



Annual financial statements as of December 31, 2017, and management report

TRANSLATION – AUDITOR'S REPORT

ZIRAAT BANK INTERNATIONAL AKTIENGESELLSCHAFT
Frankfurt am Main, Germany

KPMG AG Wirtschaftsprüfungsgesellschaft

The English language text below is a translation provided for information purposes only. The original German text shall prevail in the event of any discrepancies between the English translation and the German original. We do not accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may arise from the translation.

ZIRAAT BANK INTERNATIONAL AKTIENGESELLSCHAFT, Frankfurt am Main

Balance Sheet as at December 31, 2017

ASSETS

	€	€	2016 K €
1 Liquid funds			
a) Cash	15,009,335.81		14,933
b) Balances with central banks	135,707,187.00	150,716,522.81	33,375
thereof: With the German Federal Bank			
135,707,187.00 € (prev. Y. € 33,374,417.58)			
2 Debt instruments issued by public bodies and bills of exchange eligible for refinancing with central banks			
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			
thereof:			
Refinancable at the German Federal Bank 0.00 EUR	-	-	
3 Receivables from banks			
a) Due on demand	3,270,732.06		10,844
b) Other receivables	274,448,774.37	277,719,506.43	223,745
4 Receivables from customers		1,267,785,427.04	1,350,295
thereof:			
Secured by mortgage charges 0.00 EUR (prev. Y. 0.00 EUR)			
Municipal loans 0.00 EUR (prev. Y. 0.00 EUR)			
5 Debentures and other fixed-interest securities			
a) Money market paper			
aa) Issued by public bodies	-		
ab) Issued by others	-	-	
b) Bonds and Debentures			
ba) Issued by public bodies	10,068,732.88		10,902
thereof: Eligible as collateral at the German Federal Bank			
- € (prev. Y. € 0.00)			
bb) Issued by others	2,000,493.33		8,112
thereof: Eligible as collateral at the German Federal Bank			
2,000,493.33 € (prev. Y. € 7,243,334.77)			
c) Own debentures	-	12,069,226.21	
Nominal amount 0,00 EUR			
6 Shares and other variable-yield securities		-	
6a Held for trading		-	
7 Investments		347,603.07	349
thereof: Investments in banks € 347,603.07			
thereof: Investments in financial service institutions 0.00 EUR			
8 Shares in affiliated undertakings		-	
thereof: In banks 0.00 EUR			
thereof: In financial service institutions 0.00 EUR			
9 Trust assets		-	
thereof: Trust loans 0.00 EUR			
10 Compensation receivables from public bodies, including debentures arising from their exchange		-	
11 Intangible assets			
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	2,840,106.28		3,247
c) Company- or goodwill value	-		-
d) Prepayments	3,667.02	2,843,773.30	-
12 Tangible fixed assets		1,298,061.12	1,143
13 Called, unpaid capital		-	
thereof: Called-up 0.00 EUR			
14 Other assets		6,924,977.61	8,311
15 Prepaid and deferred items		939,848.41	275
16 Deferred tax assets		-	
17 Positive difference from the asset accounts		-	
18 Loss not covered by equity		-	
Total assets		1,720,644,946.00	1,665,531

LIABILITIES AND EQUITY

	€	€	2016 K €
1 Liabilities to banks			
a) Payable on demand	83,226,344.89		15,646
b) With an agreed term or notice period	242,117,655.46	325,344,000.35	335,974
2 Liabilities to customers			
a) Savings deposits			
aa) With an agreed notice period of three months	4,297,979.33		3,826
ab) With an agreed notice period of more than three months	1,376,569.72	5,674,549.05	1,432
b) Other liabilities			
ba) Payable on demand		148,133,835.71	122,686
bb) With an agreed term or notice period		1,019,263,391.04	978,075
3 Certificated liabilities			
a) Debt securities issued		-,-	
b) Other certificated liabilities thereof:		-,-	
Money market paper 0.00 EUR		-,-	
Own acceptances and promissory notes outstanding 0.00 EUR		-,-	
3a Held for trading			-,-
4 Trust liabilities			-,-
thereof: Trust loans 0.00 EUR			
5 Other liabilities		1,721,686.73	4,732
6 Deferred items		2,362,301.55	2,609
6a Passive deferred taxes			-,-
7 Accrued expenses			
a) Pensions and similar commitments		-,-	
b) Tax accruals		24,442.31	22
c) Other accrued expenses		1,299,017.95	735
8 Untaxed reserves (cancelled)			-,-
9 Subordinated liabilities			-,-
10 Capital with participation rights			-,-
thereof: Due within two years 0.00 EUR			
11 Special accounts for general banking risks			-,-
12 Equity			
a) Called up capital			
Subscribed capital		130,000,000.00	130,000
Uncalled outstanding deposits not less		-,-	
b) Capital reserve		13,000,000.00	13,000
c) Revenue reserves		56,794,463.12	41,523
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		56,794,463.12	
d) Net earnings/loss		17,027,258.19	15,271
Total liabilities and equity		1,720,644,946.00	1,665,531

	€	€	
1 Contingent liabilities			
a) Contingent liabilities from the endorsement of bills rediscounted		-,-	
b) Contingent liabilities from guarantees and indemnity agreements		10,175,050.34	10,541
c) Contingent liabilities from sureties pledged as collateral security on behalf of third parties		-,-	
2 Other commitments			
a) Liabilities from non-genuine repurchase agreements		-,-	
b) Placement and underwriting commitments		-,-	
c) Irrevocable lines of credit granted		9,147,009.17	8,938

NOTES TO THE FINANCIAL STATEMENTS FOR FISCAL YEAR 2017

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 ("Aktiengesetz": AktG).

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

Deferred tax amount differs EURk 346 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 not opted to capitalize these differences in the assets. The approach in the Balance Sheet will continue.

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 losses 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 in the amount of EURk 7.181 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 EURk 5,063 (previous year EURk 7,557). This provision is based on internal criteria.

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 EURk 2,000 as of the end of the year. In exchange, EURk 16,000 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 in accordance with the applicable rules for fixed assets at cost.

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-value assets up to a net of Euro 400 have been accounted as expenses in the year of their purchase.

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 object 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 of the 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) and the website of the Turkish Banking Association (www.tbb.org.tr) and the public information platform (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*

EURk	2017	2016
Up to three months	66,306	27,040
From 3 months up to one year	208,502	188,443
From one year up to five years	0	9,231
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*

EURk	2017	2016
Up to three months	214,691	220,464
From 3 months up to one year	335,682	224,001
From one year up to five years	640,289	785,218
More than five years	62,215	93,718
With indefinite term	8,616	17,907

*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 with a nominal and booking amount of EUR 2,000 k will mature in 2019. In 2018 there are no final due dates.

2.1.4 Liabilities to banks with remaining period* of

EURk	2017	2016
Up to three months	34,965	15,930
From 3 months up to one year	166,138	60,262
From one year up to five years	39,691	258,215
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

EURk	2017	2016
Up to three months	4,298	3,865
From 3 months up to one year	323	112
From one year up to five years	1,049	1,281
More than five years	5	0

*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

EURk	2017	2016
Up to three months	306,586	219,436
From 3 months up to one year	363,946	470,131
From one year up to five years	326,767	277,474
More than five years	18,712	7,020

* 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 EURk 573,654, including EURk 352,204 receivables, EURk 348 investments, EURk 218,821 liabilities and EURk 2,281 contingent liabilities.

2.3 Affiliated Companies

EURk	2017	2016
Loans and advances to banks	12,526	12
Loans and advances to customers	8,000	0
Liabilities to banks	278,674	273,666
Liabilities to customers	0	0
Contingent Liabilities to affiliated companies	603	550

* 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 EURk 12,069.

2.5 Analysis of Fixed Assets

Composition:

Unit EURk	Purchase Cost			As of 31/12/17	Depreciation		As of 31/12/17	Net Book Value	
	As of 01/01/17	Additions	Disposals		As of 01/01/17	Financial-year		As of 31/12/17	As of 31/12/17
Property, plant And equipment	8,931	554	0	9,485	7,788	399	8,187	1,298	1,143
Intangible assets	6,497	127	0	6,624	3,250	534	3,784	2,840	3,247
Shares in aff.companies	0	0	0	0	0	0	0	0	0
Investments	350	0	2	348	0	0	0	348	350
Securities	0	0	0	0	0	0	0	0	0
Total	15,778	681	2	16,457	11,038	933	11,971	4,486	4,740

2.6 Other Individual Items

Other Assets	EURk
Receivables from the tax office	1,361
VAT 2016	396
VAT 2017	200
Corporation tax 2017	323
Trade tax 2017	329
Flat rate tax/settlement tax last year	113
Swap collateral	2,060
Swap-accruals	2,755
Other	749

Other Liabilities	EURk
Liabilities to the tax office	42
Tax payable on directors' remuneration	7
VAT payable on directors' remuneration	35
Liabilities social insurance	11
Clearing account	1,013
Foreign exchange valuation	112
Swap accruals	252
Correct. Withholding tax/Solidarity surcharge	281
Other	10

2.7.1 Contingent Liabilities

Contingent Liabilities	EURk
Guarantees	9.711
Documentary credit confirmed and opened	464

Contingent Liabilities to affiliated companies	EURk
Guarantees	524
Turkish Ziraat Bank Bosnia dd	484
T.C. Ziraat Bankasi A.S., Ankara	40
Documentary credits confirmed and opened	79
T.C. Ziraat Bankasi A.S., Ankara	79

The amount of avalized transactions are less than 5%.

2.7.2 Unconditional Loan commitments

The volume of unconditional loan commitments as of 31.12.2017 is EURk 9,147. An assumption of 75% utilization has been deemed appropriate.

2.8 Securities Assigned

As of December 31, 2017 EURk 202,758 of the liabilities to customers were assets assigned as collateral. The total amount of the assets assigned as security for contingent liabilities amounted to EURk 1,906.

2.9 Income Statement

The personnel expenses decreased from EURk 9,178 to EURk 8,612 in 2017.

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

- Price gains of securities of liquidity reserve	EURk	0
- Income from the liquidation of value adjustments	EURk	4,692

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

- Additions valuation adjustments	EURk	5,533
- Depreciation of securities of liquidity reserve	EURk	0

The total amount of the revenues shown in § 34 para. 2 no. 1 RechKredV relate to Germany with EURk 17,946 (EURk 7,432 commission income / EUR 4,993k interest income / EUR 5,522k other income), to other EU-countries with EUR 4,561k (EUR 3,819k interest income/ EUR 742k commission income) and with EUR 45,333k (EUR 40,501k interest income / EUR 400k commission income) to other countries.

Income taxes for the fiscal year 2017 amount to EUR 7,544k. This figure comprises income taxes for the current year.

Income from participations amounted to EURk 9 for the current year.

Other operating income in the amount of EURk 4,107 mainly relates to the reimbursement of VAT in 2016 EUR 474k and VAT in 2017 EURk 200 as well as income from foreign currency valuation in the amount of EURk 2,838.

The other operating expenses in the amount of EURk 281 amongst others include expenditures, side cost of EURk 150 of previous years as well as false alarm costs and cash over shorts amounted to EURk 24.

In 2017 the Bank has recorded minus interest amounting to EUR 146,528.54. of Deutsche Bundesbank, Frankfurt, as the Bank has surpassed the fulfilment of reserve requirements in eight periods.

3 OTHER SPECIFICATIONS

3.1 Other financial obligations

Long-term obligations (EURk 4,041) resulting mainly from rental and lease agreements for business premises for the head office and eight branches.

3.2 Open forward transactions

USD-forward exchange contracts with a volume of EURk 67,573 (nominal USDk 80,991) and TRY-forward exchange contracts with a volume of EURk 70,110 (nominal TRYk 318,750) 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 Sehımdar 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 USDk 100 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 July 25, 2017 the entire balance sheet profit of 2016 in the amount of EUR 15,271,364.58 have been allocated to the retained earnings.

We propose to the shareholders to transfer the profit of 2017 EUR 17,027,258.19 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 2017 is as follows:

The total remuneration of the Board Members	EUR
Board of Managing Directors	399,098.73
Supervisory Board	102,742.64

The loans to the Board of Managing Directors as of 31.12.2017 are EUR 8,850.

3.7 Number of Employees

In 2017 average number of personnel has been 131 (including nine branches). The breakdown as of end of the year is as follows:

Proxy holders	6
Authorized signatories	76
Other employees	45

3.8 Total remuneration of the Auditor in 2017 (2016 PwC / 2017 KPMG)

	2017	2016
a) Auditing benefits - Year end auditing	105,000.00*	110,000.00*
b) Other confirmation benefits	6.000	0,00
c) Tax-Office benefits		
d) Other benefits		

* without VAT

3.9 Country-by-Country-Reporting

The bank operates banking business as a CRR bank. The bank has its seat in the Federal Republic of Germany. There are no branches in other Member States of the European Union or in third countries.

In accordance with Section 26a KWG the bank's revenue amounted to EUR 41.4 million in the 2017 financial year (net interest, commission income and other operating income). The bank generated a profit before taxes of EUR 24.6 million; the income tax expense amounts to EUR 7.6 million. The Bank receives no public subsidies and employed an average of 131 people in 2017.

The return on capital of the bank pursuant to section 26a (1) sentence 4 KWG amounts to 0.99% (previous year 0.92%).

3.10 Shareholders and Executive Bodies of the Bank

3.10.1 Shareholders

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

3.10.2 Supervisory Board

Ömer M. Bakır Chairman 23/02/2015 – 25/07/2017	Assistant General Manager of T.C. Ziraat Bankası A.Ş., Ankara / Turkey resident in : Istanbul / Turkey
Süleyman Türetken Vice Chairman 23/02/2015 – 25/07/2017 Chairman as of 25/07/2017	Assistant General Manager of T.C. Ziraat Bankası A.Ş., Ankara, Turkey resident in: Istanbul / Turkey
Battal Arslan Member 23/02/2015 – 25/07/2017 Vice Chairman as of 25/07/2017	Head of Corporate Marketing Group of T.C. Ziraat Bankası A.Ş., Ankara, Turkey resident in: Istanbul / Turkey
Mehmet Turgut Member 13/05/2016 – 25/07/2017	Senior Vice President of Credit Processes Dept. of T.C. Ziraat Bankası A.Ş., Ankara, Turkey resident in: Ankara / Turkey
Bülent Süer Member 13/05/2016 – 25/07/2017	Executive Vice President of T.C. Ziraat Bankası A.Ş., Ankara, Turkey resident in: Ankara / Turkey
K. Ahmet Ortatepe Member Since 25/07/2017	Head of Corporate Loans Allocation and Management Department of T.C. Ziraat Bankası A.Ş., Ankara, Turkey resident in: Istanbul / Turkey
Bilge Levent Member 23/02/2015 – 25/07/2017	Head of Financial Markets Department of T.C. Ziraat Bankası A.Ş., Ankara, Turkey resident in: Istanbul / Turkey



3.10.3 Board of Managing Directors

Ayten Türkmen, Banker, Frankfurt am Main, Chairman
Ali Kivanç Ünal, Banker, Frankfurt am Main

Frankfurt am Main, June 21, 2018

Ziraat Bank International AG
The Board of Managing Directors

Ayten Türkmen Ali Kivanç Ünal



Management Report for 2017

- 1. Ziraat Bank International AG in brief
- 2. Course of the fiscal year 2017
- 3. Financial Position and Earnings
- 4. Risk Report
- 5. General economic conditions, business environment & opportunities

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.S.

With its head Offices in Frankfurt and 8 branches in major cities throughout Germany, the Bank provides wide range of financial services to its clients from all segments.

Financing the trade and investments 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 a total of 5 meetings in 2017.

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-Controlling & 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 24.554 employees, 1781 domestic branches and 95 operational units in 18 countries worldwide.

2. Course of the fiscal year 2017

2.1. 2017; Sustainability ensured...

2017 has been a year during which Ziraat Bank International AG has reached a mature phase in its transformation; a new vision, mission, risk & business approach driven by elevated expectations of 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 in late 2013 immediately 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 solid profitability since the beginning, meaning of which, we consider, is an approval of the new strategy in quantitative form.

With the support of these solid financial results, we were able to focus on structural issues and technical infrastructure investments, which in turn, provide a sustainable growth and profit path.

After having addressed infrastructural and information technology issues, i.e. migrating to a new modern core banking system in 2016 to prepare the Bank for the new era, we continued our efforts on infrastructural and technological developments while partly shifting our focus to qualitative issues to increase efficiency and quality of the work produced, of the serviced provided to clients. This, we believe, is a top priority to ensure the sustainability of the financial success achieved so far.

The efficient yet conservative leverage achieved by the calculated growth scored since 2014 provided a strong profitability in 2017 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.

The projections and budget for 2017 have been designed in a way to accommodate a strong return on equity to ensure sufficient resources available for restructuring efforts 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.

Despite the challenging economic and regulatory environment, net result for the year 2017 even exceeded what we have projected, albeit slightly; a 11,1% increase on already industry beating 2017 result brought €17.0 million. This profit constitutes a 8.70 % RoAE, cementing the achievement of the target documented in the New Strategy Document 3.5 years ago and is almost double 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 reflect a healthy portfolio and asset structure while further solid decrease has been recorded on Cost to Income Ratio, thanks to careful planning and productivity focused approach.

Moderate growth of around 3,3% in asset size is mainly driven by corporate loans (6.8%). However this figure alone does not reflect the real effort paid in the course of the year. The short term loan portfolio means a flexible and conservative asset structure but also ensures intensified efforts to deal with the doubled business volume throughout the year. Assets totalled just over €1.72 billion at the end of the year with €1.53 billion in 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.

As has been the case for the previous years, we paid utmost importance to keep a balanced and well diversified liability structure to finance our activities in 2017. Despite the changes in the special deposit guarantee scheme put in force as of October 2017, no major complications observed and customer deposits continue to be the main source financing our activities with a 68.2% share, vs. 58.7% last year, Deposits reached €1.17 billion, followed by €325.0 million bank funding at 19.3%. The negative duration gap observed is a clear proof that a healthy funding base has been secured. The new rules put in force in October diluted the coverage of the special guarantee scheme, considerably shrinking the size of the available deposit supply while eventually pushing the rates marginally higher. Despite this, 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 €217 million, including the year's net profit. Usable equity constituted a Capital Adequacy Ratio of 15.22% providing enough buffer even after the new elevated minimum requirements 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. A RoAE above 8% for the 3rd year in a row strictly points to sustainability.

Therefore, the task is now to secure that sustainability and success, simply by intensifying continues efforts on qualitative aspects of the business which will in return, ensure further quantitative success.

In line with this task and target, the second phase of the ZETA project for the new core banking system has been initiated and many smaller scaled projects within has been finalized. The new system does not only support efficiency and provide relief from the workload on operational units, but also ensures access to great depths of riskmetrics analysis which helps 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.

3. Financial position and Earnings

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.

Balance sheet structure

Balance sheet (EURk)	2017	2016	2015	2014	2013	2012
Balance sheet total	1,720,645	1,665,531	1,392,176	1,320,628	912,490	969,928
Loans and advancements to customers	1,267,785	1,350,295	1,171,492	1,116,818	698,857	567,954
Loans and advancements to banks	277,720	234,590	149,978	141,756	89,061	138,424
Securities	12,069	19,014	31,316	26,552	29,959	39,928
Investments	348	350	349	349	349	349
Shares in affiliated companies	0	0	0	8,181	8,181	8,181
Liabilities to customers						
- maturing daily	148,134	122,686	164,585	153,543	221,057	220,584
- with agreed-upon term or cancellation period	1,024,938	983,333	684,217	635,737	240,140	150,477
Liabilities to banks						
- maturing daily	83,226	15,646	13,726	34,004	8,897	147,065
- -with agreed-upon term or cancellation period	242,118	335,974	333,872	311,304	277,148	289,676
Own Funds	216,822	199,794	184,523	170,836	160,756	158,702

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 56,794 k and net earnings for the period of EUR 17.027 k.

As has been the case for the previous years, we paid utmost importance to keep a balanced and well diversified liability structure to finance our activities in 2017. Despite the changes in the special deposit guarantee scheme put in force as of October 2017, no major complications observed and customer deposits continue to be the main source financing our activities with a 68.2% share, vs. 58.7% last year, Deposits reached €1.17 billion, followed by €325.0 million bank funding.

Investments

In 2017 the second phase of the ZETA project for the new core banking system has been initiated and many smaller scaled projects within has been finalized. The new system does not only support efficiency and provide relief from the workload on operational units, but also ensures access to great depths of riskmetrics analysis which helps better measurement of risks exposed and understanding the behavioural aspects of the business.

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.

Results of operations

Figures profit and loss (EURk)	2017	2016	2015	2014	2013	2012
Net Interest Income	27,065	29,948	27,411	23,603	11,260	9,063
Commission income	10,230	9,251	7,621	6,443	6,166	7,212
General administration expenses	16,000	17,818	15,750	15,258	15,197	13,709
Operating result before provision for risk	25,412	22,456	25,716	16,197	3,509	3,936
Operating result after provision for risk	24,111	22,428	20,050	15,555	1,792	5,676
Net result after tax	17,027	15,271	13,687	10,081	2,053	3,037

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.

Despite the challenging economic and regulatory environment, net result for the year 2017 even exceeded what we have projected, albeit slightly; a 11,1% increase on already industry beating 2017 result brought €17.0 million. This profit constitutes a 8.82 % RoAE, cementing the achievement of the target documented in the New Strategy Document 3.5 years ago and is almost double 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.

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.

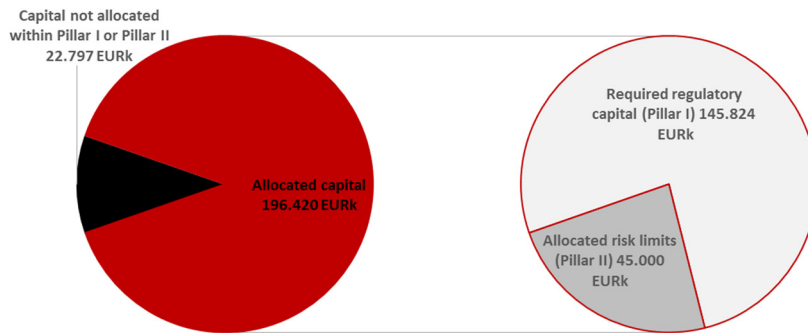
To ensure these requirements the bank disposes of a risk monitoring-, early risk detection- and risk controlling system. Because of the nature and scope of the business activity the bank faces credit risks (including migration risk), market price risks, liquidity risks as well as operational risks. The 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.

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:	EURk	196,420
Required regulatory capital (Pillar I)	EURk	-145,824
Profit 2017	EURk	17,039
Allocated risk limits (Pillar II):	EURk	-45,000
Capital not allocated within Pillar I or Pillar II:	EURk	22,797
Credit risk	EURk	35,000
Market risk	EURk	5,000
Operational risk	EURk	5,000
Sum of allocated risk capital	EURk	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 had 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.

The Internal Audit Function of the bank monitors the operating, business, risk management and –controlling procedures as well as the internal control system. PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft was in 2017 contracted with the bank-specific and IT-related auditing. The Bank aims at targeting the ever-growing legal-regulatory, economic and technical requirements through professional 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.

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, 2017 the calculation is as follows (all figures in EURk):

Credit risk in T€	Base Scenario UL(95%)	Stress Scenario UL (95%)
Corporates	9,442.88	20,958.66
Financial institutions	12,516.89	25,361
Retail	1.59	2.13
Public entities	31.05	131.46
Total	21,990.82	46,453.25
Limit	35,000	35,000
Utilisation	62.84 % 	132.72% 

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 33% 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.

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 EURk	Base Scenario UL (95%)	Stress Scenario UL (95%)
Interest rate risk	52.69	560.69
Limit	5,000	5,000
Utilisation	1.05% 	11.21% 

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.

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

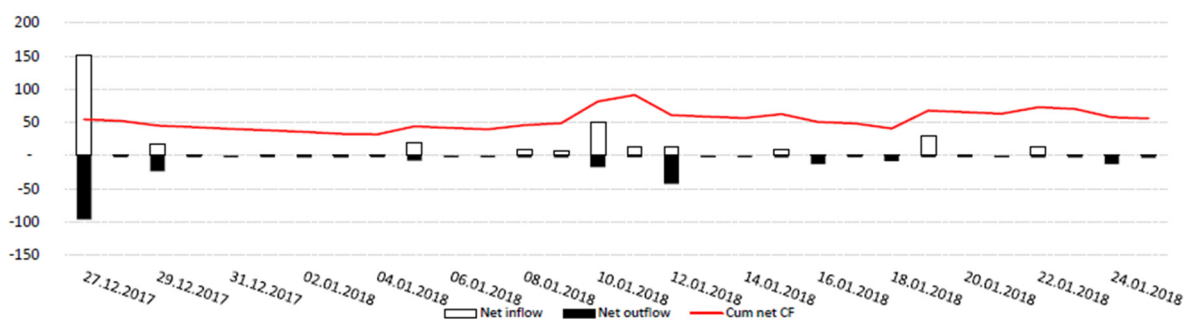
applied. The result is net cash flow, which in form of an asset- or liability gap shows the excess or missing liquidity. If in the following month (day) the cumulated fund outflows exceed the cumulated fund inflows (inclusive the liquidity potential) the Board of Managing Directors has to be informed 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.

Daily 1-month Liquidity stress 27.12.2017 until 25.01.2018



All numbers in EUR mln; time horizon: 30 calendar days



Minimum liquidity surplus under the scenario assumptions is 32,1 EUR mln on 04.01.2018.

Limit OK

Ziraat Bank's short-term, stressed liquidity overview at the end of the year does not show any liquidity bottlenecks. Nor are any significant liquidity bottlenecks to be expected under the longer-term liquidity stress scenarios.

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 organizational 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.

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 EURk	Historical	Hypothetical
Operational Risk	503	10,652.5
Limit	5,000	5,000
Utilisation	10% 	213.05% 


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.

Base Case


Risk	UL (95%) EURk
Credit risk	21,990.71
Market risk	52.7
Operational risk	2,892.1
Total	24,935.51
Limit	45,000
Utilisation	55.41% 

Inverse Stress

Risk	UL(95%)€
Credit risk	46,453.74
Market risk	(2,008.18)*
Operational risk	5,784.2
Total	52,237.94
Limit	45,000
Utilisation	116.08% 

*as this constellation leads to a gain we calculate with 0 risk

Economic downturn

Risk	UL (95%) T€
Credit risk	46,453.74
Market risk	12,620.69
Operational risk	4,916.6
Total	63,991.03
Limit	45,000
Utilisation	142.2% 

5. General economic conditions, business environment & opportunities

5.1. The year behind, the year ahead; when the tides turn...

2017 has been a year in which the gaps between the US and the rest of the World narrowed. More significantly; for the first time since the Global Financial & Economic Crisis of 2007-2008, both the developed and emerging countries managed to secure growth simultaneously in the same year. Growth in the US and Europe exceeds 2%. Growth in Japan edges towards 2% on an annual basis, pushing the country's potential. Among the developing countries, China's growth rate gets closer to 7% levels and Russia, despite the tightening economic sanctions, turned green and grew by 1.8% as of the third quarter. Growth in the Brazilian and South African economies reached 1.4% and 0.8%, respectively. Both countries recorded negative growth values like Russia the previous year.

This phenomena has predecessors in the global economy over the past two decades during which, risk assets post high return rates and global trade volumes tend to increase. The spread of growth and inflation around the globe boosted equities; pushing a 18.4% return from S&P500 index. The global MSCI index has also increased by 20%, reflecting the global economic outlook.

U.S. economy continued to post robust growth rates, strong job creation (albeit yet to be reflected on wages) and further steps towards normalization of the monetary policies while Europe enjoyed solid results from successful efforts to set stable footing on a sustainable growth path.

The expansive monetary policies applied by the ECB have clearer positive impacts on Eurozone economy, especially became visible in the second half of the year. Not unlike the States, confidence among businesses and consumers increased and cemented the output. Rising investments helped create employment in the old continent pushing German unemployment to record low levels.

“The Engine” of the Eurozone, the German economy is in a path of steady growth. The rest of the Eurozone Economies are observed to be struggling to set a stable footing on a sustainable growth path but hints of pick-up in the demand is in sight. Although the inflation continues to stay well under the targeted “slightly less than 2%” level, clear signs of growing confidence indicate that further room for normalization will be available in 2018.

Volatility in global financial markets were mostly subdued. Geopolitics continued to play a major role, sometimes giving discomfort to market actors.

Also driving the economies and financial markets, politics occupied the main stage for a good part of the year. Rise of far right, anti-EU parties and candidates in Dutch, French, Danish, Austrian and finally German elections were mostly confronted by pro-EU sides but nevertheless, the trend shows this may be an issue that may come back again in the following years posing a threat to the dream of a unified Europe.

For the year ahead, interest rates should be expected to rise on a global scale. FED will keep the tightening bias, with at least 3 or 4 more rate hikes scattered through 2018 while pursuing to shrink the balance sheet size. Following FED's footsteps from behind, the ECB will first put an end to its QE program, which has a deadline schedule at the end of September. Some may voice rate hike expectations in the second half of the year. Regardless of the ECB's action, the reference rates will probably edge higher, just like they did in the U.S. 2 years ago. Financial sector should be prepared for the long overdue bottom out effect.

Due to its roots, Turkey has always been a natural market for Ziraat Bank with acceptable risk/return parameters within the framework of the Bank's general risk appetite.

In terms of growth 2017 has been a year to remember; The country's gross domestic product grew 7.4%, the highest rate in the past four years. The 7.4% rate made Turkey the second fastest-growing economy among the OECD countries only second to Ireland.

Turkey, with a strong financial system thanks to a total restructuring after its 2001 financial crisis, has been among those countries who enjoyed most. That is exactly why, during the reversal of the monetary policies, these countries, together with Turkey, are expected to see capital outflows, hurting their financial markets. Turkey, in particular, seems to be more vulnerable to pressure due to some political issues, as reflected in CDS levels.

The decoupling of the country from regions adversely affected from the 2008 global crisis has been observed for many years until the second half of 2016. Since then, Turkish economy seems to be stuck between high inflation and increasing current account deficit.

Turkey has been generating large current account imbalances for over a decade. This has led to a rapid accumulation of foreign liabilities. As a result, Turkey has become one of the more leveraged emerging market economies manifest in a deeply negative savings level. Net International Investment Position currently at 52% of GDP. External debt parameters also reflect same level of vulnerability, showing 93% of the total external debt denominated in foreign currencies. These two indicators point high vulnerability to external shocks, global money supply and exchange rate fluctuations.

While annual credit growth to the non-financial sector has eased to 16-17% in recent months from 25% in early 2017, the positive impacts on both fiscal and monetary stimulus to boost growth are deeply shadowed by the ballooning current account deficit and inflationary pressures. Underlying tensions over the future direction of economic policy have escalated. There seems to be a need for structural changes to cut current account deficit from current 5.5% of the GDP to 2-3% levels. Unlike the last couple of years, the elevated level of oil and energy prices will only push the deficit deeper. The recent adjustment on the exchange rates will definitely help in the short run, but the need for action for more fundamental problems, i.e.; dependence for energy from abroad should be addressed for sustainable solutions. The measures to prevent increasing indebtedness of the households may weigh on the aggregate demand in 2018. Although this may make it difficult to achieve the growth targets, it will definitely help reduce the Current Account deficit.

Nevertheless, the indicators show that the shift towards tighter monetary policies will gradually gain pace, especially in the U.S. and eventually followed by other majors. This will definitely have its toll but should not be expected to push Turkey to a full blown crisis. Total Government budget deficit remained at a very reasonable 1.7% of the GDP in 2017 while debt to GDP ratio stays less than half of the Maastricht Criterion of 60% with a mere 28.3% as of 2017 vs. Germany's 64.1% and Eurozone average of 86.9%. Furthermore, the government debt is concentrated on local currency, which reduces the effects of direct external shocks. EU defined budget position, unlike many others, have been in surplus for three consecutive years until the end of 2015, which reflects the dedication of the government to fiscal stability. Turkey's fiscal strength continues to be the stronghold of the Country unlike the troubled Eurozone members. Public finances remain robust with no sign of fiscal slippage despite the incident.

Having been restructured and completely re-founded after the endemic crisis of 2001, financial system in Turkey seems to be resilient towards external shocks. Funding of the banks is based on local resources and the weight of the external funding is considerably low. However, even at the heights of global financial turmoil of 2008, Turkish Banks had no problems to rollover external debt with reasonable costs.

Based on these facts, 2018 may be a year of growth and normalization.

5.2. Ziraat Bank International AG in 2018 and beyond...

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.

As has been the case in the past 3 years, The Board of the Managing Directors will continue to follow the path outlined by the New Strategy Document, which is periodically reviewed and adapted according to developments in markets and the dynamic regulatory 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 and sustainable 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 mature phase, having secured a sustainable path. Ziraat Bank International AG will pursue further enhancing efficiency and focus on qualitative aspects and diversify income and liability structure.

Qualitative aspects cover a wide range of subjects, ranging from workflows to enhanced technological substructure. New contributions to the product range will also be a part of this phase. As a result, the Board of Managing Directors hope to achieve a well-diversified and efficient portfolio and a deep rooted penetration to German and EU markets.

The Representative Office in Istanbul, Turkey, which was among the important milestones of the new Strategy, continue to fulfil 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.

The efforts to restructure and redesign branches in a way to enable an active participation on local Corporate Banking activities, new client acquisition and asset generation will again be an important item on the agenda in the new year. 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 95 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 focus is partly being shifted from growth and profitability to diversification and sustainability. Efficient capital planning without compromising prudent liquidity management will always be a priority.

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, complying the elevated new liquidity requirements without any exceptions. Current status of monetary policies, namely 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, again, 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 2018 will be more about keeping net interest margin at a feasible level rather than aggressive growth. Ultimate focus is again on efficient utilization of the equity, cementing the base 8% RoE levels as a benchmark to aim for higher.

In line with this ultimate goal, the after tax net profit target for 2018 is set above €18 million, which points to 5% increase reflecting a better distribution of assets, prompt financing strategy and strict but efficient cost control.

The RoAE target set for 2018 points to sustainability as it reads as the achievement of a commercially acceptable return 4th year in a row under the guidance of the New Strategy Document. The challenge in the years ahead will be to diversify both the loan portfolio and the liabilities, cementing sustainability. Focusing on qualitative aspects, enhancing product portfolio will help further diversification..

All the figures achieved and set as a target for 2018 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, June 21, 2018

ZIRAAT BANK INTERNATIONAL AG

The Board of Managing Directors

Ayten Türkmen

Ali Kıvanç Ünal

Auditor's Report

To ZIRAAT BANK INTERNATIONAL AKTIENGESELLSCHAFT, Frankfurt am Main

Report on the Audit of the Annual Financial Statements and the Management Report

Audit Opinions

We have audited the annual financial statements of ZIRAAT BANK INTERNATIONAL AKTIENGESELLSCHAFT, Frankfurt am Main comprising the statement of financial position as of December 31, 2017, the income statement for the fiscal year from January 1, 2017 to December 31, 2017, and the notes to the annual financial statements, including the presentation of the accounting policies and valuation principles. In addition, we have audited the management report of ZIRAAT BANK INTERNATIONAL AKTIENGESELLSCHAFT for the fiscal year from January 1, 2017 to December 31, 2017.

In our opinion, based on the findings of our audit,

- the attached annual financial statements comply in all material respects with the requirements of German commercial law relating to banks and give a true and fair view of the company's net assets and financial position as of December 31, 2017, and of its results of operations for the fiscal year from January 1 to December 31, 2017, in accordance with the German principles of proper accounting.
- the attached management report as a whole presents an accurate view of the company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal regulations and suitably presents the opportunities and risks of future development.

Pursuant to Section 322, Paragraph 3, Sentence 1 HGB, we state that our audit has not led to any reservations with regard to the compliance of the annual financial statements or the management report.

Basis for the Audit Opinions

We conducted our audit of the annual financial statements and the management report in accordance with Section 317 HGB, the EU Audit Regulation (No 537/2014; hereinafter "EU-AR") and German generally accepted standards for the audit of financial statements

promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors - IDW). Our responsibility according to these regulations and standards is described in further detail in the "Responsibility of the Auditor for the Audit of the Annual Financial Statements and the Management Report" section of our auditor's report. We are independent of the company in compliance with the provisions of European law, German commercial law and professional law and have fulfilled our other German professional obligations in compliance with these requirements. In addition, we declare pursuant to Article 10, Paragraph 2 Letter f) EU-AR that we have provided no prohibited non-audit services referred to in Article 5, Paragraph 1 EU-AR. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions regarding the annual financial statements and the management report.

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are such matters that, in our professional judgment, were the most significant in our audit of the annual financial statements for the fiscal year from January 1, 2017 to December 31, 2017. These matters were considered in connection with our audit of the annual financial statements as a whole and the formulation of our audit opinion; we do not provide a separate audit opinion on these matters.

Determining Specific Loan Loss Allowances for Receivables

Refer to page 1 of the notes to the annual financial statements for information on the accounting policies and valuation principles of Ziraat Bank International AG.

RISK FOR THE ANNUAL FINANCIAL STATEMENTS

As at December 31, 2017, Ziraat Bank International AG recognized EUR 7.2 million in specific loan loss allowances for acute default risks in its customer credit business.

Determining the specific loan loss allowance is subject to judgment and requires estimates on anticipated cash flows from interest and repayment claims.

In addition, the receivables whose recoverability is no longer given on a sustained basis, must be identified and distributed to age classes based on the number of days past due, to which appropriate loss ratios must be allocated. Depending on the type of collateral, collateral is offset as a percentage, either as a whole or in part. The amount of the receivable reduced by this value is the basis for the specific loan loss allowance.

The particular risk for the financial statements is that when determining the specific loan loss allowance no appropriate assumptions are made about the level of the cash flows anticipated from the financial performance of the borrower. These assumptions are reflected in how account is taken of collateral and in the estimated loss ratios assigned to each age class. Incorrect allocations to age classes and incorrectly calculated loss ratios and/or the incorrect

accounting of collateral or incorrect percentages of collateral to be applied thus result in acute counterparty default risks of the underlying receivables not being calculated in line with the requirements of German commercial law.

OUR AUDIT PROCEDURES

Based on our risk assessment and the assessment of the error risks, we based our audit opinion on both control-based audit procedures and also statement-based audit procedures. The audit procedures we performed thus included the following:

In a first step, we obtained a comprehensive overview on the development of the credit portfolio, the related counterparty default risks and the internal control system in relation to the identification, management, monitoring and recognition of the counterparty default risks in the credit portfolio.

For an assessment of the appropriateness of the internal control system in relation to the identification, management, monitoring and recognition of the counterparty default risks in the credit portfolio, we made inquiries and inspected the credit folders. In addition, we satisfied ourselves of the implementation of effectiveness of the relevant controls, aimed to secure adherence to the system for determining the special loan loss allowance in line with the requirements of German commercial law. For the IT systems deployed, using our IT specialists we audited the effectiveness of the regulations and procedures relating to a large number of IT applications and which support the effectiveness of the application controls.

In terms of a selection of individual exposures selected on the basis of materiality and risk, we satisfied ourselves that the characteristics for the allocation to the respective age class really existed and that the loan loss provision was calculated using the loss ratio calculated for this age class. On this basis we examined in particular the assumptions on the anticipated contractual cash flows and/or the anticipated cash flows from the realization of the collateral provided. To the extent that collateral was provided for an exposure, on which the recognition was based, we assessed the legal opinion and the recoverability of this collateral. In this connection, we used appraisals of external experts in arriving at our opinion. For selected exposures we also verified the arithmetical calculation of the specific loan loss allowance recognized.

OUR CONCLUSIONS

The assumptions used for calculating the specific loan loss allowance were appropriately selected and are in line with the applicable accounting regulations for recognizing specific loan loss allowances.

Responsibility of the Legal Representatives and the Supervisory Board for the Annual Financial Statements and the Management Report

The legal representatives are responsible for preparing the annual financial statements, which in all material respects comply with the requirements of German commercial law applying to

banks, and for the annual financial statements giving a true and fair view of the net assets, financial position and results of operations of the company in accordance with the German principles of proper accounting. Furthermore, the legal representatives are responsible for the internal controls that, in accordance with the German principles of proper accounting, they deemed necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

When preparing the annual financial statements, the legal representatives are responsible for assessing the company's status as a going concern. In addition, they have a responsibility to disclose matters related to the status as a going concern, if relevant. They are also responsible for accounting on the basis of the going concern principle, unless prevented by actual or legal circumstances.

Moreover, the legal representatives are responsible for preparing the management report, which as a whole provides an accurate view of the company's position and is consistent with the annual financial statements in all material respects, complies with German legal regulations and suitably presents the opportunities and risks of future development. The legal representatives are also responsible for the arrangements and measures (systems) that they considered necessary to enable the preparation of a management report in compliance with the applicable German legal regulations and to allow sufficient, suitable evidence to be provided for the statements in the management report.

The Supervisory Board is responsible for monitoring the company's accounting process for the preparation of the annual financial statements and the management report.

Responsibility of the Auditor for the Audit of the Annual Financial Statements and the Management Report

Our objective is to obtain reasonable assurance as to whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an accurate view of the company's position and is in all material respects consistent with the annual financial statements and with the findings of the audit, complies with German legal regulations and suitably presents the opportunities and risks of future development, and to issue an auditor's report containing our audit opinions regarding the annual financial statements and the management report.

Reasonable assurance is a high level of assurance but not a guarantee that an audit carried out in compliance with Section 317 HGB, the EU-AR and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) will always uncover a material misstatement. Misstatements can result from transgressions or inaccuracies and are deemed material if it could be reasonably expected that they would individually or together influence the financial decisions made by users on the basis of the annual financial statements and management report.

We exercise due discretion during the audit and maintain a critical attitude. In addition,

- we identify and evaluate the risk of material misstatements, whether due to fraud or error, in the annual financial statements and the management report, plan and implement audit procedures in response to these risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk that material misstatements are not uncovered is higher in the case of transgressions than in the case of inaccuracies, as transgressions can entail fraudulent collaboration, falsifications, deliberate omissions, misleading depictions or the suspension of internal controls.
- we gain an understanding of the internal control system relevant for the audit of the annual financial statements and of the arrangements and measures relevant for the audit of the management report in order to plan audit procedures that are appropriate given the circumstances, but not with the aim of providing an audit opinion regarding the effectiveness of these systems of the company.
- we evaluate the appropriateness of the accounting policies used by the legal representatives and the reasonableness of the estimated values presented by the legal representatives and the associated disclosures.
- we draw conclusions about the appropriateness of the going concern principle applied by the legal representatives and, on the basis of the audit evidence obtained, whether there is material uncertainty regarding events or circumstances that could cause significant doubt about the company's ability to continue as a going concern. If we come to the conclusion that there is material uncertainty, we are obliged to call attention to the associated disclosures in the annual financial statements and in the management report in the auditor's report or, if these disclosures are inappropriate, to modify our respective audit opinion. We draw our conclusions on the basis of the audit evidence obtained up to the date of our auditor's report. However, future events or circumstances may mean that the company is no longer a going concern.
- we evaluate the overall presentation, the structure and the content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events such that the annual financial statements give a true and fair view of the net assets, financial position and results of operations of the company in accordance with the German principles of proper accounting.
- we evaluate the consistency of the management report with the annual financial statements, its legality and the view it gives of the position of the company.
- we conduct audit procedures regarding the forward-looking disclosures made by the legal representatives in the management report. On the basis of sufficient appropriate audit evidence, we examine the significant assumptions underlying the legal representatives' forward-looking disclosures in particular and evaluate the appropriateness of the derivation of the forward-looking disclosures from these assumptions. We do not provide a separate audit opinion regarding the forward-looking disclosures or the underlying assumptions. There is a considerable, unavoidable risk that future events will differ significantly from the forward-looking disclosures.

Topics for discussion with those responsible for monitoring include the planned scope and scheduling of the audit as well as significant audit findings, including any deficiencies in the internal control system that we find during our audit.

We issue a statement to the monitors to the effect that we have complied with the relevant independence requirements and discuss with them all relationships and other matters that can reasonably be assumed to affect our independence and the safeguards put in place to protect against this.

From among the matters that we have discussed with the monitors, we determine which matters were most significant in the audit of the annual financial statements for the current reporting period and are therefore the key audit matters. We describe these matters in the auditor's report, unless laws or other legal provisions preclude their public disclosure.

Other Statutory and Legal Requirements

Other Disclosures Pursuant to Article 10 EU-AR

We were elected as the auditor of the annual financial statements by the Annual General Meeting on July 25, 2017. We were engaged by the Supervisory Board on September 18, 2017. We have been the auditor of the annual financial statements of Ziraat International Bank AG without interruption since fiscal year 2017.

We declare that the audit opinions contained in this auditor's report are consistent with the additional report to the Audit Committee according to Article 11 EU-AR (audit report).

We have performed the following services in addition to the year-end audit of the audited entity or its controlled entities, which were not published in the annual financial statements or in the management report:

- Certificate for the notification on targeted longer-term refinancing operations of the euro system

Responsible Auditor

The auditor responsible for the audit is Christian Garz.

Frankfurt am Main, June 29, 2018

KPMG AG

Wirtschaftsprüfungsgesellschaft

[Original German version signed by:]

Garz
Wirtschaftsprüfer
[German Public Auditor]

Robbe
Wirtschaftsprüfer
[German Public Auditor]