

*(Convenience Translation of Financial Statements and Related Disclosures and Footnotes
Originally Issued in Turkish, See Section 3.1)*

Türkiye Cumhuriyeti Ziraat Bankası Anonim Şirketi

Unconsolidated Financial Statements
As of and For the Nine-Month Period Ended 30 September 2017
With Auditor's Review Report Thereon
*(Convenience Translation of Unconsolidated
Financial Statements and Related Disclosures and Footnotes
Originally Issued in Turkish)*

31 October 2017

This report contains "Auditor's Review Report" comprising 2 pages and; "Unconsolidated Financial Statements and Related Disclosures and Footnotes" comprising 85 pages.

*Convenience Translation of the Review Report
Originally Prepared and Issued in Turkish (See Section 3.1)*

REVIEW REPORT ON UNCONSOLIDATED INTERIM FINANCIAL INFORMATION

To the Board of Directors of Türkiye Cumhuriyeti Ziraat Bankası A.Ş.;

Report on the Unconsolidated Interim Financial Statements

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

Scope of review

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

Basis for the Qualified Conclusion

As mentioned in Section II. Note 9.4.1 of Explanations and Notes to the Unconsolidated Financial Statements, the accompanying unconsolidated interim financial information as of 30 September 2017 include general provision of total TL 1.210.000 thousands, of which TL 265.000 thousands was recognized as expense in the current period and the rest of it from the prior periods which is provided by the Bank management for the possible effects of the negative circumstances which may arise in economy or market conditions.

Qualified Conclusion

Based on our review, except for the effect of the matter described in the basis for the qualified conclusion paragraph, nothing has come to our attention that causes us to believe that the accompanying unconsolidated financial information do not presented fairly in all material respects, the financial position of Türkiye Cumhuriyeti Ziraat Bankası A.Ş. at 30 September 2017 and of the results of its operations and its cash flows for the nine-month period then ended in all aspects in accordance with the BRSA Accounting and Financial Reporting Legislation.

Other matter

The unconsolidated financial statements of the Bank as at and for the year ended 31 December 2016 and as at and for the nine months period ended 30 September 2016 were audited and reviewed by another auditor who expressed a qualified opinion and qualified conclusion based on the reason represented in the section "basis for the qualified opinion" above thereon on 17 February 2017 and 9 November 2016, respectively.

Report on other regulatory requirements arising from legislation

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

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

Erdal Tıkmak, *SMMM*
Partner

31 October 2017
Istanbul, Turkey

Additional paragraph for convenience translation to English:

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

**CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED
INTERIM FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REVIEW REPORT
ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE I. OF SECTION THREE**

**THE UNCONSOLIDATED INTERIM FINANCIAL REVIEW REPORT OF
TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş. AS OF 30 SEPTEMBER 2017**

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

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

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

The accompanying unconsolidated 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 reviewed.

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

TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS AS OF 30 SEPTEMBER 2017

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

SECTION ONE

GENERAL INFORMATION ABOUT THE BANK

I. HISTORY OF THE 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” or “the 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 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 Bank is TL 5.600.000. The Bank’s paid-in-capital committed by the Republic of Turkey Prime Ministry Undersecretariat of Treasury (“the Turkish Treasury”) consists of 5.600.000.000 shares of TL 1 nominal each. The Bank’s sole shareholder is the Turkish Wealth Fund.

The decision of increasing the capital 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.

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 BANK THEY POSSESS

Name	Administrative Function
Members of the Board of Directors	
Muharrem KARSLI	Chairman
Hüseyin AYDIN	CEO and Member
Yusuf DAGCAN	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 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.

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

TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS AS OF 30 SEPTEMBER 2017

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

SECTION ONE (Continued)

GENERAL INFORMATION ABOUT THE BANK (Continued)

IV. INFORMATION ABOUT THE PERSONS AND INSTITUTIONS THAT HAVE QUALIFIED SHARES ATTRIBUTABLE TO THE 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 Bank's sole shareholder is the Turkish Wealth Fund.

V. SUMMARY INFORMATION ON THE BANK'S ACTIVITIES AND SERVICES

The purpose of activity of the Bank is stated in articles of association as to perform all kinds of banking activities including acceptance of deposits. For this purpose, the 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 30 September 2017, Bank carries its activities with a grand total of 1.802 branches; 1.779 domestic branches including 20 corporate branches, 89 entrepreneurial branches, 38 dynamic entrepreneurial branches, 1.627 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 23 branches abroad New York branch in United States, London branch in England, Baghdad and Arbil branches in Iraq, Athens, Komotini, Xanthi and Rhodes branches in Greece, Sofia branch and Plovdiv, Kardzhali and Varna branches in Bulgaria, Jeddah branch in Saudi Arabia, Pristina in Kosovo, Bahreyn branch in Bahreyn, Lefkoşa, Girne, Güzelyurt, Gazimağusa, Gönyeli, Akdoğan, Karaoğlanoğlu and İskele branches in Turkish Republic of Northern Cyprus. The Bank also has 1 representative office in Tehran, Iran. The Bank's number of employee is 24.558 (31 December 2016: 25.015).

The 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 the Bank has the right to register members for Maximum. Transactions between the two banks are administered by Bankalararası Kart Merkezi.

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.

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

TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS AS OF 30 SEPTEMBER 2017

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

SECTION ONE (Continued)

GENERAL INFORMATION ABOUT THE BANK (Continued)

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, UTBANK JSC (formerly named as “Uzbekistan-Turkish Bank”) entities under common control are consolidated through “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 companies.

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 BANK AND ITS SUBSIDIARIES

None.

SECTION TWO

UNCONSOLIDATED FINANCIAL STATEMENTS

- I. Balance Sheet
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- III. Income statement
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- VI. Statement of cash flows

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

TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş.

UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION) AS OF 30 SEPTEMBER 2017

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

I. BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)	Note (Section Five I)	Current Period (30/09/2017)			Prior Period (31/12/2016)		
		TL	FC	Total	TL	FC	Total
ASSETS							
I. CASH BALANCES WITH THE CENTRAL BANK OF TURKEY	(1)	7.330.164	31.156.980	38.487.144	7.541.324	31.625.773	39.167.097
II. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT or (LOSS) (Net)	(2)	1.147.007	349.231	1.496.238	1.209.019	475.772	1.684.791
2.1 Financial Assets Held for Trading		1.147.007	349.231	1.496.238	1.209.019	475.772	1.684.791
2.1.1 Public Sector Debt Securities		7.861	4.782	12.643	12.855	4.549	17.404
2.1.2 Securities Representing a Share in Capital		-	-	-	-	-	-
2.1.3 Derivative Financial Assets Held for Trading	(3)	1.139.146	344.449	1.483.595	1.196.164	471.223	1.667.387
2.1.4 Other Marketable Securities		-	-	-	-	-	-
2.2 Financial Assets at Fair Value Through Profit or Loss		-	-	-	-	-	-
2.2.1 Public Sector Debt Securities		-	-	-	-	-	-
2.2.2 Securities Representing a Share in Capital		-	-	-	-	-	-
2.2.3 Loans		-	-	-	-	-	-
2.2.4 Other Marketable Securities		-	-	-	-	-	-
III. BANKS	(4)	856.397	2.453.408	3.309.805	527.107	3.374.567	3.901.674
IV. MONEY MARKET PLACEMENTS		1.171.578	-	1.171.578	-	-	-
4.1 Interbank Money Market Placements		1.171.578	-	1.171.578	-	-	-
4.2 Istanbul Stock Exchange Money Market Placements		-	-	-	-	-	-
4.3 Receivables from Reverse Repurchase Agreements		-	-	-	-	-	-
V. FINANCIAL ASSETS AVAILABLE FOR SALE (Net)	(5,6)	44.841.332	16.077.171	60.918.503	43.863.060	14.768.893	58.631.953
5.1 Securities Representing a Share in Capital		104.661	721.822	826.483	104.142	539.323	643.465
5.2 Public Sector Debt Securities		44.736.671	15.261.038	59.997.709	43.700.624	14.119.670	57.820.294
5.3 Other Marketable Securities		-	94.311	94.311	58.294	109.900	168.194
VI. LOANS AND RECEIVABLES	(7)	210.434.537	69.820.282	280.254.819	168.980.221	63.663.314	232.643.535
6.1 Loans and Receivables		210.204.864	69.820.282	280.025.146	168.728.772	63.663.314	232.392.086
6.1.1 Loans Granted to Risk Group of The Bank		-	1.444.356	1.444.356	31.598	1.159.214	1.190.812
6.1.2 Public Sector Debt Securities		-	-	-	-	-	-
6.1.3 Other		210.204.864	68.375.926	278.580.790	168.697.174	62.504.100	231.201.274
6.2 Loans under Follow-up		4.524.967	17.489	4.542.456	4.200.259	16.838	4.217.097
6.3 Specific Provisions (-)		4.295.294	17.489	4.312.783	3.948.810	16.838	3.965.648
VII. FACTORING RECEIVABLES		-	-	-	-	-	-
VIII. INVESTMENTS HELD TO MATURITY (Net)	(8)	2.799.840	4.429.335	7.229.175	3.601.088	5.148.376	8.749.464
8.1 Public Sector Debt Securities		2.633.866	4.428.453	7.062.319	3.462.285	5.140.155	8.602.440
8.2 Other Marketable Securities		165.974	882	166.856	138.803	8.221	147.024
IX. INVESTMENTS IN ASSOCIATES (Net)	(9)	94.912	-	94.912	94.912	-	94.912
9.1 Accounted with Equity Method		-	-	-	-	-	-
9.2 Unconsolidated Associates		94.912	-	94.912	94.912	-	94.912
9.2.1 Financial Associates		88.846	-	88.846	88.846	-	88.846
9.2.2 Non-financial Associates		6.066	-	6.066	6.066	-	6.066
X. INVESTMENTS IN SUBSIDIARIES (Net)	(10)	3.035.473	1.607.194	4.642.667	2.532.473	1.575.116	4.107.589
10.1 Unconsolidated Financial Subsidiaries		3.029.236	1.607.194	4.636.430	2.526.236	1.575.116	4.101.352
10.2 Unconsolidated Non-Financial Subsidiaries		6.237	-	6.237	6.237	-	6.237
XI. ENTITIES UNDER COMMON CONTROL (Net)	(11)	-	109.239	109.239	-	109.239	109.239
11.1 Accounted with Equity Method		-	-	-	-	-	-
11.2 Unconsolidated Entities Under Common Control		-	109.239	109.239	-	109.239	109.239
11.2.1 Financial Entities Under Common Control		-	109.239	109.239	-	109.239	109.239
11.2.2 Non Financial Entities Under Common Control		-	-	-	-	-	-
XII. RECEIVABLES FROM LEASING TRANSACTIONS	(12)	-	-	-	-	-	-
12.1 Finance Lease Receivables		-	-	-	-	-	-
12.2 Operating Lease Receivables		-	-	-	-	-	-
12.3 Other		-	-	-	-	-	-
12.4 Unearned Income (-)		-	-	-	-	-	-
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)	5.124.691	7.698	5.132.389	5.300.983	14.220	5.315.203
XV. INTANGIBLE ASSETS (Net)		397.474	7.009	404.483	305.716	7.098	312.814
15.1 Goodwill		-	-	-	-	-	-
15.2 Other		397.474	7.009	404.483	305.716	7.098	312.814
XVI. REAL ESTATES FOR INVESTMENT PURPOSE (Net)	(14)	-	-	-	-	-	-
XVII. TAX ASSET		815	-	815	76.878	-	76.878
17.1 Current Tax Asset		815	-	815	1.121	-	1.121
17.2 Deferred Tax Asset		-	-	-	75.757	-	75.757
XVIII. ASSETS HELD FOR SALE AND ASSETS HELD FROM DISCONTINUED OPERATIONS (Net)	(15)	659.633	-	659.633	562.033	-	562.033
18.1 Held for Sale		659.633	-	659.633	562.033	-	562.033
18.2 Held from Discontinued Operations		-	-	-	-	-	-
XIX. OTHER ASSETS		2.757.123	1.518.125	4.275.248	1.214.427	1.189.756	2.404.183
TOTAL ASSETS		280.650.976	127.535.672	408.186.648	235.809.241	121.952.124	357.761.365

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

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

TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş.

UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION) AS OF 30 SEPTEMBER 2017

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

I.	BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)	Note (Section Five II)	Current Period (30/09/2017)			Prior Period (31/12/2016)		
			TL	FC	Total	TL	FC	Total
	LIABILITIES AND EQUITY							
I.	DEPOSITS	(1)	157.785.272	92.736.469	250.521.741	149.857.453	73.161.481	223.018.934
1.1	Deposits Held By the Risk Group of the Bank		1.410.792	401.537	1.812.329	1.191.017	354.900	1.545.917
1.2	Other		156.374.480	92.334.932	248.709.412	148.666.436	72.806.581	221.473.017
II.	DERIVATIVE FINANCIAL LIABILITIES HELD FOR TRADING	(2)	88.004	472.514	560.518	239.703	403.925	643.628
III.	FUNDS BORROWED	(3)	1.268.806	24.403.146	25.671.952	1.788.942	21.027.794	22.816.736
IV.	MONEY MARKET BALANCES		38.517.384	14.096.595	52.613.979	34.941.538	12.270.423	47.211.961
4.1	Interbank Money Market Borrowings		33.623.800	1.167.224	34.791.024	4.640.000	-	4.640.000
4.2	Istanbul Stock Exchange Takasbank Borrowings		270.000	-	270.000	50.000	-	50.000
4.3	Funds Provided under Repurchase Agreements	(4)	4.623.584	12.929.371	17.552.955	30.251.538	12.270.423	42.521.961
V.	MARKETABLE SECURITIES ISSUED (Net)	(5)	3.364.768	8.710.906	12.075.674	2.156.778	4.676.223	6.833.001
5.1	Bills		3.364.768	-	3.364.768	2.156.778	-	2.156.778
5.2	Asset-backed Securities		-	-	-	-	-	-
5.3	Bonds		-	8.710.906	8.710.906	-	4.676.223	4.676.223
VI.	FUNDS		6.041.735	-	6.041.735	6.020.839	-	6.020.839
6.1	Borrower Funds		-	-	-	-	-	-
6.2	Other		6.041.735	-	6.041.735	6.020.839	-	6.020.839
VII.	MISCELLANEOUS PAYABLES		2.387.873	1.724.635	4.112.508	1.266.894	1.213.827	2.480.721
VIII.	OTHER LIABILITIES	(6)	1.732.797	588.633	2.321.430	2.999.827	449.462	3.449.289
IX.	FACTORING PAYABLES		-	-	-	-	-	-
X.	PAYABLES FROM LEASING TRANSACTIONS (Net)	(7)	-	107	107	-	492	492
10.1	Finance Lease Payables		-	108	108	-	499	499
10.2	Operating Lease Payables		-	-	-	-	-	-
10.3	Other		-	-	-	-	-	-
10.4	Deferred Finance Lease Expenses (-)		-	1	1	-	7	7
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)	7.285.034	56.085	7.341.119	5.981.623	71.388	6.053.011
12.1	General Provisions		4.657.948	13.722	4.671.670	3.908.739	12.886	3.921.625
12.2	Restructuring Provisions		-	-	-	-	-	-
12.3	Employee Benefits Provisions		1.184.150	-	1.184.150	877.689	-	877.689
12.4	Insurance Technical Reserves (Net)		-	-	-	-	-	-
12.5	Other Provisions		1.442.936	42.363	1.485.299	1.195.195	58.502	1.253.697
XIII.	TAX LIABILITY	(10)	1.053.374	552	1.053.926	848.332	1.983	850.315
13.1	Current Tax Liability		1.038.512	552	1.039.064	848.332	1.983	850.315
13.2	Deferred Tax Liability		14.862	-	14.862	-	-	-
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)	45.057.225	814.734	45.871.959	38.736.881	(354.443)	38.382.438
16.1	Paid-in Capital		5.600.000	-	5.600.000	5.100.000	-	5.100.000
16.2	Capital Reserves		3.310.194	814.734	4.124.928	3.472.869	(354.443)	3.118.426
16.2.1	Share Premium		-	-	-	-	-	-
16.2.2	Share Cancellation Profits		-	-	-	-	-	-
16.2.3	Marketable Securities Valuation Differences		(714.054)	814.734	100.680	(644.043)	(354.443)	(998.486)
16.2.4	Tangible Assets Revaluation Reserves		4.121.649	-	4.121.649	4.177.866	-	4.177.866
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		(114.789)	-	(114.789)	(78.342)	-	(78.342)
16.3	Profit Reserves		29.639.892	-	29.639.892	22.681.247	-	22.681.247
16.3.1	Legal Reserves		3.604.355	-	3.604.355	3.203.307	-	3.203.307
16.3.2	Statutory Reserves		-	-	-	-	-	-
16.3.3	Extraordinary Reserves		24.610.202	-	24.610.202	18.052.605	-	18.052.605
16.3.4	Other Profit Reserves		1.425.335	-	1.425.335	1.425.335	-	1.425.335
16.4	Profit or Loss		6.507.139	-	6.507.139	7.482.765	-	7.482.765
16.4.1	Prior Years Profit/Loss		-	-	-	906.345	-	906.345
16.4.2	Net Period Profit/Loss		6.507.139	-	6.507.139	6.576.420	-	6.576.420
	TOTAL LIABILITIES AND EQUITY		264.582.272	143.604.376	408.186.648	244.838.810	112.922.555	357.761.365

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

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

TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş.

UNCONSOLIDATED STATEMENT OF OFF BALANCE SHEET COMMITMENTS AS OF 30 SEPTEMBER 2017

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

II.	STATEMENT OF OFF-BALANCE SHEET COMMITMENTS	Note (Section Five III)	Current Period (30/09/2017)			Prior Period (31/12/2016)		
			TL	FC	Total	TL	FC	Total
A	OFF-BALANCE SHEET COMMITMENTS (I+II+III)		70.894.927	145.625.026	216.519.953	59.657.458	123.271.460	182.928.918
I.	GUARANTEES AND WARRANTIES	(1)	30.042.989	59.748.600	89.791.589	24.763.329	54.391.779	79.155.108
1.1	Letters of Guarantee		29.832.713	42.790.388	72.623.101	24.571.621	41.207.958	65.779.579
1.1.1	Guarantees Subject to State Tender Law		1.545.082	7.856.371	9.401.453	1.482.932	7.391.519	8.874.451
1.1.2	Guarantees Given for Foreign Trade Operations		24.878.936	34.129.236	59.008.172	20.772.639	33.311.238	54.083.877
1.1.3	Other Letters of Guarantee		3.408.695	804.781	4.213.476	2.316.050	505.201	2.821.251
1.2	Bank Acceptances		43.657	5.128.503	5.172.160	34.549	4.219.583	4.254.132
1.2.1	Import Letter of Acceptance		41.999	5.122.083	5.164.082	29.427	4.216.440	4.245.867
1.2.2	Other Bank Acceptances		1.658	6.420	8.078	5.122	3.143	8.265
1.3	Letters of Credit		166.619	11.829.709	11.996.328	157.159	8.964.238	9.121.397
1.3.1	Documentary Letters of Credit		166.619	11.792.064	11.958.683	157.159	8.918.813	9.075.972
1.3.2	Other Letters of Credit		-	37.645	37.645	-	45.425	45.425
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		-	-	-	-	-	-
1.8	Other Guarantees		-	-	-	-	-	-
1.9	Other Collaterals		-	-	-	-	-	-
II.	COMMITMENTS	(1)	23.008.020	7.511.238	30.519.258	18.457.103	4.909.554	23.366.657
2.1	Irrevocable Commitments		23.008.020	7.511.238	30.519.258	18.457.091	4.905.642	23.362.733
2.1.1	Asset Purchase and Sale Commitments		1.353.550	3.832.342	5.185.892	368.494	1.754.807	2.123.301
2.1.2	Deposit Purchase and Sales Commitments		-	-	-	-	-	-
2.1.3	Share Capital Commitments to Associates and Subsidiaries		-	-	-	-	-	-
2.1.4	Loan Granting Commitments		4.602.735	5.657	4.608.392	3.538.378	60.375	3.598.753
2.1.5	Securities Issue Brokerage Commitments		-	-	-	-	-	-
2.1.6	Commitments for Reserve Deposit Requirements		-	-	-	-	-	-
2.1.7	Commitments for Cheques		3.755.797	-	3.755.797	3.138.916	-	3.138.916
2.1.8	Tax and Fund Liabilities from Export Commitments		-	-	-	-	-	-
2.1.9	Commitments for Credit Card Limits		7.879.956	-	7.879.956	7.258.758	-	7.258.758
2.1.10	Commitments for Credit Cards and Banking Services Promotions		27.503	-	27.503	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		5.388.479	3.673.239	9.061.718	4.130.407	3.090.460	7.220.867
2.2	Revocable Commitments		-	-	-	12	3.912	3.924
2.2.1	Revocable Loan Granting Commitments		-	-	-	-	3.912	3.912
2.2.2	Other Revocable Commitments		-	-	-	12	-	12
III.	DERIVATIVE FINANCIAL INSTRUMENTS		17.843.918	78.365.188	96.209.106	16.437.026	63.970.127	80.407.153
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		-	-	-	-	-	-
3.2	Trading Transactions		17.843.918	78.365.188	96.209.106	16.437.026	63.970.127	80.407.153
3.2.1	Forward Foreign Currency Buy/Sell Transactions		2.605.555	7.399.803	10.005.358	1.353.480	3.946.217	5.299.697
3.2.1.1	Forward Foreign Currency Transactions-Buy		1.011.793	3.968.663	4.980.456	628.181	2.026.549	2.654.730
3.2.1.2	Forward Foreign Currency Transactions-Sell		1.593.762	3.431.140	5.024.902	725.299	1.919.668	2.644.967
3.2.2	Swap Transactions Related to Foreign Currency and Interest Rates		15.116.031	70.737.303	85.853.334	15.072.546	60.012.592	75.085.138
3.2.2.1	Foreign Currency Swap-Buy		776.200	37.747.806	38.524.006	13.193.333	20.280.990	33.474.323
3.2.2.2	Foreign Currency Swap-Sell		14.339.831	23.326.133	37.665.964	1.879.213	30.408.968	32.288.181
3.2.2.3	Interest Rate Swap-Buy		-	4.831.682	4.831.682	-	4.661.317	4.661.317
3.2.2.4	Interest Rate Swap-Sell		-	4.831.682	4.831.682	-	4.661.317	4.661.317
3.2.3	Foreign Currency, Interest rate and Securities Options		122.332	228.082	350.414	11.000	11.318	22.318
3.2.3.1	Foreign Currency Options-Buy		61.166	114.041	175.207	5.500	5.659	11.159
3.2.3.2	Foreign Currency Options-Sell		61.166	114.041	175.207	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)		1.047.939.137	145.416.487	1.193.355.624	918.306.978	124.983.490	1.043.290.468
IV.	ITEMS HELD IN CUSTODY		335.368.438	17.826.280	353.194.718	250.919.547	14.347.876	265.267.423
4.1	Customer Fund and Portfolio Balances		-	-	-	-	-	-
4.2	Investment Securities Held in Custody		5.196.066	6.624.300	11.820.366	3.548.171	6.190.399	9.738.570
4.3	Checks Received for Collection		7.670.343	690.741	8.361.084	6.091.308	550.260	6.641.568
4.4	Commercial Notes Received for Collection		7.673.223	440.960	8.114.183	6.333.865	474.990	6.808.855
4.5	Other Assets Received for Collection		8.834	-	8.834	8.834	-	8.834
4.6	Assets Received for Public Offering		302.627.862	-	302.627.862	230.493.772	-	230.493.772
4.7	Other Items Under Custody		12.190.461	10.070.279	22.260.740	4.441.948	7.132.227	11.574.175
4.8	Custodians		1.649	-	1.649	1.649	-	1.649
V.	PLEDGES RECEIVED		711.760.519	125.442.019	837.202.538	666.794.362	108.762.025	775.556.387
5.1	Marketable Securities		1.493.129	40.342	1.533.471	1.536.809	37.532	1.574.341
5.2	Guarantee Notes		14.321.557	1.048.534	15.370.091	13.839.965	1.051.907	14.891.872
5.3	Commodity		1.088.911	75.518	1.164.429	1.089.260	70.224	1.159.484
5.4	Warranty		-	-	-	-	-	-
5.5	Immovable		627.848.260	92.443.561	720.291.821	588.923.360	83.692.739	672.616.099
5.6	Other Pledged Items		67.003.453	31.820.879	98.824.332	61.399.759	23.896.905	85.296.664
5.7	Pledged Items-Depository		5.209	13.185	18.394	5.209	12.718	17.927
VI.	ACCEPTED INDEPENDENT GUARANTEES AND WARRANTIES		810.180	2.148.188	2.958.368	593.069	1.873.589	2.466.658
	TOTAL OFF-BALANCE SHEET COMMITMENTS (A+B)		1.118.834.064	291.041.513	1.409.875.577	977.964.436	248.254.950	1.226.219.386

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

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

**TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş.
UNCONSOLIDATED STATEMENT OF INCOME AS OF 30 SEPTEMBER 2017
(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)**

III. STATEMENT OF INCOME						
INCOME AND EXPENSE ITEMS		Note (Section Five IV)	Current Period 01/01-30/09/2017	Prior Period 01/01-30/09/2016	Current Period 01/07-30/09/2017	Prior Period 01/07-30/09/2016
I.	INTEREST INCOME	(1)	25.628.870	19.929.950	8.805.878	6.970.589
1.1	Interest Income from Loans		20.440.169	15.580.162	7.374.725	5.475.686
1.2	Interest Income from Reserve Deposits		273.235	133.135	107.714	45.257
1.3	Interest Income from Banks		94.612	60.187	38.593	20.618
1.4	Interest Income from Money Market Placements		296.772	45	47.959	41
1.5	Interest Income from Marketable Securities		4.478.375	4.140.922	1.226.368	1.426.072
1.5.1	Financial Assets Held for Trading		1.833	948	181	334
1.5.2	Financial Assets at Fair Value through Profit and Loss		-	-	-	-
1.5.3	Financial Assets Available-for-Sale		3.997.420	3.531.285	1.103.459	1.219.000
1.5.4	Investments Held-to-Maturity		479.122	608.689	122.728	206.738
1.6	Finance Lease Income		-	-	-	-
1.7	Other Interest Income		45.707	15.499	10.519	2.915
II.	INTEREST EXPENSES	(2)	13.373.591	9.845.050	4.943.334	3.277.063
2.1	Interest Expense on Deposits		8.777.794	7.281.256	3.218.898	2.448.368
2.2	Interest on Borrowings		484.124	326.100	182.954	119.771
2.3	Interest on Money Market Borrowings		3.607.155	1.921.685	1.336.894	606.311
2.4	Interest on Marketable Securities Issued		442.246	273.549	184.616	98.481
2.5	Other Interest Expense		62.272	42.460	19.972	4.132
III.	NET INTEREST INCOME/EXPENSES (I - II)		12.255.279	10.084.900	3.862.544	3.693.526
IV.	NET FEES AND COMMISSIONS INCOME/EXPENSES		1.602.936	1.146.978	547.558	381.362
4.1	Fees and Commissions Received		1.931.057	1.426.580	667.305	480.845
4.1.1	Non-cash Loans		336.579	243.587	118.958	84.906
4.1.2	Other	(11)	1.594.478	1.182.993	548.347	395.939
4.2	Fees and Commissions Paid		328.121	279.602	119.747	99.483
4.2.1	Non-cash Loans		296	257	101	95
4.2.2	Other		327.825	279.345	119.646	99.388
V.	DIVIDEND INCOME		283.827	255.651	273.962	529
VI.	TRADING PROFIT/LOSS (Net)	(3)	(346.796)	(96.364)	338.408	(16.134)
6.1	Profit/Loss from Capital Market Operations		34.313	26.609	3.275	8.805
6.2	Profit/losses on Derivative Financial Transactions		(501.887)	99.614	(317.430)	341.961
6.3	Profit/Loss from Foreign Exchanges		120.778	(222.587)	(24.253)	(366.900)
VII.	OTHER OPERATING INCOME	(4)	1.037.557	1.273.257	303.363	290.195
VIII.	TOTAL OPERATING INCOMES/EXPENSES (III+IV+V+VI+VII)		14.832.803	12.664.422	4.649.019	4.349.478
IX.	PROVISION FOR LOSSES ON LOANS OR OTHER RECEIVABLES (-)	(5)	1.794.142	2.476.306	397.811	1.018.193
X.	OTHER OPERATING EXPENSES(-)	(6)	4.824.777	3.864.276	1.586.182	1.201.926
XI.	NET OPERATING PROFIT/LOSS (VIII-IX-X)		8.213.884	6.323.840	2.665.026	2.129.359
XII.	GAINS RECORDED AFTER MERGER		-	-	-	-
XIII.	PROFIT/LOSS ON EQUITY METHOD APPLIED SUBSIDIARIES		-	-	-	-
XIV.	GAIN/LOSS ON NET MONETARY POSITION		-	-	-	-
XV.	INCOME BEFORE TAXES FROM CONTINUING OPERATIONS (XI+...+XIV)	(7)	8.213.884	6.323.840	2.665.026	2.129.359
XVI.	PROVISION FOR TAXES ON INCOME FROM CONTINUING OPERATIONS (±)	(8)	(1.706.745)	(1.315.202)	(494.263)	(509.556)
16.1	Current Tax Provision		(1.877.329)	(1.488.632)	(634.725)	(369.814)
16.2	Deferred Tax Provision		170.584	173.430	140.462	(139.742)
XVII.	NET PROFIT/LOSSES FROM CONTINUING OPERATIONS (XV±XVI)	(9)	6.507.139	5.008.638	2.170.763	1.619.803
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)	(10)	6.507.139	5.008.638	2.170.763	1.619.803
	Earnings per Share (Full TL)		1,162	0,993	0,312	0,323

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

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

**TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş.
UNCONSOLIDATED STATEMENT OF INCOME AND EXPENSE ITEMS ACCOUNTED UNDER
SHAREHOLDERS' EQUITY AS OF 30 SEPTEMBER 2017**

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

IV. STATEMENT OF INCOME AND EXPENSE ITEMS ACCOUNTED UNDER SHAREHOLDERS' EQUITY		
PROFIT AND LOSS ITEMS ACCOUNTED UNDER SHAREHOLDERS' EQUITY	Current Period (01/01-30/09/2017)	Prior Period (01/01-30/09/2016)
I. ADDITIONS TO THE MARKETABLE SECURITY VALUATION DIFFERENCES ON AVAILABLE FOR SALE FINANCIAL ASSETS	1.342.905	1.514.050
II. TANGIBLE ASSETS REVALUATION DIFFERENCES	(59.176)	144.029
III. INTANGIBLE ASSETS REVALUATION DIFFERENCES	-	-
IV. CURRENCY TRANSLATION DIFFERENCES FOR FOREIGN CURRENCY TRANSACTIONS	24.840	13.820
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	(45.558)	(56.040)
IX. DEFERRED TAXES RELATED TO VALUATION DIFFERENCES	(256.511)	(485.252)
X. NET PROFIT OR LOSS ACCOUNTED DIRECTLY UNDER SHAREHOLDERS' EQUITY (I+II+...+IX)	1.006.500	1.130.607
XI. CURRENT YEAR PROFIT/LOSS	6.507.139	5.008.638
11.1 Net change in fair value of marketable securities (transfer to profit-loss)	34.313	26.609
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	6.472.826	4.982.029
XII. TOTAL PROFIT/LOSS RELATED TO THE PERIOD (X±XI)	7.513.639	6.139.245

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

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

TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş.
UNCONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AS OF 30 SEPTEMBER 2016
(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL").)

V. STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY																	
30 September 2016	Note (Section Five)	Paid-in Capital	Adjustment to Paid-in Capital	Share Premium	Share Cancl. Profits	Legal Reserves	Statutory Reserves	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.	Total Equity
I. Balance at the Beginning of the Period		5.000.000	-	-	-	2.920.983	-	13.659.246	1.340.257	-	5.322.268	(321.040)	3.607.167	17.388	-	-	31.546.269
Changes During the Period																	
II. Increase/Decrease Related to Merger		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
III. Marketable Securities Valuation Differences		-	-	-	-	-	-	-	-	-	-	1.131.140	-	-	-	-	1.131.140
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		-	-	-	-	-	-	-	-	-	-	-	30.479	-	-	-	30.479
VI. Revaluation Differences of Intangible Assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VII. Bonus Shares of Associates, Subsidiaries and Entities under Common Control (Business Partners)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VIII. Foreign Exchange Differences		-	-	-	-	-	-	-	-	-	-	13.820	-	-	-	-	13.820
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	-	-	-	-	-	(28.000)	-	-	-	-	-	-	-	-	72.000
12.1 Cash		72.000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	72.000
12.2 From Internal Resources		28.000	-	-	-	-	-	(28.000)	-	-	-	-	-	-	-	-	-
XIII. Issuance of Share Certificates		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIV. Share Cancellation Profits		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XV. Adjustment to Paid-in Capital		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVI. Other		-	-	-	-	-	-	-	(44.832)	-	-	-	-	-	-	-	(44.832)
XVII. Net Profit or Losses		-	-	-	-	-	-	-	-	5.008.638	-	-	-	-	-	-	5.008.638
XVIII. Profit Distribution		-	-	-	-	282.324	-	4.388.146	-	-	(5.162.470)	-	-	-	-	-	(492.000)
18.1 Dividend Distributed		-	-	-	-	-	-	-	-	-	(492.000)	-	-	-	-	-	(492.000)
18.2 Transfers to Legal Reserves		-	-	-	-	282.324	-	4.388.146	-	-	(4.670.470)	-	-	-	-	-	-
18.3 Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balance at the end of the period (I+II+III+.....+ XVI+XVII+XVIII)		5.100.000	-	-	-	3.203.307	-	18.019.392	1.295.425	5.008.638	159.798	823.920	3.637.646	17.388	-	-	37.265.514

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

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

TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş.
UNCONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AS OF 30 SEPTEMBER 2017
(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL").)

v. STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY																		
30 September 2017	Note (Section Five)	Paid-in Capital	Adjustment to Paid-in Capital	Share Premium	Share Cancl. Profits	Legal Reserves	Statutory Reserves	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.	Total Equity	
I. Balance at the Beginning of the Period		5.100.000	-	-	-	3.203.305	-	18.052.605	1.346.993	-	7.482.765	(998.484)	4.177.866	17.388	-	-	-	38.382.438
Changes During the Period																		
II. Increase/Decrease Related to Merger		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
III. Marketable Securities Valuation Differences		-	-	-	-	-	-	-	-	-	-	1.074.324	-	-	-	-	-	1.074.324
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		-	-	-	-	-	-	-	-	-	-	-	(56.217)	-	-	-	-	(56.217)
VI. Revaluation Differences of Intangible Assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VII. Bonus Shares of Associates, Subsidiaries and Entities under Common Control (Business Partners)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VIII. Foreign Exchange Differences		-	-	-	-	-	-	-	-	-	-	24.840	-	-	-	-	-	24.840
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	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	500.000
12.1 Cash		500.000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	500.000
12.2 From Internal Resources		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIII. Issuance of Share Certificates		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIV. Share Cancellation Profits		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XV. Adjustment to Paid-in Capital		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVI. Other		-	-	-	-	-	-	-	(36.447)	-	-	-	-	-	-	-	-	(36.447)
XVII. Net Profit or Losses		-	-	-	-	-	-	-	-	6.507.139	-	-	-	-	-	-	-	6.507.139
XVIII. Profit Distribution		-	-	-	-	401.050	-	6.557.597	-	-	(7.482.765)	-	-	-	-	-	-	(524.118)
18.1 Dividend Distributed		-	-	-	-	-	-	-	-	-	(524.118)	-	-	-	-	-	-	(524.118)
18.2 Transfers to Legal Reserves		-	-	-	-	401.050	-	6.557.597	-	-	(6.958.647)	-	-	-	-	-	-	-
18.3 Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balance at the end of the period (I+II+III+.....+ XVI+XVII+XVIII)		5.600.000	-	-	-	3.604.355	-	24.610.202	1.310.546	6.507.139	-	100.680	4.121.649	17.388	-	-	-	45.871.959

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

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

TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş.
UNCONSOLIDATED STATEMENT OF CASH FLOWS AS OF 30 SEPTEMBER 2017
(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

VI. STATEMENT OF CASH FLOWS			
	Note (Section Five)	Current Period 01/01-30/09/2017	Prior Period 01/01-30/09/2016
A. CASH FLOWS FROM BANKING OPERATIONS			
1.1 Operating Profit Before Changes in Operating Assets and Liabilities		5.941.017	4.549.925
1.1.1 Interest Received		23.554.179	18.073.042
1.1.2 Interest Paid		(12.866.180)	(9.674.748)
1.1.3 Dividend Received		280.827	253.746
1.1.4 Fees and Commissions Received		1.926.005	1.426.023
1.1.5 Other Income		874.143	1.449.604
1.1.6 Collections from Previously Written-off Loans and Other Receivables		1.255.756	722.389
1.1.7 Payments to Personnel and Service Suppliers		(2.093.966)	(1.713.642)
1.1.8 Taxes Paid		(2.082.037)	(1.830.048)
1.1.9 Other		(4.907.710)	(4.156.441)
1.2 Changes in Operating Assets and Liabilities		(9.898.644)	(838.443)
1.2.1 Net (Increase)/Decrease in Trading Securities		4.432	(11.889)
1.2.2 Net (Increase)/Decrease in Fair Value Through Profit/Loss Financial Assets		-	-
1.2.3 Net (Increase)/Decrease in Banks		398.491	2.395.914
1.2.4 Net (Increase)/Decrease in Loans		(46.263.438)	(23.397.598)
1.2.5 Net (Increase)/Decrease in Other Assets		(1.804.952)	(428.872)
1.2.6 Net Increase/(Decrease) in Bank Deposits		7.880.735	(1.072.289)
1.2.7 Net Increase/(Decrease) in Other Deposits		24.725.679	17.928.638
1.2.8 Net Increase/(Decrease) in Funds Borrowed		2.808.669	1.075.574
1.2.9 Net Increase/(Decrease) in Payables		-	-
1.2.10 Net Increase/(Decrease) in Other Liabilities		2.351.740	2.672.079
I. Net Cash Provided from Banking Operations		(3.957.627)	3.711.482
B. CASH FLOWS FROM INVESTMENT ACTIVITIES			
II. Net Cash Provided from Investing Activities		(1.791.528)	(328.554)
2.1 Cash Paid for Purchase of Associates, Subsidiaries and Entities under Common Control		(532.078)	(76.354)
2.2 Cash Obtained from Sale of Associates, Subsidiaries and Entities under Common Control		-	-
2.3 Fixed Assets Purchases		(134.343)	(252.004)
2.4 Fixed Assets Sales		34.928	124.044
2.5 Cash Paid for Purchase of Financial Assets Available for Sale		(12.456.111)	(10.703.157)
2.6 Cash Obtained from Sale of financial Assets Available for Sale		10.725.485	9.359.131
2.7 Cash Paid for Purchase of Investment Securities		(307.555)	(101.254)
2.8 Cash Obtained from Sale of Investment Securities		2.022.709	2.544.639
2.9 Other		(1.144.563)	(1.223.599)
C. CASH FLOWS FROM FINANCING ACTIVITIES			
III. Net Cash Provided from Financing Activities		5.456.548	632.254
3.1 Cash Obtained from Funds Borrowed and Securities Issued		7.484.033	3.854.156
3.2 Cash Used for Repayment of Funds Borrowed and Securities Issued		(2.277.100)	(2.990.333)
3.3 Issued Equity Instruments		500.000	-
3.4 Dividends Paid		(250.000)	(231.200)
3.5 Payments for Finance Leases		(385)	(369)
3.6 Other		-	-
IV. Effect of Change in Foreign Exchange Rate on Cash and Cash Equivalents		528.589	212.929
V. Net Decrease/ Increase in Cash and Cash Equivalents (I+II+III+IV)		235.982	4.228.111
VI. Cash and Cash Equivalents at the Beginning of the Period		15.566.483	8.064.097
VII. Cash and Cash Equivalents at the End of the Period		15.802.465	12.292.208

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

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

TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS AS OF 30 SEPTEMBER 2017

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

SECTION THREE

EXPLANATIONS ON ACCOUNTING POLICIES

I. BASIS OF PRESENTATION

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

The unconsolidated 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.

Balance sheet and statement of off-balance sheet commitments as of 30 September 2017 are presented comparatively with balances as of 31 December 2016 while 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 30 September 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 amendments of TAS and TFRS which have entered into force as of 1 January 2017 have no material impact on the Bank’s accounting policies, financial position and performance. The amendments of TAS and TFRS, except TFRS 9 Financial Instruments, is predicted no impact on the accounting policies, financial condition and performance of the Bank. The Bank conducts the preparations in line with TFRS 9 Financial Instruments Standard, which will have entered into force as of 1 January 2018.

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

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

TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS AS OF 30 SEPTEMBER 2017

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

SECTION THREE (Continued)

EXPLANATIONS ON ACCOUNTING POLICIES (Continued)

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

Main activity of the Bank comprises of 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 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 Bank by means of legislative and administrative decisions. The Bank directs these funds to assets with high return and low risk. These assets include predominantly domestic government bonds and loans. The Bank’s liquidity structure covers the financing of all liabilities at due date. Although most of the sources in the Bank’s balance sheet are with fixed interest 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 Bank adopts high return principle for its long-term placements.

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

Since the Bank’s total debt to the market is low among its total liabilities, the 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 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 Bank’s prevailing counter currency buying rate. At period ends, foreign currency asset and liability balances are valued at the 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 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

Based on the TAS 27 “Turkish Accounting Standard for Consolidated and Separate Financial Statements”, Turkish Lira denominated investments in associates and subsidiaries are accounted at cost value and are reflected to the unconsolidated financial statements after deducting the provision for impairment, if any.

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 shareholders’ equity.

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

TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS AS OF 30 SEPTEMBER 2017

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

SECTION THREE (Continued)

EXPLANATIONS ON ACCOUNTING POLICIES (Continued)

IV. EXPLANATIONS ON FORWARD TRANSACTIONS, OPTIONS AND DERIVATIVE INSTRUMENTS

The Bank’s derivative transactions mostly include currency and precious metal swaps and foreign currency forward contracts. The Bank has no embedded derivative instruments separated from the articles of association.

The derivative instruments of the Bank are classified as trading or hedging instruments in accordance with Turkish Accounting Standard on TAS 39 “Financial Instruments: Recognition and Measurement”. The Bank has no derivative instruments for hedging purposes as of the balance sheet date. Accordingly, the Bank 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 Bank ceases accruing interest income on non-performing loans and reverses any interest income accrued from such loans. No income is accounted until the collection is made according to the related regulation.

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 Bank, if the Bank is a legal party to these instruments.

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

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).

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SECTION THREE (Continued)

EXPLANATIONS ON ACCOUNTING POLICIES (Continued)

VII. EXPLANATIONS ON FINANCIAL ASSETS (Continued)

Financial assets at fair value through profit or loss

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.

Held to maturity assets are initially recognized at cost value.

Loans and receivables

Bank 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.

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

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SECTION THREE (Continued)

EXPLANATIONS ON ACCOUNTING POLICIES (Continued)

VII. EXPLANATIONS ON FINANCIAL ASSETS (Continued)

Loans and receivables (Continued)

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. 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 Asset 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 Expense 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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SECTION THREE (Continued)

EXPLANATIONS ON ACCOUNTING POLICIES (Continued)

IX. EXPLANATIONS ON OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

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

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

Securities subject to repurchase agreements are classified under “held for trading”, “available for sale” and/or “held-to-maturity” 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, there are 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 Bank’s receivables are shown at the fixed assets held for sale line according to the execution of the forward sales agreement.

A discontinued operation is a part of 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 Bank does not have any discontinued operations.

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SECTION THREE (Continued)

EXPLANATIONS ON ACCOUNTING POLICIES (Continued)

XII. EXPLANATIONS ON GOODWILL AND OTHER INTANGIBLE ASSETS

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

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

Other intangible assets are amortized by using the straight line method based on their useful 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 five years and depreciation rate is proportional with period for those with certain leasing period.

The Bank 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 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%.

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 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 Bank’s inventory, appraisal study was carried by independent expertise companies, and from 31 December 2016 valuation results are reflected in the accounting records. As a result of the fair valuation of the real estates, TL 4.121.649 net is followed under shareholders’ equity as of 30 September 2017. As of 30 January 2014, the net book amount of real estates of the tangible assets before valuation was TL 816.950.

Tangible assets (except for immovables) are presented in the financial statements over their remaining cost after deducting accumulated depreciation from cost amounts, if any, 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.

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SECTION THREE (Continued)

EXPLANATIONS ON ACCOUNTING POLICIES (Continued)

XIV. EXPLANATIONS ON LEASING TRANSACTIONS

Financial Lease

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

The Bank does not perform financial operations as “Lessor”.

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.

XV. 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 Bank provides provision in case of an existing liability (legal or implicit) as a result of an incident that took place in the past, there is possibility of disposal of assets that bring economic benefit and the liability is measurable. When a reliable estimate of the amount of obligation from the 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, the asset and the related income are recognized in the financial statements in which the change occurs.

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SECTION THREE (Continued)

EXPLANATIONS ON ACCOUNTING POLICIES (Continued)

XVI. EXPLANATIONS ON OBLIGATIONS RELATED TO EMPLOYEE RIGHTS

Employment Termination and Vacation Benefits

The Bank 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 Bank 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:

	Current Period 30.09.2017	Prior Period 31.12.2016
Discount Rate	10,50%	11,40%
Inflation	7,30%	8,00%
Expected salary increase rate	8,80%	9,50%

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 114.789 was classified as “Other Reserves” under shareholders’ equity in the financials.

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

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SECTION THREE (Continued)

EXPLANATIONS ON ACCOUNTING POLICIES (Continued)

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

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

Some of the Bank’s personnel are the members of T.C. Ziraat Bankası and T. Halk Bankası A.Ş. Employees’ Pension Fund (“Fund”) which was established by 20th provisional article of Social Security Law Act numbered 506. 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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SECTION THREE (Continued)

EXPLANATIONS ON ACCOUNTING POLICIES (Continued)

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

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

The technical balance sheet report as of 31 December 2016 which is prepared in accordance with the new law and the rate determined as 9,80%, concluded no technical deficit arises in the above mentioned fund. Since the Bank has no legal right to hold the present value of any economic benefits available in the form of refunds from Pension Fund or reductions in future contributions to Pension Fund, no asset is recognized in the Bank’s financial statements.

XVII. EXPLANATIONS ON TAXATION

Current Tax

“Corporate Tax Law” No. 5520 was taken into effect after being published in the Official Gazette dated 21 June 2006 No.26205. Many clauses of the “New Tax Law” are effective from 1 January 2006. According to the New Tax Law, the corporate tax rate in Turkey is payable at the rate of 20% as of 1 January 2006. The corporate tax rate is calculated on the total income of the Bank after adjusting for certain disallowable expenses, exempt income (like affiliate gains) and other allowances. No further tax is payable unless the profit is distributed.

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

Corporations are required to pay advance corporate tax quarterly at a rate of 20% on their corporate income. Advance tax is declared by the 14th and paid by the 17th day of the second month following each calendar quarter end. Advance tax paid by corporations for the current period is credited against the annual corporation tax calculated on the annual corporate income in the following year. Despite the offset, if there is temporary prepaid tax remaining, this balance can be refunded or used to offset any other financial liabilities to the government.

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

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

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

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SECTION THREE (Continued)

EXPLANATIONS ON ACCOUNTING POLICIES (Continued)

XVII. EXPLANATIONS ON TAXATION (Continued)

Deferred Tax

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

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

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

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

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

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

XVIII. EXPLANATIONS ON BORROWINGS

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

XIX. EXPLANATIONS ON ISSUANCE OF SHARE CERTIFICATES

The decision of increasing the capital 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.

XX. EXPLANATIONS ON AVALIZED DRAFTS AND ACCEPTANCES

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

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SECTION THREE (Continued)

EXPLANATIONS ON ACCOUNTING POLICIES (Continued)

XXI. EXPLANATIONS ON GOVERNMENT GRANTS

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

XXII. 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.

XXIII. 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 Bank, are disclosed in Note VIII. of Section Four.

XXIV. EXPLANATIONS ON OTHER MATTERS

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, TL 328.821 is transferred to first legal reserve and TL 26.912 was transferred to second legal reserve, TL 230.000 was paid to employees and from the gross amount of TL 294.118, TL 250.000 was distributed to Treasury after deducting withholding tax of 15% (TL 44.118) in cash. In this context, TL 5.696.569 of the profit was preserved; dividend payment made to Treasury on 14 June 2017. Also TL 906.345 net profit from the last years, TL 45.317 was transferred to the legal reserves and TL 861.028 of the profit was preserved.

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SECTION FOUR

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

I. EXPLANATIONS ON THE COMPONENTS OF 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 30 September 2017 Bank’s total capital has been calculated as TL 48.762.582 (31 December 2016: TL 41.061.245), capital adequacy ratio is 15,68% (31 December 2016: 14,55%). This ratio is well above the minimum ratio required by the legislation.

1. Information Related to The Components of Shareholders' Equity

	Current Period 30 September 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	29.639.892	-
Gains recognized in equity as per TAS	5.588.225	-
Profit	6.507.139	-
Current Period Profit	6.507.139	-
Prior Period Profit	-	-
Shares acquired free of charge from subsidiaries, affiliates and jointly controlled partnerships and cannot be recognised within profit for the period	17.388	-
Common Equity Tier 1 Capital Before Deductions	47.352.644	-
Deductions from Common Equity Tier 1 Capital		
Common Equity as per the 1st clause of Provisional Article 9 of the Regulation on the Equity of Banks	-	-
Portion of the current and prior periods’ losses which cannot be covered through reserves and losses reflected in equity in accordance with TAS	1.480.685	-
Improvement costs for operating leasing	70.484	-
Goodwill (net of related tax liability)	-	-
Other intangibles other than mortgage-servicing rights (net of related tax liability)	323.585	404.482
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	-
Differences are not recognized at the fair value of assets and liabilities subject to hedge of cash flow risk	-	-
Communiqué Related to Principles of the amount credit risk calculated with the Internal Ratings Based Approach, total expected loss amount exceeds the total provision	-	-
Gains arising from securitization transactions	-	-
Unrealized gains and losses due to changes in own credit risk on fair valued liabilities	-	-
Defined-benefit pension fund net assets	-	-
Direct and indirect investments of the Bank in its own Common Equity	-	-
Shares obtained contrary to the 4th clause of the 56th Article of the Law	-	-
Portion of the total of net long positions of investments made in equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or less of the issued common share capital exceeding 10% of Common Equity of the Bank	-	-
Portion of the total of net long positions of investments made in equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital exceeding 10% of Common Equity of the Bank	-	-
Portion of mortgage servicing rights exceeding 10% of the Common Equity	-	-
Portion of deferred tax assets based on temporary differences exceeding 10% of the Common Equity	-	-
Amount exceeding 15% of the common equity as per the 2nd clause of the Provisional Article 2 of the Regulation on the Equity of Banks	-	-
Excess amount arising from the net long positions of investments in common equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital	-	-
Excess amount arising from mortgage servicing rights	-	-
Excess amount arising from deferred tax assets based on temporary differences	-	-
Other items to be Defined by the BRSA (-)	-	-
Deductions to be made from common equity due to insufficient Additional Tier I Capital or Tier II Capital	-	-
Total Deductions from Common Equity Tier I Capital	1.874.754	-
Total Common Equity Tier I Capital	45.477.890	-

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SECTION FOUR (Continued)

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

I. EXPLANATIONS ON THE COMPONENTS OF SHAREHOLDERS’ EQUITY (Continued)

1. Information Related To The Components Of Shareholders' Equity (Continued)

	Current Period 30 September 2017	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 I capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks’ Own Funds (-)	80.897	-
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)	45.396.993	-
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)	3.366.977	-
Tier II Capital Before Deductions	3.366.977	-
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	3.366.977	-
Total Capital (The sum of Tier I Capital and Tier II Capital)	48.763.970	-
Deductions from Total Capital		
Deductions from Capital Loans granted contrary to the 50th and 51th Article of the Law	-	-
Net Book Values of Movables and Immovables Exceeding the Limit Defined in the Article 57, Clause 1 of the Banking Law and the Assets Acquired against Overdue Receivables and Held for Sale but Retained more than Five Years	-	-
Other items to be defined by the BRSA (-)	1.388	-
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 (-)	-	-

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SECTION FOUR (Continued)

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

I. EXPLANATIONS ON THE COMPONENTS OF SHAREHOLDERS’ EQUITY

1. Information Related To The Components Of Shareholders' Equity (Continued)

	Current Period 30 September 2017	Amount as per the regulation before 1/1/2014*
CAPITAL		
Total Capital (Total of Tier I Capital and Tier II Capital)	48.762.582	-
Total Risk Weighted Assets	310.917.448	-
CAPITAL ADEQUACY RATIOS		
CET 1 Capital Ratio (%)	14,63	-
Tier I Capital Ratio (%)	14,60	-
Capital Adequacy Ratio (%)	15,68	-
BUFFERS		
Total additional core capital requirement ratio (a+b+c)	1,26	-
a) Capital conservation buffer requirement (%)	1,25	-
b) Bank specific countercyclical buffer requirement (%)	0,011	-
c) Higher bank buffer requirement ratio (%)	-	-
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	6,63	-
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	153.991	-
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	97.631	-
Remaining Mortgage Servicing Rights	-	-
Net Deferred Tax Assets arising from Temporary Differences	-	-
Limits for Provisions Used in Tier II Capital Calculation		
General Loan Provisions for Exposures in Standard Approach (before limit of one hundred and twenty five per the thousand	4.671.670	-
General Loan Provisions for Exposures in Standard Approach Limited by 1.25% of Risk Weighted Assets	3.366.977	-
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

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SECTION FOUR (Continued)

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

I. EXPLANATIONS ON THE COMPONENTS OF SHAREHOLDERS' EQUITY (Continued)

1. Information Related To The Components Of Shareholders' Equity (Continued)

	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	22.681.247	-
Gains recognized in equity as per TAS	4.820.602	-
Profit	7.482.765	-
Current Period Profit	6.576.420	-
Prior Period Profit	906.345	-
Shares acquired free of charge from subsidiaries, affiliates and jointly controlled partnerships and cannot be recognised within profit for the period	17.388	-
Common Equity Tier 1 Capital Before Deductions	40.102.002	-
Deductions from Common Equity Tier 1 Capital		
Common Equity as per the 1st clause of Provisional Article 9 of the Regulation on the Equity of Banks	-	-
Portion of the current and prior periods' losses which cannot be covered through reserves and losses reflected in equity in accordance with TAS	1.719.564	-
Improvement costs for operating leasing	82.601	-
Goodwill (net of related tax liability)	-	-
Other intangibles other than mortgage-servicing rights (net of related tax liability)	187.688	312.814
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	-	-
Defined-benefit pension fund net assets	-	-
Direct and indirect investments of the Bank in its own Common Equity	-	-
Shares obtained contrary to the 4th clause of the 56th Article of the Law	-	-
Portion of the total of net long positions of investments made in equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or less of the issued common share capital exceeding 10% of Common Equity of the Bank	-	-
Portion of the total of net long positions of investments made in equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital exceeding 10% of Common Equity of the Bank	-	-
Portion of mortgage servicing rights exceeding 10% of the Common Equity	-	-
Portion of deferred tax assets based on temporary differences exceeding 10% of the Common Equity	-	-
Amount exceeding 15% of the common equity as per the 2nd clause of the Provisional Article 2 of the Regulation on the Equity of Banks	-	-
Excess amount arising from the net long positions of investments in common equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital	-	-
Excess amount arising from mortgage servicing rights	-	-
Excess amount arising from deferred tax assets based on temporary differences	-	-
Other items to be Defined by the BRSA (-)	-	-
Deductions to be made from common equity due to insufficient Additional Tier I Capital or Tier II Capital	-	-
Total Deductions from Common Equity Tier I Capital	1.989.853	-
Total Common Equity Tier I Capital	38.112.149	

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SECTION FOUR (Continued)

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

I. EXPLANATIONS ON THE COMPONENTS OF SHAREHOLDERS' EQUITY (Continued)

1. Information Related To The Components Of Shareholders' Equity (Continued)

	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 (-)	125.126	-
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)	37.987.023	-
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)	3.114.746	-
Tier II Capital Before Deductions	3.114.746	-
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	3.114.746	-
Total Tier II Capital	41.101.769	-
Total Capital (The sum of Tier I Capital and Tier II Capital)	41.101.769	-
Deductions from Total Capital		
Deductions from Capital Loans granted contrary to the 50th and 51th Article of the Law	-	-
Net Book Values of Movables and Immovables Exceeding the Limit Defined in the Article 57, Clause 1 of the Banking Law and the Assets Acquired against Overdue Receivables and Held for Sale but Retained more than Five Years	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 (-)	-	-

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SECTION FOUR (Continued)

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

I. EXPLANATIONS ON THE COMPONENTS OF SHAREHOLDERS' EQUITY (Continued)

1. Information Related To The Components Of Shareholders' Equity (Continued)

	Prior Period 31 December 2016	Amount as per the regulation before 1/1/2014*
CAPITAL		
Total Capital (Total of Tier I Capital and Tier II Capital)	41.061.245	-
Total Risk Weighted Assets	282.252.505	-
CAPITAL ADEQUACY RATIOS		
CET 1 Capital Ratio (%)	13,50	-
Tier I Capital Ratio (%)	13,46	-
Capital Adequacy Ratio (%)	14,55	-
BUFFERS		
Bank-specific total CET 1 Capital Ratio	-	-
Capital Conservation Buffer Ratio (%)	0,63	-
Bank-specific Counter-Cyclical Capital Buffer Ratio (%)	0,004	-
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	5,50	-
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	75.757	-
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	3.921.625	-
General Loan Provisions for Exposures in Standard Approach Limited by 1.25% of Risk Weighted Assets	3.114.746	-
Total Loan Provision that Exceeds Total Expected Loss Calculated According to Communiqué on Calculation of Credit Risk by Internal Ratings Based Approach	-	-
Total Loan Provision that Exceeds Total Expected Loss Calculated According to Communiqué on Calculation of Credit Risk by Internal Ratings Based Approach, Limited by 0.6% Risk Weighted Assets	-	-
Debt Instruments Covered by Temporary Article 4 (effective between 1.1.2018-1.1.2022)		
Upper Limit for Additional Tier I Capital Items subject to Temporary Article 4	-	-
Amount of Additional Tier I Capital Items Subject to Temporary Article 4 that Exceeds Upper Limit	-	-
Upper Limit for Additional Tier II Capital Items subject to Temporary Article 4	-	-
Amount of Additional Tier II Capital Items Subject to Temporary Article 4 that Exceeds Upper Limit	-	-

(*) Amounts considered within transition provisions

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SECTION FOUR (Continued)

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

I. EXPLANATIONS ON THE COMPONENTS OF SHAREHOLDERS’ EQUITY (Continued)

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

None.

3. Necessary explanations in order to reach an agreement between the statement of shareholders’s 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 net book value of immovables that are acquired against overdue receivables and retained more than three years, other items defined by the regulator are taken into consideration as amounts deducted from Total Capital.

II. EXPLANATIONS ON THE CURRENCY RISK

1. Whether the Bank is exposed to foreign currency risk, whether the effects of this matter are estimated, whether limits for the daily followed positions are determined by the Board of Directors

The Bank’s policy is to avoid carrying significant position by means of foreign currency management. Therefore, the Bank is not exposed to significant currency risks. Risks are monitored by the currency risk tables prepared based on the standard method. Besides, VAR is calculated for daily foreign exchange position and reported to the related departments. 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”, “Repricing Gap Analysis” and “Structural Liquidity Gap Analysis” which takes into account historical repricing rates of foreign currency accounts, are prepared periodically in order to define liquidity and interest rate risks at US Dollar and Euro, which are mainly used by the 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 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
25.09.2017	3,5247	4,1856	2,8007	0,5627	0,4392	3,6367	2,8600	0,4506	4,7580	0,9399	3,1490
26.09.2017	3,5279	4,1541	2,7793	0,5584	0,4337	3,6329	2,8506	0,4459	4,7351	0,9407	3,1460
27.09.2017	3,5555	4,1714	2,7954	0,5606	0,4357	3,6467	2,8769	0,4460	4,7591	0,9481	3,1537
28.09.2017	3,5440	4,1752	2,7768	0,5613	0,4356	3,6469	2,8439	0,4451	4,7593	0,9451	3,1452
29.09.2017	3,5379	4,1804	2,7716	0,5617	0,4335	3,6571	2,8322	0,4432	4,7433	0,9435	3,1445
30.09.2017	3,5379	4,1804	2,7716	0,5617	0,4335	3,6571	2,8322	0,4432	4,7433	0,9435	3,1445

5. Simple arithmetic average of the Bank’s current foreign exchange bid rates for the last 30 days prior to the balance sheet date

USD	EUR	AUD	DKK	SEK	CHF	CAD	NOK	GBP	SAR	100 JPY
3,4568	4,1204	2,7525	0,5539	0,4320	3,5921	2,8081	0,4406	4,6029	0,9218	3,1215

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

II. EXPLANATIONS ON THE CURRENCY RISK (Continued)

6. Information on the foreign currency risk of the Bank

Current Period	EUR	USD	Other FC⁽¹⁾	Total
Assets				
Cash (Cash in vault, effectives, money in transit, cheques purchased) and Balances with Central Bank of the Republic of Turkey	7.471.258	18.103.788	5.581.934	31.156.980
Banks	579.878	1.565.534	307.996	2.453.408
Financial Assets at Fair Value Through Profit and Loss ⁽⁵⁾	-	4.782	-	4.782
Money Market Placements	-	-	-	-
Financial Assets Available-for-Sale	3.785.408	12.238.946	52.817	16.077.171
Loans ⁽²⁾	28.043.878	43.414.791	105.194	71.563.863
Subsidiaries, Associates, Entities Under Common Control (Joint Ventures) ⁽⁴⁾	1.112.624	571.731	32.078	1.716.433
Investments Held-to-Maturity	607.642	3.821.147	546	4.429.335
Derivative Financial Assets for Hedging Purposes	-	-	-	-
Tangible Fixed Assets	5.369	307	2.022	7.698
Intangible Assets	2.832	463	3.714	7.009
Other Assets ⁽⁶⁾	1.080.297	421.028	11.038	1.512.363
Total Assets	42.689.186	80.142.517	6.097.339	128.929.042
Liabilities				
Interbank Deposits	5.143.169	3.668.630	111.556	8.923.355
Foreign Currency Deposits	46.029.692	32.455.393	5.328.029	83.813.114
Money Market Borrowings	346.269	13.750.326	-	14.096.595
Funds Provided from Other Financial Institutions	6.434.182	17.965.296	3.668	24.403.146
Issued Marketable Securities	41.928	8.640.420	28.558	8.710.906
Sundry Creditors	1.656.273	58.499	9.863	1.724.635
Derivative Financial Liabilities for Hedging Purposes	-	-	-	-
Other Liabilities	287.740	341.957	15.680	645.377
Total Liabilities	59.939.253	76.880.521	5.497.354	142.317.128
Net Balance Sheet Position	(17.250.067)	3.261.996	599.985	(13.388.086)
Net Off-Balance Sheet Position ⁽³⁾	18.568.344	(3.058.928)	(550.220)	14.959.196
Financial Derivative Assets	22.289.595	22.100.180	2.272.417	46.662.192
Financial Derivative Liabilities	3.721.251	25.159.108	2.822.637	31.702.996
Non-Cash Loans	23.011.925	32.884.373	3.852.302	59.748.600
Prior Period				
Total Assets	38.063.799	77.926.169	6.959.476	122.949.444
Total Liabilities	51.600.535	57.223.275	4.049.263	112.873.073
Net Balance Sheet Position	(13.536.736)	20.702.894	2.910.213	10.076.371
Net Off-Balance Sheet Position ⁽³⁾	14.404.536	(21.814.361)	(2.611.272)	(10.021.097)
Financial Derivative Assets	16.594.256	7.787.185	2.593.074	26.974.515
Financial Derivative Liabilities	2.189.720	29.601.546	5.204.346	36.995.612
Non-Cash Loans	18.783.775	31.762.066	3.845.938	54.391.779

1) Of the foreign currencies presented in the other FC column of assets 89,07% is Gold, 3,80% is GBP, 2,69% is IQD, 1,27% is SAR, and the remaining 3,16% is other foreign currencies. Of the foreign currencies presented in the other FC column of liabilities, 60,71% is Gold, 19,19% is GBP, 9,06% is CHF, 3,29% is DKK, 1,40% SEK, 1,64% is SAR, 0,71% is BGN and the remaining 3,99% is other foreign currencies. (31 December 2016: Of the foreign currencies presented in the other FC column of assets 91,94% is Gold, 2,69% is GBP, 1,73% is IQD, 1,25% is SAR, and the remaining 2,39% is other foreign currencies. Of the foreign currencies presented in the other FC column of liabilities, 57,79% is Gold, 21,31% is GBP, 10,98% is CHF, 3,61% is DKK, 1,77% is SEK, 1,19% is SAR, 0,71% is BGN and the remaining 2,64% is other foreign currencies).

2) TL 999,367 equivalent of USD and TL 744.214 equivalent of EUR loans are originated as foreign currency indexed loans (31 December 2016: TL 874.972 equivalent of USD and TL 598.672 equivalent of EUR).

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

4) 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 equivalents. No exchange rate difference arises from such investments.

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

6) Prepaid expenses in other assets amounting to TL 5.762 are not included in the table.

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SECTION FOUR (Continued)

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

III. EXPLANATIONS ON THE 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	25.771.960	-	-	-	-	12.715.184	38.487.144
Banks	1.394.476	750.783	455.317	-	-	709.229	3.309.805
Financial Assets at Fair Value Through Profit and Loss	250.756	846.173	353.759	40.854	4.696	-	1.496.238
Money Market Placements	1.171.578	-	-	-	-	-	1.171.578
Financial Assets Available-for-Sale	5.991.950	6.255.026	12.789.794	16.157.258	18.821.548	902.927	60.918.503
Loans Given ⁽⁴⁾	80.858.094	25.215.429	53.608.451	97.943.887	22.399.285	229.673	280.254.819
Investments Held-to-Maturity	190.035	10.172	3.821.829	1.517.449	1.689.690	-	7.229.175
Other Assets ⁽³⁾	-	-	-	-	-	15.319.386	15.319.386
Total Assets ⁽¹⁾	115.628.849	33.077.583	71.029.150	115.659.448	42.915.219	29.876.399	408.186.648
Liabilities							
Interbank Deposits	8.705.698	1.953.111	1.973.149	-	-	1.884.512	14.516.470
Other Deposits	112.652.022	34.393.313	24.331.189	761.871	16	63.866.860	236.005.271
Money Market Borrowings	48.450.592	1.670.115	1.703.129	790.143	-	-	52.613.979
Sundry Creditors	-	-	-	-	-	4.112.508	4.112.508
Issued Marketable Securities	1.084.988	2.151.035	515.886	6.554.815	1.768.950	-	12.075.674
Funds Provided from Other Financial Institutions	8.696.168	3.901.578	9.393.929	2.342.830	1.337.447	-	25.671.952
Other Liabilities ⁽²⁾⁽⁵⁾	303.233	174.578	43.452	6.020.884	-	56.648.647	63.190.794
Total Liabilities ⁽¹⁾	179.892.701	44.243.730	37.960.734	16.470.543	3.106.413	126.512.527	408.186.648
Balance Sheet Long Position	-	-	33.068.416	99.188.905	39.808.806	-	172.066.127
Balance Sheet Short Position	(64.263.852)	(11.166.147)	-	-	-	(96.636.128)	(172.066.127)
Off-Balance Sheet Long Position	637.579	1.643.548	-	-	-	-	2.281.127
Off-Balance Sheet Short Position	-	-	(357.230)	(1.110.309)	-	-	(1.467.539)
Total Position	(63.626.273)	(9.522.599)	32.711.186	98.078.596	39.808.806	(96.636.128)	813.588

⁽¹⁾ Balances without fixed maturity are shown in the “Up to 1 Month” and “Non-Interest Bearing” columns.

⁽²⁾ TL 5.981.522 of fund balance, whose risk does not belong to the Bank, in other liabilities is shown under the “1 - 5 Years” column. TL 60.213 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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SECTION FOUR (Continued)

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

III. EXPLANATIONS ON THE INTEREST RATE RISK (Continued)

1. Information related to interest rate sensitivity of assets, liabilities and off-balance sheet items (Continued)

(Based on days to repricing dates)

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	26.226.267	-	-	-	-	12.940.830	39.167.097
Banks	1.144.317	313.430	784.787	-	-	1.659.140	3.901.674
Financial Assets at Fair Value Through Profit and Loss	534.967	715.930	377.036	52.425	4.433	-	1.684.791
Money Market Placements	-	-	-	-	-	-	-
Financial Assets Available-for-Sale	6.082.221	5.989.035	10.829.270	16.548.932	18.459.714	722.781	58.631.953
Loans Given ⁽⁴⁾	69.800.889	18.547.083	52.762.832	74.387.619	16.893.663	251.449	232.643.535
Investments Held-to-Maturity	3.616.855	824.631	60.683	2.564.614	1.682.681	-	8.749.464
Other Assets ⁽³⁾	-	-	-	-	-	12.982.851	12.982.851
Total Assets ⁽¹⁾	107.405.516	26.390.109	64.814.608	93.553.590	37.040.491	28.557.051	357.761.365
Liabilities							
Interbank Deposits	6.796.605	1.563.724	1.967.777	-	-	1.731.844	12.059.950
Other Deposits	111.750.707	25.137.918	20.392.313	541.668	1	53.136.377	210.958.984
Money Market Borrowings	41.662.750	3.747.109	1.085.940	716.162	-	-	47.211.961
Sundry Creditors	-	-	-	-	-	2.480.721	2.480.721
Issued Marketable Securities	836.455	1.367.032	255.514	4.374.000	-	-	6.833.001
Funds Provided from Other Financial Institutions	4.442.774	4.306.983	10.593.970	2.041.048	1.431.961	-	22.816.736
Other Liabilities ⁽²⁾⁽⁵⁾	216.934	325.705	51.950	5.999.588	-	48.805.835	55.400.012
Total Liabilities ⁽¹⁾	165.706.225	36.448.471	34.347.464	13.672.466	1.431.962	106.154.777	357.761.365
Balance Sheet Long Position	-	-	30.467.144	79.881.124	35.608.529	-	145.956.797
Balance Sheet Short Position	(58.300.709)	(10.058.362)	-	-	-	(77.597.726)	(145.956.797)
Off Balance Sheet Long Position	808.285	2.189.886	-	-	-	-	2.998.171
Off Balance Sheet Short Position	-	-	(373.698)	(1.428.568)	-	-	(1.802.266)
Total Position	(57.492.424)	(7.868.476)	30.093.446	78.452.556	35.608.529	(77.597.726)	1.195.905

(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 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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SECTION FOUR (Continued)

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

III. EXPLANATIONS ON THE INTEREST RATE RISK (Continued)

2. Average interest rate applied to the monetary financial instruments (%)

	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⁾	-	0,78	-	3,98
Banks	1,76	2,72	-	11,94
Financial Assets at Fair Value Through Profit and Loss	-	5,36	-	9,20
Money Market Placements	-	-	-	12,25
Financial Assets Available-for-Sale	4,74	5,59	-	9,48
Loans Given ⁽²⁾	4,48	5,89	-	12,44
Investments Held-to-Maturity	6,63	7,20	-	10,30
Liabilities				
Interbank Deposits ⁽³⁾	0,41	1,45	-	12,17
Other Deposits ⁽⁴⁾	1,00	1,61	-	7,47
Money Market Borrowings	0,92	2,15	-	12,14
Sundry Creditors	-	-	-	-
Issued Marketable Securities	1,00	4,72	1,50	13,46
Funds Provided from Other Financial Institutions	1,22	2,88	-	8,50

⁽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 loans 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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SECTION FOUR (Continued)

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

IV. EXPLANATIONS ON THE POSITION RISK OF 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

There is no significant difference between balance sheet value, fair value and market value of investments in equity instruments (31 December 2016: None).

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 118.284 and 100% of them are risk weighted (31 December 2016: are amounted TL 118.153 and 100% of them are risk weighted).

V. EXPLANATIONS ON THE LIQUIDITY RISK MANAGEMENT AND LIQUIDITY COVERAGE RATIO

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

The Bank performs “Remaining Maturity Analysis” for the observation of the maturity structure of the balance sheet, “Liquidity Gap” and “Structural Liquidity Gap Analysis” for the monitoring of the liquidity and between periods and Liquidity Stress Test for the evaluation of the Bank’s liquidity and in the worst case scenario and the loss associated with it. The renewal of deposits which constitutes the 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 balances of Bank-Sector and legal liquidity rates are monitored.

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 İsedes Regulations” of the Parent Bank. In this context, liquidity risk strategies and policies 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.

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SECTION FOUR (Continued)

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

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

1. Liquidity Risk (Continued)

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 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 Bank’s Internal Capital Adequacy Assessment Process (“ICAAP”).

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SECTION FOUR (Continued)

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

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

2. Liquidity Coverage Ratio (Continued)

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 Bank calculates the Liquidity Cover Rate and transmits unconsolidated on weekly and consolidated on monthly basis to the BRSA. Within the last 3 months the unconsolidated lowest ratios are as follows: Take place for FC as 171,37% in the week of 18 August 2017; and for the total 75,71% in the week of 1 September 2017. As for the highest ratios take place for FC as 233,19 % in the week of 29 September 2017 and for the total as 96,43% in the week of 29 September 2017. (31 December 2016: Within the last 3 months the unconsolidated lowest ratios are as follows: Take place for FC as 84,49% in the week of 28 October 2016; and for the total 74,51% in the week of 16 December 2016. As for the highest ratios take place for FC as 109,22% in the week of 23 December 2016 and for the total as 88,54% in the week of 7 October 2016.)

Current Period	Total Unweighted Value (Average) ^(*)		Total Weighted Value (Average) ^(*)	
	TL+FC	FC	TL+FC	FC
High Quality Liquid Assets				
High Quality Liquid Assets			41.092.964	30.768.491
Cash Outflows				
Retail and Small Business Customers, of which;	164.828.246	62.866.569	13.455.497	6.286.657
Stable deposits	60.546.548	-	3.027.327	-
Less stable deposits	104.281.698	62.866.569	10.428.170	6.286.657
Unsecured wholesale funding, of which;	74.329.854	27.919.149	41.064.850	17.546.655
Operational deposit	3.834.434	103.189	958.609	25.797
Non-operational deposits	57.924.384	20.126.815	28.535.541	10.778.174
Other unsecured funding	12.571.036	7.689.145	11.570.700	6.742.684
Secured funding			-	-
Other cash outflows, of which;	32.824.502	7.555.615	5.860.235	4.194.966
Derivatives cash outflow and liquidity needs related to market valuation changes on derivatives or other transactions	2.578.537	2.599.608	2.578.537	2.599.608
Obligations related to structured financial products	-	-	-	-
Commitments related to debts to financial markets and other off-balance sheet obligations	30.245.965	4.956.007	3.281.698	1.595.358
Other revocable off-balance sheet commitments and contractual obligations	84	84	4	4
Other irrevocable or conditionally revocable off-balance sheet obligations	35.945.741	24.988.362	2.281.975	1.668.183
Total Cash Outflows			62.662.561	29.696.465
Cash Inflows				
Secured lending	-	-	-	-
Unsecured lending	18.004.635	5.421.212	11.848.702	4.006.921
Other cash inflows	1.818.527	9.998.517	1.818.527	9.998.517
Total Cash Inflows	19.823.162	15.419.729	13.667.229	14.005.438
			Upper Limit	Applied Amounts
Total HQLA Stock			41.092.964	30.768.491
Total Net Cash Outflows			48.995.332	15.691.027
Liquidity Coverage Ratio (%)			83,87	196,09

^(*) The average of last three months' liquidity coverage ratio calculated by weekly simple averages.

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SECTION FOUR (Continued)

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

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

2. Liquidity Coverage Ratio (Continued)

Prior Period	Total Unweighted Value (Average)^(*)		Total Weighted Value (Average)^(*)	
	TL+FC	FC	TL+FC	FC
High Quality Liquid Assets				
High Quality Liquid Assets			47.540.579	25.883.196
Cash Outflows				
Retail and Small Business Customers, of which;	139.622.809	48.641.664	11.188.731	4.864.166
Stable deposits	55.470.997	-	2.773.550	-
Less stable deposits	84.151.812	48.641.664	8.415.181	4.864.166
Unsecured wholesale funding , of which;	76.674.535	23.233.906	44.523.169	15.932.139
Operational deposit	1.091.398	99.046	272.850	24.761
Non-operational deposits	65.614.387	17.098.124	34.282.353	9.871.425
Other unsecured funding	9.968.750	6.036.736	9.967.966	6.035.953
Secured funding			-	-
Other cash outflows, of which;	17.543.097	11.632.861	4.231.557	10.452.019
Derivatives cash outflow and liquidity needs related to market valuation changes on derivatives or other transactions	2.099.449	9.962.086	2.099.449	9.962.086
Obligations related to structured financial products	-	-	-	-
Commitments related to debts to financial markets and other off-balance sheet obligations	15.443.648	1.670.775	2.132.108	489.933
Other revocable off-balance sheet commitments and contractual obligations	7.958	7.946	398	397
Other irrevocable or conditionally revocable off-balance sheet obligations	41.460.379	24.592.794	10.935.263	3.671.404
Total Cash Outflows			70.879.118	34.920.125
Cash Inflows				
Secured lending	-	-	-	-
Unsecured lending	15.750.567	7.211.585	11,018,841	6,409,508
Other cash inflows	1.116.070	577.297	1,116,070	577,297
Total Cash Inflows	16.866.637	7.788.882	12,134,911	6,986,805
			Upper Limit Applied Amounts	
Total HQLA Stock			47.540.579	25.883.196
Total Net Cash Outflows			58.744.207	27.933.320
Liquidity Coverage Ratio (%)			80,93	92,66

^(*) The average of last three months' liquidity coverage ratio calculated by weekly simple averages.

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SECTION FOUR (Continued)

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

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

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 previous periods, 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.

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 Senior Management. These limits are followed in particular frequency. Besides, It has reported to the relevant units and Senior 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 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 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.

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

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

3. Minimum statements concerning liquidity coverage ratio by Banks (Continued)

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.

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 the Republic of Turkey	38.487.144	-	-	-	-	-	-	38.487.144
Banks	709.229	1.394.476	750.783	455.317	-	-	-	3.309.805
Financial Assets at Fair Value Through Profit and Loss	-	250.756	846.173	346.914	47.699	4.696	-	1.496.238
Money Market Placements	-	1.171.578	-	-	-	-	-	1.171.578
Financial Assets Available-for-Sale	-	3.963.018	402.074	5.256.643	22.066.380	28.403.905	826.483	60.918.503
Loans Given	-	10.328.785	19.954.005	102.592.303	118.732.434	28.417.619	229.673	280.254.819
Investments Held-to-Maturity	-	190.035	10.172	2.115.189	3.224.089	1.689.690	-	7.229.175
Other Assets	2.422.000	-	-	815	47.820	-	12.848.751	15.319.386
Total Assets	41.618.373	17.298.648	21.963.207	110.767.181	144.118.422	58.515.910	13.904.907	408.186.648
Liabilities								
Interbank Deposits	1.884.512	8.705.698	1.953.111	1.973.149	-	-	-	14.516.470
Other Deposits	63.866.860	112.643.310	34.374.056	24.273.600	819.562	27.883	-	236.005.271
Funds Provided from Other Financial Institutions	-	1.045.119	2.946.500	14.394.380	4.392.163	2.893.790	-	25.671.952
Money Market Borrowings	-	48.450.592	1.670.115	1.703.129	790.143	-	-	52.613.979
Issued Marketable Securities	-	1.084.988	2.151.059	515.862	6.554.815	1.768.950	-	12.075.674
Sundry Creditors	2.616.177	1.496.331	-	-	-	-	-	4.112.508
Other Liabilities ⁽³⁾	2.336.441	764.065	813.023	43.452	6.020.884	1.184.150	52.028.779	63.190.794
Total Liabilities	70.703.990	174.190.103	43.907.864	42.903.572	18.577.567	5.874.773	52.028.779	408.186.648
Liquidity Gap	(29.085.617)	(156.891.455)	(21.944.657)	67.863.609	125.540.855	52.641.137	(38.123.872)	-
Net Off-Balance Sheet Position								
Financial Derivative Assets	-	31.725.793	6.906.785	2.249.651	2.797.440	-	-	43.679.669
Financial Derivative Liabilities	-	31.795.786	6.589.950	2.104.496	2.375.841	-	-	42.866.073
Non-cash Loans	39.856.323	2.054.664	3.918.524	22.427.094	17.963.434	3.571.550	-	89.791.589
Prior Period								
Total Assets	43.053.681	13.181.160	19.559.096	96.956.280	120.432.400	52.953.387	11.625.361	357.761.365
Total Liabilities	60.235.498	164.181.428	34.696.846	35.503.946	16.011.098	3.594.314	43.538.235	357.761.365
Liquidity Gap	(17.181.817)	(151.000.268)	(15.137.750)	61.452.334	104.421.302	49.359.073	(31.912.874)	-
Net Off-Balance Sheet Position								
Financial Derivative Assets	-	23.473.210	7.443.469	2.592.683	2.630.850	-	-	36.140.212
Financial Derivative Liabilities	-	23.366.442	7.445.833	2.089.481	2.042.551	-	-	34.944.307
Non-cash Loans	37.633.442	1.000.651	4.810.877	18.060.727	14.125.438	3.523.973	-	79.155.108

(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 5.981.522 of the funds balance, whose risk is not born by the Bank, is included in other liabilities and shown under the "1-5 years" column, fund balance amounted to TL 60.213 is not granted as loan and is included under "Up to One Month" column.

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SECTION FOUR (Continued)

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

VI. EXPLANATIONS ON LEVERAGE

1. Explanations on the difference between the prior and current period of leverage ratio

The Bank’s leverage calculated by force of the regulation “Regulation on Measurement and Assessment of Leverage Ratios of Banks” is 8,48% (31 December 2016: 8,20%). The change on leverage results occur from the more percental increase on Tier 1 capital than the percental increase on total risk amount. The regulation sentenced the minimum leverage as 3%.

Balance sheet assets	Current Period ^(*)	Prior Period ^(*)
On-balance sheet items (excluding derivative financial instruments and credit derivatives but including collateral)	403.450.513	346.632.324
(Assets deducted in determining Tier 1 capital)	(1.866.112)	(1.692.335)
Total on-balance sheet risks (sum of lines 1 and 2)	401.584.401	344.939.989
Derivative financial instruments and credit derivatives		
Replacement cost associated with all derivative financial instruments and credit Derivatives	1.638.534	1.504.647
Add-on amounts for PFE associated with all derivative financial instruments and credit derivatives	454.725	387.907
Total risks of derivative financial instruments and credit derivatives	2.093.259	1.892.554
Securities or commodity financing transactions (SCFT)		
Risks from SCFT assets	4.728.090	4.866.676
Risks from brokerage activities related exposures	-	-
Total risks related with securities or commodity financing transactions	4.728.090	4.866.676
Other off-balance sheet transactions		
Gross notional amounts of off-balance sheet transactions	118.808.847	100.106.176
(Adjustments for conversion to credit equivalent amounts)	-	(6.360)
Total risks of off-balance sheet items	118.808.847	100.099.816
Capital and total risks		
Tier 1 capital	44.689.256	36.997.585
Total risks	527.214.597	451.799.035
Leverage ratio		
Leverage ratio %	8,48	8,20

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

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SECTION FOUR (Continued)

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

VII. EXPLANATIONS ON RISK MANAGEMENT

Notes and explanations prepared in accordance with “the Communiqué on Disclosures about Risk Management to Be Announced to Public by Banks” published in Official Gazette no. 29511 on 23 October 2015 and became effective as of 31 March 2016 are presented in this section. As of 30 September 2017, the following notes to be presented on a quarterly and semi-annually basis according to Communiqué have not been presented due to usage of standard approach for the calculation of capital adequacy by the Bank.

RWA flow statements of market risk exposures under an Internal Model Approach (IMA)

RWA (Risk Weighted Amounts) flow statements of credit risk exposures under IRB

RWA flow statements of Counterparty Credit Risk (CCR) exposures under the Internal Model Method (IMM)

1. Explanations on Risk Management and Risk Weighted Amounts

Overview of Risk Weighted Amounts

		Risk Weighted Amount		Minimum capital requirement
		Current Period	Prior Period	Current Period
1	Credit Risk (excluding counterparty credit risk)	264.186.754	244.241.413	21.134.940
2	Standardised approach	264.186.754	244.241.413	21.134.940
3	Internal rating-based approach	-	-	-
4	Counterparty credit risk	3.253.163	3.268.338	260.253
5	Standardised approach for counterparty credit risk	3.253.163	3.268.338	260.253
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	1.918.224	1.669.911	153.458
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	17.907.128	14.083.788	1.432.570
17	Standardised approach	17.907.128	14.083.788	1.432.570
18	Internal model approaches	-	-	-
19	Operational risk	23.652.179	18.989.055	1.892.174
20	Basic Indicator approach	23.652.179	18.989.055	1.892.174
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)	310.917.448	282.252.505	24.873.395

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SECTION FOUR (Continued)

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

VIII. EXPLANATIONS ON OPERATING SEGMENTS

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

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

Known as having the most extensive branch network in retail banking sector, the 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 Bank. By “Finart” system, which is working in a centralized manner, the Bank has the technical infrastructure required by modern banking sector to meet its clients’ needs.

In the context of corporate and entrepreneurial banking, the Bank gives loans for operations, mid-term and long-term investment loans, foreign trade financing loans, letter of credits 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 Bank is the main financial institution that meets the financing needs of agricultural sector in Turkey, it extends 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 are conducted by the Treasury Management and International Banking Executive Vice Presidency By foregoing departments, the Bank's liquidity is used for Turkish Lira, foreign exchange and securities transactions in local and international organized and over-the-counter markets, and enables sources of funds in Turkish Lira and foreign currencies according to the needs of the Bank. The Bank acts as an intermediary for transaction of securities and Eurobonds by the related departments, for transaction of shares and public offerings as an agency of Ziraat Yatırım Menkul Değerler A.Ş. and for transaction of investment funds founded by Ziraat Portföy Yönetimi A.Ş. and other portfolio management companies’, and keeps records of these financial instruments and the Bank performs repo/reverse repo transactions. Besides the Bank performs derivative transactions which are accounted as held for trading. As financial derivative transactions, the Bank performs foreign currency forward agreements and currency swap transactions. Besides, the Bank has commission revenue from insurance and other finance institutions by rendering agency services through its branches.

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

As of 30 September 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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SECTION FOUR (Continued)

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

VIII. EXPLANATIONS ON OPERATING SEGMENTS (Continued)

Table for Segment Reporting

Current Period	Retail Banking	Corporate/ Entrepreneurial Banking	Specialized Banking	Treasury/ Investment Banking	Other/ Undistributed	Total
OPERATING INCOME/EXPENSE 30.09.2017						
Interest Income	6.578.430	9.271.739	4.146.227	5.586.767	45.707	25.628.870
Interest Income from Loans	6.578.430	9.271.739	4.146.227	443.773	-	20.440.169
Interest Income from Banks	-	-	-	94.612	-	94.612
Interest Income from Securities	-	-	-	4.478.375	-	4.478.375
Other Interest Income	-	-	-	570.007	45.707	615.714
Interest Expense	5.464.681	2.708.895	-	5.137.743	62.272	13.373.591
Interest Expense on Deposits	5.464.681	2.708.895	-	604.218	-	8.777.794
Interest Expense on Funds Borrowed	-	-	-	484.124	-	484.124
Interest Expense on Money Market Transactions	-	-	-	3.607.155	-	3.607.155
Interest Expense on Securities Issued	-	-	-	442.246	-	442.246
Other Interest Expense	-	-	-	-	62.272	62.272
Net Interest Income/Expense	1.113.749	6.562.844	4.146.227	449.024	(16.565)	12.255.279
Net Fees and Commission Income/Expense	1.028.070	709.604	73.756	(240.924)	32.430	1.602.936
Fees and Commissions Received	1.028.070	709.604	73.756	4.371	115.256	1.931.057
Fees and Commissions Paid	-	-	-	245.295	82.826	328.121
Dividend Income	-	-	-	283.827	-	283.827
Trading Income/Loss (Net)	-	-	-	(346.796)	-	(346.796)
Other Operating Income	30.678	205.582	14.760	1.282	785.255	1.037.557
Provision for Loans or Other Receivables Losses	456.595	776.821	295.114	212	265.400	1.794.142
Other Operating Expense	92.618	518.087	35.303	-	4.178.769	4.824.777
Income Before Tax	1.623.284	6.183.122	3.904.326	146.201	(3.643.049)	8.213.884
Profit/Loss on Equity Method Applied Subsidiaries	-	-	-	-	-	-
Tax Provision	-	-	-	-	(1.706.745)	(1.706.745)
Net Profit/Loss	1.623.284	6.183.122	3.904.326	146.201	(5.349.794)	6.507.139
SEGMENT ASSETS 30.09.2017						
Financial Assets at FV Through P/L	-	-	-	1.496.238	-	1.496.238
Banks and Other Financial Institutions	-	-	-	4.481.383	-	4.481.383
Financial Assets Available for Sale (Net)	-	-	-	60.918.503	-	60.918.503
Loans	80.986.243	137.784.662	52.344.383	9,139.531	-	280.254.819
Held to Maturity Investments (Net)	-	-	-	7,229.175	-	7,229.175
Associates, Subsidiaries and Joint Ventures	-	-	-	4,846.818	-	4,846.818
Other Assets	-	-	-	-	48,959.712	48,959.712
TOTAL SEGMENT ASSETS	80.986.243	137.784.662	52.344.383	88.111.648	48.959.712	408.186.648
SEGMENT LIABILITIES 30.09.2017						
Deposits	177,895,100	54,771,733	-	14,516,470	3,338,438	250,521,741
Derivative Financial Liabilities Held for Trading	-	-	-	560,518	-	560,518
Funds Borrowed	-	-	-	25,671,952	-	25,671,952
Money Market Funds	-	-	-	52,613,979	-	52,613,979
Securities Issued (Net)	-	-	-	12,075,674	-	12,075,674
Provisions	-	-	-	-	7,341,119	7,341,119
Other Liabilities	-	-	-	-	13,529,706	13,529,706
Shareholders' Equity	-	-	-	-	45,871,959	45,871,959
TOTAL SEGMENT LIABILITIES	177.895.100	54.771.733	-	105.438.593	70.081.222	408.186.648
OTHER SEGMENT ITEMS 30.09.2017						
Capital Investment	-	-	-	-	-	-
Amortization Expense	-	-	-	-	321,098	321,098
Restructuring Costs	-	-	-	-	-	-

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SECTION FOUR (Continued)

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

VIII. EXPLANATIONS ON OPERATING SEGMENTS (Continued)

Table for Segment Reporting (Continued)

Prior Period	Retail Banking	Corporate/ Entrepreneurial Banking	Specialized Banking	Treasury/ Investment Banking	Other /Undistributed	Total
OPERATING INCOME/EXPENSE 30.09.2016						
Interest Income	4.942.177	6.906.578	3.388.849	4.676.847	15.499	19.929.950
Interest Income from Loans	4.942.177	6.906.578	3.388.849	342.558	-	15.580.162
Interest Income from Banks	-	-	-	60.187	-	60.187
Interest Income from Securities	-	-	-	4.140.922	-	4.140.922
Other Interest Income	-	-	-	133.180	15.499	148.679
Interest Expense	4.829.176	2.141.980	-	2.831.434	42.460	9.845.050
Interest Expense on Deposits	4.829.176	2.141.980	-	310.100	-	7.281.256
Interest Expense on Funds Borrowed	-	-	-	326.100	-	326.100
Interest Expense on Money Market Transactions	-	-	-	1.921.685	-	1.921.685
Interest Expense on Securities Issued	-	-	-	273.549	-	273.549
Other Interest Expense	-	-	-	-	42.460	42.460
Net Interest Income/Expense	113.001	4.764.598	3.388.849	1.845.413	(26.961)	10.084.900
Net Fees and Commission Income/Expense	735.226	532.733	74.696	(183.012)	(12.665)	1.146.978
Fees and Commissions Received	735.226	532.733	74.696	3.074	80.851	1.426.580
Fees and Commissions Paid	-	-	-	186.086	93.516	279.602
Dividend Income	-	-	-	255.651	-	255.651
Trading Income/Loss (Net)	-	-	-	(96.364)	-	(96.364)
Other Operating Income	23.689	195.065	23.779	2.727	1.027.997	1.273.257
Provision for Loans or Other Receivables Losses	685.405	1.238.855	535.590	120	16.336	2.476.306
Other Operating Expense	41.903	183.668	34.439	-	3.604.266	3.864.276
Income Before Tax	144.608	4.069.873	2.917.295	1.824.295	(2.632.231)	6.323.840
Profit/Loss on Equity Method Applied Subsidiaries	-	-	-	-	-	-
Tax Provision	-	-	-	-	(1.315.202)	(1.315.202)
Net Profit/Loss	144.608	4.069.873	2.917.295	1.824.295	(3.947.433)	5.008.638
SEGMENT ASSETS 31.12.2016						
Financial Assets at FV Through P/L	-	-	-	1.684.791	-	1.684.791
Banks and Other Financial Institutions	-	-	-	3.901.674	-	3.901.674
Financial Assets Available for Sale (Net)	-	-	-	58.631.953	-	58.631.953
Loans	63.372.852	112.969.545	46.461.974	9.839.164	-	232.643.535
Held to Maturity Investments (Net)	-	-	-	8.749.464	-	8.749.464
Associates, Subsidiaries and Joint Ventures	-	-	-	4.311.740	-	4.311.740
Other Assets	-	-	-	-	47.838.208	47.838.208
TOTAL SEGMENT ASSETS	63.372.852	112.969.545	46.461.974	87.118.786	47.838.208	357.761.365
SEGMENT LIABILITIES 31.12.2016						
Deposits	152.533.664	56.051.062	-	12.093.270	2.340.938	223.018.934
Derivative Financial Liabilities Held for Trading	-	-	-	643.628	-	643.628
Funds Borrowed	-	-	-	22.816.736	-	22.816.736
Money Market Funds	-	-	-	47.211.961	-	47.211.961
Securities Issued (Net)	-	-	-	6.833.001	-	6.833.001
Provisions	-	-	-	-	6.053.011	6.053.011
Other Liabilities	-	-	-	-	12.801.656	12.801.656
Shareholders' Equity	-	-	-	-	38.382.438	38.382.438
TOTAL SEGMENT LIABILITIES	152.533.664	56.051.062	-	89.598.596	59.578.043	357.761.365
OTHER SEGMENT ITEMS 30.09.2016						
Capital Investment	-	-	-	-	-	-
Amortization Expense	-	-	-	-	230.759	230.759
Restructuring Costs	-	-	-	-	-	-

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SECTION FIVE

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS

I. EXPLANATIONS AND NOTES RELATED TO 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	1.882.985	1.291.195	1.720.392	925.443
Central Bank of the Republic of Turkey	5.447.179	29.857.396	5.817.157	30.694.784
Other	-	8.389	3.775	5.546
Total	7.330.164	31.156.980	7.541.324	31.625.773

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 2015/19. 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%; 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 from the 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.

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

	Current Period		Prior Period	
	TL	FC	TL	FC
Unrestricted Demand Deposit	5.272.128	4.152.009	5.719.162	2.254.136
Unrestricted Time Deposit	-	-	-	2.312.376
Restricted Time Deposit	-	98.865	-	-
Other ⁽¹⁾	175.051	25.606.522	97.995	26.128.272
Total	5.447.179	29.857.396	5.817.157	30.694.784

⁽¹⁾ Includes required reserves and CBRT Restricted Electronic Money Funds amounting to TL 9.613 (31 December 2016: None). Required reserve of branches abroad amounting to TL 91.841 is presented in this line (31 December 2016: TL 88.706). TL 11.807.358 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).

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SECTION FIVE (Continued)

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

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

Derivative financial assets held-for-trading	Current Period		Prior Period	
	TL	FC	TL	FC
Forward Transactions	46.425	47.502	34.251	53.817
Swap Transactions	1.092.712	296.649	1.161.871	417.406
Futures Transactions	-	-	-	-
Options	9	298	42	-
Other	-	-	-	-
Total	1.139.146	344.449	1.196.164	471.223

4. Information on banks and other financial institutions

	Current Period		Prior Period	
	TL	FC	TL	FC
Banks				
Domestic Banks	663.131	-	460.807	103.935
Foreign Banks	193.266	2.453.408	66.300	3.270.632
Foreign Head Office and Branches	-	-	-	-
Total	856.397	2.453.408	527.107	3.374.567

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	18.183.275	41.249.265
Assets Blocked/Given as Collateral	40.199.743	5.865.705
Total	58.383.018	47.114.970

6. Information on financial assets available for sale

	Current Period	Prior Period
Debt Securities	61.501.909	59.985.217
Quoted in Stock Exchange	61.419.755	59.908.367
Not Quoted in Stock Exchange	82.154	76.850
Share Certificates	859.965	676.873
Quoted in Stock Exchange	708.200	525.325
Not Quoted in Stock Exchange	151.765	151.548
Provision for Impairment (-)	1.443.371	2.030.137
Total	60.918.503	58.631.953

7. Information related to loans

7.1 Information on all types of loans and advances given to shareholders and employees of the Bank

	Current Period		Prior Period	
	Cash	Non-Cash	Cash	Non-Cash
Direct Loans Granted to Shareholders	-	-	-	-
Legal Entities	-	-	-	-
Individuals	-	-	-	-
Indirect Loans Granted to Shareholders	-	-	-	-
Loans Granted to Employees ^{(1) (2)}	327.943	-	273.923	-
Total	327.943	-	273.923	-

(1) Interest rediscount and interest accrual amounting TL 3.054, are not included in the table above.

(2) Since the balance of overdraft accounts related to employees amounting TL 15.274, is showed under Table 7.3. as overdraft accounts (real person), it is not included to the table above.

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SECTION FIVE (Continued)

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

7. Information related to loans (Continued)

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		Loans and Other Receivables	Restructured or Rescheduled	
		Loans and other receivables with revised contract terms ⁽¹⁾	Other		Loans and other receivables with revised contract terms ⁽¹⁾	Other
Non-Specialized Loans	217.097.929	3.624.322	-	1.623.800	2.122.864	-
Commercial Loans	128.313.079	2.279.198	-	864.647	1.865.846	-
Export Loans	3.985.755	407	-	21.027	-	-
Import Loans	-	-	-	-	-	-
Loans Given to Financial Sector	5.132.341	-	-	-	-	-
Consumer Loans	74.867.962	1.344.632	-	689.511	254.298	-
Credit Cards	3.891.326	85	-	41.851	2.720	-
Other ⁽²⁾	907.466	-	-	6.764	-	-
Specialized Lending ^{(3) (4)}	43.575.481	4.697.817	-	603.771	466.732	-
Other Receivables	-	-	-	-	-	-
Interest Income Accruals ⁽²⁾	6.212.430	-	-	-	-	-
Total	266.885.840	8.322.139	-	2.227.571	2.589.596	-

⁽¹⁾ Restructured or rescheduled loans cannot be decomposed systematically. Therefore it is shown in the “Loans and other receivables with revised contract terms” section.

⁽²⁾ Restructured or rescheduled loans and the loans under close monitoring and the separation of the accruals of other receivables cannot be obtained by the available information operating system.

⁽³⁾ Fund sourced agricultural loans are shown under Specialized Lending.

⁽⁴⁾ 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 ^(*)	7.953.848	2.416.049
3 - 4 or 5 Times Extended	367.080	171.449
Over 5 Times Extended	1.211	2.098

^(*) Number of modification made according to extent of payment plan of individual loans cannot be decomposed systematically therefore it is shown in this line.

Extension Periods	Standard Loans and Other Receivables	Loans and Other Receivables Under Close Monitoring
0 - 6 Months	6.896.529	1.612.120
6 - 12 Months	310.202	160.882
1 - 2 Years	297.101	268.592
2 - 5 Years	768.122	484.036
5 Years and Over	50.185	63.966
Total	8.322.139	2.589.596

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SECTION FIVE (Continued)

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

7. Information related to loans (Continued)

7.3. Information on consumer loans, individual credit cards and personnel loans and personnel credit cards

	Short-Term	Medium and Long-Term	Total
Consumer Loans-TL	532.658	75.271.087	75.803.745
Real Estate Loans ⁽²⁾	11.214	44.999.405	45.010.619
Vehicle Loans	2.618	185.750	188.368
Consumer Loans ⁽²⁾	514.522	29.724.543	30.239.065
Abroad	4.304	361.389	365.693
Other	-	-	-
Consumer Loans- Indexed to FC	-	-	-
Real Estate Loans	-	-	-
Vehicle Loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Consumer Loans-FC	443	21.816	22.259
Real Estate Loans	-	264	264
Vehicle Loans	-	-	-
Consumer Loans	-	3.422	3.422
Abroad	443	18.130	18.573
Other	-	-	-
Individual Credit Cards-TL	3.189.618	50.103	3.239.721
With Installment	1.101.864	47.090	1.148.954
Without Installment	2.087.754	3.013	2.090.767
Individual Credit Cards-FC	430	-	430
With Installment	-	-	-
Without Installment	430	-	430
Personnel Loans-TL	10.198	220.915	231.113
Real Estate Loans	-	127	127
Vehicle Loans	-	-	-
Consumer Loans	10.090	218.657	228.747
Abroad	108	2.131	2.239
Other	-	-	-
Personnel Loans-Indexed to FC	-	-	-
Real Estate Loans	-	-	-
Vehicle Loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Personnel Loans-FC	-	-	-
Real Estate Loans	-	-	-
Vehicle Loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Personnel Credit Cards-TL	95.932	875	96.807
With Installment	40.259	798	41.057
Without Installment	55.673	77	55.750
Personnel Credit Cards-FC	23	-	23
With Installment	-	-	-
Without Installment	23	-	23
Overdraft Accounts-TL (Real Person)	1.099.286	-	1.099.286
Overdraft Accounts-FC (Real Person)	-	-	-
Total ⁽¹⁾	4.928.588	75.564.796	80.493.384

⁽¹⁾ TL 488.296 of interest income accrual is not included in the table above.

⁽²⁾ Consumer loans originated from funds amounting to TL 3.688.746 of are included in the table above.

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SECTION FIVE (Continued)

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

7. Information related to loans (Continued)

7.4. Information on commercial installment loans and corporate credit cards

	Short-Term	Medium and Long-Term	Total
Commercial Installment Loans-TL	1.699.748	27.774.920	29.474.668
Business Loans	1.029	464.388	465.417
Vehicle Loans	40.205	819.311	859.516
Consumer Loans	1.658.514	26.491.221	28.149.735
Other	-	-	-
Commercial Installment Loans- Indexed to FC	-	-	-
Business Loans	-	-	-
Vehicle Loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Commercial Installment Loans - FC	5.834	17.059.582	17.065.416
Business Loans	-	-	-
Vehicle Loans	-	-	-
Consumer Loans	5.834	17.059.582	17.065.416
Other	-	-	-
Corporate Credit Cards-TL	590.918	8.029	598.947
With Installment	199.733	7.995	207.728
Without Installment	391.185	34	391.219
Corporate Credit Cards-FC	54	-	54
With Installment	-	-	-
Without Installment	54	-	54
Overdraft Account-TL (Legal Entity)	157.916	-	157.916
Overdraft Account-FC (Legal Entity)	-	-	-
Total ⁽¹⁾	2.454.470	44.842.531	47.297.001

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

7.5. Breakdown of domestic and international loans

	Current Period	Prior Period
Domestic Loans	268.014.469	222.345.932
Foreign Loans	5.798.247	5.534.117
Interest Income Accruals of Loans	6.212.430	4.512.037
Total	280.025.146	232.392.086

7.6. Loans granted to subsidiaries and associates

	Current Period	Prior Period
Direct loans granted to subsidiaries and associates	1.428.446	1.168.414
Indirect loans granted to subsidiaries and associates	-	-
Total	1.428.446	1.168.414

7.7. Specific provisions provided against loans

	Current Period	Prior Period
Loans and other receivables with limited collectability	204.518	340.774
Loans and other receivables with doubtful collectability	635.368	934.428
Uncollectible loans and other receivables	3.472.897	2.690.446
Total	4.312.783	3.965.648

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SECTION FIVE (Continued)

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

7. Information related to loans (Continued)

7.8. Information on non-performing receivables (net)

7.8.1. Information on loans and other receivables included in non-performing receivables which are restructured or rescheduled

	Group III	Group IV	Group V
	Loans and receivables with limited collectability	Loans and receivables with doubtful collectability	Uncollectible loans and receivables
Current Period	7.446	43.828	147.985
(Gross amounts before the specific provisions)			
Loans and other receivables which are restructured	7.446	43.828	147.985
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	-	-	-

7.8.2. Information on the movement of non-performing receivables

	Group III	Group IV	Group V
	Loans and receivables with limited collectability	Loans and receivables with doubtful collectability	Uncollectible loans and receivables
Prior Period Ending Balance	342.701	943.119	2.931.277
Additions (+)	1.228.284	134.426	218.405
Transfers from Other Categories of Loans under Follow-Up (+)	-	1.248.788	1.526.155
Transfers to Other Categories of Loans under Follow-Up (-)	1.248.788	1.526.155	-
Collections (-) ⁽¹⁾	117.539	156.717	981.500
Write-offs (-)	-	-	-
Corporate and Commercial Loans	-	-	-
Consumer Loans	-	-	-
Credit Cards	-	-	-
Other	-	-	-
Current Period End Balance ⁽²⁾	204.658	643.461	3.694.337
Specific Provision (-)	204.518	635.368	3.472.897
Net Balance on Balance Sheet ⁽²⁾	140	8.093	221.440

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

⁽²⁾ Includes the loans originated from funds amounting to TL 229.673 whose risk does not belong to the Bank.

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SECTION FIVE (Continued)

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

7. Information related to loans (Continued)

7.8. Information on non-performing receivables (net) (Continued)

7.8.3. Information on foreign currency non-performing loans

	Group III	Group IV	Group V
	Loans and other receivables with limited collectability	Loans and other receivables with doubtful collectability	Uncollectible loans and other receivables
Current Period:			
Period Ending Balance	960	131	16.398
Specific Provision (-)	960	131	16.398
Net Balance on Balance Sheet	-	-	-
Prior Period:			
Period Ending Balance	254	34	16.550
Specific Provision (-)	254	34	16.550
Net Balance on Balance Sheet	-	-	-

7.8.4. Gross and net amounts of non-performing receivables according to user groups

	Group III	Group IV	Group V
	Loans and other receivables with limited collectability	Loans and other receivables with doubtful collectability	Uncollectible loans and other receivables
Current Period (Net)	140	8.093	221.440
Loans to Real Persons and Legal Entities (Gross)	204.658	560.596	3.694.337
Specific Provisions (-)	204.518	552.503	3.472.897
Loans to Real Persons and Legal Entities (Net)	140	8.093	221.440
Banks (Gross)	-	-	-
Specific Provisions (-)	-	-	-
Banks (Net)	-	-	-
Other Loans and Receivables (Gross)	-	82.865	-
Specific Provisions (-)	-	82.865	-
Other Loans and Receivables (Net)	-	-	-
Prior Period (Net)	1.927	8.691	240.831
Loans to Real Persons and Legal Entities (Gross)	342.701	867.487	2.931.277
Specific Provisions (-)	340.774	858.796	2.690.446
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)	-	75.632	-
Specific Provisions (-)	-	75.632	-
Other Loans and Receivables (Net)	-	-	-

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SECTION FIVE (Continued)

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

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	170.929	1.935.475	2.301.823	2.384.104
Treasury Bills	-	-	-	-
Other Public Sector Debt Securities	-	-	-	-
Bank Bonds and Bank Guaranteed Bonds	-	-	-	-
Asset Backed Securities	-	-	-	-
Other	-	-	-	-
Total	170.929	1.935.475	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	2.289.848	2.486.982	1.089.898	2.252.339
Other	-	-	-	-
Total	2.289.848	2.486.982	1.089.898	2.252.339

8.2. Information on held-to-maturity government bonds and treasury bills

	Current Period	Prior Period
Government Bonds	7.062.319	8.602.440
Treasury Bills	-	-
Other Public Sector Debt Securities	-	-
Total	7.062.319	8.602.440

8.3 Information on held-to-maturity investments

	Current Period	Prior Period
Debt securities	7.229.175	8.749.464
Quoted in a Stock Exchange	7.062.319	8.602.440
Not Quoted in a Stock Exchange	166.856	147.024
Provision for Impairment (-)	-	-
Total	7.229.175	8.749.464

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SECTION FIVE (Continued)

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

8. Information on held-to-maturity investments (Continued)

8.4 Movements of held-to-maturity investments

	Current Period	Prior Period
Beginning Balance	8.749.464	10.144.142
Foreign Currency Differences on Monetary Assets	194.865	466.322
Purchases During the Year ^(*)	307.555	937.047
Disposals through Sales and Redemptions	(2.022.709)	(2.798.047)
Provision for Impairment (-)	-	-
Period End Balance	7.229.175	8.749.464

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

Within the year 2008, the 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 which are accounted under shareholders’ equity are amounted as USD 9.295 thousand and EUR 603 thousand respectively.

As of balance sheet date, the total fair values of reclassified held for trading securities to held to maturity securities are EUR 19.945 thousand and USD 65.128 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 28.908 would have been recorded. As of 30 September 2017, the reclassification from held for trading securities to held-to-maturity investments has an expense impact of TL 28.822.

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SECTION FIVE (Continued)

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

9. Information about associates (net)

	Description	Address (City/ Country)	The Bank’s Share Percentage, if Different, Voting Percentage (%)	The Bank’s Risk Group Share Percentage (%)
1	Bankalararası Kart Merkezi A.Ş.	Istanbul/Turkey	12,50	17,98
2	Kredi Kayıt Bürosu A.Ş.	Istanbul/ Turkey	10,00	9,09
3	Arap Türk Bankası A.Ş.	Istanbul/Turkey	22,22	15,43

	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	80.603	48.183	47.322	927	-	8.286	14.517	-
2	243.705	153.651	149.688	4.164	-	31.738	16.458	-
3	4.721.743	771.345	114.177	117.380	48.126	66.783	47.919	-

⁽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 reviewed financial statements as of 30 September 2017. Prior period profit/loss information of associates has been provided from limited reviewed financial statements as of 30 September 2016.

⁽³⁾ Total fixed assets include tangible and intangible assets.

9.1 Information about associates (net)

	Current Period	Prior Period
Balance at the Beginning of the Period	88.846	88.846
Movement During the Period	-	-
Additions	-	-
Bonus Share Certificates	-	-
Shares of Current Year Profits	-	-
Transfer	-	-
Sales	-	-
Revaluation Increase	-	-
Impairment Provision	-	-
Balance at the End of the Period	88.846	88.846
Capital Commitments	-	-
Period Ending Share of Capital Participation (%)	15,43	15,43

	Current Period	Prior Period
Banks	88.846	88.846
Insurance Companies	-	-
Factoring Companies	-	-
Leasing Companies	-	-
Finance Companies	-	-
Other Financial Associates	-	-

9.2 Associates quoted to a stock exchange

None (31 December 2016: None).

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SECTION FIVE (Continued)

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

10. Information on subsidiaries (net)

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 shareholders’ equity.

	Description	Address (City/ Country)	The Bank’s Share Percentage-if different Voting Percentage (%)	The Bank’s Risk Group Share Percentage (%)
1	Ziraat Hayat ve Emeklilik A.Ş.	İstanbul / Turkey	100,00	100,00
2	Ziraat Sigorta A.Ş.	İstanbul / Turkey	100,00	100,00
3	Ziraat Finansal Kiralama A.Ş.	İstanbul / Turkey	100,00	100,00
4	Ziraat Yatırım Menkul Değerler A.Ş.	İstanbul / Turkey	100,00	99,60
5	Ziraat Portföy Yönetimi A.Ş.	İstanbul / Turkey	100,00	99,70
6	Ziraat Katılım Bankası A.Ş.	İstanbul / Turkey	100,00	100,00
7	Ziraat Gayrimenkul Yatırım Ortaklığı A.Ş.	İstanbul / Turkey	100,00	100,00
8	Ziraat Teknoloji A.Ş.	İstanbul / Turkey	100,00	100,00
9	Ziraat Bank International A.G.	Frankfurt / Germany	100,00	100,00
10	Ziraat Bank BH d.d.	Sarajevo / Bosnia Herzegovina	100,00	100,00
11	Ziraat Bank (Moscow) JSC	Moscow / Russia	100,00	100,00
12	Kazakhstan Ziraat Int. Bank	Almaty / Kazakhstan	100,00	99,58
13	Ziraat Bank Azerbaycan ASC	Baku / Azerbaijan	100,00	100,00
14	Ziraat Bank Montenegro AD	Podgorica / Montenegro	100,00	100,00
15	JSC Ziraat Bank Georgia ^(*)	Tbilisi / Georgia	100,00	100,00

^(*) 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.

	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 amount needed
1	5.164.396	528.162	2.760	143.584	-	314.019	140.308	-	-
2	1.106.417	371.796	1.695	64.848	-	158.955	94.413	-	-
3	2.556.206	343.876	1.415	1.236	-	77.115	28.966	-	-
4	162.376	104.248	426	52.093	666.111	28.098	18.436	-	-
5	38.966	34.112	622	2.724	19.898	10.728	6.750	-	-
6	12.043.556	1.352.852	74.261	625.722	32.865	98.592	12.437	-	-
7	1.358.049	1.357.008	1.054.897	26.697	-	43.279	-	-	-
8	52.183	9.980	14.384	781	113	(641)	(575)	-	-
9	7.056.660	887.481	17.303	154.696	1.793	51.423	27.101	782.931	-
10	2.054.480	339.021	75.701	64.169	246	6.376	(5.019)	280.456	-
11	323.292	152.000	11.031	24.697	184	10.391	6.738	109.090	-
12	647.096	258.240	14.862	25.691	6.124	16.315	(505)	237.838	-
13	344.948	129.528	23.339	16.855	627	5.948	10.310	135.261	-
14	213.267	30.357	3.708	5.326	187	(2.671)	(3.865)	29.540	-
15	111.327	32.994	5.414	1.610	558	1.199	-	32.078	-

⁽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⁾ Information on subsidiaries shown in the above table has been provided from unreviewed financial statements as of 30 September 2017, the prior period profit/loss balances have been provided from limited reviewed financial statements as of 30 September 2016.

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

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SECTION FIVE (Continued)

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

10. Information on subsidiaries (net) (Continued)

	Current Period	Prior Period
Balance at the Beginning of the Period	4.101.352	2.442.943
Movements During the Period	535.078	1.658.409
Additions to Scope of Consolidation	-	-
Purchases ⁽¹⁾	532.078	1.446.624
Bonus Shares Obtained	3.000	2.996
Dividends from current year income	-	-
Transfers to available for sale assets	-	-
Sales	-	-
Revaluation Increase	-	281.824
Impairment Provision (-)	-	73.035
Balance at the End of the Period	4.636.430	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.

	Current Period	Prior Period
Banks	2.857.194	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

10.1. 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	47.012	47.012	1.442.217	11.432	11.515	32.340	20.909
UTBANK JSC	45.815	45.833	202.291	1.474	1.483	69.847	20.014
Total	92.827	92.845	1.644.508	12.906	12.998	102.187	40.923

⁽¹⁾ Information on entities under joint control is provided from the unaudited financial statements as of 30 September 2017.

⁽²⁾ Represents the Bank's share in the shareholders' equity of these entities 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.

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SECTION FIVE (Continued)

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

12. Information on finance lease receivables (net)

The Bank has no finance lease receivables (31 December 2016: None).

13. Information on derivative financial assets for hedging purposes

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

14. Information on investment property

None (31 December 2016: None).

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

Bank 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 Bank. Those immovables considered for sales are announced at the web site of the Bank.

The Bank’s immovables acquired amount to TL 656.973 consisting of TL 13.622 due to consumer loans, TL 577.424 on its commercial loans and TL 65.927 on its agricultural loans. Also, the sum of movables acquired from consumer loan amounts to TL 2.660.

16. Explanations on property and equipment

	Immovables	Tangibles- Financial- Leasing	Vehicles	Operational Leasing Development Costs	Other Tangibles	Total
Prior Period End						
Cost	5.779.796	12.349	44.429	229.108	833.077	6.898.759
Accumulated Depreciation (-)	963.644	3.323	25.671	146.507	442.099	1.581.244
Impairment (-)	2.312	-	-	-	-	2.312
Net Book Value	4.813.840	9.026	18.758	82.601	390.978	5.315.203
Current Period End						
Net Book Value at the Beginning of the Period	4.813.840	9.026	18.758	82.601	390.978	5.315.203
Change During the Period (Net)	(184.045)	(272)	(3.904)	(12.117)	17.524	(182.814)
- Cost	(39.838)	703	(841)	15.262	99.881	75.167
- Depreciation – net (-)	144.207	975	3.063	27.379	82.357	257.981
- Impairment (-)	-	-	-	-	-	-
Net Currency Translation from Foreign Subsidiaries	-	-	-	-	-	-
Cost at Period End	5.739.958	13.052	43.588	244.370	932.958	6.973.926
Accumulated Depreciation at Period End (-)	1.107.851	4.298	28.734	173.886	524.456	1.839.225
Impairment (-)	2.312	-	-	-	-	2.312
Closing Net Book Value	4.629.795	8.754	14.854	70.484	408.502	5.132.389

17. 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).

18. 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).

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SECTION FIVE (Continued)

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES

1. Information on Deposits/Funds collected

1.1. Information on maturity structure of deposits collected

Current Period	Demand	7 Days 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	25.296.251	-	3.032.203	62.060.102	4.941.864	1.018.461	910.070	86.573	97.345.524
Foreign Currency Deposits	20.960.761	-	5.831.547	25.912.024	6.124.077	5.141.167	16.579.224	776	80.549.576
Residents in Turkey	17.345.575	-	5.257.797	20.092.262	3.697.365	1.770.528	5.117.257	609	53.281.393
Residents Abroad	3.615.186	-	573.750	5.819.762	2.426.712	3.370.639	11.461.967	167	27.268.183
Public Sector Deposits	6.368.649	-	4.424.703	8.271.021	728.830	5.503.040	14.121	-	25.310.364
Commercial Inst. Deposits	6.530.796	-	4.689.880	7.131.388	662.686	1.612.813	12.377	-	20.639.940
Other Inst. Deposits	1.810.627	-	2.157.593	3.009.228	382.375	421.416	1.040.190	-	8.821.429
Precious Metals	2.899.776	-	40.556	319.825	33.708	23.478	21.095	-	3.338.438
Interbank Deposits	1.884.512	-	6.900.601	2.004.298	1.020.834	2.371.495	334.730	-	14.516.470
CBRT	714	-	-	-	-	-	-	-	714
Domestic Banks	89.363	-	6.784.212	92.776	184.336	-	2.142	-	7.152.829
Foreign Banks	825.699	-	116.389	1.911.522	836.498	2.371.495	332.588	-	6.394.191
Participation Banks	968.736	-	-	-	-	-	-	-	968.736
Other	-	-	-	-	-	-	-	-	-
Total	65.751.372	-	27.077.083	108.707.886	13.894.374	16.091.870	18.911.807	87.349	250.521.741

Prior Period	Demand	7 Days 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	21.995.821	-	3.023.954	59.361.003	4.378.317	974.707	798.679	44.170	90.576.651
Foreign Currency Deposits	15.258.270	-	6.027.777	17.500.205	4.968.506	3.839.907	14.361.729	619	61.957.013
Residents in Turkey	13.495.718	-	5.793.930	14.835.795	4.270.715	3.044.420	10.808.628	619	52.249.825
Residents Abroad	1.762.552	-	233.847	2.664.410	697.791	795.487	3.553.101	-	9.707.188
Public Sector Deposits	6.142.683	-	2.831.975	6.846.612	2.056.284	4.742.350	13.571	-	22.633.475
Commercial Inst. Deposits	5.909.878	-	7.469.751	9.373.969	461.512	13.101	29.439	-	23.257.650
Other Inst. Deposits	1.786.765	-	2.708.390	4.149.597	343.730	353.031	851.744	-	10.193.257
Precious Metals	2.042.960	-	32.607	213.683	23.155	15.622	12.911	-	2.340.938
Interbank Deposits	1.731.844	-	4.933.257	1.650.521	635.446	2.303.709	805.173	-	12.059.950
CBRT	3.750	-	-	-	-	-	-	-	3.750
Domestic Banks	397.818	-	4.405.820	69.430	191.176	-	6.363	-	5.070.607
Foreign Banks	245.568	-	527.437	1.581.091	444.270	2.303.709	798.810	-	5.900.885
Participation Banks	1.084.708	-	-	-	-	-	-	-	1.084.708
Other	-	-	-	-	-	-	-	-	-
Total	54.868.221	-	27.027.711	99.095.590	12.866.950	12.242.427	16.873.246	44.789	223.018.934

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

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SECTION FIVE (Continued)

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES (Continued)

1. Information on Deposits/Funds collected (Continued)

1.2. Saving deposits under the guarantee of deposit insurance and exceeding the deposit insurance limit

	Under the Guarantee of Deposit Insurance		Exceeding Deposit Insurance Limit	
	Current Period	Prior Period	Current Period	Prior Period
Saving Deposits				
Saving Deposits ⁽¹⁾	65.117.801	60.568.084	31.949.709	29.701.060
Foreign Currency Saving Deposits ⁽¹⁾	26.400.973	21.431.931	35.949.981	28.972.511
Other Deposits in the form of Saving Deposits	-	-	-	-
Deposits at Foreign Branches and under the Guarantees of Foreign Authority Insurance ⁽²⁾	756.093	636.306	72.890	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 79.160 and TL 17.595 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 878 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 the 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 631.870 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 Bank’s head office is located in Turkey.

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EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES (Continued)

1. Information on Deposits/Funds collected (Continued)

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	84.774	81.373
Deposits of Ultimate Shareholders and Their Close Family Members	-	-
Deposits of Chairman and Members of the Board of Directors, CEO, Executive Vice Presidents and Their Close Family Members	6.380	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	-	-

2. Information related to the derivative financial liabilities held for trading

2. Negative differences related to the derivative financial liabilities held for trading

	Current Period		Prior Period	
	TL	FC	TL	FC
Forward Transactions	42.463	47.310	33.498	51.481
Swap Transactions	45.535	424.954	206.170	352.444
Futures Transactions	-	-	-	-
Options	6	250	35	-
Other	-	-	-	-
Total	88.004	472.514	239.703	403.925

3. Information on banks and other financial institutions

	Current Period		Prior Period	
	TL	FC	TL	FC
Borrowings from CBRT	-	-	-	-
Domestic Banks and Institutions	339.891	1.072.125	854.994	613.745
Foreign Banks, Institutions and Funds	928.915	23.331.021	933.948	20.414.049
Total	1.268.806	24.403.146	1.788.942	21.027.794

3.1. Maturity structure of funds borrowed

	Current Period		Prior Period	
	TL	FC	TL	FC
Short-Term	322.431	7.803.723	844.858	6.024.836
Medium and Long-Term	946.375	16.599.423	944.084	15.002.958
Total	1.268.806	24.403.146	1.788.942	21.027.794

3.2. Further information is disclosed for the areas of liability concentrations. Main liability concentration areas are fund suppliers, sector groups or other risk concentration criteria

61,37% of the Bank’s liabilities consist of deposits. Deposits have a diversified base and have steady structures. The Bank’s liabilities are not subject to a significant concentration risk (31 December 2016: None).

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EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES (Continued)

4. Information on funds supplied from repurchase agreements

	Current Period		Prior Period	
	TL	FC	TL	FC
From Domestic Transactions	4.623.584	-	30.251.538	-
Financial Institutions and Organizations	4.499.113	-	30.077.731	-
Other Institutions and Organizations	119.464	-	166.520	-
Real Person	5.007	-	7.287	-
From Overseas Operations	-	12.929.371	-	12.270.423
Financial Institutions and Organizations	-	12.929.371	-	12.270.423
Other Institutions and Organizations	-	-	-	-
Real Person	-	-	-	-
Total	4.623.584	12.929.371	30.251.538	12.270.423

5. Information on securities issued

	Current Period		Prior Period	
	TL	FC	TL	FC
Bank Bonds	3.364.768	-	2.156.778	-
Asset-Backed Securities	-	-	-	-
Treasury Bills	-	8.710.906	-	4.676.223
Total	3.364.768	8.710.906	2.156.778	4.676.223

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 Bank’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 Bank.

Information on finance lease payables represented in the table below:

	Current Period		Prior Period	
	Gross	Net	Gross	Net
Less than 1 Year	108	107	499	492
Between 1-4 Years	-	-	-	-
More than 4 Years	-	-	-	-
Total	108	107	499	492

8. Information on derivative financial liabilities for hedging purposes

There are no derivative financial liabilities for hedging purposes (31 December 2016: None).

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SECTION FIVE (Continued)

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES (Continued)

9. Explanations on provisions

9.1. Information on general provisions

	Current Period	Prior Period
General Provisions	4.671.670	3.921.625
Allocated for Group-I Loans and Receivables	3.841.598	3.190.815
Additional Provision for Loans and Receivables with Extended Maturities	303.342	233.456
Allocated for Group-II Loans and Receivables	197.343	175.700
Additional Provision for Loans and Receivables with Extended Maturities	77.671	61.127
Allocated for Non-cash Loans	538.499	465.263
Other	94.230	89.847

9.2. Foreign exchange loss provisions on the foreign currency indexed loans and finance lease receivables

Foreign exchange loss provisions on foreign currency indexed loans and finance lease receivables amount to TL 5.649 (31 December 2016: TL 327).

9.3. Specific provisions for unindemnified non-cash loans

Specific provisions for unindemnified non-cash loans amount to TL 134.563 (31 December 2016: TL 150.916).

9.4. Information on other provisions

9.4.1. Information on free provisions for possible risks

These financial statements include a free provision which is not in accordance with BRSA Principles amounting to TL 1.210.000 which has a part of TL 265.000 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 19.700 and other provision of TL 230 exist for cash transfers made by Bank officials.

	Current Period	Prior Period
Free provisions for possible risks	1.229.930	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 Bank over TL 100 amounts to TL 74.012. Full provision has been provided in these financial statements for law suits ended against the Bank but not finalized yet, amounting to TL 36.650.

Based on the decision of the Bank management, provision amounting to TL 44.000 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 Bank also provided provisions amounting to TL 134.563 (31 December 2016: TL 150.916) for unindemnified non-cash loans, and TL 40.156 (31 December 2016: TL 41.728) for other provisions. As a result of the provisions mentioned above, the other provision balance on the Bank's balance sheet amounts to TL 1.485.299 (31 December 2016: TL 1.253.697).

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SECTION FIVE (Continued)

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES (Continued)

9. Explanations on provisions (Continued)

9.5. Liabilities on reserve for employee termination benefits

9.5.1. Employment termination benefits and unused vacation rights

The Bank 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 30 September 2017, unpaid vacation liability amounted to TL 212.700 (31 December 2016: TL 187.500), and employment termination amounted to TL 783.950 (31 December 2016: TL 690.189) are presented under the “Employee Benefits Provision” in the financial statements.

9.5.2. Information on additional bonus paid to the personnel

The Bank has set provision amounting to TL 187.500 for additional bonus will be paid to the personnel with the resolution of General Assembly (31 December 2016: None).

10. Information on tax liability

10.1. Information on current tax liability

10.1.1. Information on tax provisions

As of 30 September 2017, the remaining corporate tax liability after deducting temporary taxes paid for the period is TL 635.351 (31 December 2016: TL 404.409).

10.1.2. Information on current taxes payable

	Current Period	Prior Period
Corporate Tax Payable	635.351	404.409
Taxation on Income From Securities	181.883	211.632
Property Tax	2.204	2.399
Banking Insurance Transactions Tax (BITT)	125.444	138.046
Foreign Exchange Transactions Tax	86	59
Value Added Tax Payable	6.292	5.881
Other	60.037	62.453
Total	1.011.297	824.879

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SECTION FIVE (Continued)

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES (Continued)

10. Information on tax liability (Continued)

10.2. Information on premiums

	Current Period	Prior Period
Social Security Premiums - Employee	35	33
Social Security Premiums - Employer	48	47
Bank Social Aid Pension Fund Premium - Employee	9.616	8.840
Bank Social Aid Pension Fund Premium - Employer	13.438	12.400
Pension Fund Membership Fees and Provisions - Employee	2	13
Pension Fund Membership Fees and Provisions - Employer	35	59
Unemployment Insurance - Employee	1.531	1.348
Unemployment Insurance - Employer	3.062	2.696
Other	-	-
Total	27.767	25.436

10.3. Information on deferred tax liabilities, if any

The Bank’s deferred tax liability amounts to TL 14.862 (31 December 2016: TL 75.757).

11. Information on payables for assets held for sale and discontinued operations

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

12. Explanations on subordinated debts

The Bank does not have any subordinated debts.

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 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 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.

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SECTION FIVE (Continued)

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES (Continued)

13. Information on shareholders’ equity (Continued)

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 interim period, general purpose of these commitments and estimated resources required for these commitments

The Bank has no capital commitments.

13.6. Indicators of the Bank’s income, profitability and liquidity for the previous periods and possible effects of future assumptions based on the uncertainty of these indicators on the Bank’s equity

In the current period, the Bank follows its operations in line with the previous periods. The 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 Bank’s performance and contributes to the profitability structure to be sustainable.

13.7. Information on preferred shares representing the capital

The Bank has 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	615.642	1.025	615.642	1.025
Revaluation Difference	-	1.025	-	1.025
Foreign Exchange Difference	615.642		615.642	-
From Available for Sale Marketable Securities	(1.329.696)	813.709	(1.259.685)	(355.468)
Revaluation Difference	(1.456.016)	813.709	(1.656.280)	(355.468)
Deferred Tax Effect	126.320	-	396.595	-
Foreign Exchange Difference	-	-	-	-
Total	(714.054)	814.734	(644.043)	(354.443)

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SECTION FIVE (Continued)

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

III. EXPLANATIONS AND NOTES TO 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	7.879.956	7.258.758
Other Irrevocable Commitments	9.061.718	7.220.867
Loan Granting Commitments	4.608.392	3.598.753
Payment Commitments for Cheques	3.755.797	3.138.916
Asset Purchase Commitments	5.185.892	2.123.301
Promotion Campaigns Commitments Relating to Credit Card and Bank Services	27.503	22.138
Subsidiaries and Associates Capital Contribution Commitments	-	-
Total	30.519.258	23.362.733

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 7th 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 letter of credits

	Current Period	Prior Period
Guarantee Letters	72.623.101	65.779.579
Letter of Credits	11.996.328	9.121.397
Bank Acceptances	5.172.160	4.254.132
Total	89.791.589	79.155.108

1.2.2. Certain guarantees, temporary guarantees, surety ships and similar transactions

	Current Period	Prior Period
Letters of Certain Guarantees	47.748.541	41.993.880
Letters of Advance Guarantees	17.592.521	17.582.696
Letters of Temporary Guarantees	3.068.563	3.381.752
Letters of Guarantees Given to Customs Offices	1.183.115	753.939
Other Letters of Guarantees	3.030.361	2.067.312
Total	72.623.101	65.779.579

1.2.3. Total non-cash loans

	Current Period	Prior Period
Non-Cash Loans for Providing Cash Loans	796.267	810.996
With Original Maturity of One Year or Less	11.955	2.183
With Original Maturity of More than One Year	784.312	808.813
Other Non-Cash Loans	88.995.322	78.344.112
Total	89.791.589	79.155.108

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SECTION FIVE (Continued)

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

IV. EXPLANATIONS AND NOTES RELATED TO 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⁾	17.779.781	2.660.388	13.680.803	1.899.359
Short Term Loans	4.567.168	109.869	3.314.564	56.701
Medium and Long Term Loans	13.121.904	2.550.487	10.279.013	1.842.632
Interest on Non-Performing Loans	90.709	32	87.226	26
Premiums from Resource Utilization Support Fund	-	-	-	-

⁽¹⁾ Includes fees and commissions income on cash 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	15.173	-	3.279	-
Domestic Banks	42.773	700	30.239	1.693
Foreign Banks	2.969	32.997	1.394	23.582
Foreign Head Office and Branches	-	-	-	-
Total	60.915	33.697	34.912	25.275

1.3. Information on interest income on marketable securities

	Current Period		Prior Period	
	TL	FC	TL	FC
Financial Assets Held for Trading	757	1.076	722	226
Financial Assets at Fair Value through Profit or Loss	-	-	-	-
Financial Assets Available-for-Sale	3.390.891	606.529	3.067.799	463.486
Investments Held-to-Maturity	246.772	232.350	342.155	266.534
Total	3.638.420	839.955	3.410.676	730.246

1.4. Information on interest income from subsidiaries and associates

	Current Period	Prior Period
Interest Income from Subsidiaries and Associates	37.456	34.323

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⁾	101.137	382.987	85.119	240.981
Central Bank of the Republic of Turkey	-	-	-	-
Domestic Banks	35.336	8.345	19.920	4.134
Foreign Banks	65.801	374.642	65.199	236.847
Foreign Head Office and Branches	-	-	-	-
Other Institutions	-	-	-	-
Total	101.137	382.987	85.119	240.981

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

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SECTION FIVE (Continued)

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

2.2 Information on interest expenses given to subsidiaries and associates

	Current Period	Prior Period
Interest Expenses Given to Subsidiaries and Associates	123.832	34.138

2.3 Information on interest given on securities issued

	Current Period		Prior Period	
	TL	FC	TL	FC
Interest Given on Securities Issued	241.575	200.671	168.049	105.500

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	-	558.148	-	-	-	-	-	558.148
Saving Deposit	1	174.570	4.276.733	304.062	58.303	53.254	432	4.867.355
Public Sector Deposit	648	253.540	373.415	158.313	358.456	619	-	1.144.991
Commercial Deposit	156	374.043	588.177	108.588	102.395	995	-	1.174.354
Other Deposit	44	71.354	192.691	22.852	29.866	72.691	-	389.498
Deposit with 7 Days Notification	-	-	-	-	-	-	-	-
Total	849	1.431.655	5.431.016	593.815	549.020	127.559	432	8.134.346
FC								
Foreign Currency Deposit	374	73.962	277.527	46.211	36.683	160.638	7	595.402
Bank Deposit	7	46.111	-	-	1	-	-	46.119
Deposit with 7 Days Notification	-	-	-	-	-	-	-	-
Precious Metal Deposits	-	131	1.447	152	104	93	-	1.927
Total	381	120.204	278.974	46.363	36.788	160.731	7	643.448
Grand Total	1.230	1.551.859	5.709.990	640.178	585.808	288.290	439	8.777.794

3. Information on trading profit/loss (net)

	Current Period	Prior Period
Profit	26.073.337	23.488.432
Foreign Exchange Gains	24.993.990	20.542.710
Profit on Derivative Financial Instruments	1.044.779	2.915.843
Profit from the Capital Market Transactions	34.568	29.879
Loss (-)	26.420.133	23.584.796
Foreign Exchange Loss	24.873.212	20.765.297
Loss on Derivative Financial Instruments	1.546.666	2.816.229
Loss from the Capital Market Transactions	255	3.270

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

TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş.

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SECTION FIVE (Continued)

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

4. Information on other operating income

4.1. Information on factors covering the recent developments which has significant effect on the Bank’s income and the extent of effect on income

There are no significant matters covering the recent developments which have significant effect on the Bank’s income. Main component of the Bank’s other operating income consists of reversals from prior period provisions amounting to TL 492.926 (30 September 2016: TL 662.615) and income from sales of assets amounting to TL 147.985 (30 September 2016: TL 164.991).

5. Provision expenses for impairment on loans and other receivables

	Current Period	Prior Period
Specific Provisions for Loans and Other Receivables ⁽¹⁾	778.158	1.777.338
Group III Loans and Receivables	211.230	379.026
Group IV Loans and Receivables	458.353	716.232
Group V Loans and Receivables	108.575	682.080
General Provision Expenses	750.371	684.036
Provision Expenses for the Possible Losses	265.000	960
Marketable Securities Impairment Expense	212	120
Financial Assets at Fair Value through Profit and Loss	-	-
Financial Assets Available for Sale	212	120
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	401	13.852
Total	1.794.142	2.476.306

⁽¹⁾ The relevant balance includes the expenses related to the current period. The provision reversals within the period amounting to TL 448.221 are presented in other operating income (30 September 2016: TL 372.588).

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SECTION FIVE (Continued)

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

6. Information on other operating expenses

	Current Period	Prior Period
Personnel Expenses	1.863.966	1.713.642
Reserve for Employee Termination Benefits	67.103	29.865
Bank Social Aid Provision Fund Deficit Provision	-	-
Tangible Fixed Assets Impairment Expense	-	-
Depreciation Expenses of Tangible Fixed Assets	279.418	199.787
Intangible Assets Impairment Expense	-	-
Goodwill Impairment Expense	-	-
Amortization Expenses of Intangible Assets	41.680	30.972
Impairment Expense for Equity Shares Subject to the Equity Method	-	-
Impairment Expense for Investment Securities that will be Disposed	-	-
Amortization Expenses of Investment Securities that will be Disposed	-	-
Impairment Expense for Property, Plant and Equipment Held for Sale and Discontinuing Operations	-	-
Other Operating Expenses	1.409.470	894.746
Operational Leasing Expenses	194.807	154.132
Maintenance Expenses	46.854	53.096
Advertisement Expenses	63.926	41.546
Other Expenses	1.103.883	645.972
Loss on Sales of Assets	447	733
Other ⁽¹⁾	1.162.693	994.531
Total	4.824.777	3.864.276

⁽¹⁾ TL 402.399 of other items consists of Saving Deposit Insurance Fund accrual expense (30 September 2016: TL 348.853) while TL 387.511 consists of taxes, duties and charges expense (30 September 2016: TL 333.091).

7. Information on profit/loss before tax from continuing and discontinuing operations

The Bank 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	12.255.279	10.084.900
Net Fees and Commissions Income	1.602.936	1.146.978
Other Operating Income	1.037.557	1.273.257
Dividend Income	283.827	255.651
Trading Income/Expense (Net)	(346.796)	(96.364)
Provision for Loan or Other Receivables Losses (-)	1.794.142	2.476.306
Other Operating Expenses (-)	4.824.777	3.864.276
Profit / (Loss) From Continuing Operations	8.213.884	6.323.840

8. Information on tax provision for continuing and discontinuing operations

As of 30 September 2017, TL 1.706.745 (30 September 2016: TL 1.315.202) of the Bank’s total tax provision expense amounting to TL 1.877.329 (30 September 2016: 1.488.632), consists of current tax expense while remaining balances amounting to TL 170.584 (30 September 2016: TL 173.430 deferred tax income) consists of deferred tax income.

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SECTION FIVE (Continued)

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

9. Explanation on net income/loss for the period for continued and discontinued operations

The Bank’s net operating income after tax amounts to TL 6.507.139 (30 September 2016: TL 5.008.638).

10. Information on net profit/loss

10.1. Nature, amount and frequency of income and expenses arising from ordinary banking activities, if required for the understanding the performance of the Bank in the current period

The 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.

10.2. 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 (30 September 2016: None).

11. 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.

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SECTION FIVE (Continued)

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

1. Volume of related party transactions, income and expense amounts involved and outstanding loan and deposit balances

Current Period

Risk Group of the Bank	Subsidiaries, Associates and Entities Under Common Control (Joint Ventures)		Direct or Indirect Shareholders of the Bank		Other Real and Legal Persons in the Risk Group	
	Cash	Non-cash	Cash	Non-cash	Cash	Non-cash
Loans and Other Receivables						
Opening Balance	1.190.812	3.502.628	-	-	-	-
Closing Balance	1.444.356	4.187.032	-	-	-	-
Interest and Commissions Income	37.648	678	-	-	-	-

Prior Period

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	
	Cash	Non-cash	Cash	Non-cash	Cash	Non-cash
Loans and Other Receivables						
Opening Balance	856.298	1.919.303	-	-	-	-
Closing Balance	1.190.812	3.502.628	-	-	-	-
Interest and Commissions Income ⁽¹⁾	34.310	162	-	-	-	-

⁽¹⁾ The prior period amounts of Interest and Commission Income represents the amount of 30 September 2016.

2. Deposits held by the 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	1.545.917	553.962	-	-	-	-
Closing Balance	1.812.329	1.545.917	-	-	-	-
Interest Expense on Deposits ⁽¹⁾	123.832	34.138	-	-	-	-

⁽¹⁾ The prior period amounts of Interest Expense on Deposits represents the amount of 30 September 2016.

3. Information on forward transactions, option agreements and similar transactions between the Bank’s risk group

Risk Group of the Bank	Subsidiaries, Associates and Entities Under Common Control (Joint Ventures)		Direct or Indirect Shareholders of the Bank		Other Real and Legal Persons in the Risk Group	
	Current Period	Prior Period	Current Period	Prior Period	Current Period	Prior Period
The Fair Value Differences Through Profit and Loss						
Opening Balance	127.897	66.595	-	-	-	-
Closing Balance	583.443	127.897	-	-	-	-
Total Profit/Loss ⁽¹⁾	18.295	(2.541)	-	-	-	-
Risk Protection Oriented Processes						
Opening Balance	-	-	-	-	-	-
Closing Balance	-	-	-	-	-	-
Total Profit/Loss	-	-	-	-	-	-

⁽¹⁾ The prior period amounts of Total Profit/Loss represents the amount of 30 September 2016.

4. Information about fees paid to the Bank’s key management

Fees paid to the Bank’s key management amount to TL 22.366 (30 September 2016: TL 22.836).

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SECTION FIVE (Continued)

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

VI. EXPLANATIONS AND NOTES RELATED TO SUBSEQUENT EVENTS

None.

SECTION SIX

EXPLANATIONS ON AUDITOR’S REVIEW REPORT

I. EXPLANATIONS ON AUDITOR’S REVIEW REPORT

As of 30 September 2017, unconsolidated financial statements and explanatory notes of the Bank disclosed herein were reviewed by Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (the Turkish member firm of KPMG International Cooperative, a Swiss entity) and Auditor’s Review Report dated 31 October 2017 is presented preceding the financial statements.

II. EXPLANATIONS AND NOTES PREPARED BY THE INDEPENDENT AUDITORS

None.

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

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NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS AS OF 30 SEPTEMBER 2017

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

SECTION SEVEN (*)

EXPLANATIONS ON THE INTERIM REPORT

I. Chairman’s Assessment

The third quarter of 2017 has been a period where the outlook of the global economic conditions remained to be positive and the risk appetite developed to be relatively strong while inflow of funds to the emerging countries (EM) continued. In spite of the recovering global economy, the global inflation rate remaining low lead to the financing conditions to be relatively moderate and the steps towards normalization of the monetary policies to be gradual.

The performance of the US economy in the second quarter was the best performance of the last nine quarters and maintained its growth pace in the third quarter, in spite of the hurricanes. As a result of this positive outlook of the US economy, the Federal Reserve (FED) has announced that it will begin to reduce its balance sheet that is about USD 4,5 trillion. (FED balance sheet size was about USD 900 billion before the 2008 Financial Crisis). The improvement in the labor market in the period we left behind enabled FED to maintain the monetary policy it envisaged in the beginning of the year. It’s expected that the FED will make the third rate hike for this year in December. Despite these developments, the inflation rate remaining low for temporary reasons is causing the FED to be relatively cautious in its steps.

While the current pace of global growth is indicating a stronger outlook compared to 2016, it has been observed that the noteworthy economic performance of the Eurozone countries’ made substantial contribution to the global growth. As a result of these positive indicators in the Eurozone, the European Central Bank (ECB) has made a moderate change in its excessive loose monetary policy and opted to decrease its asset purchases. Taking the relative weakness in the inflation rate into consideration, since the need for quantitative easing continued, the ECB lowered the purchase amount and extended the asset purchase programme for nine months. It seems that the need of the economy for the support of the ECB will continue until the inflation rate gradually reaches to the targeted level.

In the third quarter of this year, the emerging market assets, although they fluctuated from time to time due to the risks such as North Korea, benefited from the normalization process of the central banks of the developed countries which did not go beyond what was envisaged by remaining moderate and the ending of the fall in the growth trend of China which is one of the most important actors of the global trade. Despite the stable performance of the second largest economy of the World, the process of the Britain leaving the European Union (Brexit), geopolitical developments and the emerging of the protectionist tendencies of the US in the foreign trade continue to be the sources of downward risks for the global growth.

Turkish economy, in the first 9 months of 2017, had the status of the country with the most positive revisions, by recording a balanced growth with the help of the space created by the fiscal discipline and the rising demand with the increase in the growth in Europe. The Turkish economy which recorded a strong growth performance of over 5% is expected to well respond to the negative shocks by overperforming the growth rates of the countries like China and India in the third quarter.

Since the inflation outlook is not yet at the desired level, the Central Bank has not compromised its tight monetary policy in the third quarter, similar to the second quarter. The downward trend in the inflation is expected to be more explicit as of the end of the year.

Since the last quarter of previous year, the banking sector has provided important support to the economy through loans. Banks have had a significant role in the remarkable performance of the economy through the retail loans and the loans that are extended to small and medium-sized enterprises via CGF program. While local deposits were used mainly as a funding source for these loans, banks have continued to utilise external funds. Contrary to the claims, our banks did not face any difficulty in renewing their syndicated loans and successfully issued Eurobonds and subordinated debt products in international capital markets in excess of two times of their repayments.

Ziraat Bank, as the largest bank of our country, continues its operations as being an efficient and effective bank which is the main management strategy far from the size.

Muharrem KARSLI

Chairman

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

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SECTION SEVEN (Continued)

EXPLANATIONS ON INTERIM REPORT (Continued)

II. Assessment of General Manager

While the macroeconomic balances of Turkey continue its positive course, limited fluctuations are observed in the markets arising from geopolitical developments and news flow. The limited reflection of developments is the result of Turkey's sound macroeconomic structure, political stability and the practices of the economy management. We will all witness that Turkey will complete the year 2017 with a remarkably high growth rate in global terms. The banking sector, which is one of the backbones of our strong economy, has continued to contribute to this growth by allocating its funds to more loans with its strong financial structure.

As of the third quarter of 2017, Ziraat Bank maintained its leading position as Turkey's largest bank with an asset size of TL 408 billion. As a main management strategy; we aim to be an efficiency- based institution with a goal to achieve a sustainable growth trend and continue to be a bank that contributes to the value added of our customers and therefore to the economy. Within this framework; in 2017 we achieved approximately 95% of our balance sheet growth by means of loan growth. In the third quarter of the year, we realized cash loan growth higher than our balance sheet growth. In the first 9 months of the year, we have increased our cash loans by approximately TL 48 billion and our total loans including non-cash loans by TL 58 billion. Through our loans, our contribution to the economy has exceeded TL 370 billion in total.

We value the active contribution of our balance sheet to the economy rather than the size. Within this scope, we have transformed our balance sheet into a more customer driven structure, which contributes more to the real sector. This approach will continue. In accordance with this objective; while the share of loans in the balance sheet rises to about 70%, about three quarters of the lending consists of corporate lending used for the real sector financing. Although we treat the agricultural sector as a main sector for business we continue to provide financial support to all sectors that will contribute to the development of our country, the current account balance and employment. We continue to offer best services and products to our customers with tailored products ranging from individual needs to housing financing, small-scale businesses to large projects financing.

We provided a significant increase in loans extended to small and medium-sized enterprises supported by Credit Guarantee Fund. In particular, we used this credit facility with a "broader base allocation approach" relevant with its purpose. Within this scope, we have allocated more than TL 17 billion TL amount to 65,000 SME segment customers which makes us the sector leader in the widespread allocation of these loans. We are also continuing our sector leadership in housing loans with a market share of 22%. Ziraat Bank alone extended more than half of the housing loans allocated by the entire banking sector in 2017.

Taking into account that our country's savings balance is not sufficient for investments, we continue to work both to achieve funds from abroad and we care that the fund is scarce and has to be used more effectively. Considering the need for long-term financing, we have issued Eurobonds totaling USD 1.1 billion in 2017, with a 5-year maturity of USD 600 million and a 6-year maturity of USD 500 million. We also renewed our syndication loan facility amounting to USD 1.1 billion this year. In addition, we increased the amount of loans received from International Financial Institutions and banks by approximately USD 800 million.

We attach importance to credit processes and credit quality management in order to ensure that the funding we provide in TL and foreign exchange including deposits, which are our primary funding source; are brought to the economy in the most efficient way. As a result, we continue to keep our non-performing loan ratio at 1.6%; half the sector average.

In order to provide funding diversity and to contribute our country's savings balance, we have provided substantial gold deposits within the scope of bringing the gold under the mattress into the economy by the implementation of "Altın Vakti" facility. This time, we also intermediated the issuance of Gold Bonds and Certificates by the Undersecretariat of Treasury. In the first issuance period, we contributed to bring 2.5 tons of gold under the mattress into the economy.

On the other hand, we continue to be the leading bank in the sector with more than 7,000 ATMs. We are increasing the diversity of transactions that can be executed through ATMs. We continue to invest in internet banking and mobile banking besides ATM, and we increase the number of customers using these services and products. We also offered our "Ziraat Kurumsal Mobil" application to our corporate customers.

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

SECTION SEVEN (Continued)

EXPLANATIONS ON INTERIM REPORT (Continued)

III. Assessment of General Manager (Continued)

As the bank with the most widespread network with approximately 1,800 domestic branches, we continue to invest in digital banking by making non-branch channels more efficient while serving through our branches. In spite of these investments, as a consequence of our understanding of efficiency, cost income ratio of 32.5% continues to be well below the sector average. We also expect that, digital banking will contribute to our cost management in the forthcoming periods.

We continue to invest in our service network abroad. We proceed our activities as a subsidiary bank in Georgia, which was formerly in branch status. The process to acquire another 50% share of our subsidiary bank in Uzbekistan, in which we already have 50% share, is about to complete. We will continue our activities in Uzbekistan with a wholly- owned subsidiary bank following the completion of the acquisition process in November.

Hüseyin AYDIN

Member of the Board of Directors and General Manager

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SECTION SEVEN (Continued)

EXPLANATIONS ON INTERIM REPORT (Continued)

IV. Shareholding Structure

The paid in capital of T.C. Ziraat Bank is TL 5.600.000.000. While The Bank's sole shareholder was the Republic of Turkey Prime Ministry Undersecretariat of Treasury, all shares of the Bank transferred to the Turkish Wealth Fund with the decision of the Council of Ministry numbered 2017/9756 dated 24 January 2017.

Chairman and Members of the Board of Directors, Members of the Supervisory Board and General Manager and Vice General Managers are not a shareholder in the bank.

V. Main Financial Indicators

In the third quarter of 2017, total assets of the Bank has risen to TL 408.187 million by increasing 14,1% compared to December 2016.

Loans has a share of 68,7% with an amount of TL 280.255 million, securities portfolios has a share of 17,1% with an amount of TL 69.644 million, liquid assets and banks has a share of 10,5% with an amount of TL 42,746 million, and other assets has a share of 3,8% with an amount of TL 15.319, in Bank's assets.

In the third quarter of 2017, loans of the Bank has risen to TL 280.255 million by increasing 20,5% compared to December 2016. TL loans has reached to TL 210.435, FC loans has reached to TL 69.820.

In Bank's liabilities, deposits with TL 250.522 million volume share 61,4%, non-deposits resources with TL 90.362 million volume share 22,1%, equities with TL 45.872 million volume share 11,2%, and other liabilities amounting to TL 21.431, share 5,3%.

Bank's total deposit in the third period of 2017 recognised at a level of 250.522 million TL by increasing 12,3% compared to December 2016. Deposit volume of TL is 157.785 million TL and deposit volume of FC is 92.736 million TL.

Bank's total equity increased 19,5% compared to December 2016 and reached to 45.872 million TL.

By the end of the second quarter of 2017 Bank's net period profit recognized at a 6.507 million TL level by increasing 29,9% compared to the same period of last year.

By the end of third quarter of 2017, Bank's capital adequacy ratio recognised at a level of 15,68%.

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SECTION SEVEN (Continued)

EXPLANATIONS ON INTERIM REPORT (Continued)

IV. Main Financial Indicators (Continued)

ASSETS (TL Million)	30 September 2017	31 December 2016	(%)
Liquid Assets and Banks	42.969	43.069	-0,2
Securities Portfolio	69.644	69.066	0,8
Loans	280.255	232.644	20,5
Other Assets	15.319	12.982	18,0
Total Assets	408.187	357.761	14,1
LIABILITIES (TL Million)	30 September 2017	31 December 2016	(%)
Deposits	250.522	223.019	12,3
Non-deposits Resources	90.362	76.862	17,6
Other Liabilities	21.431	19.498	9,9
Shareholders' Equity	45.872	38.382	19,5
Total Liabilities	408.187	357.761	14,1
CHOSEN INCOME-EXPENSES (TL Million)	30 September 2017	30 September 2016	(%)
Interest Income	25.629	19.930	28,6
Interest Expense	13.374	9.845	35,8
Net Interest Income	12.255	10.085	21,5
Net Fees and Commission Income	1.603	1.147	39,8
Other Operations Income	1.038	1.273	-18,5
Other Operations Expense	4.825	3.864	24,9
Provision for Losses on Loans Or Other Receivables	1.794	2.476	-27,5
Income Before Taxes From Continuing Operations	8.214	6.324	29,9
Provision For Taxes On Income From Continuing Operations	1.707	1.315	29,8
Net Profit/Losses	6.507	5.009	29,9
RATIOS (%)	30 September 2017	31 December 2016	
Capital Adequacy Ratio	15,68	14,55	
Equity / Total Assets	11,2	10,7	
Cash Loans / Total Assets	68,7	65,0	
Loans under follow-up (Gross) / Total Loans	1,6	1,8	
Saving Deposits/ Total Deposits	26,2	24,6	
FC Assets / FC Liabilities	88,8	108,0	
Liquid Assets / Total Assets	10,5	12,0	
	30 September 2017	30 September 2016	
Return on Assets (ROA)	2,2	2,1	
Return on Equity (ROE)	20,5	19,4	
Interest Incomes / Interest Expenses	191,6	202,4	

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SECTION SEVEN (Continued)

EXPLANATIONS ON INTERIM REPORT (Continued)

V. 2017 III. Interim Activities

Correspondent Banking

As of the end of September 2017, Ziraat Bank has correspondent relations with approximately 1.815 correspondent banks in more than 142 countries. The extensive correspondent bank network is constantly diversifying and evolving in line with customer demands and the conjuncture and trends in the world economy. Thanks to its expanding and strengthening correspondent network, Ziraat Bank provides its customers foreign trade opportunities with many points of the world.

Ziraat Bank also provides products such as letter of credit, escort and aviation police for the financing needs of foreign trade and works closely with Export Insurance Organizations such as Hermes, Coface, Serv, Sace to provide medium and long term country loans to its customers. Ziraat Bank also increased its market share in the financing of foreign trade through various agreements with correspondent banks.

Thanks to its strong correspondent network, Ziraat Bank has continued to provide financing from correspondent banks at affordable costs and conditions by providing access to alternative sources of funding. It aims to sustain this success by strengthening it with new financing methods that will diversify in the coming years.

Foreign Issued Bonds

In line with the main strategy of diversification of the resource structure, Ziraat Bank has exported 500 million USD worth of foreign bonds (Eurobonds) with maturity of 6 years on 29 September 2017. The issuance dated on 29 September 2017, is priced with a coupon rate of 5,125% and has a payment every 6 month.

Credit Rating Agencies

International credit rating agency JCR Eurasia Rating confirmed Ziraat Bank's credit rating and outlook on September 29 2017.

Financing of agriculture sector

Ziraat Bank is performing projects for organizations, foundations particularly T.C. Gıda, Tarım ve Hayvancılık Bakanlığı by developing projects in order to make easier to accesibility of finance and solutions of sectoral structure; while maintaining it's support to agricultural sector. In this contex, agricultural sector is the most important and the leading sector of the works are aimed to finance to self-employed farmer. In this purpose, projects are develop for diversifying the credit products and producing alternative warrants from the farmer's agricultural wealth. Investments and operations oriented towards strategic products especially licensed warehousing and cold storage investments, indented production method, separation of the agricultural mechanization level, oilseed plants, cotton, olive, certificated feed production will be leading subjects of Ziraat Bank in the upcoming period.

The agricultural loans extended from Ziraat Bank's resources reached TL 47.3 billion as of the end of the third quarter.

Ziraat Bank customers operating in the sector within the scope of the subsidies determined on the basis of production subjects in line with the decree published on interest discounted loans in 2017 and the communiqué continue to use loans with interest rates ranging from 0% to 8.25% per annum.

In the first three quarter of 2017, Ziraat Bank signed a protocol with Cattle Breeders' Associatons and Milk Producer Associations and Agricultural Development Cooperatives affiliated to the Central Union of Animal Husbandry Cooperatives to provide solutions that facilitate member access to the credits Continued to offer. In addition, tractor and agricultural mechanization credits are used to increase the efficiency and profitability in the production with the level of mechanization of the agricultural enterprises.

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SECTION SEVEN (Continued)

EXPLANATIONS ON INTERIM REPORT (Continued)

V. 2017 III. Interim Activities (Continued)

Risk Management

Bank's risk management operations, within the frame of BRSA legislations and Basel regulations, are targeted for the best risk management function by applying risk culture alongside the Bank and maintaining the improvement of employee quality and information technologies.

Risk management policy is identified as loan risks, market risks, operational risks, balance sheet risks on the volume of Bank's transactions, measurement and monitoring of quality and complication, stress test, scenario analysis and reporting the outcomes from these studies. Policies and application methods of risk management are carried out in accordance with the decisions by the Board of Directors.

Within the scope of "Credit Risk Management Project with Advanced Methods", studies are being carried out to calculate credit risk with an internal rating-based approach. The work on designing the data architecture to be used for modeling the GAP analysis phase and risk parameters of the project and calculating the risk weighted asset amount has been completed and the process for preparing the data is ongoing. Within the scope of the project, it is aimed to calculate credit risk parameters in line with Basel 3 advanced methods especially for capital appreciation and credit pricing processes. The project is being carried out in coordination with TFRS 9 studies, taking into account the requirements of Turkish Financial Reporting Standards 9 (TFRS 9).

VI. Other Important Activities

Giving loans with KGF guarantee has been continued and 3.9 billion additional loans has been given.

Within the scope of the protocol implemented with the SGK, as of the end of the third quarter of 2017, 4.3 million retired customers has been paid a total of TL 1.6 billion promotions.

Ziraat Bank's internet banking customers has exceeded to 12.2 million and active mobile banking customers reached approximately 3.2 million.

As of the third quarter of 2017, Ziraat Bank credit card is 4.2 million and credit card market share is 7%. Bank card is 27 million and Ziraat Bank continued to be the sector leader with 18% market share of monthly shopping turnover.

Ziraat Corporate Mobile application is offered for use to corporate customers.

The Ziraat Mobile application has been updated to provide multi-language support and the English language option has been made available to customers.

The effectiveness of Ziraat Bank in social media is increasing day by day. As of the second quarter of 2017; the Bank reached 1.9 million followers on Facebook, 296 thousand followers on Twitter, 107 thousand followers on Instagram and over 25 million views on YouTube.

In addition to Sign Language and Disability Education e-trainings given to the bank personnel, a certain team working at call center has been supported to provide faster and more qualified services to the hearing-impaired customers through in-class sign language training given.

Approximately 137 trees have been saved through not using printed material in the third quarter of 2017 with e-learning application prepared for the personnel.

Four different recruitment examinations was held on 6 August 2017 in cooperation with Anadolu University in order to meet the personnel needs of Ziraat Finans Group and the lawyer requirements of Ziraat Bank and the results are announced on 11 September 2017. The interviews will be held between 23 October-6 November. 255 people from 1.122 candidates will join Ziraat Finans Group after participating interviews.

The gold deposit product presented to the customers in order to increase the Bank's effectiveness in diversified and encouraging saving products in resource management, the Bank's inventory figure is 22.4 tons as of the third quarter.

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SECTION SEVEN (Continued)

EXPLANATIONS ON INTERIM REPORT (Continued)

VI. Expectations for the Period after 2017 III. Interim

Another quarter has passed with stable global economic growth. In the global framework, improvement of the developed countries' labor markets positively affected the global economic activity together with the ongoing recovery in investment, industrial production and foreign trade channels. Stabilization of commodity prices, especially that of oil, has reduced the fragility of commodity exporting economies, and the moderate growth of wages versus the declining unemployment figures globally has prevented us from encountering a sharp inflationary pressure. In line with these, it is seen that global economic growth which surpassed expectations led central banks of developed countries to take steps to normalize their monetary policies. Limited increase in wages and low inflation caused a degree of moderation in the normalization process of monetary policies.

Healthy progress of the US economy can be seen in the 3rd quarter. It is observed that the damage caused by hurricanes has been remedied up to a point through restructuring, despite heavy costs and loss of work power. US economy, which has grown 3% during the third quarter of 2017, has maintained a measured growth level following a 3,1% growth rate reached during the second quarter. Within the anticipation that Trump's tax reforms come to life, it seems probable that economic growth will be supported with increased investments and efficiency. Additionally, tightening labor market combined with moderate increase in wages enables Federal Reserve to reduce its bond portfolio in October. FED, keeps one more interest rate hike till the end of the year expectation in place in line with its normalization efforts in order to reach a moderate and long-paced growth without overheating the economy. However, concerns over whether inflation, which already has a weaker outlook than expected, is going to be permanent pushes Fed to be more cautious about the interest rate hikes in the upcoming period. The question on FED presidency, which is one of the most important monetary policy actors of the global economy, has gained prominence in the past term as a factor that increases volatility. Expectation is that another governor will be appointed who will keep the current monetary policies in place. It can be said that the balance sheet reduction, trend of interest rate hikes and the process of choosing a new chair for the FED pose no particular threat for developing economies.

Eurozone Countries, which also performed better than expected during this year in which the global economy has gained a healthier footing, enabled the European Central Bank (ECB) to revise its growth expectations upwards. While it can be observed that the excessive loose monetary policy implemented by ECB has been effective; as another positive reflection of the expansionary monetary policy, unemployment rates have dropped to the lowest point since 2009. The recovery in global economy keeps supporting Eurozone exports, and increased employment keeps supporting private consumption. With this perspective, the ECB has opted to decrease its asset purchases in light of expectation of faster growth in the Eurozone economies. Expectations that the support provided to the economy can be retracted incrementally caused Euro to appreciate, which in turn caused a downward pressure in inflation. Political risk premium which rises from time to time, especially due to Germany and Spain, relatively limits Euro's rise but the fact that the monetary policy is in the process of normalization in the medium term enables Euro to remain strong. For this reason, ECB preferred to make a change in its loose monetary policy with a modest step. Trend of increase in the value of Euro and relatively low inflation confirms the region's ongoing need for loose monetary policy. In this scope, ECB has extended the period of asset purchases by nine months although with a lower amount. Considering developments in the UK and Spain, it is expected for ECB support to continue until inflation data becomes consistent with targets.

Even though strong inflow of assets to emerging economies during the first half of 2017 relatively lost momentum due to statements made by central banks of developed economies, a very positive nine months have passed to the point that, supported by increased global risk appetite, developing economies received twice as much capital inflow during the past 9 months compared to whole last year. Developed economies' desire for monetary policy normalization caused fluctuations in the markets from time to time. However, the low inflation trend pointed to incremental and limited normalization and enabled a lower volatility in global markets. The fact that the Chinese economic performance exceeded expectations during the first half of 2017 and maintained that performance during the third quarter was a factor that increased tendency towards emerging country assets. The positive trend in commodity prices restores the reflation discussions and enhances global economic activity expectations.

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SECTION SEVEN (Continued)

EXPLANATIONS ON INTERIM REPORT (Continued)

VII. Expectations for the Period after 2017 III. Interim (Continued)

Turkey has left behind a period of positive revisions in growth expectation supported by its performance during the first half. For example, IMF has revised its previous 2017 GDP growth expectation of 2% up to 5%. The economy has gained momentum in the second quarter compared to first quarter with the help of private consumption spending and investments and its performance exceeded expectations. Increased contribution of tourism and agriculture sectors in the growth during the third quarter and the positive impact of the base effect are reflected on evaluations of double digit growth rates. The positive outlook in the Eurozone countries which make up a major market for Turkish exporters and the global foreign demand conditions are expected to enable exports to be one of locomotives of economic growth.

While annual inflation of core indicators increased in the quarter we left behind; inflation maintained its double-digit course together with increase in energy and food prices. Despite this image, a gradual improvement in inflation outlook starting from the end of the year is assessed to be possible as the peak point has been approached. In this direction, we are likely to end the year with a single digit inflation figure in line with the Medium Term Programme (MTP) expectations. In case the producer prices rise moderately in the upcoming period, the downward trend in inflation may become evident in 2018. The Central Bank is expected to maintain tight monetary policy until it sees improvement in inflation expectations.

In year 2017, it is intended to support economic activity through fiscal policies that have been applied in a more expansionary manner without giving up fiscal discipline. Therefore, by the help of measures taken in fiscal policies that are mostly temporary, the growth is likely to be over 5.5% this year, which is the MTP estimate. The realization of such a strong growth refers to a lower need for expenditures which are made intentionally for the purpose of supporting employment, real sector and investing parties. In the light of these developments, when evaluated together; decline in expenditures in second half compared to first half of the year and the improvement in tax revenues that is observed by means of strengthening economy, budget deficit / GDP ratio expected not to exceed, though it is above last year, 2% levels which is a ratio that is quite below Maastricht criterion which is 3%.

In the first nine months of 2017, Turkish economy continued to generate employment, thanks to the faster turnover of the economy and the stimuli the authorities applied within the scope of employment campaign. In the light of these developments, the unemployment rates decreased significantly in the first half of the year. For the rest of the year, it is likely that the decline in unemployment rates will slow down as a result of continuous increase in the labor force participation rate to record levels and seasonality.