

TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş.

**PUBLICLY ANNOUNCED UNCONSOLIDATED
FINANCIAL STATEMENTS
TOGETHER WITH REVIEW REPORT
AT 30 JUNE 2016**

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

INTERIM REVIEW REPORT ON INTERIM FINANCIAL INFORMATION

(Convenience translation of the independent auditor's report originally issued in Turkish, See Note I of Section three)

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

Introduction

We have reviewed the unconsolidated balance sheet of Türkiye Cumhuriyeti Ziraat Bankası A.Ş. ("the Bank") at 30 June 2016 and the related unconsolidated income statement, unconsolidated statement of income and expense items under shareholders' equity, unconsolidated statement of changes in shareholders' equity, unconsolidated statement of cash flows and a summary of significant accounting policies and other explanatory notes to the unconsolidated financial statements for the six-month period then ended. The Bank Management is responsible for the preparation and fair presentation of interim financial statements in accordance with the "Regulation on Accounting Applications for Banks and Safeguarding of Documents" published in the Official Gazette no.26333 dated 1 November 2006, and other regulations on accounting records of Banks published by Banking Regulation and Supervision Agency and circulars and interpretations published by Banking Regulation and Supervision Authority, (together referred as "BRSA Accounting and Reporting Legislation") and Turkish Accounting Standard 34 "Interim Financial Reporting" for those matters not regulated by the aforementioned regulations. Our responsibility is to express a conclusion on these interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with the Standard on Review Engagements (SRE) 2410, "Limited 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 reporting process, and applying analytical and other review procedures. A review of interim financial information is substantially less in scope than an independent audit performed in accordance with the Independent Auditing Standards of Turkey and the objective of which is to express an opinion on the financial statements. Consequently, a review of the interim financial information does not provide assurance that the audit firm will be aware of all significant matters which would have been identified in an audit. Accordingly, we do not express an opinion.

Basis for the Qualified Conclusion

As mentioned in Section II. Note 7.d1 of Explanations and Notes to the Unconsolidated Financial Statements; as of the balance sheet date at 30 June 2016, the accompanying unconsolidated financial statements include a free provision amounting to TL 1.025.000, (TL 215.400 thousand of this provision amount was reversed from the income statement in the current year), 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.

Qualified Conclusion

Based on our review, except for the effect of the matter on the financial statements 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 statements do not give a true and fair view of the financial position of Türkiye Cumhuriyeti Ziraat Bankası A.Ş. at 30 June 2016 and the results of its operations and its cash flows for the six-month period then ended in all aspects in accordance with the BRSA Accounting and Financial Reporting Legislation.

Report on Other Responsibilities Arising From Regulatory Requirements

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

Additional Paragraph for Convenience Translation

The effects of differences between accounting principles and standards explained in detail in Section Three 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, the accompanying 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.

Başaran Nas Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.
a member of
PricewaterhouseCoopers

Didem Demer Kaya, SMMM
Partner

Istanbul, 9 August 2016

**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 JUNE 2016**

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

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

- GENERAL INFORMATION ABOUT THE 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
- OTHER EXPLANATIONS AND NOTES
- EXPLANATIONS ON REVIEW REPORT
- INTERIM REPORT

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

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

Peyami Ömer ÖZDİLEK
Financial Coordination
Executive Vice President

Atakan BEKTAŞ
Senior Vice President
of Financial Reporting and
Budget 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
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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 AT 30 JUNE 2016

(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. The Bank, which was given the authority to perform all the banking activities, has its head office located in Ankara and all shares of the Bank belong to the Treasury.

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 sole shareholder of the Bank is the Republic of Turkey Prime Ministry Undersecretariat of Treasury (“Treasury”).

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TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS AT 30 JUNE 2016

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

GENERAL INFORMATION ABOUT THE BANK (Continued)

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 DAĞCAN	Vice Chairman and Member
Cemalettin BAŞLI	Member
Feyzi ÇUTUR	Member
Mehmet Hamdi YILDIRIM	Member
Metin ÖZDEMİR	Member
Mustafa ÇETİN	Member
Salim ALKAN	Member
Audit Committee Members	
Muharrem KARSLI	Member
Feyzi ÇUTUR	Member
Executive Vice Presidents	
Alpaslan ÇAKAR	Banking Channels Management
Bilgehan KURU	Treasury and International Banking
Bülent SUER	Operational Transactions
Mehmet Cengiz GÖĞEBAKAN	Loan Policies
Musa ARDA	Loan Allocation and Management
Ömer Muzaffer BAKTIR	Marketing
Peyami Ömer ÖZDİLEK	Financial Coordination
Yüksel CESUR	Internal Systems

The directors above mentioned do not retain any shares of the Bank’s capital.

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
Treasury	5.100.000	100	5.100.000	-

The sole shareholder of the Bank is the Treasury.

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UNCONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN
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TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS AT 30 JUNE 2016

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

GENERAL INFORMATION ABOUT THE BANK (Continued)

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 June 2016, Bank carries its activities with a grand total of 1.811 branches; 1.785 domestic branches including 21 corporate branches, 79 entrepreneurial branches, 80 dynamic entrepreneurial branches, 1.600 branches and 5 mobile branches (31 December 2015: 1.786 domestic branches including 1.596 branches, 22 corporate branches, 80 entrepreneurial branches, 83 dynamic entrepreneurial branches, 5 mobile branches) and 26 branches abroad including 22 branches and 4 sub branches (New York branch in United States, London branch in England, Tbilisi branch and Batumi sub branch in Georgia, Baghdad and Arbil branches in Iraq, Athens, Komotini, Xanthi and Rhodes branches in Greece, Sofia branch and Plovdiv, Kardzhali and Varna sub branches in Bulgaria, Jeddah branch in Saudi Arabia, Pristina in Kosovo, Lefkoşa, Girne, Güzelyurt, Gazimağusa, Gönyeli, Akdoğan, Near East University, Karaoğlanoğlu, Karakum and İskele sub branches in Turkish Republic of Northern Cyprus). The Bank also has 1 representative office in Tehran, Iran. Besides Marneuli sub branch in Georgia began its operations as of July 18, 2016.

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 Interbank Card Center.

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.

**VI. THE EXISTING OR POTENTIAL, ACTUAL OR LEGAL OBSTACLES ON THE IMMEDIATE
TRANSFER OF SHAREHOLDERS’ EQUITY BETWEEN THE BANK AND ITS SUBSIDIARIES OR
REIMBURSEMENT OF LIABILITIES**

None.

**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 JUNE 2016

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

**SECTION TWO
UNCONSOLIDATED FINANCIAL STATEMENTS**

I.	BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)	Note (Section Five I)	Current Period (30/06/2016)			Prior Period (31/12/2015)		
			TL			FC		
			TL	FC	Total	TL	FC	Total
I.	CASH BALANCES WITH THE CENTRAL BANK OF TURKEY	(1)	4.492.546	33.995.175	38.487.721	4.072.948	32.463.015	36.535.963
II.	FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT or (LOSS) (Net)	(2)	729.484	318.777	1.048.261	662.198	282.701	944.899
2.1	Financial Assets Held for Trading		729.484	318.777	1.048.261	662.198	282.701	944.899
2.1.1	Public Sector Debt Securities		12.736	4.312	17.048	12.238	4.377	16.615
2.1.2	Securities Representing a Share in Capital		-	-	-	-	-	-
2.1.3	Derivative Financial Assets Held for Trading		716.748	314.465	1.031.213	649.960	278.324	928.284
2.1.4	Other Marketable Securities		-	-	-	-	-	-
2.2	Financial Assets at Fair Value Through Profit or Loss		-	-	-	-	-	-
2.2.1	Public Sector Debt Securities		-	-	-	-	-	-
2.2.2	Securities Representing a Share in Capital		-	-	-	-	-	-
2.2.3	Loans		-	-	-	-	-	-
2.2.4	Other Marketable Securities		-	-	-	-	-	-
III.	BANKS	(3)	494.733	3.044.024	3.538.757	735.999	3.710.793	4.446.792
IV.	MONEY MARKET PLACEMENTS		-	-	-	-	-	-
4.1	Interbank Money Market Placements		-	-	-	-	-	-
4.2	Istanbul Stock Exchange Money Market Placements		-	-	-	-	-	-
4.3	Receivables from Reverse Repurchase Agreements		-	-	-	-	-	-
V.	FINANCIAL ASSETS AVAILABLE FOR SALE (Net)	(4)	43.720.972	12.810.107	56.531.079	42.207.247	11.575.061	53.782.308
5.1	Securities Representing a Share in Capital		103.705	399.471	503.176	103.528	500.214	603.742
5.2	Public Sector Debt Securities		43.600.879	12.320.832	55.921.711	42.100.780	11.004.930	53.105.710
5.3	Other Marketable Securities		16.388	89.804	106.192	2.939	69.917	72.856
VI.	LOANS AND RECEIVABLES	(5)	152.134.432	49.308.452	201.442.884	141.002.935	45.809.916	186.812.851
6.1	Loans and Receivables		151.870.635	49.308.452	201.179.087	140.133.474	45.809.385	185.942.859
6.1.1	Loans Granted to Risk Group of The Bank		121.121	935.712	1.056.833	100.929	755.369	856.298
6.1.2	Public Sector Debt Securities		-	-	-	-	-	-
6.1.3	Other		151.749.514	48.372.740	200.122.254	140.032.545	45.054.016	185.086.561
6.2	Loans under Follow-up		3.438.365	15.338	3.453.703	3.129.081	11.443	3.140.524
6.3	Specific Provisions (-)		3.174.568	15.338	3.189.906	2.259.620	10.912	2.270.532
VII.	FACTORING RECEIVABLES		-	-	-	-	-	-
VIII.	INVESTMENTS HELD TO MATURITY (Net)	(6)	4.609.721	5.124.661	9.734.382	4.538.342	5.605.800	10.144.142
8.1	Public Sector Debt Securities		4.561.362	5.113.735	9.675.097	4.504.483	5.594.461	10.098.944
8.2	Other Marketable Securities		48.359	10.926	59.285	33.859	11.339	45.198
IX.	INVESTMENTS IN ASSOCIATES (Net)	(7)	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)	(8)	1.229.477	1.291.703	2.521.180	1.157.477	1.291.703	2.449.180
10.1	Unconsolidated Financial Subsidiaries		1.223.240	1.291.703	2.514.943	1.151.240	1.291.703	2.442.943
10.2	Unconsolidated Non-Financial Subsidiaries		6.237	-	6.237	6.237	-	6.237
XI.	ENTITIES UNDER COMMON CONTROL (Net)	(9)	-	116.995	116.995	-	111.274	111.274
11.1	Accounted with Equity Method		-	-	-	-	-	-
11.2	Unconsolidated Entities Under Common Control		-	116.995	116.995	-	111.274	111.274
11.2.1	Financial Entities Under Common Control		-	116.995	116.995	-	111.274	111.274
11.2.2	Non Financial Entities Under Common Control		-	-	-	-	-	-
XII.	RECEIVABLES FROM LEASING TRANSACTIONS	(10)	-	-	-	-	-	-
12.1	Finance Lease Receivables		-	-	-	-	-	-
12.2	Operating Lease Receivables		-	-	-	-	-	-
12.3	Other		-	-	-	-	-	-
12.4	Unearned Income (-)		-	-	-	-	-	-
XIII.	DERIVATIVE FINANCIAL ASSETS FOR HEDGING PURPOSES	(11)	-	-	-	-	-	-
13.1	Fair Value Hedges		-	-	-	-	-	-
13.2	Cash Flow Hedges		-	-	-	-	-	-
13.3	Hedges for Investments Made in Foreign Countries		-	-	-	-	-	-
XIV.	TANGIBLE ASSETS (Net)	(14)	4.766.320	11.307	4.777.627	4.830.792	10.846	4.841.638
XV.	INTANGIBLE ASSETS (Net)		258.086	3.875	261.961	207.761	3.750	211.511
15.1	Goodwill		-	-	-	-	-	-
15.2	Other		258.086	3.875	261.961	207.761	3.750	211.511
XVI.	REAL ESTATES FOR INVESTMENT PURPOSE (Net)	(12)	-	-	-	-	-	-
XVII.	TAX ASSET		25.490	-	25.490	262.631	-	262.631
17.1	Current Tax Asset		1.121	-	1.121	901	-	901
17.2	Deferred Tax Asset		24.369	-	24.369	261.730	-	261.730
XVIII.	ASSETS HELD FOR SALE AND ASSETS HELD FROM DISCONTINUED OPERATIONS (Net)	(13)	285.092	-	285.092	240.606	-	240.606
18.1	Held for Sale		285.092	-	285.092	240.606	-	240.606
18.2	Held from Discontinued Operations		-	-	-	-	-	-
XIX.	OTHER ASSETS		1.686.884	1.205.512	2.892.396	1.266.086	703.533	1.969.619
TOTAL ASSETS			214.528.149	107.230.588	321.758.737	201.279.934	101.568.392	302.848.326

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 JUNE 2016

(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 (30/06/2016)			Prior Period (31/12/2015)		
			Total			Total		
			TL	FC	Total	TL	FC	Total
I.	DEPOSITS	(1)	129.524.979	66.082.549	195.607.528	120.592.405	65.877.030	186.469.435
1.1	Deposits Held By the Risk Group of the Bank		404.663	387.397	792.060	378.896	175.066	553.962
1.2	Other		129.120.316	65.695.152	194.815.468	120.213.509	65.701.964	185.915.473
II.	DERIVATIVE FINANCIAL LIABILITIES HELD FOR TRADING	(2)	71.595	949.057	1.020.652	30.655	261.616	292.271
III.	FUNDS BORROWED	(3)	1.187.208	18.075.172	19.262.380	1.392.459	18.150.189	19.542.648
IV.	MONEY MARKET BALANCES		30.077.680	15.092.584	45.170.264	28.340.963	14.744.813	43.085.776
4.1	Interbank Money Market Borrowings		450.000	-	450.000	1.100.000	-	1.100.000
4.2	Istanbul Stock Exchange Takasbank Borrowings		-	-	-	-	-	-
4.3	Funds Provided under Repurchase Agreements		29.627.680	15.092.584	44.720.264	27.240.963	14.744.813	41.985.776
V.	MARKETABLE SECURITIES ISSUED (Net)		2.140.465	3.959.565	6.100.030	2.199.333	3.088.273	5.287.606
5.1	Bills		2.140.465	136.615	2.277.080	2.199.333	756.233	2.955.566
5.2	Asset-backed Securities		-	-	-	-	-	-
5.3	Bonds		-	3.822.950	3.822.950	-	2.332.040	2.332.040
VI.	FUNDS		6.078.312	-	6.078.312	5.931.129	-	5.931.129
6.1	Borrower Funds		-	-	-	-	-	-
6.2	Other		6.078.312	-	6.078.312	5.931.129	-	5.931.129
VII.	MISCELLANEOUS PAYABLES		2.034.092	771.673	2.805.765	1.477.006	843.177	2.320.183
VIII.	OTHER LIABILITIES	(4)	2.888.359	456.840	3.345.199	2.044.873	389.249	2.434.122
IX.	FACTORING PAYABLES		-	-	-	-	-	-
X.	PAYABLES FROM LEASING TRANSACTIONS (Net)	(5)	-	598	598	-	686	686
10.1	Finance Lease Payables		-	609	609	-	699	699
10.2	Operating Lease Payables		-	-	-	-	-	-
10.3	Other		-	-	-	-	-	-
10.4	Deferred Finance Lease Expenses (-)		-	11	11	-	13	13
XI.	DERIVATIVE FINANCIAL LIABILITIES FOR HEDGING	(6)	-	-	-	-	-	-
11.1	Fair Value Hedges		-	-	-	-	-	-
11.2	Cash Flow Hedges		-	-	-	-	-	-
11.3	Hedges for Investments Made in Foreign Countries		-	-	-	-	-	-
XII.	PROVISIONS	(7)	5.240.922	44.557	5.285.479	5.125.958	34.938	5.160.896
12.1	General Provisions		3.049.572	10.515	3.060.087	2.833.693	10.491	2.844.184
12.2	Restructuring Provisions		-	-	-	-	-	-
12.3	Employee Benefits Provisions		977.375	-	977.375	851.869	-	851.869
12.4	Insurance Technical Reserves (Net)		-	-	-	-	-	-
12.5	Other Provisions		1.213.975	34.042	1.248.017	1.440.396	24.447	1.464.843
XIII.	TAX LIABILITY	(8)	1.033.547	407	1.033.954	776.453	852	777.305
13.1	Current Tax Liability		1.033.547	407	1.033.954	776.453	852	777.305
13.2	Deferred Tax Liability		-	-	-	-	-	-
XIV.	LIABILITIES FOR ASSETS HELD FOR SALE AND HELD FROM DISCONTINUED OPERATIONS (Net)	(9)	-	-	-	-	-	-
14.1	Held for Sale		-	-	-	-	-	-
14.2	Held from Discontinued Operations		-	-	-	-	-	-
XV.	SUBORDINATED LOANS	(10)	-	-	-	-	-	-
XVI.	SHAREHOLDERS' EQUITY	(11)	34.868.707	1.179.869	36.048.576	30.865.420	680.849	31.546.269
16.1	Paid-in Capital		5.100.000	-	5.100.000	5.000.000	-	5.000.000
16.2	Capital Reserves		3.572.040	1.179.869	4.751.909	2.537.588	680.849	3.218.437
16.2.1	Share Premium		-	-	-	-	-	-
16.2.2	Share Cancellation Profits		-	-	-	-	-	-
16.2.3	Marketable Securities Valuation Differences		159.413	1.179.869	1.339.282	(1.001.889)	680.849	(321.040)
16.2.4	Tangible Assets Revaluation Reserves		3.525.149	-	3.525.149	3.607.167	-	3.607.167
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		(129.910)	-	(129.910)	(85.078)	-	(85.078)
16.3	Profit Reserves		22.648.034	-	22.648.034	18.005.564	-	18.005.564
16.3.1	Legal Reserves		3.203.307	-	3.203.307	2.920.983	-	2.920.983
16.3.2	Statutory Reserves		-	-	-	-	-	-
16.3.3	Extraordinary Reserves		18.019.392	-	18.019.392	13.659.246	-	13.659.246
16.3.4	Other Profit Reserves		1.425.335	-	1.425.335	1.425.335	-	1.425.335
16.4	Profit or Loss		3.548.633	-	3.548.633	5.322.268	-	5.322.268
16.4.1	Prior Years Profit/Loss		159.798	-	159.798	159.798	-	159.798
16.4.2	Net Period Profit/Loss		3.388.835	-	3.388.835	5.162.470	-	5.162.470
TOTAL LIABILITIES AND EQUITY			215.145.866	106.612.871	321.758.737	198.776.654	104.071.672	302.848.326

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 JUNE 2016

(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 (30/06/2016)			Prior Period (31/12/2015)		
			TL	FC	Total	TL	FC	Total
A	OFF-BALANCE SHEET COMMITMENTS (I+II+III)		48.357.261	111.998.058	160.355.319	38.810.504	98.624.231	137.434.735
I.	GUARANTEES AND WARRANTIES	(1)	22.717.417	44.793.747	67.511.164	19.707.145	40.579.030	60.286.175
1.1	Letters of Guarantee		22.625.588	33.173.270	55.798.858	19.606.622	29.635.315	49.241.937
1.1.1	Guarantees Subject to State Tender Law		1.421.202	6.278.375	7.699.577	1.181.920	5.635.033	6.816.953
1.1.2	Guarantees Given for Foreign Trade Operations		19.233.851	26.618.558	45.852.409	16.927.658	23.740.445	40.668.103
1.1.3	Other Letters of Guarantee		1.970.535	276.337	2.246.872	1.497.044	259.837	1.756.881
1.2	Bank Acceptances		33.465	4.177.375	4.210.840	12.965	4.178.340	4.191.305
1.2.1	Import Letter of Acceptance		33.465	4.177.047	4.210.512	12.965	4.173.792	4.186.757
1.2.2	Other Bank Acceptances		-	328	328	-	4.548	4.548
1.3	Letters of Credit		58.364	7.443.102	7.501.466	87.558	6.765.375	6.852.933
1.3.1	Documentary Letters of Credit		58.364	7.406.723	7.465.087	87.558	6.728.524	6.816.082
1.3.2	Other Letters of Credit		-	36.379	36.379	-	36.851	36.851
1.4	Preinancing 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)	17.634.623	8.588.203	26.222.826	15.984.047	3.614.654	19.598.701
2.1	Irrevocable Commitments		17.634.611	8.580.756	26.215.367	15.984.035	3.609.756	19.593.791
2.1.1	Asset Purchase and Sale Commitments		1.048.824	6.406.537	7.455.361	153.461	1.695.131	1.848.592
2.1.2	Deposit Purchase and Sales Commitments		-	-	-	-	-	-
2.1.3	Share Capital Commitments to Associates and Subsidiaries		-	-	-	-	-	-
2.1.4	Loan Granting Commitments		3.006.404	109.689	3.116.093	2.693.280	112.533	2.805.813
2.1.5	Securities Issue Brokerage Commitments		-	-	-	-	-	-
2.1.6	Commitments for Reserve Deposit Requirements		-	-	-	-	-	-
2.1.7	Commitments for Cheques		3.129.742	-	3.129.742	3.076.439	-	3.076.439
2.1.8	Tax and Fund Liabilities from Export Commitments		-	-	-	-	-	-
2.1.9	Commitments for Credit Card Limits		6.970.172	-	6.970.172	7.130.144	-	7.130.144
2.1.10	Commitments for Credit Cards and Banking Services Promotions		23.361	-	23.361	20.185	-	20.185
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		3.456.108	2.064.530	5.520.638	2.910.526	1.802.092	4.712.618
2.2	Revocable Commitments		12	7.447	7.459	12	4.898	4.910
2.2.1	Revocable Loan Granting Commitments		-	7.447	7.447	-	4.898	4.898
2.2.2	Other Revocable Commitments		12	-	12	12	-	12
III.	DERIVATIVE FINANCIAL INSTRUMENTS		8.005.221	58.616.108	66.621.329	3.119.312	54.430.547	57.549.859
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		8.005.221	58.616.108	66.621.329	3.119.312	54.430.547	57.549.859
3.2.1	Forward Foreign Currency Buy/Sell Transactions		1.307.840	3.451.848	4.759.688	1.332.892	4.096.601	5.429.493
3.2.1.1	Forward Foreign Currency Transactions-Buy		665.497	1.715.316	2.380.813	642.706	2.072.867	2.715.573
3.2.1.2	Forward Foreign Currency Transactions-Sell		642.343	1.736.532	2.378.875	690.186	2.023.734	2.713.920
3.2.2	Swap Transactions Related to Foreign Currency and Interest Rates		6.697.381	55.161.119	61.858.500	1.773.374	50.290.572	52.063.946
3.2.2.1	Foreign Currency Swap-Buy		4.706.268	23.143.173	27.849.441	436.624	22.770.642	23.207.266
3.2.2.2	Foreign Currency Swap-Sell		1.991.113	25.804.550	27.795.663	1.336.750	21.284.304	22.621.054
3.2.2.3	Interest Rate Swap-Buy		-	3.106.698	3.106.698	-	3.117.813	3.117.813
3.2.2.4	Interest Rate Swap-Sell		-	3.106.698	3.106.698	-	3.117.813	3.117.813
3.2.3	Foreign Currency, Interest rate and Securities Options		-	3.141	3.141	13.046	43.374	56.420
3.2.3.1	Foreign Currency Options-Buy		-	1.581	1.581	6.523	21.687	28.210
3.2.3.2	Foreign Currency Options-Sell		-	1.560	1.560	6.523	21.687	28.210
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)		702.954.284	101.039.507	803.993.791	645.572.139	98.062.897	743.635.036
IV.	ITEMS HELD IN CUSTODY		96.566.419	12.045.974	108.612.393	87.769.019	11.281.019	99.050.038
4.1	Customer Fund and Portfolio Balances		-	-	-	-	-	-
4.2	Investment Securities Held in Custody		30.806.289	4.792.886	35.599.175	30.615.944	4.389.662	35.005.606
4.3	Checks Received for Collection		5.692.235	432.477	6.124.712	4.576.100	342.690	4.918.790
4.4	Commercial Notes Received for Collection		6.304.901	516.076	6.820.977	4.782.653	309.103	5.091.756
4.5	Other Assets Received for Collection		8.903	-	8.903	8.934	-	8.934
4.6	Assets Received for Public Offering		49.899.507	-	49.899.507	44.389.111	-	44.389.111
4.7	Other Items Under Custody		3.852.935	6.304.535	10.157.470	3.394.628	6.239.564	9.634.192
4.8	Custodians		1.649	-	1.649	-	-	1.649
V.	PLEDGES RECEIVED		605.793.655	87.408.444	693.202.099	557.200.217	85.495.840	642.696.057
5.1	Marketable Securities		1.431.881	31.312	1.463.193	907.730	28.100	935.830
5.2	Guarantee Notes		13.758.626	825.169	14.583.795	13.208.506	808.101	14.016.607
5.3	Commodity		1.089.240	59.066	1.148.306	1.072.015	18.248	1.090.263
5.4	Warranty		-	-	-	-	-	-
5.5	Immovable		536.647.205	66.952.623	603.599.828	495.609.918	65.182.872	560.792.790
5.6	Other Pledged Items		52.861.494	19.529.751	72.391.245	46.396.839	19.447.947	65.844.786
5.7	Pledged Items-Depository		5.209	10.523	15.732	5.209	10.572	15.781
VI.	ACCEPTED INDEPENDENT GUARANTEES AND WARRANTIES		594.210	1.585.089	2.179.299	602.903	1.286.038	1.888.941
TOTAL OFF-BALANCE SHEET COMMITMENTS (A+B)			751.311.545	213.037.565	964.349.110	684.382.643	196.687.128	881.069.771

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 FOR THE YEAR ENDED AT 30 JUNE 2016

(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- 30/06/2016	Prior Period 01/01- 30/06/2015	Current Period 01/04- 30/06/2016	Prior Period 01/04- 30/06/2015
I. INTEREST INCOME	(1)		12.959.361	10.399.501	6.511.317	5.441.992
1.1 Interest Income from Loans			10.104.476	7.696.613	5.178.437	3.984.262
1.2 Interest Income From Reserve Deposits			87.878	13.827	43.408	10.042
1.3 Interest Income from Banks			39.569	29.208	19.985	14.676
1.4 Interest Income from Money Market Placements			4	4	2	2
1.5 Interest Income from Marketable Securities			2.714.850	2.617.719	1.265.122	1.429.422
1.5.1 Financial Assets Held for Trading			614	752	128	449
1.5.2 Financial Assets at Fair Value through Profit and Loss			-	-	-	-
1.5.3 Financial Assets Available-for-Sale			2.312.285	2.239.303	1.078.713	1.224.670
1.5.4 Investments Held-to-Maturity			401.951	377.664	186.281	204.303
1.6 Finance Lease Income			-	-	-	-
1.7 Other Interest Income			12.584	42.130	4.363	3.588
II. INTEREST EXPENSES	(2)		6.567.987	5.407.071	3.270.479	2.824.299
2.1 Interest Expense on Deposits			4.832.888	4.104.937	2.433.960	2.116.824
2.2 Interest on Borrowings			206.329	191.060	104.420	103.272
2.3 Interest on Money Market Borrowings			1.315.374	954.725	625.868	526.650
2.4 Interest on Marketable Securities Issued			175.068	122.924	92.817	62.476
2.5 Other Interest Expense			38.328	33.425	13.414	15.077
III. NET INTEREST INCOME/EXPENSES (I - II)			6.391.374	4.992.430	3.240.838	2.617.693
IV. NET FEES AND COMMISSIONS INCOME/EXPENSES			765.616	607.985	397.799	314.830
4.1 Fees and Commissions Received			945.735	777.082	490.572	405.338
4.1.1 Non-cash Loans			158.681	108.408	82.035	56.408
4.1.2 Other		(12)	787.054	668.674	408.537	348.930
4.2 Fees and Commissions Paid			180.119	169.097	92.773	90.508
4.2.1 Non-cash Loans			162	55	86	14
4.2.2 Other			179.957	169.042	92.687	90.494
V. DIVIDEND INCOME	(3)		255.122	192.166	252.337	184.176
VI. TRADING PROFIT/LOSS (Net)	(4)		(80.230)	(76.528)	(80.896)	(69.341)
6.1 Profit/Loss from Capital Market Operations			17.804	58.930	12.466	16.027
6.2 Profit/losses on Derivative Financial Transactions		(5)	(242.347)	(806.713)	(936.827)	693.972
6.3 Profit/Loss from Foreign Exchanges			144.313	671.255	843.465	(779.340)
VII. OTHER OPERATING INCOME	(6)		983.062	669.830	647.034	289.069
VIII. TOTAL OPERATING INCOMES/EXPENSES (III+IV+V+VI+VII)			8.314.944	6.385.883	4.457.112	3.336.427
IX. PROVISION FOR LOSSES ON LOANS OR OTHER RECEIVABLES (-)	(7)		1.458.113	896.818	1.011.538	451.275
X. OTHER OPERATING EXPENSES(-)	(8)		2.662.350	2.363.246	1.320.283	1.211.785
XI. NET OPERATING PROFIT/LOSS (VIII-IX-X)			4.194.481	3.125.819	2.125.291	1.673.367
XII. GAINS RECORDED AFTER MERGER			-	-	-	-
XIII. PROFIT/LOSS ON EQUITY METHOD			-	-	-	-
XIV. GAIN/LOSS ON NET MONETARY POSITION			-	-	-	-
XV. INCOME BEFORE TAXES FROM CONTINUING OPERATIONS (XI+...+XIV)	(9)		4.194.481	3.125.819	2.125.291	1.673.367
XVI. PROVISION FOR TAXES ON INCOME FROM CONTINUING OPERATIONS (±)	(10)		(805.646)	(696.402)	(345.858)	(345.610)
16.1 Current Tax Provision			(1.118.818)	(221.330)	(556.599)	(221.330)
16.2 Deferred Tax Provision			313.172	(475.072)	210.741	(124.280)
XVII. NET PROFIT/LOSSES FROM CONTINUING OPERATIONS (XV±XVI)			3.388.835	2.429.417	1.779.433	1.327.757
XVIII. INCOME FROM DISCONTINUED OPERATIONS			-	-	-	-
18.1 Income from Non-current Assets Held for Sale			-	-	-	-
18.2 Profit from Sales of Associates, Subsidiaries and Joint Ventures (Business Partners)			-	-	-	-
18.3 Other Income From Discontinued Operations			-	-	-	-
XIX. EXPENSES FROM DISCONTINUED OPERATIONS (-)			-	-	-	-
19.1 Expenses for Non-current Assets Held for Sale			-	-	-	-
19.2 Loss from Sales of Associates, Subsidiaries and Joint Ventures (Business Partners)			-	-	-	-
19.3 Other Expenses From Discontinued Operations			-	-	-	-
XX. PROFIT /LOSSES BEFORE TAXES FROM DISCONTINUED OPERATIONS (XVIII-XIX)			-	-	-	-
XXI. PROVISION FOR INCOME TAXES FROM DISCONTINUED OPERATIONS (±)			-	-	-	-
21.1 Current tax provision			-	-	-	-
21.2 Deferred tax provision			-	-	-	-
XXII. NET PROFIT/LOSSES FROM DISCONTINUED OPERATIONS (XX±XXI)			-	-	-	-
XXIII. NET PROFIT/LOSSES (XVII+XXII)	(11)		3.388.835	2.429.417	1.779.433	1.327.757
Earnings/ Loss per Share			0,670	0,483	0,352	0,264

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 PROFIT AND LOSS ITEMS ACCOUNTED UNDER SHAREHOLDERS' EQUITY FOR THE YEARS ENDED AT 30 JUNE 2016**

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

IV. STATEMENT OF PROFIT AND LOSS ITEMS ACCOUNTED UNDER SHAREHOLDERS' EQUITY		
PROFIT AND LOSS ITEMS ACCOUNTED UNDER SHAREHOLDERS' EQUITY	Current Period (30/06/2016)	Prior Period (30/06/2015)
I. ADDITIONS TO THE MARKETABLE SECURITY VALUATION DIFFERENCES ON AVAILABLE FOR SALE FINANCIAL ASSETS	2.171.653	(2.090.102)
II. TANGIBLE ASSETS REVALUATION DIFFERENCES	(29.919)	(14.355)
III. INTANGIBLE ASSETS REVALUATION DIFFERENCES	-	-
IV. CURRENCY TRANSLATION DIFFERENCES FOR FOREIGN CURRENCY TRANSACTIONS	(1.688)	18.490
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	(56.041)	18.831
IX. DEFERRED TAXES RELATED TO VALUATION DIFFERENCES	(550.533)	422.279
X. NET PROFIT OR LOSS ACCOUNTED DIRECTLY UNDER SHAREHOLDERS' EQUITY (I+II+...+IX)	1.533.472	(1.644.857)
XI. CURRENT YEAR PROFIT/LOSS	3.388.835	2.429.417
11.1 Net change in fair value of marketable securities (transfer to profit-loss)	17.804	58.643
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	3.371.031	2.370.774
XII. TOTAL PROFIT/LOSS RELATED TO THE PERIOD (X±XI)	4.922.307	784.560

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 AT 31 MARCH 2015

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

V. STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY																		
		Note (Section Five)	Paid-in Capital	Adjustment to Paid-in Capital	Share Premium	Share Canc. 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
30 June 2015																		
I.	Balance at the Beginning of the Period		2.500.000	543.482	-	-	2.725.124	-	11.880.556	850.864	-	4.210.307	2.178.133	3.634.310	17.388	-	-	28.540.164
II.	Corrections according to TAS 8																	
2.1.	The Effect of Correction of Errors																	
2.2.	The Effect of Changes in Accounting Policy																	
III.	New Balance (I+II)		2.500.000	543.482	-	-	2.725.124	-	11.880.556	850.864	-	4.210.307	2.178.133	3.634.310	17.388	-	-	28.540.164
Changes During the Period																		
IV.	Increase/Decrease Related to Merger		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
V.	Marketable Securities Valuation Differences		-	-	-	-	-	-	-	-	-	-	(1.664.057)	-	-	-	-	(1.664.057)
VI.	Hedging Funds (Active Part)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6.1	Cash-Flow Hedge		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6.2	Hedges for Investments Made in Foreign Countries		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VII.	Revaluation Differences of Tangible Assets		-	-	-	-	-	-	-	-	-	-	-	(14.355)	-	-	-	(14.355)
VIII.	Revaluation Differences of Intangible Assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IX.	Bonus Shares of Associates, Subsidiaries and Entities under Common Control (Business Partners)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
X.	Foreign Exchange Differences		-	-	-	-	-	-	-	-	-	-	18.490	-	-	-	-	18.490
XI.	Changes Resulted from Disposal of Assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XII.	Changes Resulted from Reclassification of Assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIII.	Effect of Changes in Shareholders' Equity of Associates to the Bank's Shareholders Equity		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIV.	Increase in Capital		2.500.000	(543.482)	-	-	-	-	(1.281.518)	-	-	-	-	-	-	-	-	675.000
14.1	Cash		675.000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	675.000
14.2	From Internal Resources		1.825.000	(543.482)	-	-	-	-	(1.281.518)	-	-	-	-	-	-	-	-	-
XV.	Issuance of Share Certificates		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVI.	Share Cancellation Profits		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVII.	Adjustment to Paid-in Capital		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVIII.	Other		-	-	-	-	-	-	-	15.065	-	-	-	-	-	-	-	15.065
XIX.	Net Profit or Losses		-	-	-	-	-	-	-	-	2.429.417	-	-	-	-	-	-	2.429.417
XX.	Profit Distribution		-	-	-	-	195.859	-	3.041.293	503.357	-	(4.050.509)	-	-	-	-	-	(310.000)
20.1	Dividend Distributed		-	-	-	-	-	-	-	-	-	(310.000)	-	-	-	-	-	(310.000)
20.2	Transfers to Legal Reserves		-	-	-	-	195.859	-	3.041.293	503.357	-	(3.740.509)	-	-	-	-	-	-
20.3	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balance at the end of the period (I+II+III+.....+XVIII+XIX+XX)			5.000.000				2.920.983	-	13.640.331	1.369.286	2.429.417	159.798	532.566	3.619.955	17.388	-	-	29.689.724

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 AT 30 JUNE 2016
(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL").)

V. STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY																		
30 June 2016		Note (Section Five)	Paid-in Capital	Adjustme nt to Paid-in Capital	Share Premium	Share Canc'l. 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		-	-	-	-	-	-	-	-	-	-	1.662.010	-	-	-	-	1.662.010
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		-	-	-	-	-	-	-	-	-	-	-	(82.018)	-	-	-	(82.018)
VI.	Revaluation Differences of Intangible Assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VII.	Bonus Shares of Associates, Subsidiaries and Entities under Common Control (Business Partners)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VIII.	Foreign Exchange Differences		-	-	-	-	-	-	-	-	-	-	(1.688)	-	-	-	-	(1.688)
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		-	-	-	-	-	-	-	-	3.388.835	-	-	-	-	-	-	3.388.835
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	3.388.835	159.798	1.339.282	3.525.149	17.388	-	-	36.048.576

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 JUNE 2016**
(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

VI. STATEMENT OF CASH FLOWS			
	Note (Section Five)	Current Period (30/06/2016)	Prior Period (30/06/2015)
A. CASH FLOWS FROM BANKING OPERATIONS			
1.1 Operating Profit Before Changes in Operating Assets and Liabilities		3.253.308	3.977.235
1.1.1 Interest Received		11.146.515	11.011.316
1.1.2 Interest Paid		(6.402.635)	(5.191.416)
1.1.3 Dividend Received		253.217	190.908
1.1.4 Fees and Commissions Received		945.461	777.501
1.1.5 Other Income		57.597	1.417.993
1.1.6 Collections from Previously Written-off Loans and Other Receivables		555.239	699.398
1.1.7 Payments to Personnel and Service Suppliers		(1.150.435)	(1.037.940)
1.1.8 Taxes Paid		(1.086.930)	(658.300)
1.1.9 Other		(1.064.721)	(3.232.225)
1.2 Changes in Operating Assets and Liabilities		(2.614.733)	1.910.934
1.2.1 Net (Increase)/Decrease in Trading Securities		(149)	(2.344)
1.2.2 Net (Increase)/Decrease in Fair Value Through Profit/Loss Financial Assets		-	-
1.2.3 Net (Increase)/Decrease in Banks		(968.467)	(5.391.657)
1.2.4 Net (Increase)/Decrease in Loans		(14.918.421)	(25.572.919)
1.2.5 Net (Increase)/Decrease in Other Assets		(492.761)	(200.082)
1.2.6 Net Increase/(Decrease) in Bank Deposits		2.150.263	5.451.617
1.2.7 Net Increase/(Decrease) in Other Deposits		8.952.843	21.564.060
1.2.8 Net Increase/(Decrease) in Funds Borrowed		(283.743)	4.550.397
1.2.9 Net Increase/(Decrease) in Payables		-	-
1.2.10 Net Increase/(Decrease) in Other Liabilities		2.945.702	1.511.862
I. Net Cash Provided from Banking Operations		638.575	5.888.169
B. CASH FLOWS FROM INVESTMENT ACTIVITIES			
II. Net Cash Provided from Investing Activities		(1.639.014)	(4.324.432)
2.1 Cash Paid for Purchase of Associates, Subsidiaries and Entities under Common Control		(76.354)	(922.033)
2.2 Cash Obtained from Sale of Associates, Subsidiaries and Entities under Common Control		-	-
2.3 Fixed Assets Purchases		(5.026)	(251.937)
2.4 Fixed Assets Sales		141.703	3.859
2.5 Cash Paid for Purchase of Financial Assets Available for Sale		(6.665.439)	(10.720.327)
2.6 Cash Obtained from Sale of financial Assets Available for Sale		5.885.158	11.040.078
2.7 Cash Paid for Purchase of Investment Securities		(56.776)	(104.991)
2.8 Cash Obtained from Sale of Investment Securities		444.860	1.079.951
2.9 Other		(1.307.140)	(4.449.032)
C. CASH FLOWS FROM FINANCING ACTIVITIES			
III. Net Cash Provided from Financing Activities		1.112.147	(51.870)
3.1 Cash Obtained from Funds Borrowed and Securities Issued		3.153.165	2.523.264
3.2 Cash Used for Repayment of Funds Borrowed and Securities Issued		(1.809.730)	(2.302.161)
3.3 Marketable Securities Issued		-	-
3.4 Dividends Paid		(231.200)	(271.958)
3.5 Payments for Finance Leases		(88)	(1.015)
3.6 Other		-	-
IV. Effect of Change in Foreign Exchange Rate on Cash and Cash Equivalents		(27.392)	373.991
V. Net Decrease/ Increase in Cash and Cash Equivalents (I+II+III+IV)		84.316	1.885.858
VI. Cash and Cash Equivalents at the Beginning of the Period		8.064.097	4.866.373
VII. Cash and Cash Equivalents at the End of the Period		8.148.413	6.752.231

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 NOTE I. OF SECTION THREE**

TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS AT 30 JUNE 2016

(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 and circulars and interpretations published by Banking Regulation and Supervision Authority (together referred as BRSA Accounting and Reporting Legislation) and in case where a specific regulation is not made by BRSA, Turkish Accounting Standards, within the scope of interim reporting Turkish Accounting Standards 34 and Turkish Financial Reporting Standards (“TFRS”) and related appendices and interpretations (referred as “Turkish Accounting Standards” or “TAS”) put into effect by Public Oversight Accounting and Auditing Standards Authority (“POA”) (“all referred as BRSA Principles”).

The format and content of the publicly announced 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 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 June 2016 are presented comparatively with interim reviewed balances as of 31 December 2015 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 June 2015.

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, estimates and the effects of the changes are explained in related notes.

The accounting policies and valuation principles applied in the preparation of these financial statements are defined and applied in accordance with TAS. Those accounting policies and valuation principles are explained in Notes II. to 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 NOTE I. OF SECTION THREE**

TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS AT 30 JUNE 2016

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

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 consists of Turkish Lira deposits, repurchase agreements, issued securities, and shareholders’ equity. 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 commitments for credit card limits 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 clarifying the 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
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TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS AT 30 JUNE 2016

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

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. Realized interest accruals calculated for non-performing loans and recognized as income although not collected are reversed and interest income related to these loans is recognized as interest income only when collected.

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.

Sale and purchase transactions of financial assets are accounted for using the settlement date basis.

**CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED
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EXPLANATIONS ON ACCOUNTING POLICIES (Continued)

VII. EXPLANATIONS ON FINANCIAL ASSETS (Continued)

a. 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.

b. 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.

c. 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 at period-ends 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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EXPLANATIONS ON ACCOUNTING POLICIES (Continued)

VII. EXPLANATIONS ON FINANCIAL ASSETS (Continued)

c. 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". In the previous periods, the bank allocated special provisions considering the minimum rates and prudence principle stated in "Regulation on the Procedures and Principles on Determining the Characteristics of the Loans and other Receivables by the Banks and the provisions that would be Set Aside for them" regardless of such loan collaterals; however, in line with the provision of the General Director Authority Approval and of the clause (8) of Article 10 of the regulation stating that "based on the reliability and prudence assumptions defined in the Communiqué on Conceptual Framework regarding Preparation and Presentation of Financial Statements promulgated in the Official Gazette No. 25702 dated 16 January 2005, special provision may be allocated to the extent of the amount of the said non-performing receivable on condition not to be less than the special provision amounts applicable for the group in which the non-performing receivable is included regardless of the amount of collateral". In the framework of arrangements of "Provisions Regulation" in the Bank practice, the Bank set aside special provisions corresponding to 50% of the non-performing receivable amount as of the date of including the non-performing receivables in the Third Group, special provisions corresponding to 100% of the non-performing receivable amount as of the date of including the non-performing receivables in the Fourth and Fifth Group. With the changes of predictions regarding special provisions as of 30 June 2016; special provision rate that applied for the loans under follow-up placed in the Third Group has increased from 50% to 100% and special provisions corresponding to 100% for loans under follow-up in all groups are started to set aside regardless of such loan collaterals. Allocated provisions are deducted from the income for the period. The total pre-tax effect of this change in estimate is TL 585.909, it is associated with the amount of profit for the period concerned. 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.

d. 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.

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EXPLANATIONS ON ACCOUNTING POLICIES (Continued)

VIII. EXPLANATIONS ON IMPAIRMENT OF FINANCIAL ASSETS

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

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

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

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 are explained in detail in Note VII. of this section.

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

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.

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EXPLANATIONS ON ACCOUNTING POLICIES (Continued)

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

Tangible assets acquired in consideration of receivables are accounted for in accordance with the requirements of the Communiqué on “Methods, Principles for Purchase and Sale of Precious Metal and Sale of Goods and Immovables obtained in Return of Receivables” published in the Official Gazette numbered 26333 and dated 1 November 2006 and these assets are subject to revaluation by no means.

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

The Bank has no discontinued operations.

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 5 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

Property and equipment is measured at its cost when initially recognised and any directly attributable costs of setting the asset in working order for its intended use are included in the initial measurement. The Bank’s tangible fixed assets purchased before 1 January 2005 are carried at inflation adjusted cost in the balance sheet before 31 December 2004 and its tangible fixed assets that are purchased subsequent to 1 January 2005 are valued at historical cost. 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 1 January 2014 valuation results are reflected in the accounting records. As a result of the fair valuation of the real estates which is included in tangible fixed assets, TL 3.525.149 revaluation difference is followed under shareholders’ equity as of 30 June 2016. As of 30 January 2014, the net book amount of real estates of the tangible assets before valuation was TL 816.950. Subsequent to recognition, tangible fixed assets are presented in financial statements at cost less any accumulated depreciation and impairment loss, if any. Tangible fixed assets are amortized by using the straight-line method over their estimated useful lives. No changes made in the current period regarding depreciation method.

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EXPLANATIONS ON ACCOUNTING POLICIES (Continued)

XIII. EXPLANATIONS ON PROPERTY AND EQUIPMENT (Continued)

Applied depreciation rates are as follows;

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

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

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

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

XIV. EXPLANATIONS ON 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 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.

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EXPLANATIONS ON ACCOUNTING POLICIES (Continued)

XV. EXPLANATIONS ON PROVISIONS, CONTINGENT ASSET AND LIABILITIES (Continued)

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

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

XVI. EXPLANATIONS ON OBLIGATIONS RELATED TO EMPLOYEE RIGHTS

a. Employment Termination and Vacation Benefits

The Bank recognizes its liabilities of employment terminations and vacation benefits in accordance with TAS 19 “Employee Benefits” 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, Employment Termination Benefit Provision is calculated in two ways; if the employee is a state employee, the calculation is based on retirement pension for the working period of the state employee, and if the employee is a blue-collar worker the calculation is based on the final salary at the date of retirement or leave (to the extent that the payments and/or salary amount does not exceed the Employment Termination Benefit Provision ceiling).

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 129.910 was classified as “Other Comprehensive Expense” 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.

b. 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.

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EXPLANATIONS ON ACCOUNTING POLICIES (Continued)

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

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

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

b. 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 2015 which is prepared in accordance with the new law and the rate determined as 9,80%, concluded no technical deficit arises in the above mentioned fund. Since the Bank has no legal right to hold the present value of any economic benefits available in the form of refunds from Pension Fund or reductions in future contributions to Pension Fund, no asset is recognized in the Bank’s financial statements.

XVII. EXPLANATIONS ON TAXATION

a. Current Tax

“Corporate Tax Law” (“New 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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XVII. EXPLANATIONS ON TAXATION (Continued)

b. Deferred tax

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

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

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

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

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

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

XVIII. EXPLANATIONS ON 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

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

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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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 IX. of Section Four.

XXIV. EXPLANATIONS ON OTHER MATTERS

In accordance with the decision taken in the General Assembly of the year 2015, which was carried out on 30 March 2016, from TL 5.162.470 net profit, which is not subject to distribution, TL 258.124 is transferred to first legal reserve and TL 24.200 is transferred to second legal reserve TL 220.000 was paid to employees and TL 231.200 is distributed to Treasury after deducting withholding tax of 15% (TL 40.800) in cash. In this context, TL 4.388.146 of the profit is preserved; dividend payment made to Treasury on 15 April 2016, and TL 186.662 was paid to employees as an additional premium.

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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 June 2016 Bank's total capital has been calculated as TL 38.464.540, capital adequacy ratio is 14,57%. As of 31 December 2015, Bank's total capital amounted to TL 34.995.187, capital adequacy ratio was 15,08% calculated pursuant to former regulations. This ratio is well above the minimum ratio required by the legislation.

a) Information Related to The Components of Shareholders' Equity:

	Amount	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	22.648.034	-
Gains recognized in equity as per TAS	5.099.180	-
Profit	3.548.633	-
Current Period Profit	3.388.835	-
Prior Period Profit	159.798	-
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	36.413.235	-
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	319.826	-
Improvement costs for operating leasing	85.722	-
Goodwill (net of related tax liability)	-	-
Other intangibles other than mortgage-servicing rights (net of related tax liability)	157.177	261.963
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	44.831	-
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	607.556	-
Total Common Equity Tier I Capital	35.805.679	-

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(Continued)**

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

a) Information Related To The Components Of Shareholders' Equity: (Continued)

	Amount	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 (Covered by 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 (-)	-	-
Items to be Deducted from Tier I Capital during the Transition Period	-	-
Goodwill and other intangible assets and related deferred tax liabilities which will not deducted from Common Equity Tier 1 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	104.784	-
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)	35.700.895	-
TIER II CAPITAL	-	-
Debt instruments and share issue premiums deemed suitable by the BRSA	-	-
Debt instruments and share issue premiums deemed suitable by BRSA (Covered by Temporary Article 4)	-	-
Provisions (Article 8 of the Regulation on the Equity of Banks)	2.799.206	-
Tier II Capital Before Deductions	2.799.206	-
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	2.799.206	-
Total Capital (The sum of Tier I Capital and Tier II Capital)	38.500.101	-
The sum of Tier I Capital and Tier II Capital (Total Capital)	38.500.101	-
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	33.790	-
Other items to be defined by the BRSA (-)	1.771	-
Items to be deducted from the sum of Tier I and Tier II Capital ("Capital") during the Transition Period	-	-
The Sum of net long positions of investments (the portion which exceeds the % 10 of Banks Common Equity) in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity which will not deducted from Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	-	-
The Sum of net long positions of investments in the Additional Tier 1 capital and Tier 2 capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity which will not deducted from Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	-	-
The Sum of net long positions of investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity, mortgage servicing rights, deferred tax assets arising from temporary differences which will not deducted from Common Equity Tier I 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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(Continued)**

I. EXPLANATIONS ON THE COMPONENTS OF SHAREHOLDERS’ EQUITY

a) Information Related To The Components Of Shareholders' Equity: (Continued)

	Amount	Amount as per the regulation before 1/1/2014*
CAPITAL		
Total Capital (Total of Tier I Capital and Tier II Capital)	38.464.540	
Total Risk Weighted Assets	264.059.520	
CAPITAL ADEQUACY RATIOS		
Common Equity Tier I Capital Adequacy Ratio (%)	13,56	
Tier I Capital Adequacy Ratio (%)	13,52	
Capital Adequacy Ratio (%)	14,57	
BUFFERS		
Bank-specific total CET 1 Capital Ratio		
Capital Conservation Buffer Ratio (%)	0,63	
Bank-specific Counter-Cyclical Capital Buffer 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	5,56	
Amounts below the Excess Limits as per the Deduction Principles	-	
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	147.702	
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	84.056	
Remaining Mortgage Servicing Rights		
Net Deferred Tax Assets arising from Temporary Differences	24.369	
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	3.060.087	
General Loan Provisions for Exposures in Standard Approach Limited by 1.25% of Risk Weighted Assets	2.799.206	
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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(Continued)**

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

a) Information Related To The Components Of Shareholders' Equity: (Continued)

	Prior Period^(*)
COMMON EQUITY TIER 1 CAPITAL	
Paid-in Capital to be Entitled for Compensation after All Creditors	5.000.000
Share Premium	-
Share Cancellation Profits	-
Reserves	18.005.564
Income recognized under equity in accordance with TAS	4.664.239
Profit	5.322.268
Current Period's Profit	5.162.470
Prior Period's Profit	159.798
Free Provision for Possible Risks	1.257.419
Bonus Shares from Associates, Subsidiaries and Joint-Ventures not Accounted in Current Period's Profit	17.388
Common Equity Tier 1 Capital Before Deductions	34.266.878
Deductions from Common Equity Tier 1 Capital	
Net loss for the prior year losses and uncovered portion of the total reserves and losses that are recognized under equity in accordance with TAS (-)	1.463.190
Leasehold Improvements on Operational Leases (-)	86.055
Goodwill and intangible asset and the related deferred tax liability (-)	84.604
Net Deferred Tax Asset / Liability (-)	-
Excess amount expressed in the law (Article 56 4th paragraph) (-)	-
Bank's direct or indirect investments on its own Tier 1 Capital (-)	-
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible long positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-
Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible long positions (amount above 10% threshold) of Tier 1 Capital	-
Mortgage servicing rights (amount above 10% threshold) of Tier 1 Capital	-
Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-
Amounts exceeding 15% of Tier 1 Capital according to Regulation on Measurement and Assessment of Capital	-
Adequacy Ratios of Banks (2nd article temporary second paragraph (-)	-
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible long positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-
Amounts related to mortgage servicing rights (-)	-
Excess amount of deferred tax assets from temporary differences (-)	-
Other Items Determined by BRSA (-)	-
The amount to be deducted from common equity tier 1 capital (-)	-
Total Deductions from Common Equity Tier 1 Capital	1.633.849
Total Common Equity Tier 1 Capital	32.633.029
ADDITIONAL TIER 1 CAPITAL	
Premiums that are not included in Common Equity Tier 1 capital	-
Bank's borrowing instruments and related issuance premium (issued after 1.1.2014)	-
Bank's borrowing instruments and related issuance premium (issued before 1.1.2014)	-
Additional Tier 1 Capital before Deductions	-

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

a) Information Related To The Components Of Shareholders' Equity: (Continued)

	Prior Period ^(*)
Deductions from Additional Tier 1 Capital	-
Bank's a direct or indirect investment in Tier 1 Capital (-)	-
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 Common Equity 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 Determined by BRSA (-)	-
The amount to be deducted from Additional Tier 1 Capital (-)	-
Total Deductions from Additional Tier 1 Capital	-
Total Additional Tier 1 Capital	-
Deductions From Tier 1 Capital	126.907
The amount related to goodwill or other intangible assets not deducted from Common Equity Tier 1 Capital (-)	126.907
The amount related to deferred tax assets not deducted from Common Equity Tier 1 Capital (-)	-
Tier 1 Capital	32.506.122
TIER 2 CAPITAL	
Bank's borrowing instruments and related issuance premium (issued after 1.1.2014)	-
Bank's borrowing instruments and related issuance premium (issued before 1.1.2014)	-
Pledged assets of the shareholders to be used for the Bank's capital increases	-
General Provisions	2.490.182
Tier 2 Capital Before Deductions	2.490.182
Deductions From Tier 2 Capital	
Bank's direct or indirect investment in Tier 2 capital (-)	-
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 Common Equity Tier I Capital (-)	-
The Total of Net Long Position of the Direct or Indirect Investments in Additional Core Capital and Tier II Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital Exceeding the 10% Threshold of Tier I Capital (-)	-
Other Items Determined by BRSA (-)	-
Total Deductions From Tier 2 Capital	-
Total Tier 2 Capital	2.490.182
TOTAL CAPITAL BEFORE REGULATORY DEDUCTIONS	34.996.304
Loan granted to Customer against the Articles 50 and 51 of the Banking Law	-
Net Book Values of Immovables Exceeding 50% of the Equity and of Assets Acquired against Overdue Receivables and Held for Sale as per the Article 57 of the Banking Law but Retained More Than Five Years (-)	1.044
Loans extended to banks, financial institutions (domestic and abroad) and qualified shareholders, like secondary subordinated loan and debt instruments purchased from these institutions issued, like primary and secondary subordinated loan (-)	-
Securitization positions that is deducted -preferably- from the shareholders' equity (Article 20 paragraph 2) (-)	-
Other items to be defined by BRSA (-)	73
The sum of partnership share on banks and financial institutions, with shareholding of less than 10%, but exceeding 10% of Common Equity Tier I not deducted from Common Equity Tier 1, Tier 1 or Tier 2 (-)	-
The sum of partnership share on banks and financial institutions, with shareholding of more than 10%, but exceeding 10% of the bank (-)	-
The sum of partnership share on banks and financial institutions, with shareholding of more than 10%, but exceeding 10% of bank(-)	-
TOTAL CAPITAL	34.995.187
Amounts below deduction thresholds	
The sum of partnership share on banks and financial institutions, with shareholding of less than 10%	120.823
The sum of partnership share on banks and financial institutions, with shareholding of more than 10%	80.423
Mortgage servicing rights	-
Deferred tax assets arising from temporary differences (net of related tax liability) (-)	261.730

(*) Total capital has been calculated in accordance with the "Regulations regarding to changes on Regulation on Equity of Banks" effective from date 31 March 2016, the information given in the prior period column has been calculated pursuant to former regulation and reflects the information dated 31 December 2015.

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

**b) Information Related to the Components which Subject to Temporary Implementation in the
Calculation of Equity:**

None.

**c) 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. 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 five years, other items defined by the regulator are taken into consideration as amounts deducted from Total Capital.

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(Continued)**

II. EXPLANATIONS ON THE CURRENCY RISK

- a) **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.

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

None.

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

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

- d) **Current foreign exchange bid rates of the 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
23.06.2016	2,8636	3,2528	2,1672	0,4371	0,3496	2,9970	2,2435	0,3493	4,2321	0,7637	2,7115
24.06.2016	2,9080	3,2305	2,1760	0,4346	0,3439	2,9998	2,2525	0,3446	3,9987	0,7754	2,8415
27.06.2016	2,9225	3,2115	2,1518	0,4319	0,3417	2,9855	2,2336	0,3395	3,8521	0,7793	2,8748
28.06.2016	2,8876	3,1946	2,1293	0,4297	0,3387	2,9501	2,2095	0,3396	3,8480	0,7705	2,8125
29.06.2016	2,8693	3,1832	2,1407	0,4293	0,3384	2,9363	2,2159	0,3419	3,8868	0,7676	2,8047
30.06.2016	2,8672	3,1835	2,1306	0,4280	0,3379	2,9437	2,2083	0,3417	3,8455	0,7650	2,7872

- e) **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
2,8992	3,2582	2,1470	0,4384	0,3494	2,9951	2,2516	0,3485	4,1225	0,7735	2,7559

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II. EXPLANATIONS ON THE CURRENCY RISK (Continued)

Information on the foreign currency risk of the Bank:

	EUR	USD	Other FC ⁽¹⁾	Total
Current Period				
Assets				
Cash (Cash in vault, effectives, money in transit, cheques purchased) and Balances with Central Bank of the Republic of Turkey	6.189.001	19.855.982	7.950.192	33.995.175
Banks	739.001	1.932.957	372.066	3.044.024
Financial Assets at Fair Value Through Profit and Loss ⁽⁵⁾	-	4.312	-	4.312
Money Market Placements	-	-	-	-
Financial Assets Available-for-Sale	3.468.429	9.297.119	44.559	12.810.107
Loans ⁽²⁾	15.650.920	34.752.044	66.551	50.469.515
Subsidiaries, Associates, Entities Under Common Control (Joint Ventures) ⁽⁴⁾	884.574	524.124	-	1.408.698
Investments Held-to-Maturity	1.116.557	4.003.816	4.288	5.124.661
Derivative Financial Assets for Hedging Purposes	-	-	-	-
Tangible Fixed Assets	5.170	1.390	4.747	11.307
Intangible Assets	3.042	1	832	3.875
Other Assets ⁽⁶⁾	948.166	232.150	18.779	1.199.095
Total Assets	29.004.860	70.603.895	8.462.014	108.070.769
Liabilities				
Interbank Deposits	4.208.079	2.477.399	64.706	6.750.184
Foreign Currency Deposits	34.597.774	22.292.062	2.442.529	59.332.365
Money Market Borrowings	423.961	14.668.623	-	15.092.584
Funds Provided from Other Financial Institutions	5.174.435	12.898.657	2.080	18.075.172
Issued Marketable Securities	76.420	3.883.145	-	3.959.565
Sundry Creditors	727.346	42.126	2.201	771.673
Derivative Financial Liabilities for Hedging Purposes	-	-	-	-
Other Liabilities	252.545	217.158	32.699	502.402
Total Liabilities	45.460.560	56.479.170	2.544.215	104.483.945
Net Balance Sheet Position	(16.455.700)	14.124.725	5.917.799	3.586.824
Net Off-Balance Sheet Position ⁽³⁾	19.184.082	(15.945.596)	(5.921.058)	(2.682.572)
Financial Derivative Assets	21.064.458	5.797.047	1.105.263	27.966.768
Financial Derivative Liabilities	1.880.376	21.742.643	7.026.321	30.649.340
Non-cash Loans	13.976.532	27.242.115	3.575.100	44.793.747
Prior Period				
Total Assets	25.328.934	69.683.515	7.291.987	102.304.436
Total Liabilities	43.677.501	56.883.928	2.567.778	103.129.207
Net Balance Sheet Position	(18.348.567)	12.799.587	4.724.209	(824.771)
Net Off-Balance Sheet Position ⁽³⁾	19.428.812	(12.841.685)	(5.051.656)	1.535.471
Financial Derivative Assets	21.565.135	5.207.441	1.210.433	27.983.009
Financial Derivative Liabilities	2.136.323	18.049.126	6.262.089	26.447.538
Non-cash Loans	12.805.276	24.756.552	3.017.202	40.579.030

- 1) Of the foreign currencies presented in the other FC column of assets 93,06% is Gold, 2,90% is GBP, 1,52% is IQD, 0,65% is SAR, and the remaining 1,87% is other foreign currencies. Of the foreign currencies presented in the other FC column of liabilities, 42,55% is Gold, 28,46% is GBP, 15,13% is CHF, 4,85% is DKK, 2,19% SEK, 1,05% is BGN, 0,94% is SAR and the remaining 4,83% is other foreign currencies. (31 December 2015: Of the foreign currencies presented in the other FC column of assets 94,50% is Gold, 1,43% is GBP, 1,55% is IQD, 0,71% is SAR, and the remaining 1,81% is other foreign currencies. Of the foreign currencies presented in the other FC column of liabilities, 47,63% is Gold, 25,49% is GBP, 14,23% is CHF, 4,66% is DKK, 1,53% is BGN, 1,28% is SAR and the remaining 5,18% is other foreign currencies).
- 2) TL 537.603 equivalent of EUR and TL 623.460 equivalent of USD loans are originated as foreign currency indexed loans (31 December 2015: TL 650.455 equivalent of USD and TL 206.706 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 their domestic currency 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 6.417 are not included in the table.

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(Continued)

III. EXPLANATIONS ON THE INTEREST RATE RISK

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	32.670.162	-	-	-	-	5.817.559	38.487.721
Banks	1.291.106	275.431	737.091	-	-	1.235.129	3.538.757
Financial Assets at Fair Value Through Profit and Loss	150.004	390.989	416.400	86.948	3.920	-	1.048.261
Money Market Placements	-	-	-	-	-	-	-
Financial Assets Available-for-Sale	5.898.509	6.882.774	12.155.576	14.732.638	16.324.369	537.213	56.531.079
Loans Given	69.145.150	15.591.604	42.243.779	60.478.572	13.719.982	263.797	201.442.884
Investments Held-to-Maturity	3.479.295	2.063.221	695.778	2.117.730	1.378.358	-	9.734.382
Other Assets	-	-	-	-	-	10.975.653	10.975.653
Total Assets	112.634.226	25.204.019	56.248.624	77.415.888	31.426.629	18.829.351	321.758.737
Liabilities							
Interbank Deposits	5.839.591	2.227.738	863.117	-	-	738.132	9.668.578
Other Deposits	94.581.625	33.375.639	11.372.092	405.190	-	46.204.404	185.938.950
Money Market Borrowings	39.658.850	3.550.786	1.116.229	844.399	-	-	45.170.264
Sundry Creditors	-	-	-	-	-	2.805.765	2.805.765
Issued Marketable Securities	662.177	1.583.513	181.449	3.672.891	-	-	6.100.030
Funds provided from Other Financial Institutions	3.186.764	3.684.913	9.664.477	1.379.328	1.346.898	-	19.262.380
Other Liabilities	639.435	264.673	39.175	6.064.339	-	45.805.148	52.812.770
Total Liabilities	144.568.442	44.687.262	23.236.539	12.366.147	1.346.898	95.553.449	321.758.737
Balance Sheet Long Position	-	-	33.012.085	65.049.741	30.079.731	-	128.141.557
Balance Sheet Short Position	(31.934.216)	(19.483.243)	-	-	-	(76.724.098)	(128.141.557)
Off-Balance Sheet Long Position	170.730	1.872.419	-	-	-	-	2.043.149
Off-Balance Sheet Short Position	-	-	(110.905)	(1.876.507)	-	-	(1.987.412)
Total Position	(31.763.486)	(17.610.824)	32.901.180	63.173.234	30.079.731	(76.724.098)	55.737

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

(2) TL 5.986.374 of fund balance, whose risk does not belong to the Bank, in other liabilities is shown under the “1 - 5 Years” column. TL 91.938 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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(Continued)

III. EXPLANATIONS ON THE INTEREST RATE RISK (Continued)

a) Information related to interest rate sensitivity of assets, liabilities and off-balance sheet items (Based on days to repricing dates) (Continued):

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	68.125	-	-	-	-	36.467.838	36.535.963
Banks	1.440.455	261.811	622.259	-	-	2.122.267	4.446.792
Financial Assets at Fair Value Through Profit and Loss	271.581	178.096	435.552	55.405	4.265	-	944.899
Money Market Placements	-	-	-	-	-	-	-
Financial Assets Available-for-Sale	5.500.374	6.886.623	10.873.456	15.334.272	14.583.841	603.742	53.782.308
Loans Given	59.537.587	17.681.107	45.334.801	53.769.634	9.619.730	869.992	186.812.851
Investments Held-to-Maturity	3.408.301	1.648.784	935.985	2.757.201	1.393.871	-	10.144.142
Other Assets	-	-	-	-	-	10.181.371	10.181.371
Total Assets	70.226.423	26.656.421	58.202.053	71.916.512	25.601.707	50.245.210	302.848.326
Liabilities							
Interbank Deposits	7.360.373	1.894.998	135.475	-	-	336.455	9.727.301
Other Deposits	95.316.420	23.117.617	17.613.731	401.647	-	40.292.719	176.742.134
Money Market Borrowings	36.277.186	4.312.765	1.841.293	654.532	-	-	43.085.776
Sundry Creditors	-	-	-	-	-	2.320.183	2.320.183
Issued Marketable Securities	932.357	1.605.472	486.509	2.263.268	-	-	5.287.606
Funds Provided from Other Financial Institutions	2.636.989	4.182.857	10.332.714	1.518.502	871.586	-	19.542.648
Other Liabilities	101.620	101.760	36.844	5.885.912	-	40.016.542	46.142.678
Total Liabilities	142.624.945	35.215.469	30.446.566	10.723.861	871.586	82.965.899	302.848.326
Balance Sheet Long Position	-	-	27.755.487	61.192.651	24.730.121	-	113.678.259
Balance Sheet Short Position	(72.398.522)	(8.559.048)	-	-	-	(32.720.689)	(113.678.259)
Off Balance Sheet Long Position	621.061	1.300.401	-	-	-	-	1.921.462
Off Balance Sheet Short Position	-	-	(111.409)	(1.222.188)	-	-	(1.333.597)
Total Position	(71.777.461)	(7.258.647)	27.644.078	59.970.463	24.730.121	(32.720.689)	587.865

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

(2) TL 5.833.179 of fund balance, whose risk does not belong to the Bank, in other liabilities is shown under the “1 - 5 Years” column. TL 97.950 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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(Continued)**

III. EXPLANATIONS ON THE INTEREST RATE RISK (Continued)

a) 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⁾	-	0,49	-	3,74
Banks	0,97	2,29	-	8,46
Financial Assets at Fair Value Through Profit and Loss	-	5,36	-	6,90
Money Market Placements	-	-	-	-
Financial Assets Available-for-Sale	4,75	5,65	-	9,23
Loans Given ⁽²⁾	4,26	5,23	-	13,44
Investments Held-to-Maturity	6,48	7,08	-	9,71
Liabilities				
Interbank Deposits ⁽³⁾	0,47	0,88	-	8,32
Other Deposits ⁽⁴⁾	1,07	1,16	-	6,85
Money Market Borrowings	0,67	1,06	-	8,70
Sundry Creditors	-	-	-	-
Issued Marketable Securities	0,26	4,32	-	10,44
Funds Provided from Other Financial Institutions	0,97	2,07	-	6,39

⁽¹⁾ The ratio on TL column denotes the interest rates applied for required reserve at CBRT.

⁽²⁾ Credit card loans 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⁾	-	0,28	-	3,45
Banks	1,30	1,82	-	9,68
Financial Assets at Fair Value Through Profit and Loss	-	5,36	-	6,84
Money Market Placements	-	-	-	-
Financial Assets Available-for-Sale	4,71	5,68	-	9,09
Loans Given ⁽²⁾	4,09	4,98	-	12,82
Investments Held-to-Maturity	6,42	7,08	-	9,71
Liabilities				
Interbank Deposits ⁽³⁾	0,65	0,58	-	9,06
Other Deposits ⁽⁴⁾	1,21	1,12	-	7,19
Money Market Borrowings	0,72	1,05	-	9,84
Sundry Creditors	-	-	-	-
Issued Marketable Securities	0,59	3,79	-	10,86
Funds Provided from Other Financial Institutions	1,22	1,69	-	10,03

⁽¹⁾ The ratio on TL column denotes the interest rates applied for required reserve at CBRT.

⁽²⁾ Credit card loans 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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EXPLANATIONS RELATED TO THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK
(Continued)

IV. EXPLANATIONS ON THE POSITION RISK OF EQUITY SECURITIES

a) Comparison of carrying, fair and market values of equity shares:

Equity Share Investments	Comparison		
	Balance Sheet Value	Fair Value	Market Value
1. Stock Investment Group A	-	-	-
Stock Exchange Securities	-	-	-
2. Stock Investment Group B	-	-	-
Stock Exchange Securities	-	-	-
3. Stock Investment Group C	-	-	-
Stock Exchange Securities	-	-	-
4. Stock Investment Other Group	-	-	-
Other	120.023	120.023	-

b) The breakdown of capital requirements on the basis of related stock investments 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 stock investments, partaking in banking accounts according to the credit risk standard method, are amounted TL 120.023 and 100% of them are risk weighted.

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

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

a) Explanations related to the liquidity risk management including the 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 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 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.

b) 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 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.

c) Explanation related to policies regarding fund resources times variations of funding strategy of bank:

The 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.

d) Explanation related to liquidity management as currencies forming at least 5 percentage of aggregate liabilities of the Bank:

The 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.

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(Continued)**

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

1) Liquidity Risk (Continued)

e) Information related to the techniques about the reduction of current liquidity risk:

The Bank's source of funds is mainly formed of deposits. The 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 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.

f) 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 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.

g) 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 Bank from organized market and other banks are on the level where they meet the structural liquidity deficits on different maturity segments. The 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").

2) Liquidity Coverage Ratio:

Within the frame of the regulation named "Regulation on the Calculation of Liquidity Coverage Ratio" issued by BRSA in the Official Gazette numbered 28948, dated 21 March 2014, the Bank calculates the liquidity coverage ratio and reports it to BRSA monthly in an unconsolidated base. The liquidity coverage ratio sails above the frontier limits determined by BRSA. Within the last 3 months the unconsolidated lowest ratios are as follows: Take place for FC as 95,56 in the week of July 1, 2016; and for the total 76,91. As for the highest ratios take place for FC as 121,69 in the week of April 29, 2016 and for the total as 83,02 in the week of April 29, 2016.

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

2) Liquidity Coverage Ratio (Continued)

	Total Unweighted Value (Average)		Total Weighted Value (Average)	
	TL+FC	FC	TL+FC	FC
Current Period				
High Quality Liquid Assets				
High Quality Liquid Assets			45.121.660	28.831.819
Cash Outflows				
Retail and Small Business Customers, of which;	128.314.460	44.386.315	10.250.760	4.438.631
Stable deposits	51.613.720	-	2.580.686	-
Less stable deposits	76.700.740	44.386.315	7.670.074	4.438.631
Unsecured wholesale funding, of which;	63.659.594	24.342.767	36.039.681	16.785.111
Operational deposit	953.828	65.063	238.457	16.266
Non-operational deposits	53.443.519	16.840.722	26.538.977	9.331.863
Other unsecured funding	9.262.247	7.436.982	9.262.247	7.436.982
Secured funding			-	-
Other cash outflows, of which;	56.326.117	28.689.484	18.679.137	9.422.563
Derivatives cash outflow and liquidity needs related to market valuation changes on derivatives or other transactions	1.745.754	3.140.744	1.745.754	3.140.744
Obligations related to structured financial products	-	-	-	-
Commitments related to debts to financial markets and other off balance sheet obligations	34.122.042	11.622.928	7.407.675	3.203.978
Other revocable off-balance sheet commitments and contractual Obligations	8.000	7.988	400	399
Other irrevocable or conditionally revocable off-balance sheet Obligations	20.450.321	13.917.824	9.525.308	3.077.442
Total Cash Outflows			64.969.578	30.646.305
Cash Inflows				
Secured lending	-	-	-	-
Unsecured lending	12.143.966	4.834.998	8.006.343	4.040.794
Other cash inflows	480.014	320.780	480.014	320.780
Total Cash Inflows	12.623.980	5.155.778	8.486.357	4.361.574
			Total Adjusted Value	
Total HQLA Stock			45.121.660	28.831.819
Total Net Cash Outflows			56.483.221	26.284.731
Liquidity Coverage Ratio (%)			79,89	109,69

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

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(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			45.308.278	29.686.334
Cash Outflows				
Retail and Small Business Customers, of which;	121.542.584	42.195.973	8.916.790	3.414.841
Stable deposits	64.749.352	16.095.120	3.237.467	804.756
Less stable deposits	56.793.232	26.100.853	5.679.323	2.610.085
Unsecured wholesale funding , of which;	58.157.462	22.380.140	31.641.440	14.271.644
Operational deposit	941.417	30.185	235.356	7.546
Non-operational deposits	50.614.196	17.065.024	24.804.235	8.979.167
Other unsecured funding	6.601.849	5.284.931	6.601.849	5.284.931
Secured funding			-	-
Other cash outflows, of which;	54.050.254	25.490.090	15.453.351	6.541.385
Derivatives cash outflow and liquidity needs related to market valuation changes on derivatives or other transactions	406.059	609.286	406.059	609.286
Obligations related to structured financial products	-	-	-	-
Commitments related to debts to financial markets and other offbalance sheet obligations	42.314.873	13.638.436	14.480.826	5.369.980
Other revocable off-balance sheet commitments and contractual Obligations	6.409	6.396	320	320
Other irrevocable or conditionally revocable off-balance sheet Obligations	11.322.913	11.235.972	566.146	561.799
Total Cash Outflows			56.011.581	24.227.870
Cash Inflows				
Secured lending	-	-	-	-
Unsecured lending	9.023.285	1.541.481	5.239.401	1.071.973
Other cash inflows	605.197	744.605	605.197	744.605
Total Cash Inflows	9.628.482	2.286.086	5.844.598	1.816.578
			Total Adjusted Value	
Total HQLA Stock			45.308.278	29.686.334
Total Net Cash Outflows			50.166.983	22.411.293
Liquidity Coverage Ratio (%)			90,31	132,46

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

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**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

a) 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.

b) 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).

c) 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.

d) 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.

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(Continued)**

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

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

a) 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.

b) 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.

c) Explanations of cash in-flow and cash out-flow items that are considered to be related to liquidity profile of the bank and to be placed on the calculation of liquidity coverage ratio but not on the second paragraph of the disclosure template:

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

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

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

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	38.487.721	-	-	-	-	-	-	38.487.721
Banks	1.235.129	1.291.106	275.431	737.091	-	-	-	3.538.757
Financial Assets at Fair Value Through Profit and Loss	-	91.307	15.749	41.592	777.126	122.487	-	1.048.261
Money Market Placements	-	-	-	-	-	-	-	-
Financial Assets Available-for-Sale	-	620.124	2.687.705	4.187.006	25.112.433	23.420.635	503.176	56.531.079
Loans Given	-	6.820.499	12.759.813	81.891.789	79.732.277	19.974.709	263.797	201.442.884
Investments Held-to-Maturity	-	193.523	2.063.221	1.607.362	4.491.918	1.378.358	-	9.734.382
Other Assets	2.568.844	-	-	1.121	21.047	-	8.384.641	10.975.653
Total Assets	42.291.694	9.016.559	17.801.919	88.465.961	110.134.801	44.896.189	9.151.614	321.758.737
Liabilities								
Interbank Deposits	738.132	5.839.591	2.227.738	863.117	-	-	-	9.668.578
Other Deposits	46.204.404	94.580.828	33.374.702	11.366.446	410.021	2.549	-	185.938.950
Funds Provided from Other Financial Instruments	-	1.070.641	2.634.377	9.942.002	3.275.262	2.340.098	-	19.262.380
Money Market Borrowings	-	39.658.850	3.550.786	1.116.229	844.399	-	-	45.170.264
Issued Marketable Securities	-	662.177	1.563.443	181.449	3.692.961	-	-	6.100.030
Sundry Creditors	1.714.843	1.090.922	-	-	-	-	-	2.805.765
Other Liabilities ⁽³⁾	3.357.093	1.165.219	646.065	39.175	6.214.168	1.046.264	40.344.786	52.812.770
Total Liabilities	52.014.472	144.068.228	43.997.111	23.508.418	14.436.811	3.388.911	40.344.786	321.758.737
Liquidity Gap	(9.722.778)	(135.051.669)	(26.195.192)	64.957.543	95.697.990	41.507.278	(31.193.172)	-
Net Off-Balance Sheet Position	-	(402.689)	(62.962)	32.455	488.933	-	-	55.737
Financial Derivative Assets	-	22.875.240	3.011.623	1.238.234	3.106.738	-	-	30.231.835
Financial Derivative Liabilities	-	23.277.929	3.074.585	1.205.779	2.617.805	-	-	30.176.098
Non-cash Loans	41.429.856	304.502	1.389.586	14.005.571	7.811.923	2.569.726	-	67.511.164
Prior Period								
Total Assets	40.433.482	10.400.564	14.888.786	78.261.355	107.451.111	41.553.200	9.859.828	302.848.326
Total Liabilities	44.457.930	142.427.967	34.581.557	29.860.821	12.631.801	3.044.567	35.843.683	302.848.326
Liquidity Gap	(4.024.448)	(132.027.403)	(19.692.771)	48.400.534	94.819.310	38.508.633	(25.983.855)	-
Net Off-Balance Sheet Position	-	42.330	(1.708)	33.271	513.972	-	-	587.865
Financial Derivative Assets	-	21.189.422	719.944	1.615.895	2.425.788	-	-	25.951.049
Financial Derivative Liabilities	-	21.147.092	721.652	1.582.624	1.911.816	-	-	25.363.184
Non-cash Loans	32.422.339	487.504	2.652.182	13.060.132	9.581.201	2.082.817	-	60.286.175

(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 5.986.374 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 91.938 is not granted as loan and is included under "Up to One Month" column.

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(Continued)**

VI. EXPLANATIONS ON LEVERAGE

Explanations on the subjects caused a gap between prior and current period leverage: The Bank’s leverage calculated by force of the regulation “Regulation on Measurement and Assessment of Leverage Ratios of Banks” is 8,44% (31 December 2015: 8,47%). The change on leverage results heavily from the increase on risk amounts of balance sheet assets. 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)	316.305.138	298.737.007
(Assets deducted in determining Tier 1 capital)	(824.512)	(1.483.856)
Total on-balance sheet risks (sum of lines 1 and 2)	315.480.626	297.253.151
Derivative financial instruments and credit derivatives		
Replacement cost associated with all derivative financial instruments and credit Derivatives	1.049.386	904.739
Add-on amounts for PFE associated with all derivative financial instruments and credit derivatives	313.622	288.044
Total risks of derivative financial instruments and credit derivatives	1.363.008	1.192.783
Securities or commodity financing transactions (SCFT)		
Risks from SCFT assets	5.006.964	4.564.184
Risks from brokerage activities related exposures	-	-
Total risks related with securities or commodity financing transactions	5.006.964	4.564.184
Other off-balance sheet transactions		
Gross notional amounts of off-balance sheet transactions	90.550.220	78.078.887
(Adjustments for conversion to credit equivalent amounts)	(6.664)	(5.478)
Total risks of off-balance sheet items	90.543.556	78.073.409
Capital and total risks		
Tier 1 capital	34.789.867	32.261.636
Total risks	412.394.154	381.083.527
Leverage ratio		
Leverage ratio %	8,44	8,47

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

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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 June 2016, 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.

IRB (Internal Rating-Based) – Credit risk amount based on a Portfolio and Default Probability (DP) ranges

IRB – The effect of credit derivatives which is used as a CRM (Credit risk mitigation) techniques on RWA

RWA flow statements of credit risk exposures under IRB

IRB (Directed loans and stock investments subject to simple risk weight approach)

Counterparty Credit Risk based on Risk Class and DP – IRB

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

Since the Bank does not hold securitization position as of 30 June 2016, the notes to be presented on a semi-annually basis according to Communiqué have not been presented.

Securitization positions in the banking book

Securitization positions in the trading book

Securitization positions in the banking book and associated regulatory capital requirements - Bank acting as originator or as sponsor

Securitization positions in the banking book and associated regulatory capital requirements - Bank acting as investor

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(Continued)**

VII. EXPLANATIONS ON RISK MANAGEMENT (Continued)

1. Explanations on Risk Management and Risk Weighted Amount

Overview of RWA

		Risk Weighted Amount		Minimum capital requirement
		Current Period	Prior Period	Current Period
1	Credit Risk (excluding counterparty credit risk)	220.217.852	197.100.922	17.596.262
2	Standardised approach	223.936.514	199.214.560	17.893.755
3	Internal rating-based approach	-	-	-
4	Counterparty credit risk	3.718.662	2.113.638	297.493
5	Standardised approach for counterparty credit risk	3.718.662	2.113.638	297.493
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	203.650	-	16.293
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	21.133.950	16.653.125	1.690.716
17	Standardised Approach	21.133.950	16.653.125	1.690.716
18	Internal model approaches	-	-	-
19	Operational risk	18.989.056	16.271.329	1.519.124
20	Basic Indicator Approach	18.989.056	16.271.329	1.519.124
21	Standard Approach	-	-	-
22	Advanced measurement approach	-	-	-
23	The amount of the discount threshold under the equity(subject to a 250% risk weight)	60.922	-	4.874
24	Floor adjustment	-	-	-
25	Total (1+4+7+8+9+10+11+12+16+19+23+24)	264.324.092	232.139.014	21.124.762

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(Continued)

VII. EXPLANATIONS ON RISK MANAGEMENT (Continued)

2. Credit Risk Explanations

Credit Quality of Assets

		Defaulted	Non- defaulted	Allowances/amortisation and impairments	Net values
1	Loans	3.453.703	201.179.087	3.189.906	201.442.884
2	Debt Securities	-	67.607.640	293.918	67.313.722
3	Off-balance sheet exposures	5.912	93.726.531	87.779	93.644.664
4	Total	3.459.615	362.513.258	3.571.603	362.401.270

Changes in stock of default loans and debt securities

1	Defaulted loans and debt securities at end of the previous reporting period	3.147.506
2	Loans and debt securities that have defaulted since the last reporting period	868.418
3	Receivables back to non-defaulted status	12.939
4	Amounts written off	-
5	Other changes	(569.248)
6	Defaulted loans and debt securities at end of the reporting period (1+2-3-4±5)	3.459.615

Credit Risk Mitigation Techniques – Overview

	Exposures unsecured: carrying amount as per TAS	Exposures secured by collateral	Collateralized amount of exposures secured by collateral	Exposures secured by financial guarantees	Collateralized amount of exposures secured by financial guarantees	Exposures secured by credit derivatives	Collateralized amount of exposures secured by credit derivatives
Loans	192.447.924	8.135.216	1.325.353	859.745	584.113	-	-
Debt Securities	67.313.722	-	-	-	-	-	-
Total	259.761.646	8.135.216	1.325.353	859.745	584.113	-	-
Of which defaulted	3.453.703	-	-	-	-	-	-

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VII. EXPLANATIONS ON RISK MANAGEMENT (Continued)

2. Credit Risk Explanations (Continued)

Standard Approach - Credit risk exposure and credit risk mitigation techniques

Risk Classes	Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
Exposures to sovereigns and their central banks	84.050.467	228.065	84.083.939	137.475	22.371.957	26,6%
Exposures to regional and local governments	471.145	216.702	443.516	51.901	233.063	47,0%
Exposures to administrative bodies and non-commercial entities	180.242	829.918	316.628	379.893	595.900	85,6%
Exposures to multilateral development banks	-	-	-	-	-	-
Exposures to international organizations	-	-	-	-	-	-
Exposures to banks and brokerage houses	60.975.658	8.356.137	61.382.310	4.311.033	8.901.405	13,5%
Exposures to corporates	85.234.163	59.256.185	84.764.932	31.140.346	113.087.715	97,6%
Retail exposures	77.272.173	16.754.546	77.197.000	2.352.784	59.241.982	74,5%
Exposures secured by residential property	20.578.454	90.674	20.578.454	45.313	7.219.583	35,0%
Exposures secured by commercial property	9.159.550	288.608	9.155.192	146.716	4.731.243	50,9%
Past-due items	-	-	-	-	-	0,0%
Exposures in high-risk categories	313.138	126.665	313.019	25.122	530.115	156,8%
Exposures in the form of bonds secured by mortgages	-	-	-	-	-	-
Short term exposures to banks, brokerage houses and corporates	-	-	-	-	-	-
Exposures in the form of collective investment undertakings	182.544	49.269	182.544	24.537	203.650	98,3%
Other exposures	14.857.220	-	14.857.220	-	6.699.881	45,1%
Equity share investments	120.023	-	120.023	-	120.020	100,0%
Total	353.394.777	86.196.769	353.394.777	38.615.120	223.936.514	57,1%

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VII. EXPLANATIONS ON RISK MANAGEMENT (Continued)

2. Credit Risk Explanations (Continued)

Exposures by asset classes and risk weights

Risk Classes/ Risk Weight	%0	%10	%20	35% secured by property mortgage	%50 secured by property mortgage	%50 ^(*)	%75	%100	%150	%200	Other	Total risk amount (post-CCF and CRM)
Exposures to sovereigns and their central banks	39.860.239	-	-	-	-	43.978.439	-	382.736	-	-	-	84.221.414
Exposures to regional and local government	31.031	-	34	-	-	462.592	-	1.760	-	-	-	495.417
Exposures to administrative bodies and non-commercial entities	93.976	-	8.306	-	-	-	-	594.239	-	-	-	696.521
Exposures to multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-
Exposures to international organizations	-	-	-	-	-	-	-	-	-	-	-	-
Exposures to banks and brokerage houses	43.608.676	-	9.449.887	-	-	11.246.705	-	1.388.075	-	-	-	65.693.343
Exposures to corporates	1.450.118	-	509.050	-	-	1.920.410	-	112.025.700	-	-	-	115.905.278
Retail exposures	449.260	-	150.467	-	-	2.619	78.947.438	-	-	-	-	79.549.784
Exposures secured by residential property	6.088	-	1.627	20.610.454	-	-	-	5.598	-	-	-	20.623.767
Exposures secured by commercial property	13.725	-	3.271	-	9.108.646	-	-	176.266	-	-	-	9.301.908
Past-due items	-	-	-	-	-	-	-	-	-	-	-	-
Exposures in high-risk categories	778	-	225	-	-	-	-	12	312.757	-	24.369	338.141
Exposures in the form of bonds secured by mortgages	-	-	-	-	-	-	-	-	-	-	-	-
Short term exposures to banks, brokerage houses and corporates	-	-	-	-	-	-	-	-	-	-	-	-
Exposures in the form of collective investment undertakings	3.431	-	-	-	-	-	-	203.650	-	-	-	207.081
Equity share investments	-	-	-	-	-	-	-	120.023	-	-	-	120.023
Other exposures	8.155.447	-	2.365	-	-	-	-	6.699.408	-	-	-	14.857.220
Total	93.672.769	-	10.125.232	20.610.454	9.108.646	57.610.765	78.947.438	121.597.467	312.757	-	24.369	392.009.897

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

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

VII. EXPLANATIONS ON RISK MANAGEMENT (Continued)

3. Counterparty credit risk (CCR) approach analysis

		Replacement cost	Potential future exposure	EEPE (Effective Expected Positive Exposure) ^(*)	Alpha used for computing regulatory EAD	Exposure at default post CRM	RWA
	Valuation Method according to fair value - CCR (for derivatives)	840.861	344.078			1.184.939	531.908
1	Standardised approach - CCR (for derivatives)	-	-		1,4	-	-
2	Internal Model Method (for derivatives, Repo Transactions, Marketable Securities or EMTIA lending or borrowing transactions, transactions with a long settlement time, Marketable Security transactions with credit)			-	-	-	-
3	Simple Approach for credit risk mitigation (for derivatives, Repo Transactions, Marketable Securities or EMTIA lending or borrowing transactions, transactions with a long settlement time, Marketable Security transactions with credit)					34.113.798	2.040.187
4	Comprehensive Approach for credit risk mitigation (for derivatives, Repo Transactions, Marketable Securities or EMTIA lending or borrowing transactions, transactions with a long settlement time, Marketable Security transactions with credit)					2.834.794	909.612
5	EMTIA lending or borrowing transactions, transactions with a long settlement time, Marketable Security transactions with credit					-	-
6	Total						3.481.707

^(*) Effective Expected Positive Exposure

Capital requirement for credit valuation adjustment (CVA)

		Exposure at default post-CRM	RWA
	Total portfolios subject to the Advanced CVA capital obligation		
1	(i) VaR component (including the 3×multiplier)		-
2	(ii) Stressed VaR component (including the 3×multiplier)		-
3	All portfolios subject to the Standardised CVA capital obligation	1.184.939	531.908
4	Total subject to the CVA capital obligation	712.679	236.955

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VII. EXPLANATIONS ON RISK MANAGEMENT (Continued)

3. Counterparty credit risk (CCR) approach analysis (Continued)

Standardised approach - CCR exposures by risk class and risk weights

Risk Weight Regulatory portfolio	0%	10%	20%	50%	75%	100%	150%	Other	Total credit exposure ^(*)
Exposures to sovereigns and their central banks	244.873	-	-	-	-	-	-	-	244.873
Exposures to regional and local governments	5.421	-	-	47	-	-	-	-	5.468
Exposures to administrative bodies and non-commercial entities	47.147	-	-	-	-	251	-	-	47.398
Exposures to multilateral development banks	-	-	-	-	-	-	-	-	-
Exposures to international organizations	-	-	-	-	-	-	-	-	-
Exposures to banks and brokerage houses	42.560.307	-	7.943.692	3.874.924	-	2.075	-	-	54.380.998
Exposures to corporates	25.861	-	-	143	-	189.369	-	-	215.373
Retail exposures	9.880	-	-	-	876	-	-	-	10.756
Exposures secured by residential property	-	-	-	-	-	-	-	-	-
Past-due items	-	-	-	-	-	-	-	-	-
Exposures in high-risk categories	-	-	-	-	-	-	-	-	-
Mortgage securities	-	-	-	-	-	-	-	-	-
Securitization positions	-	-	-	-	-	-	-	-	-
Short term exposures to banks, brokerage houses and corporates	-	-	-	-	-	-	-	-	-
Exposures in the form of collective investment undertakings	3.430	-	-	-	-	14	-	-	3.444
Equity share investments	-	-	-	-	-	-	-	-	-
Other exposures	-	-	-	-	-	-	-	-	-
Other assets ^(**)	-	-	-	-	-	-	-	-	-
Total	42.896.919	-	7.943.692	3.875.114	876	191.709	-	-	54.908.310

^(*) Total credit exposure: the amount relevant for the capital requirements calculation, having applied CRM techniques.

^(**) Other assets: the amount excludes exposures to "Central counterparty" which are reported in Counterparty credit risk.

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

VII. EXPLANATIONS ON RISK MANAGEMENT (Continued)

3. Counterparty credit risk (CCR) approach analysis (Continued)

Collaterals for CCR

	Collateral for derivative transactions				Collateral for other transactions	
	Collateral received		collateral given		Collateral received	Collateral given
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash-domestic currency	-	-	-	-	29.625.901	-
Cash-foreign currency	-	-	-	-	17.113.011	-
Domestic sovereign debts	-	-	-	-	-	-
Other sovereign debts	-	-	-	-	-	-
Government agency debts	-	-	-	-	-	-
Corporate debts	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
Total	-	-	-	-	46.738.912	-

Credit derivatives

None.

Exposures to central counterparties (CCP):

None.

4. Market Risk Explanations

Standardised approach

		RWA
	Outright products	
1	Interest rate risk (general and specific)	10.290.225
2	Equity risk (general and specific)	766.300
3	Foreign exchange risk	10.077.425
4	Commodity risk	-
	Options	
5	Simplified approach	-
6	Delta-plus method	-
7	Scenario approach	-
8	Securitisation	-
9	Total	21.133.950

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. The notes to be presented on a quarterly and semi-annually basis according to Communiqué, the following tables have not been presented due to usage of standard approach for the calculation of market risk by the Bank as of 30 June 2016.

RWA flow statements of market exposures under the Internal Model Method (IMM)

Internal Model Method for trading accounts

The VAR (Value at Risk) estimations comparing with gain/loss

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**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.

Investment banking operations are conducted by the Financial Market and Asset-Liability Management and Head of Departments of Economic Researches. 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.

The Bank performs its international banking operations via foreign branches, sub branches, representative offices and equity investments abroad.

As of 30 June 2016 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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**EXPLANATIONS RELATED TO THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK
(Continued)**

VII. 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						
Interest Income	3.225.627	4.488.373	2.180.768	3.052.009	12.584	12.959.361
Interest Income from Loans	3.225.627	4.488.373	2.180.768	209.708	-	10.104.476
Interest Income from Banks	-	-	-	39.569	-	39.569
Interest Income from Securities	-	-	-	2.714.850	-	2.714.850
Other Interest Income	-	-	-	87.882	12.584	100.466
Interest Expense	3.210.318	1.426.737	-	1.892.604	38.328	6.567.987
Interest Expense on Deposits	3.210.318	1.426.737	-	195.833	-	4.832.888
Interest Expense on Funds Borrowed	-	-	-	206.329	-	206.329
Interest Expense on Money Market Transactions	-	-	-	1.315.374	-	1.315.374
Interest Expense on Securities Issued	-	-	-	175.068	-	175.068
Other Interest Expense	-	-	-	-	38.328	38.328
Net Interest Income/Expense	15.309	3.061.636	2.180.768	1.159.405	(25.744)	6.391.374
Net Fees and Commission Income/Expense	476.419	350.635	56.942	(116.767)	(1.613)	765.616
Fees and Commissions Received	476.419	350.635	56.942	2.137	59.602	945.735
Fees and Commissions Paid	-	-	-	118.904	61.215	180.119
Dividend Income	-	-	-	255.122	-	255.122
Trading Income/Loss (Net)	-	-	-	(80.230)	-	(80.230)
Other Operating Income	14.901	138.887	17.179	2.132	809.963	983.062
Provision for Loans or Other Receivables Losses	404.512	726.348	325.297	119	1.837	1.458.113
Other Operating Expense	26.576	116.010	26.561	-	2.493.203	2.662.350
Income Before Tax	75.541	2.708.800	1.903.031	1.219.543	(1.712.434)	4.194.481
Tax Provision	-	-	-	-	(805.646)	(805.646)
Net Profit/Loss	75.541	2.708.800	1.903.031	1.219.543	(2.518.080)	3.388.835
SEGMENT ASSETS						
Financial Assets at FV Through P/L	-	-	-	1.048.261	-	1.048.261
Banks and Other Financial Institutions	-	-	-	3.538.757	-	3.538.757
Financial Assets Available for Sale (Net)	-	-	-	56.531.079	-	56.531.079
Loans	53.909.073	96.799.979	43.352.086	7.381.746	-	201.442.884
Held to Maturity Investments (Net)	-	-	-	9.734.382	-	9.734.382
Associates, Subsidiaries and Joint Ventures	-	-	-	2.733.087	-	2.733.087
Other Assets	-	-	-	-	46.730.287	46.730.287
Total Segment Assets	53.909.073	96.799.979	43.352.086	80.967.312	46.730.287	321.758.737
SEGMENT LIABILITIES						
Deposits	142.126.426	42.717.850	-	9.679.612	1.083.640	195.607.528
Derivative Financial Liabilities Held for Trading	-	-	-	1.020.652	-	1.020.652
Funds Borrowed	-	-	-	19.262.380	-	19.262.380
Money Market Funds	-	-	-	45.170.264	-	45.170.264
Securities Issued (Net)	-	-	-	6.100.030	-	6.100.030
Provisions	-	-	-	-	5.285.479	5.285.479
Other Liabilities	-	-	-	-	13.263.828	13.263.828
Shareholders' Equity	-	-	-	-	36.048.576	36.048.576
Total Segment Liabilities	142.126.426	42.717.850	-	81.232.938	55.681.523	321.758.737
OTHER SEGMENT ITEMS						
Capital Investment	-	-	-	-	-	-
Amortization Expense	-	-	-	-	160.290	160.290
Restructuring Costs	-	-	-	-	-	-

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(Continued)

VII. 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						
31 March 2015						
Interest Income	2.801.736	3.008.924	1.605.726	2.940.985	42.130	10.399.501
Interest Income from Loans	2.801.736	3.008.924	1.605.726	280.227	-	7.696.613
Interest Income from Banks	-	-	-	29.208	-	29.208
Interest Income from Securities	-	-	-	2.617.719	-	2.617.719
Other Interest Income	-	-	-	13.831	42.130	55.961
Interest Expense	2.677.742	1.203.109	-	1.492.795	33.425	5.407.071
Interest Expense on Deposits	2.677.742	1.203.109	-	224.086	-	4.104.937
Interest Expense on Funds Borrowed	-	-	-	191.060	-	191.060
Interest Expense on Money Market Transactions	-	-	-	954.725	-	954.725
Interest Expense on Securities Issued	-	-	-	122.924	-	122.924
Other Interest Expense	-	-	-	-	33.425	33.425
Net Interest Income/Expense	123.994	1.805.815	1.605.726	1.448.190	8.705	4.992.430
Net Fees and Commission Income/Expense	400.691	246.155	34.345	(98.055)	24.849	607.985
Fees and Commissions Received	400.691	246.155	34.345	3.498	92.393	777.082
Fees and Commissions Paid	-	-	-	101.553	67.544	169.097
Dividend Income	-	-	-	192.166	-	192.166
Trading Income/Loss (Net)	-	-	-	(76.528)	-	(76.528)
Other Operating Income	12.251	85.346	25.817	1.529	544.887	669.830
Provision for Loans or Other Receivables Losses	235.578	373.235	162.805	1.707	123.493	896.818
Other Operating Expense	23.814	97.466	15.768	-	2.226.198	2.363.246
Income Before Tax	277.544	1.666.615	1.487.315	1.465.595	(1.771.250)	3.125.819
Tax Provision	-	-	-	-	(696.402)	(696.402)
Net Profit/Loss	-	-	-	-	2.429.417	2.429.417
SEGMENT ASSETS						
31 December 2015						
Financial Assets at FV Through P/L	-	-	-	944.899	-	944.899
Banks and Other Financial Institutions	-	-	-	4.446.792	-	4.446.792
Financial Assets Available for Sale (Net)	-	-	-	53.782.308	-	53.782.308
Loans	51.034.781	90.694.305	37.676.823	7.406.942	-	186.812.851
Held to Maturity Investments (Net)	-	-	-	10.144.142	-	10.144.142
Associates, Subsidiaries and Joint Ventures	-	-	-	2.655.366	-	2.655.366
Other Assets	-	-	-	-	44.061.968	44.061.968
Total Segment Assets	51.034.781	90.694.305	37.676.823	79.380.449	44.061.968	302.848.326
SEGMENT LIABILITIES						
31 December 2015						
Deposits	135.886.429	39.624.867	-	9.734.353	1.223.786	186.469.435
Derivative Financial Liabilities Held for Trading	-	-	-	292.271	-	292.271
Funds Borrowed	-	-	-	19.542.648	-	19.542.648
Money Market Funds	-	-	-	43.085.776	-	43.085.776
Securities Issued (Net)	-	-	-	5.287.606	-	5.287.606
Provisions	-	-	-	-	5.160.896	5.160.896
Other Liabilities	-	-	-	-	11.463.425	11.463.425
Shareholders' Equity	-	-	-	-	31.546.269	31.546.269
Total Segment Liabilities	135.886.429	39.624.867	-	77.942.654	49.394.376	302.848.326
OTHER SEGMENT ITEMS						
Capital Investment	-	-	-	-	-	-
Amortization Expense	-	-	-	-	134.364	134.364
Restructuring Costs	-	-	-	-	-	-

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SECTION FIVE

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS

I. EXPLANATIONS AND NOTES RELATED TO ASSETS

1. a) Information on Cash and Balances with Central Bank of the Republic of Turkey:

	Current Period		Prior Period	
	TL	FC	TL	FC
Cash in TL/Foreign Currency	1.363.551	669.895	1.718.357	705.176
Central Bank of the Republic of Turkey	3.127.475	33.319.163	2.354.591	31.753.858
Other	1.520	6.117	-	3.981
Total	4.492.546	33.995.175	4.072.948	32.463.015

1.a.1) Information on Required Reserves:

Banks that are established in Turkey or performing their operations by opening new branches in Turkey are subject to Communiqué on Required Reserves of Central Bank of the Republic of Turkey's numbered 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. 2015/5, 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 11,5%; for deposits up to 6-months maturity 8,5%; for deposits up to 1-year maturity 6,5%; for deposits 1-year and longer maturity 5%; for TL liabilities other than deposits up to 1-year maturity 11,5%; for TL liabilities other than deposits between 1- and 3-years maturity 8%; for TL liabilities other than deposits more than 3-years maturity 5%; for FC deposit accounts, demand deposits, up to 1-month, up to 3-months, up to 6-months and up to 1-year maturities 13%; for FC deposit accounts with 1-year and longer maturity 9%, for FC liabilities other than deposits up to 1-year maturity 25%; for FC liabilities other than deposits up to 2-years maturity 20%; for FC liabilities other than deposits up to 3-years maturity 15%; for FC liabilities other than deposits up to 5-years maturity 7%; and for FC liabilities other than deposits more than 5-years maturity 5%.

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.

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

	Current Period		Prior Period	
	TL	FC	TL	FC
Unrestricted Demand Deposit	3.044.153	732.323	2.286.466	236.672
Unrestricted Time Deposit	-	-	-	-
Restricted Time Deposit	-	-	-	-
Required Reserves ^{(1) (2)}	83.322	32.586.840	68.125	31.517.186
Total	3.127.475	33.319.163	2.354.591	31.753.858

⁽¹⁾ Required reserve of branches abroad amounting to TL 71.988 is presented in this line (31 December 2015: TL 78.150).

⁽²⁾ TL 18.940.272 of the current period's FC required reserve is the part of the TL required reserves that are held in FC (31 December 2015: TL 19.082.468).

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I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

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

None.

b) 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	46.683	40.188	25.242	46.642
Swap Transactions	670.065	274.270	624.709	231.637
Futures Transactions	-	-	-	-
Options	-	7	9	45
Other	-	-	-	-
Total	716.748	314.465	649.960	278.324

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

	Current Period		Prior Period	
	TL	FC	TL	FC
Banks				
Domestic Banks	464.352	372.819	708.886	358.580
Foreign Banks	30.381	2.671.205	27.113	3.352.213
Foreign Head Office and Branches	-	-	-	-
Total	494.733	3.044.024	735.999	3.710.793

4. a) 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	44.165.937	40.599.081
Assets Blocked/Given as Collateral	4.456.828	5.251.648
Total	48.622.765	45.850.729

b) Information on financial assets available for sale:

	Current Period	Prior Period
Debt Securities	56.294.084	54.495.737
Quoted in Stock Exchange	56.232.374	54.444.675
Not Quoted in Stock Exchange	61.710	51.062
Share Certificates	530.736	630.832
Quoted in Stock Exchange	383.774	483.687
Not Quoted in Stock Exchange	146.962	147.145
Provision for Impairment (-)	293.741	1.344.261
Total	56.531.079	53.782.308

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I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

5. Information related to loans:

a) 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)}	283.740	-	253.756	-
Total	283.740	-	253.756	-

(1) Interest rediscount and interest accrual amounting TL 2.461, are not included in the table above.

(2) Since the balance of overdraft accounts related to employees amounting TL 12.472, is showed under Table 5-ç as overdraft accounts (real person), it is not included to the table above.

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

Cash Loans	Standard Loans and Other Receivables			Loans 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	Other
Non-Specialized Loans	151.123.709	1.772.675	-	1.986.259	1.422.659	-
Commercial Loans	90.858.448	1.059.487	-	919.361	1.254.767	-
Export Loans	2.350.659	-	-	16.052	-	-
Import Loans	-	-	-	-	-	-
Loans Given to Financial Sector	5.015.035	-	-	-	-	-
Consumer Loans	48.863.705	713.068	-	991.299	165.111	-
Credit Cards	3.205.223	120	-	48.577	2.781	-
Other ⁽²⁾	830.639	-	-	10.970	-	-
Specialized Lending ^{(3) (4)}	37.556.991	2.344.579	-	763.777	236.324	-
Other Receivables	-	-	-	-	-	-
Interest Income Accruals	3.972.114	-	-	-	-	-
Total	192.652.814	4.117.254	-	2.750.036	1.658.983	-

(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.

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EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

5. Information related to loans: (Continued)

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

No. of extensions	Standard Loans and Other Receivables	Loans and Other Receivables Under Close Monitoring
1 or 2 Times Extended (*)	3.926.191	1.589.825
3 - 4 or 5 Times Extended	190.993	68.855
Over 5 Times Extended	70	303

(*) 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	1.029.464	783.159
6 – 12 Months	897.135	115.627
1 - 2 Years	1.728.497	563.972
2 - 5 Years	419.551	176.659
5 Years and Over	42.607	19.566
Total	4.117.254	1.658.983

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I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

5. Information related to loans: (Continued)

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

	Short-Term	Medium and Long-Term	Total
Consumer Loans-TL	378.426	49.237.700	49.616.126
Real Estate Loans ⁽²⁾	9.870	25.069.072	25.078.942
Vehicle Loans	2.201	197.970	200.171
Consumer Loans ⁽²⁾	362.503	23.657.787	24.020.290
Abroad	3.852	312.871	316.723
Other	-	-	-
Consumer Loans- Indexed to FC	-	1	1
Real Estate Loans	-	1	1
Vehicle Loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Consumer Loans-FC	1.207	27.164	28.371
Real Estate Loans	-	249	249
Vehicle Loans	-	-	-
Consumer Loans	88	2.063	2.151
Abroad	1.119	24.852	25.971
Other	-	-	-
Individual Credit Cards-TL	2.745.429	3.160	2.748.589
With Installment	912.963	39	913.002
Without Installment	1.832.466	3.121	1.835.587
Individual Credit Cards-FC	275	-	275
With Installment	-	-	-
Without Installment	275	-	275
Personnel Loans-TL	9.105	194.896	204.001
Real Estate Loans	-	202	202
Vehicle Loans	-	-	-
Consumer Loans	8.974	193.033	202.007
Abroad	131	1.661	1.792
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	79.572	157	79.729
With Installment	35.303	88	35.391
Without Installment	44.269	69	44.338
Personnel Credit Cards-FC	10	-	10
With Installment	-	-	-
Without Installment	10	-	10
Overdraft Accounts-TL (Real Person)	884.684	-	884.684
Overdraft Accounts-FC (Real Person)	-	-	-
Total ⁽¹⁾	4.098.708	49.463.078	53.561.786

⁽¹⁾ TL 340.451 of interest income accrual is not included in the table above.

⁽²⁾ Consumer loans originated from funds amounting to TL 3.617.285 of are included in the table above.

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I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

5. Information related to loans: (Continued)

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

	Short-Term	Medium and Long-Term	Total
Commercial Installment Loans-TL	667.616	13.458.075	14.125.691
Business Loans	512	458.865	459.377
Vehicle Loans	31.717	904.388	936.105
Consumer Loans	635.387	12.094.822	12.730.209
Other	-	-	-
Commercial Installment Loans- Indexed to FC	-	-	-
Business Loans	-	-	-
Vehicle Loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Commercial Installment Loans - FC	10.077	14.492.067	14.502.144
Business Loans	-	-	-
Vehicle Loans	-	-	-
Consumer Loans	10.077	14.492.067	14.502.144
Other	-	-	-
Corporate Credit Cards-TL	427.835	195	428.030
With Installment	128.930	164	129.094
Without Installment	298.905	31	298.936
Corporate Credit Cards-FC	68	-	68
With Installment	-	-	-
Without Installment	68	-	68
Overdraft Account-TL (Legal Entity)	131.436	-	131.436
Overdraft Account-FC (Legal Entity)	-	-	-
Total ⁽¹⁾	1.237.032	27.950.337	29.187.369

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

f) Breakdown of domestic and international loans:

	Current Period	Prior Period
Domestic Loans	192.523.240	177.799.281
Foreign Loans	4.683.733	4.831.632
Interest Income Accruals of Loans	3.972.114	3.311.946
Total	201.179.087	185.942.859

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I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

5. Information related to loans: (Continued)

g) Loans granted to subsidiaries and associates:

	Current Period	Prior Period
Direct loans granted to subsidiaries and associates	1.034.921	831.174
Indirect loans granted to subsidiaries and associates	-	-
Total	1.034.921	831.174

h) Specific provisions provided against loans:

	Current Period	Prior Period
Loans and other receivables with limited collectability	240.693	143.144
Loans and other receivables with doubtful collectability	669.425	478.653
Uncollectible loans and other receivables	2.279.788	1.648.735
Total	3.189.906	2.270.532

(*) The Bank, by changing account estimation regarding special provisions as of 30 June 2016, special provision rate that applied for the loans under follow-up placed in the Third Group has increased from 50% to 100% and special provisions corresponding to 100% for loans under follow-up in all groups are started to set aside regardless of collateral. Besides, while the Bank was making special provisions for the residue of a non-performing corporate loan after considering its warrants, as from the date 30 June 2016, it was dropped from consideration of guarantee applications for these loans, and started to set aside special provisions to the total loan risk. The total pre-tax effect of these changes is TL 585.909 and this amount is associated with the profit for the period concerned.

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

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

	Group III: Loans and receivables with limited collectability	Group IV: Loans and receivables with doubtful collectability	Group V: Uncollectible loans and receivables
Current period	10.813	46.790	95.111
(Gross amounts before the specific provisions)			
Loans and other receivables which are restructured	10.813	46.790	95.111
Rescheduled loans and other receivables	-	-	-
Prior period	11.844	51.598	92.945
(Gross amounts before the specific provisions)			
Loans and other receivables which are restructured	11.844	51.598	92.945
Rescheduled loans and other receivables	-	-	-

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I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

5. Information related to loans: (Continued)

i) Information on non-performing loans (net): (Continued)

2) Information on the movement of non-performing receivables:

	Group III: Loans and receivables with limited collectability	Group IV: Loans and receivables with doubtful collectability	Group V: Uncollectible loans and receivables
Prior Period Ending Balance	289.920	486.739	2.363.865
Additions (+)	730.377	45.047	92.994
Transfers from Other Categories of Loans under Follow-Up (+)	-	690.573	468.254
Transfers to Other Categories of Loans under Follow-Up (-)	690.573	468.254	-
Collections (-) ⁽¹⁾	83.886	79.971	391.382
Write-offs (-)	-	-	-
Corporate and Commercial Loans	-	-	-
Consumer Loans	-	-	-
Credit Cards	-	-	-
Other	-	-	-
Current Period End Balance ⁽²⁾	245.838	674.134	2.533.731
Specific Provision (-) ⁽³⁾	240.693	669.425	2.279.788
Net Balance on Balance Sheet ⁽²⁾	5.145	4.709	253.943

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

⁽²⁾ Includes the loans originated from funds amounting to TL 263.797 whose risk does not belong to the Bank.

3) Information on foreign currency non-performing loans:

	Group III: Loans and other receivables with limited collectability	Group IV: Loans and other receivables with doubtful collectability	Group V: Uncollectible loans and other receivables
Current Period:			
Period Ending Balance	832	2.732	11.774
Specific Provision (-)	832	2.732	11.774
Net Balance on Balance Sheet	-	-	-
Prior Period:			
Period Ending Balance	1.062	4.690	5.691
Specific Provision (-)	531	4.690	5.691
Net Balance on Balance Sheet	531	-	-

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I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

5. Information related to loans: (Continued)

i) Information on non-performing loans (net): (Continued)

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

	Group III: Loans and other receivables with limited collectability	Group IV: Loans and other receivables with doubtful collectability	Group V: Uncollectible loans and other receivables
Current Period (Net)	5.145	4.709	253.943
Loans to Real Persons and Legal Entities (Gross)	245.838	599.562	2.533.731
Specific Provisions (-)	240.693	594.853	2.279.788
Loans to Real Persons and Legal Entities (Net)	5.145	4.709	253.943
Banks (Gross)	-	-	-
Specific Provisions (-)	-	-	-
Banks (Net)	-	-	-
Other Loans and Receivables (Gross)	-	74.572	-
Specific Provisions (-)	-	74.572	-
Other Loans and Receivables (Net)	-	-	-
Prior Period (Net)	146.776	8.086	715.130
Loans to Real Persons and Legal Entities (Gross)	289.920	410.130	2.363.865
Specific Provisions (-)	143.144	402.044	1.648.735
Loans to Real Persons and Legal Entities (Net)	146.776	8.086	715.130
Banks (Gross)	-	-	-
Specific Provisions (-)	-	-	-
Banks (Net)	-	-	-
Other Loans and Receivables (Gross)	-	76.609	-
Specific Provisions (-)	-	76.609	-
Other Loans and Receivables (Net)	-	-	-

6. Information on held-to-maturity investments:

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

a.1) Held-to-maturity investments subject to repo transactions:

	Current Period		Prior Period	
	TL	FC	TL	FC
Government Bonds	1.248.875	3.255.325	1.114.647	3.567.579
Treasury Bills	-	-	-	-
Other Public Sector Debt Securities	-	-	-	-
Bank Bonds and Bank Guaranteed Bonds	-	-	-	-
Asset Backed Securities	-	-	-	-
Other	-	-	-	-
Total	1.248.875	3.255.325	1.114.647	3.567.579

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I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

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

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

a.2) Held-to-maturity investments given as collateral or blocked:

	Current Period		Prior Period	
	TL	FC	TL	FC
Bills	-	-	-	-
Bonds and Similar Investment Securities	3.015.373	1.841.814	3.009.483	1.987.576
Other	-	-	-	-
Total	3.015.373	1.841.814	3.009.483	1.987.576

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

	Current Period	Prior Period
Government Bonds	9.675.097	10.098.944
Treasury Bills	-	-
Other Public Sector Debt Securities	-	-
Total	9.675.097	10.098.944

c) Information on held-to-maturity investments:

	Current Period	Prior Period
Debt securities	9.734.382	10.144.142
Quoted in a Stock Exchange	9.675.097	10.098.944
Not Quoted in a Stock Exchange	59.285	45.198
Provision for Impairment (-)	-	-
Total	9.734.382	10.144.142

d) Movements of held-to-maturity investments:

	Current Period	Prior Period
Beginning Balance	10.144.142	10.021.056
Foreign Currency Differences on Monetary Assets	(21.676)	1.059.935
Purchases During the Year	56.776	148.236
Disposals through Sales and Redemptions	(444.860)	(1.085.085)
Provision for Impairment (-)	-	-
Period End Balance	9.734.382	10.144.142

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 the Public Oversight Accounting and Auditing Standards Authority (“POA”).

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I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

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

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 11.586 thousand and EUR 1.860 thousand respectively.

As of balance sheet date, the total fair values of reclassified held for trading securities to held to maturity securities are EUR 25.102 thousand and USD 71.087 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 12.486 would have been recorded. As of 30 June 2016, the reclassification from held for trading securities to held-to-maturity investments has an income impact of TL (33.338).

7. Information about associates (net):

a) 1) Information about unconsolidated associates:

	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

	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	69.638	40.266	48.624	425	-	10.606	5.165	-
2	177.851	109.177	82.587	1.934	160	9.268	17.045	-

⁽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 unreviewed financial statements as of 30 June 2016. Prior period profit/loss information of associates has been provided from reviewed financial statements as of 30 June 2015.

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

b) 1) Explanation regarding consolidated associates:

	Description	Address (City/ Country)	The Bank’s Share Percentage, if Different, Voting Percentage (%)	The Bank’s Risk Group Share Percentage (%)
1	Arap Türk Bankası A.Ş.	Istanbul/TURKEY	22,22	15,43

	Total Assets ⁽²⁾	Shareholders’ Equity ⁽²⁾	Total Non- Current Assets ⁽²⁾	Interest Income ⁽²⁾	Income from Marketable Securities ⁽²⁾	Current Period Profit / Loss ⁽²⁾	Prior Period Profit / Loss ⁽²⁾	Fair Value ⁽¹⁾
1	4.075.802	614.882	21.191	65.661	36.265	35.383	32.401	-

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

⁽²⁾ Current period information of Arap Türk Bankası A.Ş. has been provided from reviewed financial statements as of 30 June 2016. Prior period profit/loss information of ArapTürk Bankası A.Ş. has been provided from reviewed financial statements as of 30 June 2015.

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I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

7. Information about associates (net): (Continued)

2) Information about consolidated associates:

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

3) Sector information about consolidated associates:

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

4) Consolidated associates quoted to a stock exchange:

None (31 December 2015: None).

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I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

8. Information on subsidiaries (net):

a) 1) Information about unconsolidated subsidiaries:

	Description	Address (City/ Country)	The Bank's Share Percentage-if different Voting Percentage (%)	The Bank's Risk Group Share Percentage (%)
1	Ziraat Teknoloji A.Ş.	Istanbul / TÜRKİYE	100,00	100,00

	Total Assets ⁽²⁾	Shareholders' Equity ⁽²⁾	Total Non- Current Assets ⁽²⁾	Interest Income ⁽²⁾	Income from Marketable Securities ⁽²⁾	Current Period Profit / Loss ⁽²⁾	Prior Period Profit / Loss ⁽²⁾	Fair Value ⁽¹⁾
1	33.754	10.349	3.518	454	47	41	(4.393)	-

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

⁽²⁾ Current period information of subsidiaries has been provided from unreviewed financial statements as of 30 June 2016. Prior period profit/loss information has been provided from reviewed financial statements as of 30 June 2015.

b) 1) Information about consolidated subsidiaries:

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.	Istanbul / TURKEY	100,00	100,00
2	Ziraat Sigorta A.Ş.	Istanbul / TURKEY	100,00	100,00
3	Ziraat Finansal Kiralama A.Ş.	Istanbul / TURKEY	100,00	100,00
4	Ziraat Yatırım Menkul Değerler A.Ş.	Istanbul / TURKEY	100,00	99,60
5	Ziraat Portföy Yönetimi A.Ş.	Istanbul / TURKEY	100,00	99,70
6	Ziraat Katılım Bankası A.Ş.	Istanbul / TURKEY	100,00	100,00
7	Ziraat Bank International A.G.	Frankfurt / GERMANY	100,00	100,00
8	Ziraat Bank BH d.d.	Sarajevo / BOSNIA HERZEGOVINA	100,00	100,00
9	Ziraat Bank (Moscow) JSC	Moscow / RUSSIA	100,00	100,00
10	Kazakhstan Ziraat Int. Bank	Almaty / KAZAKHSTAN	100,00	99,58
11	Ziraat Bank Azerbaycan ASC	Baku/ AZERBAIJAN	100,00	100,00
12	Ziraat Bank Montenegro AD	Podgorica / MONTENEGRO	100,00	100,00

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I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

8. Information on subsidiaries (net): (Continued)

b) 1) Information about consolidated subsidiaries: (Continued)

	Total Assets ⁽³⁾	Shareholders' Equity ⁽³⁾	Total Non- Current Assets ⁽³⁾	Interest Income ⁽³⁾	Income from Marketable Securities ⁽²⁾	Current Period Profit / Loss ⁽³⁾	Prior Period Profit / Loss ⁽³⁾	Fair Value ⁽¹⁾	Shareholders equity amount needed
1	3.051.542	242.318	1.819	70.545	-	78.839	76.494	-	-
2	768.236	189.058	2.911	26.669	-	52.767	39.266	-	-
3	2.313.264	265.017	1.508	562	-	28.246	11.586	-	-
4	436.329	86.542	612	14.649	683.898	13.108	8.669	-	-
5	23.922	21.997	773	1.215	8.417	4.035	2.934	-	-
6	4.850.848	740.087	63.529	126.599	8.257	2.469	1.118	-	-
7	4.812.459	611.119	14.272	70.945	1.589	23.752	18.130	665.528	-
8	1.294.274	195.584	59.849	27.352	350	7.700	2.914	173.616	-
9	145.009	100.555	7.276	7.619	108	3.190	2.996	89.412	-
10	438.238	188.629	11.892	13.284	3.173	11.214	9.810	226.569	-
11	208.141	116.514	19.719	8.143	77	5.275	1.301	107.931	-
12	104.534	21.196	3.642	773	66	(2.211)	-	28.647	-

(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 June 2016, the prior period profit/loss balances have been provided from reviewed financial statements as of 30 June 2015.

(4) The amounts of Ziraat Katılım Bankası A.Ş. shown in interest income column includes the dividend incomes.

2) Information about consolidated subsidiaries:

	Current Period	Prior Period
Balance at the Beginning of the Period	2.442.943	1.453.735
Movements During the Period	72.000	989.208
Additions to Scope of Consolidation	-	-
Purchases	72.000	997.857
Bonus Shares Obtained	-	16.921
Dividends from current year income	-	-
Transfers to available for sale assets	-	-
Sales	-	-
Revaluation Increase	-	227.760
Impairment Provision (-)	-	253.330
Balance at the End of the Period	2.514.943	2.442.943
Capital Commitments	-	-
Share percentage at the end of the period (%)	-	-

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

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I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

8. Information on subsidiaries (net): (Continued)

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

	Current Period	Prior Period
Banks	2.038.702	1.966.702
Insurance Companies	129.972	129.972
Factoring Companies	-	-
Leasing Companies	282.839	282.839
Financing Companies	-	-
Other Financial Subsidiaries	63.430	63.430

c) Subsidiaries which are quoted on a stock exchange:

None (31 December 2015: None).

9. a) 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	37.260	37.260	610.936	11.324	10.705	17.970	11.769
UTBANK JSC	44.113	44.131	231.681	3.253	52.711	16.025	11.220
Total	81.373	81.391	842.617	14.577	63.416	33.995	22.989

(1) Information on entities under joint control is provided from the unreviewed financial statements as of 30 June 2016.

(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.

10. Information on finance lease receivables (net):

The Bank has no finance lease receivables (31 December 2015: None).

11. Information on derivative financial assets for hedging purposes:

The Bank has no derivative financial assets for hedging purposes (31 December 2015: None).

12. Information on investment property:

None (31 December 2015: None).

13. 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.

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EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

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

The Bank's immovables acquired amount to TL 287.821 consisting of TL 13.617 due to consumer loans, TL 217.486 on its commercial loans and TL 56.718 on its agricultural loans. Also, the sum of movables acquired from consumer loan amounts to TL 1.619. Total depreciation expense is TL 4.348 for these held for sale assets. (31 December 2015: The Bank's immovables acquired amount to TL 243.415 consisting of TL 13.494 due to consumer loans, TL 184.069 on its commercial loans and TL 45.852 on its agricultural loans. Also, the sum of movables acquired from consumer loan amounts to TL 1.849. Total depreciation expense is TL 4.658 for these held for sale assets.

14. Explanations on property and equipment:

	Immovables	Tangibles- Financial Leasing	Vehicles	Operational Leasing Development Costs ⁽¹⁾	Other Tangibles	Total
Prior Period End:						
Cost	5.257.865	9.759	44.735	196.387	721.746	6.230.492
Accumulated Depreciation (-)	902.143	2.090	22.547	110.332	351.742	1.388.854
Net Book Value	4.355.722	7.669	22.188	86.055	370.004	4.841.638
Current Period End:						
Net Book Value at the Beginning of the Period	4.355.722	7.669	22.188	86.055	370.004	4.841.638
Change During the Period (Net)	(59.310)	1.190	(3.623)	(333)	(1.935)	(64.011)
Cost	10.310	1.762	(1.085)	15.133	37.438	63.558
Depreciation – net (-)	69.620	572	2.538	15.466	39.373	127.569
Impairment (-)	-	-	-	-	-	-
Net Currency Translation from Foreign Subsidiaries (-)	-	-	-	-	-	-
Cost at Period End	5.268.175	11.521	43.650	211.520	759.184	6.294.050
Accumulated Depreciation at Period End (-)	971.763	2.662	25.085	125.798	391.115	1.516.423
Closing Net Book Value	4.296.412	8.859	18.565	85.722	368.069	4.777.627

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

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II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES

1. a) Information on maturity structure of deposits collected:

1) For deposit banks:

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	19.089.506	-	2.795.325	55.874.498	4.381.678	971.488	752.078	9.552	83.874.125
Foreign Currency Deposits	13.608.199	-	5.899.470	18.212.959	4.631.611	3.316.554	12.583.011	497	58.252.301
Residents in Turkey	12.217.822	-	5.611.623	15.883.147	4.082.456	2.684.595	9.645.745	497	50.125.885
Residents Abroad	1.390.377	-	287.847	2.329.812	549.155	631.959	2.937.266	-	8.126.416
Public Sector Deposits	6.756.200	-	3.374.380	5.271.660	1.274.256	2.551.869	12.238	-	19.240.603
Commercial Inst. Deposits	4.355.154	-	5.587.475	5.353.964	257.198	96.463	60.870	-	15.711.124
Other Inst. Deposits	1.501.032	-	1.554.345	3.379.504	471.970	591.617	278.689	-	7.777.157
Precious Metals	894.313	-	23.128	126.119	19.523	9.590	10.967	-	1.083.640
Interbank Deposits	738.132	-	3.807.887	1.639.817	787.573	2.220.275	474.894	-	9.668.578
CBRT	1.242	-	-	-	-	-	-	-	1.242
Domestic Banks	48.753	-	3.646.289	206.032	226.560	-	4.000	-	4.131.634
Foreign Banks	75.633	-	161.598	1.433.785	561.013	2.220.275	470.894	-	4.923.198
Participation Banks	612.504	-	-	-	-	-	-	-	612.504
Other	-	-	-	-	-	-	-	-	-
Total	46.942.536	-	23.042.010	89.858.521	11.823.809	9.757.856	14.172.747	10.049	195.607.528

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	15.816.483	-	2.735.768	53.726.579	4.216.969	983.553	725.483	5.538	78.210.373
Foreign Currency Deposits	11.985.041	-	8.833.462	16.142.462	4.764.012	3.584.819	12.365.829	431	57.676.056
Residents in Turkey	10.818.260	-	8.648.524	14.110.439	4.266.621	2.916.587	9.711.963	431	50.472.825
Residents Abroad	1.166.781	-	184.938	2.032.023	497.391	668.232	2.653.866	-	7.203.231
Public Sector Deposits	5.760.534	-	3.350.698	4.464.880	1.246.059	2.865.402	12.219	-	17.699.792
Commercial Inst. Deposits	4.162.028	-	3.961.935	4.971.688	1.051.130	49.035	56.548	-	14.252.364
Other Inst. Deposits	1.529.794	-	1.855.891	3.036.021	258.961	737.257	261.839	-	7.679.763
Precious Metals	1.038.839	-	25.203	123.100	18.600	9.382	8.662	-	1.223.786
Interbank Deposits	336.455	-	6.095.526	989.548	1.078.159	1.116.474	111.139	-	9.727.301
CBRT	875	-	-	-	-	-	-	-	875
Domestic Banks	32.900	-	5.046.468	51.023	93.274	36.885	-	-	5.260.550
Foreign Banks	89.063	-	1.049.058	938.525	984.885	1.079.589	111.139	-	4.252.259
Participation Banks	213.617	-	-	-	-	-	-	-	213.617
Other	-	-	-	-	-	-	-	-	-
Total	40.629.174	-	26.858.483	83.454.278	12.633.890	9.345.922	13.541.719	5.969	186.469.435

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II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES (Continued)

b) Information on saving deposits:

1) Amounts exceeding the deposit insurance limit:

a) Saving deposits under the guarantee of deposit insurance and exceeding the deposit insurance limit:

Saving Deposits	Under the Guarantee of Deposit Insurance		Exceeding Deposit Insurance Limit	
	Current Period	Prior Period	Current Period	Prior Period
Saving Deposits ⁽²⁾	56.586.341	52.356.589	27.004.938	25.598.381
Foreign Currency Saving Deposits ⁽²⁾	20.279.571	19.394.479	24.176.874	23.644.817
Other Deposits in the form of Saving Deposits	-	-	-	-
Deposits at Foreign Branches and under the Guarantees of Foreign Authority Insurance ⁽¹⁾	567.545	549.775	71.983	57.489
Deposits at Off-Shore Banking Regions’ and under Foreign Authorities’ Insurance	-	-	-	-

⁽¹⁾ 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 63.387 and TL 7.694 respectively, cannot be decomposed by type and are therefore included in the table above (31 December 2015: Bulgaria and Greece, TL 57.299 and TL 7.465, respectively).

⁽¹⁾ Related deposit balances do not include foreign branches.

Based on the Council of Minister’s decree dated 29 December 2003 and numbered 2003/6668, TL 994 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 562.847 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.

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

1. b) Information on saving deposits: (Continued)

3) Amounts which are not covered by deposit insurance:

a) Saving deposits of real persons not covered by the deposit insurance fund:

	Current Period	Prior Period
Deposits and other Accounts in Branches Abroad	55.888	52.302
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	6.744	3.923
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 on derivative financial liabilities held for trading:

a) Negative differences related to the derivative financial liabilities held for trading:

	Current Period		Prior Period	
	TL	FC	TL	FC
Forward Transactions	42.067	38.914	26.696	43.551
Swap Transactions	29.528	910.143	3.956	218.044
Futures Transactions	-	-	-	-
Options	-	-	3	21
Other	-	-	-	-
Total	71.595	949.057	30.655	261.616

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

	Current Period		Prior Period	
	TL	FC	TL	FC
Borrowings from CBRT	-	-	-	-
Domestic Banks and Institutions	248.226	540.001	448.444	363.932
Foreign Banks, Institutions and Funds	938.982	17.535.171	944.015	17.786.257
Total	1.187.208	18.075.172	1.392.459	18.150.189

b) Maturity structure of funds borrowed:

	Current Period		Prior Period	
	TL	FC	TL	FC
Short-Term	232.951	5.613.825	434.340	6.076.594
Medium and Long-Term	954.257	12.461.347	958.119	12.073.595
Total	1.187.208	18.075.172	1.392.459	18.150.189

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

60,79% 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.

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II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES (Continued)

3. d) Information on funds supplied from repurchase agreements:

	Current Period		Prior Period	
	TL	FC	TL	FC
From Domestic Transactions	29.627.680	-	27.240.963	-
Financial Institutions and Organizations	29.295.586	-	27.020.179	-
Other Institutions and Organizations	325.171	-	212.000	-
Real Person	6.923	-	8.784	-
From Overseas Operations	-	15.092.584	-	14.744.813
Financial Institutions and Organizations	-	15.092.584	-	14.744.813
Other Institutions and Organizations	-	-	-	-
Real Person	-	-	-	-
Total	29.627.680	15.092.584	27.240.963	14.744.813

e) Information on securities issued:

	Current Period		Prior Period	
	TL	FC	TL	FC
Bank Bonds	2.140.465	136.615	2.199.333	756.233
Treasury Bills	-	3.822.950	-	2.332.040
Total	2.140.465	3.959.565	2.199.333	3.088.273

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

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

5. Information on finance lease payables (net):

In the financial 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:

	Current Period		Prior Period	
	Gross	Net	Gross	Net
Less than 1 Year	609	598	699	686
Between 1-4 Years	-	-	-	-
More than 4 Years	-	-	-	-
Total	609	598	699	686

6. Information on derivative financial liabilities for hedging purposes:

There are no derivative financial liabilities for hedging purposes (31 December 2015: None).

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II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES (Continued)

7. Explanations on provisions:

a) Information on general provisions:

	Current Period	Prior Period
General Provisions	3.060.087	2.844.184
Allocated for Group-I Loans and Receivables	2.631.012	2.459.607
Additional Provision for Loans and Receivables with Extended Maturities	162.069	121.600
Allocated for Group-II Loans and Receivables	174.621	151.763
Additional Provision for Loans and Receivables with Extended Maturities	53.856	28.425
Allocated for Non-cash Loans	185.296	163.020
Other	69.158	69.794

b) 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 14.872 (31 December 2015: TL 5.561).

c) Information on specific provisions for unindemnified non-cash loans:

Specific provisions for unindemnified non-cash loans amount to TL 81.867 (31 December 2015: TL 55.629).

d) Information on other provisions:

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 1.025.000 (TL 215.400 of this provision amount was reversed from the income statement in the current year), 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 16.700 and other provision of TL 393 exist for cash transfers made by Bank officials.

	Current Period	Prior Period
Free provisions for possible risks	1.042.093	1.257.419

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 59.200. Full provision has been provided in these financial statements for law suits ended against the Bank but not finalized yet, amounting to TL 34.759.

Based on the decision of the Bank management, provision amounting to TL 60.400 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 "Communiqué on the Methods and Principles for Determining the Nature of Loans and Other Receivables and Allocation of Provisions", published in Official Gazette numbered 26333, dated 1 November 2006 and considering the conservatism principle without taking into consideration the guarantees of these loans.

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II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES (Continued)

7. Explanations on provisions: (Continued)

The Bank also provided provisions amounting to TL 81.867 (31 December 2015: TL 55.629) for unindemnified non-cash loans, and TL 28.898 (31 December 2015: TL 28.436) for other provisions. As a result of the provisions mentioned above, the other provision balance on the Bank’s balance sheet amounts to TL 1.248.017 (31 December 2015: TL 1.464.843).

e) Vacation and employment termination benefits obligations

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 June 2016, unpaid vacation liability amounted to TL 199.650 (31 December 2015: TL 168.600), and employment termination amounted to TL 777.725 (31 December 2015: TL 683.269) are presented under the “Employee Benefits Provision” in the financial statements.

8. Information on tax liability:

a) Information on current tax liability:

1) Information on tax provisions:

As of 30 June 2016, the remaining corporate tax liability after deducting temporary taxes paid for the period is TL 555.840 (31 December 2015: TL 402.339).

2) Information on current taxes payable:

	Current Period	Prior Period
Corporate Tax Payable	555.840	402.339
Taxation on Income From Securities	204.502	201.694
Property Tax	2.388	2.186
Banking Insurance Transactions Tax (BITT)	116.414	113.890
Foreign Exchange Transactions Tax	45	28
Value Added Tax Payable	4.228	4.307
Other	125.579	50.243
Total	1.008.996	774.687

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II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES (Continued)

8. Information on tax liability: (Continued)

3) Information on premiums:

	Current Period	Prior Period
Social Security Premiums - Employee	34	30
Social Security Premiums - Employer	49	42
Bank Social Aid Pension Fund Premium - Employee	9.465	330
Bank Social Aid Pension Fund Premium - Employer	13.274	528
Pension Fund Membership Fees and Provisions - Employee	12	10
Pension Fund Membership Fees and Provisions - Employer	57	45
Unemployment Insurance - Employee	688	544
Unemployment Insurance - Employer	1.379	1.089
Other	-	-
Total	24.958	2.618

a) Information on deferred tax liabilities, if any:

The Bank's deferred tax liability amounts to TL 549.495 (31 December 2015: TL 538.021). However, this amount is netted off against the deferred tax asset and accordingly deferred tax asset amounting to TL 24.369 (31 December 2015: TL 261.730) is presented in the financial statements.

9. 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.

10. Explanations on subordinated debts:

The Bank does not have any subordinated debts.

11. Information on shareholders' equity:

a) Presentation on paid-in capital:

	Current Period	Prior Period
Common stock	5.100.000	5.000.000
Preferred stock	-	-

b) Paid-in capital amount, explanation whether the registered capital system is applicable by the bank, if so the registered capital ceiling amount:

The Bank does not have a registered capital system.

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

In accordance with the decision taken at the Ordinary General Assembly, carried out on 30 March 2016, the paid-in capital of the bank which was TL 5.000.000 has been increased by TL 28.000 from internal sources, and TL 72.000 cash to TL 5.100.000 and the capital increase has been registered to Trade Registry Gazette No. 9071 dated 9 May 2016.

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II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES (Continued)

11. Information on shareholders’ equity: (Continued)

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

There is no share capital amount included in capital.

e) Capital commitments in the last fiscal year and continue until the end of the following interim period, general purpose of these commitments and estimated resources required for these commitments:

The Bank has no capital commitments.

f) 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.

g) Information on preferred shares representing the capital:

The Bank has no preferred shares.

h) Information on marketable securities value increase fund:

	Current Period		Prior Period	
	TL	FC	TL	FC
From Subsidiaries, Associates and Entities under Common Control	342.182	61.381	342.182	61.381
Revaluation Difference	-	61.381	-	61.381
Foreign Exchange Difference	342.182	-	342.182	-
From Available for Sale Marketable Securities	(182.769)	1.118.488	(1.344.071)	619.468
Revaluation Difference	50.824	1.118.488	(1.619.618)	619.468
Deferred Tax Effect	(233.593)	-	275.547	-
Foreign Exchange Difference	-	-	-	-
Total	159.413	1.179.869	(1.001.889)	680.849

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III. EXPLANATIONS AND NOTES TO OFF-BALANCE SHEET ACCOUNTS

1. Information on off-balance sheet liabilities:

a) Nature and amount of irrevocable loan commitments:

	Current Period	Prior Period
Commitments for Credit Card Expenditure Limits	7.455.361	1.848.592
Other Irrevocable Commitments	6.970.172	7.130.144
Payment Commitments for Cheques	5.520.638	4.712.618
Loan Granting Commitments	3.129.742	3.076.439
Asset Purchase Commitments	3.116.093	2.805.813
Promotion Campaigns Commitments Relating to Credit Card and Bank Services	23.361	20.185
Subsidiaries and Associates Capital Contribution Commitments	-	-
Total	26.215.367	19.593.791

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

Bank has no possible losses arising from the off-balance sheet items.

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

	Current Period	Prior Period
Guarantee Letters	55.798.858	49.241.937
Letter of Credits	7.501.466	6.852.933
Bank Acceptances	4.210.840	4.191.305
Total	67.511.164	60.286.175

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

	Current Period	Prior Period
Letters of Certain Guarantees	35.661.643	31.838.860
Letters of Advance Guarantees	14.709.481	12.911.588
Letters of Temporary Guarantees	3.180.862	2.734.608
Letters of Guarantees given to Customs Offices	669.387	655.083
Other Letters of Guarantees	1.577.485	1.101.798
Total	55.798.858	49.241.937

c) 1) Total non-cash loans:

	Current Period	Prior Period
Non-Cash Loans for Providing Cash Loans	774.495	786.280
With Original Maturity of One Year or Less	287	284
With Original Maturity of More than One Year	774.208	785.996
Other Non-Cash Loans	66.736.669	59.499.895
Total	67.511.164	60.286.175

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EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

IV. EXPLANATIONS AND NOTES RELATED TO INCOME STATEMENT

1. a) Information on interest income from loans:

	Current Period		Prior Period	
	TL	FC	TL	FC
Interest on Loans ⁽¹⁾	8.902.464	1.202.012	6.786.005	910.608
Short Term Loans	2.043.584	33.742	1.925.714	40.856
Medium and Long Term Loans	6.794.914	1.168.251	4.779.351	869.741
Interest on Non-Performing Loans	63.966	19	80.940	11
Premiums from Resource Utilization Support Fund	-	-	-	-

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

b) Information on interest received from the banks:

	Current Period		Prior Period	
	TL	FC	TL	FC
Central Bank of the Republic of Turkey	2.141	-	-	-
Domestic Banks	20.762	836	16.126	93
Foreign Banks	794	15.036	810	12.179
Head Office and Branches	-	-	-	-
Total	23.697	15.872	16.936	12.272

c) Information on interest income on marketable securities:

	Current Period		Prior Period	
	TL	FC	TL	FC
Financial Assets Held for Trading	456	158	616	136
Financial Assets at Fair Value through Profit and Loss	-	-	-	-
Financial Assets Available-for-Sale	2.012.640	299.645	2.017.211	222.092
Investments Held-to-Maturity	227.892	174.059	203.819	173.845
Total	2.240.988	473.862	2.221.646	396.073

d) Information on interest income from subsidiaries and associates:

	Current Period	Prior Period
Interest Income from Subsidiaries and Associates	7.914	7.549

2. a) Information on interest expense on borrowings:

	Current Period		Prior Period	
	TL	FC	TL	FC
Banks ⁽¹⁾	54.816	151.513	48.669	142.391
Central Bank of the Republic of Turkey	-	-	-	-
Domestic Banks	10.142	2.239	8.557	1.844
Foreign Banks	44.674	149.274	40.112	140.547
Head Office and Branches	-	-	-	-
Other Institutions	-	-	-	-
Total	54.816	151.513	48.669	142.391

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

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

b) Information on interest expenses given to subsidiaries and associates:

	Current Period	Prior Period
Interest Expenses Given to Subsidiaries and Associates	22.688	9.492

c) Information on interest given on securities issued:

	Current Period		Prior Period	
	TL	FC	TL	FC
Interest Given on Securities Issued	113.887	61.181	71.088	51.836

d) 1) Maturity structure of the interest expense on deposits:

Account Name	Demand Deposit	Time Deposit						Total
		Up to 1 Month	Up to 3 Months	Up to 6 Months	Up to 1 Year	More Than 1 year	Cumulative Deposit	
TL								
Bank Deposit	-	171.840	-	-	-	-	-	171.840
Saving Deposit	-	104.801	2.540.139	182.257	39.022	27.996	628	2.894.843
Public Sector Deposit	71	169.844	225.461	59.387	138.720	361	-	593.844
Commercial Deposit	82	217.027	277.036	22.948	16.041	3.155	-	536.289
Other Deposit	54	55.724	175.281	12.563	39.411	13.569	-	296.602
Deposit with 7 Days Notification	-	-	-	-	-	-	-	-
Total	207	719.236	3.217.917	277.155	233.194	45.081	628	4.493.418
FC								
Foreign Currency Deposit	211	40.945	118.887	28.947	24.666	101.166	3	314.825
Bank Deposit	36	23.956	-	-	-	-	-	23.992
Deposit with 7 Days Notification	-	-	-	-	-	-	-	-
Gold Vault	-	57	449	70	36	41	-	653
Total	247	64.958	119.336	29.017	24.702	101.207	3	339.470
Grand Total	454	784.194	3.337.253	306.172	257.896	146.288	631	4.832.888

3. Information on trading profit/loss (net):

	Current Period	Prior Period
Profit	17.220.714	18.079.453
Foreign Exchange Gains	14.946.593	16.127.246
Profit on Derivative Financial Instruments	2.253.204	1.892.680
Profit from the Capital Market Transactions	20.917	59.527
Loss (-)	17.300.944	18.155.981
Foreign Exchange Loss	14.802.280	15.455.991
Loss on Derivative Financial Instruments	2.495.551	2.699.393
Loss from the Capital Market Transactions	3.113	597

4. Information on profit/loss on derivative financial operations:

	Current Period	Prior Period
Effect of the change in exchange rates on profit/loss	2.579.517	(124.168)
Effect of the change in interest rates on profit/loss	(2.821.864)	(682.545)
Total	(242.347)	(806.713)

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

5. Information on other operating income:

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

There are no significant matters covering the recent developments which have significant effect on the Bank's income. Main component of the Bank's other operating income consists of reversals from prior period provisions amounting to TL (582.452) (30 June 2015: TL 429.324) and income from sales of assets amounting to TL 142.005 (30 June 2015: TL 59.641).

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

	Current Period	Prior Period
Specific Provisions for Loans and Other Receivables ⁽¹⁾	1.239.529	465.234
Group III Loans and Receivables	253.527	96.910
Group IV Loans and Receivables	486.066	305.621
Group V Loans and Receivables	499.936	62.703
General Provision Expenses ⁽²⁾	216.152	305.959
Provision Expenses for the Possible Losses	960	122.900
Marketable Securities Impairment Expense	119	1.706
Financial Assets at Fair Value through Profit and Loss	-	33
Financial Assets Available for Sale	119	1.673
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	1.353	1.019
Total	1.458.113	896.818

⁽¹⁾ The relevant balance includes the expenses related to the current period. The provision reversals within the period amounting to TL 163.424 are presented in other operating income (31 March 2015: TL 183.208).

⁽²⁾ The relevant balances include the expenses related to the current period. The provision reversals within the period amounting to TL 167 are presented in other operating income.

⁽³⁾ The Bank, by changing account estimation regarding special provisions as of 30 June 2016, special provision rate that applied for the loans under follow-up placed in the Third Group has increased from 50% to 100% and special provisions corresponding to 100% for loans under follow-up in all groups are started to set aside regardless of collateral. Besides, while the Bank was making special provisions for the residue of a non-performing corporate loan after considering its warrants, as from the date 30 June 2016, it was dropped from consideration of guarantee applications for these loans, and started to set aside special provisions to the total loan risk. The total pre-tax effect of these changes is TL 585.909 and this amount is associated with the profit for the period concerned.

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

7. a) Information on other operating expenses:

	Current Period	Prior Period
Personnel Expenses	1.150.435	1.037.940
Reserve for Employee Termination Benefits	42.715	21.244
Bank Social Aid Provision Fund Deficit Provision	-	-
Tangible Fixed Assets Impairment Expense	-	-
Depreciation Expenses of Tangible Fixed Assets	141.667	116.232
Intangible Assets Impairment Expense	-	-
Goodwill Impairment Expense	-	-
Amortization Expenses of Intangible Assets	18.623	18.132
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	598.802	495.074
Operational Leasing Expenses	102.581	85.737
Maintenance Expenses	37.728	37.120
Advertisement Expenses	30.659	22.783
Other Expenses	427.834	349.434
Loss on Sales of Assets	673	119
Other ⁽¹⁾	709.435	674.505
Total	2.662.350	2.363.246

⁽¹⁾ TL 229.063 of other item consists of Saving Deposit Insurance Fund accrual expense (30 June 2015: TL 186.907) while TL 224.761 consists of taxes, duties and charges expense (30 June 2015: TL 196.439).

8. 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	6.391.374	4.992.430
Net Fees and Commissions Income	765.616	607.985
Dividend Income	255.122	192.166
Trading Income/Expense (Net)	(80.230)	(76.528)
Other Operating Income	983.062	669.830
Provision for Loan or Other Receivables Losses (-)	1.458.113	896.818
Other Operating Expenses (-)	2.662.350	2.363.246
Profit / (Loss) From Continuing Operations	4.194.481	3.125.819

9. Information on tax provision for continuing and discontinuing operations

As of 30 June 2016, TL 805.646 (30 June 2015: TL 696.402) of the Bank's total tax provision expense amounting to TL 1.118.818 (30 June 2015: None), consists of current tax expense while remaining balances amounting to TL 313.172 (30 June 2015: TL 475.072 deferred tax expense) consists of deferred tax income.

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

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

The Bank’s net operating income after tax amounts to TL 3.388.835 (30 June 2015: TL 2.429.417).

11. Information on net profit/loss:

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

The 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.

b) The effect of the change in accounting estimates to the net profit/loss; including the effects to the future period, if any:

As of the balance sheet date, there is no change in accounting estimates that may require further explanations in the current period (30 June 2015: None).

12. If other items in the income statement exceed 10% of the income statement total, sub-accounts constituting at least 20% of these items are shown below:

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

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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:

a) 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 ⁽²⁾	Non-cash	Cash	Non-cash	Cash	Non-cash
Loans and Other Receivables ⁽¹⁾						
Opening Balance	4.693.525	1.919.303	-	-	-	-
Closing Balance	4.975.861	2.435.684	-	-	-	-
Interest and Commissions Income	7.914	-	-	-	-	-

⁽¹⁾ The cash loans balance includes the investments to associates, subsidiaries and entities under common control.

⁽²⁾ Placements to foreign banks in the risk group amounting to TL 1.193.579 are included in the cash loans.

b) Prior 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 ⁽²⁾	Non-cash	Cash	Non-cash	Cash	Non-cash
Loans and Other Receivables ⁽¹⁾						
Opening Balance	3.320.000	1.612.751	-	-	-	-
Closing Balance	4.693.525	1.919.303	-	-	-	-
Interest and Commissions Income	7.549	-	-	-	-	-

⁽¹⁾ The cash loans balance includes the investments to associates, subsidiaries and entities under common control.

⁽²⁾ Placements to foreign banks in the risk group amounting to TL 1.177.445 are included in the cash loans.

c) 1) Deposits held by 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
Deposits						
Opening Balance	553.962	411.176	-	-	-	-
Closing Balance	792.060	553.962	-	-	-	-
Interest Expense on Deposits	22.688	9.492	-	-	-	-

⁽¹⁾ The prior period balance of the accrued interest expense of the deposit is the balance as of 31 March 2015.

2) Information on forward transactions, option agreements and similar transactions between the Bank's risk group:

Risk Group of the Bank	Subsidiaries, Associates and Entities Under Common Control (Joint Ventures)		Direct or Indirect Shareholders of the Bank		Other Real and Legal Persons in the Risk Group	
	Current Period	Prior Period	Current Period	Prior Period	Current Period	Prior Period
The Fair Value Differences Through Profit and Loss						
Opening Balance	66.595	-	-	-	-	-
Closing Balance	112.996	66.595	-	-	-	-
Total Profit/Loss	(1.163)	106	-	-	-	-
Risk Protection Oriented Processes						
Opening Balance	-	-	-	-	-	-
Closing Balance	-	-	-	-	-	-
Total Profit/Loss	-	-	-	-	-	-

⁽¹⁾ The prior period balance of the total Profit/Loss is the balance as of 30 June 2015.

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EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

3) Information about fees paid to the Bank’s key management:

Fees paid to the Bank’s key management amount to TL 16.320 (30 June 2015: TL 14.753).

VI. EXPLANATIONS AND NOTES RELATED TO SUBSEQUENT EVENTS

None.

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SECTION SIX

OTHER EXPLANATIONS AND NOTES

I. OTHER EXPLANATIONS ON THE BANK’S OPERATIONS

None.

SECTION SEVEN

EXPLANATIONS ON REVIEW REPORT

I. EXPLANATIONS ON REVIEW REPORT

As of 30 June 2016, unconsolidated financial statements and explanatory notes of the Bank disclosed herein were reviewed by Başaran Nas Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (a member of PricewaterhouseCoopers) and Review Report dated 10 May 2016 is presented preceding the financial statements.

II. EXPLANATIONS AND NOTES PREPARED BY THE INDEPENDENT AUDITORS

None.

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SECTION EIGHT (*)

EXPLANATIONS ON THE INTERIM REPORT

I. Chairman of the Board's Message

The second quarter of 2016 was, generally speaking, a period in which global risk appetite increased in consideration of the fact that the Federal Reserve System (Fed) would delay the interest rate rise.

Although volatility was still observed before the fluctuation in USA data and the UK's European Union (EU) exit vote, capital flows to developing countries were at their highest levels since the first quarter of 2015. The continuation of low inflation levels and a weakness in global growth, supported the expectation that the interests of developed countries such as the UK and Japan would remain at the low levels for a long time while risk premiums of developing countries decreased depending on the increased risk appetite. In the previous period, while commodity prices gained stability at the low levels with the slowdown tendency in global economic growth, an improvement was observed in financial conditions by the decrease of uncertainties regarding the Chinese economy.

In the forthcoming period, it is expected that the Fed will be cautious in the interest rate rise process with the influence of global events holding economic improvement back and low inflation despite the recovery in US employment data. The UK's decision to leave the European Union, continued low levels of inflation and the fact that recovery in the Eurozone was relatively weak in the second quarter of the year led to expectations that the European Central Bank (ECB) would relax its monetary policy further. Similarly, it is understood that the Bank of England (BoE) will reduce the interest rate and may increase the asset purchase amount since the BoE stated that it has instruments necessary for ensuring monetary and financial stability. The fact that Prime Minister Abe won the election in Japan indicated that governmental incentive would continue and it was a factor increasing global risk appetite by preventing loss in value in the Yen. All this progress indicates a positive picture for developing countries.

The Turkish economy left a very positive period behind in terms of macroeconomic indicators in the second quarter of the year. While a strong picture was sustained with a growth rate beyond expectations, a significant decrease occurred in inflation. A decrease trend in the current accounts deficit continued with the effect of a low course in oil prices. A strong picture in the industry sector, which was one of the most contributing factors to growth in the first quarter of 2016, continued to support employment and influenced a decline in the rate of unemployment to single digit levels. With the Central Bank supporting the economy by sustaining interest rate cuts with simplification steps, the TL took a strong course with capital flows to developing countries.

Global growth followed a weak course and the Turkish economy was positively separated from its counterparts by achieving growth beyond expectations with 4,8% on an annual basis. While the most important support to the strong growth was from household expenditures, public consumption gave the second most important contribution in the growth composition. Household consumption increased to the highest level since 2011 by 6,9%. Two main reasons for this increase were minimum wage increase and the expenditures of immigrants. In the forthcoming period, it is expected that domestic demand will lead growth, and the contribution of net exports will turn positive with the effect of demand increase in European Union countries.

While significant decrease occurred in inflation mainly based on the unprocessed food group, a considerable decrease was observed in the core inflation with the stable course of the TL. Measures taken by authorities regarding the food sector were effective on the decrease of food inflation to historically low levels. A decrease in core inflation became evident in the second quarter of the year depending on the weakening effects of the cumulative exchange rate, inflation expectations of 12 and 24 months were improved.

Having less need for a wide interest rate corridor as a result of a decrease in global volatilities as well as effective use of the policy instruments specified in the road map published in August 2015, CBT reduced the interest rate by 200 basis points in total, sustaining the simplification steps it started in March. Following Central Bank's statement regarding that it may have come to the end in its cuts on the high bands of the corridor, it is expected that the bank will continue to cut interest rates even in a limited way, by taking volatility in the global markets and the course of inflation into consideration. While current indicators show that stable growth in economic activity continued in the second quarter of 2016, it is expected that steps taken by Central Bank will support the growth as well.

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EXPLANATIONS ON INTERIM REPORT (Continued)

I. Chairman of the Board’s Message (Continued)

The improvement trend observed in the current deficit continues with the positive progresses in the international terms of trade by the contribution of macro-prudential policy measures and commodity prices. Cumulative current deficit was at the lowest level since 2010; increasing risk appetite was effective in entering portfolio investments. The continuation of European countries’ demands and the market changing flexibility of our export are reflected positively in our balance of foreign trade.

While our budget balance performs great compared with the last year with the effect of strong course in the budget incomes, it is anticipated that financial discipline will be sustained during MTP (Medium Term Program) and public debt stock to national income rate will continue to decrease gradually. Strong public finance and certain improvement in the current deficit continue to provide a maneuver area to our country in economy policies.

Banking industry continues to grow loan-weighted, provides fund that the economy needs, keeps its strong structure while growing steadily.

The leading bank of the industry, Ziraat Bank, has increased its support to all sectors, mainly agriculture, and has significantly contributed to putting great projects and investments that our country needs into practice. In line with the aim of being everywhere and being everyone’s bank with national and international service networks, Ziraat Bank, keeps its strong financial structure, increases its service quality and quality of financing of economy.

II. CEO’s Message

Ziraat Bank sustains its strategy of financing real sector and investments through financing great projects and meeting the operation and investment needs of all sectors. The Bank is the leading bank in the sector both in total cash and non-cash loans and total loans with exceeding TL 200 billion of cash loans, non-cash loans amounted TL 68 billion. In line with the strategy being monitored; the share of loans in total assets is raised to 63% by normalized to the sector average.

An increase in the cash loans by nearly 8% and in the non-cash loans by 12% was observed in the first half of 2016. Within cash loans, while individual loans increased by 6% mainly mortgage, corporate loans increased by 9%. In the same period our asset value reached to TL 322 billion by the increase of 6%.

The business model we are developing keeps contributing to the effective finance of the agriculture sector which is our mission. We prioritize being the effective bank at each stage of the agricultural value chain. Our strategy of industrialization of agriculture and increasing its added value means more than just financing agriculture. In this context, the loans granted to the agricultural sector, consisting of 36% investment loans, recorded a 15% increase in the first half of 2016. Cash loans granted to finance the agricultural value chain are at around TL 50 billion.

We are among the leader banks on financing the greatest infrastructure and energy investments of our country. We are glad and proud of the projects that are completed and launched, and of those that are nearly complete among the projects of which we have significantly contributed to the financing on behalf of our Country and Bank.

Although no sales have been made from non-performing loan stock by our Bank, rate of receivables and non-performing loan being at the level of half the sector average by 1.7% shows our effectiveness on the management of loan quality. Having good loan quality is the result of loan valuation modules, effective monitoring and collection method, investments and process improvements we are making on loan processes. The NPL coverage ratio including general loan loss provision stood at about 200%. In addition to being a bank having the broadest service network of our country with 1.785 branches and 6.768 ATMs in the country including locations where no other bank operates, we continue our works to increase our service quality at every point. Also, we make access to financial services possible in anywhere and at any time by increasing our investments in digital banking.

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EXPLANATIONS ON INTERIM REPORT (Continued)

II. CEO’s Message (Continued)

We sustain our services abroad in 18 countries with branch and bank structuring. We continue to offer any kind of financial service to our customers with our partnerships in different business segments like insurance, private pension and life insurance, investment, portfolio management, financial leasing, participation banking apart from main bank. In this way, we continue our works as Ziraat Finance Group with the partnerships regarding broad service network, banking channels out of branch, different financial services in the country and abroad.

Deposit continues to be the main source of finance. Broad-based structure of our deposit is sustained and developed. Syndication Loan in the amount of USD 1,1 billion was renewed for diversification of resource structure and our second benchmark eurobond issuance in the amount of USD 500 million was made. Apart from these, we ensure the diversification of our funding structure by providing resource procurement from international finance institutions and banks and by other alternative options.

Our profitability and performance ratios continue to the positive course. It is continued to make strong our shareholders’ equity and to increase its share in the balance sheet. In this context, our return on equity is 20% in the second quarter of 2016.

Our goal is to provide that Ziraat Bank is more valuable asset of our country with our business model of providing positive course of financial figures and indicators, our personnel and our customers.

III. Shareholding Structure

The paid in capital of T.C. Ziraat Bank is TL 5.100.000.000, and the sole shareholder is the Republic of Turkey Prime Ministry Undersecretariat of the Treasury (the “Treasury”). The chairman, Members of the Board of Directors, Members of the Supervisory Board, and General Manager and Vice General Managers are not shareholders in the Bank.

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EXPLANATIONS ON INTERIM REPORT (Continued)

IV. Main Financial Indicators

In the second quarter of 2016, total assets of the Bank has risen to TL 321.759 million by increasing 6,2% compared to December 2015. In Bank’s assets, loans with TL 201.443 million volume share 62,6%, securities portfolios with TL 67.314 million volume share 20,9%, liquid assets and banks with the amount of TL 42.026 million and share of 13,1%, and other assets with amounting to TL 10.976 million and share of 3,4%. In the second quarter of 2016, loans of the Bank has risen to TL 201.443 million by increasing 7,8% compared to December 2015. TL loans has reached to TL 152.134 million, FC loans has reached to TL 49.308 million.

In Bank’s liabilities, deposits with TL 195.608 million volume and share of 60,8%, non-deposits resources with TL 70.533 million volume and share of 21,9%, equities with TL 36.049 million volume and share of 11,2%, and other liabilities amounting to TL 19.569 million, share of 6,1%. Bank’s total deposit in second period of 2016 recognised at a level of TL 195.608 million by increasing 4,9% compared to December 2015. Turkish Lira denominated deposit volume is TL 129.525 million and foreign currency denominated deposit volume is TL 66.083 million. In the second quarter of 2016, of the Bank’s total deposit 42,9% is saving deposit, 29,8% is foreign currency deposit, 9,8% is public sector deposit, 8,0% is commercial deposit, 4,9% is bank deposit, 4,0% is other institutions deposit, 0,6% is precious metal deposit accounts.

Total equity increased 14,3% compared to December 2015 and reached to TL 36.049 million. By the end of the second quarter of 2016 Bank’s net profit recognized at TL 3.389 million level by increasing 39,5% compared to the same period of last year.

By the end of second quarter of 2016, Bank’s capital adequacy ratio recognised at a level of 14,57%.

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EXPLANATIONS ON INTERIM REPORT (Continued)

IV. Main Financial Indicators (Continued)

	30 June 2016	31 December 2015	Change (%)
ASSETS (TL Million)			
Liquid Assets and Banks	42.026	40.983	2,5
Securities Portfolio	67.314	64.871	3,8
Loans	201.443	186.813	7,8
Other Assets	10.976	10.181	7,8
Total Assets	321.759	302.848	6,2
LIABILITIES (TL Million)			
Deposits	195.608	186.469	4,9
Non-deposits Resources	70.533	67.916	3,9
Other Liabilities	19.569	16.917	15,7
Shareholders' Equity	36.049	31.546	14,3
Total Liabilities	321.759	302.848	6,2
CHOSEN INCOME-EXPENSES (TL Million)			
Interest Income	12.959	10.400	24,6
Interest Expense	6.568	5.407	21,5
Net Interest Income	6.391	4.992	28,0
Net Fees and Commission Income	766	608	26,0
Other Operations Income	983	670	46,7
Other Operations Expense	2.662	2.363	12,7
Provision for Losses on Loans Or Other Receivables	1.458	897	62,5
Income Before Taxes From Continuing Operations	4.194	3.126	34,2
Provision For Taxes On Income From Continuing Operations	806	696	15,8
Net Profit/Losses	3.389	2.429	39,5
RATIOS (%)			
Capital Adequacy Ratio	14,57	15,08	
Equity / Total Assets	11,2	10,4	
Total Loans / Total Assets	62,6	61,7	
Loans under follow-up (Gross) / Total Loans	1,7	1,7	
Saving Deposits/ Total Deposits	24,0	21,8	
FC Assets / FC Liabilities	100,6	97,6	
Liquid Assets / Total Assets	13,1	13,5	
	30 June 2016	30 June 2015	
Net Profit (Loss) / Average Total Assets (ROA)	2,2	1,8	
Net Profit (Loss) / Average Equities (ROE)	20,3	16,7	
Interest Incomes / Interest Expenses	197,3	192,3	

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EXPLANATIONS ON INTERIM REPORT (Continued)

V. 2016 II. Interim Activities

As a part of the studies for diversification of the Bank's funds and supply of long term funds with a favorable cost for borrowing purposes on international capital markets, GMTN Program (Global Medium Term Notes), amounting to 4 billion US Dollars, it is updated on 14 March 2016. As a part of this GMTN program that enables Bank to issue in different maturities and different currencies operations, 29 April 2016 value date, coupon 4,75%, 5-year, USD 500 million of the nominal value of the bonds issued to investors residing abroad have carried out, and within the same program it was practiced as a "private placement" continued to raise funds in international markets.

VI. 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.

VII. Other Important Activities

- "Pre-approved Consumer Loan" production are put into practice by making public assessments from the center on the purpose of providing optimization in the application period of individual loan and increasing sales success, work size, customer activities.
- The Bank, with TL 4,3 billion in mortgage loans issued at the first half of 2016, continued its market leadership during this period and mortgage loan portfolio exceeded TL 21,5 billion.
- At the end of the second quarter of 2016, Bank Corporate Segment cash loans reached to TL 71,6 billion by increasing approximately 5% comparing to first quarter, non-cash loans reached to TL 59 billion by increasing approximately 9%, and TL 130,6 billion in total.
- Loans for financing the agriculture has increased to TL 40,9 billion at the end of the second quarter of the year 2016.
- The sector contribution of Ziraat Bank has increased from 7,6% to 8,3% in deferred and spot foreign exchange transactions made by customer within the scope of foreign exchange purchase transactions which is focused on management of customer relations.
- It is provided pre-application by way of out of branch channels to the products of consumer loan, vehicle loan, real estate loan, overdraft account, credit card and increasing credit card limit.
- At the second quarter of 2016, the Bank realized borrowing amounting to approximately TL 1,84 billion corresponding to the redemption amount of TL 1,82 billion.
- Within the second interim period of 2016, it was given training to total 25.450 personnel and it was realised trainings average 7,82 hours per personnel.
- As of second quarter, The Bank's market share of credit card number is 6,16% and market share of monthly turnover is 3,30%.
- Mostre Bureau and Brčanska-Malta Bureau of ZiraatBank BH dd started to its operations.
- Loan agreement between the Bank and European Investment Bank amounting to EUR 100 million with 8 years maturity and 3 years non-refundable, has signed on 5 May 2016, intended for the financing of SME's and large scale enterprises.

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EXPLANATIONS ON INTERIM REPORT (Continued)

VIII. Expectations Regarding After II. Interim Period of 2016

The second quarter of 2016 has been a period in which expectations towards that Federal Reserve System (Fed) would make interest rate rise within this year decreased as a result of developments increasing volatility in the global economy in addition to the data from US economy which were different from each other from time to time.

On the other hand in Europe, in this period where the data regarding economic activity remained in the background, the most important point of the agenda was the referendum by which the UK voted to leave the EU.

With strong expectations that the Fed would act slowly during the interest rate rise process, fund flow to developing countries gained speed and reached the highest level since the first quarter of 2015. Commodity, especially the recovery in oil prices supported the economies of developing countries mainly the countries which are commodity exporters in the second quarter of the year.

Strong expectations of additional incentives from the Bank of England and Japan, are other developments coming to the fore in the second quarter.

Similar to the previous years, after a weak first quarter, the US economy signalled recovery in the second quarter of the year again. While data regarding that household consumption had strong course continued to come, a strong recovery was observed in the housing market. However, the continuation of weakness in private sector investments and contradictory data from the employment market caused insecurity. Employment market data, which is one of the two indicators that the Fed follows closely to determine interest rate rise, was quite weak, especially in May. Non-farm payrolls data performed the lowest increase of the last six years in May and raised questions on whether the US economy is ready for a new interest rate rise or not. Hence, after weak employment data, Fed monetary policy committee members revised their 2017, 2018 and long-term interest rate forecasts as downtrend in the meeting held in June. Although members did not change their forecasts stating two interest rate rises for this year, the expectation in the markets focuses on the estimation that the Fed would make one interest rate rise within this year. It is expected that the Fed will continue to follow US data closely and take risks in the global economy into consideration to determine the speed of the interest rate rise process.

While in the first quarter of the year, the highest growing performance occurred in the Eurozone since 2011, on a quarterly and annual basis, leading data coming in in the second quarter reveal loss of speed. Recovery in consumer loans continues with the influence of expansionary steps of European Central Bank (ECB) and household consumption makes significant contribution to the growth. In the first quarter, recovery in the economic activity was reflected in employment markets, and as a result, the unemployment rate, which peaked in 2013 at 12,1%, continued to decrease and declined to the level of 10,1% as of May. Despite the increase in commodity prices, inflation sustained its weak course in the second quarter of the year as well. Inflation, which is expected to continue to be at low levels until the end of this year, is expected to rise as of the next year. In the second quarter of the year, ECB preferred to follow a wait and see policy to see the impact on the economy of the additional incentive program it announced in March.

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EXPLANATIONS ON INTERIM REPORT (Continued)

VIII. Expectations Regarding After II. Interim Period of 2016 (Continued)

Even though expansionary measures of ECB started to create a difference in economic indicators, the effects of these measures are not yet known exactly. It is expected that interest will stay at the current levels for a long time, and expansionary monetary policy will continue until inflation in the Eurozone permanently rises.

In the second quarter of the year, the most important point of the European agenda was the referendum by which the UK voted to leave the European Union. The fact that the result of the referendum was that the UK left the EU, created a great shock wave in the global economy. In the days following the referendum, while sharp movements were seen in financial markets, the day after was one of the most volatile days in the history of the markets. With an increase in concerns for the future of both the British and European economies, sharp drops were seen within a few days in the British Pound and in European banking shares. To decrease the volatility arising from financial markets after the referendum, ECB and Bank of England (BoE) played a significant role in steadying markets by issuing calming statements. While it is expected that the UK leaving the EU, a process referred to as Brexit, would damage both economies, especially trade, the exact nature of the damage will be revealed over time. The expectation that ECB and BoE would take new expansionary steps for the forthcoming period to manage the Brexit process with minimum damage is strengthening, and these expectations give significant support to the markets.

Starting the first quarter of the year very negatively, the economies of developing countries achieved great recovery in the second quarter of the year. The end of negative data flow coming from China at the beginning of the year, recovery in the commodity prices and incentive expectations from developed central banks supported economies of developing countries during the quarter. The fact that the manufacturing industry in China recovered and revealed that the sector expanded again, the service industry gained speed and the Chinese government launched significant spending on infrastructure projects, including railway construction to support growth, ensured a decrease in concerns regarding the country’s economy. An increase in commodity prices, especially oil, by recovering from the record low levels in the first quarter of the year supported developing countries, mainly those which are commodity exporters. Since employment data announced in the USA was not strong enough for a new interest rate rise and expectations of incentives from ECB and BoE were added to the expectations that the Fed would delay an interest rate rise after the increase in global risk perception due to Brexit, capital flows to developing countries gained speed. Capital flows reaching the highest level as of the first quarter of 2015 caused stock markets and bond markets to achieve strong performance during the quarter. The course of commodity prices, data coming from the Chinese economy and monetary policies of developed countries’ central banks are expected to be the main determining factors for the economies of developing countries in the remainder of the year.

Achieving a strong performance during the first quarter of the year, the Turkish economy has maintained pace in the second quarter as well, according to the leading indicators. While the industry sector continued to grow strongly as from the beginning of the year, the unemployment rate declined to single digit levels. Food inflation declined to historically low levels and a downtrend in core inflation continued. A decrease in our current deficit continued with the support of low levels in oil prices, while the budget achieved a quite steady performance, as in recent years. Capital flows gained speed with the contribution of increase in the risk appetite regarding developing countries and valuation in the TL continued.

Turkey achieved quite strong growth in the first quarter of 2016, by 4,8%, compared to its counterparts. While the primary source of growth was domestic demand, consumption specific to growth contributed 4.8 points, public consumption 1.2 points, and stocks 0.4 points. Private investment and net exports had a negative influence on the growth. The fact that economic growth in Europe, which is our main export region, was limited became the main reason for our weak export. Continuation of strong increases performed by industrial production in the second quarter of the year strengthens the expectations on the continuation of growth speed. Also, it is expected that interest rate cuts performed consecutively by Central Bank within the frame of simplification steps will support growth for the remainder of the year.

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EXPLANATIONS ON INTERIM REPORT (Continued)

VIII. Expectations Regarding After II. Interim Period of 2016 (Continued)

The current accounts deficit continued to decline with the positive effect of a low course in oil prices on foreign trade balance and moderate course in consumer loans. The cumulative current deficit declined to the lowest levels since 2010, current deficit / GDP rate declined even under Medium Term Program (MTP) by 3,8%. Since oil prices gained stability, it is expected that improvement in our current deficit will continue even if it will lose some speed.

In the second quarter of the year, inflation declined to the lowest degree of the last three years since the transitivity effect of exchange rates on inflation continued to decrease and food prices decreased. Slowdown in food prices due to suitable seasonal conditions and the high basis effect of the previous year was the most remarkable development in inflation in the second quarter. An annual increase rate of “Food and soft drinks” item, which exceeded 14% in 2015, declined to the level of 1,38% in April. Despite the increasing effect of a minimum wage rise on inflation performed at the beginning of the year, a decrease in the headline and core inflation created an area in which CBT could take simplification steps.

CBT continued the simplification steps it started in March with the discounts it performed consecutively in the marginal funding interest. Having less need for a wide interest rate corridor with the decrease of global uncertainties, CBT narrowed the interest rate corridor by making a discount of 200 basis points in total and made it more symmetrical. During this process, a downtrend in the inflation gave significant support to the Central Bank. For the remainder of the year, it is expected that more limited interest rate cuts will come as statements made by Central Bank declaring that it has come to the end of the simplification process are taken into consideration. It is considered that steps taken by Central Bank will contribute to the continuation of the strong growth achieved in the first quarter of the year.

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