accounts, demand deposits, up to 1-month, up to 3-months, up to 6-months and up to 1-year maturities 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%.

According to the press release of CBRT held on 21 October 2014, interest payment for Turkish Lira reserve requirement has been commenced since November 2014 maintenance period. In addition, according to Press Release of CBRT on Remuneration of Foreign Currency Required and Free Reserves numbered 2015/35, the implementation of remuneration for US dollars denominated required reserves, reserve options and free reserves held at CBRT has been started as of 5 May 2015.

As of 31 December 2017, total reserve requirement of the Group is TL 42,815,417 including Central Banks abroad (31 December 2016: TL 37,360,029).

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

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Information on the account of the Central Bank of the Republic of Turkey

	Current Period		Prior Period	
	TL	FC	TL	FC
Unrestricted Demand Deposit	2,779,169	4,497,785	6,332,401	2,254,151
Unrestricted Time Deposit	-	-	-	2,312,376
Restricted Time Deposit	-	6,316	-	-
Other ⁽¹⁾	185,630	34,809,375	99,749	26,682,012
Total	2,964,799	39,313,476	6,432,150	31,248,539

⁽¹⁾ Includes required reserves and CBRT Restricted Electronic Money Funds amounting to TL 8,541 (31 December 2016: None). Required reserve of branches abroad amounting to TL 108,320 is presented in this line (31 December 2016: TL 88,706). TL 18,737,782 of the current period's FC required reserve is the part of the TL required reserves that are held in FC (31 December 2016: TL 12,506,189).

2. Information on Financial Assets at Fair Value Through Profit and Loss Given or Blocked as Collateral or Subject To Repurchase Agreements

None.

3. 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	75,527	27,444	34,505	62,310
Swap Transactions	803,137	485,432	1,161,871	420,018
Futures Transactions	-	-	-	-
Options	1,385	3,842	42	-
Other	-	-	-	-
Total	880,049	516,718	1,196,418	482,328

4. Information on Banks and Other Financial Institutions

4.1. Information on Bank Balances

	Current Period		Prior Period	
	TL	FC	TL	FC
Banks				
Domestic Banks	2,246,529	1,333,807	1,515,980	376,346
Foreign Banks	126,700	1,925,104	70,103	2,357,637
Foreign Head Office and Branches	-	-	-	-
Total	2,373,229	3,258,911	1,586,083	2,733,983

4.2. Information on Foreign Banks Accounts

	Unrestricted Amount		Restricted Amount	
	Current Period	Prior Period	Current Period	Prior Period
European Union Countries	1,261,645	932,505	-	7,867
USA, Canada	109,259	1,032,444	-	-
OECD Countries ⁽¹⁾	71,977	21,643	-	-
Off-Shore Banking Regions	-	-	-	-
Other	608,923	431,433	-	1,848
Total	2,051,804	2,418,025	-	9,715

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

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

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5. Explanation Regarding To 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	15,399,490	41,422,834
Assets Blocked/Given as Collateral	45,702,660	5,879,016
Total	61,102,150	47,301,850

6. Information on Financial Assets Available for Sale

	Current Period	Prior Period
Debt Securities	64,386,278	60,472,357
Quoted in Stock Exchange	64,275,184	60,387,940
Not Quoted in Stock Exchange	111,094	84,417
Share Certificates	982,967	686,242
Quoted in Stock Exchange	824,280	528,908
Not Quoted in Stock Exchange	158,687	157,334
Provision for Impairment (-)	1,731,014	2,030,385
Total	63,638,231	59,128,214

7 Information Related To Loans

7.1. Information on All Types of Loans and Advances Given To Shareholders and Employees of The Group

	Current Period		Prior Period	
	Cash	Non-Cash	Cash	Non-Cash
Direct Loans Granted to Shareholders	-	-	-	-
Legal Entities	-	-	-	-
Individuals	-	-	-	-
Indirect Loans Granted to Shareholders	-	188	-	12,654
Loans Granted to Employees ^{(1) (2)}	343,693	213	290,654	155
Total	343,693	401	290,654	12,809

⁽¹⁾ Interest rediscount and interest accrual amounting TL 2,911 are not included in the table above.

⁽²⁾ Since the balance of overdraft accounts related to employees amounting TL 16,543 is showed under Table 7.4 as overdraft accounts (real person), it is not included to the table above.

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7.2. Information on The First and Second Group Loans and Other Receivables Including Restructured or Rescheduled Loans

Cash Loans	Standard Loans and Other Receivables			Loans and Other Receivables Under Close Monitoring		
	Loans and Other Receivables	Restructured or Rescheduled	Other	Loans and Other Receivables	Restructured or Rescheduled	Other
		Loans and other receivables with revised contract terms ⁽¹⁾			Loans and other receivables with revised contract terms ⁽¹⁾	
Non-Specialized Loans	250,756,625	3,640,314	-	1,722,726	2,305,738	-
Commercial loans	147,284,029	2,306,103	-	1,068,800	2,074,379	-
Export Loans	4,536,246	-	-	24,032	-	-
Import Loans	433,206	607	-	135	2,832	-
Loans Given to Financial Sector	8,018,950	-	-	5,659	-	-
Consumer Loans	80,214,729	1,332,499	-	575,102	225,455	-
Credit Cards	4,124,899	74	-	43,314	2,409	-
Other	6,144,566	1,031	-	5,684	663	-
Specialized Lending ^{(1) (2)}	45,829,370	4,943,655	-	564,931	552,408	-
Other Receivables	-	-	-	-	-	-
Interest Income Accruals ⁽²⁾	5,854,409	269,474	-	115,301	240,051	-
Total	302,440,404	8,853,443	-	2,402,958	3,098,197	-

⁽¹⁾ Fund sourced agricultural loans are shown under specialized lending⁽²⁾ Agriculturally qualified farmer standby loans have been displayed under specialized lending.

No. of extensions	Standard Loans and Other Receivables	Loans and Other Receivables Under Close Monitoring
1 or 2 Times Extended	8,300,250	2,881,483
3 - 4 or 5 Times Extended	550,318	213,720
Over 5 Times Extended	2,875	2,994

Extension Periods	Standard Loans and Other Receivables	Loans and Other Receivables Under Close Monitoring
0 - 6 Months	7,554,937	1,954,951
6 Months - 12 Months	271,974	294,062
1 - 2 Years	265,174	348,512
2 - 5 Years	716,167	436,757
5 Years and Over	45,191	63,915
Total	8,853,443	3,098,197

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7.3. Loans According To Maturity Structure

	Standard Loans and Other Receivables ⁽¹⁾		Loans and Other Receivables under Close Monitoring ⁽¹⁾	
	Loan and Other Receivables	Restructured or Rescheduled	Loan and Other Receivables	Restructured or Rescheduled
Short-Term Loans and Other Receivables	55,143,463	2,246,316	464,131	341,183
Non-Specialized Loans	47,356,647	112,780	366,276	108,861
Specialized Loans	7,786,816	2,133,536	97,855	232,322
Other Receivables	-	-	-	-
Medium and Long-Term Loans and Other Receivables	241,442,532	6,337,653	1,823,526	2,516,963
Non-Specialized Loans ⁽²⁾	203,399,978	3,527,534	1,356,450	2,196,877
Specialized Loans	38,042,554	2,810,119	467,076	320,086
Other Receivables	-	-	-	-

⁽¹⁾ Rediscounts are not included.⁽²⁾ Agricultural loans originated from funds are shown under Specialized Lending.

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7.4. Information on Consumer Loans, Individual Credit Cards and Personnel Loans and Personnel Credit Cards

	Short-Term	Medium and Long-Term	Total
Consumer Loans-TL	571,124	80,018,469	80,589,593
Real Estate Loans ⁽²⁾	11,764	48,557,484	48,569,248
Vehicle Loans	4,453	239,864	244,317
Consumer Loans ⁽²⁾	550,269	30,657,460	31,207,729
Abroad	3,936	376,587	380,523
Other	702	187,074	187,776
Consumer Loans- Indexed to FC	296	210,364	210,660
Real Estate Loans	-	23,594	23,594
Vehicle Loans	-	132	132
Consumer Loans	-	-	-
Other	296	186,638	186,934
Consumer Loans-FC	2,272	114,682	116,954
Real Estate Loans	147	28,298	28,445
Vehicle Loans	-	-	-
Consumer Loans	770	55,041	55,811
Abroad	869	30,082	30,951
Other	486	1,261	1,747
Individual Credit Cards-TL	3,336,692	65,152	3,401,844
With Installment	1,153,521	62,085	1,215,606
Without Installment	2,183,171	3,067	2,186,238
Individual Credit Cards-FC	430	-	430
With Installment	-	-	-
Without Installment	430	-	430
Personnel Loans-TL	9,482	219,295	228,777
Real Estate Loans	-	2,573	2,573
Vehicle Loans	-	19	19
Consumer Loans	9,359	208,805	218,164
Abroad	105	2,038	2,143
Other	18	5,860	5,878
Personnel Loans-Indexed to FC	30	12,652	12,682
Real Estate Loans	-	3,235	3,235
Vehicle Loans	-	-	-
Consumer Loans	-	-	-
Other	30	9,417	9,447
Personnel Loans-FC	144	2,516	2,660
Real Estate Loans	-	1,134	1,134
Vehicle Loans	-	-	-
Consumer Loans	130	1,092	1,222
Other	14	290	304
Personnel Credit Cards-TL	98,438	1,118	99,556
With Installment	39,313	1,038	40,351
Without Installment	59,125	80	59,205
Personnel Credit Cards-FC	18	-	18
With Installment	-	-	-
Without Installment	18	-	18
Overdraft Accounts-TL (Real Person)	1,186,402	-	1,186,402
Overdraft Accounts-FC (Real Person)	57	-	57
Total ⁽¹⁾	5,205,385	80,644,248	85,849,633

⁽¹⁾ TL 520,675 of interest income accrual is not included in the table above.⁽²⁾ Consumer loans originated from funds amounting to TL 3,730,985 are included in the table above.

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7.5. Information on Commercial Installment Loans and Corporate Credit Cards

	Short-Term	Medium and Long-Term	Total
Commercial Installment Loans-TL	1,615,341	30,542,566	32,157,907
Business Loans	434	487,934	488,368
Vehicle Loans	76,929	991,295	1,068,224
Consumer Loans	1,363,581	28,719,604	30,083,185
Other	174,397	343,733	518,130
Commercial Installment Loans- Indexed to FC	158,703	580,624	739,327
Business Loans	-	-	-
Vehicle Loans	7,847	43,694	51,541
Consumer Loans	-	-	-
Other	150,856	536,930	687,786
Commercial Installment Loans - FC	223,400	19,014,867	19,238,267
Business Loans	-	-	-
Vehicle Loans	-	-	-
Consumer Loans	109,167	18,561,648	18,670,815
Other	114,233	453,219	567,452
Corporate Credit Cards-TL	658,188	10,522	668,710
With Installment	235,346	10,474	245,820
Without Installment	422,842	48	422,890
Corporate Credit Cards-FC	138	-	138
With Installment	-	-	-
Without Installment	138	-	138
Overdraft Account-TL (Legal Entity)	182,646	-	182,646
Overdraft Account-FC (Legal Entity)	-	-	-
Total ⁽¹⁾	2,838,416	50,148,579	52,986,995

⁽¹⁾ Accruals and rediscount amounts are not included in the table above.

7.6. Loans According To Types of Borrowers

	Current Period	Prior Period
Public	4,084,344	4,056,741
Private	306,231,423	235,011,027
Interest Income Accruals of Loans	6,479,235	4,755,128
Total	316,795,002	243,822,896

7.7. Breakdown of Domestic and International Loans

	Current Period	Prior Period
Domestic Loans	299,929,540	227,406,151
Foreign Loans	10,386,227	11,661,617
Interest Income Accruals of Loans	6,479,235	4,755,128
Total	316,795,002	243,822,896

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7.8. Loans Granted To Subsidiaries and Associates

None (31 December 2016: None).

7.9. Specific Provisions Provided Against Loans

	Current Period	Prior Period
Loans and other receivables with limited collectability	394,823	377,489
Loans and other receivables with doubtful collectability	556,534	984,449
Uncollectible loans and other receivables	3,852,124	2,767,103
Total	4,803,481	4,129,041

7.10. Information On Non-Performing Receivables (Net)

7.10.1. Information On Loans And Other Receivables Included In Non-Performing Receivables Which Are Restructured Or Rescheduled by The Parent Bank

	Group III Loans and Receivables with Limited Collectability	Group IV Loans and Receivables with Doubtful Collectability	Group V Uncollectible Loans and Receivables
Current Period	8,215	29,876	151,817
(Gross amounts before the specific provisions)	-	-	-
Loans and other receivables which are restructured	8,215	29,876	151,817
Rescheduled loans and other receivables	-	-	-
Prior Period	14,498	58,203	127,037
(Gross amounts before the specific provisions)	-	-	-
Loans and other receivables which are restructured	14,498	58,203	127,037
Rescheduled loans and other receivables	-	-	-

7.10.2. Information on The Movement of Non-Performing Receivables

	Group III Loans and Receivables with Limited Collectability	Group IV Loans and Receivables with Doubtful Collectability	Group V Uncollectible Loans and Receivables
Prior Period Ending Balance	379,416	993,140	3,007,934
Additions (+)	1,697,196	170,168	301,173
Transfers from Other Categories of Loans under Follow-up (+)	-	1,505,768	1,915,754
Transfers to Other Categories of Loans under Follow-up (-)	1,505,768	1,915,754	-
Collections (-) ⁽¹⁾	175,691	194,171	1,150,198
Write-offs (-)	-	-	-
Corporate and Entrepreneurial Loans	-	-	-
Consumer Loans	-	-	-
Credit Cards	-	-	-
Other	-	-	-
Current Period End Balance ⁽²⁾	395,153	559,151	4,074,663
Specific Provision (-)	394,823	556,534	3,852,124
Net Balance on Balance Sheet ⁽²⁾	330	2,617	222,539

⁽¹⁾ The restructured and rescheduled loans, are included on the stated sum.

⁽²⁾ Includes the loans originated from funds amounting to TL 225,486 whose risk does not belong to the Parent Bank.

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7.10.3. Information on Foreign Currency Non-Performing Loans

	Group III Loans and Other Receivables with Limited Collectability	Group IV Loans and Other Receivables with Doubtful Collectability	Group V Uncollectible Loans and Other Receivables
Current Period			
Period Ending Balance	32,700	60,049	146,151
Specific Provision (-)	32,700	60,049	146,151
Net Balance on Balance Sheet	-	-	-
Prior Period			
Period Ending Balance	36,561	41,095	92,092
Specific Provision (-)	36,561	41,095	92,092
Net Balance on Balance Sheet	-	-	-

7.10.4. Gross and Net Amounts of Non-Performing Receivables According To User Groups

	Group III Loans and Other Receivables with Limited Collectability	Group IV Loans and Other Receivables with Doubtful Collectability	Group V Uncollectible Loans and Other Receivables
Current Period (Net)			
Loans to Real Persons and Legal Entities (Gross)	395,153	473,910	4,074,663
Specific Provisions (-)	394,823	471,293	3,852,124
Loans to Real Persons and Legal Entities (Net)	330	2,617	222,539
Banks (Gross)	-	-	-
Specific Provisions (-)	-	-	-
Banks (Net)	-	-	-
Other Loans and Receivables (Gross)	-	85,241	-
Specific Provisions (-)	-	85,241	-
Other Loans and Receivables (Net)	-	-	-
Prior Period (Net)			
Loans to Real Persons and Legal Entities (Gross)	379,416	917,477	3,007,934
Specific Provisions (-)	377,489	908,786	2,767,103
Loans to Real Persons and Legal Entities (Net)	1,927	8,691	240,831
Banks (Gross)	-	-	-
Specific Provisions (-)	-	-	-
Banks (Net)	-	-	-
Other Loans and Receivables (Gross)	-	75,663	-
Specific Provisions (-)	-	75,663	-
Other Loans and Receivables (Net)	-	-	-

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7.10.5 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 Parent Bank are also tried to be collected and liquidated by means of administrative procedures. Transactions are performed within the context of legislation agreement, which ensures the collection of receivables through administrative channels, and authorizations transferred to the Branch Management. When the debtor offers exceed authorizations transferred to the Branch Management or includes matters outside the scope of current legislation agreements and the Branch Management submit favorable opinion to the Head Office regarding this issue, receivables should be restructured on a company/debtor basis in accordance with the decisions made by the related authorities.

7.10.6 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.

7.10.7 Other Explanations and Disclosures

Current Period	Corporate and Entrepreneurial	Consumer	Agricultural	Total
Neither Past Due nor Impaired Loans ⁽¹⁾	172,508,183	85,552,624	53,233,040	311,293,847
Past Due but not Impaired Loans	3,451,288	858,408	1,191,459	5,501,155
Impaired Loans	3,429,404	917,804	681,759	5,028,967
Total	179,388,875	87,328,836	55,106,258	321,823,969
Specific Provisions of Impaired Loans (-)	3,426,124	914,046	463,311	4,803,481
Net Loan Amount	175,962,751	86,414,790	54,642,947	317,020,488

⁽¹⁾ TL 3,730,985 consumer, TL 2,016,203 agricultural, and TL 18 corporate and entrepreneurial loans originated from funds whose risk does not belong to the Parent Bank, are shown under Neither Past Due nor Impaired Loans.

Prior Period	Corporate and Entrepreneurial	Consumer	Agricultural	Total
Neither Past Due nor Impaired Loans ⁽¹⁾	130,127,678	64,001,050	45,242,573	239,371,301
Past Due but not Impaired Loans	2,405,053	1,071,525	975,017	4,451,595
Impaired Loans	2,797,462	934,653	648,375	4,380,490
Total	135,330,193	66,007,228	46,865,965	248,203,386
Specific Provisions of Impaired Loans (-)	2,796,878	928,172	403,991	4,129,041
Net Loan Amount	132,533,315	65,079,056	46,461,974	244,074,345

⁽¹⁾ TL 3,636,941 consumer, TL 2,061,670 agricultural, and TL 18 corporate and entrepreneurial loans originated from funds whose risk does not belong to the Parent Bank, are shown under Neither Past Due nor Impaired Loans.

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8. Information on Held-To-Maturity Investments

8.1. Information on Comparative Net Values of Held-To-Maturity Investments Subject To Repo Transactions and Given As A Collateral/ Blocked

Held-To-Maturity Investments Subject To Repo Transactions

	Current Period		Prior Period	
	TL	FC	TL	FC
Government Bonds	174,799	2,103,464	2,301,823	2,384,104
Treasury Bills	-	-	-	-
Other Public Sector Debt Securities	-	-	-	-
Bank Bonds and Bank Guaranteed Bonds	-	-	-	-
Asset Backed Securities	-	-	-	-
Other	-	-	-	-
Total	174,799	2,103,464	2,301,823	2,384,104

Held-To-Maturity Investments Given As Collateral Or Blocked

	Current Period		Prior Period	
	TL	FC	TL	FC
Bills	-	-	-	-
Bonds and Similar Investment Securities	2,369,824	2,651,289	1,089,898	2,252,339
Other	-	-	-	-
Total	2,369,824	2,651,289	1,089,898	2,252,339

8.2 Information on Held-To-Maturity Government Bonds and Treasury Bills

	Current Period	Prior Period
Government Bonds	7,518,530	8,647,891
Treasury Bills	-	-
Other Public Sector Debt Securities	-	-
Total	7,518,530	8,647,891

8.3. Information on Held-To-Maturity Investments

	Current Period	Prior Period
Debt securities	7,625,763	8,794,915
Quoted in a Stock Exchange	7,518,530	8,647,891
Not Quoted in a Stock Exchange	107,233	147,024
Provision for Impairment (-)	-	-
Total	7,625,763	8,794,915

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8.4. Movements of Held-To-Maturity Investments

	Current Period	Prior Period
Beginning Balance	8,794,915	10,223,475
Foreign Currency Differences on Monetary Assets	326,988	475,282
Purchases During the Year ⁽¹⁾	434,046	937,418
Disposals through Sales and Redemptions	(1,930,186)	(2,841,260)
Provision for Impairment (-)	-	-
Period End Balance	7,625,763	8,794,915

⁽¹⁾ Accruals are shown in “Purchases During the Year”.

Within the year 2008, the Parent Bank has reclassified securities previously classified in available for sale portfolio with nominal values of TL 23,630,115, EUR 717,616 thousand and USD 1,483,317 thousand to held-to-maturity portfolio with fair values of TL 22,971,669, EUR 702,950 thousand and USD 1,562,742 thousand respectively which have been taken into consideration as book values after reclassification. The Bank has also reclassified securities previously classified in financial assets at fair value through profit and loss portfolio with nominal values of EUR 37,951 thousand and USD 45,501 thousand to held-to-maturity portfolio with fair values of EUR 37,178 thousand and USD 62,311 thousand respectively which have been taken into consideration as book values after reclassification in accordance with TAS 39 “Turkish Accounting Standard for Financial Instruments: Recognition and Measurement” published in the Official Gazette No. 27040 dated 31 October 2008 by Public Oversight Accounting and Auditing Standards Authority (“POA”).

Revaluation differences of reclassified available for sale securities before deferred tax are TL 68,984, EUR (23,067) thousand and USD (15,207) thousand respectively and are recorded under shareholders’ equity. These balances will be amortized until the redemption date of related securities using straight-line method and recorded as interest income or expense. At the end of balance sheet date, negative revaluation differences accounted under shareholders’ equity are amounted as USD 8,873 thousand and EUR 502 thousand respectively.

As of balance sheet date, the total fair values of reclassified held for trading securities to held to maturity securities are EUR 20,020 thousand and USD 65,536 thousand respectively.

If the reclassification from the held for trading securities portfolio to the held-to-maturity portfolio had not been performed, income accrual amounting to TL 32,798 would have been recorded. As of 31 December 2017, the reclassification from held for trading securities to held-to-maturity investments has an expense impact of TL 22,165.

9. Information About Associates Accounts (Net)

9.1. Information About Unconsolidated Associates

	Description	Address (City/Country)	The Parent Bank’s Share Percentage, if Different, Voting Percentage (%)	The Bank’s Risk Group Share Percentage (%)
1	Bankalararası Kart Merkezi A.Ş.	İstanbul/Turkey	12.50	17.98
2	Kredi Kayıt Bürosu A.Ş.	İstanbul/Turkey	10.00	9.09

	Total Assets ⁽²⁾	Shareholders’ Equity ⁽²⁾	Total Non-Current Assets ^{(2) (3)}	Interest Income ⁽²⁾	Income from Marketable Securities ⁽²⁾	Current Period Profit/Loss ⁽²⁾	Prior Period Profit/Loss ⁽²⁾	Fair Value ⁽¹⁾
1	93,761	51,077	53,466	1,547	-	11,181	10,403	-
2	263,183	158,185	150,459	1,720	-	36,272	34,759	-

⁽¹⁾ Since shares of associates are not traded in the stock market, fair values cannot be identified.⁽²⁾ Current period information of associates has been provided from unaudited financial statements as of 31 December 2017. Prior period profit/loss information of associates has been provided from audited financial statements as of 31 December 2016.⁽³⁾ Total non-current assets include property and equipment.

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9.2. Explanation Regarding Consolidated Associates

	Description	Address (City/Country)	The Parent Bank's Share Percentage, if Different, Voting Percentage (%)	The Parent Bank's Risk Group Share Percentage (%)
1	Arap Türk Bankası A.Ş.	İstanbul/Turkey	22.22	15.43

	Total Assets ⁽²⁾	Shareholders' Equity ⁽²⁾	Total Non-Current Assets ⁽²⁾	Interest Income ⁽²⁾	Income from Marketable Securities ⁽²⁾	Current Period Profit/Loss ⁽²⁾	Prior Period Profit/Loss ⁽²⁾	Fair Value ⁽¹⁾
1	5,063,759	785,384	115,205	164,771	58,528	80,268	61,597	-

⁽¹⁾ Since shares of Arap Türk Bankası A.Ş. are not traded in the stock market, fair values cannot be identified.⁽²⁾ Current period information of Arap Türk Bankası A.Ş. has been provided from unaudited financial statements as of 31 December 2017. Prior period profit/loss information of Arap Türk Bankası A.Ş. has been provided from audited financial statements as of 31 December 2016.

	Current Period	Prior Period
Beginning Balance	98,869	92,861
Movement During the Period	22,316	6,008
Additions	-	-
Bonus Share Certificates	-	-
Shares of Current Year Profits	12,385	9,504
Transfer	-	-
Sales	-	-
Revaluation Increase	13,326	-
Impairment Provision (-)	3,395	3,496
Ending Balance	121,185	98,869
Capital Commitments	-	-
Period Ending Share of Capital Participation (%)	15.43	15.43

9.3. Sectoral Information and Related Amounts Of Associates

	Current Period	Prior Period
Banks	121,185	98,869
Insurance Companies	-	-
Factoring Companies	-	-
Leasing Companies	-	-
Finance Companies	-	-
Other Financial Associates	-	-

9.4. Consolidated Associates Quoted To A Stock Exchange

None (31 December 2016: None).

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10. Information on Subsidiaries (Net)

10.1. Information about Unconsolidated Subsidiaries

	Description	Address (City/Country)	The Parent Bank's Share Percentage-if different Voting Percentage (%)	The Parent Bank's Group Share Percentage (%)
1	Ziraat Teknoloji A.Ş.	Istanbul/Turkey	100.00	100.00

	Total Assets ⁽²⁾	Shareholders' Equity ⁽²⁾	Total Non-Current Assets ⁽²⁾	Interest Income ⁽²⁾	Income from Marketable Securities ⁽²⁾	Current Period Profit/Loss ⁽²⁾	Prior Period Profit/Loss ⁽²⁾	Fair Value ⁽¹⁾
1	62,950	13,444	19,131	961	150	2,823	2,467	-

⁽¹⁾ Since shares of subsidiaries are not traded in the stock market, fair values cannot be identified.

⁽²⁾ Current period information of subsidiaries has been provided from unaudited financial statements as of 31 December 2017. Prior period profit/loss information has been provided from audited financial statements as of 31 December 2016.

10.2. Information about Consolidated Subsidiaries

In consolidated financial statements of Parent Bank's, investments related to subsidiaries and joint ventures operating abroad in foreign currency are followed by their fair values. For these subsidiaries, fair value is determined by valuation reports, TL equivalents of investments related to subsidiaries are fixed as of revaluation date and revaluation differences added to subsidiaries' values are recognized in "Marketable Securities Value Increase Fund" under shareholder's equity.

	Description	Address (City/Country)	The Parent Bank's Share Percentage-if different Voting Percentage (%)	The Parent Bank's Risk Group Share Percentage (%)
1	Ziraat Hayat ve Emeklilik A.Ş.	Istanbul/Turkey	100.00	100.00
2	Ziraat Sigorta A.Ş.	Istanbul/Turkey	100.00	100.00
3	Ziraat Finansal Kiralama A.Ş.	Istanbul/Turkey	100.00	100.00
4	Ziraat Yatırım Menkul Değerler A.Ş.	Istanbul/Turkey	100.00	99.60
5	Ziraat Portföy Yönetimi A.Ş.	Istanbul/Turkey	100.00	99.70
6	Ziraat Katılım Bankası A.Ş.	Istanbul/Turkey	100.00	100.00
7	Ziraat Gayrimenkul Yatırım Ortaklığı A.Ş.	Istanbul/Turkey	100.00	100.00
8	Ziraat Bank International A.G.	Frankfurt/Germany	100.00	100.00
9	Ziraat Bank BH d.d.	Sarajevo/Bosnia Herzegovina	100.00	100.00
10	Ziraat Bank (Moscow) JSC	Moscow/Russia	100.00	100.00
11	Kazakhstan Ziraat Int. Bank	Almaty/Kazakhstan	100.00	99.58
12	Ziraat Bank Azerbaycan ASC	Baku/Azerbaijan	100.00	100.00
13	Ziraat Bank Montenegro AD	Podgorica/Montenegro	100.00	100.00
14	JSC Ziraat Bank Georgia ^(*)	Tbilisi/Georgia	100.00	100.00
15	Ziraat Bank Uzbekistan JSC ^(**)	Tashkent/Uzbekistan	100.00	100.00

^(*) Tbilisi, Batum and Marneuli branches of the Parent Bank which were operating in Georgia have been gathered under the Bank's roof as of 2 May 2017 and continues to operate as a subsidiary with JSC Ziraat Bank Georgia title and all of the capital belonging to the Bank.

^(**) The share of partnership in Uzbekistan has increased to 100% and its status become subsidiary from entity under common control and continues its operations as Ziraat Bank Uzbekistan JSC.

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	Total Assets ⁽³⁾	Shareholders' Equity ⁽³⁾	Total Non- Current Assets ⁽³⁾	Interest Income ⁽³⁾⁽⁴⁾	Income from Marketable Securities ⁽²⁾	Current Period Profit/ Loss ⁽³⁾	Prior Period Profit /Loss ⁽³⁾	Fair Value ⁽¹⁾	Shareholders' Equity Needed
1	5,785,955	663,224	2,457	200,552	-	449,105	231,541	-	-
2	1,152,752	439,579	1,450	94,377	-	226,794	128,912	-	-
3	2,637,889	331,959	1,498	1,720	-	65,203	30,003	-	-
4	185,304	127,203	494	78,960	856,821	51,053	24,935	-	-
5	44,966	39,205	618	3,800	28,198	15,820	8,582	-	-
6	14,350,143	1,403,681	110,515	932,758	48,634	158,902	30,673	-	-
7	1,551,822	1,550,783	1,253,180	168	-	236,712	13,585	-	-
8	7,894,189	979,381	18,750	221,983	2,440	74,888	40,843	971,937	-
9	2,409,237	371,514	81,996	89,695	253	10,973	(36,478)	337,820	-
10	412,101	164,371	11,889	35,441	252	11,162	6,596	150,954	-
11	648,822	289,377	15,193	38,218	8,078	23,486	23,030	286,462	-
12	410,543	140,611	26,999	24,712	433	8,676	11,278	162,098	-
13	238,128	32,067	4,074	7,525	258	(3,759)	(4,851)	30,508	-
14	136,031	44,890	5,477	2,466	910	1,204	-	53,605	-
15	198,326	98,046	1,544	10,981	-	53,719	11,186	115,629	-

⁽¹⁾ The subsidiaries other than the ones presented with fair value are not traded in stock exchange and accordingly fair values cannot be determined and they are carried at cost less impairment, if any. For the subsidiaries having fair value, fair value shows the portion belonging to Ziraat Bank.

⁽²⁾ The income from marketable securities portfolio of Ziraat Yatırım Menkul Değerler A.Ş. and Ziraat Portföy Yönetimi A.Ş. are representing the net sales.

⁽³⁾ Current period information of subsidiaries has been provided from unaudited financial statements as of 31 December 2017. Prior period profit/loss information has been provided from audited financial statements as of 31 December 2016.

⁽⁴⁾ The amount of Ziraat Katılım Bankası A.Ş. shown in interest income column includes incomes from the participation funds.

Information on Consolidated Subsidiaries (Represents Values Belonging To The Parent Bank)

	Current Period	Prior Period
Balance at the Beginning of the Period	4,101,352	2,442,943
Movements During the Period	1,036,898	1,658,409
Additions to Scope of Consolidation	-	-
Purchases ⁽¹⁾⁽²⁾	668,492	1,446,624
Bonus Shares Obtained	3,000	2,996
Dividends from Current Year Income	-	-
Transfers to Available for Sale Assets	-	-
Sales	-	-
Revaluation Increase	376,366	281,824
Impairment Provision (-)	10,960	73,035
Balance at the End of the Period	5,138,250	4,101,352
Capital Commitments	-	-
Share Percentage at the End of the Period (%)	-	-

⁽¹⁾ Paid Capital Increases made during the period are classified under “Purchases” account.

⁽²⁾ The share of partnership in Uzbekistan has increased to 100% and its status become subsidiary from entity under common control and continues its operations as Ziraat Bank Uzbekistan JSC.

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Sectoral Information on Subsidiaries and The Related Carrying Amounts (Represents Values Belonging To The Parent Bank)

	Current Period	Prior Period
Banks	3,359,014	2,322,116
Insurance Companies	129,972	129,972
Factoring Companies	-	-
Leasing Companies	282,839	282,839
Financing Companies	-	-
Other Financial Subsidiaries	1,366,425	1,366,425

10.3. Subsidiaries Which Are Quoted on A Stock Exchange

None (31 December 2016: None).

11. Information on Entities Under Common Control (Joint Ventures)

Entities under Common Control (Joint Ventures) ⁽¹⁾	Parent Bank's Share ⁽²⁾	Group's Share	Current Assets	Non-Current Assets	Long Term Liabilities	Income	Expense
Turkmen Turkish Joint Stock Commercial Bank	51,730	51,730	2,303,598	12,166	12,266	46,932	31,595
Total	51,730	51,730	2,303,598	12,166	12,266	46,932	31,595

⁽¹⁾ Information on entity under joint control is provided from the unaudited financial statements as of 31 December 2017.⁽²⁾ Represents the Parent Bank's share in the shareholders' equity of the entity under common control based on the shareholding rate of the Bank.

Entities under common control domiciled and operating abroad are followed by their fair values. For these entities under common control, fair value is determined by independent valuation firm's report and revaluation differences are accounted as the value of entities under common control and in "Marketable Securities Value Increase Fund" under shareholders' equity.

12. Information on Finance Lease Receivables (Net)

Information on finance lease receivables are as below:

	Current Period		Prior Period	
	Gross	Net	Gross	Net
Less than 1 Year	1,131,066	997,962	1,017,502	892,067
1-5 Years	1,710,323	1,479,545	1,553,514	1,356,447
More than 5 Years	509,823	404,012	285,154	235,153
Total	3,351,212	2,881,519	2,856,170	2,483,667

13. Information On Derivative Financial Assets For Hedging Purposes

The Group has no derivative financial assets for hedging purposes (31 December 2016: None).

14. Information On Investment Property

None (31 December 2016: TL 643,290).

15. Information on Assets Held for Sale and Tangibles Corresponding Discontinuing Operations

The group does not have any discontinuing operations. The assets held for sale are composed of immovables acquired due to consumer, commercial and agricultural loans and immovables for which has no necessity of usage exists by the Parent Bank. Those immovables considered for sales are announced at the web site of the Parent Bank.

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The Group’s immovables amounting to TL 672,899 due to TL 14,819 of consumer loans, TL 596,417 of commercial loans and TL 61,663 of agricultural loans. Also, the sum of movables acquired from consumer loan amounts to TL 1,920.

16. Explanations on Property and Equipment

	Immovables	Tangibles- Financial Leasing	Vehicles	Operational Leasing Development Costs	Other Tangibles	Total
Prior Period End:						
Cost	6,244,530	12,459	45,850	252,001	961,440	7,516,280
Accumulated Depreciation (-)	937,584	3,419	26,331	151,695	522,468	1,641,497
Impairment (-)	2,312	-	-	-	462	2,774
Net Book Value	5,304,634	9,040	19,519	100,306	438,510	5,872,009
Current Period End:						
Net Book Value at the Beginning of the Period	5,304,634	9,040	19,519	100,306	438,510	5,872,009
Change During the Period (Net)	743,106	332	(4,008)	(17,020)	63,910	786,320
- Cost	768,469	1,739	1,213	27,063	198,153	996,637
- Depreciation Net (-)	24,907	1,407	5,221	44,083	134,243	209,861
- Impairment (-)	456	-	-	-	-	456
Net Currency Translation from Foreign Subsidiaries (-)	17,214	(14)	234	154	3,715	21,303
Cost at Period End	7,030,213	14,184	47,297	279,218	1,163,308	8,534,220
Accumulated Depreciation at Period End (-)	962,491	4,826	31,552	195,778	656,711	1,851,358
Impairment (-)	2,768	-	-	-	462	3,230
Closing Net Book Value	6,064,954	9,358	15,745	83,440	506,135	6,679,632

The impairment provision set or cancelled in the current period according to the asset groups not individually significant but materially affecting the overall financial statements, and the reason and conditions for this

None (31 December 2016: None).

Pledges, mortgages and other restrictions on the tangible fixed assets, expenses arising from the construction for tangible fixed assets, commitments given for the purchases of tangible fixed assets

None (31 December 2016: None).

17. Explanations on Intangible Assets

	Current Period			Prior Period		
	Book Value	Accumulated Depreciation	Net Value	Book Value	Accumulated Depreciation	Net Value
Establishment Costs	8,447	7,723	724	7,686	6,815	871
Goodwill	-	-	-	-	-	-
Intangible Rights	769,346	237,982	531,364	531,831	164,838	366,993
Total	777,793	245,705	532,088	539,517	171,653	367,864

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Disclosures for book value, description and remaining useful life for a specific intangible fixed asset that is material to the financial statements

None.

Disclosure for intangible fixed assets acquired through government grants and accounted for at fair value at initial recognition

None.

The method of subsequent measurement for intangible fixed assets that are acquired through government incentives and recorded at fair value at the initial recognition

None.

The book value of intangible fixed assets that are pledged or restricted for use

None.

Amount of purchase commitments for intangible fixed assets

None

Information on revalued intangible assets according to their types

None.

Amount of total research and development expenses recorded in income statement within the period if any

None.

Positive or negative consolidation goodwill on entity basis

Not applicable for the consolidated financial statements

Information on Goodwill

None.

18. Information on Deferred Tax Asset

Deferred tax is recognized on 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 in accordance with the Turkish Accounting Standards (TAS 12) “Income Taxes”. In the computation of deferred tax, effective tax rates as of the balance sheet date are used in accordance with the current tax legislation.

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. Calculated deferred tax assets and deferred tax liabilities are net off in the financial statements.

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Information on calculated deferred tax including deductible temporary differences, financial losses, tax deductibles and tax exemptions is shown below:

	Current Period	Prior Period
Deferred Tax Assets	29,794	86,569
Deferred Tax Liabilities	307,100	3,463
Net Deferred Tax (Assets)/Liabilities	(277,306)	83,106
Net Deferred Tax Income/Expense	(30,525)	(92,825)
	Current Period	Prior Period
Reserve for Employment Termination Benefits	163,176	139,047
Short Term Employee Benefits	50,538	38,447
Financial Assets Valuation	(182,639)	(93,267)
Other	(308,381)	(1,121)
Net Deferred Tax (Assets)/Liabilities	(277,306)	83,106
	Current Period	Prior Period
As of 1 January	83,896	264,470
Addition to Scope of Consolidation	-	-
Effect of Change in the Effective Tax Rate	(35,635)	-
Deferred Tax (Expense)/Income	5,110	(92,825)
Deferred Tax Expenses (Net)	(30,525)	(92,825)
Deferred Tax Recognized Under Shareholders' Equity ⁽¹⁾	(330,677)	(88,539)
Deferred Tax (Assets)/Liabilities	(277,306)	83,106

⁽¹⁾ As a result of the amendment to the Tax Law; the tax exemption on immovable sales has been reduced from 75% to 50% and the deferred tax effect due to the change has been shown.

19. Information on Other Assets

As of 31 December 2017 and 31 December 2016, other assets do not exceed 10% of the total assets excluding off-balance sheet commitments.

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II. EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED LIABILITIES

1. Information on Deposits/Funds collected

1.1. Information on Maturity Structure of Deposits Collected

Current Period	Demand	7 Day Call Accounts	Up to 1 Month	1-3 Months	3-6 Months	6 Months-1 Year	1 Year and Over	Cumulative Deposits	Total
Saving Deposits	26,091,092	-	3,414,824	67,470,823	5,082,603	1,158,237	1,034,048	96,557	104,348,184
Foreign Currency Deposits	24,196,973	-	6,995,900	32,461,783	6,838,514	7,907,224	20,646,249	463	99,047,106
Residents in Turkey	19,470,588	-	6,127,263	25,418,213	3,898,520	3,032,340	5,592,478	290	63,539,692
Residents Abroad	4,726,385	-	868,637	7,043,570	2,939,994	4,874,884	15,053,771	173	35,507,414
Public Sector Deposits	6,128,722	-	7,166,830	7,427,947	992,332	5,516,199	56,872	-	27,288,902
Commercial Inst. Deposits	7,337,456	-	4,281,408	8,284,147	574,282	1,501,131	97,707	-	22,076,131
Other Inst. Deposits	2,170,712	-	2,098,970	3,580,174	385,560	829,811	1,159,978	-	10,225,205
Precious Metals	3,580,301	-	45,192	503,299	46,355	25,265	33,500	-	4,233,912
Interbank Deposits	2,104,256	-	6,801,769	2,168,481	1,098,715	2,338,050	838,902	-	15,350,173
CBRT	3,291	-	-	-	-	-	-	-	3,291
Domestic Banks	89,586	-	6,738,902	136,783	193,193	2,047	2,046	-	7,162,557
Foreign Banks	924,653	-	62,867	2,031,698	905,522	2,336,003	836,856	-	7,097,599
Participation Banks	1,086,726	-	-	-	-	-	-	-	1,086,726
Other	-	-	-	-	-	-	-	-	-
Total	71,609,512	-	30,804,893	121,896,654	15,018,361	19,275,917	23,867,256	97,020	282,569,613

Prior Period	Demand	7 Day Call Accounts	Up to 1 Month	1-3 Months	3-6 Months	6 Months-1 Year	1 Year and Over	Cumulative Deposits	Total
Saving Deposits	22,548,091	-	3,211,532	60,686,575	4,404,259	1,024,789	857,926	44,170	92,777,342
Foreign Currency Deposits	16,043,174	-	6,158,621	19,113,290	5,174,283	4,969,554	16,427,978	619	67,887,519
Residents in Turkey	13,814,369	-	5,883,031	15,986,117	4,411,314	3,059,414	10,853,638	619	54,008,502
Residents Abroad	2,228,805	-	275,590	3,127,173	762,969	1,910,140	5,574,340	-	13,879,017
Public Sector Deposits	6,223,181	-	2,935,849	7,310,177	2,090,069	4,742,350	13,571	-	23,315,197
Commercial Inst. Deposits	6,319,002	-	6,593,154	9,922,821	497,592	67,658	52,483	-	23,452,710
Other Inst. Deposits	1,815,386	-	2,709,644	4,398,157	412,382	827,365	946,954	-	11,109,888
Precious Metals	2,066,664	-	32,607	240,919	23,444	16,479	13,292	-	2,393,405
Interbank Deposits	1,496,123	-	5,033,318	1,687,431	636,144	1,973,477	1,149,439	-	11,975,932
CBRT	5,252	-	-	-	698	-	-	-	5,950
Domestic Banks	420,083	-	4,405,931	87,962	191,176	-	6,364	-	5,111,516
Foreign Banks	164,921	-	627,387	1,599,469	444,270	1,973,477	1,143,075	-	5,952,599
Participation Banks	905,867	-	-	-	-	-	-	-	905,867
Other	-	-	-	-	-	-	-	-	-
Total	56,511,621	-	26,674,725	103,359,370	13,238,173	13,621,672	19,461,643	44,789	232,911,993

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1.2. Saving Deposits Under The Guarantee of Deposit Insurance and Exceeding The Deposit Insurance Limit (Represents Values Belonging To The Parent Bank)

	Under the Guarantee of Deposit Insurance		Exceeding Deposit Insurance Limit	
	Current Period	Prior Period	Current Period	Prior Period
Saving Deposits				
Saving Deposits ⁽¹⁾	68,870,575	60,568,084	34,813,148	29,701,060
Foreign Currency Saving Deposits ⁽¹⁾	28,077,369	21,431,931	41,270,577	28,972,511
Other Deposits in the form of Saving Deposits	-	-	-	-
Deposits at Foreign Branches and under the Guarantees of Foreign Authority Insurance ⁽²⁾	858,357	636,306	101,979	42,853
Deposits at Off-Shore Banking Regions' and under Foreign Authorities' Insurance	-	-	-	-

⁽¹⁾ Related deposit balances do not include foreign branches.⁽²⁾ In Bulgaria and Greece, since both real person and legal entity's saving deposits are under the guarantee of insurance and since such balances included in insurance limit are calculated by the system, the legal entity saving deposits amounting to TL 92,323 and TL 20,507 respectively, cannot be decomposed by type and are therefore included in the table above (31 December 2016: Bulgaria and Greece, TL 47,282 and TL 13,226, respectively).

Based on the Council of Minister's decree dated 29 December 2003 and numbered 2003/6668, TL 917 of demand deposits is not included in the above calculation, since the Bank paid the saving deposits amount attributable to T. İmar Bank T.A.Ş.

Savings Deposit Insurance Fund premiums are calculated based on deposit amount attributable to real persons in domestic branches of banks. As total of capital amount and interest expense accruals of saving deposits up to TL 100 attributable to a real person is covered by the insurance, TL 718,659 of interest expense accrual is included in the above-mentioned figures in accordance with the Communiqué on Insurance Deposits and Participation Funds and Premiums Collected by the Savings Deposit Insurance Fund published in the Official Gazette dated 15 February 2013 and numbered 28560.

1.3. Information on Saving Deposits/Real Persons' Private Current And Accession Accounts Not Related to Commercial Transactions in a Turkish Branch of The Bank Whose Head Office is Abroad, And Reasons if it is Covered in Where The Head Office is Located

The Parent Bank's head office is located in Turkey.

1.4. Saving Deposits of Real Persons Not Covered by the Deposit Insurance Fund

	Current Period	Prior Period
Deposits and Other Accounts in Branches Abroad	65,522	81,373
Deposits of Ultimate Shareholders and Their Close Families	-	-
Deposits of Chairman and Members of the Board of Directors, General Manager, Assistant General Managers and Their Close Family Members	7,476	6,448
Deposits Obtained through Illegal Acts Defined in the 282 nd Article of the 5237 Numbered Turkish Criminal Code Dated September 26, 2004	-	-
Saving Deposits in Banks Established in Turkey Exclusively for Off-Shore Banking Activities	-	-

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2. Negative Differences Related To The Derivative Financial Liabilities Held for Trading

	Current Period		Prior Period	
	TL	FC	TL	FC
Forward Transactions	71,896	25,208	33,498	50,329
Swap Transactions	161,436	286,392	206,170	363,333
Futures Transactions	-	-	-	-
Options	2,174	1,804	35	-
Other	-	-	-	-
Total	235,506	313,404	239,703	413,662

3. Information on Banks and Other Financial Institutions

3.1. General Information on Banks and Other Financial Institutions

	Current Period		Prior Period	
	TL	FC	TL	FC
Borrowings from CBRT	410,436	-	-	-
Domestic Banks and Institutions	426,996	1,843,701	403,098	1,653,704
Foreign Banks, Institutions and Funds	925,624	27,511,496	935,448	21,434,279
Total	1,763,056	29,355,197	1,338,546	23,087,983

3.2. Maturity Structure of Funds Borrowed

	Current Period		Prior Period	
	TL	FC	TL	FC
Short-Term	826,393	8,772,026	394,462	7,048,505
Medium and Long-Term	936,663	20,583,171	944,084	16,039,478
Total	1,763,056	29,355,197	1,338,546	23,087,983

3.3. 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

61.84% of the Group's total liabilities and equity consist of deposits. Deposits have a diversified base and have steady structures. The Group's liabilities are not subject to a significant concentration risk (31 December 2016: None).

4. Information on Funds Supplied from Repurchase Agreements

	Current Period		Prior Period	
	TL	FC	TL	FC
From Domestic Transactions	1,339,819	-	30,385,206	-
Financial Institutions and Organizations	1,243,480	-	30,211,399	-
Other Institutions and Organizations	90,588	-	166,520	-
Real Person	5,751	-	7,287	-
From Overseas Operations	-	13,100,369	-	12,270,423
Financial Institutions and Organizations	-	13,100,369	-	12,270,423
Other Institutions and Organizations	-	-	-	-
Real Person	-	-	-	-
Total	1,339,819	13,100,369	30,385,206	12,270,423

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5. Information on Securities Issued

	Current Period		Prior Period	
	TL	FC	TL	FC
Bank Bonds	3,562,491	-	2,156,778	-
Asset-Backed Securities	557,804	-	101,459	-
Treasury Bonds	177,752	9,176,233	131,822	4,680,692
Total	4,298,047	9,176,233	2,390,059	4,680,692

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 do not exceed 10% of the balance sheet total.

7. Information on Finance Lease Payables (Net)

In the finance lease agreements, lease payments are determined according to the price of leasehold, the Group's interest rate of commercial loan and maturity of the agreement. The amounts in the lease agreements are paid in equal installments. There are not any restrictions in these agreements that create significant obligations to the Group.

The Group has no liabilities from finance leases (31 December 2016: None).

8. Information on Derivative Financial Liabilities for Hedging Purposes

Group has no derivative financial liabilities for hedging purposes (31 December 2016: None).

9. Explanations on Provisions

9.1. Information on General Provisions

	Current Period	Prior Period
General Provisions	5,635,198	4,042,425
Allocated for Group-I Loans and Receivables	4,680,739	3,271,408
Additional Provision for Loans and Receivables with Extended Maturities	311,350	233,456
Allocated for Group-II Loans and Receivables	236,317	181,621
Additional Provision for Loans and Receivables with Extended Maturities	79,190	61,127
Allocated for Non-Cash Loans	596,880	466,954
Other	121,262	122,442

9.2. Foreign Exchange Loss Provisions on The Foreign Currency Indexed Loans and Finance Lease Receivables

Group's foreign exchange loss provisions on foreign currency indexed loans and finance lease receivables amount to TL 12,990 (31 December 2016: TL 327).

9.3. Specific Provisions for Unindemnified Non-Cash Loans

Group's Specific provisions of Parent Bank for unindemnified non-cash loans amount to TL 138,235 (31 December 2016: TL 150,916).

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9.4. Information on Other Provisions

9.4.1. Information on Free Reserve Provisions for Possible Risks

These financial statements include a free reserve provision which is not in accordance with BRSA Principles amounting to TL 1,475,000 which has a part of TL 530,000 from the current period, provided by the Bank management in line with the conservatism principle considering the circumstances that may arise from any changes in the economy or market conditions. Moreover, the provision of TL 25,150 and other provision of TL 234 exist for cash transfers made by Bank officials.

	Current Period	Prior Period
Free Reserve Provisions for Possible Risks	1,500,384	964,944

9.4.2. The Names and Amounts of Sub-Accounts of Other Provisions Exceeding 10% of The Total Provision Amount

Based on the information provided by the legal department, lawsuits against the Parent Bank over TL 100 amounts to TL 94,838. Full provision has been provided in these financial statements for law suits ended against the Bank but not finalized yet, amounting to TL 63,600. Together with the provision of consolidated with other associates amounting to TL 340, total provision for lawsuits of the Group amounts to TL 63,940.

Based on the decision of the Bank management, provision amounting to TL 38,850 is provided for the consumer loans followed under standard loan portfolio that also have amounts in the non-performing loan portfolio in compliance with the Act on Preservation of Consumers numbered 4077. The provision is made in accordance with the conservatism principle without taking into consideration the guarantees of these loans (31 December 2016: TL 60,400).

The Group also provided provisions amounting to TL 138,235 (31 December 2016: TL 150,916) for unindemnified non-cash loans, TL 142,464 (31 December 2016: TL 102,026) for other provisions. As a result of the provisions mentioned above, the other provision balance on the Group’s balance sheet amounts to TL 1,883,873 (31 December 2016: TL 1,313,995).

9.5. Liabilities on Reserve for Employee Termination Benefits

9.5.1. Employment Termination Benefits and Unused Vacation Rights

The Group accounts for its vacation and retirement pay obligations in accordance with the TAS 19 “Employee Benefits”. The vacation and retirement pay obligations recognized in the balance sheet represent the present value of the defined benefit obligation. As of 31 December 2017, unpaid vacation liability amounted to TL 258,763 (31 December 2016: TL 192,237), and employment termination amounted to TL 820,157 (31 December 2016: TL 695,237) are presented under the “Employee Benefits Provision” in the financial statements.

Group’s movement of employment termination benefits liability in the balance sheet:

	Current Period	Prior Period
As of 1 January	695,237	685,072
Current Service Cost	66,422	59,497
Interest Cost	180,436	74,174
Severance Pay	(72,223)	(116,587)
Payment/Abating Benefits/Gain (Loss) in consequence of Layoff	1,606	(212)
Actuarial Gain (Loss)	(51,321)	(6,707)
Balance at period end	820,157	695,237

The Parent Bank provided provisions amounting to TL 250,000 of additional bonus provision with the decision of General Assembly.

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9.5.2. Additional Bonus Provision Paid to Personnel

The technical balance sheet reports which are prepared in accordance with the principles Act numbered 5754 declared in the Official Gazette dated 8 May 2008 numbered 26870, by using a technical interest rate of 9.80%, concluded that no technical deficit arises in the mentioned fund as of 31 December 2017 and 2016.

9.5.3. Pension Rights

The liability related to Parent Bank’s benefits to be transferred to SSI as of the balance sheet date is expected payment to be made to SSI during the transfer. Actuarial parameters and results used in calculation of this amount reflects the Act’s, numbered 5754 declared in the Official Gazette dated 8 May 2008 numbered 26870, principles related to pension and health benefits to be transferred to SSI (9.80% real discount rate, etc.).

According to related Actuary Report, the Fund’s surplus is TL 3,442,106 as of 31 December 2016 (31 December 2016: TL 2,835,975)

	Current Period	Prior Period
Non Medical Assets	3,074,811	2,654,080
Non Medical Liabilities	(2,610,396)	(2,292,445)
Cash Value of Medical Premium	1,407,143	1,214,948
Cash Value of Medical Liabilities	(467,476)	(379,490)
Fund Assets	2,038,024	1,638,883
Actual and Technique Deficit/Surplus Amount	3,442,106	2,835,975

The principal actuarial assumptions used are as follows:

	Current Period	Prior Period
Discount rate		
- Pension benefits transferable to SSI	9.80%	9.80%
- Post employment medical benefits transferable to SSI	9.80%	9.80%

To represent mortality rates both before and after retirement, CSO 1980 Female/Male mortality table is used.

Plan assets are comprised as follows:

	Current Period	Prior Period
Bank Placements	1,612,918	1,284,298
Property and Equipment	127,096	66,844
Marketable Securities	125,000	-
Other	173,010	287,741
Total	2,038,024	1,638,883

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10. Information on Tax Liability

10.1. Information on Current Tax Liability

Information on Tax Provisions

As of 31 December 2017, the remaining corporate tax liability after deducting temporary taxes paid for the period is TL 474,434 (31 December 2016: TL 444,505).

Information on Current Taxes Payable

	Current Period	Prior Period
Corporate Tax Payable	474,434	444,505
Taxation on Income From Securities	193,987	215,147
Property Tax	2,570	2,491
Banking Insurance Transactions Tax (BITT)	164,067	144,072
Foreign Exchange Transactions Tax	106	59
Value Added Tax Payable	7,289	7,091
Other	132,581	67,194
Total	975,034	880,559

10.2. Information on Premiums

	Current Period	Prior Period
Social Security Premiums - Employee	37	39
Social Security Premiums - Employer	52	56
Bank Social Aid Pension Fund Premium - Employee	9,779	8,840
Bank Social Aid Pension Fund Premium - Employer	13,629	12,400
Pension Fund Membership Fees and Provisions - Employee	2	13
Pension Fund Membership Fees and Provisions - Employer	6	59
Unemployment Insurance - Employee	1,599	1,382
Unemployment Insurance - Employer	3,200	2,763
Other	-	-
Total	28,304	25,552

10.3. Information on Deferred Tax Liabilities, If Any

The Group's deferred tax liability, for the current term, amounts to TL 307,100 (31 December 2016: TL 3,463).

11. Information on Payables for Assets Held for Sale And Discontinued Operations

The Group does not have any payables for assets held for sale and discontinued operations.

12. Explanations on Subordinated Debts

The Group does not have any subordinated debts.

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13. Information on Shareholders' Equity

13.1. Presentation on Paid-In Capital

	Current Period	Prior Period
Common Stock	5,600,000	5,100,000
Preferred Stock	-	-

13.2. Paid-In Capital Amount, Explanation Whether The Registered Capital System Is Applicable By The Bank, If So The Registered Capital Ceiling Amount

The Parent Bank does not have a registered capital system.

13.3. Information On Share Capital Increases And Their Sources; Other Information On Increased Capital Shares In The Current Period

The decision of increasing the capital of the Parent Bank by TL 500,000 to TL 5,600,000 is approved in General Assembly in 9 June 2017. Increase of capital and amendments according to the relevant materials of the Articles of Association was registered on 11 July 2017. It has been announced in the Trade Registry Gazette numbered 9367 dated 14 July 2017. The offsetting transactions of the mentioned capital increase was accounted on 3 August 2017 accordance with the permission from the Banking Regulation and Supervision Agency.

13.4. Information on Additions From Capital Reserves To Capital In The Current Period

There is no share capital amount included in capital.

13.5. Capital Commitments in The Last Fiscal Year and Continue Until The End of The Following İnterim Period, General Purpose of These Commitments and Estimated Resources Required for These Commitments

The Parent Bank has no capital commitments.

13.6. Indicators of The Parent Bank's Income, Profitability and Liquidity for The Previous Periods and Possible Effects of Future Assumptions Based on The Uncertainty of These İndicators on The Bank's Equity

In the current period, the Parent Bank follows its operations in line with the previous periods. The Parent Bank's balance sheet has been managed with precaution by being affected by the interest, rate of exchange and credit risks at the minimum level. This helps to reduce the effects of fluctuations in the market to the Parent Bank's performance and contributes to the profitability structure to be sustainable.

13.7. Information on Preferred Shares Representing The Capital

There are no preferred shares.

13.8. Information on Marketable Securities Value Increase Fund

	Current Period		Prior Period	
	TL	FC	TL	FC
From Subsidiaries, Associates and Entities under Common Control	3,375	-	615,642	1,025
Revaluation Difference	-	-	-	1,025
Foreign Exchange Difference	3,375	-	615,642	-
From Available for Sale Marketable Securities	(1,801,386)	844,055	(1,460,361)	(550,321)
Revaluation Difference	(2,091,729)	844,213	(1,657,745)	(550,250)
Deferred Tax Effect	290,343	(158)	396,407	(71)
Foreign Exchange Difference	-	-	(199,023)	-
Total	(1,798,011)	844,055	(844,719)	(549,296)

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III. EXPLANATIONS AND NOTES TO CONSOLIDATED OFF-BALANCE SHEET ACCOUNTS

1. Information on Off-Balance Sheet Liabilities

1.1. Nature and Amount of Irrevocable Loan Commitments

	Current Period	Prior Period
Commitments for Credit Card Expenditure Limits	8,665,648	7,275,913
Other Irrevocable Commitments	10,318,492	7,204,521
Loan Granting Commitments	5,063,861	3,742,487
Payment Commitments for Cheques	3,761,934	3,173,767
Asset Purchase Commitments	4,829,656	2,136,524
Promotion Campaigns Commitments Relating to Credit Card and Bank Services	26,137	22,138
Tax and Fund Obligations Resulting from Export Commitments	1,966	458
Subsidiaries and Associates Capital Contribution Commitments	-	-
Total	32,667,694	23,555,808

1.2. Nature and Amount of Possible Losses and Commitments Arising from The Off-Balance Sheet Items Including The Below Mentioned

Information related to possible losses of the Bank arising from off-balance sheet items is explained in 9th note explanations on provisions of Section Five Explanations and Notes Related to Liabilities.

1.2.1 Non-Cash Loans Including Guarantees, Acceptances, Financial Guarantees and Other Letters of Credit

	Current Period	Prior Period
Guarantee Letters	81,154,998	68,592,339
Letters of Credit	14,525,459	9,327,602
Bank Acceptances	6,307,098	4,261,898
Factoring Guarantees	1,635	-
Other Guarantees	333,412	532,131
Other Warrantees	4,020	7,145
Total	102,326,622	82,721,115

1.2.2. Certain Guarantees, Temporary Guarantees, Surety Ships and Similar Transactions

	Current Period	Prior Period
Letters of Certain Guarantees	52,790,337	42,394,237
Letters of Advance Guarantees	18,527,924	18,614,529
Letters of Temporary Guarantees	3,653,864	3,767,887
Letters of Guarantees Given to Customs Offices	1,332,481	786,137
Other Letters of Guarantees	4,850,392	3,029,549
Total	81,154,998	68,592,339

1.3. Explanations on Non-Cash Loans

1.3.1 Total Non-Cash Loans

	Current Period	Prior Period
Non-Cash Loans for Providing Cash Loans	2,422,713	1,675,735
With Original Maturity of One Year or Less	806,113	25,218
With Original Maturity of More than One Year	1,616,600	1,650,517
Other Non-Cash Loans	99,903,909	81,045,380
Total	102,326,622	82,721,115

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1.3.2. Information on Sectoral Risk Concentrations of Non-Cash Loans

	Current Period				Prior Period			
	TL	(%)	FC	(%)	TL	(%)	FC	(%)
Agricultural	91,690	0.25	25,014	0.04	69,794	0.27	14,374	0.03
Farming and Raising Livestock	28,383	0.08	-	-	28,426	0.11	92	-
Forestry	63,242	0.18	25,014	0.04	41,368	0.16	14,282	0.03
Fishing	65	0.00	-	-	-	-	-	-
Manufacturing	9,409,111	26.09	35,555,808	53.66	6,524,288	25.02	28,576,126	50.45
Mining and Quarrying	282,631	0.78	344,901	0.52	245,428	0.94	268,696	0.47
Production	5,453,249	15.12	32,920,814	49.69	4,092,001	15.69	26,241,468	46.33
Electric, Gas and Water	3,673,231	10.18	2,290,093	3.46	2,186,859	8.39	2,065,962	3.65
Construction	11,108,609	30.80	17,002,602	25.66	7,027,294	26.95	15,424,719	27.23
Services	14,371,943	39.85	12,612,077	19.03	11,904,745	45.65	11,824,555	20.88
Wholesale and Retail Trade	6,973,636	19.33	5,049,343	7.62	5,892,322	22.60	3,705,689	6.54
Hotel, Food and Beverage Services	200,820	0.56	403,658	0.61	141,846	0.54	327,446	0.58
Transportation and Telecommunication	1,492,421	4.14	2,425,130	3.66	1,144,919	4.39	3,593,041	6.34
Financial Institutions	4,122,232	11.43	3,542,223	5.35	3,465,541	13.29	2,715,909	4.79
Real Estate and Leasing Services	1,408,682	3.91	1,072,110	1.62	1,143,848	4.39	1,413,797	2.50
Self-Employment Services	-	-	6,163	0.01	-	-	1,572	-
Education Services	99,825	0.28	39,886	0.06	68,225	0.26	7,067	0.01
Health and Social Services	74,327	0.21	73,564	0.11	48,044	0.18	60,034	0.11
Other	1,086,485	3.01	1,063,283	1.60	550,743	2.11	804,477	1.42
Total	36,067,838	100.00	66,258,784	100.00	26,076,864	100.00	56,644,251	100.00

1.3.3. Information on The Non-Cash Loans Classified Under Group I and Group II

	Group I		Group II	
	TL	FC	TL	FC
Non-Cash Loans	35,813,607	65,849,943	254,231	408,841
Letters of Guarantee	35,546,408	44,951,554	254,231	402,805
Bank Acceptances	30,004	6,277,094	-	-
Letters of Credit	233,745	14,285,679	-	6,036
Endorsements	-	-	-	-
Underwriting Commitments	-	-	-	-
Factoring Guarantees	-	1,635	-	-
Other Commitments and Contingencies	3,450	333,981	-	-

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2. Explanations on Derivative Transactions

	Current Period	Prior Period
Types of Trading Transactions		
Foreign Currency Related Derivative Transactions (I)	85,346,631	72,348,255
Forward Transactions	9,280,272	5,073,231
Swap Transactions	75,342,881	67,252,706
Futures Transactions	-	-
Option Transactions	723,478	22,318
Interest Related Derivative Transactions (II)	10,496,622	9,322,634
Forward Interest Rate Agreements	-	-
Interest Rate Swaps	10,496,622	9,322,634
Interest Rate Options	-	-
Interest Rate Futures	-	-
Other Trading Derivative Transactions (III)	-	-
A. Total Trading Derivative Transactions (I+II+III)	95,843,253	81,670,889
Types of Hedging Derivative Transactions		
Fair Value Hedges	-	-
Cash Flow Hedges	-	-
Foreign Currency Investment Hedges	-	-
B. Total Hedging Derivative Transactions	-	-
Total Derivative Transactions (A+B)	95,843,253	81,670,889

The Group has no derivative instruments for hedging purposes. There are no unrealized transactions (those are estimated in the prior period and recognized based on this assumption however; it is clear that those transactions would not be realized) or expense and income from agreements in the income statement in the current period.

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Current Period	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Total
Derivatives held for trading						
Foreign exchange derivatives	520,911	-	741,201	520,911	-	741,201
- Inflow	2,487,182	-	43,043,916	2,487,182	-	43,043,916
- Outflow	(1,966,271)	-	(42,302,715)	(1,966,271)	-	(42,302,715)
Interest rate derivatives	-	-	-	-	-	-
- Inflow	201,322	5,046,989	5,248,311	201,322	5,046,989	5,248,311
- Outflow	(201,322)	(5,046,989)	(5,248,311)	(201,322)	(5,046,989)	(5,248,311)
Derivatives held for hedging						
Foreign exchange derivatives	-	-	-	-	-	-
- Inflow	-	-	-	-	-	-
- Outflow	-	-	-	-	-	-
Interest rate derivatives	-	-	-	-	-	-
- Inflow	-	-	-	-	-	-
- Outflow	-	-	-	-	-	-
Total inflow	2,688,504	5,046,989	48,292,227	2,688,504	5,046,989	48,292,227
Total outflow	(2,167,593)	(5,046,989)	(47,551,026)	(2,167,593)	(5,046,989)	(47,551,026)

Prior Period	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Total
Derivatives held for trading						
Foreign exchange derivatives	113,541	(2,490)	507,204	588,518	-	1,206,773
- Inflow	23,745,723	7,461,879	2,929,318	2,640,594	-	36,777,514
- Outflow	(23,632,182)	(7,464,369)	(2,422,114)	(2,052,076)	-	(35,570,741)
Interest rate derivatives	-	-	-	-	-	-
- Inflow	-	-	-	-	4,661,317	4,661,317
- Outflow	-	-	-	-	(4,661,317)	(4,661,317)
Derivatives held for hedging						
Foreign exchange derivatives	-	-	-	-	-	-
- Inflow	-	-	-	-	-	-
- Outflow	-	-	-	-	-	-
Interest rate derivatives	-	-	-	-	-	-
- Inflow	-	-	-	-	-	-
- Outflow	-	-	-	-	-	-
Total inflow	23,745,723	7,461,879	2,929,318	2,640,594	4,661,317	41,438,831
Total outflow	(23,632,182)	(7,464,369)	(2,422,114)	(2,052,076)	(4,661,317)	(40,232,058)

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.

Group's liability resulting from the cheques given to its customers amounts to TL 3,761,934 (31 December 2016: TL 3,173,767).

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

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4. Explanations on Services In The Name Of Others

The Parent Bank acts as an intermediary for purchases and sales of government securities on behalf of individuals and entities, conducts repo transactions, and provides custody services. The Parent Bank does not provide consultancy and management services.

IV. EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED INCOME STATEMENT

1. Within The Scope of Interest Income

1.1. Information on Interest Income From Loans

	Current Period		Prior Period	
	TL	FC	TL	FC
Interest on Loans ⁽¹⁾⁽²⁾	25,380,131	4,179,331	18,992,637	3,094,642
Short Term Loans	6,475,997	279,080	4,760,476	159,502
Medium and Long Term Loans	18,780,028	3,900,109	14,109,708	2,933,732
Interest on Non-Performing Loans	124,106	142	122,453	1,408
Premiums from Resource Utilization Support Fund	-	-	-	-

⁽¹⁾ Includes fees and commissions income on cash loans.

⁽²⁾ Profit share income of Ziraat Katılım Bankası A.Ş. is shown in the line of interest income received from loans.

1.2. Information on Interest Received from The Banks

	Current Period		Prior Period	
	TL	FC	TL	FC
Central Bank of the Republic of Turkey	22,831	-	4,508	-
Domestic Banks	226,587	5,180	186,166	5,365
Foreign Banks	5,493	11,261	2,182	22,437
Foreign Head Office and Branches	-	-	-	-
Total	254,911	16,441	192,856	27,802

1.3. Information on Interest Income on Marketable Securities

	Current Period		Prior Period	
	TL	FC	TL	FC
Financial Assets Held for Trading	1,037	5,101	938	2,362
Financial Assets at Fair Value through Profit or Loss	-	-	6,757	-
Financial Assets Available-for-Sale	4,734,678	844,327	4,057,061	678,948
Investments Held-to-Maturity	347,565	317,534	419,755	361,924
Total	5,083,280	1,166,962	4,484,511	1,043,234

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1.4. Information on Interest Income from Subsidiaries And Associates

	Current Period	Prior Period
Interest Income from Subsidiaries and Associates	-	171

2. Within the Scope of Interest Expense

2.1. Information on Interest Expense on Borrowings

	Current Period		Prior Period	
	TL	FC	TL	FC
Banks ⁽¹⁾	114,876	586,961	122,297	394,045
Central Bank of the Republic of Turkey	2,345	-	-	-
Domestic Banks	20,321	23,771	35,496	24,041
Foreign Banks	92,210	563,190	86,801	370,004
Foreign Head Office and Branches	-	-	-	-
Other Institutions	-	20,100	6,395	4,975
Total	114,876	607,061	128,692	399,020

⁽¹⁾ Includes fees and commissions expenses on cash loans.

2.2. Information on Interest Expenses Given To Subsidiaries and Associates

	Current Period	Prior Period
Interest Expenses Given to Subsidiaries and Associates	1,109	3,807

2.3. Information on Interest Given On Securities Issued

	Current Period		Prior Period	
	TL	FC	TL	FC
Interest Given on Securities Issued	405,944	318,980	234,988	162,533

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2.4. Maturity Structure of The Interest Expense on Deposits

Account Name	Demand Deposit	Time Deposit					Cumulative Deposit	Total
		Up to 1 Month	Up to 3 Months	Up to 6 Months	Up to 1 Year	More Than 1 year		
TL								
Bank Deposit	-	757,030	382	-	-	-	-	757,412
Saving Deposit	1	261,053	6,080,075	425,043	85,313	76,798	2,542	6,930,825
Public Sector Deposit	904	392,861	606,224	182,421	524,564	4,667	-	1,711,641
Commercial Deposit	235	341,644	908,552	134,950	152,702	2,428	-	1,540,511
Other Deposit	56	108,442	296,653	33,194	46,523	98,444	-	583,312
Deposit with 7 Days Notification	-	-	-	-	-	-	-	-
Total	1,196	1,861,030	7,891,886	775,608	809,102	182,337	2,542	11,523,701
FC								
Foreign Currency Deposit	1,118	123,974	428,491	67,960	68,637	270,058	4	960,242
Bank Deposit	12	67,827	45,209	3,674	813	1,121	-	118,656
Deposit with 7 Days Notification	-	-	-	-	-	-	-	-
Precious Metal Deposits	-	183	2,680	223	147	153	-	3,386
Total	1,130	191,984	476,380	71,857	69,597	271,332	4	1,082,284
Grand Total	2,326	2,053,014	8,368,266	847,465	878,699	453,669	2,546	12,605,985

3. Explanations on Dividend Income

	Current Period	Prior Period
Trading Financial Assets	-	-
Financial Assets at Fair Value Through Profit or Loss	-	-
Available-for-Sale Financial Assets	4,760	31,318
Other	2,989	1,583
Total	7,749	32,901

4. Information on Trading Profit/Loss (Net)

	Current Period	Prior Period
Profit	40,052,320	34,427,463
Foreign Exchange Gains	38,704,602	30,919,244
Profit on Derivative Financial Instruments	1,302,240	3,472,812
Profit from the Capital Market Transactions	45,478	35,407
Loss (-)	40,897,973	34,597,456
Foreign Exchange Loss	38,729,296	29,303,467
Loss on Derivative Financial Instruments	2,167,363	5,290,339
Loss from the Capital Market Transactions	1,314	3,650

5. Information on Other Operating Income

There are no significant matters covering the recent developments which have significant effect on the Group's income. Main component of the Bank's other operating income consists of reversals from prior period provisions amounting to TL 697,240 (31 December 2016: TL 839,296) and income from sales of assets amounting to TL 211,106 (31 December 2016: TL 212,041).

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6. Provision Expenses for Impairment on Loans and Other Receivables

	Current Period	Prior Period
Specific Provisions for Loans and Other Receivables ⁽¹⁾	1,236,318	2,322,549
Group III Loans and Receivables	446,771	405,978
Group IV Loans and Receivables	416,732	960,422
Group V Loans and Receivables	372,815	956,149
General Provision Expenses	1,582,806	1,122,469
Provision Expenses for the Possible Losses	549,065	3,960
Marketable Securities Impairment Expense	419	618
Financial Assets at Fair Value through Profit and Loss	-	142
Financial Assets Available for Sale	419	476
Impairment Losses from Associates, Subsidiaries, Joint Ventures and Marketable Securities Held to Maturity	-	-
Associates	-	-
Subsidiaries	-	-
Entities under Common Control (Business Partners)	-	-
Investment Securities Held to Maturity	-	-
Other	124,736	126,656
Total	3,493,344	3,576,252

⁽¹⁾ The relevant balance includes the expenses related to the current period. The provision reversals within the period amounting to TL 569,527 are presented in other operating income (31 December 2016: TL 440,027).

7. Information on Other Operating Expenses

	Current Period	Prior Period
Personnel Expenses	2,744,161	2,503,144
Reserve for Employee Termination Benefits	93,119	23,070
Bank Social Aid Provision Fund Deficit Provision	-	-
Tangible Fixed Assets Impairment Expense	-	-
Depreciation Expenses of Tangible Fixed Assets	266,586	320,419
Intangible Assets Impairment Expense	1,068	-
Goodwill Impairment Expense	-	-
Amortization Expenses of Intangible Assets	74,696	53,160
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	-	2,803
Impairment Expense for Property, Plant and Equipment Held for Sale and Discontinuing Operations	931	-
Other Operating Expenses	2,082,380	1,414,660
Operational Leasing Expenses	290,352	237,969
Maintenance Expenses	71,888	81,235
Advertisement Expenses	140,886	98,614
Other Expenses	1,579,254	996,842
Loss on Sales of Assets	719	1,290
Other ⁽¹⁾	2,705,343	2,369,281
Total	7,969,003	6,687,827

⁽¹⁾ TL 549,373 of other items consists of Saving Deposit Insurance Fund accrual expense (31 December 2016: TL 475,532) while TL 529,343 consists of taxes, duties and charges expense (31 December 2016: TL 499,342).

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8. Information on Profit/(Loss) Before Tax from Continuing and Discontinuing Operations

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

	Current Period	Prior Period
Net Interest Income	18,114,337	14,674,566
Net Fees and Commissions Income	1,943,504	1,516,567
Other Operating Income	3,737,922	3,227,587
Dividend Income	7,749	32,901
Trading Income/Expense (Net)	(845,653)	(169,993)
Provision for Loan or Other Receivables Losses (-)	3,493,344	3,576,252
Other Operating Expenses (-)	7,969,003	6,687,827
Earning/Loss from Subsidiaries Consolidated with Equity Pick-up	20,359	21,914
Profit/(Loss) from Continuing Operations	11,515,871	9,039,463

9. Information on Tax Provision for Continuing and Discontinuing Operations

As of 31 December 2017, TL 2,631,539 (31 December 2016: TL 2,154,328) of the Group's total tax provision expense amounting to TL 2,601,014 (31 December 2016: TL 2,061,503), consists of current tax expense while the remaining balances amounting to TL 30,525 (31 December 2016: TL 92,825 deferred tax expense) consists of deferred tax expense.

10. Explanation on Net Income/Loss for The Period for Continued and Discontinued Operations

The Group's net operating income after tax amounts to TL 8,884,332 (31 December 2016: TL 6,885,135).

11. Information on Net Profit/Loss

11.1. Nature, Amount and Frequency of Income and Expenses Arising From Ordinary Banking Activities, If Required for The Understanding The Performance of The Parent Bank In The Current Period

The Parent Bank, mainly utilizes its resources from domestic deposits on loans, securities and interbank operations. Besides, it obtains income via commissions taken from non-cash loans, other banking operations and insurance agencies.

11.2. 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 (31 December 2016: None).

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

The “Other” statement under the “Fees and Commission Income” in the Income Statement mainly consists of commissions received from credit card and fees and commissions received from banking transactions.

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

1. In Accordance With The Turkish Accounting Standards, The Disclosures on Shareholders' Equity Are Made Accordingly In The Order Of Financial Statement Items In This Section

As per the BRSA's Circular numbered 5 announced on 28 April 2005 it is stated that the indicators of hyperinflationary period are eliminated to a large extent, inflation accounting applied in the banking system has been ceased as of 1 January 2005 in accordance with the BRSA decree numbered 1623 on 21 April 2005.

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2. Explanations on Profit Distribution

In accordance with the decision taken in the General Assembly of the year 2016, which was carried out on 9 June 2017, from TL 6,576,420 net profit, which is subject to distribution, TL 328,821 is transferred to first legal reserve and TL 26,912 is transferred to second legal reserve TL 230,000 was decided to be paid to employees and TL 255,000 for the first legal reserve, TL 39,118 for second legal reserve in total a payment of gross amounting to TL 294,118 is decided to be distributed to Treasury. In this framework, the portion of the profit amounting to TL 5,696,569 has been left in the Bank and dividend payment has been made to the Treasury on 14 June 2017. Additionally, reserves amounting to TL 45,317 has been allocated from retained earnings amounting to TL 906,345 and remaining amount, TL 861,028, has been left in the Bank. In accordance with the decision taken at the General Assembly Meeting, the remaining amount, TL 20,367, of the total amount which was decided to be paid to employees has been transferred to “profit reserve” account.

The Parent Bank is planning to distribute its 2017 profit in accordance with its articles of association. However, as of the report date, there is no decision taken regarding the profit distribution.

3. 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 Parent Bank’s intention to hold the previously classified as available for sale securities to maturity the Parent 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.

Subsidiaries and jointly controlled entities domiciled and operating abroad are followed by their fair values. For such subsidiaries and entities under common control, the fair value is determined with revaluation report prepared by independent valuation firm and revaluation differences are recognized under “Marketable Securities Revaluation Fund” under equity.

4. Profit Reserves

As of the balance sheet date, profit reserves amount to TL 30,317,558, legal reserves amount to TL 3,824,868, extraordinary reserves amount to TL 24,836,410 and other profit reserves amount to TL 1,656,280.

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

1. Explanations About Other Cash Flows Items and The Effect Of Changes In Foreign Exchange Rates on Cash and Cash Equivalents

“Operating Profit before Changes in Operating Assets and Liabilities” amounting to TL 7,704,826 is composed mainly from interest received from loans and securities amounting to TL 35,748,972 and interest paid to deposit and money market operations which is amounting to TL 18,665,259. Other earnings consists primarily net fee, commission income and other operation losses.

The effect of change in foreign exchange rates on cash and cash equivalents includes the foreign exchange differences resulted from the translations of cash and cash equivalents in foreign currencies into TL at the exchange rates prevailing at the beginning and end of the year, and amounts to TL 1,404,479 as of 31 December 2017 (31 December 2016: TL 1,183,517).

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

Period Opening	Current Period	Prior Period
Cash in TL and in Foreign Currency	2,792,776	2,577,170
Central Bank of the Republic of Turkey and Other Banks	12,854,193	6,424,794
Money Market Operations	252,944	116,173
Total Cash and Cash Equivalents	15,899,913	9,118,137

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Period End	Current Period	Prior Period
Cash in TL and in Foreign Currency	3,942,062	2,792,776
Central Bank of the Republic of Turkey and Other Banks	9,765,064	12,854,193
Money Market Operations	132,385	252,944
Total Cash and Cash Equivalents	13,839,511	15,899,913

VII. EXPLANATIONS AND NOTES TO THE RISK GROUP OF THE PARENT BANK

1. Volume of Related Party Transactions, Income and Expense Amounts Involved and Outstanding Loan and Deposit Balances

Current Period

Risk Group of the Parent Bank	Subsidiaries, Associates and Entities Under Common Control (Joint Ventures)		Direct or Indirect Shareholders of the Parent Bank		Other Real and Legal Persons in the Risk Group	
	Cash	Non-cash	Cash	Non-cash	Cash	Non-cash
Loans and Other Receivables						
Opening Balance	22,397	25,951	-	-	-	-
Closing Balance	-	37,252	-	-	-	-
Interest and Commissions Income	-	-	-	-	-	-

Prior Period

Risk Group of the Parent Bank	Subsidiaries, Associates and Entities Under Common Control (Joint Venture)		Direct or Indirect Shareholders of the Parent Bank		Other Real and Legal Persons in the Risk Group	
	Cash	Non-cash	Cash	Non-cash	Cash	Non-cash
Loans and Other Receivables						
Opening Balance	25,125	-	-	-	-	-
Closing Balance	22,397	25,951	-	-	-	-
Interest and Commissions Income	171	-	-	-	-	-

2. Deposits Held by The Parent Bank's Risk Group

Risk Group of the Bank	Subsidiaries, Associates and Entities Under Common Control (Joint Venture)		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
Deposits						
Opening Balance	52,520	38,385	-	-	-	-
Closing Balance	44,106	52,520	-	-	-	-
Interest Expense on Deposits	1,109	3,807	-	-	-	-

3. Information on Forward Transactions, Option Agreements and Similar Transactions Between The Parent Bank's Risk Group

None (31 December 2016: None).

4. Information about Fees Paid To The Group's Key Management

Fees paid to the Group's key management amount to TL 27,357 (31 December 2016: TL 23,620).

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VIII. EXPLANATIONS AND NOTES RELATED TO SUBSEQUENT EVENTS

None.

IX. EXPLANATIONS AND NOTES RELATED TO DOMESTIC, FOREIGN, OFF-SHORE BRANCHES OR AFFILIATES AND FOREIGN REPRESENTATIVES OF THE BANK

1. Information on the Bank's Domestic and Foreign Branches and Foreign Representatives of The Bank

	Number	Number of Employees			
Domestic Branch ⁽¹⁾	1,759	24,472			
			Country of Incorporation		
Foreign Representative Office ⁽²⁾	1	-	1- Iran		
				Total Assets	Statutory Share Capital
Foreign Branch ⁽²⁾	1	3	1- England	3,872,257	199,338
	4	3	2- Bulgaria	340,173	64,063
	2	4	3- Iraq	551,450	189,100
	4	4	4- Greece	386,688	149,556
	1	2	5- Saudi Arabia	146,512	56,730
	1	-	6- Kosovo	116,098	45,320
	8	40	7- T.R. of Northern Cyprus	1,680,287	145,101
Off-Shore Banking Region Branches	1	3	1- Bahrain	8,672,530	18,910

⁽¹⁾ Includes the employees of the domestic branches, including the employees of head office and regional management.⁽²⁾ Excluding the local employees of the foreign branches.

2. Information on The Bank About Opening, Closing, Changing its Organization Considerably for Domestic and Foreign Branches and Foreign Representatives of The Bank

In 2017, 6 new branches were opened, 33 branches were closed in Turkey. New York branch in U.S.A. and Karakum and the Near East University branches in T.R. in Northern Cyprus are closed abroad.

Tbilisi, Batum and Marneuli branches of the Bank which were operating in Georgia have been gathered under the Bank's roof as of 2 May 2017 and continues to operate as a subsidiary with JSC Ziraat Bank Georgia title and all of the capital belonging to the Bank.

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SECTION SIX

OTHER EXPLANATIONS AND NOTES

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

Information on the assessment done by the international rating agencies Moody’s Investors Service, Fitch Ratings and JCR Eurasia are as follows:

Moody’s Investors Service: March 2017

Outlook	Negative
Long term Foreign Currency Deposit	Ba2
Short term Foreign Currency Deposit	Not-Prime
Long term Turkish Liras Deposit	Ba1
Short term Turkish Liras Deposit	Not-Prime
Long term Foreign Currency Bond	Ba1
Long term Turkish Lira Bond	Ba1
Basic Credit Note	ba2
Adjusted Basic Credit Note	ba2

Fitch Ratings: October 2017

Outlook	Stable
FC Long Term	BB+
FC Short Term	B
TL Long Term	BBB-
TL Short Term	F3
National Long Term	AAA (tur)
Support	3
Support Rating Base	BB+
Financial Capability Grade	bb+

JCR Eurasia: September 2017

Long Term International FC	BBB -
Outlook	Stable
Long Term International TL Grade	BBB -
Outlook	Stable
Long Term National Grade	AAA (Trk)
Outlook	Stable
Short Term International FC	A - 3
Outlook	Stable
Short Term International TL Grade	A - 3
Outlook	Stable
Short Term National Grade	A-1+ (Trk)
Supporting Grade	1
Independence from Affiliates Grade	A

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II. OTHER EXPLANATIONS ON THE GROUP’S OPERATIONS

None.

SECTION SEVEN

EXPLANATIONS ON INDEPENDENT AUDITORS’ REPORT

I. EXPLANATIONS ON INDEPENDENT AUDITORS’ 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 firm of KPMG International Cooperative, a Swiss entity) and Independent Auditors’ Report dated 23 February 2018 is presented preceding the financial statements.

II. EXPLANATIONS AND NOTES PREPARED BY THE INDEPENDENT AUDITORS

None.