

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

Türkiye Cumhuriyeti Ziraat Bankası Anonim Şirketi

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

15 August 2017

*This report contains “Review Report” comprising 2
pages and; “Unconsolidated Financial Statements
and Related Disclosures and Footnotes”
comprising 95 pages.*

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

REVIEW REPORT ON UNCONSOLIDATED INTERIM FINANCIAL INFORMATION

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

Report on the Unconsolidated Interim Financial Statements

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

Scope of review

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

Basis for the Qualified Conclusion

As mentioned in Section II. Note 9.4.1 of Explanations and Notes to the Unconsolidated Financial Statements, the accompanying unconsolidated interim financial information as of 30 June 2017 include general provision of total TL 1,210,000 thousands, of which TL 265,000 thousands was recognized as expense in the current period and the rest of it from the prior periods which is provided by the Bank management for the possible effects of the negative circumstances which may arise in economy or market conditions.

Qualified Conclusion

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

Other matter

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

Report on other regulatory requirements arising from legislation

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

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

Erdal Tıkmak, SMMM
Partner

15 August 2017
Istanbul, Turkey

Additional paragraph for convenience translation to English:

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

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

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

The Bank's Headquarter Address: Anafartalar Mahallesi Atatürk Bulvarı
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Phone: (312) 584 20 00
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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
- EXPLANATIONS ON REVIEW REPORT
- INTERIM REPORT

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

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

Hüseyin AYDIN
Member of the Board,
CEO

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

Ali KIRBAŞ
Banking Operations
Executive Vice President

Atakan BEKTAŞ
Senior Vice President
of Reporting and Data
Management

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

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

SECTION ONE
General Information about the Bank

	Page Number
I. History of the Bank including its incorporation date, initial legal status and amendments to legal status, if any	1
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	1
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	1
IV. Information about the persons and institutions that have qualified shares attributable to the Bank	2
V. Summary information on the Bank's activities and services	2
VI. Differences Between The Communique On Preparation Of Consolidated Financial Statements Of Banks And Turkish Accounting Standards And Short Explanation About The Entities Subject To Full Consolidation Or Proportional Consolidation And Entities Which Are Deducted From Equity Or Entities Which Are Not Included In These Three Methods	3
VII. 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	3

SECTION TWO
Unconsolidated Financial Statements

I. Balance sheet (Statement of Financial Position)	5
II. Statement of off-balance sheet commitments	7
III. Statement of income	8
IV. Statement of profit and loss items accounted under shareholders' equity	9
V. Statement of changes in shareholders' equity	10
VI. Statement of cash flows	12

SECTION THREE
Explanations on Accounting Policies

I. Basis of presentation	13
II. Explanations on strategy of using financial instruments and foreign currency transactions	14
III. Explanations on investments in associates, subsidiaries and joint ventures	14
IV. Explanations on forward transactions, options and derivative instruments	15
V. Explanations on interest income and expense	15
VI. Explanations on fee and commission income and expense	15
VII. Explanations on financial assets	15
VIII. Explanations on impairment of financial assets	17
IX. Explanations on offsetting financial assets and liabilities	18
X. Explanations on sales and repurchase agreements and securities lending transactions	18
XI. Information on assets held for sale and related to discontinued operations and explanations on liabilities related with these assets	18
XII. Explanations on goodwill and other intangible assets	19
XIII. Explanations on property and equipment	19
XIV. Explanations on leasing transactions	20
XV. Explanations on provisions, contingent asset and liabilities	20
XVI. Explanations on obligations related to employee rights	21
XVII. Explanations on taxation	23
XVIII. Explanations on borrowings	24
XIX. Explanations on issuance of share certificates	24
XX. Explanations on avalized drafts and acceptances	24
XXI. Explanations on government grants	25
XXII. Cash and cash equivalents	25
XXIII. Explanations on segment reporting	25
XXIV. Explanations on other matters	25

SECTION FOUR
Explanations Related to the Financial Position and Risk Management of the Bank

I. Explanations on the components of shareholders' equity	26
II. Explanations on the currency risk	32
III. Explanations on the interest rate risk	34
IV. Explanations on the position risk of equity securities	37
V. Explanations on liquidity risk management and liquidity coverage ratio	37
VI. Explanations on leverage	43
VII. Explanations on risk management	44
VIII. Explanations on operating segments	55

SECTION FIVE
Explanations and Notes Related to the Unconsolidated Financial Statements

I. Explanations and notes related to assets	58
II. Explanations and notes related to liabilities	71
III. Explanations and notes to off-balance sheet accounts	79
IV. Explanations and notes related to income statement	80
V. Explanations and notes related to the risk group of the Bank	85
VI. Explanations and notes related to subsequent events	86

SECTION SIX
Explanations on the Independent Auditor's Review Report

I. Explanations on review report	86
II. Explanations and notes prepared by the independent auditors	86

SECTION SEVEN
Explanations on Interim Report

I. Interim period report included chairman of the board of directors and Ceo's assessments for the interim activities	87
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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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017

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

SECTION ONE

GENERAL INFORMATION ABOUT THE BANK

I. HISTORY OF THE BANK INCLUDING ITS INCORPORATION DATE, INITIAL LEGAL STATUS AND AMENDMENTS TO LEGAL STATUS, IF ANY

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

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

The total share capital of the Bank is TL 5,100,000. The Bank's paid-in-capital committed by the Republic of Turkey Prime Ministry Undersecretariat of Treasury (“the Turkish Treasury”) consists of 5,100,000,000 shares of TL 1 nominal each.

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

The Bank’s sole shareholder is the Treasury and all of the Bank's shares were decided to be transferred to the Turkish Wealth Fund with the decision of the Council of Ministry numbered 2017/9756 dated 24 January 2017. The transfer process is still continuing.

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
Metin ÖZDEMİR	Member
Mustafa ÇETİN	Member
Salim ALKAN	Member
Yusuf BİLMEZ ⁽¹⁾	Member
Audit Committee Members	
Muharrem KARSLI	Member
Feyzi ÇUTUR	Member
Executive Vice Presidents	
Ali KIRBAŞ ⁽²⁾	Banking Operations
Alpaslan ÇAKAR	Payment Systems
Bilgehan KURU	Treasury and International Banking
Bülent SUER	Internal Operations
Mehmet Cengiz GÖĞEBAKAN	Loan Policies
Musa ARDA	Loan Allocation and Management
Peyami Ömer ÖZDİLEK	Human Resources
Süleyman TÜRETKEN ⁽²⁾	Branch Banking
Yüksel CESUR	Internal Systems

(1) He was elected at the General Assembly meeting held on 9 June 2017 and started his duty on 14 June 2017

(2) With the decision of the Board of Directors’ he was assigned to the duty of Vice President.

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

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

**TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş.
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION ONE (Continued)

GENERAL INFORMATION ABOUT THE BANK (Continued)

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

Name/Trade Name	Amount of Share	Percentage of Share %	Paid-in Shares	Unpaid Shares
Treasury	5,100,000	100	5,100,000	-

The Bank's sole shareholder is the Treasury and all of the Bank's shares were decided to be transferred to the Turkish Wealth Fund with the decision of the Council of Ministry numbered 2017/9756 dated 24 January 2017. The transfer process is still continuing.

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 2017, Bank carries its activities with a grand total of 1,813 branches; 1,789 domestic branches including 20 corporate branches, 79 entrepreneurial branches, 75 dynamic entrepreneurial branches, 1,610 branches and 5 mobile branches (31 December 2016: 1,786 domestic branches including 1,606 branches, 20 corporate branches, 79 entrepreneurial branches, 76 dynamic entrepreneurial branches, 5 mobile branches) and 24 branches abroad New York branch in United States, London branch in England, Baghdad and Arbil branches in Iraq, Athens, Komotini, Xanthi and Rhodes branches in Greece, Sofia branch and Plovdiv, Kardzhali and Varna branches in Bulgaria, Jeddah branch in Saudi Arabia, Pristina in Kosovo, Lefkoşa, Girne, Güzelyurt, Gazimağusa, Gönyeli, Akdoğan, Karaoğlanoğlu, Karakum and İskele branches in Turkish Republic of Northern Cyprus. The Bank also has 1 representative office in Tehran, Iran. The Bank's number of employee is 24,709 (31 December 2016: 25,015).

Tbilisi, Batum and Marneuli branches of the Bank which are operating in Georgia has been gathered under the Bank's roof as of 2 May 2017 and continues to operate as subsidiary with JSC Ziraat Bank Georgia title and all of the capital belonging to the Bank.

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 Banklararası Kart Merkezi.

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

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

**TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş.
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION ONE (Continued)

GENERAL INFORMATION ABOUT THE BANK (Continued)

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

According to Communiqué regarding the Preparation of the Consolidated Financial Statements and Turkish Accounting Standards, Arap Türk Bankası A.Ş., one of the associates of the Parent Bank, and Turkmen Turkish Joint Stock Commercial Bank, UTBANK JSC (formerly named as “Uzbekistan-Turkish Bank”) entities under common control are consolidated through “Equity Method” in accompanying consolidated financial statements of the Bank.

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

All other subsidiaries are fully consolidated.

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

None.

SECTION TWO

UNCONSOLIDATED FINANCIAL STATEMENTS

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

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

TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş.
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS (BALANCE SHEET)
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017

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

I.	BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)	Note (Section Five I)	Current Period (30/06/2017)			Prior Period (31/12/2016)		
			TL	FC	Total	TL	FC	Total
	ASSETS							
I.	CASH BALANCES WITH THE CENTRAL BANK OF TURKEY	(1)	8,038,447	29,652,021	37,690,468	7,541,324	31,625,773	39,167,097
II.	FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT or (LOSS) (Net)	(2)	1,173,432	571,864	1,745,296	1,209,019	475,772	1,684,791
2.1	Financial Assets Held for Trading		1,173,432	571,864	1,745,296	1,209,019	475,772	1,684,791
2.1.1	Public Sector Debt Securities		7,955	4,821	12,776	12,855	4,549	17,404
2.1.2	Securities Representing a Share in Capital		-	-	-	-	-	-
2.1.3	Derivative Financial Assets Held for Trading	(3)	1,165,477	566,933	1,732,410	1,196,164	471,223	1,667,387
2.1.4	Other Marketable Securities		-	110	110	-	-	-
2.2	Financial Assets at Fair Value Through Profit or Loss		-	-	-	-	-	-
2.2.1	Public Sector Debt Securities		-	-	-	-	-	-
2.2.2	Securities Representing a Share in Capital		-	-	-	-	-	-
2.2.3	Loans		-	-	-	-	-	-
2.2.4	Other Marketable Securities		-	-	-	-	-	-
III.	BANKS	(4)	536,184	2,681,765	3,217,949	527,107	3,374,567	3,901,674
IV.	MONEY MARKET PLACEMENTS		1,837,419	-	1,837,419	-	-	-
4.1	Interbank Money Market Placements		1,837,419	-	1,837,419	-	-	-
4.2	Istanbul Stock Exchange Money Market Placements		-	-	-	-	-	-
4.3	Receivables from Reverse Repurchase Agreements		-	-	-	-	-	-
V.	FINANCIAL ASSETS AVAILABLE FOR SALE (Net)	(5,6)	45,560,176	15,916,913	61,477,089	43,863,060	14,768,893	58,631,953
5.1	Securities Representing a Share in Capital		104,71	637,68	742,39	104,142	539,323	643,465
5.2	Public Sector Debt Securities		45,455,466	15,187,245	60,642,711	43,700,624	14,119,670	57,820,294
5.3	Other Marketable Securities		-	91,988	91,988	58,294	109,9	168,194
VI.	LOANS AND RECEIVABLES	(7)	205,055,874	65,798,874	270,854,748	168,980,221	63,663,314	232,643,535
6.1	Loans and Receivables		204,823,950	65,798,874	270,622,824	168,728,772	63,663,314	232,392,086
6.1.1	Loans Granted to Risk Group of The Bank		1,34	1,556,756	1,558,096	31,598	1,159,214	1,190,812
6.1.2	Public Sector Debt Securities		-	-	-	-	-	-
6.1.3	Other		204,822,610	64,242,118	269,064,728	168,697,174	62,504,100	231,201,274
6.2	Loans under Follow-up		4,398,064	16,347	4,414,411	4,200,259	16,838	4,217,097
6.3	Specific Provisions (-)		4,166,140	16,347	4,182,487	3,948,810	16,838	3,965,648
VII.	FACTORING RECEIVABLES		-	-	-	-	-	-
VIII.	INVESTMENTS HELD TO MATURITY (Net)	(8)	2,842,645	4,374,770	7,217,415	3,601,088	5,148,376	8,749,464
8.1	Public Sector Debt Securities		2,659,074	4,373,917	7,032,991	3,462,285	5,140,155	8,602,440
8.2	Other Marketable Securities		183,571	853	184,424	138,803	8,221	147,024
IX.	INVESTMENTS IN ASSOCIATES (Net)	(9)	94,912	-	94,912	94,912	-	94,912
9.1	Accounted with Equity Method		-	-	-	-	-	-
9.2	Unconsolidated Associates		94,912	-	94,912	94,912	-	94,912
9.2.1	Financial Associates		88,846	-	88,846	88,846	-	88,846
9.2.2	Non-financial Associates		6,066	-	6,066	6,066	-	6,066
X.	INVESTMENTS IN SUBSIDIARIES (Net)	(10)	3,032,473	1,607,194	4,639,667	2,532,473	1,575,116	4,107,589
10.1	Unconsolidated Financial Subsidiaries		3,026,236	1,607,194	4,633,430	2,526,236	1,575,116	4,101,352
10.2	Unconsolidated Non-Financial Subsidiaries		6,237	-	6,237	6,237	-	6,237
XI.	ENTITIES UNDER COMMON CONTROL (Net)	(11)	-	109,239	109,239	-	109,239	109,239
11.1	Accounted with Equity Method		-	-	-	-	-	-
11.2	Unconsolidated Entities Under Common Control		-	109,239	109,239	-	109,239	109,239
11.2.1	Financial Entities Under Common Control		-	109,239	109,239	-	109,239	109,239
11.2.2	Non Financial Entities Under Common Control		-	-	-	-	-	-
XII.	RECEIVABLES FROM LEASING TRANSACTIONS	(12)	-	-	-	-	-	-
12.1	Finance Lease Receivables		-	-	-	-	-	-
12.2	Operating Lease Receivables		-	-	-	-	-	-
12.3	Other		-	-	-	-	-	-
12.4	Unearned Income (-)		-	-	-	-	-	-
XIII.	DERIVATIVE FINANCIAL ASSETS FOR HEDGING PURPOSES	(13)	-	-	-	-	-	-
13.1	Fair Value Hedges		-	-	-	-	-	-
13.2	Cash Flow Hedges		-	-	-	-	-	-
13.3	Hedges for Investments Made in Foreign Countries		-	-	-	-	-	-
XIV.	TANGIBLE ASSETS (Net)	(16)	5,168,858	7,896	5,176,754	5,300,983	14,22	5,315,203
XV.	INTANGIBLE ASSETS (Net)		371,896	6,647	378,543	305,716	7,098	312,814
15.1	Goodwill		-	-	-	-	-	-
15.2	Other		371,896	6,647	378,543	305,716	7,098	312,814
XVI.	REAL ESTATES FOR INVESTMENT PURPOSE (Net)	(14)	-	-	-	-	-	-
XVII.	TAX ASSET		182	-	182	76,878	-	76,878
17.1	Current Tax Asset		182	-	182	1,121	-	1,121
17.2	Deferred Tax Asset		-	-	-	75,757	-	75,757
XVIII.	ASSETS HELD FOR SALE AND ASSETS HELD FROM DISCONTINUED OPERATIONS (Net)	(15)	641,22	-	641,22	562,033	-	562,033
18.1	Held for Sale		641,22	-	641,22	562,033	-	562,033
18.2	Held from Discontinued Operations		-	-	-	-	-	-
XIX.	OTHER ASSETS		3,570,147	1,295,557	4,865,704	1,214,427	1,189,756	2,404,183
	TOTAL ASSETS		277,923,865	122,022,740	399,946,605	235,809,241	121,952,124	357,761,365

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

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

TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş.
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS (BALANCE SHEET)
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017

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

I.	BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)	Note (Section Five II)	Current Period (30/06/2017)			Prior Period (31/12/2016)		
			TL	FC	Total	TL	FC	Total
	LIABILITIES AND EQUITY							
I.	DEPOSITS	(1)	156,432,188	85,038,618	241,470,806	149,857,453	73,161,481	223,018,934
1.1	Deposits Held By the Risk Group of the Bank		1,839,970	561,201	2,401,171	1,191,017	354,9	1,545,917
1.2	Other		154,592,218	84,477,417	239,069,635	148,666,436	72,806,581	221,473,017
II.	DERIVATIVE FINANCIAL LIABILITIES HELD FOR TRADING	(2)	98,274	290,235	388,509	239,703	403,925	643,628
III.	FUNDS BORROWED	(3)	1,179,560	23,810,968	24,990,528	1,788,942	21,027,794	22,816,736
IV.	MONEY MARKET BALANCES		43,111,307	14,759,243	57,870,550	34,941,538	12,270,423	47,211,961
4.1	Interbank Money Market Borrowings		37,573,800	1,829,453	39,403,253	4,640,000	-	4,640,000
4.2	Istanbul Stock Exchange Takasbank Borrowings		190	-	190	50	-	50
4.3	Funds Provided under Repurchase Agreements	(4)	5,347,507	12,929,790	18,277,297	30,251,538	12,270,423	42,521,961
V.	MARKETABLE SECURITIES ISSUED (Net)	(5)	3,041,927	6,852,526	9,894,453	2,156,778	4,676,223	6,833,001
5.1	Bills		3,041,927	-	3,041,927	2,156,778	-	2,156,778
5.2	Asset-backed Securities		-	-	-	-	-	-
5.3	Bonds		-	6,852,526	6,852,526	-	4,676,223	4,676,223
VI.	FUNDS		6,069,243	-	6,069,243	6,020,839	-	6,020,839
6.1	Borrower Funds		-	-	-	-	-	-
6.2	Other		6,069,243	-	6,069,243	6,020,839	-	6,020,839
VII.	MISCELLANEOUS PAYABLES		2,199,140	1,786,129	3,985,269	1,266,894	1,213,827	2,480,721
VIII.	OTHER LIABILITIES	(6)	3,082,488	642,487	3,724,975	2,999,827	449,462	3,449,289
IX.	FACTORING PAYABLES		-	-	-	-	-	-
X.	PAYABLES FROM LEASING TRANSACTIONS (Net)	(7)	-	435	435	-	492	492
10.1	Finance Lease Payables		-	438	438	-	499	499
10.2	Operating Lease Payables		-	-	-	-	-	-
10.3	Other		-	-	-	-	-	-
10.4	Deferred Finance Lease Expenses (-)		-	3	3	-	7	7
XI.	DERIVATIVE FINANCIAL LIABILITIES FOR HEDGING	(8)	-	-	-	-	-	-
11.1	Fair Value Hedges		-	-	-	-	-	-
11.2	Cash Flow Hedges		-	-	-	-	-	-
11.3	Hedges for Investments Made in Foreign Countries		-	-	-	-	-	-
XII.	PROVISIONS	(9)	7,074,046	59,146	7,133,192	5,981,623	71,388	6,053,011
12.1	General Provisions		4,492,416	13,509	4,505,925	3,908,739	12,886	3,921,625
12.2	Restructuring Provisions		-	-	-	-	-	-
12.3	Employee Benefits Provisions		1,122,178	-	1,122,178	877,689	-	877,689
12.4	Insurance Technical Reserves (Net)		-	-	-	-	-	-
12.5	Other Provisions		1,459,452	45,637	1,505,089	1,195,195	58,502	1,253,697
XIII.	TAX LIABILITY	(10)	1,076,610	1,069	1,077,679	848,332	1,983	850,315
13.1	Current Tax Liability		893,059	1,069	894,128	848,332	1,983	850,315
13.2	Deferred Tax Liability		183,551	-	183,551	-	-	-
XIV.	LIABILITIES FOR ASSETS HELD FOR SALE AND HELD FROM DISCONTINUED OPERATIONS (Net)	(11)	-	-	-	-	-	-
14.1	Held for Sale		-	-	-	-	-	-
14.2	Held from Discontinued Operations		-	-	-	-	-	-
XV.	SUBORDINATED LOANS	(12)	-	-	-	-	-	-
XVI.	SHAREHOLDERS' EQUITY	(13)	42,662,351	678,615	43,340,966	38,736,881	(354,443)	38,382,438
16.1	Paid-in Capital		5,100,000	-	5,100,000	5,100,000	-	5,100,000
16.2	Capital Reserves		3,586,083	678,615	4,264,698	3,472,869	(354,443)	3,118,426
16.2.1	Share Premium		-	-	-	-	-	-
16.2.2	Share Cancellation Profits		-	-	-	-	-	-
16.2.3	Marketable Securities Valuation Differences		(467,792)	678,615	210,823	(644,043)	(354,443)	(998,486)
16.2.4	Tangible Assets Revaluation Reserves		4,151,276	-	4,151,276	4,177,866	-	4,177,866
16.2.5	Intangible Assets Revaluation Reserves		-	-	-	-	-	-
16.2.6	Revaluation Reserves of Real Estates for Investment Purpose		-	-	-	-	-	-
16.2.7	Bonus Shares of Subsidiaries, Associates and Entities Under Common Control		17,388	-	17,388	17,388	-	17,388
16.2.8	Hedging Funds (Effective Portion)		-	-	-	-	-	-
16.2.9	Value Increase on Assets Held for Sale		-	-	-	-	-	-
16.2.10	Other Capital Reserves		(114,789)	-	(114,789)	(78,342)	-	(78,342)
16.3	Profit Reserves		29,639,892	-	29,639,892	22,681,247	-	22,681,247
16.3.1	Legal Reserves		3,604,355	-	3,604,355	3,203,307	-	3,203,307
16.3.2	Statutory Reserves		-	-	-	-	-	-
16.3.3	Extraordinary Reserves		24,610,202	-	24,610,202	18,052,605	-	18,052,605
16.3.4	Other Profit Reserves		1,425,335	-	1,425,335	1,425,335	-	1,425,335
16.4	Profit or Loss		4,336,376	-	4,336,376	7,482,765	-	7,482,765
16.4.1	Prior Years Profit/Loss		-	-	-	906,345	-	906,345
16.4.2	Net Period Profit/Loss		4,336,376	-	4,336,376	6,576,420	-	6,576,420
	TOTAL LIABILITIES AND EQUITY		266,027,134	133,919,471	399,946,605	244,838,810	112,922,555	357,761,365

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

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

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

II.	STATEMENT OF OFF-BALANCE SHEET COMMITMENTS	Note (Section Five III)	Current Period (30/06/2017)			Prior Period (31/12/2016)		
			TL	FC	Total	TL	FC	Total
A	OFF-BALANCE SHEET COMMITMENTS (I+II+III)		63,036,291	131,978,926	195,015,217	59,657,458	123,271,460	182,928,918
I.	GUARANTEES AND WARRANTIES	(1)	29,783,394	57,476,421	87,259,815	24,763,329	54,391,779	79,155,108
1.1	Letters of Guarantee		29,592,181	41,865,057	71,457,238	24,571,621	41,207,958	65,779,579
1.1.1	Guarantees Subject to State Tender Law		1,517,713	7,584,020	9,101,733	1,482,932	7,391,519	8,874,451
1.1.2	Guarantees Given for Foreign Trade Operations		24,877,103	33,625,805	58,502,908	20,772,639	33,311,238	54,083,877
1.1.3	Other Letters of Guarantee		3,197,365	655,232	3,852,597	2,316,050	505,201	2,821,251
1.2	Bank Acceptances		39,864	5,219,293	5,259,157	34,549	4,219,583	4,254,132
1.2.1	Import Letter of Acceptance		36,786	5,213,584	5,250,370	29,427	4,216,440	4,245,867
1.2.2	Other Bank Acceptances		3,078	5,709	8,787	5,122	3,143	8,265
1.3	Letters of Credit		151,349	10,392,071	10,543,420	157,159	8,964,238	9,121,397
1.3.1	Documentary Letters of Credit		151,349	10,354,709	10,506,058	157,159	8,918,813	9,075,972
1.3.2	Other Letters of Credit		-	37,362	37,362	-	45,425	45,425
1.4	Pre-financing 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)	21,194,896	5,830,822	27,025,718	18,457,103	4,909,554	23,366,657
2.1	Irrevocable Commitments		21,194,896	5,830,822	27,025,718	18,457,091	4,905,642	23,362,733
2.1.1	Asset Purchase and Sale Commitments		141,84	2,364,769	2,506,609	368,494	1,754,807	2,123,301
2.1.2	Deposit Purchase and Sales Commitments		-	-	-	-	-	-
2.1.3	Share Capital Commitments to Associates and Subsidiaries		-	-	-	-	-	-
2.1.4	Loan Granting Commitments		4,125,566	7,349	4,132,915	3,538,378	60,375	3,598,753
2.1.5	Securities Issue Brokerage Commitments		-	-	-	-	-	-
2.1.6	Commitments for Reserve Deposit Requirements		-	-	-	-	-	-
2.1.7	Commitments for Cheques		3,543,502	-	3,543,502	3,138,916	-	3,138,916
2.1.8	Tax and Fund Liabilities from Export Commitments		-	-	-	-	-	-
2.1.9	Commitments for Credit Card Limits		7,867,565	-	7,867,565	7,258,758	-	7,258,758
2.1.10	Commitments for Credit Cards and Banking Services Promotions		25,111	-	25,111	22,138	-	22,138
2.1.11	Receivables from Short Sale Commitments of Marketable Securities		-	-	-	-	-	-
2.1.12	Payables for Short Sale Commitments of Marketable Securities		-	-	-	-	-	-
2.1.13	Other Irrevocable Commitments		5,491,312	3,458,704	8,950,016	4,130,407	3,090,460	7,220,867
2.2	Revocable Commitments		-	-	-	12	3,912	3,924
2.2.1	Revocable Loan Granting Commitments		-	-	-	-	3,912	3,912
2.2.2	Other Revocable Commitments		-	-	-	12	-	12
III.	DERIVATIVE FINANCIAL INSTRUMENTS		12,058,001	68,671,683	80,729,684	16,437,026	63,970,127	80,407,153
3.1	Hedging Derivative Financial Instruments		-	-	-	-	-	-
3.1.1	Transactions for Fair Value Hedge		-	-	-	-	-	-
3.1.2	Transactions for Cash Flow Hedge		-	-	-	-	-	-
3.1.3	Transactions for Foreign Net Investment Hedge		-	-	-	-	-	-
3.2	Trading Transactions		12,058,001	68,671,683	80,729,684	16,437,026	63,970,127	80,407,153
3.2.1	Forward Foreign Currency Buy/Sell Transactions		1,844,205	6,575,085	8,419,290	1,353,480	3,946,217	5,299,697
3.2.1.1	Forward Foreign Currency Transactions-Buy		737,181	3,460,921	4,198,102	628,181	2,026,549	2,654,730
3.2.1.2	Forward Foreign Currency Transactions-Sell		1,107,024	3,114,164	4,221,188	725,299	1,919,668	2,644,967
3.2.2	Swap Transactions Related to Foreign Currency and Interest Rates		10,084,115	61,842,956	71,927,071	15,072,546	60,012,592	75,085,138
3.2.2.1	Foreign Currency Swap-Buy		776,200	31,099,729	31,875,929	13,193,333	20,280,990	33,474,323
3.2.2.2	Foreign Currency Swap-Sell		9,307,915	21,255,319	30,563,234	1,879,213	30,408,968	32,288,181
3.2.2.3	Interest Rate Swap-Buy		-	4,743,954	4,743,954	-	4,661,317	4,661,317
3.2.2.4	Interest Rate Swap-Sell		-	4,743,954	4,743,954	-	4,661,317	4,661,317
3.2.3	Foreign Currency, Interest rate and Securities Options		129,681	253,642	383,323	11,000	11,318	22,318
3.2.3.1	Foreign Currency Options-Buy		67,523	124,280	191,803	5,500	5,659	11,159
3.2.3.2	Foreign Currency Options-Sell		62,158	129,362	191,520	5,500	5,659	11,159
3.2.3.3	Interest Rate Options-Buy		-	-	-	-	-	-
3.2.3.4	Interest Rate Options-Sell		-	-	-	-	-	-
3.2.3.5	Securities Options-Buy		-	-	-	-	-	-
3.2.3.6	Securities Options-Sell		-	-	-	-	-	-
3.2.4	Foreign Currency Futures		-	-	-	-	-	-
3.2.4.1	Foreign Currency Futures-Buy		-	-	-	-	-	-
3.2.4.2	Foreign Currency Futures-Sell		-	-	-	-	-	-
3.2.5	Interest Rate Futures		-	-	-	-	-	-
3.2.5.1	Interest Rate Futures-Buy		-	-	-	-	-	-
3.2.5.2	Interest Rate Futures-Sell		-	-	-	-	-	-
3.2.6	Other		-	-	-	-	-	-
B.	CUSTODY AND PLEDGES RECEIVED (IV+V+VI)		1,004,035,425	138,725,731	1,142,761,156	918,306,978	124,983,490	1,043,290,468
IV.	ITEMS HELD IN CUSTODY		306,567,906	17,924,923	324,492,829	250,919,547	14,347,876	265,267,423
4.1	Customer Fund and Portfolio Balances		-	-	-	-	-	-
4.2	Investment Securities Held in Custody		4,696,331	6,569,285	11,265,616	3,548,171	6,190,399	9,738,570
4.3	Checks Received for Collection		7,293,311	715,500	8,008,811	6,091,308	550,260	6,641,568
4.4	Commercial Notes Received for Collection		7,633,834	518,509	8,152,343	6,333,865	474,990	6,808,855
4.5	Other Assets Received for Collection		8,834	8,834	8,834	8,834	-	8,834
4.6	Assets Received for Public Offering		275,256,228	-	275,256,228	230,493,772	-	230,493,772
4.7	Other Items Under Custody		11,677,719	10,121,629	21,799,348	4,441,948	7,132,227	11,574,175
4.8	Custodians		1,649	1,649	1,649	1,649	-	1,649
V.	PLEDGES RECEIVED		696,605,803	118,588,977	815,194,780	666,794,362	108,762,025	775,556,387
5.1	Marketable Securities		1,493,421	38,998	1,532,419	1,536,809	37,532	1,574,341
5.2	Guarantee Notes		14,197,099	1,011,815	15,208,914	13,839,965	1,051,907	14,891,872
5.3	Commodity		1,088,911	73,282	1,162,193	1,089,260	70,224	1,159,484
5.4	Warranty		-	-	-	-	-	-
5.5	Immovable		614,449,661	89,994,623	704,444,284	588,923,360	83,692,739	672,616,099
5.6	Other Pledged Items		65,371,502	27,457,314	92,828,816	61,399,759	23,896,905	85,296,664
5.7	Pledged Items-Depository		5,209	12,945	18,154	5,209	12,718	17,927
VI.	ACCEPTED INDEPENDENT GUARANTEES AND WARRANTIES		861,716	2,211,831	3,073,547	593,069	1,873,589	2,466,658
	TOTAL OFF-BALANCE SHEET COMMITMENTS (A+B)		1,067,071,716	270,704,657	1,337,776,373	977,964,436	248,254,950	1,226,219,386

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

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

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

III. STATEMENT OF INCOME					
INCOME AND EXPENSE ITEMS	Note (Section Five IV)	Current Period 01/01-30/06/2017	Prior Period 01/01-30/06/2016	Current Period 01/04-30/06/2017	Prior Period 01/04-30/06/2016
I. INTEREST INCOME	(1)	16,822,992	12,959,361	8,618,052	6,511,317
1.1 Interest Income from Loans		13,065,444	10,104,476	6,810,479	5,178,437
1.2 Interest Income From Reserve Deposits		165,521	87,878	88,133	43,408
1.3 Interest Income from Banks		56,019	39,569	29,658	19,985
1.4 Interest Income from Money Market Placements		248,813	4	113,439	2
1.5 Interest Income from Marketable Securities		3,252,007	2,714,850	1,561,179	1,265,122
1.5.1 Financial Assets Held for Trading		1,652	614	758	128
1.5.2 Financial Assets at Fair Value through Profit and Loss		-	-	-	-
1.5.3 Financial Assets Available-for-Sale		2,893,961	2,312,285	1,394,903	1,078,713
1.5.4 Investments Held-to-Maturity		356,394	401,951	165,518	186,281
1.6 Finance Lease Income		-	-	-	-
1.7 Other Interest Income		35,188	12,584	15,164	4,363
II. INTEREST EXPENSES	(2)	8,430,257	6,567,987	4,534,229	3,270,479
2.1 Interest Expense on Deposits		5,558,896	4,832,888	2,914,433	2,433,960
2.2 Interest on Borrowings		301,170	206,329	158,519	104,420
2.3 Interest on Money Market Borrowings		2,270,261	1,315,374	1,300,112	625,868
2.4 Interest on Marketable Securities Issued		257,630	175,068	141,931	92,817
2.5 Other Interest Expense		42,300	38,328	19,234	13,414
III. NET INTEREST INCOME/EXPENSES (I - II)		8,392,735	6,391,374	4,083,823	3,240,838
IV. NET FEES AND COMMISSIONS INCOME/EXPENSES		1,055,378	765,616	555,981	397,799
4.1 Fees and Commissions Received		1,263,752	945,735	663,065	490,572
4.1.1 Non-cash Loans		217,621	158,681	113,202	82,035
4.1.2 Other	(12)	1,046,131	787,054	549,863	408,537
4.2 Fees and Commissions Paid		208,374	180,119	107,084	92,773
4.2.1 Non-cash Loans		195	162	99	86
4.2.2 Other		208,179	179,957	106,985	92,687
V. DIVIDEND INCOME		9,865	255,122	6,556	252,337
VI. TRADING PROFIT/LOSS (Net)	(3)	(8,388)	(80,230)	(110,262)	(80,896)
6.1 Profit/Loss from Capital Market Operations		31,038	17,804	15,010	12,466
6.2 Profit/losses on Derivative Financial Transactions	(4)	(184,457)	(242,347)	(121,774)	(936,827)
6.3 Profit/Loss from Foreign Exchanges		145,031	144,313	-3,498	843,465
VII. OTHER OPERATING INCOME	(5)	734,194	983,062	317,543	647,034
VIII. TOTAL OPERATING INCOMES/EXPENSES (III+IV+V+VI+VII)		10,183,784	8,314,944	4,853,641	4,457,112
IX. PROVISION FOR LOSSES ON LOANS OR OTHER RECEIVABLES (-)	(6)	1,396,331	1,458,113	429,376	1,011,538
X. OTHER OPERATING EXPENSES(-)	(7)	3,238,595	2,662,350	1,722,784	1,320,283
XI. NET OPERATING PROFIT/LOSS (VIII-IX-X)		5,548,858	4,194,481	2,701,481	2,125,291
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)	(8)	5,548,858	4,194,481	2,701,481	2,125,291
XVI. PROVISION FOR TAXES ON INCOME FROM CONTINUING OPERATIONS (±)	(9)	(1,212,482)	(805,646)	(535,490)	(345,858)
16.1 Current Tax Provision		(1,242,604)	(1,118,818)	(359,739)	(556,599)
16.2 Deferred Tax Provision		30,122	313,172	(175,751)	210,741
XVII. NET PROFIT/LOSSES FROM CONTINUING OPERATIONS (XV±XVI)	(10)	4,336,376	3,388,835	2,165,991	1,779,433
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)	4,336,376	3,388,835	2,165,991	1,779,433
Earnings/ Loss per Share (Full TL)		0.850	0.670	0.425	0.344

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 AS OF 30 JUNE 2017**

(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 (01/01-30/06/2017)	Prior Period (01/01-30/06/2016)
I. ADDITIONS TO THE MARKETABLE SECURITY VALUATION DIFFERENCES ON AVAILABLE FOR SALE FINANCIAL ASSETS	1,492,449	2,171,653
II. TANGIBLE ASSETS REVALUATION DIFFERENCES	(27,989)	(29,919)
III. INTANGIBLE ASSETS REVALUATION DIFFERENCES	-	-
IV. CURRENCY TRANSLATION DIFFERENCES FOR FOREIGN CURRENCY TRANSACTIONS	15,350	(1,688)
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	(29,157)	(56,041)
IX. DEFERRED TAXES RELATED TO VALUATION DIFFERENCES	(289,801)	(550,533)
X. NET PROFIT OR LOSS ACCOUNTED DIRECTLY UNDER SHAREHOLDERS' EQUITY (I+II+...+IX)	1,160,852	1,533,472
XI. CURRENT YEAR PROFIT/LOSS	4,336,376	3,388,835
11.1 Net change in fair value of marketable securities (transfer to profit-loss)	31,038	17,804
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	4,305,338	3,371,031
XII. TOTAL PROFIT/LOSS RELATED TO THE PERIOD (X±XI)	5,497,228	4,922,307

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

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

TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş.
UNCONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AS OF 30 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	Adjustment to Paid-in Capital	Share Premium	Share Cancl. Profits	Legal Reserves	Statutory Reserves	Extraordinary Reserves	Other Reserves	Current Period Net Profit/(Loss)	Prior Period Net Profit/(Loss)	Marketable Sec. Valuation Differences	Rev. Diff. in Tangible and Intang. Assets	Bonus Shares from Investments	Hedging Funds	Rev. Diff. in Tangible Held for Sale/Disc. Operat.	Total Equity
I. Balance at the Beginning of the Period		5,000,000	-	-	-	2,920,983	-	13,659,246	1,340,257	-	5,322,268	(321,040)	3,607,167	17,388	-	-	31,546,269
Changes During the Period																	
II. Increase/Decrease Related to Merger		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
III. Marketable Securities Valuation Differences		-	-	-	-	-	-	-	-	-	-	1,662,010	-	-	-	-	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 CHANGES IN SHAREHOLDERS' EQUITY AS OF 30 JUNE 2017
(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL").)

v. STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY																		
30 June 2017	Note (Section Five)	Paid-in Capital	Adjustment to Paid-in Capital	Share Premium	Share Cancl. Profits	Legal Reserves	Statutory Reserves	Extraordinary Reserves	Other Reserves	Current Period Net Profit/(Loss)	Prior Period Net Profit/(Loss)	Marketable Sec. Valuation Differences	Rev. Diff. in Tangible and Intang. Assets	Bonus Shares from Investments	Hedging Funds	Rev. Diff. in Tangible Held for Sale/Disc. Operat.	Total Equity	
I. Balance at the Beginning of the Period		5,100,000	-	-	-	3,203,305	-	18,052,605	1,346,993	-	7,482,765	(998,484)	4,177,866	17,388	-	-	-	38,382,438
Changes During the Period																		
II. Increase/Decrease Related to Merger		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
III. Marketable Securities Valuation Differences		-	-	-	-	-	-	-	-	-	-	1,193,957	-	-	-	-	-	1,193,957
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		-	-	-	-	-	-	-	-	-	-	-	(26,590)	-	-	-	-	(26,590)
VI. Revaluation Differences of Intangible Assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VII. Bonus Shares of Associates, Subsidiaries and Entities under Common Control (Business Partners)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VIII. Foreign Exchange Differences		-	-	-	-	-	-	-	-	-	-	15,350	-	-	-	-	-	15,350
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		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12.1 Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12.2 From Internal Resources		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIII. Issuance of Share Certificates		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIV. Share Cancellation Profits		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XV. Adjustment to Paid-in Capital		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVI. Other		-	-	-	-	-	-	-	(36,447)	-	-	-	-	-	-	-	-	(36,447)
XVII. Net Profit or Losses		-	-	-	-	-	-	-	-	4,336,376	-	-	-	-	-	-	-	4,336,376
XVIII. Profit Distribution		-	-	-	-	401,050	-	6,557,597	-	-	(7,482,765)	-	-	-	-	-	-	(524,118)
18.1 Dividend Distributed		-	-	-	-	-	-	-	-	-	(524,118)	-	-	-	-	-	-	(524,118)
18.2 Transfers to Legal Reserves		-	-	-	-	401,050	-	6,557,597	-	-	(6,958,647)	-	-	-	-	-	-	-
18.3 Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balance at the end of the period (I+II+III+.....+ XVI+XVII+XVIII)		5,100,000	-	-	-	3,604,355	-	24,610,202	1,310,546	4,336,376	-	210,823	4,151,276	17,388	-	-	-	43,340,966

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 2017
(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

VI. STATEMENT OF CASH FLOWS			
	Note (Section Five)	Current Period 01/01-30/06/2017	Prior Period 01/01-30/06/2016
A. CASH FLOWS FROM BANKING OPERATIONS			
1.1 Operating Profit Before Changes in Operating Assets and Liabilities		3,979,769	3,253,308
1.1.1 Interest Received		14,978,323	11,146,515
1.1.2 Interest Paid		(8,139,961)	(6,402,635)
1.1.3 Dividend Received		9,865	253,217
1.1.4 Fees and Commissions Received		1,258,437	945,461
1.1.5 Other Income		732,825	57,597
1.1.6 Collections from Previously Written-off Loans and Other Receivables		662,411	555,239
1.1.7 Payments to Personnel and Service Suppliers		(1,490,861)	(1,150,435)
1.1.8 Taxes Paid		(1,463,760)	(1,086,930)
1.1.9 Other		(2,567,510)	(1,064,721)
1.2 Changes in Operating Assets and Liabilities		(5,059,448)	(2,614,733)
1.2.1 Net (Increase)/Decrease in Trading Securities		4,675	(149)
1.2.2 Net (Increase)/Decrease in Fair Value Through Profit/Loss Financial Assets		-	-
1.2.3 Net (Increase)/Decrease in Banks		586,677	(968,467)
1.2.4 Net (Increase)/Decrease in Loans		(37,277,633)	(14,918,421)
1.2.5 Net (Increase)/Decrease in Other Assets		(2,376,362)	(492,761)
1.2.6 Net Increase/(Decrease) in Bank Deposits		14,624,475	2,150,263
1.2.7 Net Increase/(Decrease) in Other Deposits		14,231,171	8,952,843
1.2.8 Net Increase/(Decrease) in Funds Borrowed		2,147,553	(283,743)
1.2.9 Net Increase/(Decrease) in Payables		-	-
1.2.10 Net Increase/(Decrease) in Other Liabilities		2,999,996	2,945,702
I. Net Cash Provided from Banking Operations		(1,079,679)	638,575
B. CASH FLOWS FROM INVESTMENT ACTIVITIES			
II. Net Cash Provided from Investing Activities		(1,817,343)	(1,639,014)
2.1 Cash Paid for Purchase of Associates, Subsidiaries and Entities under Common Control		(532,469)	(76,354)
2.2 Cash Obtained from Sale of Associates, Subsidiaries and Entities under Common Control		-	-
2.3 Fixed Assets Purchases		(74,394)	(5,026)
2.4 Fixed Assets Sales		46,130	141,703
2.5 Cash Paid for Purchase of Financial Assets Available for Sale		(9,164,594)	(6,665,439)
2.6 Cash Obtained from Sale of financial Assets Available for Sale		7,184,304	5,885,158
2.7 Cash Paid for Purchase of Investment Securities		(334,597)	(56,776)
2.8 Cash Obtained from Sale of Investment Securities		1,964,501	444,860
2.9 Other		(906,224)	(1,307,140)
C. CASH FLOWS FROM FINANCING ACTIVITIES			
III. Net Cash Provided from Financing Activities		2,800,514	1,112,147
3.1 Cash Obtained from Funds Borrowed and Securities Issued		5,327,669	3,153,165
3.2 Cash Used for Repayment of Funds Borrowed and Securities Issued		(2,277,099)	(1,809,730)
3.3 Marketable Securities Issued		-	-
3.4 Dividends Paid		(250,000)	(231,200)
3.5 Payments for Finance Leases		(56)	(88)
3.6 Other		-	-
IV. Effect of Change in Foreign Exchange Rate on Cash and Cash Equivalents		321,128	(27,392)
V. Net Decrease/ Increase in Cash and Cash Equivalents (I+II+III+IV)		224,620	84,316
VI. Cash and Cash Equivalents at the Beginning of the Period		15,566,483	8,064,097
VII. Cash and Cash Equivalents at the End of the Period		15,791,103	8,148,413

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

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

**TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş.
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION THREE

EXPLANATIONS ON ACCOUNTING POLICIES

I. BASIS OF PRESENTATION

The unconsolidated financial statements are prepared within the scope of the “Regulation on Accounting Applications for Banks and Safeguarding of Documents” related with Banking Law numbered 5411 published in the Official Gazette no.26333 dated 1 November 2006 and other regulations related to reporting principles on accounting records of Banks published by Banking Regulation and Supervision Agency 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 2017 are presented comparatively with balances as of 31 December 2016 while income statement, statement of income and expense items accounted under shareholders’ equity, statement of cash flows and statement of changes in shareholders’ equity are presented comparatively with balances as of 30 June 2016.

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

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

The amendments of TAS and TFRS which have entered into force as of 1 January 2017 have no material impact on the Bank’s accounting policies, financial position and performance. The amendments of TAS and TFRS, except TFRS 9 Financial Instruments, is predicted no impact on the accounting policies, financial condition and performance of the Bank. The Bank conducts the preparations in line with TFRS 9 Financial Instruments Standard, which will have entered into force as of 1 January 2018.

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

Additional paragraph for convenience translation into English

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

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

TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş.

**NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION THREE (Continued)

EXPLANATIONS ON ACCOUNTING POLICIES (Continued)

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

Main activity of the Bank comprises of banking services, such as; launching all kinds of cash and non-cash loans in terms of Turkish Lira and foreign currencies, performing transactions in local, international money and capital markets, supporting agricultural sector financially and collecting deposits in Turkish Lira and foreign currencies. The Bank’s main funding source is Turkish Lira deposits, repurchase agreements, issued securities, shareholders’ equity and government funds transferred from the budget, ministerial offices and other public resources to the Bank by means of legislative and administrative decisions. The Bank directs these funds to assets with high return and low risk. These assets include predominantly domestic government bonds and loans. The Bank’s liquidity structure covers the financing of all liabilities at due date. Although most of the sources in the Bank’s balance sheet are with fixed interest rate, some of the securities in assets have floating interest rate. Since the remaining time to re-pricing date of sources is short, cost of sources is repriced in short periods based on the market conditions. Moreover, the Bank adopts high return principle for its long-term placements.

Loans and securities are instruments from which the Bank gets returns above the average returns within its lines of activity. Letter of guarantees, bank loans, commercial letter of credits, repayment commitments for cheques and 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 deducting the provision for impairment, if any.

Investments related to subsidiaries and joint ventures operating abroad in foreign currency are followed by their fair values. For these subsidiaries, fair value is determined by valuation reports, TL equivalents of investments related to subsidiaries are fixed as of revaluation date and revaluation differences added to subsidiaries’ values are recognized in “Marketable Securities Value Increase Fund” under shareholders’ equity.

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

**TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş.
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION THREE (Continued)

EXPLANATIONS ON ACCOUNTING POLICIES (Continued)

IV. EXPLANATIONS ON FORWARD TRANSACTIONS, OPTIONS AND DERIVATIVE INSTRUMENTS

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

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

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

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

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

V. EXPLANATIONS ON INTEREST INCOME AND EXPENSE

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

The Bank ceases accruing interest income on non-performing loans and reverses any interest income accrued from such loans. No income is accounted until the collection is made according to the related regulation.

VI. EXPLANATIONS ON FEE AND COMMISSION INCOME AND EXPENSE

Commission income from banking, agency and intermediary services is recognized as income on the date they are collected. Whereas, commission income from individual, corporate and entrepreneurial cash loans are recognized on an accrual basis by using internal rate of return method and transferred to the income statement in accordance with the matching principle. Other fees and commission expenses are recorded as expense on the date they are paid.

VII. EXPLANATIONS ON FINANCIAL ASSETS

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

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

Financial assets are classified as investments held-to-maturity, bank loans and receivables, financial assets available for sale or held-for-trading at initial recognition.

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

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION THREE (Continued)

EXPLANATIONS ON ACCOUNTING POLICIES (Continued)

VII. EXPLANATIONS ON FINANCIAL ASSETS (Continued)

Financial assets at fair value through profit or loss

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

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

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

Held-to-maturity financial assets

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

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

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

Interests received from investments held to maturity are recognized as an interest income.

Held to maturity assets are initially recognized at cost value.

Loans and receivables

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

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

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION THREE (Continued)

EXPLANATIONS ON ACCOUNTING POLICIES (Continued)

VII. EXPLANATIONS ON FINANCIAL ASSETS (Continued)

Loans and receivables (Continued)

The Bank sets specific and general provisions for loans and other receivables in accordance with the regulations stated by the Communiqué published on the Official Gazette numbered 26333 and dated 1 November 2006 on “Methods and Principles on Determining the Nature of Loans and Other Receivables and Allocation of Provisions”. However, there is no judgement in the related Regulation and the BRSA's related disclosures that would prevent further provision of the minimum amounts required. Allocated provisions are deducted from the income for the period. If the receivables for which provisions were set in the previous years are collected, provision for allowances are released and recognized as income under “Other Operating Income” account. Releases of current period provisions are made by the reversal of the amount from the “Provision for Impairment of Loans and Other Receivables” account.

Available-for-sale financial assets

Available-for-sale financial assets are defined as financial assets other than the ones classified as “Loans and Receivables”, “Held-to-Maturity Assets” or “Financial Asset at Fair Value Through Profit or Loss”.

Available for sale assets are initially recognized at cost value. The cost of the securities is recognized as fair value.

Available-for-sale financial assets are subsequently re-measured at fair value in financial statements.

The difference between fair value and cost of available for sale financial assets is booked as interest income accruals or impairment provision. Furthermore, amortized cost using the effective interest method and cost value is compared and the difference is booked as interest income or impairment expense. Fair value and amortised cost of these securities are compared and the difference is recognized in shareholders’ equity as “Marketable Securities Value Increase Fund”. When these financial assets are disposed of or impaired the related fair value differences accumulated in the shareholders’ equity are transferred to the income statement.

When there is no price quotation in an active market for price formations to constitute the basis of the fair value or in such a situation when the reasonable value is not measured confidentially; the fair value of the available-for-sale financial assets are carried at amortised cost using the effective interest method or appropriate valuation methods.

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

VIII. EXPLANATIONS ON IMPAIRMENT OF FINANCIAL ASSETS

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

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

If financial assets available for sale are subject to permanent impairment, the amount is charged to “Impairment 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.

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION THREE (Continued)

EXPLANATIONS ON ACCOUNTING POLICIES (Continued)

IX. EXPLANATIONS ON OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

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

As of the balance sheet date, there are no securities lending transactions.

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

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

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

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

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

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION THREE (Continued)

EXPLANATIONS ON ACCOUNTING POLICIES (Continued)

XII. EXPLANATIONS ON GOODWILL AND OTHER INTANGIBLE ASSETS

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

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

Other intangible assets are amortized by using the straight line method based on their useful lives. Useful lives of other intangible assets are determined by the consideration of items as; useful life of asset, maintenance costs incurred to obtain expected economic benefit from assets and technical, technological or any other type of obsolescence. Amortization method used in the current period is not subject to any change. Depreciation period is 5 years (20% annual depreciation rate) for establishment/formation expenses for other intangible assets with uncertain leasing period or leasing period over 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

As of 31 January 2014 the Bank has changed its accounting policies and has decided to pursue the real estates registered in its portfolio at fair values. In this context, for all real estates registered in the Bank’s inventory, appraisal study was carried by independent expertise companies, and from 31 December 2016 valuation results are reflected in the accounting records. As a result of the fair valuation of the real estates, TL 4,151,276 net is followed under shareholders’ equity as of 30 June 2017. As of 30 January 2014, the net book amount of real estates of the tangible assets before valuation was TL 816,950.

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

Applied depreciation rates are as follows;

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

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

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

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

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION THREE (Continued)

EXPLANATIONS ON ACCOUNTING POLICIES (Continued)

XIV. EXPLANATIONS ON LEASING TRANSACTIONS

Financial Lease

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

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

Operational Lease

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

XV. EXPLANATIONS ON PROVISIONS, CONTINGENT ASSET AND LIABILITIES

Provisions other than the specific and general provisions set for loans and other receivables and provisory liabilities are accounted in accordance with TAS 37 “Turkish Accounting Standard on Provisions, Contingent Liabilities and Contingent Assets Corresponding”.

The Bank provides provision in case of an existing liability (legal or implicit) as a result of an incident that took place in the past, there is possibility of disposal of assets that bring economic benefit and the liability is measurable. When a reliable estimate of the amount of obligation cannot be made, it is considered that a “contingent” liability exists and it is disclosed in the related notes to the financial statements.

For transactions that can affect financial structure, provisions are provided by using the existing data if they are accurate, otherwise by using the estimates.

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

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

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION THREE (Continued)

EXPLANATIONS ON ACCOUNTING POLICIES (Continued)

XVI. EXPLANATIONS ON OBLIGATIONS RELATED TO EMPLOYEE RIGHTS

Employment Termination and Vacation Benefits

The Bank recognizes its liabilities of employment terminations and vacation benefits in accordance with TAS 19 “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, retirement bonus pension/severance payments are calculated for the hours that the personnel has worked. The assumptions based on the calculation are below:

	Current Period 30.06.2017	Prior Period 31.12.2016
Discount Rate	10.50%	11.40%
Inflation	7.30%	8.00%
Expected salary increase rate	8.80%	9.50%

Communiqué on “Turkish Accounting Standard (TAS19) about Benefits for Employee (No:9)” published in Official Gazette by Public Oversight Accounting and Auditing Standards Authority (“POA”) on 12 March 2013 numbered 28585, was entered into force for the account periods starting after 31 December 2012 on accounting treatment of actuarial profit and loss resulting from changes in actuarial assumptions or differences between actual and actuarial assumptions. Actuarial loss amounting to TL 114,789 was classified at statement of “Other Reserves” accounted under shareholders’ equity in the financials.

Unused vacation liability is calculated based on number of unused vacation days which is calculated by subtracting used vacation days of all personnel from legally deserved vacation days.

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

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION THREE (Continued)

EXPLANATIONS ON ACCOUNTING POLICIES (Continued)

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

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

Some of the Bank’s personnel are the members of T.C. Ziraat Bankası and T. Halk Bankası A.Ş. Employees Pension Fund (“Fund”) which was established by 20th provisional article of Social Security Law Act numbered 506. In accordance with 23rd provisional clause of the Banking Law numbered 5411, the pension fund established within Social Security Law is expected to be transferred to the Social Security Institution by three years following the declaration of the Banking Law numbered 5411. Procedures and principles of the transfer are determined by the decision of Council of Ministers numbered 2006/11345 dated 30 November 2006. However, the 1st paragraph of the 1st article of the 23rd provisional clause of Banking Law numbered 5411 allowing pension funds to be transferred to Social Security Institution (“SSI”) is annulled following the resolution of Constitutional Court declared in the Official Gazette dated 31 March 2007 numbered 26479 E.2005/139, K.2007/13 and K.2007/33.

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

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

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

Based on the Council of Ministers’ decree numbered 2011/1559 and issued in the Official Gazette numbered 27900, dated 9 April 2011, and 20th provisional article of law numbered 506, the deadline for transferring banks, insurance and reinsurance companies, chambers of commerce, chambers of industry, exchange markets and the participants of the funds that were founded for the personnel constituting these entities and the ones having salary or income and the right holders of them to Social Security Institution has been extended for two years.

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

Based on the Council of Ministers’ decree numbered 2014/6042 and issued in the Official Gazette numbered 28987 dated 30 April 2014, the participants of the funds that were founded for the personnel constituting these entities and the ones having salary or income and the right holders of them to Social Security Institution has been extended for one year.

Lastly, 51st article of Law No.6645 dated 23 April 2015, published on Official Gazette and the first paragraph of the transient 20th article of Law No.5510 related to the transfer of Bank and Insurance Funds to Social Security Institution; “Council of Ministers is the authority to determine the date of transfer of banks, insurance and reinsurance companies, boards of trade, chambers of industry and stock markets or the participants of funds established for their constitute union personnel and the ones that were endowed salary or income and their beneficiaries within the scope of transient 20th article of Law No.506. As from the transfer date, the participants are considered as insured within the scope of clause (a), first paragraph and 4th article of this Law.

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION THREE (Continued)

EXPLANATIONS ON ACCOUNTING POLICIES (Continued)

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

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

The technical balance sheet report as of 31 December 2016 which is prepared in accordance with the new law and the rate determined as 9.80%, concluded no technical deficit arises in the above mentioned fund. Since the Bank has no legal right to hold the present value of any economic benefits available in the form of refunds from Pension Fund or reductions in future contributions to Pension Fund, no asset is recognized in the Bank’s financial statements.

XVII. EXPLANATIONS ON TAXATION

Current Tax

“Corporate Tax Law” (“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.

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION THREE (Continued)

EXPLANATIONS ON ACCOUNTING POLICIES (Continued)

XVII. EXPLANATIONS ON TAXATION (Continued)

Deferred tax

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

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

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

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

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.

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION THREE (Continued)

EXPLANATIONS ON ACCOUNTING POLICIES (Continued)

XXI. EXPLANATIONS ON GOVERNMENT GRANTS

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

XXII. CASH AND CASH EQUIVALENTS

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

For the purposes of the cash flow statement, “Cash” includes cash, effectives, cash in transit, purchased cheques and demand deposits including balances with the Central Bank; and “Cash equivalents” include interbank money market placements and time deposits at banks with original maturity periods of less than three months.

XXIII. EXPLANATIONS ON SEGMENT REPORTING

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

XXIV. EXPLANATIONS ON OTHER MATTERS

In accordance with the decision taken in the General Assembly of the year 2016, which was carried out on 9 June 2017, from TL 6,576,420 net profit, TL 328,821 is transferred to first legal reserve and TL 26,912 was transferred to second legal reserve, TL 230,000 was paid to employees and from the gross amount of TL 294,118, TL 250,000 was distributed to Treasury after deducting withholding tax of 15% (TL 44,118) in cash. In this context, TL 5,696,569 of the profit was preserved; dividend payment made to Treasury on 14 June 2017. Also TL 906,345 net profit from the last years, TL 45,317 was transferred to the legal reserves and TL 861,028 of the profit was preserved.

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION FOUR

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

I. EXPLANATIONS ON 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 2017 Bank’s total capital has been calculated as TL 46,106,784 (31 December 2016: TL 41,061,245), capital adequacy ratio is 15.17% (31 December 2016: 14.55%). This ratio is well above the minimum ratio required by the legislation.

1. Information Related to The Components of Shareholders' Equity

	Current Period 30 June 2017	Amount as per the regulation before 1/1/2014*
COMMON EQUITY TIER 1 CAPITAL		
Paid-in capital following all debts in terms of claim in liquidation of the Bank	5,100,000	-
Share issue premiums	-	-
Reserves	29,639,892	-
Gains recognized in equity as per TAS	5,481,732	-
Profit	4,336,376	-
Current Period Profit	4,336,376	-
Prior Period Profit	-	-
Shares acquired free of charge from subsidiaries, affiliates and jointly controlled partnerships and cannot be recognised within profit for the period	17,388	-
Common Equity Tier 1 Capital Before Deductions	44,575,388	-
Deductions from Common Equity Tier 1 Capital		
Common Equity as per the 1st clause of Provisional Article 9 of the Regulation on the Equity of Banks	-	-
Portion of the current and prior periods’ losses which cannot be covered through reserves and losses reflected in equity in accordance with TAS	1,234,422	-
Improvement costs for operating leasing	75,034	-
Goodwill (net of related tax liability)	-	-
Other intangibles other than mortgage-servicing rights (net of related tax liability)	302,833	378,542
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	-
Differences are not recognized at the fair value of assets and liabilities subject to hedge of cash flow risk	-	-
Communiqué Related to Principles of the amount credit risk calculated with the Internal Ratings Based Approach, total expected loss amount exceeds the total provision	-	-
Gains arising from securitization transactions	-	-
Unrealized gains and losses due to changes in own credit risk on fair valued liabilities	-	-
Defined-benefit pension fund net assets	-	-
Direct and indirect investments of the Bank in its own Common Equity	-	-
Shares obtained contrary to the 4th clause of the 56th Article of the Law	-	-
Portion of the total of net long positions of investments made in equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or less of the issued common share capital exceeding 10% of Common Equity of the Bank	-	-
Portion of the total of net long positions of investments made in equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital exceeding 10% of Common Equity of the Bank	-	-
Portion of mortgage servicing rights exceeding 10% of the Common Equity	-	-
Portion of deferred tax assets based on temporary differences exceeding 10% of the Common Equity	-	-
Amount exceeding 15% of the common equity as per the 2nd clause of the Provisional Article 2 of the Regulation on the Equity of Banks	-	-
Excess amount arising from the net long positions of investments in common equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital	-	-
Excess amount arising from mortgage servicing rights	-	-
Excess amount arising from deferred tax assets based on temporary differences	-	-
Other items to be Defined by the BRSA (-)	-	-
Deductions to be made from common equity due to insufficient Additional Tier I Capital or Tier II Capital	-	-
Total Deductions from Common Equity Tier I Capital	1,612,289	-
Total Common Equity Tier I Capital	42,963,099	-

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION FOUR (Continued)

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

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

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

	Current Period 30 June 2017	Amount as per the regulation before 1/1/2014*
ADDITIONAL TIER I CAPITAL		
Preferred Stock not Included in Common Equity Tier I Capital and the Related Share Premiums	-	-
Debt instruments and premiums approved by BRSA	-	-
Debt instruments and premiums approved by BRSA(Temporary Article 4)	-	-
Additional Tier I Capital before Deductions	-	-
Deductions from Additional Tier I Capital		
Direct and Indirect Investments of the Bank on its own Additional Tier I Capital (-)	-	-
Investments of Bank to Banks that invest in Bank's additional equity and components of equity issued by financial institutions with compatible with Article 7.	-	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital	-	-
The Total of Net Long Position of the Direct or Indirect Investments in Additional Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital	-	-
Other Items to be defined by the BRSA (-)	-	-
Transition from the Core Capital to Continue to deduce Components		
Goodwill and other intangible assets and related deferred tax liabilities which will not deducted from Common Equity Tier I capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	75,709	-
Net deferred tax asset/liability which is not deducted from Common Equity Tier I capital for the purposes of the sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	-	-
Deductions to be made from common equity in the case that adequate Additional Tier I Capital or Tier II Capital is not available (-)	-	-
Total Deductions from Additional Tier I Capital	-	-
Total Additional Tier I Capital	-	-
Total Tier I Capital (Tier I Capital= Common Equity Tier I Capital + Additional Tier I Capital)	42,887,390	-
TIER II CAPITAL		
Debt instruments and share issue premiums deemed suitable by the BRSA	-	-
Debt instruments and share issue premiums deemed suitable by BRSA (Temporary Article 4)	-	-
Provisions (Article 8 of the Regulation on the Equity of Banks)	3,280,284	-
Tier II Capital Before Deductions	3,280,284	-
Deductions from Tier II Capital		
Direct and Indirect Investments of the Bank on its own Tier II Capital (-)	-	-
Investments of Bank to Banks that invest on Bank's Tier 2 and components of equity issued by financial institutions with the conditions declared in Article 8.	-	-
Portion of the total of net long positions of investments made in equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or less of the issued common share capital exceeding 10% of Common Equity of the Bank(-)	-	-
Portion of the total of net long positions of investments made in Additional Tier I Capital item of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital exceeding 10% of Common Equity of the Bank	-	-
Other items to be defined by the BRSA (-)	-	-
Total Deductions from Tier II Capital	-	-
Total Tier II Capital	3,280,284	-
Total Capital (The sum of Tier I Capital and Tier II Capital)	46,167,674	-
Deductions from Total Capital		
Deductions from Capital Loans granted contrary to the 50th and 51th Article of the Law	46,167,674	-
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	59,794	-
Other items to be defined by the BRSA (-)	1,096	-
In transition from Total Core Capital and Supplementary Capital (the capital) to Continue to Download Components		
The Sum of net long positions of investments (the portion which exceeds the %10 of Banks Common Equity) in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity which will not deducted from Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	-	-
The Sum of net long positions of investments in the Additional Tier 1 capital and Tier 2 capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity which will not deducted from Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	-	-
The Sum of net long positions of investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity, mortgage servicing rights, deferred tax assets arising from temporary differences which will not deducted from Common Equity Tier I capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	-	-

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION FOUR (Continued)

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

I. EXPLANATIONS ON THE COMPONENTS OF SHAREHOLDERS’ EQUITY

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

	Current Period 30 June 2017	Amount as per the regulation before 1/1/2014*
CAPITAL		
Total Capital (Total of Tier I Capital and Tier II Capital)	46,106,784	-
Total Risk Weighted Assets	303,922,160	-
CAPITAL ADEQUACY RATIOS		
CET 1 Capital Ratio (%)	14.14	-
Tier I Capital Ratio (%)	14.11	-
Capital Adequacy Ratio (%)	15.17	-
BUFFERS		
Bank-specific total CET 1 Capital Ratio	5.76	-
Capital Conservation Buffer Ratio (%)	1.25	-
Bank-specific Counter-Cyclical Capital Buffer Ratio (%)	0.009	-
Additional CET 1 Capital Over Total Risk Weighted Assets Ratio Calculated According to the Article 4 of Capital Conservation and Counter-Cyclical Capital Buffers Regulation	6.14	-
Amounts Lower than Excesses as per Deduction Rules	-	-
Remaining Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital	153,680	-
Remaining Total of Net Long Positions of the Investments in Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% or less of the Issued Share Capital	97,394	-
Remaining Mortgage Servicing Rights	-	-
Net Deferred Tax Assets arising from Temporary Differences	-	-
Limits for Provisions Used in Tier II Capital Calculation		
General Loan Provisions for Exposures in Standard Approach (before limit of one hundred and twenty five per the thousand)	4,505,925	-
General Loan Provisions for Exposures in Standard Approach Limited by 1.25% of Risk Weighted Assets	3,280,284	-
Total Loan Provision that Exceeds Total Expected Loss Calculated According to Communiqué on Calculation of Credit Risk by Internal Ratings Based Approach	-	-
Total Loan Provision that Exceeds Total Expected Loss Calculated According to Communiqué on Calculation of Credit Risk by Internal Ratings Based Approach, Limited by 0.6% Risk Weighted Assets	-	-
Debt Instruments Covered by Temporary Article 4 (effective between 1.1.2018-1.1.2022)		
Upper Limit for Additional Tier I Capital Items subject to Temporary Article 4	-	-
Amount of Additional Tier I Capital Items Subject to Temporary Article 4 that Exceeds Upper Limit	-	-
Upper Limit for Additional Tier II Capital Items subject to Temporary Article 4	-	-
Amount of Additional Tier II Capital Items Subject to Temporary Article 4 that Exceeds Upper Limit	-	-

(*) Amounts considered within transition provisions

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION FOUR (Continued)

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

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

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

	Prior Period 31 December 2016	Amount as per the regulation before 1/1/2014*
COMMON EQUITY TIER 1 CAPITAL		
Paid-in capital following all debts in terms of claim in liquidation of the Bank	5,100,000	-
Share issue premiums	-	-
Reserves	22,681,247	-
Gains recognized in equity as per TAS	4,820,602	-
Profit	7,482,765	-
Current Period Profit	6,576,420	-
Prior Period Profit	906,345	-
Shares acquired free of charge from subsidiaries, affiliates and jointly controlled partnerships and cannot be recognised within profit for the period	17,388	-
Common Equity Tier 1 Capital Before Deductions	40,102,002	-
Deductions from Common Equity Tier 1 Capital		
Common Equity as per the 1st clause of Provisional Article 9 of the Regulation on the Equity of Banks	-	-
Portion of the current and prior periods’ losses which cannot be covered through reserves and losses reflected in equity in accordance with TAS	1,719,564	-
Improvement costs for operating leasing	82,601	-
Goodwill (net of related tax liability)	-	-
Other intangibles other than mortgage-servicing rights (net of related tax liability)	187,688	312,814
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	-
Differences are not recognized at the fair value of assets and liabilities subject to hedge of cash flow risk	-	-
Communiqué Related to Principles of the amount credit risk calculated with the Internal Ratings Based Approach, total expected loss amount exceeds the total provision	-	-
Gains arising from securitization transactions	-	-
Defined-benefit pension fund net assets	-	-
Direct and indirect investments of the Bank in its own Common Equity	-	-
Shares obtained contrary to the 4th clause of the 56th Article of the Law	-	-
Portion of the total of net long positions of investments made in equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or less of the issued common share capital exceeding 10% of Common Equity of the Bank	-	-
Portion of the total of net long positions of investments made in equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital exceeding 10% of Common Equity of the Bank	-	-
Portion of mortgage servicing rights exceeding 10% of the Common Equity	-	-
Portion of deferred tax assets based on temporary differences exceeding 10% of the Common Equity	-	-
Amount exceeding 15% of the common equity as per the 2nd clause of the Provisional Article 2 of the Regulation on the Equity of Banks	-	-
Excess amount arising from the net long positions of investments in common equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital	-	-
Excess amount arising from mortgage servicing rights	-	-
Excess amount arising from deferred tax assets based on temporary differences	-	-
Other items to be Defined by the BRSA (-)	-	-
Deductions to be made from common equity due to insufficient Additional Tier I Capital or Tier II Capital	-	-
Total Deductions from Common Equity Tier I Capital	1,989,853	-
Total Common Equity Tier I Capital	38,112,149	

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION FOUR (Continued)

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

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

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

	Prior Period 31 December 2016	Amount as per the regulation before 1/1/2014*
ADDITIONAL TIER I CAPITAL		
Preferred Stock not Included in Common Equity Tier I Capital and the Related Share Premiums	-	-
Debt instruments and premiums approved by BRSA	-	-
Debt instruments and premiums approved by BRSA(Temporary Article 4)	-	-
Additional Tier I Capital before Deductions	-	-
Deductions from Additional Tier I Capital		
Direct and Indirect Investments of the Bank on its own Additional Tier I Capital (-)	-	-
Investments of Bank to Banks that invest in Bank's additional equity and components of equity issued by financial institutions with compatible with Article 7.	-	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital	-	-
The Total of Net Long Position of the Direct or Indirect Investments in Additional Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital	-	-
Other Items to be defined by the BRSA (-)	-	-
Transition from the Core Capital to Continue to deduce Components		
Goodwill and other intangible assets and related deferred tax liabilities which will not deducted from Common Equity Tier I capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	125,126	-
Net deferred tax asset/liability which is not deducted from Common Equity Tier I capital for the purposes of the sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	-	-
Deductions to be made from common equity in the case that adequate Additional Tier I Capital or Tier II Capital is not available (-)	-	-
Total Deductions from Additional Tier I Capital	-	-
Total Additional Tier I Capital	-	-
Total Tier I Capital (Tier I Capital= Common Equity Tier I Capital + Additional Tier I Capital)	37,987,023	-
TIER II CAPITAL		
Debt instruments and share issue premiums deemed suitable by the BRSA	-	-
Debt instruments and share issue premiums deemed suitable by BRSA (Temporary Article 4)	-	-
Provisions (Article 8 of the Regulation on the Equity of Banks)	3,114,746	-
Tier II Capital Before Deductions	3,114,746	-
Direct and Indirect Investments of the Bank on its own Tier II Capital (-)	-	-
Investments of Bank to Banks that invest on Bank's Tier 2 and components of equity issued by financial institutions with the conditions declared in Article 8.	-	-
Portion of the total of net long positions of investments made in equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or less of the issued common share capital exceeding 10% of Common Equity of the Bank(-)	-	-
Portion of the total of net long positions of investments made in Additional Tier I Capital item of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital exceeding 10% of Common Equity of the Bank	-	-
Other items to be defined by the BRSA (-)	-	-
Total Deductions from Tier II Capital	-	-
Total Tier II Capital	3,114,746	-
Total Capital (The sum of Tier I Capital and Tier II Capital)	41,101,769	-
Deductions from Total Capital	41,101,769	-
Deductions from Capital Loans granted contrary to the 50th and 51th Article of the Law	-	-
Net Book Values of Movables and Immovables Exceeding the Limit Defined in the Article 57, Clause 1 of the Banking Law and the Assets Acquired against Overdue Receivables and Held for Sale but Retained more than Five Years	38,071	-
Other items to be defined by the BRSA (-)	2,453	-
In transition from Total Core Capital and Supplementary Capital (the capital) to Continue to Download Components		
The Sum of net long positions of investments (the portion which exceeds the %10 of Banks Common Equity) in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity which will not deducted from Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	-	-
The Sum of net long positions of investments in the Additional Tier 1 capital and Tier 2 capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity which will not deducted from Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	-	-
The Sum of net long positions of investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity, mortgage servicing rights, deferred tax assets arising from temporary differences which will not deducted from Common Equity Tier1 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	-	-

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION FOUR (Continued)

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

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

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

	Prior Period 31 December 2016	Amount as per the regulation before 1/1/2014*
CAPITAL		
Total Capital (Total of Tier I Capital and Tier II Capital)	41,061,245	-
Total Risk Weighted Assets	282,252,505	-
CAPITAL ADEQUACY RATIOS		
CET 1 Capital Ratio (%)	13.50	-
Tier I Capital Ratio (%)	13.46	-
Capital Adequacy Ratio (%)	14.55	-
BUFFERS		
Bank-specific total CET 1 Capital Ratio	-	-
Capital Conservation Buffer Ratio (%)	0.63	-
Bank-specific Counter-Cyclical Capital Buffer Ratio (%)	0.004	-
Additional CET 1 Capital Over Total Risk Weighted Assets Ratio Calculated According to the Article 4 of Capital Conservation and Counter-Cyclical Capital Buffers Regulation	5.50	-
Amounts Lower than Excesses as per Deduction Rules	-	-
Remaining Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital	153,707	-
Remaining Total of Net Long Positions of the Investments in Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% or less of the Issued Share Capital	97,415	-
Remaining Mortgage Servicing Rights	-	-
Net Deferred Tax Assets arising from Temporary Differences	75,757	-
Limits for Provisions Used in Tier II Capital Calculation		
General Loan Provisions for Exposures in Standard Approach (before limit of one hundred and twenty five per the thousand)	3,921,625	-
General Loan Provisions for Exposures in Standard Approach Limited by 1.25% of Risk Weighted Assets	3,114,746	-
Total Loan Provision that Exceeds Total Expected Loss Calculated According to Communiqué on Calculation of Credit Risk by Internal Ratings Based Approach	-	-
Total Loan Provision that Exceeds Total Expected Loss Calculated According to Communiqué on Calculation of Credit Risk by Internal Ratings Based Approach, Limited by 0.6% Risk Weighted Assets	-	-
Debt Instruments Covered by Temporary Article 4 (effective between 1.1.2018-1.1.2022)		
Upper Limit for Additional Tier I Capital Items subject to Temporary Article 4	-	-
Amount of Additional Tier I Capital Items Subject to Temporary Article 4 that Exceeds Upper Limit	-	-
Upper Limit for Additional Tier II Capital Items subject to Temporary Article 4	-	-
Amount of Additional Tier II Capital Items Subject to Temporary Article 4 that Exceeds Upper Limit	-	-

(*) Amounts considered within transition provisions

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION FOUR (Continued)

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

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

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

None.

3. Necessary explanations in order to reach an agreement between the statement of shareholders’s equity and balance-sheet amounts

The difference between Total Capital and Equity in the consolidated balance sheet mainly arises from the general provision. In the calculation of Total Capital, general provision up to 1.25% credit risk is taken into consideration as Tier II Capital. Besides, losses that are subject to deductions from Common Equity Tier I and reflected to Equity in line with the TAS, are determined by excluding the losses related to cash flow hedge transactions. On the other hand, in the calculation of the Total Capital, improvement costs for operating leases followed under tangible assets in the balance sheet, intangible assets and net book value of immovables that are acquired against overdue receivables and retained more than three years, other items defined by the regulator are taken into consideration as amounts deducted from Total Capital.

II. EXPLANATIONS ON THE CURRENCY RISK

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

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

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

2. Hedge against foreign exchange debt instruments and net foreign exchange investments by hedging derivative instruments, if material

None.

3. Management policy for foreign currency risk

“Liquidity Gap Analysis”, “Repricing Gap Analysis” and “Structural Liquidity Gap Analysis” which takes into account historical repricing rates of foreign currency accounts, are prepared periodically in order to define liquidity and interest rate risks at US Dollar (“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.

4. Current foreign exchange bid rates of the Bank for the last 5 business days prior to the financial statement date

	USD	EUR	AUD	DKK	SEK	CHF	CAD	NOK	GBP	SAR	100 JPY
21.06.2017	3.5122	3.9136	2.6528	0.5262	0.4005	3.6041	2.6445	0.4107	4.4468	0.9366	3.1469
22.06.2017	3.4997	3.9039	2.6395	0.5250	0.4007	3.5987	2.6489	0.4115	4.4299	0.9331	3.1421
23.06.2017	3.4898	3.9079	2.6407	0.5256	0.4006	3.6037	2.6328	0.4125	4.4453	0.9305	3.1366
28.06.2017	3.4970	3.9803	2.6657	0.5353	0.4093	3.6484	2.6793	0.4137	4.5335	0.9325	3.1212
29.06.2017	3.5012	3.9990	2.6861	0.5378	0.4127	3.6581	2.6961	0.4161	4.5477	0.9336	3.1097
30.06.2017	3.5047	3.9950	2.6888	0.5375	0.4154	3.6580	2.7017	0.4175	4.5445	0.9346	3.1228

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

USD	EUR	AUD	DKK	SEK	CHF	CAD	NOK	GBP	SAR	100 JPY
3.5016	3.9311	2.6446	0.5287	0.4033	3.6175	2.6302	0.4130	4.4832	0.9337	3.1603

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017

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

SECTION FOUR (Continued)

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

II. EXPLANATIONS ON THE CURRENCY RISK (Continued)

6. Information on the foreign currency risk of the Bank

	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	7,764,485	16,553,817	5,333,719	29,652,021
Banks	649,264	1,702,981	329,520	2,681,765
Financial Assets at Fair Value Through Profit and Loss ⁽⁵⁾	-	4,931	-	4,931
Money Market Placements	-	-	-	-
Financial Assets Available-for-Sale	3,571,536	12,293,044	52,333	15,916,913
Loans ⁽²⁾	24,671,817	42,461,041	102,688	67,235,546
Subsidiaries, Associates, Entities Under Common Control (Joint Ventures) ⁽⁴⁾	1,112,624	571,731	32,078	1,716,433
Investments Held-to-Maturity	571,381	3,802,866	523	4,374,770
Derivative Financial Assets for Hedging Purposes	-	-	-	-
Tangible Fixed Assets	5,235	855	1,806	7,896
Intangible Assets	2,852	1	3,794	6,647
Other Assets ⁽⁶⁾	810,292	457,686	21,450	1,289,428
Total Assets	39,159,486	77,848,953	5,877,911	122,886,350
Liabilities				
Interbank Deposits	4,630,002	2,958,802	180,314	7,769,118
Foreign Currency Deposits	42,849,246	29,011,313	5,408,941	77,269,500
Money Market Borrowings	330,903	14,428,340	-	14,759,243
Funds Provided from Other Financial Institutions	6,259,394	17,545,908	5,666	23,810,968
Issued Marketable Securities	39,969	6,784,302	28,255	6,852,526
Sundry Creditors	1,655,242	121,963	8,924	1,786,129
Derivative Financial Liabilities for Hedging Purposes	-	-	-	-
Other Liabilities	273,745	405,499	23,893	703,137
Total Liabilities	56,038,501	71,256,127	5,655,993	132,950,621
Net Balance Sheet Position	(16,879,015)	6,592,826	221,918	(10,064,271)
Net Off-Balance Sheet Position ⁽³⁾	18,249,489	(7,953,026)	(110,378)	10,186,085
Financial Derivative Assets	21,258,244	15,930,021	2,240,619	39,428,884
Financial Derivative Liabilities	3,008,755	23,883,047	2,350,997	29,242,799
Non-cash Loans	21,205,157	32,420,737	3,850,527	57,476,421
Prior Period				
Total Assets	38,063,799	77,926,169	6,959,476	122,949,444
Total Liabilities	51,600,535	57,223,275	4,049,263	112,873,073
Net Balance Sheet Position	(13,536,736)	20,702,894	2,910,213	10,076,371
Net Off-Balance Sheet Position ⁽³⁾	14,404,536	(21,814,361)	(2,611,272)	(10,021,097)
Financial Derivative Assets	16,594,256	7,787,185	2,593,074	26,974,515
Financial Derivative Liabilities	2,189,720	29,601,546	5,204,346	36,995,612
Non-cash Loans	18,783,775	31,762,066	3,845,938	54,391,779

¹⁾ Of the foreign currencies presented in the other FC column of assets 88.68% is Gold, 3.06% is GBP, 2.73% is IQD, 2.13% is SAR, and the remaining 3.40% is other foreign currencies. Of the foreign currencies presented in the other FC column of liabilities, 62.96% is Gold, 18.23% is GBP, 8.51% is CHF, 2.87% is DKK, 1.29% SEK, 1.41% is SAR, 0.56% is BGN and the remaining 4.17% is other foreign currencies. (31 December 2016: Of the foreign currencies presented in the other FC column of assets 91.94% is Gold, 2.69% is GBP, 1.73% is IQD, 1.25% is SAR, and the remaining 2.39% is other foreign currencies. Of the foreign currencies presented in the other FC column of liabilities, 57.79% is Gold, 21.31% is GBP, 10.98% is CHF, 3.61% is DKK, 1.77% is SEK, 1.19% is SAR, 0.71% is BGN and the remaining 2.64% is other foreign currencies).

²⁾ TL 747,703 equivalent of USD and TL 688,969 equivalent of EUR loans are originated as foreign currency indexed loans (31 December 2016: TL 874,972 equivalent of USD and TL 598,672 equivalent of EUR).

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

⁴⁾ The foreign currency capital investments to Subsidiaries, Associates and Joint Ventures are evaluated with historical rates on the date of the fair value determination and capital investments made in the subsequent periods are evaluated with the rates on the date of the capital investment and followed with 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 6,129 are not included in the table.

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION FOUR (Continued)

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

III. EXPLANATIONS ON THE INTEREST RATE RISK

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

(Based on days to repricing dates)

Current Period	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Non-Interest Bearing	Total
Assets							
Cash (Cash in Vault, Effectives, Money in Transit, Cheques Purchased) and Balances with Central Bank of the Republic of Turkey	24,626,654	-	-	-	-	13,063,814	37,690,468
Banks	1,482,635	238,948	802,096	-	-	694,270	3,217,949
Financial Assets at Fair Value Through Profit and Loss	358,973	623,228	724,711	33,684	4,700	-	1,745,296
Money Market Placements	1,837,419	-	-	-	-	-	1,837,419
Financial Assets Available-for-Sale	6,151,121	5,114,512	14,753,759	15,647,480	19,001,294	808,923	61,477,089
Loans Given ⁽⁴⁾	82,112,545	19,023,007	52,868,979	94,370,544	22,247,748	231,925	270,854,748
Investments Held-to-Maturity	2,848,949	35,879	1,172,406	1,482,556	1,677,625	-	7,217,415
Other Assets ⁽³⁾	-	-	-	-	-	15,906,221	15,906,221
Total Assets ⁽¹⁾	119,418,296	25,035,574	70,321,951	111,534,264	42,931,367	30,705,153	399,946,605
Liabilities							
Interbank Deposits	11,695,008	2,107,049	699,309	-	-	1,524,470	16,025,836
Other Deposits	106,425,706	41,552,771	16,832,454	621,676	11	60,012,352	225,444,970
Money Market Borrowings	53,189,635	2,191,275	1,918,912	570,728	-	-	57,870,550
Sundry Creditors	-	-	-	-	-	3,985,269	3,985,269
Issued Marketable Securities	1,265,450	1,683,639	453,503	6,491,861	-	-	9,894,453
Funds provided from Other Financial Institutions	4,630,231	4,522,299	12,214,981	2,155,746	1,467,271	-	24,990,528
Other Liabilities ⁽²⁾⁽⁵⁾	123,629	155,352	73,338	6,043,811	-	55,338,869	61,734,999
Total Liabilities ⁽¹⁾	177,329,659	52,212,385	32,192,497	15,883,822	1,467,282	120,860,960	399,946,605
Balance Sheet Long Position	-	-	38,129,454	95,650,442	41,464,085	-	175,243,981
Balance Sheet Short Position	(57,911,363)	(27,176,811)	-	-	-	(90,155,807)	(175,243,981)
Off-Balance Sheet Long Position	908,344	2,032,376	-	-	-	-	2,940,720
Off-Balance Sheet Short Position	-	-	(540,766)	(1,110,066)	-	-	(1,650,832)
Total Position	(57,003,019)	(25,144,435)	37,588,688	94,540,376	41,464,085	(90,155,807)	1,289,888

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

⁽²⁾ TL 6,007,186 of fund balance, whose risk does not belong to the Bank, in other liabilities is shown under the “1 - 5 Years” column. TL 62,057 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.

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION FOUR (Continued)

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

III. EXPLANATIONS ON THE INTEREST RATE RISK (Continued)

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

(Based on days to repricing dates)

Prior Period	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Non-Interest Bearing	Total
Assets							
Cash (Cash in Vault, Effectives, Money in Transit, Cheques Purchased) and Balances with the Central Bank of the Republic of Turkey	26,226,267	-	-	-	-	12,940,830	39,167,097
Banks	1,144,317	313,430	784,787	-	-	1,659,140	3,901,674
Financial Assets at Fair Value Through Profit and Loss	534,967	715,930	377,036	52,425	4,433	-	1,684,791
Money Market Placements	-	-	-	-	-	-	-
Financial Assets Available-for-Sale	6,082,221	5,989,035	10,829,270	16,548,932	18,459,714	722,781	58,631,953
Loans Given ⁽⁴⁾	69,800,889	18,547,083	52,762,832	74,387,619	16,893,663	251,449	232,643,535
Investments Held-to-Maturity	3,616,855	824,631	60,683	2,564,614	1,682,681	-	8,749,464
Other Assets ⁽³⁾	-	-	-	-	-	12,982,851	12,982,851
Total Assets ⁽¹⁾	107,405,516	26,390,109	64,814,608	93,553,590	37,040,491	28,557,051	357,761,365
Liabilities							
Interbank Deposits	6,796,605	1,563,724	1,967,777	-	-	1,731,844	12,059,950
Other Deposits	111,750,707	25,137,918	20,392,313	541,668	1	53,136,377	210,958,984
Money Market Borrowings	41,662,750	3,747,109	1,085,940	716,162	-	-	47,211,961
Sundry Creditors	-	-	-	-	-	2,480,721	2,480,721
Issued Marketable Securities	836,455	1,367,032	255,514	4,374,000	-	-	6,833,001
Funds Provided from Other Financial Institutions	4,442,774	4,306,983	10,593,970	2,041,048	1,431,961	-	22,816,736
Other Liabilities ⁽²⁾⁽⁵⁾	216,934	325,705	51,950	5,999,588	-	48,805,835	55,400,012
Total Liabilities ⁽¹⁾	165,706,225	36,448,471	34,347,464	13,672,466	1,431,962	106,154,777	357,761,365
Balance Sheet Long Position	-	-	30,467,144	79,881,124	35,608,529	-	145,956,797
Balance Sheet Short Position	(58,300,709)	(10,058,362)	-	-	-	(77,597,726)	(145,956,797)
Off Balance Sheet Long Position	808,285	2,189,886	-	-	-	-	2,998,171
Off Balance Sheet Short Position	-	-	(373,698)	(1,428,568)	-	-	(1,802,266)
Total Position	(57,492,424)	(7,868,476)	30,093,446	78,452,556	35,608,529	(77,597,726)	1,195,905

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

⁽²⁾ TL 5,950,057 of fund balance, whose risk does not belong to the Bank, in other liabilities is shown under the “1 - 5 Years” column. TL 70,782 of fund balance is not granted as loan and is shown under the “Non-Interest Bearing” column.

⁽³⁾ Deferred tax asset is shown under the “Non-Interest Bearing” column.

⁽⁴⁾ Net balance of loans under follow-up is shown under the “Non-Interest Bearing” column in loans given.

⁽⁵⁾ Total shareholders’ equity is shown under the “Non-Interest Bearing” column.

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION FOUR (Continued)

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

III. EXPLANATIONS ON THE INTEREST RATE RISK (Continued)

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

	EUR	USD	JPY	TL
Current Period				
Assets				
Cash (Cash in Vault, Effectives, Money in Transit, Cheques Purchased) and Balances with the Central Bank of the Republic of Turkey ⁽¹⁾	-	0.78	-	3.98
Banks	0.77	2.65	-	11.96
Financial Assets at Fair Value Through Profit and Loss	-	5.36	-	8.57
Money Market Placements	-	-	-	12.25
Financial Assets Available-for-Sale	4.74	5.65	-	9.29
Loans Given ⁽²⁾	4.45	5.76	-	11.75
Investments Held-to-Maturity	6.63	7.20	-	9.55
Liabilities				
Interbank Deposits ⁽³⁾	0.37	1.41	-	12.71
Other Deposits ⁽⁴⁾	0.97	1.59	-	7.39
Money Market Borrowings	0.92	2.08	-	12.14
Sundry Creditors	-	-	-	-
Issued Marketable Securities	1.00	4.61	1.50	12.59
Funds Provided from Other Financial Institutions	1.22	2.77	-	9.26

⁽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⁾	0.03	0.49	-	3.36
Banks	1.56	2.82	-	8.44
Financial Assets at Fair Value Through Profit and Loss	-	5.36	-	7.98
Money Market Placements	-	-	-	-
Financial Assets Available-for-Sale	4.73	5.64	-	9.20
Loans Given ⁽²⁾	4.30	5.52	-	12.82
Investments Held-to-Maturity	6.48	7.20	-	9.75
Liabilities				
Interbank Deposits ⁽³⁾	0.45	1.09	-	8.24
Other Deposits ⁽⁴⁾	0.94	1.14	-	6.52
Money Market Borrowings	0.95	1.82	-	8.55
Sundry Creditors	-	-	-	-
Issued Marketable Securities	-	4.37	-	9.77
Funds Provided from Other Financial Institutions	0.92	2.23	-	8.38

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

⁽²⁾ Credit card loans 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.

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION FOUR (Continued)

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

IV. EXPLANATIONS ON THE POSITION RISK OF EQUITY SECURITIES

1. Equity securities position risk derived from banking books

Comparison with the market value if the market value is significantly different from the fair value for balance sheet, fair and market values of equity shares

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

The breakdown of capital requirements on the basis of related investments in equity instruments depending on the method of the calculation of capital requirement which is chosen by Bank among approaches that are allowed to be used within the Communiqué regarding Credit Risk Standard Method or the Calculation of Counterparty Credit Risk based upon Interior Rating Approaches

The investments in equity instruments, partaking in banking accounts according to the credit risk standard method, are amounted TL 118,142 and 100% of them are risk weighted (31 December 2016: are amounted TL 118,153 and 100% of them are risk weighted).

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

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

The Bank performs “Remaining Maturity Analysis” for the observation of the maturity structure of the balance sheet, “Liquidity Gap” and “Structural Liquidity Gap Analysis” for the monitoring of the liquidity and between periods and Liquidity Stress Test for the evaluation of the Bank’s liquidity and in the worst case scenario and the loss associated with it. The renewal of deposits which constitutes the Bank’s most crucial funding resource is monitored on a daily basis. Besides, in order to compare the Bank’s level of liquidity risk with the sector, average remaining maturity balances of Bank-Sector and legal liquidity rates are monitored.

1. Liquidity Risk

Explanations related to the liquidity risk management including the Parent Bank’s risk capacity, responsibilities and structure of liquidity risk management, reporting of liquidity risk in internal banking, the strategy of liquidity risk and how to provide the communication of policies and implementations with board of directors and business lines

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

Liquidity management and the degree of centralization of fund strategies, the information about the procedure between bank and the partners of bank

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

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

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

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION FOUR (Continued)

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

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

1. Liquidity Risk (Continued)

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

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

Information related to the techniques about the reduction of current liquidity risk

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

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

Explanation regarding the usage of the stress test

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

General information on liquidity urgent and unexpected situation plan

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

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION FOUR (Continued)

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

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

2. Liquidity Coverage Ratio (Continued)

Within the 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 Parent 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 149.38% in the week of 7 April 2017; and for the total 78.53% in the week of 9 June 2017. As for the highest ratios take place for FC as 201.31% in the week of 30 June 2017 and for the total as 97.42% in the week of 7 April 2017. (31 December 2016: Within the last 3 months the unconsolidated lowest ratios are as follows: Take place for FC as 84.49% in the week of 28 October 2016; and for the total 74.51% in the week of 16 December 2016. As for the highest ratios take place for FC as 109.22% in the week of 23 December 2016 and for the total as 88.54% in the week of 7 October 2016.)

Current Period	Total Unweighted Value (Average) ^(*)		Total Weighted Value (Average) ^(*)	
	TL+FC	FC	TL+FC	FC
High Quality Liquid Assets				
High Quality Liquid Assets			40,625,928	30,730,147
Cash Outflows				
Retail and Small Business Customers, of which;	157,353,507	57,940,734	12,759,169	5,794,073
Stable deposits	59,523,638	-	2,976,182	-
Less stable deposits	97,829,869	57,940,734	9,782,987	5,794,073
Unsecured wholesale funding, of which;	77,727,372	29,544,496	42,357,993	17,801,003
Operational deposit	3,662,569	103,398	915,642	25,850
Non-operational deposits	58,927,320	19,489,598	28,476,791	10,003,486
Other unsecured funding	15,137,483	9,951,500	12,965,560	7,771,667
Secured funding			-	-
Other cash outflows, of which;	32,123,991	7,503,147	5,963,872	4,364,382
Derivatives cash outflow and liquidity needs related to market valuation changes on derivatives or other transactions	2,823,521	2,922,564	2,823,521	2,922,564
Obligations related to structured financial products	-	-	-	-
Commitments related to debts to financial markets and other off balance sheet obligations	29,300,470	4,580,583	3,140,351	1,441,818
Other revocable off-balance sheet commitments and contractual Obligations	10,486	10,475	524	524
Other irrevocable or conditionally revocable off-balance sheet Obligations	36,353,083	25,680,243	2,299,616	1,702,776
Total Cash Outflows			63,381,174	29,662,758
Cash Inflows				
Secured lending	-	-	-	-
Unsecured lending	19,627,617	6,007,084	14,074,036	4,918,646
Other cash inflows	2,015,709	6,474,997	2,015,709	6,474,997
Total Cash Inflows	21,643,326	12,482,081	16,089,745	11,393,643
			Upper Limit	Applied Amounts
Total HQLA Stock			40,625,928	30,730,147
Total Net Cash Outflows			47,291,429	18,269,115
Liquidity Coverage Ratio (%)			85.91	168.21

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

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017

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

SECTION FOUR (Continued)

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

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

2. Liquidity Coverage Ratio (Continued)

Prior Period	Total Unweighted Value (Average) ^(*)		Total Weighted Value (Average) ^(*)	
	TL+FC	FC	TL+FC	FC
High Quality Liquid Assets				
High Quality Liquid Assets			47,540,579	25,883,196
Cash Outflows				
Retail and Small Business Customers, of which;	139,622,809	48,641,664	11,188,731	4,864,166
Stable deposits	55,470,997	-	2,773,550	-
Less stable deposits	84,151,812	48,641,664	8,415,181	4,864,166
Unsecured wholesale funding , of which;	76,674,535	23,233,906	44,523,169	15,932,139
Operational deposit	1,091,398	99,046	272,850	24,761
Non-operational deposits	65,614,387	17,098,124	34,282,353	9,871,425
Other unsecured funding	9,968,750	6,036,736	9,967,966	6,035,953
Secured funding			-	-
Other cash outflows, of which;	17,543,097	11,632,861	4,231,557	10,452,019
Derivatives cash outflow and liquidity needs related to market valuation changes on derivatives or other transactions	2,099,449	9,962,086	2,099,449	9,962,086
Obligations related to structured financial products	-	-	-	-
Commitments related to debts to financial markets and other offbalance sheet obligations	15,443,648	1,670,775	2,132,108	489,933
Other revocable off-balance sheet commitments and contractual Obligations	7,958	7,946	398	397
Other irrevocable or conditionally revocable off-balance sheet Obligations	41,460,379	24,592,794	10,935,263	3,671,404
Total Cash Outflows			70,879,118	34,920,125
Cash Inflows				
Secured lending	-	-	-	-
Unsecured lending	15,750,567	7,211,585	11,018,841	6,409,508
Other cash inflows	1,116,070	577,297	1,116,070	577,297
Total Cash Inflows	16,866,637	7,788,882	12,134,911	6,986,805
			Upper Limit Applied Amounts	
Total HQLA Stock			47,540,579	25,883,196
Total Net Cash Outflows			58,744,207	27,933,320
Liquidity Coverage Ratio (%)			80.93	92.66

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

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION FOUR (Continued)

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

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

3. Minimum statements concerning liquidity coverage ratio by Banks

Important points affecting the results of liquidity coverage ratio and the changes of the considered items in the course of time to calculate this ratio

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

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

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

High quality liquid assets are comprised to which items

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

Funds are comprised of which items and their volume in all funds

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

Information about cash out-flows arising from derivative operations and margin operations likely to processing

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

The concentration limits regarding collateral and counterparty and product based fund resources

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

Liquidity risk and needed funding on the basis of the bank itself, the branches in foreign countries and the partnerships consolidated by considering operational and legal factors preventing liquidity transfer

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

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION FOUR (Continued)

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

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

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

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

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

4. Presentation of assets and liabilities according to their remaining maturities

	Demand	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Undistributed ^{(1) (2)}	Total
Current Period								
Assets								
Cash (Cash in Vault, Effectives, Money in Transit, Cheques Purchased) and Balances with the Central Bank of the Republic of Turkey	37,690,468	-	-	-	-	-	-	37,690,468
Banks	694,270	1,482,635	238,948	802,096	-	-	-	3,217,949
Financial Assets at Fair Value Through Profit and Loss	-	358,973	616,755	724,711	40,157	4,700	-	1,745,296
Money Market Placements	-	1,837,419	-	-	-	-	-	1,837,419
Financial Assets Available-for-Sale	-	3,772,273	654,388	7,641,185	21,489,528	27,177,325	742,390	61,477,089
Loans Given	-	10,306,635	17,610,573	99,638,871	114,431,584	28,635,160	231,925	270,854,748
Investments Held-to-Maturity	-	371,899	35,879	2,067,988	3,064,024	1,677,625	-	7,217,415
Other Assets	2,895,349	-	-	182	41,041	-	12,969,649	15,906,221
Total Assets	41,280,087	18,129,834	19,156,543	110,875,033	139,066,334	57,494,810	13,943,964	399,946,605
Liabilities								
Interbank Deposits	1,524,470	11,695,008	2,107,049	699,309	-	-	-	16,025,836
Other Deposits	60,012,352	106,424,106	41,539,553	16,772,192	672,786	23,981	-	225,444,970
Funds Provided from Other Financial Instruments	-	2,159,094	2,750,936	12,542,981	4,673,654	2,863,863	-	24,990,528
Money Market Borrowings	-	53,189,635	2,191,275	1,918,912	570,728	-	-	57,870,550
Issued Marketable Securities	-	1,265,449	1,683,671	453,472	6,491,861	-	-	9,894,453
Sundry Creditors	2,706,563	1,278,706	-	-	-	-	-	3,985,269
Other Liabilities ⁽³⁾	3,739,450	718,091	517,075	73,338	6,043,811	1,122,178	49,521,056	61,734,999
Total Liabilities	67,982,835	176,730,089	50,789,559	32,460,204	18,452,840	4,010,022	49,521,056	399,946,605
Liquidity Gap	(26,702,748)	(158,600,255)	(31,633,016)	78,414,829	120,613,494	53,484,788	(35,577,092)	-
Net Off-Balance Sheet Position	-	207,408	192,408	482,539	407,537	-	-	1,289,892
Financial Derivative Assets	-	26,845,748	3,222,166	3,616,794	2,581,126	-	-	36,265,834
Financial Derivative Liabilities	-	26,638,340	3,029,758	3,134,255	2,173,589	-	-	34,975,942
Non-cash Loans	38,640,604	1,243,319	3,150,409	24,687,176	15,613,784	3,924,523	-	87,259,815
Prior Period								
Total Assets	43,053,681	13,181,160	19,559,096	96,956,280	120,432,400	52,953,387	11,625,361	357,761,365
Total Liabilities	60,235,498	164,181,428	34,696,846	35,503,946	16,011,098	3,594,314	43,538,235	357,761,365
Liquidity Gap	(17,181,817)	(151,000,268)	(15,137,750)	61,452,334	104,421,302	49,359,073	(31,912,874)	-
Net Off-Balance Sheet Position	-	106,768	(2,364)	503,202	588,299	-	-	1,195,905
Financial Derivative Assets	-	23,473,210	7,443,469	2,592,683	2,630,850	-	-	36,140,212
Financial Derivative Liabilities	-	23,366,442	7,445,833	2,089,481	2,042,551	-	-	34,944,307
Non-cash Loans	37,633,442	1,000,651	4,810,877	18,060,727	14,125,438	3,523,973	-	79,155,108

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

(2) Deferred tax asset is included under the "Undistributed" column

(3) TL 6,007,186 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, fundbalance amounted to TL 62,057 is not granted as loan and is included under "Up to One Month" column.

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION FOUR (Continued)

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

VI. EXPLANATIONS ON LEVERAGE

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

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 8.27% (31 December 2016: 8.20%). The change on leverage results occur from the more percental increase on Tier 1 capital than the percental increase on total risk amount. The regulation sentenced the minimum leverage as 3%.

Balance sheet assets	Current Period ^(*)	Prior Period ^(*)
On-balance sheet items (excluding derivative financial instruments and credit derivatives but including collateral)	392,847,488	346,632,324
(Assets deducted in determining Tier 1 capital)	(1,634,012)	(1,692,335)
Total on-balance sheet risks (sum of lines 1 and 2)	391,213,476	344,939,989
Derivative financial instruments and credit derivatives		
Replacement cost associated with all derivative financial instruments and credit Derivatives	1,785,712	1,504,647
Add-on amounts for PFE associated with all derivative financial instruments and credit derivatives	411,695	387,907
Total risks of derivative financial instruments and credit derivatives	2,197,407	1,892,554
Securities or commodity financing transactions (SCFT)		
Risks from SCFT assets	4,755,723	4,866,676
Risks from brokerage activities related exposures	-	-
Total risks related with securities or commodity financing transactions	4,755,723	4,866,676
Other off-balance sheet transactions		
Gross notional amounts of off-balance sheet transactions	115,871,882	100,106,176
(Adjustments for conversion to credit equivalent amounts)	(6,740)	(6,360)
Total risks of off-balance sheet items	115,865,142	100,099,816
Capital and total risks		
Tier 1 capital	42,506,094	36,997,585
Total risks	514,031,748	451,799,035
Leverage ratio		
Leverage ratio %	8.27	8.20

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

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION FOUR (Continued)

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

VII. EXPLANATIONS ON RISK MANAGEMENT

Notes and explanations in this section have been prepared in accordance with the Communiqué on Disclosures about Risk Management to Be Announced to Public by Banks that have been published in Official Gazette no. 29511 on 23 October 2015 and became effective as of 31 March 2016. According to Communiqué have to be presented on a quarterly basis. Due to usage of standard approach for the calculation of capital adequacy by the Bank, the following tables have not been presented as of 30 June 2017:

RWA flow statements of credit risk exposures under IRB

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

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

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

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 2017, the notes to be presented on a semi-annually basis according to Communiqué have not been presented.

Securitization positions in banking accounts

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

1. Explanations on Risk Management and Risk Weighted Amounts

Overview of Risk Weighted Amounts

		Risk Weighted Amount		Minimum capital requirement
		Current Period	Prior Period	Current Period
1	Credit Risk (excluding counterparty credit risk)	257,237,123	244,241,413	20,578,970
2	Standardised approach	257,237,123	244,241,413	20,578,970
3	Internal rating-based approach	-	-	-
4	Counterparty credit risk	3,226,451	3,268,338	258,116
5	Standardised approach for counterparty credit risk	3,226,451	3,268,338	258,116
6	Internal model method	-	-	-
7	Basic risk weight approach to internal models equity position in the banking account	-	-	-
8	Investments made in collective investment companies-look through approach	-	-	-
9	Investments made in collective investment companies-mandate-based approach	1,959,107	1,669,911	156,729
10	Investments made in collective investment companies-1250% weighted risk approach	-	-	-
11	Settlement risk	-	-	-
12	Securitization positions in banking accounts	-	-	-
13	IRB ratings-based approach	-	-	-
14	IRB Supervisory Formula approach	-	-	-
15	SA/simplified supervisory formula approach	-	-	-
16	Market risk	17,847,300	14,083,788	1,427,784
17	Standardised Approach	17,847,300	14,083,788	1,427,784
18	Internal model approaches	-	-	-
19	Operational risk	23,652,179	18,989,055	1,892,174
20	Basic Indicator Approach	23,652,179	18,989,055	1,892,174
21	Standard Approach	-	-	-
22	Advanced measurement approach	-	-	-
23	The amount of the discount threshold under the equity(subject to a 250% risk weight)	-	-	-
24	Floor adjustment	-	-	-
25	Total (1+4+7+8+9+10+11+12+16+19+23+24)	303,922,160	282,252,505	24,313,773

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017

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

SECTION FOUR (Continued)

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

VII. EXPLANATIONS ON RISK MANAGEMENT (Continued)

2. Credit Risk Explanations

Credit Quality of Assets

Current Period	Gross carrying value in consolidated financial statements prepared as per TAS		Allowances/amortisation and impairments	Net values
	Defaulted	Non- defaulted		
Loans	4,414,411	270,622,824	4,182,487	270,854,748
Debt Securities	-	71,432,552	992,752	70,439,800
Off-balance sheet exposures	-	114,430,434	144,901	114,285,533
Total	4,414,411	456,485,810	5,320,140	455,580,081

Prior Period	Gross carrying value in consolidated financial statements prepared as per TAS		Allowances/amortisation and impairments	Net values
	Defaulted	Non-defaulted		
Loans	4,217,097	232,392,086	3,965,648	232,643,535
Debt Securities	-	71,096,788	2,030,580	69,066,208
Off-balance sheet exposures	-	102,668,757	150,916	102,517,841
Total	4,217,097	406,157,631	6,147,144	404,227,584

Changes in stock of default loans and debt securities

	Current Period
1 Defaulted loans and debt securities at end of the previous reporting period	4,217,097
2 Loans and debt securities that have defaulted since the last reporting period	859,725
3 Receivables back to non-defaulted status	33,541
4 Amounts written off	-
5 Other changes	(628,870)
6 Defaulted loans and debt securities at end of the reporting period (1+2-3-4±5)	4,414,411

	Prior Period
1 Defaulted loans and debt securities at end of the previous reporting period	3,140,524
2 Loans and debt securities that have defaulted since the last reporting period	2,383,943
3 Returned to non-defaulted status	245,111
4 Amounts written off	-
5 Other changes	(1,552,481)
6 Defaulted loans and debt securities at end of the reporting period (1+2-3-4±5)	4,217,097

Credit Risk Mitigation Techniques – Overview

Current Period	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	239,358,063	9,032,915	1,144,817	22,463,769	18,481,346	-	-
Debt Securities	70,439,800	-	-	-	-	-	-
Total	309,797,863	9,032,915	1,144,817	22,463,769	18,481,346	-	-
Of which defaulted	4,414,411	-	-	-	-	-	-

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION FOUR (Continued)

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

VII. EXPLANATIONS ON RISK MANAGEMENT (Continued)

2. Credit Risk Explanations (Continued)

Credit Risk Mitigation Techniques – Overview (Continued)

Prior Period	Unsecured receivables: Amount assessed pursuant to TAS	Receivables secured by guarantee	Collateralized portions of collateralized receivables	Receivables protected by financial guarantees	Collateralized portions of receivables protected by financial guarantees	Receivables protected by credit derivatives	Collateralized portions of receivables protected by credit derivatives
Loans	224,806,421	6,943,684	1,220,992	893,430	610,373	-	-
Debt Securities	69,066,208	-	-	-	-	-	-
Total	293,872,629	6,943,684	1,220,992	893,430	610,373	-	-
Of which defaulted	4,217,097	-	-	-	-	-	-

Standard Approach - Credit risk exposure and credit risk mitigation techniques

Current Period 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	69,233,557	958,572	86,823,480	758,673	10,657,558	12.2%
Exposures to regional and local governments	536,237	256,843	507,665	87,389	279,909	47.0%
Exposures to administrative bodies and non-commercial entities	269,708	903,239	786,733	422,112	665,662	55.1%
Exposures to multilateral development banks	-	-	-	-	-	-
Exposures to international organizations	-	-	-	-	-	-
Exposures to banks and brokerage houses	33,304,276	10,936,411	33,643,585	5,619,676	8,124,325	20.7%
Exposures to corporates	109,433,106	74,494,553	100,820,021	38,617,601	136,274,594	97.7%
Retail exposures	107,350,224	23,171,825	97,781,040	3,291,817	75,279,588	74.5%
Exposures secured by residential property	36,347,566	104,061	36,289,088	51,565	12,726,909	35.0%
Exposures secured by commercial property	7,053,420	625,837	6,876,484	316,002	3,636,697	50.6%
Past-due items	133	-	133	-	67	50.0%
Exposures in high-risk categories	1,753,649	140,187	1,753,645	32,019	2,676,987	149.9%
Exposures in the form of bonds secured by mortgages	-	-	-	-	-	-
Short term exposures to banks, brokerage houses and corporates	-	-	-	-	-	-
Exposures in the form of collective investment undertakings	1,949,910	42,498	1,949,909	20,608	1,959,107	99.4%
Other exposures	19,081,395	-	19,081,395	-	10,023,136	52.5%
Equity share investments	118,142	-	118,142	-	118,142	100.0%
Total	386,431,323	111,634,026	386,431,320	49,217,462	262,422,681	60.2%

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION FOUR (Continued)

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

VII. EXPLANATIONS ON RISK MANAGEMENT (Continued)

2. Credit Risk Explanations (Continued)

Standard Approach - Credit risk exposure and credit risk mitigation techniques (Continued)

Prior Period	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	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount
Exposures to sovereigns and their central banks	80,309,755	769,437	86,065,163	367,270	24,158,466	28.0%
Exposures to regional and local governments	526,453	232,722	483,924	84,127	277,481	48.8%
Exposures to administrative bodies and non-commercial entities	181,165	811,560	375,265	378,764	709,861	94.1%
Exposures to multilateral development banks	-	-	-	-	-	-
Exposures to international organizations	-	-	-	-	-	-
Exposures to banks and brokerage houses	59,310,148	8,661,972	59,675,079	4,593,661	8,735,688	13.6%
Exposures to corporates	99,311,342	69,334,389	93,137,097	35,083,157	124,637,156	97.2%
Retail exposures	87,019,701	19,738,718	86,924,741	2,917,439	66,899,690	74.5%
Exposures secured by residential property	27,200,877	111,527	27,200,877	55,764	9,543,770	35.0%
Exposures secured by commercial property	9,458,822	420,049	9,456,125	215,932	4,898,303	50.6%
Past-due items	-	-	-	-	-	-
Exposures in high-risk categories	308,898	119,744	308,890	19,795	492,014	149.7%
Exposures in the form of bonds secured by mortgages	-	-	-	-	-	-
Short term exposures to banks, brokerage houses and corporates	-	-	-	-	-	-
Exposures in the form of collective investment undertakings	1,650,548	47,437	1,650,548	23,081	1,669,910	99.8%
Other exposures	15,871,965	-	15,871,965	-	7,039,170	44.3%
Equity share investments	118,153	-	118,153	-	118,153	100.0%
Total	381,267,827	100,247,555	381,267,827	43,738,990	249,179,662	58.6%

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017

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

SECTION FOUR (Continued)

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

VII. EXPLANATIONS ON RISK MANAGEMENT (Continued)

2. Credit Risk Explanations (Continued)

Exposures by asset classes and risk weights

Risk Classes/ Risk Weight Current Period	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	66,647,918	-	1,050	-	-	20,551,674	-	381,511	-	-	-	87,582,153
Exposures to regional and local government	49,037	-	34	-	-	532,162	-	13,821	-	-	-	595,054
Exposures to administrative bodies and non-commercial entities	94,094	-	25	-	-	898,138	-	216,588	-	-	-	1,208,845
Exposures to multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-
Exposures to international organizations	-	-	-	-	-	-	-	-	-	-	-	-
Exposures to banks and brokerage houses	19,809,043	-	7,226,023	-	-	11,098,149	-	1,130,046	-	-	-	39,263,261
Exposures to corporates	1,788,048	-	415,213	-	-	2,085,620	-	135,148,741	-	-	-	139,437,622
Retail exposures	532,047	-	229,127	-	-	-	100,311,683	-	-	-	-	101,072,857
Exposures secured by residential property	5,940	-	1,953	36,317,296	-	-	-	15,464	-	-	-	36,340,653
Exposures secured by commercial property	4,527	-	2,290	-	7,098,859	-	-	86,810	-	-	-	7,192,486
Past-due items	-	-	-	-	-	133	-	-	-	-	-	133
Exposures in high-risk categories	749	-	296	-	-	-	-	2	1,784,617	-	-	1,785,664
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	11,410	-	-	-	-	-	-	1,959,107	-	-	-	1,970,517
Equity share investments	-	-	-	-	-	-	-	118,142	-	-	-	118,142
Others	9,055,961	-	2,872	-	-	-	-	10,022,562	-	-	-	19,081,395
Total	97,998,774	-	7,878,883	36,317,296	7,098,859	35,165,876	100,311,683	149,092,794	1,784,617	-	-	435,648,782

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

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017

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

SECTION FOUR (Continued)

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

VII. EXPLANATIONS ON RISK MANAGEMENT (Continued)

2. Credit Risk Explanations (Continued)

Exposures by asset classes and risk weights (Continued)

Risk Classes/ Risk Weight Prior Period	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	38,613,807	-	14,020	-	-	47,297,889	-	506,717	-	-	-	86,432,433
Exposures to regional and local government	32,187	-	34	-	-	516,711	-	19,119	-	-	-	568,051
Exposures to administrative bodies and non-commercial entities	43,756	-	516	-	-	-	-	709,757	-	-	-	754,029
Exposures to multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-
Exposures to international organizations	-	-	-	-	-	-	-	-	-	-	-	-
Exposures to banks and brokerage houses	43,124,024	-	8,565,059	-	-	11,113,963	-	1,465,694	-	-	-	64,268,740
Exposures to corporates	1,404,491	-	1,349,906	-	-	2,197,365	-	123,268,492	-	-	-	128,220,254
Retail exposures	511,274	-	175,558	-	-	7,730	89,147,618	-	-	-	-	89,842,180
Exposures secured by residential property	6,594	-	951	27,239,255	-	-	-	9,841	-	-	-	27,256,641
Exposures secured by commercial property	4,389	-	3,037	-	9,533,871	-	-	130,760	-	-	-	9,672,057
Past-due items	-	-	-	-	-	-	-	-	-	-	-	-
Exposures in high-risk categories	632	-	41	-	-	-	-	23	327,989	-	-	328,685
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	3,718	-	-	-	-	-	-	1,669,911	-	-	-	1,673,629
Equity share investments	-	-	-	-	-	-	-	118,153	-	-	-	118,153
Others	8,829,772	-	3,779	-	-	-	-	7,038,414	-	-	-	15,871,965
Total	92,574,644	-	10,112,901	27,239,255	9,533,871	61,133,658	89,147,618	134,936,881	327,989	-	-	425,006,817

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

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION FOUR (Continued)

**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

Evaluation of counterparty credit risk in accordance with the measurement methods

	Current Period	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)	1,589,935	391,362			1,981,297	839,362
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)					8,836,966	1,276,803
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)					3,101,898	1,088,100
5	EMTIA lending or borrowing transactions, transactions with a long settlement time, Marketable Security transactions with credit					-	-
6	Total						3,204,265

^(*) Effective Expected Positive Exposure

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION FOUR (Continued)

**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

Evaluation of counterparty credit risk in accordance with the measurement methods (Continued)

	Prior Period	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)	1,561,694	426,533			1,988,227	835,877
1	Standardised approach - CCR (for derivatives)	-	-		1.4	-	-
2	Internal Model Method (for derivatives, Repo Transactions, Marketable Securities or Commodity lending or borrowing transactions, transactions with a long settlement time, Marketable Security transactions with credit)			-	-	-	-
3	Simple Approach for credit risk mitigation (for derivatives, Repo Transactions, Marketable Securities or Commodity lending or borrowing transactions, transactions with a long settlement time, Marketable Security transactions with credit)					28,040,506	1,583,207
4	Comprehensive Approach for credit risk mitigation (for derivatives, Repo Transactions, Marketable Securities or Commodity lending or borrowing transactions, transactions with a long settlement time, Marketable Security transactions with credit)					2,775,653	828,479
5	Commodity lending or borrowing transactions, transactions with a long settlement time, Marketable Security transactions with credit					-	-
6	Total						3,247,563

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION FOUR (Continued)

**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

Capital requirement for credit valuation adjustment (CVA)

	Current Period	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	1,981,297	22,187
4	Total subject to the CVA capital obligation	1,981,297	22,187

	Prior Period	Exposure at default post-CRM	RWA
	Total portfolios subject to the Advanced CVA capital charge	-	-
1	(i) Value at Risk (VaR) component (including the 3*multiplier)		-
2	(ii) Stressed VaR component (including the 3*multiplier)		-
3	All portfolios subject to the Standardised CVA capital charge	1,988,227	20,775
4	Total subject to the CVA capital charge	1,988,227	20,775

Standardised approach - CCR exposures by risk class and risk weights

Current Period Risk Weights / Risk Classes	0%	10%	20%	50%	75%	100%	150%	Other	Total credit exposure^(*)
Exposures to sovereigns and their central banks	162,418	-	-	-	-	-	-	-	162,418
Exposures to regional and local governments	23,776	-	-	-	-	-	-	-	23,776
Exposures to administrative bodies and non-commercial entities	24,782	-	-	-	-	-	-	-	24,782
Exposures to multilateral development banks	-	-	-	-	-	-	-	-	-
Exposures to international organizations	-	-	-	-	-	-	-	-	-
Exposures to banks and brokerage houses	18,300,700	-	4,499,325	4,383,662	-	1,555	-	-	27,185,242
Exposures to corporates	25,239	-	-	-	-	128,692	-	-	153,931
Retail exposures	6,587	-	-	-	6,011	-	-	-	12,598
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	11,410	-	-	-	-	-	-	-	11,410
Equity share investments	-	-	-	-	-	-	-	-	-
Other exposures	-	-	-	-	-	-	-	-	-
Other assets ^(**)	-	-	-	-	-	-	-	-	-
Total	18,554,912	-	4,499,325	4,383,662	6,011	130,247	-	-	27,574,157

(*) 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.

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION FOUR (Continued)

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)

Standardised approach - CCR exposures by risk class and risk weights (Continued)

Prior Period Risk Weights / Risk Classes	0%	10%	20%	50%	75%	100%	150%	Other	Total credit exposure ^(*)
Exposures to sovereigns and their central banks	130,193	-	-	-	-	-	-	-	130,193
Exposures to regional and local governments	5,771	-	-	18	-	-	-	-	5,789
Exposures to administrative bodies and non-commercial entities	15,695	-	-	-	-	50	-	-	15,745
Exposures to multilateral development banks	-	-	-	-	-	-	-	-	-
Exposures to international organizations	-	-	-	-	-	-	-	-	-
Exposures to banks and brokerage houses	42,115,329	-	6,398,526	3,757,054	-	643	-	-	52,271,552
Exposures to corporates	12,069	-	-	-	-	108,485	-	-	120,554
Retail exposures	10,558	-	-	-	1,211	-	-	-	11,769
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	3,718	-	-	-	-	11	-	-	3,729
Equity share investments	-	-	-	-	-	-	-	-	-
Other exposures	-	-	-	-	-	-	-	-	-
Other assets ^(**)	-	-	-	-	-	-	-	-	-
Total	42,293,333	-	6,398,526	3,757,072	1,211	109,189	-	-	52,559,331

^(*)Total amount of credit risk: Amount of the capital adequacy calculation after the counterparty credit risk evaluation techniques.

^(**)Other assets: Amount of the quantity absent in the counterparty credit risk which is reported in the center counterparty credit risk table.

Collaterals for Counterparty Credit Risk

Current Period	Collateral for derivative transactions				Collateral for other transactions	
	Collateral received		collateral given		Collateral received	Collateral given
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash-domestic currency	-	-	-	-	6,210,736	-
Cash-foreign currency	-	-	-	-	14,145,680	-
Domestic sovereign debts	-	-	-	-	-	-
Other sovereign debts	-	-	-	-	-	-
Government agency debts	-	-	-	-	-	-
Corporate debts	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
Total	-	-	-	-	20,356,416	-

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017

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

SECTION FOUR (Continued)

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)

Prior Period	Collateral for derivative transactions				Collateral for other transactions	
	Collateral received		Collateral given		Collateral received	Collateral given
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash-domestic currency	-	-	-	-	31,119,235	-
Cash-foreign currency	-	-	-	-	13,753,198	-
Domestic sovereign debts	-	-	-	-	-	-
Other sovereign debts	-	-	-	-	-	-
Government agency debts	-	-	-	-	-	-
Corporate debts	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
Total	-	-	-	-	44,872,433	-

Credit derivatives

None (31 December 2016: None).

Exposures to central counterparties (CCP)

None (31 December 2016: None).

4. *Market Risk Explanations*

Standardised approach

Current Period		RWA
	Outright products	
1	Interest rate risk (general and specific)	15,564,750
2	Equity risk (general and specific)	1,248,500
3	Foreign exchange risk	1,034,050
4	Commodity risk	-
	Options	
5	Simplified approach	-
6	Delta-plus method	-
7	Scenario approach	-
8	Securitisation	-
9	Total	17,847,300

Prior Period		RWA
	Outright products	
1	Interest rate risk (general and specific)	12,214,288
2	Equity risk (general and specific)	1,050,625
3	Foreign exchange risk	818,875
4	Commodity risk	-
	Options	
5	Simplified approach	-
6	Delta-plus method	-
7	Scenario approach	-
8	Securitisation	-
9	Total	14,083,788

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 2017.

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

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION FOUR (Continued)

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

VIII. EXPLANATIONS ON OPERATING SEGMENTS

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

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

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

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

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

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

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

As of 30 June 2017 explanations on segment reporting as shown on the following page are in line with Communiqué on “Financial Statements to be Publicly Announced and the Accompanying Policies and Disclosures”.

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017

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

SECTION FOUR (Continued)

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

VIII. EXPLANATIONS ON OPERATING SEGMENTS (Continued)

Table for Segment Reporting

Current Period	Retail Banking	Corporate/ Entrepreneurial Banking	Specialized Banking	Treasury/ Investment Banking	Other/ Undistributed	Total
OPERATING INCOME/EXPENSE 30.06.2017						
Interest Income	4,207,337	5,897,139	2,669,511	4,013,817	35,188	16,822,992
Interest Income from Loans	4,207,337	5,897,139	2,669,511	291,457	-	13,065,444
Interest Income from Banks	-	-	-	56,019	-	56,019
Interest Income from Securities	-	-	-	3,252,007	-	3,252,007
Other Interest Income	-	-	-	414,334	35,188	449,522
Interest Expense	3,464,894	1,719,408	-	3,203,655	42,300	8,430,257
Interest Expense on Deposits	3,464,894	1,719,408	-	374,594	-	5,558,896
Interest Expense on Funds Borrowed	-	-	-	301,170	-	301,170
Interest Expense on Money Market Transactions	-	-	-	2,270,261	-	2,270,261
Interest Expense on Securities Issued	-	-	-	257,630	-	257,630
Other Interest Expense	-	-	-	-	42,300	42,300
Net Interest Income/Expense	742,443	4,177,731	2,669,511	810,162	(7,112)	8,392,735
Net Fees and Commission Income/Expense	687,916	453,066	50,437	(147,584)	11,543	1,055,378
Fees and Commissions Received	687,916	453,066	50,437	2,603	69,730	1,263,752
Fees and Commissions Paid	-	-	-	150,187	58,187	208,374
Dividend Income	-	-	-	9,865	-	9,865
Trading Income/Loss (Net)	-	-	-	(8,388)	-	(8,388)
Other Operating Income	22,039	142,315	10,138	859	558,843	734,194
Provision for Loans or Other Receivables Losses	332,986	575,053	222,680	212	265,400	1,396,331
Other Operating Expense	68,796	301,438	24,804	-	2,843,557	3,238,595
Income Before Tax	1,050,616	3,896,621	2,482,602	664,702	(2,545,683)	5,548,858
Profit/Losses from Equity Method Applied Subsidiaries	-	-	-	-	-	-
Tax Provision	-	-	-	-	(1,212,482)	(1,212,482)
Net Profit/Loss	1,050,616	3,896,621	2,482,602	664,702	(3,758,165)	4,336,376
SEGMENT ASSETS 30.06.2017						
Financial Assets at FV Through P/L	-	-	-	1,745,296	-	1,745,296
Banks and Other Financial Institutions	-	-	-	5,055,368	-	5,055,368
Financial Assets Available for Sale (Net)	-	-	-	61,477,089	-	61,477,089
Loans	77,128,646	133,198,101	51,578,918	8,949,083	-	270,854,748
Held to Maturity Investments (Net)	-	-	-	7,217,415	-	7,217,415
Associates, Subsidiaries and Joint Ventures	-	-	-	4,843,818	-	4,843,818
Other Assets	-	-	-	-	48,752,871	48,752,871
Total Segment Assets	77,128,646	133,198,101	51,578,918	89,288,069	48,752,871	399,946,605
SEGMENT LIABILITIES 30.06.2017						
Deposits	169,359,072	52,501,346	-	16,046,767	3,563,621	241,470,806
Derivative Financial Liabilities Held for Trading	-	-	-	388,509	-	388,509
Funds Borrowed	-	-	-	24,990,528	-	24,990,528
Money Market Funds	-	-	-	57,870,550	-	57,870,550
Securities Issued (Net)	-	-	-	9,894,453	-	9,894,453
Provisions	-	-	-	-	7,133,192	7,133,192
Other Liabilities	-	-	-	-	14,857,601	14,857,601
Shareholders' Equity	-	-	-	-	43,340,966	43,340,966
Total Segment Liabilities	169,359,072	52,501,346	-	109,190,807	68,895,380	399,946,605
OTHER SEGMENT ITEMS 30.06.2017						
Capital Investment	-	-	-	-	-	-
Amortization Expense	-	-	-	-	224,824	224,824
Restructuring Costs	-	-	-	-	-	-

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017

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

SECTION FOUR (Continued)

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

VIII. EXPLANATIONS ON OPERATING SEGMENTS (Continued)

Table for Segment Reporting (Continued)

Prior Period	Retail Banking	Corporate/ Entrepreneurial Banking	Specialized Banking	Treasury/ Investment Banking	Other /Undistributed	Total
OPERATING INCOME/EXPENSE 30.06.2016						
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
Profit/Losses from Equity Method Applied Subsidiaries	-	-	-	-	-	-
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 31.12.2016						
Financial Assets at FV Through P/L	-	-	-	1,684,791	-	1,684,791
Banks and Other Financial Institutions	-	-	-	3,901,674	-	3,901,674
Financial Assets Available for Sale (Net)	-	-	-	58,631,953	-	58,631,953
Loans	63,372,852	112,969,545	46,461,974	9,839,164	-	232,643,535
Held to Maturity Investments (Net)	-	-	-	8,749,464	-	8,749,464
Associates, Subsidiaries and Joint Ventures	-	-	-	4,311,740	-	4,311,740
Other Assets	-	-	-	-	47,838,208	47,838,208
TOTAL SEGMENT ASSETS	63,372,852	112,969,545	46,461,974	87,118,786	47,838,208	357,761,365
SEGMENT LIABILITIES 31.12.2016						
Deposits	152,533,664	56,051,062	-	12,093,270	2,340,938	223,018,934
Derivative Financial Liabilities Held for Trading	-	-	-	643,628	-	643,628
Funds Borrowed	-	-	-	22,816,736	-	22,816,736
Money Market Funds	-	-	-	47,211,961	-	47,211,961
Securities Issued (Net)	-	-	-	6,833,001	-	6,833,001
Provisions	-	-	-	-	6,053,011	6,053,011
Other Liabilities	-	-	-	-	12,801,656	12,801,656
Shareholders' Equity	-	-	-	-	38,382,438	38,382,438
TOTAL SEGMENT LIABILITIES	152,533,664	56,051,062	-	89,598,596	59,578,043	357,761,365
OTHER SEGMENT ITEMS 30.06.2016						
Capital Investment	-	-	-	-	-	-
Amortization Expense	-	-	-	-	160,290	160,290
Restructuring Costs	-	-	-	-	-	-

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION FIVE

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS

I. EXPLANATIONS AND NOTES RELATED TO ASSETS

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

	Current Period		Prior Period	
	TL	FC	TL	FC
Cash in TL/Foreign Currency	1,712,817	1,185,071	1,720,392	925,443
Central Bank of the Republic of Turkey	6,324,070	28,459,431	5,817,157	30,694,784
Other	1,560	7,519	3,775	5,546
Total	8,038,447	29,652,021	7,541,324	31,625,773

Information on Required Reserves

Banks that are established in Turkey or performing their operations by opening new branches in Turkey are subject to Communiqué on Required Reserves of Central Bank of the Republic of Turkey’s numbered 2015/19. Based on accounting standards and registration layout for banks and companies, the items specified within the Communiqué, except from liabilities to Central Bank, Treasury, Domestic banks, and head offices and branches in Turkey of the banks established by international agreements, constitute required reserves liabilities.

As of the balance sheet date, according to CBRT’s Communiqué about Required Reserves No. 2016/4, the required reserves ratios for commercial banks operating in Turkey are as follows: for demand deposits, notice deposits and for deposits up to 1-month maturity, and for deposits up to 3-months maturity 10.5%; for deposits up to 6-months maturity 7.5%; for deposits up to 1-year maturity 5.5%; for deposits 1-year and longer maturity 4%; for TL liabilities other than deposits up to 1-year maturity 10.5%; for TL liabilities other than deposits between 1- and 3-years maturity 7%; for TL liabilities other than deposits more than 3-years maturity 4%; for FC deposit accounts, demand deposits, up to 1-month, up to 3-months, up to 6-months and up to 1-year maturities 12%; for FC deposit accounts with 1-year and longer maturity 8%, for FC liabilities other than deposits up to 1-year maturity 24%; for FC liabilities other than deposits up to 2-years maturity 19%; for FC liabilities other than deposits up to 3-years maturity 14%; for FC liabilities other than deposits up to 5-years maturity 6%; and for FC liabilities other than deposits more than 5-years maturity 4%.

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

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

	Current Period		Prior Period	
	TL	FC	TL	FC
Unrestricted Demand Deposit	6,182,229	3,274,772	5,719,162	2,254,136
Unrestricted Time Deposit	-	699,125	-	2,312,376
Restricted Time Deposit	-	721	-	-
Required Reserves ⁽¹⁾ ⁽²⁾	141,841	24,484,813	97,995	26,128,272
Total	6,324,070	28,459,431	5,817,157	30,694,784

⁽¹⁾ Required reserve of branches abroad amounting to TL 86,008 is presented in this line (31 December 2016: TL 88,706).

⁽²⁾ TL 11,566,449 of the current period’s FC required reserve is the part of the TL required reserves that are held in FC (31 December 2016: TL 12,506,189).

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017

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

SECTION FIVE (Continued)

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

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

None.

3. Positive differences related to the derivative financial assets held-for-trading

Derivative financial assets held-for-trading	Current Period		Prior Period	
	TL	FC	TL	FC
Forward Transactions	43,866	44,631	34,251	53,817
Swap Transactions	1,121,603	521,586	1,161,871	417,406
Futures Transactions	-	-	-	-
Options	8	716	42	-
Other	-	-	-	-
Total	1,165,477	566,933	1,196,164	471,223

4. Information on banks and other financial institutions

	Current Period		Prior Period	
	TL	FC	TL	FC
Banks				
Domestic Banks	462,428	200,333	460,807	103,935
Foreign Banks	73,756	2,481,432	66,300	3,270,632
Foreign Head Office and Branches	-	-	-	-
Total	536,184	2,681,765	527,107	3,374,567

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

	Current Period	Prior Period
Assets Subject to Repurchase Agreements	18,934,768	41,249,265
Assets Blocked/Given as Collateral	40,242,073	5,865,705
Total	59,176,841	47,114,970

6. Information on financial assets available for sale

	Current Period	Prior Period
Debt Securities	61,693,910	59,985,217
Quoted in Stock Exchange	61,613,605	59,908,367
Not Quoted in Stock Exchange	80,305	76,850
Share Certificates	775,779	676,873
Quoted in Stock Exchange	624,251	525,325
Not Quoted in Stock Exchange	151,528	151,548
Provision for Impairment (-)	992,600	2,030,137
Total	61,477,089	58,631,953

7. Information related to loans

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

	Current Period		Prior Period	
	Cash	Non-Cash	Cash	Non-Cash
Direct Loans Granted to Shareholders	-	-	-	-
Legal Entities	-	-	-	-
Individuals	-	-	-	-
Indirect Loans Granted to Shareholders	-	-	-	-
Loans Granted to Employees ^{(1) (2)}	321,110	-	273,923	-
Total	321,110	-	273,923	-

(1) Interest rediscount and interest accrual amounting TL 2,599, are not included in the table above.

(2) Since the balance of overdraft accounts related to employees amounting TL 9,448, is showed under Table 7.3. as overdraft accounts (real person), it is not included to the table above.

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION FIVE (Continued)

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

7. Information related to loans (Continued)

7.2 Information on the first and second group loans and other receivables including restructured or rescheduled loans

Cash Loans	Standard Loans and Other Receivables			Loans and Other Receivables Under Close Monitoring		
	Loans and Other Receivables	Restructured or Rescheduled	Other	Loans and Other Receivables	Restructured or Rescheduled	Other
		Loans and other receivables with revised contract terms ⁽¹⁾			Loans and other receivables with revised contract terms ⁽¹⁾	
Non-Specialized Loans	209,052,834	3,481,262	-	1,619,114	2,077,361	-
Commercial Loans	124,353,978	2,067,076	-	859,971	1,846,224	-
Export Loans	3,788,345	-	-	3,797	-	-
Import Loans	-	-	-	-	-	-
Loans Given to Financial Sector	5,156,941	-	-	-	-	-
Consumer Loans	71,227,658	1,414,046	-	691,822	228,005	-
Credit Cards	3,573,426	140	-	53,944	3,132	-
Other ⁽²⁾	952,486	-	-	9,580	-	-
Specialized Lending ^{(3) (4)}	43,305,219	4,417,182	-	589,263	404,507	-
Other Receivables	-	-	-	-	-	-
Interest Income Accruals ⁽²⁾	5,676,082	-	-	-	-	-
Total	258,034,135	7,898,444	-	2,208,377	2,481,868	-

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

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

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

⁽⁴⁾ Agriculturally qualified farmer standby loans have been displayed under Specialized Lending.

No. of extensions	Standard Loans and Other Receivables	Loans and Other Receivables Under Close Monitoring
1 or 2 Times Extended ^(*)	7,570,848	2,338,724
3 - 4 or 5 Times Extended	327,100	141,726
Over 5 Times Extended	496	1,418

^(*) 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	4,642,769	1,384,634
6 - 12 Months	425,777	164,424
1 - 2 Years	2,162,467	436,347
2 - 5 Years	625,983	442,116
5 Years and Over	41,448	54,347
Total	7,898,444	2,481,868

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017

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

SECTION FIVE (Continued)

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

7. Information related to loans (Continued)

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

	Short-Term	Medium and Long-Term	Total
Consumer Loans-TL	479,835	71,849,742	72,329,577
Real Estate Loans ⁽²⁾	10,130	42,939,693	42,949,823
Vehicle Loans	1,990	181,315	183,305
Consumer Loans ⁽²⁾	463,543	28,381,137	28,844,680
Abroad	4,172	347,597	351,769
Other	-	-	-
Consumer Loans- Indexed to FC	-	-	-
Real Estate Loans	-	-	-
Vehicle Loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Consumer Loans-FC	431	23,429	23,860
Real Estate Loans	-	260	260
Vehicle Loans	-	-	-
Consumer Loans	-	3,406	3,406
Abroad	431	19,763	20,194
Other	-	-	-
Individual Credit Cards-TL	3,003,087	35,428	3,038,515
With Installment	965,747	32,484	998,231
Without Installment	2,037,340	2,944	2,040,284
Individual Credit Cards-FC	336	-	336
With Installment	-	-	-
Without Installment	336	-	336
Personnel Loans-TL	10,550	227,301	237,851
Real Estate Loans	-	143	143
Vehicle Loans	-	-	-
Consumer Loans	10,448	225,063	235,511
Abroad	102	2,095	2,197
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	82,583	647	83,230
With Installment	35,868	573	36,441
Without Installment	46,715	74	46,789
Personnel Credit Cards-FC	29	-	29
With Installment	-	-	-
Without Installment	29	-	29
Overdraft Accounts-TL (Real Person)	970,243	-	970,243
Overdraft Accounts-FC (Real Person)	-	-	-
Total ⁽¹⁾	4,547,094	72,136,547	76,683,641

⁽¹⁾ TL 439,718 of interest income accrual is not included in the table above.

⁽²⁾ Consumer loans originated from funds amounting to TL 3,709,345 of are included in the table above.

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017

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

SECTION FIVE (Continued)

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

7. Information related to loans (Continued)

7.4. Information on commercial installment loans and corporate credit cards

	Short-Term	Medium and Long-Term	Total
Commercial Installment Loans-TL	2,107,968	27,057,342	29,165,310
Business Loans	1,606	492,781	494,387
Vehicle Loans	41,664	848,568	890,232
Consumer Loans	2,064,698	25,715,993	27,780,691
Other	-	-	-
Commercial Installment Loans- Indexed to FC	-	-	-
Business Loans	-	-	-
Vehicle Loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Commercial Installment Loans - FC	4,983	16,741,536	16,746,519
Business Loans	-	-	-
Vehicle Loans	-	-	-
Consumer Loans	4,983	16,741,536	16,746,519
Other	-	-	-
Corporate Credit Cards-TL	502,752	5,677	508,429
With Installment	171,889	5,645	177,534
Without Installment	330,863	32	330,895
Corporate Credit Cards-FC	103	-	103
With Installment	-	-	-
Without Installment	103	-	103
Overdraft Account-TL (Legal Entity)	139,982	-	139,982
Overdraft Account-FC (Legal Entity)	-	-	-
Total ⁽¹⁾	2,755,788	43,804,555	46,560,343

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

7.5. Breakdown of domestic and international loans

	Current Period	Prior Period
Domestic Loans	259,291,404	222,345,932
Foreign Loans	5,655,338	5,534,117
Interest Income Accruals of Loans	5,676,082	4,512,037
Total	270,622,824	232,392,086

7.6. Loans granted to subsidiaries and associates

	Current Period	Prior Period
Direct loans granted to subsidiaries and associates	1,540,132	1,168,414
Indirect loans granted to subsidiaries and associates	-	-
Total	1,540,132	1,168,414

7.7. Specific provisions provided against loans

	Current Period	Prior Period
Loans and other receivables with limited collectability	174,148	340,774
Loans and other receivables with doubtful collectability	695,776	934,428
Uncollectible loans and other receivables	3,312,563	2,690,446
Total	4,182,487	3,965,648

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017

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

SECTION FIVE (Continued)

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

7. Information related to loans (Continued)

7.8. Information on non-performing receivables (net)

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

	Group III:	Group IV:	Group V:
	Loans and receivables with limited collectability	Loans and receivables with doubtful collectability	Uncollectible loans and receivables
Current period	7,949	57,084	139,872
(Gross amounts before the specific provisions)			
Loans and other receivables which are restructured	7,949	57,084	139,872
Rescheduled loans and other receivables	-	-	-
Prior period	14,498	58,203	127,037
(Gross amounts before the specific provisions)			
Loans and other receivables which are restructured	14,498	58,203	127,037
Rescheduled loans and other receivables	-	-	-

7.8.2. Information on the movement of non-performing receivables

	Group III:	Group IV:	Group V:
	Loans and receivables with limited collectability	Loans and receivables with doubtful collectability	Uncollectible loans and receivables
Prior Period Ending Balance	342,701	943,119	2,931,277
Additions (+)	631,571	78,306	149,848
Transfers from Other Categories of Loans under Follow-Up (+)	-	737,386	955,674
Transfers to Other Categories of Loans under Follow-Up (-)	737,386	955,674	-
Collections (-) ⁽¹⁾	62,369	93,798	506,244
Write-offs (-)	-	-	-
Corporate and Commercial Loans	-	-	-
Consumer Loans	-	-	-
Credit Cards	-	-	-
Other	-	-	-
Current Period End Balance ⁽²⁾	174,517	709,339	3,530,555
Specific Provision (-) ⁽³⁾	174,148	695,776	3,312,563
Net Balance on Balance Sheet ⁽²⁾	369	13,563	217,992

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

⁽²⁾ Includes the loans originated from funds amounting to TL 231,924 whose risk does not belong to the Bank.

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

TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş.
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017

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

SECTION FIVE (Continued)

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

7. Information related to loans (Continued)

7.8.3. Information on foreign currency non-performing loans

	Group III	Group IV	Group V
	Loans and other receivables with limited collectability	Loans and other receivables with doubtful collectability	Uncollectible loans and other receivables
Current Period:			
Period Ending Balance	228	90	16,029
Specific Provision (-)	228	90	16,029
Net Balance on Balance Sheet	-	-	-
Prior Period:			
Period Ending Balance	254	34	16,550
Specific Provision (-)	254	34	16,550
Net Balance on Balance Sheet	-	-	-

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

	Group III	Group IV	Group V
	Loans and other receivables with limited collectability	Loans and other receivables with doubtful collectability	Uncollectible loans and other receivables
Current Period (Net)	369	13,563	217,992
Loans to Real Persons and Legal Entities (Gross)	174,517	631,237	3,530,555
Specific Provisions (-)	174,148	617,674	3,312,563
Loans to Real Persons and Legal Entities (Net)	369	13,563	217,992
Banks (Gross)	-	-	-
Specific Provisions (-)	-	-	-
Banks (Net)	-	-	-
Other Loans and Receivables (Gross)	-	78,102	-
Specific Provisions (-)	-	78,102	-
Other Loans and Receivables (Net)	-	-	-
Prior Period (Net)	1,927	8,691	240,831
Loans to Real Persons and Legal Entities (Gross)	342,701	867,487	2,931,277
Specific Provisions (-)	340,774	858,796	2,690,446
Loans to Real Persons and Legal Entities (Net)	1,927	8,691	240,831
Banks (Gross)	-	-	-
Specific Provisions (-)	-	-	-
Banks (Net)	-	-	-
Other Loans and Receivables (Gross)	-	75,632	-
Specific Provisions (-)	-	75,632	-
Other Loans and Receivables (Net)	-	-	-

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017

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

SECTION FIVE (Continued)

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

8. Information on held-to-maturity investments

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

Held-to-maturity investments subject to repo transactions

	Current Period		Prior Period	
	TL	FC	TL	FC
Government Bonds	241,471	1,912,463	2,301,823	2,384,104
Treasury Bills	-	-	-	-
Other Public Sector Debt Securities	-	-	-	-
Bank Bonds and Bank Guaranteed Bonds	-	-	-	-
Asset Backed Securities	-	-	-	-
Other	-	-	-	-
Total	241,471	1,912,463	2,301,823	2,384,104

Held-to-maturity investments given as collateral or blocked

	Current Period		Prior Period	
	TL	FC	TL	FC
Bills	-	-	-	-
Bonds and Similar Investment Securities	2,313,661	2,444,812	1,089,898	2,252,339
Other	-	-	-	-
Total	2,313,661	2,444,812	1,089,898	2,252,339

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

	Current Period	Prior Period
Government Bonds	7,032,991	8,602,440
Treasury Bills	-	-
Other Public Sector Debt Securities	-	-
Total	7,032,991	8,602,440

8.3 Information on held-to-maturity investments

	Current Period	Prior Period
Debt securities	7,217,415	8,749,464
Quoted in a Stock Exchange	7,032,991	8,602,440
Not Quoted in a Stock Exchange	184,424	147,024
Provision for Impairment (-)	-	-
Total	7,217,415	8,749,464

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION FIVE (Continued)

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

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

8.4 Movements of held-to-maturity investments

	Current Period	Prior Period
Beginning Balance	8,749,464	10,144,142
Foreign Currency Differences on Monetary Assets	97,855	466,322
Purchases During the Year	334,597	937,047
Disposals through Sales and Redemptions	(1,964,501)	(2,798,047)
Provision for Impairment (-)	-	-
Period End Balance	7,217,415	8,749,464

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”).

Revaluation differences of reclassified available for sale securities before deferred tax are TL 68,984, EUR (23,067) thousand and USD (15,207) thousand respectively and are recorded under shareholders’ equity. These balances will be amortized until the redemption date of related securities using straight-line method and recorded as interest income or expense. At the end of balance sheet date, negative revaluation differences which are accounted under shareholders’ equity are amounted as USD 9,717 thousand and EUR 704 thousand respectively.

As of balance sheet date, the total fair values of reclassified held for trading securities to held to maturity securities are EUR 19,848 thousand and USD 66,217 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 30,827 would have been recorded. As of 30 June 2017, the reclassification from held for trading securities to held-to-maturity investments has an expense impact of TL 23,476.

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION FIVE (Continued)

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

9. Information about associates (net)

	Description	Address (City/ Country)	The Bank’s Share Percentage, if Different, Voting Percentage (%)	The Bank’s Risk Group Share Percentage (%)
1	Bankalararası Kart Merkezi A.Ş.	Istanbul/Turkey	12.50	17.98
2	Kredi Kayıt Bürosu A.Ş.	Istanbul/ Turkey	10.00	9.09
3	Arap Türk Bankası A.Ş.	Istanbul/Turkey	22.22	15.43

	Total Assets ⁽²⁾	Shareholders’ Equity ⁽²⁾	Total Non- Current Assets ^{(2),(3)}	Interest Income (²)	Income from Marketable Securities ⁽²⁾	Current Period Profit / Loss ⁽²⁾	Prior Period Profit / Loss ⁽²⁾	Fair Value ⁽¹⁾
1	82,168	44,063	49,254	584	-	4,167	9,586	-
2	225,170	147,478	153,855	2,457	-	25,565	10,180	-
3	5,113,463	747,888	114,444	74,722	39,092	42,919	35,383	-

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

⁽²⁾ Current period information of associates has been provided from reviewed financial statements as of 30 June 2017. Prior period profit/loss information of associates has been provided from limited reviewed financial statements as of 30 June 2016.

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

9.1 Information about Financial associates (net)

	Current Period	Prior Period
Balance at the Beginning of the Period	88,846	88,846
Movement During the Period	-	-
Additions	-	-
Bonus Share Certificates	-	-
Shares of Current Year Profits	-	-
Transfer	-	-
Sales	-	-
Revaluation	-	-
Impairment Provision	-	-
Balance at the End of the Period	88,846	88,846
Capital Commitments	-	-
Period Ending Share of Capital Participation (%)	15.43	15.43

	Current Period	Prior Period
Banks	88,846	88,846
Insurance Companies	-	-
Factoring Companies	-	-
Leasing Companies	-	-
Finance Companies	-	-
Other Financial Associates	-	-

9.2 Associates quoted to a stock exchange

None (31 December 2016: None).

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION FIVE (Continued)

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

10. Information on subsidiaries (net)

Investments related to subsidiaries and joint ventures operating abroad in foreign currency are followed by their fair values. For these subsidiaries, fair value is determined by valuation reports, TL equivalents of investments related to subsidiaries are fixed as of revaluation date and revaluation differences added to subsidiaries’ values are recognized in “Marketable Securities Value Increase Fund” under shareholders’ equity.

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

^(*) Tbilisi branch and Batum and Marneuli branches of the Bank which are operating in Georgia will be gathered under the Bank’s roof as of 2 May 2017 and will continue to operate as subsidiaries with JSC Ziraat Bank Georgia title and all of the capital belonging to the Bank.

	Total Assets ⁽³⁾	Shareholders’ Equity ⁽³⁾	Total Non- Current Assets ⁽³⁾	Interest Income ^{(3) (4)}	Income from Marketable Securities ⁽²⁾	Current Period Profit / Loss ⁽³⁾	Prior Period Profit / Loss ⁽³⁾	Fair Value ⁽¹⁾	Shareholders equity amount needed
1	4,764,168	594,630	3,094	89,801	-	200,598	78,701	-	-
2	1,125,990	349,570	1,934	40,021	-	84,353	53,638	-	-
3	2,659,175	327,848	5,962	744	-	35,291	28,332	-	-
4	160,172	115,592	464	25,232	432,702	20,240	11,229	-	-
5	37,156	33,219	729	1,733	13,307	6,839	4,068	-	-
6	10,925,489	815,273	66,817	372,179	21,088	53,670	2,469	-	-
7	1,342,138	1,341,547	1,049,727	16,897	-	27,818	-	-	-
8	55,002	10,313	17,308	555	63	(2,462)	41	-	-
9	6,726,662	833,048	16,364	101,259	1,206	33,958	18,806	782,931	-
10	1,919,076	320,733	72,972	40,729	240	2,250	7,765	280,456	-
11	309,912	145,397	10,901	15,420	122	6,637	4,553	109,090	-
12	562,306	263,428	14,320	17,607	4,694	9,704	7,250	237,838	-
13	314,842	148,848	22,647	10,260	421	3,607	6,577	135,261	-
14	200,585	29,815	3,655	3,279	121	(1,734)	(2,894)	29,540	-
15	131,760	32,969	5,700	705	218	549	-	32,078	-

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

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

⁽³⁾ Information on subsidiaries shown in the above table has been provided from unreviewed financial statements as of 30 June 2017, the prior period profit/loss balances have been provided from limited reviewed financial statements as of 30 June 2016.

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

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION FIVE (Continued)

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

10. Information on subsidiaries (net) (Continued)

	Current Period	Prior Period
Balance at the Beginning of the Period	4,101,352	2,442,943
Movements During the Period	532,078	1,658,409
Additions to Scope of Consolidation	-	-
Purchases ⁽¹⁾	532,078	1,446,624
Bonus Shares Obtained	-	2,996
Dividends from current year income	-	-
Transfers to available for sale assets	-	-
Sales	-	-
Revaluation Increase	-	281,824
Impairment Provision (-)	-	73,035
Balance at the End of the Period	4,633,430	4,101,352
Capital Commitments	-	-
Share percentage at the end of the period (%)	-	-

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

	Current Period	Prior Period
Banks	2,854,194	2,322,116
Insurance Companies	129,972	129,972
Factoring Companies	-	-
Leasing Companies	282,839	282,839
Financing Companies	-	-
Other Financial Subsidiaries	1,366,425	1,366,425

10.1. Subsidiaries which are quoted on a stock exchange

None (31 December 2016: None).

11. Information on entities under common control (joint ventures)

Entities under Common Control (Joint Ventures) ⁽¹⁾	Parent Bank’s Share ⁽²⁾	Group’s Share	Current Assets	Non- Current Assets	Long Term Liabilities	Income	Expense
Turkmen Turkish Joint Stock Commercial Bank	45,391	45,391	1,095,258	11,965	26,142	21,792	13,686
UTBANK JSC	75,646	75,676	257,272	3,095	786	35,116	15,395
Total	121,037	121,067	1,352,530	15,060	26,928	56,908	29,081

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

⁽²⁾ Represents the Bank’s share in the shareholders’ equity of these entities under common control based on the shareholding rate of the Bank.

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

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION FIVE (Continued)

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

12. Information on finance lease receivables (net)

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

13. Information on derivative financial assets for hedging purposes

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

14. Information on investment property

None (31 December 2016: None).

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

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

The Bank’s immovables acquired amount to TL 638,363 consisting of TL 12,833 due to consumer loans, TL 562,016 on its commercial loans and TL 63,514 on its agricultural loans. Also, the sum of movables acquired from consumer loan amounts to TL 2,857.

16. Explanations on property and equipment

	Immovables	Tangibles- Financial Leasing	Vehicles	Operational Leasing Development Costs	Other Tangibles	Total
Prior Period End						
Cost	5,779,796	12,349	44,429	229,108	833,077	6,898,759
Accumulated Depreciation (-)	963,644	3,323	25,671	146,507	442,099	1,581,244
Impairment (-)	2,312	-	-	-	-	2,312
Net Book Value	4,813,840	9,026	18,758	82,601	390,978	5,315,203
Current Period End						
Net Book Value at the Beginning of the Period	4,813,840	9,026	18,758	82,601	390,978	5,315,203
Change During the Period (Net)	(138,229)	56	(3,039)	(7,567)	10,330	(138,449)
- Cost	(22,887)	703	(709)	9,859	59,439	46,405
- Depreciation – net (-)	115,342	647	2,330	17,426	49,109	184,854
- Impairment (-)	-	-	-	-	-	-
Net Currency Translation from Foreign Subsidiaries	-	-	-	-	-	-
Cost at Period End	5,756,909	13,052	43,720	238,967	892,516	6,945,164
Accumulated Depreciation at Period End (-)	1,078,986	3,970	28,001	163,933	491,208	1,766,098
Impairment (-)	2,312	-	-	-	-	2,312
Closing Net Book Value	4,675,611	9,082	15,719	75,034	401,308	5,176,754

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

None (31 December 2016: None).

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

None (31 December 2016: None).

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION FIVE (Continued)

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES

1. Information on Deposits/Funds collected

1.1. Information on maturity structure of deposits collected

Current Period	Demand	7 Days Call Accounts	Up to 1 Month	1-3 Months	3-6 Months	6 Months-1 Year	1 Year and Over	Cumulative Deposits	Total
Saving Deposits	25,295,207	-	2,950,308	60,743,382	4,756,665	986,716	834,124	77,618	95,644,020
Foreign Currency Deposits	19,205,928	-	5,862,246	23,638,077	5,369,006	4,407,629	15,231,569	597	73,715,052
Residents in Turkey	15,954,860	-	5,265,736	18,445,053	3,195,003	1,716,748	4,802,493	571	49,380,464
Residents Abroad	3,251,068	-	596,510	5,193,024	2,174,003	2,690,881	10,429,076	26	24,334,588
Public Sector Deposits	4,909,500	-	6,870,657	5,043,916	2,335,507	4,957,437	13,533	-	24,130,550
Commercial Inst. Deposits	5,649,034	-	5,068,995	6,801,442	1,565,418	1,923,862	14,351	-	21,023,102
Other Inst. Deposits	1,802,461	-	1,371,276	2,427,375	390,535	379,483	997,495	-	7,368,625
Precious Metals	3,150,222	-	40,815	307,035	29,325	21,228	14,996	-	3,563,621
Interbank Deposits	1,524,470	-	10,760,877	684,767	1,012,172	1,667,601	375,949	-	16,025,836
CBRT	8,789	-	-	-	-	-	-	-	8,789
Domestic Banks	93,369	-	8,784,728	122,916	212,961	-	2,093	-	9,216,067
Foreign Banks	256,421	-	1,976,149	561,851	799,211	1,667,601	373,856	-	5,635,089
Participation Banks	1,165,891	-	-	-	-	-	-	-	1,165,891
Other	-	-	-	-	-	-	-	-	-
Total	61,536,822	-	32,925,174	99,645,994	15,458,628	14,343,956	17,482,017	78,215	241,470,806

Prior Period	Demand	7 Days Call Accounts	Up to 1 Month	1-3 Months	3-6 Months	6 Months-1 Year	1 Year and Over	Cumulative Deposits	Total
Saving Deposits	21,995,821	-	3,023,954	59,361,003	4,378,317	974,707	798,679	44,170	90,576,651
Foreign Currency Deposits	15,258,270	-	6,027,777	17,500,205	4,968,506	3,839,907	14,361,729	619	61,957,013
Residents in Turkey	13,495,718	-	5,793,930	14,835,795	4,270,715	3,044,420	10,808,628	619	52,249,825
Residents Abroad	1,762,552	-	233,847	2,664,410	697,791	795,487	3,553,101	-	9,707,188
Public Sector Deposits	6,142,683	-	2,831,975	6,846,612	2,056,284	4,742,350	13,571	-	22,633,475
Commercial Inst. Deposits	5,909,878	-	7,469,751	9,373,969	461,512	13,101	29,439	-	23,257,650
Other Inst. Deposits	1,786,765	-	2,708,390	4,149,597	343,730	353,031	851,744	-	10,193,257
Precious Metals	2,042,960	-	32,607	213,683	23,155	15,622	12,911	-	2,340,938
Interbank Deposits	1,731,844	-	4,933,257	1,650,521	635,446	2,303,709	805,173	-	12,059,950
CBRT	3,750	-	-	-	-	-	-	-	3,750
Domestic Banks	397,818	-	4,405,820	69,430	191,176	-	6,363	-	5,070,607
Foreign Banks	245,568	-	527,437	1,581,091	444,270	2,303,709	798,810	-	5,900,885
Participation Banks	1,084,708	-	-	-	-	-	-	-	1,084,708
Other	-	-	-	-	-	-	-	-	-
Total	54,868,221	-	27,027,711	99,095,590	12,866,950	12,242,427	16,873,246	44,789	223,018,934

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

**TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş.
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION FIVE (Continued)

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES (Continued)

1. Information on Deposits/Funds collected (Continued)

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

	Under the Guarantee of Deposit Insurance		Exceeding Deposit Insurance Limit	
	Current Period	Prior Period	Current Period	Prior Period
Saving Deposits				
Saving Deposits ⁽¹⁾	64,668,740	60,568,084	30,709,807	29,701,060
Foreign Currency Saving Deposits ⁽¹⁾	25,052,039	21,431,931	33,095,636	28,972,511
Other Deposits in the form of Saving Deposits	-	-	-	-
Deposits at Foreign Branches and under the Guarantees of Foreign Authority Insurance ⁽²⁾	710,776	636,306	59,285	42,853
Deposits at Off-Shore Banking Regions’ and under Foreign Authorities’ Insurance	-	-	-	-

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

⁽²⁾ In Bulgaria and Greece, since both real person and legal entity’s saving deposits are under the guarantee of insurance and since such balances included in insurance limit are calculated by the system, the legal entity saving deposits amounting to TL 67,256 and TL 22,022 respectively, cannot be decomposed by type and are therefore included in the table above (31 December 2016: Bulgaria and Greece, TL 47,282 and TL 13,226, respectively).

Based on the Council of Minister’s decree dated 29 December 2003 and numbered 2003/6668, TL 907 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 699,664 of interest expense accrual is included in the above-mentioned figures in accordance with the Communiqué on Insurance Deposits and Participation Funds and Premiums Collected by the Savings Deposit Insurance Fund published in the Official Gazette dated 15 February 2013 and numbered 28560.

1.3. Information on saving deposits/real persons’ private current and accession accounts not related to commercial transactions in a Turkish branch of the Bank whose head office is abroad, and reasons if it is covered in where the head office is located

The Bank’s head office is located in Turkey.

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION FIVE (Continued)

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES (Continued)

1. Information on Deposits/Funds collected (Continued)

1.4. Saving deposits of real persons not covered by the deposit insurance fund

	Current Period	Prior Period
Deposits and other Accounts in Branches Abroad	96,067	81,373
Deposits of Ultimate Shareholders and Their Close Family Members	-	-
Deposits of Chairman and Members of the Board of Directors, CEO, Executive Vice Presidents and Their Close Family Members	5,521	6,448
Deposits Obtained through Illegal Acts Defined in the 282 nd Article of the 5237 numbered Turkish Criminal Code dated September 26, 2004	-	-
Saving Deposits in Banks Established in Turkey Exclusively for Off-Shore Banking Activities	-	-

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

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

	Current Period		Prior Period	
	TL	FC	TL	FC
Forward Transactions	39,955	38,400	33,498	51,481
Swap Transactions	58,316	251,225	206,170	352,444
Futures Transactions	-	-	-	-
Options	3	610	35	-
Other	-	-	-	-
Total	98,274	290,235	239,703	403,925

3. Information on banks and other financial institutions

	Current Period		Prior Period	
	TL	FC	TL	FC
Borrowings from CBRT	-	-	-	-
Domestic Banks and Institutions	250,645	994,224	854,994	613,745
Foreign Banks, Institutions and Funds	928,915	22,816,744	933,948	20,414,049
Total	1,179,560	23,810,968	1,788,942	21,027,794

3.1. Maturity structure of funds borrowed

	Current Period		Prior Period	
	TL	FC	TL	FC
Short-Term	235,400	7,640,909	844,858	6,024,836
Medium and Long-Term	944,160	16,170,059	944,084	15,002,958
Total	1,179,560	23,810,968	1,788,942	21,027,794

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

60.38% of the Bank’s liabilities consist of deposits. Deposits have a diversified base and have steady structures. The Bank’s liabilities are not subject to a significant concentration risk (31 December 2016: None).

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION FIVE (Continued)

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES (Continued)

4. Information on funds supplied from repurchase agreements

	Current Period		Prior Period	
	TL	FC	TL	FC
From Domestic Transactions	5,347,507	-	30,251,538	-
Financial Institutions and Organizations	5,103,593	-	30,077,731	-
Other Institutions and Organizations	238,090	-	166,520	-
Real Person	5,824	-	7,287	-
From Overseas Operations	-	12,929,790	-	12,270,423
Financial Institutions and Organizations	-	12,929,790	-	12,270,423
Other Institutions and Organizations	-	-	-	-
Real Person	-	-	-	-
Total	5,347,507	12,929,790	30,251,538	12,270,423

5. Information on securities issued

	Current Period		Prior Period	
	TL	FC	TL	FC
Bank Bonds	3,041,927	-	2,156,778	-
Asset-Backed Securities	-	-	-	-
Treasury Bills	-	6,852,526	-	4,676,223
Total	3,041,927	6,852,526	2,156,778	4,676,223

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

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

7. Information on finance lease payables (net)

In the 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 represented in the table below:

	Current Period		Prior Period	
	Gross	Net	Gross	Net
Less than 1 Year	438	435	499	492
Between 1-4 Years	-	-	-	-
More than 4 Years	-	-	-	-
Total	438	435	499	492

8. Information on derivative financial liabilities for hedging purposes

There are no derivative financial liabilities for hedging purposes (31 December 2016: 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.
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION FIVE (Continued)

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES (Continued)

9. Explanations on provisions

9.1. Information on general provisions

	Current Period	Prior Period
General Provisions	4,505,925	3,921,625
Allocated for Group-I Loans and Receivables	3,695,933	3,190,815
Additional Provision for Loans and Receivables with Extended Maturities	288,873	233,456
Allocated for Group-II Loans and Receivables	194,195	175,700
Additional Provision for Loans and Receivables with Extended Maturities	77,543	61,127
Allocated for Non-cash Loans	524,632	465,263
Other	91,165	89,847

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

Foreign exchange loss provisions on foreign currency indexed loans and finance lease receivables amount to TL 9,259 (31 December 2016: TL 327).

9.3. Specific provisions for unindemnified non-cash loans

Specific provisions for unindemnified non-cash loans amount to TL 144,901 (31 December 2016: TL 150,916).

9.4. Information on other provisions

9.4.1. Information on free provisions for possible risks

These financial statements include a free provision which is not in accordance with BRSA Principles amounting to TL 1,210,000 which has a part of TL 265,000 from the current period, provided by the Bank management in line with the conservatism principle considering the circumstances that may arise from any changes in the economy or market conditions. Moreover, the provision of TL 19,700 and other provision of TL 211 exist for cash transfers made by Bank officials.

	Current Period	Prior Period
Free provisions for possible risks	1,229,911	964,944

9.4.2. The names and amounts of sub-accounts of other provisions exceeding 10% of the total provision amount

Based on the information provided by the legal department, lawsuits against the Bank over TL 100 amounts to TL 67,633. Full provision has been provided in these financial statements for law suits ended against the Bank but not finalized yet, amounting to TL 36,650.

Based on the decision of the Bank management, provision amounting to TL 54,000 is provided for the consumer loans followed under standard loan portfolio that also have amounts in the non-performing loan portfolio in compliance with the Act on Preservation of Consumers numbered 4077. The provision is made in accordance with the “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 (31 December 2016: TL 60,400).

The Bank also provided provisions amounting to TL 144,901 (31 December 2016: TL 150,916) for unindemnified non-cash loans, and TL 39,627 (31 December 2016: TL 41,728) for other provisions. As a result of the provisions mentioned above, the other provision balance on the Bank’s balance sheet amounts to TL 1,505,089 (31 December 2016: TL 1,253,697).

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION FIVE (Continued)

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES (Continued)

9. Explanations on provisions (Continued)

9.5. Vacation and employment termination benefits obligations

9.5.1. Employment termination benefits and unused vacation rights

The Bank accounts for its vacation and retirement pay obligations in accordance with the TAS 19 “Employee Benefits”. The vacation and retirement pay obligations recognized in the balance sheet represent the present value of the defined benefit obligation. As of 30 June 2017, unpaid vacation liability amounted to TL 227,350 (31 December 2016: TL 187,500), and employment termination amounted to TL 769,828 (31 December 2016: TL 690,189) are presented under the “Employee Benefits Provision” in the financial statements.

9.5.2. Information on additional bonus paid to the personnel

The Bank has set provision amounting to TL 125,000 for additional bonus will be paid to the personnel with the resolution of General Assembly (31 December 2016: None).

10. Information on tax liability

10.1. Information on current tax liability

10.1.1. Information on tax provisions

As of 30 June 2017, the remaining corporate tax liability after deducting temporary taxes paid for the period is TL 360,128 (31 December 2016: TL 404,409).

10.1.2. Information on current taxes payable

	Current Period	Prior Period
Corporate Tax Payable	360,128	404,409
Taxation on Income From Securities	164,263	211,632
Property Tax	2,592	2,399
Banking Insurance Transactions Tax (BITT)	141,710	138,046
Foreign Exchange Transactions Tax	54	59
Value Added Tax Payable	4,150	5,881
Other	157,463	62,453
Total	830,360	824,879

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION FIVE (Continued)

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES (Continued)

10. Information on tax liability (Continued)

10.2. Information on premiums

	Current Period	Prior Period
Social Security Premiums - Employee	37	33
Social Security Premiums - Employer	51	47
Bank Social Aid Pension Fund Premium - Employee	24,380	8,840
Bank Social Aid Pension Fund Premium - Employer	34,020	12,400
Pension Fund Membership Fees and Provisions - Employee	2	13
Pension Fund Membership Fees and Provisions - Employer	33	59
Unemployment Insurance - Employee	1,748	1,348
Unemployment Insurance - Employer	3,497	2,696
Other	-	-
Total	63,768	25,436

10.3. Information on deferred tax liabilities, if any

The Bank’s deferred tax liability amounts to TL 183,551 (31 December 2016: TL 75,757).

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

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

12. Explanations on subordinated debts

The Bank does not have any subordinated debts.

13. Information on shareholders’ equity

13.1. Presentation on paid-in capital

	Current Period	Prior Period
Common stock	5,100,000	5,100,000
Preferred stock	-	-

13.2. Paid-in capital amount, explanation whether the registered capital system is applicable by the bank, if so the registered capital ceiling amount

The Bank does not have a registered capital system.

13.3. Information on share capital increases and their sources; other information on increased capital shares in the current period

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

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION FIVE (Continued)

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES (Continued)

13. Information on shareholders’ equity (Continued)

13.4. Information on additions from capital reserves to capital in the current period

There is no share capital amount included in capital.

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

The Bank has no capital commitments.

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

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

13.7. Information on preferred shares representing the capital

The Bank has no preferred shares.

13.8. Information on marketable securities value increase fund

	Current Period		Prior Period	
	TL	FC	TL	FC
From Subsidiaries, Associates and Entities under Common Control	615,642	1,025	615,642	1,025
Revaluation Difference	-	1,025	-	1,025
Foreign Exchange Difference	615,642	-	615,642	-
From Available for Sale Marketable Securities	(1,083,434)	677,590	(1,259,685)	(355,468)
Revaluation Difference	(1,181,990)	677,590	(1,656,280)	(355,468)
Deferred Tax Effect	98,556	-	396,595	-
Foreign Exchange Difference	-	-	-	-
Total	(467,792)	678,615	(644,043)	(354,443)

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION FIVE (Continued)

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

III. EXPLANATIONS AND NOTES TO OFF-BALANCE SHEET ACCOUNTS

1. Information on off-balance sheet liabilities

1.1. Nature and amount of irrevocable loan commitments

	Current Period	Prior Period
Commitments for Credit Card Expenditure Limits	7,867,565	7,258,758
Other Irrevocable Commitments	8,950,016	7,220,867
Loan Granting Commitments	4,132,915	3,598,753
Payment Commitments for Cheques	3,543,502	3,138,916
Asset Purchase Commitments	2,506,609	2,123,301
Promotion Campaigns Commitments Relating to Credit Card and Bank Services	25,111	22,138
Subsidiaries and Associates Capital Contribution Commitments	-	-
Total	27,025,718	23,362,733

1.2. Nature and amount of possible losses and commitments arising from the off-balance sheet items including the below mentioned

Information related to possible losses of the Bank arising from off-balance sheet items is explained in note 7 explanations on provisions of section five Explanations and Notes Related to Liabilities.

1.2.1. Non-cash loans including guarantees, acceptances, financial guarantees and other letter of credits

	Current Period	Prior Period
Guarantee Letters	71,457,238	65,779,579
Letter of Credits	10,543,420	9,121,397
Bank Acceptances	5,259,157	4,254,132
Total	87,259,815	79,155,108

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

	Current Period	Prior Period
Letters of Certain Guarantees	45,742,980	41,993,880
Letters of Advance Guarantees	17,466,491	17,582,696
Letters of Temporary Guarantees	4,395,169	3,381,752
Letters of Guarantees given to Customs Offices	1,021,136	753,939
Other Letters of Guarantees	2,831,462	2,067,312
Total	71,457,238	65,779,579

1.2.3. Total non-cash loans

	Current Period	Prior Period
Non-Cash Loans for Providing Cash Loans	794,116	810,996
With Original Maturity of One Year or Less	11,829	2,183
With Original Maturity of More than One Year	782,287	808,813
Other Non-Cash Loans	86,465,699	78,344,112
Total	87,259,815	79,155,108

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION FIVE (Continued)

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

IV. EXPLANATIONS AND NOTES RELATED TO INCOME STATEMENT

1. Within the scope of Interest Income

1.1. Information on interest income from loans

	Current Period		Prior Period	
	TL	FC	TL	FC
Interest on Loans ⁽¹⁾	11,341,476	1,723,968	8,902,464	1,202,012
Short Term Loans	2,940,809	72,846	2,043,584	33,742
Medium and Long Term Loans	8,343,252	1,651,103	6,794,914	1,168,251
Interest on Non-Performing Loans	57,415	19	63,966	19
Premiums from Resource Utilization Support Fund	-	-	-	-

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

1.2. Information on interest received from the banks

	Current Period		Prior Period	
	TL	FC	TL	FC
Central Bank of the Republic of Turkey	8,347	-	2,141	-
Domestic Banks	24,518	562	20,762	836
Foreign Banks	624	21,968	794	15,036
Foreign Head Office and Branches	-	-	-	-
Total	33,489	22,530	23,697	15,872

1.3. Information on interest income on marketable securities

	Current Period		Prior Period	
	TL	FC	TL	FC
Financial Assets Held for Trading	677	975	456	158
Financial Assets at Fair Value through Profit and Loss	-	-	-	-
Financial Assets Available-for-Sale	2,489,218	404,743	2,012,640	299,645
Investments Held-to-Maturity	199,426	156,968	227,892	174,059
Total	2,689,321	562,686	2,240,988	473,862

1.4. Information on interest income from subsidiaries and associates

	Current Period	Prior Period
Interest Income from Subsidiaries and Associates	24,219	20,136

2. Within the scope of Interest Expense

2.1. Information on interest expense on borrowings

	Current Period		Prior Period	
	TL	FC	TL	FC
Banks ⁽¹⁾	64,661	236,509	54,816	151,513
Central Bank of the Republic of Turkey	-	-	-	-
Domestic Banks	21,291	5,030	10,142	2,239
Foreign Banks	43,370	231,479	44,674	149,274
Foreign Head Office and Branches	-	-	-	-
Other Institutions	-	-	-	-
Total	64,661	236,509	54,816	151,513

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

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017

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

SECTION FIVE (Continued)

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

2.2 Information on interest expenses given to subsidiaries and associates

	Current Period	Prior Period
Interest Expenses Given to Subsidiaries and Associates	70,384	22,688

2.3 Information on interest given on securities issued

	Current Period		Prior Period	
	TL	FC	TL	FC
Interest Given on Securities Issued	137,726	119,904	113,887	61,181

2.4 Maturity structure of the interest expense on deposits

Account Name	Demand Deposit	Time Deposit					Cumulative Deposit	Total
		Up to 1 Month	Up to 3 Months	Up to 6 Months	Up to 1 Year	More Than 1 year		
TL								
Bank Deposit	-	345,377	-	-	-	-	-	345,377
Saving Deposit	1	116,045	2,722,557	190,628	38,107	34,215	299	3,101,852
Public Sector Deposit	620	145,862	219,620	101,424	212,401	406	-	680,333
Commercial Deposit	125	264,294	399,836	33,632	85,828	804	-	784,519
Other Deposit	42	41,915	130,792	16,474	18,804	46,500	-	254,527
Deposit with 7 Days Notification	-	-	-	-	-	-	-	-
Total	788	913,493	3,472,805	342,158	355,140	81,925	299	5,166,608
FC								
Foreign Currency Deposit	260	41,671	164,041	28,108	23,887	103,902	1	361,870
Bank Deposit	4	29,239	-	-	-	-	-	29,243
Deposit with 7 Days Notification	-	-	-	-	-	-	-	-
Gold Vault	-	84	876	95	65	55	-	1,175
Total	264	70,994	164,917	28,203	23,952	103,957	1	392,288
Grand Total	1,052	984,487	3,637,722	370,361	379,092	185,882	300	5,558,896

3. Information on trading profit/loss (net)

	Current Period	Prior Period
Profit	19,858,240	17,220,714
Foreign Exchange Gains	18,906,876	14,946,593
Profit on Derivative Financial Instruments	920,083	2,253,204
Profit from the Capital Market Transactions	31,281	20,917
Loss (-)	19,866,628	17,300,944
Foreign Exchange Loss	18,761,845	14,802,280
Loss on Derivative Financial Instruments	1,104,540	2,495,551
Loss from the Capital Market Transactions	243	3,113

4. Information on profit/loss on derivative financial operations

	Current Period	Prior Period
Effect of the change in exchange rates on profit/loss	2,550,591	2,579,517
Effect of the change in interest rates on profit/loss	(2,735,048)	(2,821,864)
Total	(184,457)	(242,347)

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION FIVE (Continued)

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

5. Information on other operating income

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

There are no significant matters covering the recent developments which have significant effect on the Bank’s income. Main component of the Bank’s other operating income consists of reversals from prior period provisions amounting to TL 369,044 (30 June 2016: TL 582,452) and income from sales of assets amounting to TL 84,748 (30 June 2016: TL 142,005).

6. Provision expenses for impairment on loans and other receivables

	Current Period	Prior Period
Specific Provisions for Loans and Other Receivables ⁽¹⁾	545,765	1,239,529
Group III Loans and Receivables	182,165	253,527
Group IV Loans and Receivables	311,351	486,066
Group V Loans and Receivables	52,249	499,936
General Provision Expenses	584,954	216,152
Provision Expenses for the Possible Losses	265,000	960
Marketable Securities Impairment Expense	212	119
Financial Assets at Fair Value through Profit and Loss	-	-
Financial Assets Available for Sale	212	119
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	400	1,353
Total	1,396,331	1,458,113

⁽¹⁾ The relevant balance includes the expenses related to the current period. The provision reversals within the period amounting to TL 334,433 are presented in other operating income (30 June 2016: TL 293,917).

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION FIVE (Continued)

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

7. Information on other operating expenses

	Current Period	Prior Period
Personnel Expenses	1,260,861	1,150,435
Reserve for Employee Termination Benefits	52,981	42,715
Bank Social Aid Provision Fund Deficit Provision	-	-
Tangible Fixed Assets Impairment Expense	-	-
Depreciation Expenses of Tangible Fixed Assets	199,223	141,667
Intangible Assets Impairment Expense	-	-
Goodwill Impairment Expense	-	-
Amortization Expenses of Intangible Assets	25,601	18,623
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	902,632	598,802
Operational Leasing Expenses	128,102	102,581
Maintenance Expenses	31,547	37,728
Advertisement Expenses	45,956	30,659
Other Expenses	697,027	427,834
Loss on Sales of Assets	280	673
Other ⁽¹⁾	797,017	709,435
Total	3,238,595	2,662,350

⁽¹⁾ TL 264,035 of other item consists of Saving Deposit Insurance Fund accrual expense (30 June 2016: TL 229,063) while TL 259,023 consists of taxes, duties and charges expense (30 June 2016: TL 224,761).

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	8,392,735	6,391,374
Net Fees and Commissions Income	1,055,378	765,616
Other Operating Income	734,194	983,062
Dividend Income	9,865	255,122
Trading Income/Expense (Net)	(8,388)	(80,230)
Provision for Loan or Other Receivables Losses (-)	1,396,331	1,458,113
Other Operating Expenses (-)	3,238,595	2,662,350
Profit / (Loss) From Continuing Operations	5,548,858	4,194,481

9. Information on tax provision for continuing and discontinuing operations

As of 30 June 2017, TL 1,212,482 (30 June 2016: TL 805,646) of the Bank’s total tax provision expense amounting to TL 1,242,604 (30 June 2016: 1,118,818), consists of current tax expense while remaining balances amounting to TL 30,122 (30 June 2016: TL 313,172 deferred tax income) consists of deferred tax income.

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION FIVE (Continued)

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 4,336,376 (30 June 2016: TL 3,388,835).

11. Information on net profit/loss

11.1. Nature, amount and frequency of income and expenses arising from ordinary banking activities, if required for the understanding the performance of the 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.

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

As of the balance sheet date, there is no change in accounting estimates that may require further explanations in the current period (30 June 2016: None).

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

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

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017

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

SECTION FIVE (Continued)

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

Current Period

Risk Group of the Bank	Subsidiaries, Associates and Entities Under Common Control (Joint Ventures)		Direct or Indirect Shareholders of the Bank		Other Real and Legal Persons in the Risk Group	
	Cash	Non-cash	Cash	Non-cash	Cash	Non-cash
Loans and Other Receivables						
Opening Balance	1,190,812	3,502,628	-	-	-	-
Closing Balance	1,558,096	3,899,204	-	-	-	-
Interest and Commissions Income	24,219	75	-	-	-	-

Prior Period

Risk Group of the Bank	Subsidiaries, Associates and Entities Under Common Control (Joint Venture)		Direct or Indirect Shareholders of the Bank		Other Real and Legal Persons in the Risk Group	
	Cash	Non-cash	Cash	Non-cash	Cash	Non-cash
Loans and Other Receivables						
Opening Balance	856,298	1,919,303	-	-	-	-
Closing Balance	1,190,812	3,502,628	-	-	-	-
Interest and Commissions Income ⁽¹⁾	20,136	108	-	-	-	-

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

2. Deposits held by the Bank’s risk group

Risk Group of the Bank	Subsidiaries, Associates and Entities Under Common Control (Joint Venture)		Direct or Indirect Shareholders of the Bank		Other Real and Legal Persons in the Risk Group	
	Current Period	Prior Period	Current Period	Prior Period	Current Period	Prior Period
Deposits						
Opening Balance	1,545,917	553,962	-	-	-	-
Closing Balance	2,401,171	1,545,917	-	-	-	-
Interest Expense on Deposits ⁽¹⁾	70,384	22,688	-	-	-	-

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

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

Risk Group of the Bank	Subsidiaries, Associates and Entities Under Common Control (Joint Ventures)		Direct or Indirect Shareholders of the Bank		Other Real and Legal Persons in the Risk Group	
	Current Period	Prior Period	Current Period	Prior Period	Current Period	Prior Period
The Fair Value Differences Through Profit and Loss						
Opening Balance	127,897	66,595	-	-	-	-
Closing Balance	199,597	127,897	-	-	-	-
Total Profit/Loss ⁽¹⁾	7,070	(1,163)	-	-	-	-
Risk Protection Oriented Processes						
Opening Balance	-	-	-	-	-	-
Closing Balance	-	-	-	-	-	-
Total Profit/Loss	-	-	-	-	-	-

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

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

Fees paid to the Bank’s key management amount to TL 15,627 (30 June 2016: TL 16,320).

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION FIVE (Continued)

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

VI. EXPLANATIONS AND NOTES RELATED TO SUBSEQUENT EVENTS

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

SECTION SIX

EXPLANATIONS ON REVIEW REPORT

I. EXPLANATIONS ON REVIEW REPORT

As of 30 June 2017, unconsolidated financial statements and explanatory notes of the Bank disclosed herein were reviewed by Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (the Turkish member firm of KPMG International Cooperative, a Swiss entity) and Review Report dated 15 August 2017 is presented preceding the financial statements.

II. EXPLANATIONS AND NOTES PREPARED BY THE INDEPENDENT AUDITORS

None.

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

TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS

FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017

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

SECTION SEVEN (*)

EXPLANATIONS ON THE INTERIM REPORT

I. Chairman’s Assessment

The second quarter of 2017, on the back of ongoing recovery in developed and emerging economies, was a period of positive surprises regarding GDP growth figures. In this period where global growth outlook positively affected risk appetite, low level of inflation in developed countries led to a more cautious plan for the transition to monetary policy normalization by major central banks.

It appears that the US economy continues to grow at a steady rate in an environment where investor and consumer confidence hover at healthy levels. The Federal Reserve (Fed) sticks to its moderate approach regarding monetary policy normalization, moving toward with gradual interest rate hikes. The Fed is expected to begin reducing its balance sheet later this year, which has reached \$ 4.5 trillion in size. The Fed believes that weak price pressures will be temporary; and that the economy is strong enough to withstand balance sheet reduction. Although inflation at low levels forces Fed towards more cautiousness, it is widely expected that a tighter employment market will trigger inflationary dynamics. Accordingly Fed may continue with one more interest rate hike this year.

In the Eurozone, where political risks have eased in the second quarter of 2017, the recovery in loan growth has enabled a strong and widespread GDP growth in the region, thanks to the improving employment market, increasing disposable income at low energy prices, and interest rates at historically low levels.

The European Central Bank (ECB) also signals that it will begin to normalize its monetary policy, taking into account the improved growth outlook and the fall in tail risks. Despite this positive picture, it is still necessary to realize how slow the possible normalization of monetary policy will evolve, since growth and low wage increases do not yet cause the inflationary dynamics to strengthen as desired. It is estimated that the ECB will act cautiously in an environment where the uncertainties of the UK’s exit from the European Union pose a downward risk to the Eurozone growth.

In a context where uncertainties have diminished with the expectation that the Fed will act more gradual, portfolio inflows have intensified towards emerging markets since March. Volatility in global financial markets is at historically low levels in an environment where China stabilizes and supports risk appetite.

In the first quarter of 2017, the Turkish economy passed through toughest risk scenarios and experienced a robust GDP growth rate of 5%, exceeding the averages of the EU, OECD and G-7 countries. The first quarter of the economy saw a strong rebound on the back of expansionary fiscal policies implemented by the economy management. Incentives by the economy management supporting employment, exports and production resulted with intended results. We are expecting to finish 2017 with a growth rate above the target of 4.4% mentioned in the Medium Term Programme.

The tight stance in monetary policy in the period we left behind combined with the support of the global risk appetite, which is currently favoring Emerging Markets has reduced the volatility of the exchange rate and resulted in a marked improvement in domestic risk premium. Inflation remained high in the second quarter of the year, though a limited decline was recorded in yearly basis.

It is well-known that the economy is expected to go through solid steps and gain even more strength in the second half of the year. This situation will also support the recovery in the employment market in the process. This channel is expected to contribute positively to the strengthening of tax revenues and structural sustainability of fiscal discipline.

In this framework, the banking sector continued to support the economy with the loans it has granted in the first half of the year. The banking sector has provided considerable financing in this period, especially targeting small and medium-sized enterprises. Its strong capital structure and the support of Credit Guarantee Fund as well as SME supporting loan initiatives by KOSGEB played a significant role in granting these loans. Probably loan growth will slow down in the forthcoming period having reached a considerable speed in the first half of the year.

Ziraat Bank has achieved rapid growth in loans extended to housing and small and medium sized enterprises. In order to improve entrepreneurial banking, our Bank aims to provide widespread financing. Especially 25% of the total number of customers covered by the Credit Guarantee Fund , which are having difficulty in accessing finance, were granted loans by our bank.

Muharrem KARSLI

Chairman

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

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION SEVEN (Continued)

EXPLANATIONS ON INTERIM REPORT (Continued)

II. Assessment of General Manager

In the last one-year period, even though Turkey, Turkish economy and banks were severely tested due to undesired conditions, the economy grew beyond the expectations in the first quarter of 2017. The positive trend in the economic activity tend to continue in the second quarter of the year. Meanwhile the banking sector with its sound capital structure and asset quality contributed increasingly to the economy.

As Ziraat Bank, we have completed the first half of the year with concrete financial results. In this period, total assets increased 12% and reached to TL 400 bn. We have increased the asset size 2.5 times throughout the Transformation Project in the last 6 years. In the first half of the year, the cash loans increased by 16% and reached to TL 271 billion resulting an upsurge of the share of loans in total assets to 68%. The increase in cash loan in the mentioned period was approximately 35% from retail lending and 65% from corporate lending.

Total loan book reached to TL 358 billion and has become an important source for Turkish Economic Activity.

In the first half of the year, we have increased our support to Small and Medium Enterprises (SME) and housing finance. Taking into consideration the value-added to the construction sector and the related sectors, we have increased the housing loans market share to 22%. The General Purpose Loans increased with a relatively higher pace compared to last year.

Additionally, TL 1.6 billion salary promotion payments to 4.2 million pensioner customers have been made.

The Bank has increased its support to SMEs, building blocks of the economy, through granting further loans given under the CGF (Credit Guarantee Fund) and KOSGEB (Small and Medium Industry Development Organization) guarantee scheme. These loans were allocated to the maximum number of enterprises who had difficulty in accessing loan finance due to lack of collateral. The Bank has allocated the total amount of loan given to 1 customer by other banks to approximately 4 customers and thus increased the widespread structure of these loans.

We continue our support to the agriculture with working capital and investment loans and focused more on the support and the sustenance of the industrial agriculture. We also target to increase efficiency and effectiveness in the agro industry through supplying finance ranging from small machinery and equipment to mechanisation. The Bank has a 65% market share in agro finance and 40% of its agro loans are investment loans.

Deposit continues to be the main source of funding however in the first half of the year, the loan growth has been mostly financed through non-deposit funding with a strategy of not putting pressure on deposit rates. We have rolled our syndicated loan facility of 1.1 bn USD and issued USD 600 million, 5 year senior unsecured eurobond. We have also increased our non-deposit funding amount by approximately TL 16 billion via repo, commercial paper issuance, post-finance loans, bilateral loans and loans from International financial institutions. Thus we have diversified our funding base and did not exert extra pressure on the deposit market and interest rates.

The bank, having the highest franchise of the country with its 1,813 branches and more than 7,000 ATMs continues investments for the further development of the non-branch channels. We continue to enhance our analytical and digital banking services through internet and mobile banking, Customer Communication Center, Operation Center for easier access and widespread service.

Having more than 1,800 correspondent bank in more than 130 countries, we have made remarkable progress for the integration of the bank customers to foreign trade activities. Due to change in strategy, our market share in foreign trade increased to 13%. We intermediate our customers for their execution of foreign trade business all around the globe.

Having the most widespread service network and being the largest financial institution of Turkey from many aspects, we carry on our business so as to use the extensivity and size more efficiently with a more customer driven approach.

Hüseyin AYDIN

Member of the Board of Directors and General Manager

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION SEVEN (Continued)

EXPLANATIONS ON INTERIM REPORT (Continued)

III. Shareholding Structure

The paid in capital of T.C. Ziraat Bank is TL 5,100,000,000. The Bank's sole shareholder is the Republic of Turkey Prime Ministry Undersecretariat of Treasury and all of the Bank's shares were decided to be transferred to the Turkish Wealth Fund with the decision of the Council of Ministry numbered 2017/9756 dated 24 January 2017. The transfer process is still continuing.

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

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

IV. Main Financial Indicators

In the second quarter of 2017, total assets of the Bank has risen to TL 399,947 million by increasing 11.8% compared to December 2016.

In Bank's assets, loans with TL 270,855 million volume share 67.7%, securities portfolios with TL 70,440 million volume share 17.6%, liquid assets and banks with TL 42,746 million volume share 10.7% amounting to TL 15,906 , and other assets share 4.0%.

In the second quarter of 2017, loans of the Bank has risen to TL 270,855 million by increasing 16.4% compared to December 2016. TL loans has reached to TL 205,056, FC loans has reached to TL 65,799.

In Bank's liabilities, deposits with TL 241,471 million volume share 60.4%, non-deposits resources with TL 92,756 million volume share 23.2%, equities with TL 43,341 million volume share 10.8%, and other liabilities amounting to TL 22,379, share 5.6%.

Bank's total deposit in second period of 2017 recognised at a level of 241,471 million TL by increasing 8.3% compared to December 2016. Deposit volume of TL is 156,432 million TL and deposit volume of FC is 85,039 million TL.

Bank's total equity increased 12.9% compared to December 2016 and reached to 43,341 million TL.

By the end of the second quarter of 2017 Bank's net period profit recognized at a 4,336 million TL level by increasing 27.9% compared to the same period of last year.

By the end of second quarter of 2017, Bank's capital adequacy ratio recognised at a level of 15.17%.

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION SEVEN (Continued)

EXPLANATIONS ON INTERIM REPORT (Continued)

IV. Main Financial Indicators (Continued)

ASSETS (TL Million)	30 June 2017	31 December 2016	(%)
Liquid Assets and Banks	42,746	43,069	-0.7
Securities Portfolio	70,440	69,066	2.0
Loans	270,855	232,644	16.4
Other Assets	15,906	12,982	22.5
Total Assets	399,947	357,761	11.8
LIABILITIES (TL Million)	30 June 2017	31 December 2016	(%)
Deposits	241,471	223,019	8.3
Non-deposits Resources	92,756	76,862	20.7
Other Liabilities	22,379	19,498	14.8
Shareholders' Equity	43,341	38,382	12.9
Total Liabilities	399,947	357,761	11.8
CHOSEN INCOME-EXPENSES (TL Million)	30 June 2017	30 June 2016	(%)
Interest Income	16,823	12,959	29.8
Interest Expense	8,430	6,568	28.3
Net Interest Income	8,393	6,391	31.3
Net Fees and Commission Income	1,055	766	37.7
Other Operations Income	734	983	-25.3
Other Operations Expense	3,239	2,662	21.7
Provision for Losses on Loans Or Other Receivables	1,396	1,458	-4.3
Income Before Taxes From Continuing Operations	5,549	4,194	32.3
Provision For Taxes On Income From Continuing Operations	1,212	806	50.4
Net Profit/Losses	4,336	3,389	27.9
RATIOS (%)	30 June 2017	31 December 2016	
Capital Adequacy Ratio	15.17	14.55	
Equity / Total Assets	10.8	10.7	
Cash Loans / Total Assets	67.7	65.0	
Loans under follow-up (Gross) / Total Loans	1.6	1.8	
Saving Deposits/ Total Deposits	25.5	24.6	
FC Assets / FC Liabilities	91.1	108.0	
Liquid Assets / Total Assets	10.7	12.0	
	30 June 2017	30 June 2016	
Return on Assets (ROA)	2.3	2.2	
Return on Equity (ROE)	21.2	20.3	
Interest Incomes / Interest Expenses	199.6	197.3	

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION SEVEN (Continued)

EXPLANATIONS ON INTERIM REPORT (Continued)

V. 2017 II. Interim Activities

Correspondent Banking

As of the end of June 2017, Ziraat Bank has correspondent relations with approximately 1800 correspondent banks in more than 130 countries. The extensive correspondent bank network is constantly diversifying and evolving in line with customer demands and the conjuncture and trends in the world economy. Thanks to its expanding and strengthening correspondent network, Ziraat Bank provides its customers foreign trade opportunities with many points of the world.

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

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

Syndication Credits

Despite of the fluctuations in the international markets, in line with the fund structure diversification and the foreign trade finance, due syndication credits was renewed with the contribution of 41 banks from 21 countries.

The Syndication loan which is provided by USD and EUR currency type by the Bank at March 2016 is renewed with the maturity of 367 days with the amount of USD 278 million and EUR 706,5 million and cost of LIBOR +1.45% and EURIBOR +1.35% respectively at 6 April 2017.

Foreign Issued Bonds

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, is updated on 13 March 2017.

Additionally, Ziraat Bank issued foreign bond with the maturity of 5 years and with the amount of USD 600 million at May 3 on the purpose of the fund structure diversification and long run borrowing strategy. Issued foreign bond with the redemption date of May 3, 2022 was quoted with the coupon rate of %5.125 and the six months payment.

Financing of agriculture sector

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

The agricultural loans extended from Ziraat Bank’s resources reached TL 46.7 billion as of the end of the second quarter.

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

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

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION SEVEN (Continued)

EXPLANATIONS ON INTERIM REPORT (Continued)

V. 2017 II. Interim Activities (Continued)

Risk Management

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

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

In the last quarter of the year, our Bank has started to work on the calculation of credit risk by using an internal rating approach with the participation of various units within the scope of "Credit Risk Management Project with Advanced Methods" and to use the outputs in different areas. The projects target is to calculate credit risk parameters that can feed the capital budget, credit pricing and Turkish Financial Reporting Standards 9 (TFRS 9) areas.

VI. Other Important Activities

With the protocol signed between KOSGEB and our Bank; in order to provide financial support to our SMEs, "2017 KOSGEB Zero-Interest Enterprise Loan Interest Support" product was applied.

Ziraat Bank leading the practice with the biggest share of the sector (19%) in loans given with the protocol "2017 KOSGEB Zero-Interest Enterprise Loan Interest Support" signed with KOSGEB.

Ziraat Bank branches operating in Georgia have started to operate under the roof of JSC Ziraat Bank Georgia (with all capital belonging to Ziraat Bank) with the status of the common bank.

Ziraat Bank received an award in "Best Use Of Data Analytics" category, at the "2017 Global Retail Banking Awards" held in London by Retail Banker International where more than 200 banks from around the world were participants, with the "Operational Branch Segmentation and Quality of Service Standardization" project aiming to standardize the quality of operational service and reduce customer waiting times.

"Density Estimation Model" was created by using analytical modeling techniques in order to proactively manage branch densities.

Ziraat Bank's internet banking customers has exceeded to 11 million and active mobile banking customers reached approximately 3 million.

As of the second quarter of 2017, Ziraat Bank credit card is 4.2 million and credit card market share is 7%. Bank card is 26.3 million and Ziraat Bank continued to be the sector leader with 18% market share of monthly shopping turnover.

The projects for ability to do foreign trade transactions with Internet Branch and transition to automatic system for the preparation of draft letter of credit has started.

Detailed search and demonstration of disabled friendly Branches and ATMs was added to the tracker of Branches and ATMs on the map "En yakın Ziraat" in mobile application.

One of every four transactions made through ATM is carried out through the ATMs of Ziraat Bank which has the maximum number of ATMs.

The effectiveness of Ziraat Bank in social media is increasing day by day. As of the second quarter of 2017; the Bank reached 1.8 million followers on Facebook, 265 thousand followers on Twitter, 102 thousand followers on Instagram and over 22 million views on YouTube.

Ziraat Bank has been chosen as the most effective bank in Turkey's social media category in the category of "Data Analysis Awards" where the performances of brands in social media are evaluated according to Social Brands brand index results.

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION SEVEN (Continued)

EXPLANATIONS ON INTERIM REPORT (Continued)

VI. Other Important Activities (Continued)

Since Ziraat Bank's historic headquarters building in Ulus / Ankara has been restored, the Ziraat Bank Museum, which has been closed to visitors, will be offered to art lovers with a much larger area refurbished at the end of the restoration.

Within the scope of the protocol implemented with the SGK, as of the end of the second quarter of 2017, 4.2 million retired customers received a total of TL 1.6 billion of promotional payments.

The emphasis is on e-learning and computer simulations, where staff can access from the workplace, at a low cost, allowing them to train more staff in a short period of time without a loss of manpower. In this way, printed material was not used and approximately 68 trees were recovered in the second quarter of 2017.

Four different recruitment examinations will be held on 6 August 2017 in cooperation with Anadolu University in order to meet the personnel needs of Ziraat Finans Group and the lawyer requirements of Ziraat Bank. Approximately 25,000 candidates have applied to the exams that will be hired for an open space for 255 individuals.

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION SEVEN (Continued)

EXPLANATIONS ON INTERIM REPORT (Continued)

VII. Expectations for the Period after 2017 II. Interim

The second quarter of 2017 was a period of upward revisions to year-end growth forecasts, as evidenced by the recovery in economic activity both in developed and in developing countries. Global growth followed a robust performance as commodity prices stabilized, employment grew and world trade volumes increased.

On the other hand, it is observed that the central banks of developed countries tend to normalize their monetary policies more gradually. Indices that measure volatility in global equity and bond markets have tested historical low levels in the period we left behind despite the uncertainties of the Fed's balance sheet reduction and Brexit negotiations.

The Fed maintained its gradual interest rate increase within the forecast of three interest rate hikes for 2017 and raised the FED funds rate 25 basis points for the second time in June. In the period we left behind, Trump's election promises faced challenge in the legislative branch raising suspicion in the market about the viability of his other policies.

While the US dollar was depreciating in the light of these developments; the US 10-year Treasury rates could not stay above 2.30%. In this context; the partial slowdown in the upward trend of long-term bond interest rates has eased the pressure on developing country yields. In an environment where low inflation is likely to force the FED to be cautious, the Fed has reinforced the strength of the current recovery with a message after the June meeting by announcing that it will begin to reduce the amount of its bond holdings later this year.

While uncertainties linger around the Fed's balance sheet reduction process, it is expected that this process will have a more limited impact on emerging markets compared to outright interest rate hikes.

The euro zone displayed a strong, balanced and wide-spread growth outlook in the first half of 2017. The fact that the employment market in the region has recovered and the unemployment figures have fallen to their lowest level in the last 8 years propelled consumption demand that helped to boost the growth alongside with other catalysts such as historical low level of interest rates allowing favorable financing conditions as well as relatively low oil prices.

However, uncertainties about the UK's exit from the European Union continue to exert downward pressure on global growth outlook, particularly for the regional economy. The strength of recovery encouraged the European Central Bank (ECB) to signal the start of the normalization process of their ultra-easy monetary policies. Nevertheless, it is thought that the normalization process of the monetary policy will be realized very slowly because declining output gap yet to trigger inflationary dynamics in the region.

Intensified capital inflows to developing countries continued in the second quarter of 2017, with the market expecting a more cautious policy from FED and a slower tightening of their monetary policies. On the back of strong fund flows to equity and bond markets, currencies appreciated against the dollar; Stock market indices have also left behind a quarter where low volatility in global financial markets contributed to their gains. In addition to these developments, stable growth figures from China and the moderate course of the Chinese currency Renminbi have supported the increased risk appetite in the global markets. Despite this positive outlook, geopolitical developments and the question marks around US protectionism trends regarding foreign trade continue to pose a downside risk to global growth outlook.

Although the Organization of Petroleum Exporting Countries (OPEC) decided in May to extend its petroleum production cuts by May 2018, US stocks continued to remain at high levels due to the supply of shale oil, preventing oil prices from rising past US \$ 50 a barrel. Despite this picture, the sensitivity of commodity currencies to oil price swings was not particularly severe compared to previous periods.

The Turkish economy grew a forecast beating 5% showing a strong and balanced growth composition in the first quarter of 2017. Incentives for employment, exports and production were the main engines of the growth in the first quarter. Year-end forecasts were revised upwards following the robust performance. Growth in this framework is projected to be stronger than the OVP target of 4.4% for 2017.

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
FOR INTERIM PERIOD ENDED AS OF 30 JUNE 2017**

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

SECTION SEVEN (Continued)

EXPLANATIONS ON INTERIM REPORT (Continued)

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

Thanks to the flexibility provided on the back of financial discipline, the authorities continue to support the economy by using expansionary fiscal policies as a driving force. The growth in economic activity is expected to become even stronger from the second quarter of the year looking at the credit growth pattern, as well as the expansionary fiscal policies. The positive contribution of net exports to growth, along with the high growth rate, is important in terms of indicating a balanced growth composition. A recovering Euro Zone economy supports external demand, it is estimated that the net external demand will continue to grow positively. In particular, the appreciation of the euro and the depreciation of the US dollar are in favor of Turkey in terms of cost-return dynamics.

It seems that the revival in the economy reflected positively to employment. This is an undisputed finding that employment mobilization measures and the support of the Credit Guarantee Fund are influential in this relationship. Despite the high levels of participation in the labor force, the unemployment rates have been declining since January. and the declining trend in unemployment rates is poised to continue with the recovery in economic activity that is expected to continue in the second half of the year.

In the second quarter of 2017, a gradual decline in consumer prices was observed, albeit with a decline in the impact of factors such as tax regulations, currency pass-through and energy prices, which are decisive factors in the rise in inflation. The continuing volatility in food inflation and the limited decline in core metrics indicate that the Central Bank will maintain its tight monetary policy. During the period we are in, the stable course of the exchange rate and the declining commodity prices, especially oil, are contributing to the downward trend in producer prices. Therefore, in case of a correction the food prices with the help of the measures taken by the Food and Agricultural Market Monitoring and Evaluation Committee, it seems possible to finish the year with a single digit inflation figure. As the volatility in the financial markets weakened with the monetary policy continued to tighten, the improvement in domestic risk premiums became more pronounced and CDS (credit default swap) premiums, which measure the country's risk, have fallen to the lowest levels since the beginning of 2015. As a reflection of the improvement in risk perception, the BIST-100 index continues to test record levels.

Public expenditures are one of the key drivers of growth in 2017, thanks to public spending and tax cuts that authorities have chosen in a controlled manner to meet the needs of the economy. Since most of the measures taken in fiscal policies are temporary, no permanent deterioration is expected on the budget side; the need for extra incentives after the economy grew strong at 5% was also reduced. It is expected that the budget balance will be positively affected through the tax revenues as the economy wheels move fast. It is envisaged that this rate will remain below the Maastricht criteria of 3% albeit slightly above the Medium Term Programme target due to stimulus measures.