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# ***Short-Form Audit Report***

ZIRAAT BANK INTERNATIONAL AKTIENGESELLSCHAFT  
Frankfurt am Main

Annual Financial Statements as of December 31, 2016 and Management Report for the Financial Year 2016

Auditor's Report (Translation - the German text is authoritative)





<b>Contents</b>	<b>Page</b>
Management Report for 2016.....	1
Auditor's Report.....	1

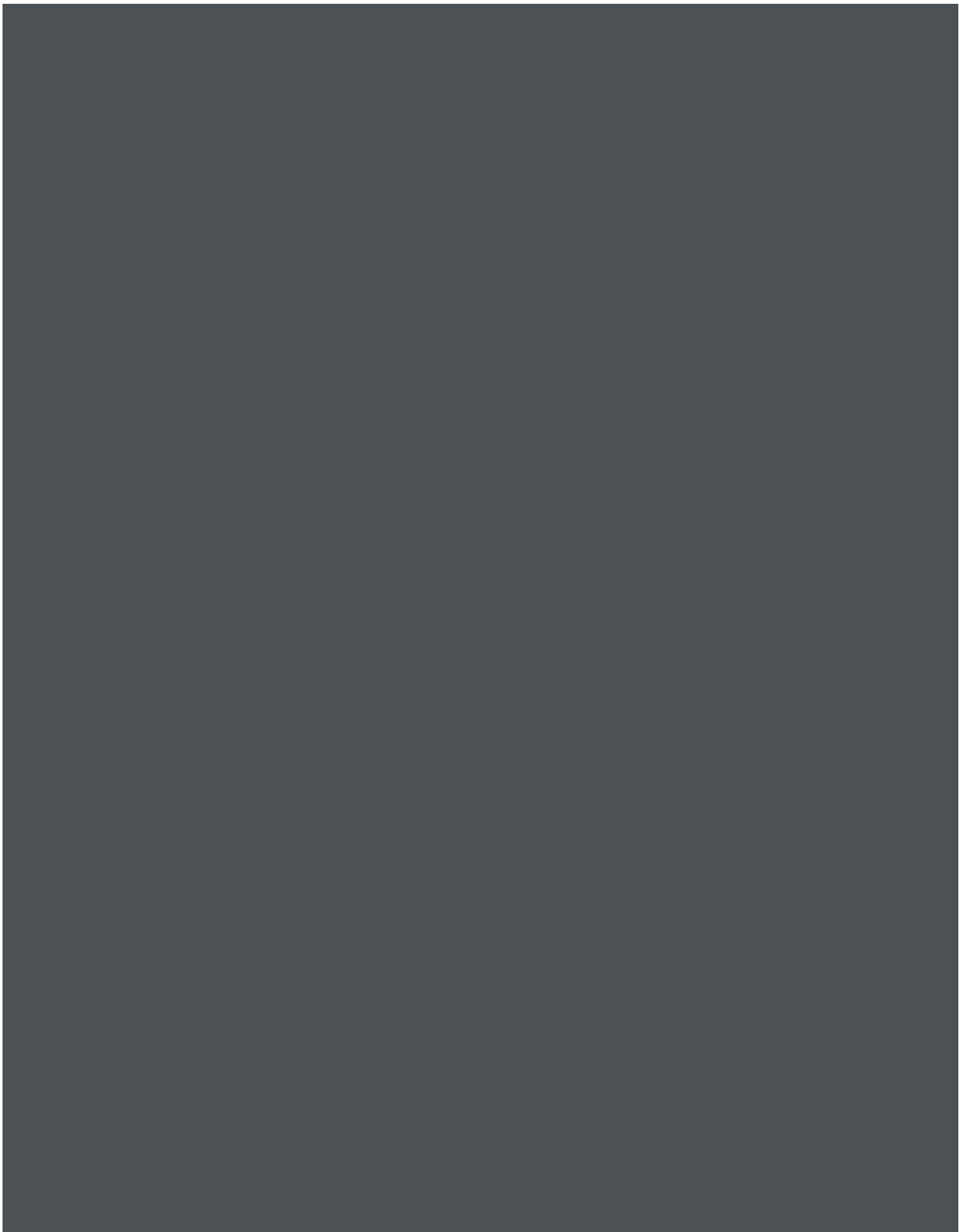




 **Ziraat Bank**

More than a bank

**2016 Annual Report**



Ziraat Bank  
**Management Report for 2016**

1. Ziraat Bank International AG in brief;
2. Course of the fiscal year 2016
3. Financial position
4. Risk report
5. General economic conditions, business environment & opportunities

# Ziraat Bank

## Management Report for 2016

### 1. Ziraat Bank International AG in brief;

Ziraat Bank International AG is a commercial bank operating under German law and full subsidiary of state owned T.C. Ziraat Bankası A.Ş.

With its head Offices in Frankfurt and 9 branches in major cities throughout Germany, the Bank provides wide range of financial services to its clients from all segments.

Financing the trade between Germany / EU Countries and Turkey, supporting corporate and retail customers with short and medium term loans, providing saving products, clearing of local currency transfers for correspondent banks, international transfer services to retail customers via its branch network, documentary collection and remittances, providing online banking solutions for its retail and corporate customers are among the services the Bank provides to its clientele.

The Board of Managing Directors (The Board) is responsible for the management of the Bank. The Supervisory Board, as defined by law and articles of association, supervises the Board of Managing Directors on strategic decisions through periodic meetings held in Germany, while conducting continuous control, compliance and risk management functions. In this capacity, Supervisory Board held 5 meetings in 2016.

The segregation of responsibilities of the Board of Managing Directors are defined with an organizational chart.

The Bank conducts its functions through 14 operational departments including Risk Management & Control, Organisation and AML & Compliance.

The parent bank, T.C. Ziraat Bankası A.Ş. has been established in 1863. The Undersecretariat of Treasury of the Republic of Turkey is the sole owner. It is one of the biggest banks in Turkey with 25.697 employees, 1812 branches and 97 operational units in 18 countries worldwide.

### 2. Course of the fiscal year 2016

#### 2.1. 2016; Another successful chapter for Ziraat Bank International AG

Since 2013, Ziraat Bank International AG has been going through a transformation; new vision, mission, risk & business approach followed by elevated expectations from the shareholder who has already transformed itself to become the largest and most profitable bank in Turkey...

The new strategy, and the new commercial banking approach which has been put in force without any delays paved the way for a commercially acceptable return on equity and healthy profit base which formed a solid platform for transformation and structural investments. With the help of this clear road map, we managed to generate profits and the results in the very first full year, 2014. This, we consider as an approval of the new strategy in a quantitative form.

This provided an environment enabling us to build the new Ziraat Bank International AG in 2016. Our vision, mission and ultimate goals remaining the same, we shifted our focus slightly to structural issues and technical infrastructure investments.

The healthy leverage achieved by the 45% growth in 2014 continued to provide sufficient profitability in 2016 to both satisfy the return on equity target determined by the shareholder and finance the investments essential for the Bank in this new era of finance.

As stated in our report last year, 2016 has been determined as a year of moderate growth, strong/commercially acceptable return on equity but also a year of restructuring in key areas, i.e. information technologies, workflows, adjusting the Bank's structure to a customer oriented business model, all of which are to enable the Bank utilize its valuable resources in a more efficient way.



## Ziraat Bank

### Management Report for 2016

Our net result for the year 2015 has been €13.7, reflecting 36% increase on 2014 result. This constitutes an 8.1% RoAE, an early achievement of a target, documented in the New Strategy Document 2.5 years ago and is almost three times more than the national average. As a result of a prudent investment strategy by utilizing all sources available, a well balanced liability management and cost conscious approach, the Bank exceeded the profit target set for the year with a conservative asset growth .

Return on assets continued to increase while further solid decrease has been recorded on Cost to Income Ratio, thanks to careful planning and productivity focused approach.

Albeit moderate compared to previous year, our growth in asset size is again fuelled by corporate loans. Assets totalled just over €1.4 billion at the end of the year with €1.27 billion commercial loans. Both figures remain slightly less than the initial targets, without hurting profitability thanks to selective approach.

The quality of the loan portfolio and overall exposure remained high, the market risks the Bank has been exposed are kept strictly under control.

Prudent and conservative credit, risk and asset & liability management approach continued to be a top priority for us, regardless of conditions, conjuncture, expectations and targets.

We paid utmost importance to keep a balanced and well diversified liability structure to finance our activities in 2016 as in the previous year; domestic deposits constituted a mere 60.5% of the total liabilities with €848.2 million, followed by €346.8 million bank funding at 24.7%. The negative duration gap observed is a clear proof that a healthy funding base has been secured. Decreasing the cost of funding has been a secondary concern which was also well addressed.

Equity position remained strong, allowing us to make very long term planning based on very long term projections. The 'no-dividend' approach of our shareholder also provided us with more room to achieve our long term goals. Our equity at the end of the fiscal year has reached €184.5 million, including the year's net profit. Useful equity constituted a Capital Adequacy Ratio of 15.6%, even after the negative impact from the Turkish Banks' increased risk weightings due to the change of their status to non-FIs according to CRD.

As has been the case last year; these quantitative results achieved can be recognized as a clear confirmation of the ongoing restructuring and reorganizational processes as well as the business model and targets determined by the New Strategy Document.

Therefore, the task is now to secure the sustainability of the growth and success achieved by focusing more on structural issues the Bank has been bearing for decades.

In line with this task and target, the ZETA project for the new core banking system has been initiated and brought to the final phase. This system will not only support efficiency and help relief the workload on operational units, but also will provide access to great depths of riskmetrics analysis which will help better measurement of risks exposed and understanding the behavioural aspects of the business.

Equally important as the quantitative achievements, efforts to convert Ziraat Bank International AG into a customer oriented commercial financial services provider have been brought to a mature stage where the branches and other operational units have been included in the restructuring and reorganization and are expected to be evolving within a commercial framework as a medium term target.

As has been the case for half a century in the region, Ziraat Bank International AG will continue to provide a value for the German Financial System and its shareholder by achieving respectable results without compromising its conservative approach and well balanced risk management.

# Ziraat Bank

## Management Report for 2016

### 3. Financial position

#### 3.1. Net Assets

The Bank has a flexible asset structure with a reasonable yet conservative leverage. The need for the asset growth, enlarged corporate customer base, diversification of exposures in terms of sector and origin and expanding the product range & coverage is visible and are the main subjects of the new Business Plan.

New transactions and rollovers of existing commitments have been executed in accordance with the changing market conditions as well as new regulatory requirements, whilst keeping a healthy and secure liquidity position at any given time.

Ziraat Bank International AG has kept arms-length business relations with the parent bank and its subsidiaries paying utmost attention to stay within market realities. The limited transactions, which include but not limited to money market, currency, secondary market loan transactions and documentary collections have been executed at market levels, profitability and risk approach being the main criteria.

#### 3.2. Balance sheet structure

Balance sheet (EURk)	2016	2015	2014	2013	2012	2011
<b>Balance sheet total</b>	<b>1.665.531</b>	<b>1.392.176</b>	1.320.628	912.490	969.928	903.129
<b>Loans and advancements to customers</b>	<b>1.350.295</b>	<b>1.171.492</b>	1.116.818	698.857	567.954	547.706
<b>Loans and advancements to banks</b>	<b>234.590</b>	<b>149.978</b>	141.756	89.061	138.424	265.738
<b>Securities</b>	<b>19.014</b>	<b>31.316</b>	26.552	29.959	39.928	64.933
<b>Investments</b>	<b>350</b>	<b>349</b>	349	349	349	349
<b>Shares in affiliated companies</b>	<b>0</b>	<b>0</b>	8.181	8.181	8.181	8.181
<b>Liabilities to customers</b>						
- maturing daily	122.686	164.585	153.543	221.057	220.584	140.501
- with agreed-upon term or	983.333	684.217	635.737	240.140	150.477	279.510
<b>Cancelation period</b>						
- Liabilities to banks	15.646	34.004	8.897	147.065	6.046	3.053
- maturing daily	335.974	311.304	277.148	289.676	314.108	172.631
- with agreed-upon term or	199.794	170.836	160.756	158.702	155.666	153.130

#### 3.3. Capital structure

The capital consists of paid-in capital of EUR 130,000 k, the capital reserve in the amount of EUR 13,000 k, retained earnings in the amount of EUR 41,523 k and net earnings for the period of EUR 15.271 k.

#### 3.4. Investments

Further investments are planned as part of the ongoing IT & core banking and risk management system projects, but the amount is projected to be insignificant relative to current size of the balance sheet and income table.

# Ziraat Bank

## Management Report for 2016

### 3.5. Liquidity

The liquidity position has been strong during the course of the whole year and both external and internal liquidity requirements have been strictly satisfied without any exceptions. Funding resources mainly consist of customer deposits and the borrowed funds from credit institutions.

### 3.6. Results of operations

Figures profit and loss (EURk)	2016	2015	2014	2013	2012	2011
Net Interest Income	29.948	27.411	23.603	11.260	9.063	10.932
Commission income	9.251	7.621	6.443	6.166	7.212	7.080
General administration expenses	17.818	15.750	15.258	15.197	13.709	13.699
Operating result before provision for risk	22.456	25.716	16.197	3.509	3.936	4.999
Operating result after provision for risk	22.428	20.050	15.555	1.792	5.676	4.031
Net result after tax	15.271	13.687	10.081	2.053	3.037	2.536

As has been the case in previous years, a well balanced operational income has been achieved; interest income has been the major source, followed by a healthy commission income. Despite the saturating retail money transfer business, an increase in commission income and total volume has been achieved while number of transfers decreased, thanks to the new pricing strategy. In the year ahead, more efforts shall be diverted on to commercial clearing business.

## 4. Risk report

### 4.1. Risk management system

In order to fulfil the requirements in terms of § 25a German Banking Act financial institutions among others the bank has to dispose of suitable regulations for the identification, assessment, controlling as well as monitoring and communication of risks and of regulations by means of which the financial situation can be determined at any given time with sufficient accuracy.

To ensure these requirements the bank disposes of a risk monitoring-, early risk detection- and risk controlling system. Because of the nature and scope of the business activity the bank faces credit risks (including migration risk), market price risks, liquidity risks as well as operational risks. The bank quantifies respectively considers as material risk types according to AT 2.2 of the minimum requirements for risk management ("MaRisk") the aforementioned types of risks and risk concentration.

The Business Strategy endorsed by the Board of Managing Directors is the basis for the bank's business policy. Based on the current as well as intended business activity the resulting risks need to be managed, as defined in the Risk Strategy which is updated at least yearly. The Board of Managing Directors as a whole is responsible for the bank's risk management.

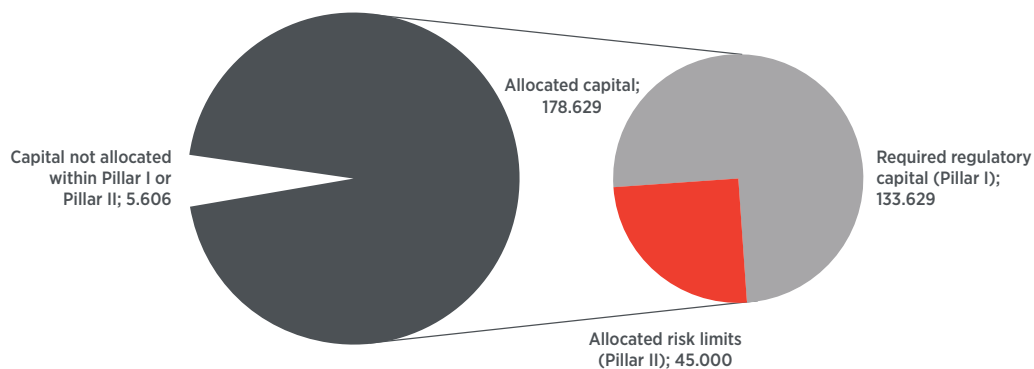
The bank's risk strategy is marked by the cautious handling of risks. As far as possible risks are avoided or transferred to other partners. A credit risk strategy is defined annually for the planned activities in the loan sector. Especially in the loan business with Turkish corporate customers the loan risk is transferred to other financial institutions by means of guarantees on a case by case basis. In the area of trading transactions money market deposits or -loans are carried out for the purpose of short-term management of liquidity. Derivatives transactions are made solely for the risk-reducing closure of open positions. Risks from changes of market interest rates are limited on the overall bank level by limiting the earnings impact of interest maturity transformation. The Risk Strategy as well as a specific strategy for the short term investment of customer deposits ensures that sufficient liquidity is given even in case of high cash outflows under stress assumptions.

# Ziraat Bank

## Management Report for 2016

Risks are limited by controlling in terms of regulatory capital requirements and by means of limits for all material risk sectors within the scope of compliance with the risk bearing capacity. Only parts of the capital- and revenue reserves are defined as risk coverage amount so that there are additional unallocated risk coverage amounts. Under the capital requirements for Pillar I, Ziraat Bank has summarized the following components: Requirement of own funds pursuant to Article 92 para. 1, additionally required pursuant to section 10 paragraph 3 and section 4 KWG as well as a further buffer.

Regulatory equity:	TEUR	184.235
Required regulatory capital (Pillar I):	TEUR	-133.629
Allocated risk limits (Pillar II):	TEUR	-45.000
Capital not allocated within Pillar I or Pillar II:	TEUR	5.606
Credit risk	TEUR	35.000
Market risk	TEUR	5.000
Operational risk	TEUR	5.000
Sum of allocated risk capital	TEUR	45.000



Risk Management & Control, Organization department performs the risk identification, -measurement, -monitoring as well as regular or ad hoc communication to the Board of Managing Directors and other addressees. After the implementation of a professional software by the company msgGillardon, Bretten, for measurement and monitoring of interest rate risks and liquidity risks was completed in 2013, the bank has implemented in the second quarter 2015 a professional credit portfolio model. Supported by the risk consulting company Risk Research Prof.Hamerle GmbH & Co. KG, Regensburg, the measurement and monitoring of counterparty credit risk is adapted to rising regulatory requirements.

Risk management is based on the risk monitoring and the respective reporting. Resolutions of the Board of Managing Directors are adopted by involving internal committees, primarily the Asset-Liability-Committee (ALCO) and the Credit Committee. The market departments, being functionally separated from the after-market units, are responsible for the implementation.

# Ziraat Bank

## Management Report for 2016

The Internal Audit Function of the bank monitors the operating, business, risk management and –controlling procedures as well as the internal control system. In addition to the long-standing outsourcing of the IT-related Audit to the „GDB Gesellschaft für Datensicherheit und IT-BeratungmbH“, a holding company of the Prüfungsverband deutscher Banken e.V. (Auditing Association of German Banks), Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft was in 2013 contracted with the bank-specific auditing activities. In accordance with the MaRisk requirements an Internal Audit Officer was appointed internally who acts as an interface between the bank and the internal audit firms. A risk-based audit schedule which is agreed upon by the audit firms, the Internal Audit Officer as well as the Board of Managing Directors as a whole is the basis for the audit activity for both audit sectors. The completely outsourced Internal Audit is free from directives regarding the evaluation of audit findings and the reporting and reports to the Internal Audit Officer, to the Board of Managing Directors as well as to the Supervisory Board.

### 4.2. Risks

#### 4.2.1. Credit Risk

The bank defines as credit risk possible losses from the non-performance of customers' debts or from country-specific factors. The bank accepts credit risks within the classic lending business with German respectively Turkish private- and corporate customers in Germany and through granting of credits to commercial customers in Turkey that partly are secured by guarantees of Turkish banks as well as within the scope of the handling of the documentary business. Additionally there are credit risks in money dealing with other banks as well as due to concluding securities transactions.

Monitoring of credit risk is executed according to the specifications of the credit risk strategy. A prudent credit worthiness analysis is decisive for the loan decision. The risk rating in the bank's risk classification procedure is based on defined ratios that arise from the analysis of the balance sheet and profit- and loss statement. In accordance with the risk factor of the credit transactions the areas market and after-market have to obey a two-votes-procedure when granting loan. At least once a year a review of the borrower's credit-worthiness as well as a revaluation of the pledged securities is carried out. For loans that need intensive supervision and for problem loans appropriate handling procedures have been established.

As a matter of principal the consent of the Supervisory Board is necessary for lending to banks, for corporate customers the lending depends on the collaterals. Here the credit authorities are spread over five competence levels. The branches of the bank dispose of minor loan authorities only. In the Credit Committee both Members of the Board of Managing Directors are entitled to vote. Loans that surpass the competence of the Credit Committee require the consent of a sub-committee (both members of the Board of Managing Directors as well as two members of the Supervisory Board) or of the entire Supervisory Board.

The Board of Managing Directors as a whole is kept informed quarterly on the development of the credit business by means of the credit risk report.

Furthermore the risk bearing capacity is calculated quarterly (Internal Capital Adequacy Assessment Process, "ICAAP") taking into account the capital charges for the credit risk.

Within the scenario calculations the credit risk for financial institutions, companies and security positions is calculated based on available external ratings (that also take into account the individual country risk). Depending on the rating class, the amount to be deducted from the risk covering amount for each individual transaction is determined by the average loss rate and the outstanding debt. For transactions covered by bank guarantees the risk is based on the rating class of the guarantor. If there is no external rating information on the borrower, his majority shareholder or the guarantor available, the rating of the bank's own credit analysis is used, provided the analysis is not older than two years. Otherwise the risk amount is calculated using the probability of default which is to be assumed for the rating level B- (S&P). For securities positions, if due to the valuation the necessity for depreciation occurs, it has to be set-off against the risk coverage amount additionally. For this each security is evaluated individually, with netting of price losses with price gains is admissible only in case the price gains are eligible to be represented in the profit and loss statement based on accounting rules. For loans to private customers a flat probability of default of 3% in relation to the outstanding debt is assumed. Collateral is currently not taken into account as risk-reducing for private customer exposures.

# Ziraat Bank

## Management Report for 2016

Furthermore there are two scenario analyses.

In total the credit risk capital charges must not exceed the allocated risk cover amount in the historical and hypothetical scenario. The allocated risk coverage amount for credit risks is for the two scenario calculations uniformly €k 35,000.

As of December 31, 2016 the calculation is as follows (all figures in TEUR):

Credit risk in T€	Base scenario VaR (95%)	Stress scenario VaR (95%)
Corporates	8.918	18.712
Financial institutions	11.138	18.223
Retail	0	0
Public entities	116	308
Total	20.173*	37.243
<b>Limit</b>	<b>35.000</b>	<b>35.000</b>
<b>Utilisation</b>	<b>58%</b>	<b>106%</b>

In case the existing risk capital does not suffice to cover the established risk of the individual simulation calculation, either additional capital resources have to be furnished as risk capital or have to be balanced by means of allocation of non-needed risk capital for other types of risks. The excess of 6% is due to the extreme simulation of the value loss of collaterals and in this case no further actions are necessary.

Furthermore in order to quantify the credit risk the Credit Department determines the volumes of all risk bearing assets on a daily basis. A further list of the Turkey exposure is prepared for the quantification of the country risk (risk concentration) and submitted monthly to the Auditing Association of German banks, Cologne. The monitoring of loans, that are subject to §§ 13 and 14 KWG (German Banking Act) is carried out by means of an IT-generated list, taking into account the respective borrower units. The bank monitors all loan commitments by means of a daily overdraft list as well as a data file with maturities for interest payments and payments on capital.

The analysis of migration risks is carried out within the framework of credit risk management and is analyzed and taken into account using suitable scenarios.

In order to limit the credit risk in advance those institutions with whom money dealing transactions may be carried out are determined (positive list) in cooperation with the parent company.

In order to monitor limits of credit risk on counterparty and country level the bank uses an IT-tool which shows limits and utilizations in real-time. Additionally an IT-supported list "utilization of total limits" is generated that displays the total risk position of the bank. It shows approved limits, utilization and unused lines for specific kinds of trading transactions and products.

In order to evaluate the Turkey country risk the bank – via its parent company and its representative office – has access to the necessary sources of information in Turkey. Current market reports are made available promptly and are evaluated in the analysis department.

Based on internal criteria latent credit risks are covered by general loan loss provisions. The amounts to be deducted are based on default probabilities, derived from the external or internal ratings.

# Ziraat Bank

## Management Report for 2016

### 4.2.2. Market price risk consists of interest rate risk.

**Interest rate risks** are calculated monthly and submitted to the Board of Managing Directors by the department Risk Management & Control, Organization. All interest bearing assets and liabilities of the current year and the following four years are compared with respect to their interest rate maturity. As a result the calculation shows a different amount, which in form of an asset- or liability-gap de facto is subject to an interest rate risk. By means of simulations possible changes of the interest level and their effects on the profit and loss statement are shown. In order to limit the risk (negative change of interest income over a time-horizon of one year) a loss limit is defined as €k 5000. This also corresponds to the allocated risk coverage amount for market risks within the quarterly risk bearing capacity calculation.

Market risk in T€	Base Scenario VaR (95%)	Stress Scenario VaR (95%)
Interest rate risk	0 (within Budget)	10.536
<b>Limit</b>	<b>5.000</b>	<b>5.000</b>
<b>Utilisation</b>	<b>0%</b>	<b>211%</b>

To determine if interest rate risks need to be provisioned within the Accounting domain, a simulation is done as per balance sheet date. Here the internally established interest gap analysis is used as basis. The profit and loss contributions from closed and open interest positions as well as fictitious closing trades are discounted as per balance sheet date. They are also compensated with discounted future administration- and risk provision expenses. Since as a result there are latent positive valuation reserves the bank does not need to take any provision. In the context of interest rate risk analysis, the present value risk of interest rate risks is also analyzed.

### 4.2.3. Liquidity risk

Liquidity risk is defined as the danger that the bank's ability to meet contractual cash flows could not be ensured. The bank's liquidity risk is structurally reduced by a relatively short-term maturity profile of the lending business. While deposit business is also contractually short term in essential parts, it provides generally a stable funding source. Additionally the internal Investment Strategy for customer deposits regulates that a certain share of the call-money and time-deposits have to be invested in the local banking market on a short-term basis. In order to balance short-dated respectively unexpected liquidity fluctuations the bank strives to keep a securities position which can be liquidated by repo transactions with the European Central Bank or if necessary with other banks.

Intraday all cash flow payments, processed via the account at the German Central Bank are gathered in a data file, which also shows the unused refinancing line at the German Central Bank.

For a short-term liquidity preview Treasury Department maintains a list for the current and the following four working days in which all cash flows to be expected due to contractual agreements are included. A liquidity gap exists when at a defined due date the cumulated cash outflow exceeds the cumulated cash inflow. The liquidity which potentially can be generated additionally in order to cover the liquidity gap (liquidity potential) is shown in the gap analysis. If the liquidity potential is not sufficient to cover the calculated liquidity gap for one of the surveyed working days the Board of Managing Directors as a whole has to be informed about this immediately. Actions to procure the necessary liquidity have to be agreed-upon with the Board of Managing Directors as a whole and have to be initiated immediately. A respective emergency plan has been established.

## Ziraat Bank

### Management Report for 2016

The Risk Management & Control, Organization Department informs the Board of Managing Directors daily on the liquidity risk on the overall bank level. For this purpose liquidity stress scenarios according to MaRisk requirements are calculated on a daily and quarterly base. As far as specified cash flows from assets are based on contractual agreements. For assets with indefinite maturity no cash inflow is assumed. On the liability side assumptions for unexpected cash outflows are applied. The result is net cash flow, which in form of an asset- or liability gap shows the excess or missing liquidity. If in the following month (day) the cumulated fund outflows exceed the cumulated fund inflows (inclusive the liquidity potential) the Board of Managing Directors has to be informed on this in writing immediately. They decide on the further procedure. Furthermore the internal Investment Strategy for customer deposits as well as a liquidity stress calculation based on the maturity of balance sheet positions is measured, monitored and reported to the Board of Managing Directors daily.

The monitoring of liquidity risk is also based on the key figures of the liquidity principle (“Liquiditätsverordnung”). Based on scenario calculations Treasury Department monitors and ensures that also in case essential borrowers default there are sufficient loan facilities available at the German Central Bank in order to be able to meet due payment obligations. This regulation is valid for expected repayments from an amount of € 1 Mio. or higher, respectively their counter-value in currency.

#### 4.2.4. Operational risk (including Model Risk)

Operational risks are defined in accordance with Basel II as risks from inadequate or faulty internal processes, from failure of people and systems as well as from external events

The bank counters IT-risks with a detailed and written emergency plan, including a backup-system at a second location. In case of emergency the entire IT-operation, including the branches, can be maintained on the premises of the bank as well as on those of the backup-system.

In order to guarantee the functionality of the internal processes the departments define organization directives, function descriptions and authority regulations. Internal controls are integrated into the handling procedures that are suitable to ensure a correct execution.

Risk Management & Control, Organization Department annually estimates operational risk, performing a self-assessment and creating a company-wide risk profile. A data base capturing historical loss events from operational risks takes into account losses of the bank as a whole.

The Internal Audit Function is mandated to monitor compliance with internal controls. Regular trainings in internal and external seminars are conducted to minimize risks regarding the qualification of the bank’s employees. Generally the bank’s remuneration system comprises fixed salaries only. Variable components are not agreed in individual contracts. Incentive schemes which are based on the company’s success do not exist.



## Ziraat Bank

### Management Report for 2016

The bank has set up a separate organizational unit in order to comply with the regulations of the Anti-money-laundering act as well as compliance requirements. The AML- and Compliance Officer makes use of special IT-programs to counteract the danger of misuse. The employees are informed on a regular basis in training seminars on the existing legal requirements or upcoming changes of same. In addition, the compliance function in terms of AT 4.4.2 MaRisk has been placed with the Department AML & Compliance. A so-called Compliance Committee with the participation of the Head of Risk Management & Control, Organization and the Head of AML & Compliance was established, included in the "Organizational Rule Composition and definition of Committees" and announced within the financial institution. The compliance function supports management regarding the compliance with legal regulations and requirements and consults and coordinates in the areas of law: Securities Trading Act, data protection law, consumer protection requirements (credit business), prevention of money laundering, terrorist financing and other criminal offenses, which are classified by the financial institution as significant under compliance aspects. To meet rising regulatory requirements to the Compliance Function the bank has decided to licence a database of an external service provider, to provide for an efficient monitoring of legal and regulatory requirements.

The bank limits contractual risks by using standard forms of the Bank Verlag (bank publishing house), Cologne and by using a law firm to check individual contracts. All utilized standard forms of the bank-publishing house are checked once a year regarding their validity and if necessary replaced by revised versions.

To calculate capital requirements for operational risks the bank uses the basis indicator approach taking into account the results of the Operational Self Assessment and the damage / loss database..

OpRisk in T€	Historical	Hypothetical
Operational Risk	503	4.734
Limit	5.000	5.000
Utilisation	10%	95%

#### 4.3. Communication

The risks are discussed by means of the Board of Managing Directors' reporting to the Supervisory Board and by means of the internal communication between department head and Board of Managing Directors. If necessary the Board of Managing Directors is informed ad hoc. For information- and controlling purposes the Board of Managing Directors receives reports or evaluations on a daily, monthly, quarterly or yearly basis. The Board of Managing Directors reports about the development and situation of the bank to the Supervisory Board, with meetings held in regular intervals.

#### 4.4. Risk assessment

Overall we assess the risk exposure of the Bank as appropriate. Essentially we focus on the controllability of risks. Based on the risk-bearing capacity a risk strategy is defined in such a way that the opportunities can be optimally utilized. Within the scope of the risk bearing capacity calculation that is measured and reported quarterly the existing limits for the individual risks have been adhered to at any point in time during the past fiscal year. Beyond this, no further risks did occur that would have endangered the business continuity.

# Ziraat Bank

## Management Report for 2016

### Base Case

Risk		VaR (95%) T€
Credit risk	(Credit risk)	20.154
Market risk	(Interest rate risk)	0
Operational risk	(Operational risk)	3.833
Total		23.987
Limit		45.000
Utilisation		53%

### Inverse Stress

Risk		VaR (95%) T€
Credit risk		64.025
Market risk		-14.185
Operational risk		5.780
Total		55.620
Limit		45.000
Utilisation		123 %

### Economic downturn

Risk		VaR (95%) T€
Credit risk		52.857
Market risk		- 14.185
Operational risk		4.913
Total		43.585
Limit		45.000
Utilisation		96%

## 5. General economic conditions, business environment & opportunities

### 5.1. The year ahead; forecasts for 2017...

2016 has been a year in which the gaps between the US and the rest of the World widened. U.S. economy continued to post robust growth rates, strong job creation (albeit yet to be reflected on wages) and finally followed by the first step towards normalization of the monetary policies while Europe continued its efforts to set stable footing on a sustainable path.

The expansive monetary policies applied by the ECB was expected to have clearer positive impacts on Eurozone economy in the second half of the year, following the States. Germany and Eurozone are net exporters, therefore the pick up of the aggregate demand in the largest importer country in the World was also expected to have a positive reflection. Contrarily, the situation in the Europe continued to deteriorate and the overall picture remained remarkably weak. What was once called “the Engine” of the Eurozone, the German economy started to show signs of stagnation. The rest of the Eurozone Economies are observed to be struggling to balance public finances and also fail to achieve growth. No hint of pick-up in the demand is in sight and inflation continues to stay well under the targeted “slightly less than 2%” level, all of which eventually forcing ECB to go deeper into the ultra loose, unconventional monetary policies which they started in Q3 the previous year.

Volatility in global financial markets intensified, with various triggering events. Geopolitics continued to play a major role, giving discomfort to market actors.

## Ziraat Bank

### Management Report for 2016

One of the 2 most popular subjects of the year has been the collapsing energy & commodity prices, but almost always focusing on the negative aspects.

Steady increases in the global supply of oil at a time when demand was coming under pressure mainly due to recent Global Crisis and unsustainably high commodity prices have reduced petroleum product prices to levels that should now be modestly boosting the expansion of economic activity in many regions of the world. However, though, this is yet to be seen. The problems oil export dependent countries may face may be considered to be a serious threat and exceed the positive aspects for the rest of the World and consumers.

And the other threat according to the Market Actors has been the FED's rate increases. It's been widely talked starting from the first day of the year, but despite the robust macro data the U.S. economy generated, the FED waited until the very last meeting to increase the policy rates initiating normalization of the monetary policy. FED officials mostly cited vulnerability in other economies as the reason for the visible hesitation.

For the year ahead; uncertainties are still impeding a better judgement;

The interest rates are expected to stay at the record low (negative) levels for an extended period, deep into the year ahead in the Eurozone while in the U.S., FED is expected to follow developments in other major economies to continue to the tightening bias. This imbalance may continue to have a reflection on the exchange rates, putting pressure on the value of Euro against Dollar. Recent actions taken by the ECB are expected to support Eurozone economies later in the year.

European economies, being major net oil & energy importers, should enjoy a positive impact on their annual accounts due to larger trade surpluses, thanks to lower oil bills. This should also apply to many other countries except for oil revenue dependent countries i.e. Russia and Saudi Arabia. The oil export dependant countries will have to adjust their government budgets, cut spending if necessary and adapt themselves to the new environment. For the opposite side of the trade, the household in major economies and oil importing countries will spend less on energy and transportation, leaving more disposable income for consumption and investment both of which will have a direct reflection on the growth.

Based on these facts, the second half of what started as a difficult year may turn out to be a better one.

#### 5.2. Ziraat Bank International AG in 2017 and beyond...

The Board of the Managing Directors continue to follow the path outlined by the New Strategy Document, which is periodically reviewed and adapted according to developments and environment. The Plan reflects the Board's general organizational policies and business strategies to achieve its targets set in accordance with the Shareholder's values and the Bank's Vision & Mission.

The initial aim, which was to change the business model and strategy of the Bank, eventually targeting a healthy return on its strong equity within the frame of the corporate risk appetite embraced by the Parent Bank whilst adopting the infrastructure of the Bank to this new environment is now accomplished.

At this phase, Ziraat Bank International AG shall opt to secure the sustainability of the growth and success achieved by focusing more on structural issues of the Bank.

This restructuring and reorganization of the Bank cover a wide range of subjects, ranging from business model to information technologies.

## Ziraat Bank

### Management Report for 2016

Ziraat Bank International AG is the largest international subsidiary of T.C. Ziraat Bank A.S. and therefore in a unique position to answer the financial needs of those conducting business in/between Germany and Turkey. From this point, the vision of the Bank is to become an important financial services provider in Europe, relatively equalling the value created and the level of quantifiable success achieved by its parent bank. This can only be achieved by the help of extensive corporate recognition and experience accumulated in almost half a century in the region as well as synergy & support provided by the parent bank.

The Representative Office in Istanbul, Turkey, which was among the important milestones of the new Strategy, fulfilled an important function of supporting the action plan by establishing the required environment for a healthy and reliable data flow from regional markets to keep the Board of Managing Directors and risk analysts updated in the most rapid and reliable way possible.

Another important part of the restructuring and reorganization targets the branches. The organizational structure of the branches is being redesigned in a way to enable an active participation on local Corporate Banking activities, new client acquisition and asset generation. The Board of Managing Directors puts a great emphasis on the restructuring of the Branches which are considered to be the main channel to penetrate more into domestic business and increase German and EU exposure. In line with this target, periodic training and professional courses are being held focusing on new products and markets as well as managing the risks that come along with the new products.

The Board puts great emphasis on required IT investment. Committees have been established under the supervision of the Board to implement large scale projects, expanding Bank's operational capabilities to adopt new Business Model and new products whilst reducing the operational burden on Branch employees to enable more marketing activities.

Expanding geographical coverage and diversification will be explored within the conservative risk approach of the Bank. Utilization of the Parent Bank's vast resources extending 18 countries with 97 points will present important opportunities in this regard.

Depending on the capabilities of the Bank with its strong shareholder and the expectations laid above, the initial focus on growth has now been shifted to profitability and sustainability with an efficient capital planning without compromising prudent liquidity management.

Liquidity ratios have been projected until the end of the term the New Strategy Document covers on a monthly basis, and reflect a conservative yet feasible liquidity approach. Recent developments in monetary policies, namely deeper negative returns for liquidity means, this feasibility will be more about keeping costs controlled rather than profitability.

Capital planning has been built over a more efficient utilization of the capital and a healthy, commercially acceptable return on equity ratio.

Among the quantitative targets determined by the Board of Managing Directors, the most important and significant is the corporate loans business, which will be main driving force of the New Main Strategy and core competence of the Bank. The Business Plan emphasizes a steady, consistent growth of corporate loans, with an increasing contribution coming from the Branch network with domestic businesses, in order to achieve the targeted net interest margin and profitability.

Board of Managing Directors reckons, with tightening regulatory framework, developments in monetary policies and business environment, the year 2016 will be more about keeping net interest margin at a feasible level rather than aggressive growth.

Corporate Loans will again be the main driver of the Balance Sheet; which is expected to reach €1.6 billion at the end of the current year. This year-end Balance Sheet target reflects a rather moderate growth compared previous achievements. This, mainly, is to enable a more focused approach on structural issues those need to be addressed. Ultimate focus is again on efficient utilization of the equity, cementing the 7%-8% RoE levels as a benchmark to aim for higher.

## Ziraat Bank

### Management Report for 2016

In line with this ultimate goal, the after tax net profit target for 2016 is set above €15 million, which points to more than 12% increase reflecting a better distribution of assets, prompt financing strategy and strict but efficient cost control.

The shareholder will again see a positive development in the return of its investment; over 8% Return on Equity ratio target has been set for 2016, which means the achievement of a commercially acceptable return 3<sup>rd</sup> year in a row under the guidance of the New Strategy Document. The challenge in the years ahead will be to sustain this successful path.

All these figures reflect a better and efficient utilization of the equity. The Capital Adequacy Ratio will continue to reflect efficient but conservative capital and balance sheet management, comfortably satisfying all regulatory requirements while also providing commercial feasibility.

Given the Bank's recognition inherited from the parent bank, historical activities, experience and good track record in Turkey, the potential laid above presents valuable opportunities with acceptable risk/return parameters within the framework of the Bank's general risk appetite. Accordingly, the strategy will be to increase the focus on Branch generated domestic businesses.

Depending on the capabilities of the Bank with its strong shareholder and the expectations laid above, Board of Managing Directors will keep focusing on not only further growth and profitability but also structural and organizational issues to ensure the sustainability of the quantitative achievements supported and boosted by qualitative progress.

#### Statement by the Board of Managing Directors on relations with affiliated companies

Due to the majority shareholding of T.C. Ziraat Bankasi A.S., a dependent company report was compiled in accordance with § 312 AktG ["Aktiengesetz": German Stock Corporation Act], which closes with the following declaration of the Board of Managing Directors: "We declare that Ziraat Bank International AG, according to the circumstances known to us at the time when the above stated legal transactions took place, always received adequate return."

Frankfurt am Main, April 26, 2017

ZIRAAT BANK INTERNATIONAL AG  
The Board of Managing Directors



Ayten Türkmen



Ali Kivanç Ünal

# Ziraat Bank

## ZIRAAT BANK INTERNATIONAL AKTIENGESELLSCHAFT, Frankfurt am Main Balance Sheet as at December 31, 2016

ASSETS	€	€	2015 K €
<b>1 Liquid funds</b>			
a) Cash	14.933.099,03		13.890
b) Balances with central banks thereof: With the German Federal Bank 33.374.417,58 € (prev. Y. € 14.944.328,17)	33.374.417,58	<b>48.307.516,61</b>	14.944
<b>2 Debt instruments issued by public bodies and bills of exchange eligible for refinancing with central banks</b>			
a) Treasury bills and non-interest bearing treasury notes and similar debt instruments issued by public bodies thereof: Refinancable at the German Federal Bank 0,00 EUR	-,-		-
b) Bills of exchange Refinancable at the German Federal Bank 0,00 EUR	-,-	-,-	-
<b>3 Receivables from banks</b>			
a) Due on demand	10.844.139,85		51.239
b) Other receivables	223.745.458,62	<b>234.589.598,47</b>	98.738
<b>4 Receivables from customers</b>		<b>1.350.294.509,46</b>	1.171.492
thereof: Secured by mortgage charges 74,020,038.00 EUR (prev. Y. 20,174,916.87 EUR k) Municipal loans 0,00 EUR (prev. Y. 0,00 EUR)			
<b>5 Debentures and other fixed-interest securities</b>			
a) Money market paper			
aa) Issued by public bodies	-,-		-
ab) Issued by others	-,-	-,-	-
b) Bonds and Debentures			
ba) Issued by public bodies thereof: Eligible as collateral at the German Federal Bank - € (prev. Y. € 0,00)	10.902.282,61		10.902
bb) Issued by others thereof: Eligible as collateral at the German Federal Bank 7.243.334,77 € (prev. Y. € 7.052.330,00)	8.111.937,92		20.414
c) Own debentures Nominal amount 0,00 EUR	-,-	<b>19.014.220,53</b>	-
<b>6 Shares and other variable-yield securities</b>		-,-	-
<b>6a Held for trading</b>		-,-	-
<b>7 Investments</b>		<b>349.644,87</b>	349
thereof: Investments in banks € 349.644,87 thereof: Investments in financial service institutions 0,00 EUR			
<b>8 Shares in affiliated undertakings</b>		-,-	-
thereof: In banks 0,00 EUR thereof: In financial service institutions 0,00 EUR			
<b>9 Trust assets</b>			-
thereof: Trust loans 0,00 EUR			
<b>10 Compensation receivables from public bodies, including debentures arising from their exchange</b>		-,-	-
<b>11 Intangible assets</b>			
a) Self-created property rights and similar rights and values	-,-		-
b) Acquired concessions, industrial property rights and similar rights and licenses in such rights and values	3.246.972,61		481
c) Company- or goodwill value	-,-		-
d) Prepayments	-,-	<b>3.246.972,61</b>	2.765
<b>12 Tangible fixed assets</b>		<b>1.142.695,31</b>	563
<b>13 Called, unpaid capital</b>		-,-	-
thereof: Called-up 0,00 EUR			
<b>14 Other assets</b>		<b>8.311.134,95</b>	6.217
<b>15 Prepaid and deferred items</b>		<b>274.616,14</b>	182
<b>16 Deferred tax assets</b>		-,-	-
<b>17 Positive difference from the asset accounts</b>		-,-	-
<b>18 Loss not covered by equity</b>		-,-	-
<b>Total assets</b>		<b><u>1.665.530.908,95</u></b>	<b><u>1.392.176</u></b>

# Ziraat Bank

## ZIRAAT BANK INTERNATIONAL AKTIENGESELLSCHAFT, Frankfurt am Main Balance Sheet as at December 31, 2016

LIABILITIES AND EQUITY		€	€	2015 K €
<b>1</b>	<b>Liabilities to banks</b>			
a)	Payable on demand	15.645.533,61		13.726
b)	With an agreed term or notice period	335.974.373,62	<b>351.619.907,23</b>	333.873
<b>2</b>	<b>Liabilities to customers</b>			
a)	Savings deposits			
aa)	With an agreed notice period of three months	3.825.632,16		3.655
ab)	With an agreed notice period of more than three months	1.432.318,10	5.257.950,26	1.126
b)	Other liabilities			
ba)	Payable on demand	122.685.604,33		164.584
bb)	With an agreed term or notice period	978.075.065,59	1.100.760.669,92	684.217
<b>3</b>	<b>Certificated liabilities</b>			
a)	Debt securities issued		-,-	-
b)	Other certificated liabilities		-,-	-
	thereof:			
	Money market paper 0,00 EUR	-,-		
	Own acceptances and promissory notes outstanding 0,00 EUR	-,-		
<b>3a</b>	<b>Held for trading</b>		-,-	-
<b>4</b>	<b>Trust liabilities</b> thereof: Trust loans 0,00 EUR		-,-	-
<b>5</b>	<b>Other liabilities</b>		4.731.952,22	2.186
<b>6</b>	<b>Deferred items</b>		2.608.846,22	2.646
<b>6a</b>	<b>Passive deferred taxes</b>		-,-	-
<b>7</b>	<b>Accrued expenses</b>			
a)	Pensions and similar commitments		-,-	-
b)	Tax accruals	22.241,59		671
c)	Other accrued expenses	734.878,39	757.119,98	969
<b>8</b>	<b>Untaxed reserves (cancelled)</b>		-,-	-
<b>9</b>	<b>Subordinated liabilities</b>		-,-	-
<b>10</b>	<b>Capital with participation rights</b> thereof: Due within two years 0,00 EUR		-,-	-
<b>11</b>	<b>Special accounts for general banking risks</b>		-,-	-
<b>12</b>	<b>Equity</b>			
a)	Called up capital			
	Subscribed capital	130.000.000,00		130.000
	Uncalled outstanding deposits not less	-,-	130.000.000,00	
b)	Capital reserve		13.000.000,00	13.000
c)	Revenue reserves		41.523.098,54	27.836
ca)	Legal reserve	-,-		
cb)	Reserve for shares in a controlling or majority of companies involved	-,-		
cc)	Reserves set up under statutes or by-laws	-,-		
cd)	Other revenue reserves	41.523.098,54		
d)	Net earnings/loss	15.271.364,58	199.794.463,12	13.687
	<b>Total liabilities and equity</b>		<b>1.665.530.908,95</b>	<b>1.392.176</b>
		€	€	T€
<b>1</b>	<b>Contingent liabilities</b>			
a)	Contingent liabilities from the endorsement of bills rediscounted		-,-	
b)	Contingent liabilities from guarantees and indemnity agreements	10.541.028,01		14.640
c)	Contingent liabilities from sureties pledged as collateral security on behalf of third parties		-,-	
			<b>10.541.028,01</b>	
<b>2</b>	<b>Other commitments</b>			
a)	Liabilities from non-genuine repurchase agreements		-,-	-
b)	Placement and underwriting commitments		-,-	-
c)	Irrevocable lines of credit granted	8.938.299,85	8.938.299,85	14.044

Ziraat Bank

**Profit and Loss Account of ZIRAAT BANK INTERNATIONAL AG, Frankfurt am Main  
for the period from January 1, 2016 to December 31, 2016**

EXPENSES	€	€	€	2015 K €
1. Interest expense			17.959.351,58	19.050
2. Commission expense			605.810,20	850
3. Net expenses for the trading portfolio			-	-
4. General and administrative expenses				
a) Personnel expenses				
aa) Wages and salaries	7.748.232,79			7.923
ab) Social security contributions, pensions and welfare expenses thereof:				
For pensions 242.362,08 € (prev. Y. T€ 241)	1.430.046,47	9.178.279,26		1.370
b) Andere Verwaltungsaufwendungen		6.543.259,26	15.721.538,52	5.753
5. Amortisation, depreciation and write-downs of intangible and tangible fixed assets			871.016,54	599
6. Other operating expenses			1.225.411,92	104
7. Write-offs and provisions on receivables and certain securities and write-ups on accruals relating to the credit business			227.869,91	6.686
8. Write-offs and provisions on investments, shares in affiliated companies and securities treated as non-current assets			-	-
9. Expenses from losses assumed			-	-
10. Transfers to untaxed reserves (no longer applicable)			-	-
11. Extraordinary expense			-	-
12. Taxes on income			7.156.892,13	5.363
13. Other taxes not covered by caption 6			-	1
14. Profits transferred as a result of profit pooling, profit transfer or partial profit transfer agreements			-	-
15. Net profit for the year			15.271.364,58	13.687
Total expenses			<u>59.039.255,38</u>	<u>61.386</u>



Ziraat Bank

**Profit and Loss Account of ZIRAAT BANK INTERNATIONAL AG, Frankfurt am Main  
for the period from January 1, 2016 to December 31, 2016**

INCOME	€	€	2015 K €
<b>1. Interest income from</b>			
a) Loans and money market transactions	47.041.781,17		45.529
b) Fixed-interest securities and debenture bonds	865.554,80	47.907.335,97	931
<b>2. Current income from:</b>			
a) Shares and other variable-yield securities			-
b) Participating interests		-	-
c) Shares in affiliated undertakings		-	-
<b>3. Income from profit pooling, profit transfer and partial profit transfer agreements</b>		-	-
<b>4. Commission income</b>		9.856.340,79	8.471
<b>5. Net income for the trading portfolio</b>		-	-
<b>6. Income from write-ups on receivables and certain securities and dissolutions of provisions relating to the credit business</b>		200.000,00	20
<b>7. Income from write-ups on investments, shares in affiliated companies and securities treated as non-current assets</b>		-	-
<b>8. Other operating income</b>		1.075.578,62	6.435
<b>9. Income from dissolutions of untaxed reserves (no longer applicable)</b>		-	-
<b>10. Extraordinary income</b>		-	-
<b>11. Income from losses transferred</b>		-	-
<b>12. Net loss for the year</b>			-
<b>Total income</b>		<u>59.039.255,38</u>	<u>61.386</u>

Ziraat Bank International AG is registered in Frankfurt am Main in the Commercial Register of the District Court of Frankfurt am Main (HRB 52332).

The annual financial statements have been prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch), as amended by the Accounting Standards Directive (BilRUG).

### **1. ACCOUNTING AND VALUATION PRINCIPLES**

**All financial statements are prepared in accordance with Secs. 242 et seq. and 340 et seq.** HGB („Handelsgesetzbuch“ German Commercial Code), the RechKredV („Verordnung über die Rechnungslegung von Kreditinstitutionen“ German Bank Accounting Directive) and the German Stock Corporation Act („Aktengesetz“: AktG).

The subscribed capital is EUR 130,000k and divided into 1,300,000 registered shares, each with a nominal value of EUR 100.

Deferred tax amount differs EUR 982k in Commercial and tax balance sheets, due to the variations in methodologies of the two approaches.

Tax amounts have been calculated over 15% corporate tax, 5.50% solidarity surcharge, and trade tax with the average trade tax rates of assessment of the competent local authorities. The additional amounts result mainly from the calculated risk provisioning according to § 340f HGB and the risk provisions against loans to customers. The Bank has opted not to capitalize these differences in the assets.

Foreign currency denominated **receivables and liabilities, including the accrued interests**, have been converted to local currency with European Central Bank's reference rates at the balance sheet date.

Resulting negative differences due to foreign exchange evaluation are booked in the profit and loss account under “Other operating expenses”. Hedging purposed currency transactions have been evaluated on basis of the cash price with swap accruals. Foreign exchange gains resulting only from hedging purposed transactions (Sec. 256a HGB) are shown in the profit and loss account under “Other operating expenses”.

**Liquid assets** are stated at nominal value.

**Receivables** are disclosed with nominal value, reduced by specific- and general provisions. Bills receivable, other receivables accepted and receivables purchased à forfait are discounted at the rate paid.

Appropriate specific allowances for non-performing debts have been set up for all recognizable risks in credit portfolio. A general overall valuation adjustment for all potential risks in the lending business was set up in the amount of EUR 7,557k (previous year EUR 7,757k). This provision is based on internal criteria. The country risk provision contained therein was increased to EUR 5,804k (previous year EUR 5,554k).

The **bonds and debentures**, which are assigned as liquidity reserve, were evaluated at acquisition costs respectively at on-going book values or at the lower market values according to the strict minimum value principle. The deposited amount as collateral at Deutsche Bundesbank stands at nominal EUR 7,000k as of the end of the year. In exchange, EUR 13,000k has been borrowed within the open market operations facility (Targeted Long Term Refinancing Operation) made available by the Deutsche Bundesbank.

**Investments and shares in affiliated companies** are accounted for in accordance with the applicable rules for fixed assets at cost. Resulting differences due to exchange rate conversions are not booked in profit and loss accounts.

**Tangible and intangible assets** were carried on at purchase cost on the basis of useful life expectancy recognized by tax law less a pro rata depreciation. The depreciations are deducted linearly during the expected useful life.

Low cost items up to a net of Euro 400 have been accounted as expenses in the year of their purchase. Since 2013, the Bank opts to expense purchased items between Euro 150 and Euro 400.

The evaluation of the **other assets** was also carried out in accordance with the strict principle of the lower of cost or market.

**Liabilities** were assessed at the amounts repayable and appropriate accruals were made for all contingent liabilities known as of the balance sheet date.

**Interest was accrued** on receivables, bonds, debentures and liabilities and allocated to the respective balance sheet item.

**Other expenses and income** are recorded on an accrual basis.

**Provisions** are made in accordance with reasonable commercial assessment.

The bank uses a profit and loss- oriented approach to determine if a provision for contingent loss according to § 340a i.V.m § 249 para. 1 clause 1 altern. 2 German Commercial Code has to be formed. Valuation subject is the banking book that includes all balance-sheet and off balance-sheet interest-related financial instruments not booked in the trading portfolio (including securities of the liquidity reserve and securities of the investment portfolio). The accrual of the banking book's interest-related financial instruments is done on the basis of the bank's portfolio structure that is also the basis of the bank's internal management.

The periodic profit contributions from closed interest positions, from open interest positions as well as closing adjustments are finally netted per maturity range. The periodic (net-) profit contributions have been discounted as per balance sheet date. The future administration- and provision of risk expenses relating to the respective transactions are deducted from the discounted total amount (The interest rate used for the calculation of administration and risk provision expenses is the rate used for discounting of the periodic profit contributions).

The Bank's financial statements are consolidated within the financial statements of T.C. Ziraat Bankasi A. S., Ankara. The consolidated financial statements include all subsidiaries and associated companies (Largest and smallest parameter). The financial statement is published on the website of the TC Ziraat Bankasi AS, Ankara ([www.ziraat.com.tr](http://www.ziraat.com.tr)) and the website of the Turkish Banking Association ([www.tbb.org.tr](http://www.tbb.org.tr)) and the public information platform ([www.kap.gov.tr](http://www.kap.gov.tr)).

**2. NOTES TO THE BALANCE SHEET AND INCOME STATEMENT****2.1 Maturity Breakdown****2.1.1 Loans and advances to banks with remaining period\***

kEUR	2016	2015
Up to three months	27.040	10.060
From 3 months up to one year	188.443	73.586
From one year up to five years	9.231	10.078
More than five years	0	0

\* proportional interest has not been allocated in accordance with the simplification rule of Sec. 11 Sentence 3 RechKred.V.

**2.1.2 Loans and advances to customers with remaining period\***

kEUR	2016	2015
Up to three months	220.464	125.735
From 3 months up to one year	224.001	269.607
From one year up to five years	785.218	736.939
More than five years	93.718	31.484
With indefinite term	17.907	12.149

\* proportional interest has not been allocated in accordance with the simplification rule of Sec. 11 Sentence 3 RechKred.V.

**2.1.3 Bonds and debentures** nominal amount of EUR 6,640 k, booking value of EUR 6,667 k will mature in 2017.**2.1.4 Liabilities to banks with remaining period\* of**

kEUR	2016	2015
Up to three months	15.930	0
From 3 months up to one year	60.262	25.670
From one year up to five years	258.215	306.734
More than five years	0	0

\* proportional interest has not been allocated in accordance with the simplification rule of Sec. 11 Sentence 3 RechKred.V.

**2.1.5 Saving deposits with an agreed period of notice with remaining period\* of**

kEUR	2016	2015
Up to three months	3.865	3.942
From 3 months up to one year	112	0
From one year up to five years	1.281	669
More than five years	0	159

\* proportional interest has not been allocated in accordance with the simplification rule of Sec. 11 Sentence 3 RechKred.V.

## 2.1.6 Other Liabilities to customers with remaining period\* of

kEUR	2016	2015
Up to three months	219.436	130.476
From 3 months up to one year	470.131	282.162
From one year up to five years	277.474	266.854
More than five years	7.020	0

\* proportional interest has not been allocated in accordance with the simplification rule of Sec. 11 Sentence 3 RechKred.V.

## 2.2 Balance Sheet Items in Foreign Currency

Total assets and liabilities in foreign currency is EUR 752,926k, including EUR 477,438k receivables, EUR 348k investments, EUR 274,525k liabilities and EUR 615k contingent liabilities.

## 2.3 Affiliated Companies

kEUR	2016	2015
Loans and advances to banks	12	343
Loans and advances to customers	0	0
Liabilities to banks	273.666	337.706
Liabilities to customers	0	0
Contingent Liabilities to affiliated companies	550	554

\* proportional interest has not been allocated in accordance with the simplification rule of Sec. 11 Sentence 3 RechKred.V.

## 2.4 Securities listed on stock exchange

Negotiable and listed loans and debentures total is EUR 19,014k.

## Ziraat Bank

### Notes to the Financial Statements For Fiscal Year 2016

#### 2.5 Analysis of Fixed Assets

Composition:

	Purchase Cost			Amortization/Depreciation		Net Book Value	
	As of 01.01.2016	Additional	Disposals	Fiscal-	As of Year	As of 31.12.16	As of 31.12.15
Property, plant and equipment	8.109	822	0	7.788	351	1.143	672
Intangible assets	3.101	3.396	0	3.250	520	3.247	371
Shares in affiliated companies	0	0	0	0	0	0	0
Investments	349	1	0	0	0	350	349
Securities	10.000	0	10.000	0	0	0	10.000
<b>Total</b>	<b>21.559</b>	<b>4.219</b>	<b>10.000</b>	<b>11.038</b>	<b>871</b>	<b>4.740</b>	<b>11.392</b>

#### 2.6 Other Individual Items

Other Assets	T€
Receivables from the tax office	874
VAT 2015	455
VAT 2016	200
Corporation tax 2016	107
Trade tax 2016	112
CPD-unclarified payment receipts	759
Swap collateral	5.110
Swap-accruals	706
Other receivables	413
Other	449
Other Liabilities	T€
Liabilities to the tax office	82
Tax payable on directors' remuneration	44
VAT payable on directors' remuneration	38
Liabilities social insurance	18
Rebooking social insurance	464
Clearing account	317
Foreign exchange valuation	86
Swap accruals	2.943
Correction	674
Withholding tax/Solidarity surcharge	
Correction interest accruals	120
Other	28

**2.7.1 Contingent Liabilities**

Contingent Liabilities	T€
Guarantees	4.456
Documentary credit confirmed and opened	6.085
Contingent Liabilities to affiliated companies	T€
Guarantees	550
Turkish Ziraat Bank Bosnia dd	550
Documentary credits confirmed and opened	66
T.C. Ziraat Bankasi A.S., Ankara	66

The amount of avalized transactions are less than 5%.

**2.7.2 Unconditional Loan commitments**

The volume of Unconditional loan commitments as of 31.12.2016 is EUR 8,938. An assumption of 50% utilization has been deemed appropriate.

**2.8 Securities Assigned**

As of December 31, 2016 EUR 329,039k of the liabilities to customers were assets assigned as collateral. The total amount of the assets assigned as security for contingent liabilities amounted to EUR 2,898k.

**2.9 Income Statement**

The personnel expenses decreased from EUR 9,293k to EUR 9,178k in 2016.

The income from the write-up of claims and certain securities as well as from the release of provisions for credit transactions amount to:

- Price gains of securities of liquidity reserve	EUR 0k
- Income from the liquidation of value adjustments	EUR 200k

The write-downs and adjustments to claims and certain securities as well as allocations to provisions for credit transactions amount to:

- Additions valuation adjustments	EUR 137k
- Depreciation of securities of liquidity reserve	EUR 91k

The total amount of the revenues shown in § 34 para. 2 no. 1 RechKredV relate to Germany with EUR 14,332k (EUR 8,127k commission income / EUR 4,930k interest income / EUR 1,275k other income), to other EU-countries with EUR 3,806k (EUR 2,477k interest income/ EUR 1.329k commission income) and with EUR 40,901k (EUR 40,501k interest income / EUR 400k commission income) to other countries.

Income taxes for the fiscal year 2016 amount to EUR 7,157k. This figure comprises income taxes for the current year.

Other operating income in the amount of EUR 1,076k mainly relates to the reimbursement of VAT in 2015 EUR 590k and VAT in 2016 EUR 200k as well as to the dissolving of provisions in the amount of EUR 205k.

The other operating expenses in the amount of EUR 1,225k amongst others include expenditures, side cost of EUR 15k of previous years and valuation of currency swaps in the amount of EUR 1,102k.

The Bank has recorded in 2016 minus interest amounting to EUR 136,272.53 of the Deutsche Bundesbank, Frankfurt, as the Bank has surpassed the fulfilment of reserve requirements in seven periods.

### **3 OTHER SPECIFICATIONS**

#### **3.1 Other financial obligations**

Long-term obligations (EUR 4,609k) resulting mainly from rental and lease agreements for business premises for the head office and nine branches.

#### **3.2 Open forward transactions**

USD-forward exchange contracts with a volume of EUR 122,354k (nominal USD 128,973k), TRY-forward exchange contracts with a volume of EUR 78,954k (nominal TRY 292,700k) and GBP- forward exchange contracts with a volume of EUR 2,570k (nominal GBP 2,200 k) that were pending as of balance sheet day relate to money market transactions conducted for liquidity management purposes.

#### **3.3 Equity investments and shares in affiliated companies**

The participation in the capital of Azerbaijan Türkiye Birge Sehimdar Kommersiya Bank, Baku, Azerbaijan, decreased from 4% to 1.08% in 2014 as a result of the paid-in capital increase from 13.4 million AZN to 50.0 million AZN for which Ziraat Bank International AG provided no contribution.

The participation amount of USD 100 k and AZN 312,296.88 is equivalent to the acquisition cost of EUR 347,603.07.

#### **3.4 Profits and Proposal for the Distribution of Profits**

In accordance with the resolution passed during the shareholders' meeting on May 13, 2016 EUR 13,686,714.87 have been allocated to the retained earnings.

We propose to the shareholders to transfer the profit of 2016 EUR 15,271,364.58 to retained earnings.



**3.5 Supplement Report**

There are no significant events occurred after the balance sheet date.

**3.6 Remuneration of Board Members**

The total remuneration of Board Members in 2016 is as follows:

<b>The total remuneration of the Board Members</b>	<b>€</b>
Board of Managing Directors	422,262.06
Supervisory Board	147,567.24

The loans to the Board of Managing Directors as of 31.12.2016 are EUR 8,850.

**3.7 Number of Employees**

In 2016 average number of personnel has been 141 (including nine branches). The breakdown as of end of the year is as follows:

Proxy holders	6
Authorized signatories	80
Other employees	57

**3.8 Total remuneration of the Auditor in 2016**

	<b>2016</b>	<b>2015</b>
a) Auditing benefits - Year end auditing	110.000,00*	110.000,00*
b) Other confirmation benefits	0,00	8. 413,30
c) Tax-Office benefits		
d) Other benefits		

\*without VAT

**3.9 Shareholders and Executive Bodies of the Bank**

**3.9.1 Shareholders**

<b>Name of the shareholder</b>	<b>: Türkiye Cumhuriyeti Ziraat Bankası A.Ş., Ankara, Turkey</b>
<b>Share of capital</b>	<b>: 100%</b>

## Ziraat Bank

### Notes to the Financial Statements For Fiscal Year 2016

#### 3.9.2 Supervisory Board

Ömer M. Baktır Chairman	Assistant General Manager of T.C. Ziraat Bankası A.Ş., Ankara / Turkey resident in: Istanbul / Turkey
Süleyman Türetken Vice Chairman	Group Director of T.C. Ziraat Bankası A.Ş., Ankara, Turkey resident in: Istanbul / Turkey
Can Örüng Member (until 13.05.2016)	Group Director of T.C. Ziraat Bankası A.Ş., Ankara, Turkey resident in: Istanbul / Turkey
Mehmet Turgut Member (as of 13.05.2016)	Senior Vice President of Credit Processes Dept. of T.C. Ziraat Bankası A.Ş., Ankara, Turkey resident in: Ankara / Turkey
Bülent Süer Member (as of 13.05.2016)	Executive Vice President of T.C. Ziraat Bankası A.Ş., Ankara, Turkey resident in: Ankara / Turkey
Battal Arslan Member	Head of Corporate Marketing Group of T.C. Bankası A.Ş., Ankara, Turkey resident in: Istanbul / Turkey
Bilge Levent Member	Head of Financial Markets Department of T.C. Bankası A.Ş., Ankara, Turkey resident in: Istanbul / Turkey
Taha Çakmak Member (until 13.05.2016)	Head of Human Resources Department of T.C. Bankası A.Ş., Ankara, Turkey resident in: Ankara / Turkey

Ziraat Bank

## Notes to the Financial Statements For Fiscal Year 2016

### 3.9.3 Board of Managing Directors

Ayten Türkmen, Banker, Frankfurt am Main, Chairman

Ali Kivanç Ünal, Banker, Frankfurt am Main

Frankfurt am Main, April 26, 2017

#### Ziraat Bank International AG

The Board of Managing Directors



Ayten Türkmen



Ali Kivanç Ünal



**Auditor's Report**

We audited the annual financial statements, comprising the balance sheet, the income statement, the notes to the financial statements, together with the bookkeeping system, and the management report of ZIRAAT BANK INTERNATIONAL AKTIENGESELLSCHAFT, Frankfurt am Main for the financial year from January 1 through December 31, 2016. Maintenance of the books and records and preparation of the annual financial statements and the management report in accordance with German commercial law provisions are the responsibility of the Company's management board. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § (Art.) 317 HGB [Handelsgesetzbuch; German Commercial Code] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with [German] principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Company's management board as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion and based on the findings of our audit, the annual financial statements comply with the legal provisions and provide a true and fair view of the net assets, financial position and results of operations of the Company in accordance with [German] principles of proper accounting. The management report is consistent with the annual financial statements, in line with the legal provisions and as a whole provides a suitable view of the position of the Company, and suitably presents the opportunities and risks of future development.

Frankfurt am Main, Germany, April 27, 2017

PricewaterhouseCoopers GmbH  
Wirtschaftsprüfungsgesellschaft

signed Eva Handrick  
Wirtschaftsprüfer  
(German Public Auditor)

signed ppa. Fatih Agirman  
Wirtschaftsprüfer  
(German Public Auditor)

(The translated auditor's report is not signed since the German text is authoritative.)

