

**Türkiye Garanti Bankası Anonim Şirketi**  
**And Its Affiliates**  
Consolidated Financial Statements  
30 September 2012  
With Report on Review of Interim  
Financial Information Thereon

30 September 2012

This report contains the "Report on Review of Interim Financial Information" comprising 2 pages and; the "Consolidated Financial Statements and Their Explanatory Notes" comprising 81 pages.

**Türkiye Garanti Bankası Anonim Şirketi  
And Its Affiliates**

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To the Board of Directors of  
Türkiye Garanti Bankası A.Ş.  
İstanbul

## Report on Review of Interim Financial Information

### Introduction

We have reviewed the accompanying consolidated financial statements of Türkiye Garanti Bankası A.Ş. (“the Bank”) and its consolidated affiliates (together “the Group”), which comprise the consolidated statement of financial position as at 30 September 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the nine-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting Standards. Our responsibility is to express a conclusion on this interim financial information based on our review.

### Scope of Review

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

### Basis for Qualified Conclusion

As of the balance sheet date, the accompanying consolidated financial statements include a general reserve amounting to TL 532,000 thousands, TL 82,000 thousands of which was charged to the statement of income as expense in the current period, provided by the Bank management in line with conservatism principle considering the circumstances which may arise from any changes in the economy or market conditions.

# Deloitte.

## Qualified Conclusion

Based on our review, with the exception of the matter described in the preceding paragraph, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not present fairly, in all material respects, the financial position of the Bank and its consolidated affiliates as at 30 September 2012, and of its financial performance and its cash flows for the nine-month period then ended in accordance with International Financial Reporting Standards.

*DRT Bağımsız Denetim ve ŞMMM A.Ş.*

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MUŞAVİRLİK A.Ş.

Member of **DELOITTE TOUCHE TOHMATSU LIMITED**

Istanbul, 30 October 2012

**Türkiye Garanti Bankası AŞ And Its Affiliates**  
**Consolidated Statement of Financial Position**  
**At 30 September 2012**

(Currency: Thousands of Turkish Lira (TL))

	<u>Notes</u>	<u>30 September 2012</u>	<u>31 December 2011</u>
<b>Assets</b>			
Cash and balances with central banks	4	3,566,427	3,429,820
Financial assets at fair value through profit or loss	5	1,146,075	419,271
Loans and advances to banks	6	9,702,547	15,232,714
Loans and advances to customers	7,23	99,508,439	92,653,780
Other assets	9	17,755,451	11,721,985
Investment securities	10,22,23	38,259,782	35,941,390
Investments in equity participations	11	25,068	24,593
Tangible assets, net	12	1,531,906	1,710,768
Goodwill, net	13	32,948	32,948
Deferred tax asset	20	392,199	233,752
<b>Total Assets</b>		<b><u>171,920,842</u></b>	<b><u>161,401,021</u></b>
<b>Liabilities</b>			
Deposits from banks	14	4,765,325	3,096,810
Deposits from customers	15	94,955,230	90,138,994
Obligations under repurchase agreements and money market fundings	16	8,093,807	11,738,157
Loans and advances from banks and other institutions	17	25,555,224	24,325,549
Bonds payable	18	6,159,810	3,742,056
Subordinated liabilities	19	144,746	1,122,090
Current tax liability	20	359,621	80,437
Deferred tax liability	20	19,389	6,987
Other liabilities, accrued expenses and provisions	21	10,986,282	9,000,062
<b>Total Liabilities</b>		<b><u>151,039,434</u></b>	<b><u>143,251,142</u></b>
<b>Equity attributable to owners of the bank</b>			
Share capital	22	5,143,200	5,145,012
Share premium	22	11,880	11,880
Unrealised gains on available-for-sale assets	10,22	838,591	92,778
Hedging reserve	22	(6)	(389)
Translation reserve	22	(29,268)	(16,382)
Legal reserves	22	956,002	757,480
Retained earnings	22	13,826,436	12,046,917
		<b><u>20,746,835</u></b>	<b><u>18,037,296</u></b>
<b>Non-controlling interests</b>	22	<b><u>134,573</u></b>	<b><u>112,583</u></b>
<b>Total Equity</b>		<b><u>20,881,408</u></b>	<b><u>18,149,879</u></b>
<b>Total Liabilities and Equity</b>		<b><u>171,920,842</u></b>	<b><u>161,401,021</u></b>
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The notes on pages 5 to 81 are an integral part of these consolidated financial statements.

**Türkiye Garanti Bankası AŞ And Its Affiliates**  
**Consolidated Statement of Comprehensive Income**  
**For The Nine-Month Period Ended 30 September 2012**

(Currency: Thousands of Turkish Lira (TL))

	Notes	1 January 2012- 30 September 2012	1 July 2012- 30 September 2012	1 January 2011- 30 September 2011	1 July 2011- 30 September 2011
<b>Statement of Income:</b>					
Interest income:-					
Interest on loans		6,769,674	2,339,861	5,095,309	1,906,025
Interest on securities		2,867,504	640,677	2,431,691	792,014
Interest on deposits at banks		275,234	85,536	231,959	83,340
Interest on lease business		175,149	62,397	122,033	46,002
Others		49,586	14,534	50,464	11,361
		10,137,147	3,143,005	7,931,456	2,838,742
Interest expense:-					
Interest on saving, commercial and public deposits		(3,938,374)	(1,310,681)	(2,915,040)	(1,073,353)
Interest on borrowings, obligations under repurchase agreements and money market fundings		(1,469,512)	(409,991)	(1,252,858)	(457,830)
Interest on bonds payable		(230,887)	(79,986)	(109,647)	(58,602)
Interest on bank deposits		(131,813)	(51,059)	(72,518)	(29,506)
Interest on subordinated liabilities		(9,759)	(1,995)	(50,148)	(19,670)
Others		(10,678)	(950)	(13,234)	(8,617)
		(5,791,023)	(1,854,662)	(4,413,445)	(1,647,578)
Net interest income before provisions for loans and other credit risks		4,346,124	1,288,343	3,518,011	1,191,164
Provisions for loans and other credit risks, net	5.6,7.8.10.21	(611,892)	(233,069)	(141,276)	(114,691)
Net interest income after provisions for loans and other credit risks		3,734,232	1,055,274	3,376,735	1,076,473
Fee and commission income		1,970,741	690,848	1,914,572	660,215
Fee and commission expense		(389,892)	(143,030)	(284,053)	(103,798)
Net fee and commission income	27	1,580,849	547,818	1,630,519	556,417
Trading gains, net	28	316,210	469,126	393,774	23,295
Foreign exchange gains, net		299,072	(2,971)	-	-
Premium income from insurance business		216,985	76,341	171,004	58,148
Gain on sale of assets		51,502	10,021	251,461	5,457
Other operating income		136,142	48,529	147,412	(3,966)
Other operating income		1,019,911	601,046	963,651	82,934
Total operating Income		6,334,992	2,204,138	5,970,905	1,715,824
Salaries and wages		(1,053,394)	(368,469)	(887,467)	(300,800)
Credit card rewards and promotion expenses		(315,909)	(103,673)	(291,191)	(101,208)
Employee benefits	21	(268,484)	(91,798)	(236,748)	(83,645)
Depreciation and amortization	12	(194,543)	(64,499)	(173,192)	(55,398)
Rent expenses		(159,594)	(56,277)	(139,487)	(49,914)
Communication expenses		(126,612)	(44,966)	(103,985)	(35,846)
Taxes and duties other than on income		(112,335)	(36,663)	(92,501)	(28,392)
Impairment losses, net	9.11.12.13.21	(85,008)	(93,166)	(124,253)	6,825
Foreign exchange losses, net		-	-	(145,187)	(98,774)
Other operating expenses	29	(733,970)	(266,570)	(664,868)	(240,347)
Total operating expenses		(3,049,849)	(1,126,081)	(2,858,879)	(987,499)
Income before tax		3,285,143	1,078,057	3,112,026	728,325
Taxation charge	20	(684,817)	(236,986)	(635,781)	(149,387)
Net income for the period		2,600,326	841,071	2,476,245	578,938
<b>Other Comprehensive Income:</b>					
Foreign currency translation differences for foreign operations	22	(13,480)	628	(20,741)	(19,912)
Cash flow hedges:					
Effective portion of changes in fair value	22	383	68	822	241
Net amount transferred to income	22	-	-	-	-
Fair value reserves (available-for-sale financial assets):					
Net change in fair values	22	788,082	504,489	(715,146)	(138,073)
Net amount transferred to income	22	(41,970)	(1,118)	(367,661)	(148,828)
Other comprehensive income for the period, net of tax		733,015	504,067	(1,102,726)	(306,572)
Total Comprehensive Income for the Period		3,333,341	1,345,138	1,373,519	272,366
<b>Net income attributable to:</b>					
Equity holders of the Bank		2,578,348	835,353	2,462,821	573,313
Non-controlling interests		21,978	5,718	13,424	5,625
		2,600,326	841,071	2,476,245	578,938
<b>Total comprehensive income attributable to:</b>					
Equity holders of the Bank		3,311,351	1,339,435	1,359,728	266,370
Non-controlling interests		21,990	5,703	13,791	5,996
		3,333,341	1,345,138	1,373,519	272,366
<b>Weighted average number of shares with a face value of Kr 1 each</b>					
	22	420 billions	420 billions	420 billions	420 billions
<b>Basic and diluted earnings per share (full TL amount per TL 1 face value each)</b>					
		0,614	0,199	0,586	0,137

The notes on pages 5 to 81 are integral part of these consolidated financial statements.

**Türkiye Garanti Bankası AŞ And Its Affiliates**  
**Consolidated Statement of Changes in Equity**  
**For The Nine-Month Period Ended 30 September 2012**

(Currency: Thousands of Turkish Lira (TL))

Notes	Share Capital	Share Premium	Unrealised Gains/(Losses) on Available-for-Sale Assets	Hedging Reserve	Translation Reserve	Legal Reserves	Retained Earnings	Non-Controlling Interests	Total Equity
<b>Balances at 31 December 2010</b>	<b>5,146,371</b>	<b>11,880</b>	<b>1,627,351</b>	<b>(1,482)</b>	<b>1,222</b>	<b>553,459</b>	<b>9,436,566</b>	<b>97,461</b>	<b>16,872,828</b>
Acquisition of treasury shares	(1,760)	-	-	-	-	-	-	-	(1,760)
Foreign exchange difference on foreign currency legal reserves	-	-	-	-	-	1,646	-	-	1,646
Transfer to legal reserves	-	-	-	-	-	202,436	(202,436)	-	-
Dividends declared	-	-	-	-	-	-	(570,000)	-	(570,000)
Net unrealised market value losses from available-for-sale portfolio	-	-	(715,513)	-	-	-	-	367	(715,146)
Net gains on available-for-sale assets transferred to income statement on disposal	-	-	(367,661)	-	-	-	-	-	(367,661)
Foreign currency translation differences for foreign operations	-	-	-	-	(22,387)	-	-	-	(22,387)
Net fair value gains from cash flow hedges	-	-	-	822	-	-	-	-	822
Net income for nine-month period	-	-	-	-	-	-	2,462,821	13,424	2,476,245
<b>Balances at 30 September 2011</b>	<b>5,144,611</b>	<b>11,880</b>	<b>544,177</b>	<b>(660)</b>	<b>(21,165)</b>	<b>757,541</b>	<b>11,126,951</b>	<b>111,252</b>	<b>17,674,587</b>
Sale of treasury shares	401	-	-	-	-	-	-	-	401
Foreign exchange difference on foreign currency legal reserves	-	-	-	-	-	(61)	-	-	(61)
Transfer to legal reserves	-	-	-	-	-	(17)	17	-	-
Net unrealised market value losses from available-for-sale portfolio	-	-	(532,985)	-	-	-	-	(384)	(533,369)
Net losses on available-for-sale assets transferred to income statement on disposal	-	-	81,586	-	-	-	-	-	81,586
Foreign currency translation differences for foreign operations	-	-	-	-	4,783	-	-	-	4,783
Net fair value gains from cash flow hedges	-	-	-	271	-	-	-	-	271
Adjustments to equity for newly consolidated affiliates	-	-	-	-	-	17	4,274	(4,291)	-
Net income for three-month period	-	-	-	-	-	-	915,675	6,006	921,681
<b>Balances at 31 December 2011</b>	<b>5,145,012</b>	<b>11,880</b>	<b>92,778</b>	<b>(389)</b>	<b>(16,382)</b>	<b>757,480</b>	<b>12,046,917</b>	<b>112,583</b>	<b>18,149,879</b>
Acquisition of treasury shares	(1,812)	-	-	-	-	-	-	-	(1,812)
Foreign exchange difference on foreign currency legal reserves	-	-	-	-	-	(307)	-	-	(307)
Transfer to legal reserves	-	-	-	-	-	198,829	(198,829)	-	-
Dividends paid	-	-	-	-	-	-	(600,000)	-	(600,000)
Net unrealised market value gains from available-for-sale portfolio	-	-	788,070	-	-	-	-	12	788,082
Net gains on available-for-sale assets transferred to income statement on disposal	-	-	(41,970)	-	-	-	-	-	(41,970)
Foreign currency translation differences for foreign operations	-	-	(287)	-	(12,886)	-	-	-	(13,173)
Net fair value gains from cash flow hedges	-	-	-	383	-	-	-	-	383
Net income for nine-month period	-	-	-	-	-	-	2,578,348	21,978	2,600,326
<b>Balances at 30 September 2012</b>	<b>5,143,200</b>	<b>11,880</b>	<b>838,591</b>	<b>(6)</b>	<b>(29,268)</b>	<b>956,002</b>	<b>13,826,436</b>	<b>134,573</b>	<b>20,881,408</b>

**Türkiye Garanti Bankası AŞ And Its Affiliates**  
**Consolidated Statement of Cash Flows**  
**For The Nine-Month Period Ended 30 September 2012**

(Currency: Thousands of Turkish Lira (TL))

	<u>Notes</u>	<u>1 January 2012- 30 September 2012</u>	<u>1 January 2011- 30 September 2011</u>
<b>Cash flows from operating activities:-</b>			
Interests and commissions received		9,215,974	7,039,050
Interests and commissions paid		(6,178,191)	(4,455,495)
Other operating activities, net		1,168,709	(514,859)
Cash payments to employees and suppliers		<u>(2,306,984)</u>	<u>(2,267,218)</u>
		1,899,508	(198,522)
<b>(Increase)/decrease in operating assets:-</b>			
Loans and advances to banks		2,335,071	(1,775,963)
Balances with central banks		(5,005,234)	(1,594,559)
Financial assets at fair value through profit or loss		(748,998)	(1,447,930)
Loans and advances to customers		(3,804,487)	(13,672,948)
Consumer loans		(3,763,090)	(5,021,177)
Other assets		(1,018,586)	(2,374,181)
<b>Increase/(decrease) in operating liabilities:-</b>			
Deposits from banks		1,669,018	364,798
Deposits from customers		4,795,751	9,092,077
Obligations under repurchase agreements and money market fundings		(3,634,173)	4,137,257
Other liabilities		1,689,495	2,922,169
<b>Net cash flows from operating activities before taxes and duties paid</b>		<u>(5,585,725)</u>	<u>(9,568,978)</u>
<b>Income taxes and other duties paid</b>		<u>(851,719)</u>	<u>(686,400)</u>
<b>Net cash flows from operating activities</b>		<u>(6,437,444)</u>	<u>(10,255,378)</u>
<b>Cash flows from investing activities:-</b>			
Net (increase)/decrease in investment securities		(1,140,230)	1,631,479
Interest received for investment securities		2,922,720	2,445,081
Proceeds from sale of investments in equity participations, net		(1,000)	171,003
Dividends received		2,862	6,154
Proceeds from sale of tangible assets		45,298	146,464
Purchase of tangible assets		(177,308)	(280,678)
<b>Net cash flows from investing activities</b>		<u>1,652,342</u>	<u>4,119,504</u>
<b>Cash flows from financing activities:-</b>			
Increase in loans and advances from banks and other institutions, net		1,240,178	4,613,429
Increase in bonds payable, net		2,385,960	3,529,358
(Decrease)/increase in subordinated liabilities, net		(948,973)	117,984
Dividends paid		(600,000)	(570,000)
<b>Net cash flows from financing activities</b>		<u>2,077,165</u>	<u>7,690,772</u>
<b>Effect of exchange rate changes</b>		<u>(383,314)</u>	<u>1,327,709</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<u>(3,091,251)</u>	<u>2,882,607</u>
Cash and cash equivalents at the beginning of the period		<u>9,075,471</u>	<u>6,895,898</u>
<b>Cash and cash equivalents at the end of the period</b>	2	<u><u>5,984,220</u></u>	<u><u>9,778,505</u></u>

The notes on pages 5 to 81 are an integral part of these consolidated financial statements.



## **Overview of the Bank**

Türkiye Garanti Bankası AŞ (the Bank) is a bank domiciled in Turkey. The consolidated financial statements of the Bank as of and for the nine-month period ended 30 September 2012 comprise the Bank, its affiliates (the Affiliates) and their interest in associates.

### **(a) Brief History**

The foundation of the Bank was approved by the decree of the Council of Ministers numbered 3/4010 dated 11 April 1946 and its “Articles of Association” was published in the official gazette dated 25 April 1946. The Bank provides retail, commercial, corporate and small and medium size enterprises (SME) banking, leasing, insurance, asset management and factoring services through a network of 817 domestic branches, seven foreign branches, four representative offices abroad and 104 offices. In addition to its branches, the Bank has 100% ownership in three banks each of which is located in Amsterdam, Bucharest and Moscow. The Bank and its affiliates in total have 20,300 employees. The Bank’s head office is located at Levent Nispetiye Mahallesi Aytar Caddesi 2 Beşiktaş 34340 Istanbul, Turkey.

### **(b) Ownership**

On 22 March 2011, Banco Bilbao Vizcaya Argentaria SA (“BBVA”) acquired 78.120.000.000 shares of the Bank owned by GE Capital Corporation a total nominal value of TL 781,200 thousands representing 18.60% ownership and 26.418.840.000 shares of the Bank owned by Doğu Holding AŞ at a total nominal value of TL 264,188 thousands representing 6.29% ownership.

Subsequently, on 7 April 2011, BBVA acquired further 503.160.000 shares at a nominal value of TL 5,032 thousands and increased its ownership in the Bank’s share capital to 25.01%. As per the agreement between Doğu Holding AŞ and BBVA, if any of the parties acquires additional shares during the next five years, it is required to offer half of the acquired shares to the other party, in case that the other party does not accept to purchase the offered shares, usufruct rights shall be established on the voting rights of such shares in favour of the other party. Accordingly, although BBVA has acquired additional shares in April, this does not affect their joint control on the Bank’s management.

As of 30 September 2012, the companies owned by Doğu Holding AŞ (“Doğu Group”) and by BBVA held 24.23% and 25.01% of the issued capital, respectively.

## **Significant accounting policies**

### **(a) Statement of compliance**

The Bank and its Turkish affiliates maintain their books of accounts and prepare their statutory financial statements in Turkish Lira (TL) in accordance with the Accounting Practice Regulations as promulgated by the Banking Regulation and Supervision Agency (BRSA); the Turkish Commercial Code; and the Turkish Tax Legislation (collectively, Turkish GAAP); the Bank’s foreign affiliates maintain their books of accounts and prepare their statutory financial statements in accordance with the generally accepted accounting principles and the related legislation applicable in the countries they operate.

The accompanying consolidated financial statements are based on the statutory records with adjustments and reclassifications for the purpose of fair presentation in accordance with International Financial Reporting Standards (“IFRS”). The accompanying consolidated financial statements are authorized for issue by the directors on 30 October 2012.

### **Significant accounting policies (continued)**

#### **(b) Basis of preparation**

The accompanying consolidated financial statements are presented in thousands of TL, which is the Bank's functional currency.

The financial statements are prepared on the historical cost basis as adjusted for the effects of inflation that lasted until 31 December 2005, except that the following assets and liabilities are stated at their fair value if reliable measures are available: derivative financial instruments, instruments at fair value through profit or loss, available-for-sale financial assets and tangible assets held for sale.

The accounting policies set out below have been applied consistently by the Bank and its affiliates to all periods presented in these consolidated financial statements.

#### **(c) Use of estimates and judgements**

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are in Notes 7, 9, 10, 12, 13, 17, 18, 20, 21, 23, 24 and 30.

#### **(d) Basis of consolidation**

The accompanying consolidated financial statements include the accounts of the parent company, the Bank, its affiliates and associates on the basis set out in sections below. The financial statements of the entities included in the consolidation have been prepared as of the date of the consolidated financial statements.

##### *Affiliates*

Affiliates are entities controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of affiliates are included in the consolidated financial statements from the date that control commences until the date that control ceases.

##### *Associates*

Associates are those entities in which the Bank and its affiliates have significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Bank and its affiliates' share of the total recognized gains and losses of associates on an equity accounting basis, from the date that significant influence commences until the date that significant influence ceases. When the Bank and its affiliates share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Bank and its affiliates has incurred obligations in respect of the associate.

**Significant accounting policies (continued)**

*Special purpose entities*

Special purpose entities are entities that are created to accomplish a narrow and well defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or lending transaction. Special purpose entities are consolidated when the substance of the relationship between the Bank and the special purpose entity indicates that the special purpose entity is controlled by the Bank.

*Transactions eliminated on consolidation*

Intercompany balances and transactions, and any unrealized gains and losses arising from intercompany transactions, are eliminated in the accompanying consolidated financial statements.

Unrealized gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Bank and its affiliates' interest in the entity. Unrealized gains arising from transactions with associates are eliminated against the investment in the associate. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

**(e) Foreign currency**

*Foreign currency transactions*

Transactions in the financial statements of the Bank are recorded in TL, which is the Bank's functional currency and the presentation currency for the accompanying consolidated financial statements. Transactions in foreign currencies are translated into the functional currency of the Bank at exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into TL at the exchange rates ruling at date of the statement of financial position with the resulting exchange differences recognized in income as foreign exchange gain or loss. Gains and losses arising from foreign currency transactions are reflected in the statement of income as realized during the period.

*Financial statements of foreign operations*

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to TL at foreign exchange rates ruling at the date of the statement of financial position. The revenues and expenses of foreign operations are translated to TL using average exchange rates. Foreign exchange differences arising on translation are recognized directly in a separate component of equity. When a foreign operation is disposed of in part or in full, the relevant amount in the foreign currency translation reserve is transferred to the statement of income.

**(f) Tangible assets and related depreciation**

*Owned assets*

The costs of the tangible assets purchased before 31 December 2005 are restated for the effects of inflation in TL units current at 31 December 2005 pursuant to IAS 29. The tangible assets purchased after this date are recorded at their historical costs. Accordingly, tangible assets are carried at costs, less accumulated depreciation and impairment losses (refer to accounting policy (s)).

*Leased assets*

Leases in terms of which the Bank and its affiliates assume substantially all the risks and rewards of ownership are classified as financial leases. Tangible assets acquired by way of financial lease are stated at amounts equal to the lower of their fair values and the present value of the minimum lease payments at inception of the lease, less accumulated

**Significant accounting policies (continued)**

depreciation (see below) and impairment losses (refer to accounting policy (s)). Lease liabilities are reduced through repayments of principal, while the finance charge component of the lease payment is charged directly to the statement of income.

*Subsequent Expenditure*

Expenditures incurred to replace a component of a tangible asset that is accounted for separately, and major inspection and overhaul costs, are capitalized. Other subsequent expenditures are capitalized only when it increases the future economic benefits embodied in the item of tangible assets. All other expenditures are reflected as expense in the statement of income as incurred.

*Depreciation*

Tangible assets purchased before 2005 are depreciated over their estimated useful lives on a straight-line basis from the date of their acquisition. Assets acquired after this date are depreciated based on the declining balance method. For the assets acquired after 1 January 2009, the straight-line depreciation method is in use.

The estimated useful lives and depreciation rates are as follows:

<i>Tangible assets</i>	<i>Estimated useful lives (years)</i>	<i>Depreciation Rates (%) from 1 January 2009</i>	<i>Depreciation Rates (%) from 1 January 2005</i>	<i>Depreciation Rates (%) before 1 January 2005</i>
Buildings	50	2	4	2
Vaults	20-50	2-20	4-40	2-20
Motor vehicles	5-7	15-20	30-40	15-20
Other tangible assets	4-20	5-25	10-50	5-25

The estimated useful lives, residual values and depreciation methods are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Expenditures for major renewals and improvement of tangible assets are capitalized and depreciated over the remaining useful lives of the related assets.

*Investment property*

Land and buildings that are held to earn rentals or for capital appreciation or both rather than for use in production, supply of goods or services, administrative purposes or sale in the ordinary course of business are classified as investment property and carried at cost less accumulated depreciation under the cost method. Depreciation is provided on investment property (except land) on a straight-line basis.

Investment properties are reviewed for possible impairment losses. Where the carrying value of an investment property is greater than the estimated recoverable value, it is written down to its recoverable value. The recoverable value of an investment property is higher of discounted net future cash flows from the use of the related investment property or net sale price.

**(g) Goodwill**

Goodwill arose from business combinations and represents the excess of the total acquisition costs over the share of the Bank and its affiliates in the fair value of the net assets of the acquired companies at the dates of acquisitions. When the excess is negative, it is recognized immediately in the statement of income. Goodwill is assessed for indication of impairment at least annually using external and internal sources such as market value, information on any adverse effect on the acquired companies, market interest rates or other market rates of

**Significant accounting policies (continued)**

return on investments and carrying value of net assets. If any such indication exists, the recoverable amount of the goodwill is estimated. If the recoverable amount is less than the carrying amount, the carrying amount is reduced to its recoverable amount, and impairment loss is recognized as an expense in the statement of income. The losses arising from the impairment of goodwill are not reversed in a subsequent period.

**(h) Financial instruments**

*Classification*

*Financial instruments at fair value through profit or loss* are those instruments that are principally held for the purpose of short-term profit taking. These include investments, certain loans and derivative contracts that are not designated as effective hedging instruments, and liabilities from short-term sales of financial instruments. All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as trading assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as trading liabilities.

The Bank classifies certain loans at their origination dates, as financial assets at fair value through profit or loss in compliance with IAS 39. Financial assets at fair value through profit or loss are initially recorded at cost and measured at fair value in subsequent periods.

*Loans and receivables* are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank and its affiliates provide money, goods and services directly to a debtor with no intention of trading the receivable. Loans and receivables comprise loans and advances to banks and customers.

*Available-for-sale assets* are financial assets that are not held for trading purposes, provided by the Bank and its affiliates, or held to maturity. Available-for-sale instruments include certain debt and equity investments.

*Held-to-maturity assets* are financial assets with fixed or determinable payments and fixed maturity that the Bank and its affiliates have the positive intent and ability to hold to maturity. These include certain loans and advances to banks and customers and certain debt investments.

*Recognition*

Financial assets at fair value through profit or loss and available-for-sale assets are initially recognized on the settlement date at which the Bank and its affiliates become a party to the contractual provisions of the instrument. From this date any gains and losses arising from changes in fair value of the assets are recognized in the statement of income for the financial assets at fair value through profit or loss and in the other comprehensive income for available-for-sale assets.

Held-to-maturity instruments, loans and receivables, deposits and subordinated liabilities are recognized in the statement of financial position on the date they are originated.

*Measurement*

Financial instruments are initially measured at cost, including transaction costs.

Subsequent to initial recognition all trading instruments and available-for-sale assets are measured at fair value, except for any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured. Such instruments are stated at amortized cost.

All non-trading financial liabilities, loans and receivables and held-to-maturity assets are measured at amortized cost less impairment losses. Amortized cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs,

**Significant accounting policies (continued)**

are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

*Fair value measurement principles*

The fair values of financial instruments are based on their quoted market prices at the date of the statement of financial position without any deduction for transaction costs. If a quoted market price is not available, fair value of an instrument is estimated using the available market information and the appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to develop the estimated fair value. Accordingly, the estimates made are not necessarily indicative of the amounts that could be realized in the current market.

The fair values of derivatives that are not exchange-traded are estimated at the amounts that the Bank and its affiliates would receive or pay to terminate the contracts at the date of the statement of financial position taking into account current market conditions and the current creditworthiness of the counterparties.

*Gains and losses on subsequent measurement*

Gains and losses arising from changes in the fair values of trading financial instruments are recognized in the statement of income. Whereas, gains and losses arising from changes in the fair value of cash flow hedges and available-for-sale assets are deferred as a separate component of equity until the hedged transaction impacts earnings or the available-for-sale assets are sold or impaired.

*Specific instruments*

*Cash and balances with central banks:* Cash and balances with central banks comprise cash balances on hand, cash deposited with the central banks and other cash items. Money market placements are classified in loans and advances to banks.

*Investments:* Investments held for the purpose of short-term profit taking are classified as trading instruments. Debt investments that the Bank and its affiliates have the intent and ability to hold to maturity are classified as held-to-maturity assets.

*Loans and advances to banks and customers:* Loans and advances provided by the Bank and its affiliates are classified as loans and receivables, and reported net of allowances to reflect the estimated recoverable amounts.

*Financial lease receivables:* Leases where the entire risks and rewards incident to ownership of an asset are substantially transferred to the lessee, are classified as financial leases. A receivable at an amount equal to the present value of the lease payments, including any guaranteed residual value, is recognized. The difference between the gross receivable and the present value of the receivable is unearned finance income and is recognized over the term of the lease using the effective interest rate method. Financial lease receivables are included in loans and advances to customers.

*Factoring receivables:* Factoring receivables are stated at fair value at initial recognition. Subsequent to the initial recognition, factoring transactions are accounted for at carrying amounts. The management believes that the carrying amounts of factoring receivables approximate to their fair values since amortization is taken into account at initial recognition.

### **Significant accounting policies (continued)**

#### *Derecognition*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when the rights to receive cash flows from the asset have expired; the Bank (and/or its affiliates) retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or the Bank (and/or its affiliates) has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset. A financial liability is derecognized when it is extinguished.

Available-for-sale assets and assets held for trading that are sold are derecognized and corresponding receivables from the buyer for the payment are recognized as of the date the Bank and its affiliates commit to sell the assets. The specific identification method is used to determine the gain or loss on derecognition.

Held-to-maturity instruments and loans and receivables are derecognized on the dates they are transferred by the Bank and its affiliates.

#### **(i) Derivatives held for risk management purposes**

Derivatives held for risk management purposes are measured at fair value in the statement of financial position. The treatment for the changes in their fair value depends on their classification into the following categories:

##### *Cash flow hedge*

When a derivative is designated as a hedge of the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction that could affect the statement of income result, the effective portion of changes in the fair value of the derivative are recognised directly in the other comprehensive income and presented in the hedging reserve in equity. The amount recognised in the statement of comprehensive income is removed and included in the statement of income in the same period as the hedged cash flows affect the statement of income under the same line item as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in the statement of income.

If the derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, then hedge accounting is discontinued and the amount recognized in the other comprehensive income and presented in the hedging reserve in equity remains there until the forecast transaction affects the statement of income. If the forecast transaction is no longer expected to occur, then hedge accounting is discontinued and the balance in the other comprehensive income is recognized immediately in the statement of income.

##### *Fair value hedge*

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in income immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in income relating to the hedged item.

**Significant accounting policies (continued)**

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to income from that date.

*Embedded derivatives*

Derivatives may be embedded in another contractual arrangement (a “host contract”). The Bank and its affiliates account for embedded derivatives separately from the host contract when the host contract is not itself carried at fair value through profit or loss, and the characteristics of the embedded derivatives are not clearly and closely related to the host contract. Separated embedded derivatives are accounted for depending on their classification, and are presented in the statement of financial position together with the host contract.

**(j) Securities borrowing and lending business**

Investments lent under securities lending arrangements continue to be recognized in the statement of financial position and are measured in accordance with the accounting policy for the related assets as appropriate. Cash collateral received in respect of securities lent is recognized as liabilities to either banks or customers. Investments borrowed under securities borrowing agreements are not recognized in the statement of financial position as the related risks and rewards of such securities are not retained. Borrowed securities are recorded under commitments and contingencies. Cash collateral placements in respect of securities borrowed are recognized under loans and advances to either banks or customers depending on the type of counterparty.

**(k) Repurchase and resale agreements over investments**

The Bank and its affiliates enter into purchases of investments under agreements to resell (reverse repo) substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognized. The amounts paid are recognized in loans to either banks or customers. The receivables are shown as collateralized by the underlying security. Investments sold under repurchase agreements (repo) are recognized in the statement of financial position and are measured in accordance with the accounting policy for the related assets as appropriate. The proceeds from the sale of the investments are reported as “obligations under repurchase agreements and money market fundings”, a liability account.

Income and expenses arising from the repurchase and resale agreements over investments are recognized on an accrual basis over the period of the transactions and are included in interest income or expense.

**(l) Items held in trust**

Assets, other than cash deposits, held by the Bank and its affiliates in fiduciary or agency capacities for its customers and government entities are not included in the accompanying consolidated statement of financial position, since such items are not under the ownership of the Bank.

**(m) Financial guarantees**

Financial guarantees are contracts that require the Bank and its affiliates to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount or the present value of any expected payment (when a payment under the guarantee has become probable).



**Significant accounting policies (continued)**

**(n) Employee benefits**

*(i) Defined benefit plan*

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee and his/her dependants will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The Bank has a defined benefit plan (“the Plan”) for its employees namely Türkiye Garanti Bankası Anonim Şirketi Memur ve Müstahdemleri Emekli ve Yardım Sandığı Vakfı (“the Fund”). The Fund is a separate legal entity and a foundation recognized by an official decree, providing pension and post-retirement medical benefits to all qualified Bank employees. This benefit plan is funded through contributions of both by the employees and the employer as required by Social Security Law numbered 506 and these contributions are as follows:

	<i>30 September 2012</i>	
	<i>Employer</i>	<i>Employee</i>
	<u>%</u>	<u>%</u>
Pension contributions	15.5	10.0
Medical benefit contributions	6.0	5.0

This benefit plan is composed of a) the contractual benefits of the employees, which are subject to transfer to Social Security Foundation (“SSF”) (“pension and medical benefits transferable to SSF”) (see Note 21) and b) other excess social rights and payments provided in the existing trust indenture but not transferable to SSF and medical benefits provided by the Bank for its constructive obligation (“excess benefits”).

*a) Pension and medical benefits transferable to SSF*

As discussed in Note 21, the Bank expects to transfer a portion of the obligation of the Fund to SSF. This transfer will be a settlement of that portion of the Fund’s obligation. Final legislation establishing the terms for this transfer was enacted on 8 May 2008. Although the settlement will not be recognized until the transfer is made, the Bank believes that it is more appropriate to measure the obligation as the value of the payment that would need to be made to SSF to settle the obligation at the date of the statement of financial position in accordance with the Temporary Article 20 of the Law No.5754: “Law regarding the changes in Social Insurance and General Health Insurance Law and other laws and regulations” (“New Law”). The pension disclosures set out in Note 21, therefore reflect the actuarial assumptions and mortality tables specified in the New Law, including a discount rate of 9.80%.

The pension benefits transferable to SSF are calculated annually by an independent actuary, who is registered with the Undersecretariat of the Treasury.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are directly charged to the statement of income.

*b) Excess benefits not transferable to SSF*

The excess benefits, which are not subject to the transfer, are accounted for in accordance with IAS 19, “Employee Benefits”. The obligation in respect of the retained portion of the defined benefit pension plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value by using the projected unit credit method, and any unrecognized past service costs and the fair value of any plan assets are deducted.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are directly charged to the statement of income.

**Significant accounting policies (continued)**

*(ii) Reserve for employee severance indemnity*

Reserve for employee severance indemnity represents the present value of the estimated future probable obligation of the Bank and its affiliates calculated in accordance with the Turkish Labor Law. In accordance with Turkish Labor Law, the Bank and its affiliates are required to make lump-sum payments to each employee whose employment is terminated due to retirement or before the retirement date for reasons other than resignation or misconduct and has completed at least one year of service.

Provision is made for the present value of the liability calculated using the projected unit credit method and all actuarial gains and losses are recognized immediately in the statement of income.

*(iii) Short-term employee benefits*

The Bank provided for undiscounted short-term employee benefits earned during the financial periods as per services rendered in compliance with IAS 19.

**(o) Operating leases**

Leases other than finance leases are classified as operating leases.

*As lessor*

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

*As lessee*

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

**(p) Taxes on income**

Taxes on income for the period comprise current taxes and deferred taxes. Current taxes on income comprises tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and; any adjustment in taxes payable for previous years.

Deferred income tax is provided, using the statement of financial position method, on all taxable temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable income or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax liabilities and assets are recognized when it is probable that the future economic benefits resulting from the reversal of temporary differences will flow to or from the Bank and its affiliates. Deferred tax asset is recognized to the extent that it is

**Significant accounting policies (continued)**

probable that future taxable profit will be available against which the deferred tax asset can be utilized. Currently, enacted tax rates are used to determine deferred taxes on income.

An individual consolidated affiliate offsets deferred tax asset and deferred tax liability if the deferred tax asset and deferred tax liability relate to income taxes levied by the same taxation authority or where the legal right of offset exists.

Deferred taxes related to fair value remeasurement of available-for-sale assets and cash flow hedges, are charged or credited directly to equity and subsequently recognized in the statement of income together with the deferred gains or losses that are realized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

**(q) Offsetting**

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, there is a legally enforceable right to set off the amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses from a group of similar transactions.

**(r) Earnings per share**

Earnings per share disclosed in the accompanying consolidated statement of comprehensive income are determined by dividing net income by the weighted average number of shares outstanding during the period attributable to the shareholders of the Bank. In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("Bonus Shares") to existing shareholders from retained earnings.

Additionally, considering the fact that the increase in the number of shares issued by way of bonus shares in fact does not require any cash injection by the shareholders; the number of issued shares outstanding before such bonus share issuances is adjusted for the proportionate change in the number of issued shares outstanding as if the event had occurred at the beginning of the earliest period reported.

**(s) Impairment**

Financial and non-financial assets are reviewed at each date of the statement of financial position to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated in order to determine the extent of the impairment loss, if any.

*Loans and receivables and held-to-maturity instruments*

The recoverable amounts of loans and receivables and held-to-maturity instruments, are calculated as the present values of the expected future cash flows discounted at the instrument's original effective interest rate. Short-term balances are not discounted.

Loans and receivables are presented net of specific and portfolio basis allowances for uncollectibility. Specific allowances are made against the carrying amount of loans and receivables that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and receivable to their recoverable amounts. In assessing the recoverable amounts of the loans and receivables, the estimated future cash flows are

### **Significant accounting policies (continued)**

discounted to their present value using the loans' original effective interest rates. Portfolio basis allowances are maintained to reduce the carrying amount of portfolios of similar loans and receivables to their estimated recoverable amounts at the date of financial position. The expected cash flows for portfolios of similar assets are estimated based on previous experience and considering the credit rating of the underlying customers and late payments of interest or penalties. Increases in the allowance account are recognized in the statement of income. When a loan is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off directly. If in a subsequent period, the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down or allowance is reversed through the statement of income.

#### *Financial assets remeasured to fair value*

The recoverable amount of an equity instrument is its fair value. The recoverable amount of debt instruments and purchased loans remeasured to fair value is calculated as the present value of the expected future cash flows discounted at the current market rate of interest.

Where an asset remeasured to fair value is impaired, the write-down is recognized in the statement of income.

If in a subsequent period, the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the statement of income.

#### **(t) Income and expense recognition**

##### *Interest income and expense*

Interest income and expense is recognized on an accrual basis by taking into account the effective yield of the asset or an applicable floating rate. Interest income and expense includes the amortization of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

##### *Fee and commission*

Fee and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commissions, placement fees and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

##### *Net trading income*

Net trading income includes gains and losses arising from disposals of financial assets at fair value through profit or loss, available-for-sale, and from trading derivatives.

##### *Dividend income*

Dividend income is recognized in the statement of income when the right to receive payment is established.

### **Significant accounting policies (continued)**

#### *Insurance business*

*Premium income:* For short-term insurance contracts, premiums are recognized as income (earned premiums), net of premium ceded to reinsurer firms, proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at date of the statement of financial position is recognized as the reserve for unearned premiums that are calculated on a daily pro-rata basis. Premiums are shown before deduction of commissions and deferred acquisition cost, and are gross of any taxes and duties levied on premiums. For long-term insurance contracts, premiums are recognized as income when the premiums are due from the policyholders. Premiums received for long-term insurance contracts with discretionary participation feature (“DPF”), are recognized directly as liabilities.

*Unearned premium reserve:* Unearned premiums are those proportions of the premiums written in a period that relate to the period of risk subsequent to the date of the statement of financial position for all short-term insurance policies. In accordance with the incumbent legislation on the computation of insurance contract liabilities, unearned premium reserve set aside for unexpired risks as at the dates of the statements of financial position, has been computed on a daily pro-rata basis. The change in the provision for unearned premium is recognized in the statement of income in the order that income is recognized over the period of risk.

*Claims and provision for “outstanding” claims:* Claims are recognized in the period in which they occur, based on reported claims or on the basis of estimates when not reported. The claims provision is the total estimated ultimate cost of settling all claims arising from events, which have occurred up to the end of the accounting period. Full provision is accounted for outstanding claims, including claim settlements reported at the period-end. Incurred but not reported claims (“IBNR”) are also provided for under the provision for outstanding claims.

*Liability adequacy test:* At each statement of financial position date, asset-liability adequacy tests are performed to ensure the adequacy of the contract liabilities, net of related deferred acquisition costs. In performing these tests, current best estimates of future cash flows are used. Any deficiency is immediately charged to the statement of income.

*Income generated from pension business:* Income arising from asset management and other related services offered by the insurance affiliate of the Bank is recognized in the accounting period in which the service is rendered. Fees consist primarily of investment management fees arising from services rendered in conjunction with the issue and management of investment contracts where the insurance company actively manages the consideration received from its customers to fund a return that is based on the investment profile that the customer selected on origination of the instrument. These services comprise the activity of trading financial assets in order to reproduce the contractual services. In all cases, these services comprise an indeterminate number of acts over the life of the individual contracts.

*Mathematical provisions:* Mathematical provisions are the provisions recorded against the liabilities of the insurance affiliate of the Bank to the beneficiaries of long-term life, health and individual accident policies based on actuarial assumptions. Mathematical provisions consist of actuarial mathematical provisions for long term insurance contracts, saving portion of the saving life products classified as investment contracts and related profit sharing reserves.

Actuarial mathematical provisions are calculated as the difference between the net present values of premiums written in return of the risk covered by the insurance affiliate and the liabilities to policyholders for long-term insurance contracts based on the basis of actuarial mortality assumptions as approved by the Republic of Turkey Prime Ministry Undersecretariat of Treasury, which are applicable for Turkish insurance companies.

### **Significant accounting policies (continued)**

Profit sharing reserves are the reserves provided against income obtained from asset backing saving life insurance contracts. These contracts entitle the beneficiaries of those contracts to a minimum guaranteed crediting rate per annum or, when higher, a bonus rate declared by the insurance affiliate from the eligible surplus available to date.

Mathematical provisions are presented under “other liabilities, accrued expenses and provisions” in the accompanying consolidated financial statements.

**(u) *Non-current assets held for sale***

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

**(v) *Segment reporting***

An operating segment is a component of the Bank and its affiliates that engage in business activities from which it may earn income and incur expenses, including income and expenses that relate to transactions with any of the Bank’s other components. All operating segments’ operating results are reviewed regularly by the management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

**(y) *Reclassifications of comparative amounts in prior period financial statements***

The consolidated financial statements of the Bank are prepared comparative with the prior period to enable the determination of financial position and performance trends. In order to make comparative presentation of the current and prior periods’ financial results, “payables to securities lending market” amounting to TL 737,814 thousands accounted for under “other liabilities, accrued expenses and provisions” as of 31 December 2011 were netted with “receivables from securities lending market” under “other assets”.

**(z) *New standards and interpretations***

***New and revised IFRSs applied with no material effect on the consolidated financial statements***

- Amendments to IAS 12 Deferred Taxes – Recovery of Underlying Assets
- Amendments to IFRS 7 Disclosures – Transfers of Financial Assets

***New and revised IFRSs in issue but not yet effective***

- IFRS7 Financial Instruments: Disclosures
- IFRS9 Financial Instruments: Classification and Measurement
- IFRS10 Consolidated Financial Statements
- IFRS11 Joint Arrangements
- IFRS12 Disclosure of Interest in Other Entities
- IFRS13 Fair Value Measurements
- IAS1 Presentation of Financial Statements (2011) - Presentation of Items of Other Comprehensive Income
- IAS19 Employee Benefits (2011) (Amendments)
- IAS27 Separate Financial Statements (2011)
- IAS28 Investments in Associates and Joint Ventures (2011)
- IAS32 Financial Instruments: Presentation Amendments to *Offsetting of Financial Assets and Financial Liabilities*
- May 2012 improvements (IFRS1, IAS1, IAS16, IAS32 and IAS34)

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## 1 Segment reporting

The Bank has seven reportable segments from banking and other financial institutions, as described in the business segments part 1.2 below, which are the Bank's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the senior management reviews internal reports regularly. The following summary describes the operations in each of the Bank's reportable segments:

### 1.1 Geographical segments

The Bank and its affiliates operate principally in Turkey, but also have operations in the Netherlands, Russia, Turkish Republic of Northern Cyprus, Malta, Luxembourg, Germany and Romania. Total geographic sector risk concentrations, both on and off balance sheet, are presented in the table below:

	<i>30 September 2012</i>				
	<i>Loans and Advances to Customers</i>	<i>Total Assets</i>	<i>Total Liabilities</i>	<i>Non-Cash Loans</i>	<i>Capital Expenditures</i>
Turkey	92,806,366	150,693,683	106,385,521	17,902,562	169,514
England	280,438	6,650,870	13,434,213	784,565	-
Romania	2,548,086	5,240,443	1,287,507	140,152	5,480
Russia	664,216	1,702,852	588,042	137,196	408
Netherlands	1,056,703	1,676,824	4,366,632	202,217	1,779
USA	271,060	1,651,411	7,236,713	843,182	-
Germany	38,864	981,789	5,430,973	229,569	75
Malta	655,807	759,302	514,634	3,544	59
Switzerland	440,480	483,531	3,745,828	633,869	-
France	12,887	412,424	851,284	156,439	-
Luxembourg	90,295	236,326	937,447	14,730	917
Spain	12,137	181,013	329,296	288,227	-
Belgium	12,649	127,611	270,235	489	-
United Arabian Emirates	62,239	62,317	443,530	253,400	-
Austria	3,321	15,784	135,681	64,942	-
Ireland	-	14,691	971,556	26	-
Italy	4,600	9,204	280,471	332,942	-
Canada	3,535	5,020	306,442	641	-
Japan	61	2,031	442,907	203,234	-
Others	544,695	1,013,716	3,080,522	654,374	-
	<u>99,508,439</u>	<u>171,920,842</u>	<u>151,039,434</u>	<u>22,846,300</u>	<u>178,232</u>



**1 Segment reporting (continued)**

	<i>31 December 2011</i>				
	<i>Loans and Advances to Customers</i>	<i>Total Assets</i>	<i>Total Liabilities</i>	<i>Non-Cash Loans</i>	<i>Capital Expenditures</i>
Turkey	85,453,005	133,197,181	101,426,187	18,002,636	383,767
England	255,929	8,385,464	13,638,626	193,697	-
Romania	3,264,975	5,330,564	1,297,317	227,971	20,159
USA	274,432	2,707,038	7,519,108	686,101	-
France	7,847	2,459,937	966,899	154,200	-
Netherlands	954,879	2,394,750	3,764,460	321,182	2,276
Russia	465,970	1,889,815	477,728	98,277	683
Germany	31,702	1,497,472	5,258,306	113,327	51
Malta	627,917	941,195	428,960	145	-
Switzerland	492,488	503,427	2,677,761	832,981	-
Luxembourg	12,909	228,738	984,806	7,987	-
Spain	595	225,861	235,088	259,646	-
Austria	13	134,283	167,544	61,170	-
Ireland	8,559	83,077	67,472	81	-
Italy	1,454	43,909	150,954	364,243	-
United Arabian Emirates	91,307	39,008	360,116	82,998	-
Belgium	1,911	18,824	400,842	1,766	-
Japan	268	1,499	409,559	216,573	-
Canada	836	5,489	446,328	1,054	-
Others	706,784	1,313,490	2,573,081	611,374	-
	<u>92,653,780</u>	<u>161,401,021</u>	<u>143,251,142</u>	<u>22,237,409</u>	<u>406,936</u>

Total geographic sector risk concentrations of the net income are presented in the table below:

	<i>Nine-month period ended 30 September 2012</i>	<i>Three-month period ended 30 September 2012</i>	<i>Nine-month period ended 30 September 2011</i>	<i>Three-month period ended 30 September 2011</i>
Turkey	2,340,506	802,193	2,248,608	574,122
Malta	83,322	(16,361)	89,964	(19,799)
Netherlands	86,985	33,054	77,829	26,974
Luxembourg	48,256	10,487	22,989	(13,876)
Romania	30,799	6,192	15,399	3,635
Others	10,458	5,506	21,456	7,882
	<u>2,600,326</u>	<u>841,071</u>	<u>2,476,245</u>	<u>578,938</u>

## 1 Segment reporting (continued)

### 1.2 Business segments

The main business segments are banking, leasing, insurance and factoring sectors. Banking segment information is detailed further to retail banking and commercial, corporate and SME banking as these are the major banking activities. Other operations heading under the banking segment include mainly treasury and investment banking activities as well as unallocated income and expense items. The analysis is as follows:

	<u>Retail Banking</u>	<u>Commercial, Corporate &amp; SME Banking</u>	<u>Other Operations</u>	<u>Total Banking</u>	<u>Leasing</u>	<u>Insurance</u>	<u>Factoring</u>	<u>Other Financial</u>	<u>Other Non-Financial</u>	<u>Combined</u>	<u>Eliminations</u>	<u>Total</u>
<b>30 September 2012</b>												
Operating income	1,710,370	2,572,700	1,569,594	5,852,664	173,298	245,566	45,521	58,960	30,788	6,406,797	(71,805)	6,334,992
Operating expenses	(1,226,827)	(1,045,423)	(524,946)	(2,797,196)	(106,808)	(116,834)	(25,173)	(53,362)	(23,057)	(3,122,430)	72,581	(3,049,849)
Income from operations	483,543	1,527,277	1,044,648	3,055,468	66,490	128,732	20,348	5,598	7,731	3,284,367	776	3,285,143
Taxation charge	-	-	(632,354)	(632,354)	(17,307)	(26,174)	(4,175)	(3,156)	(1,651)	(684,817)	-	(684,817)
Net income for the period	<u>483,543</u>	<u>1,527,277</u>	<u>412,294</u>	<u>2,423,114</u>	<u>49,183</u>	<u>102,558</u>	<u>16,173</u>	<u>2,442</u>	<u>6,080</u>	<u>2,529,550</u>	<u>776</u>	<u>2,600,326</u>
Segment assets	32,728,320	65,046,981	64,983,358	162,758,659	2,967,350	3,896,938	1,385,848	500,748	37,080	171,546,623	(1,607,902)	169,938,721
Investments in equity participations	-	-	470,442	470,442	-	275	-	1,645	712	473,074	(448,006)	25,068
Unallocated assets	-	41,857	1,540,076	1,581,933	261,907	14,322	7,831	16,451	1,968	1,884,412	72,641	1,957,053
Total assets	<u>32,728,320</u>	<u>65,088,838</u>	<u>66,993,876</u>	<u>164,811,034</u>	<u>3,229,257</u>	<u>3,911,535</u>	<u>1,393,679</u>	<u>518,844</u>	<u>39,760</u>	<u>173,904,109</u>	<u>(1,983,267)</u>	<u>171,920,842</u>
Segment liabilities	61,812,147	36,459,511	46,592,831	144,864,489	2,657,424	3,366,789	1,292,508	395,845	9,893	152,586,948	(1,547,514)	151,039,434
Total equity	-	-	19,946,545	19,946,545	571,833	544,746	101,171	122,999	29,867	21,317,161	(435,753)	20,881,408
Total liabilities and equity	<u>61,812,147</u>	<u>36,459,511</u>	<u>66,539,376</u>	<u>164,811,034</u>	<u>3,229,257</u>	<u>3,911,535</u>	<u>1,393,679</u>	<u>518,844</u>	<u>39,760</u>	<u>173,904,109</u>	<u>(1,983,267)</u>	<u>171,920,842</u>

**Türkiye Garanti Bankası AŞ and Its Affiliates**  
Notes to Consolidated Financial Statements  
As of and for the Nine-Month Period Ended 30 September 2012  
(Currency: Thousands of Turkish Lira (TL))

**1 Segment reporting (continued)**

	<u>Retail Banking</u>	<u>Commercial Corporate &amp; SME Banking</u>	<u>Other Operations</u>	<u>Total Banking</u>	<u>Leasing</u>	<u>Insurance</u>	<u>Factoring</u>	<u>Other Financial</u>	<u>Other Non-Financial</u>	<u>Combined</u>	<u>Eliminations</u>	<u>Total</u>
<u>30 September 2011</u>												
Operating income	2,199,962	2,444,407	1,040,821	5,685,190	167,298	203,398	29,451	81,583	27,172	6,194,092	(223,187)	5,970,905
Operating expenses	(1,358,306)	(842,639)	(413,897)	(2,614,842)	(95,243)	(96,347)	(19,296)	(67,748)	(28,215)	(2,921,691)	62,812	(2,858,879)
Income from operations	841,656	1,601,768	626,924	3,070,348	72,055	107,051	10,155	13,835	(1,043)	3,272,401	(160,375)	3,112,026
Taxation charge	-	-	(593,808)	(593,808)	(16,761)	(21,716)	(1,804)	(899)	(793)	(635,781)	-	(635,781)
Net income for the period	841,656	1,601,768	33,116	2,476,540	55,294	85,335	8,351	12,936	(1,836)	2,636,620	(160,375)	2,476,245
<u>31 December 2011</u>												
Segment assets	28,915,024	62,377,918	62,071,284	153,364,226	2,885,206	3,007,532	1,268,168	532,595	35,069	161,092,796	(1,693,836)	159,398,960
Investments in equity participations	-	-	443,639	443,639	-	275	-	1,744	1,156	446,814	(422,221)	24,593
Unallocated assets	-	-	1,642,353	1,642,353	248,501	15,217	6,904	23,623	2,168	1,938,766	38,702	1,977,468
Total assets	28,915,024	62,377,918	64,157,276	155,450,218	3,133,707	3,023,024	1,275,072	557,962	38,393	163,478,376	(2,077,355)	161,401,021
Segment liabilities	56,647,209	35,510,636	45,915,883	138,073,728	2,608,244	2,580,883	1,190,101	438,717	14,606	144,906,279	(1,655,137)	143,251,142
Total equity	-	-	17,376,490	17,376,490	525,463	442,141	84,971	119,245	23,787	18,572,097	(422,218)	18,149,879
Total liabilities and equity	56,647,209	35,510,636	63,292,373	155,450,218	3,133,707	3,023,024	1,275,072	557,962	38,393	163,478,376	(2,077,355)	161,401,021

## 2 Cash and cash equivalents

Cash and cash equivalents include cash balances on hand, due from banks with original maturity periods of less than three months and other cash items. Cash and cash equivalents as of 30 September 2012 and 2011, included in the accompanying consolidated statements of cash flows are as follows:

	<i>30 September</i> <u>2012</u>	<i>30 September</i> <u>2011</u>
Cash at branches	1,027,837	931,326
Unrestricted balances with central banks	2,538,590	7,590,098
Placements at money markets	450	396,811
Loans and advances to banks with original maturity periods of less than three months	<u>2,417,343</u>	<u>860,270</u>
	<u>5,984,220</u>	<u>9,778,505</u>

## 3 Related party disclosures

For the purpose of this report, the shareholders jointly controlling the Bank namely Doğuş Holding AŞ and BBVA (before 22 March 2011; GE Group) and all their subsidiaries, and their ultimate owners, directors and executive officers and the Bank's unconsolidated affiliates are referred to as related parties. During the course of the business, the Bank has made placements with and granted loans to related parties and also received deposits from them at various terms. The Bank had the following balances outstanding from and transactions with related parties:

### 3.1 Outstanding balances

	<i>30 September</i> <u>2012</u>	<i>31 December</i> <u>2011</u>
<i>Statement of financial position</i>		
Loans and advances to banks	<u>180,316</u>	<u>188,252</u>
<i>Loans granted in foreign currencies:</i>	<i>US\$ 95,067,955</i>	<i>US\$ 100,148,526</i>
	<i>EUR 5,200,633</i>	<i>EUR 609,068</i>
Loans and advances to customers	<u>490,935</u>	<u>357,262</u>
<i>Loans granted in TL</i>	<i>240,050</i>	<i>150,378</i>
<i>Loans granted in foreign currencies:</i>	<i>US\$ 136,607,375</i>	<i>US\$ 95,837,534</i>
	<i>EUR 540,371</i>	<i>EUR 11,623,143</i>
	<i>CHF 4,023,155</i>	-
Miscellaneous receivables	2,761	3,707
Deposits received	576,947	1,457,036
Loans and advances from banks and other institutions	41,246	48,432
<i>Commitments and contingencies</i>		
Non-cash loans	479,136	586,465
Derivatives	4,928,278	1,095,491

### 3.2 Transactions

	<i>Nine-month</i> <i>period ended</i> <u>30 September 2012</u>	<i>Three-month</i> <i>period ended</i> <u>30 September 2012</u>	<i>Nine-month</i> <i>period ended</i> <u>30 September 2011</u>	<i>Three-month</i> <i>period ended</i> <u>30 September 2011</u>
Interest, fee and commission income	34,302	13,221	24,135	9,255
Interest, fee and commission expense	25,310	6,403	58,956	31,625
Other operating income	5,757	2,637	10,194	5,151
Other operating expenses	66,517	41,956	41,314	12,755

### **3 Related party disclosures (continued)**

In the first nine-months of 2012, interest rates applied to foreign currency receivables from and payables to related parties vary within the ranges of 1.0%-14.1% and 0.1%-11% (31 December 2011: 1.0%-8.0% and 0.5%-11.0%), respectively. The interest rates applied to TL receivables from and payables to related parties vary within the ranges of 1.1%-33.2% and 6%-11.5%, respectively (31 December 2011: 0.9%-15.0% and 7.5%-12.3%). Various commission rates are applied to transactions involving guarantees and commitments. The pricing in transactions with the related parties is set on an arms-length basis.

No impairment losses or specific allowances have been recorded against balances outstanding during the period with related parties as of 30 September 2012 (31 December 2011: nil).

The Bank purchased 5.86% of Garanti Finansal Kiralama AŞ' shares at a total face value of TL 4,278 thousands from Garanti Faktoring Hizmetleri AŞ at a price of TL 34,574 thousands on 5 December 2011.

As per the shareholders' agreement dated 21 June 2007 between the Bank and Eureko BV, the Bank and its affiliates sold their 20% shares of Eureko Sigorta AŞ with a nominal value of TL 12,000 thousands to Eureko BV for EUR 70 millions in 2011.

On 27 May 2010, the Bank purchased the shares of D Netherlands Holding BV, established in the Netherlands, presenting 100% ownership at a price of EUR 53.5 millions from Doğuş Holding AŞ, and subsequent to this share purchase, the paid-in capital of D Netherlands Holding BV was increased by EUR 118.4 millions. D Netherlands Holding BV is the shareholder of Doğuş GE BV directly, and GE Garanti Bank SA, Motoractive IFN SA, Ralfi IFN SA and Domenia Credit IFN SA, all resident in Romania, indirectly through Doğuş GE BV. The paid-in capital of D Netherlands Holding BV was increased to EUR 247,088,600 from EUR 217,088,600 on 27 August 2010. The funding raised from this paid-in capital increase was used to increase the paid-in capitals of the financial subsidiaries under D Netherlands Holding BV and accordingly, the participation ratio of the Bank in these financial institutions increased from 70.00% to 73.27%. Subsequently, as per the decision made at the board of directors' meeting of the Bank held on 8 December 2010, the existing capital of D Netherlands Holding BV, established in the Netherlands and a fully owned subsidiary of the Bank, was increased by EUR 82,000,000. Following this capital increase, as per the decisions made at the board of directors' meeting of D Netherlands Holding BV held on 16 December 2010; Leasemart Holding BV, the Netherlands-based company, was acquired by D Netherlands Holding BV from GE Capital Corporation for a consideration of EUR 46.4 millions. Following this share purchase transaction, the percentage of shares owned indirectly by the Bank increased from 73.27% to 100% in the Romania-based subsidiaries which are Garanti Bank SA (formerly GE Garanti Bank SA), Motoractive IFN SA, Domenia Credit IFN SA and Ralfi IFN SA. The remaining amount of the increased share capital of D Netherlands Holding BV was utilized to increase the share capital of Garanti Bank SA by EUR 35 millions through Doğuş GE BV. As of 27 January 2011, D Netherlands Holding BV's name changed to Garanti Holding BV, and Doğuş GE BV's name changed to G Netherlands BV.

Key management personnel compensation for the nine-month period ended 30 September 2012 amounted TL 92,822 thousands (30 September 2011: TL 96,283 thousands) on a consolidated basis. Within this total, individual key management expenses of the Bank amounted TL 57,718 thousands (30 September 2011: TL 64,805 thousands) and of its affiliates amounted TL 35,104 thousands (30 September 2011: TL 31,478 thousands).

#### 4 Cash and balances with central banks

	<u>30 September</u> <u>2012</u>	<u>31 December</u> <u>2011</u>
Cash at branches	1,027,837	1,043,588
Balances with central banks excluding reserve deposits	<u>2,538,590</u>	<u>2,386,232</u>
	<u>3,566,427</u>	<u>3,429,820</u>

#### 5 Financial assets at fair value through profit or loss

	<u>30 September</u> <u>2012</u>				<u>31 December</u> <u>2011</u>
	<u>Face</u> <u>value</u>	<u>Carrying</u> <u>value</u>	<u>Interest rate</u> <u>range %</u>	<u>Latest</u> <u>maturity</u>	<u>Carrying</u> <u>value</u>
<i>Debt and other instruments held at fair value:</i>					
Government bonds in TL	642,277	645,192	5-16	2022	69,354
Gold	-	93,725	-	-	80,389
Discounted government bonds in TL	58,955	56,730	6-11	2013	52,995
Government bonds indexed to CPI	23,621	31,420	3-29	2022	76,832
Investment fund	-	31,370	-	-	30,544
Eurobonds	14,500	17,024	5-12	2041	41,362
Bonds issued by corporations	15,782	15,637	2-12	2014	49,111
Bonds issued by financial institutions	9,939	9,938	9-12	2014	-
Government bonds-floating (a)	9,318	9,557	9-21	2018	10,985
Others		<u>5</u>			<u>203</u>
		910,598			411,775
<i>Loans held at fair value</i>		218,574			-
<i>Equity and other non-fixed income instruments:</i>					
Listed shares		<u>16,903</u>			<u>7,496</u>
Total financial assets at fair value through profit or loss		<u>1,146,075</u>			<u>419,271</u>

(a) The interest rates applied on these securities are floating quarterly based on interest rates of government bond bids of the government.

Income from debt and other instruments held at fair value is reflected in the consolidated statement of comprehensive income as interest on securities. Gains and losses arising from trading of financial assets at fair value through profit or loss are recorded in net trading gains/(losses).

The impairment losses for the financial assets at fair value through profit or loss as of 30 September 2012 amount to TL 74 thousands (30 September 2011: TL 2,426 thousands).

As of 30 September 2012, financial assets at fair value through profit or loss amounting to TL 5,457 thousands are blocked against asset management operation and securitizations (31 December 2011: TL 3,681 thousands) (refer to Note 10).

As of 30 September 2012, government bonds and treasury bills include securities pledged under repurchase agreements with customers amounting to TL 5,013 thousands (31 December 2011: TL 2,036 thousands).

## 6 Loans and advances to banks

	30 September 2012			31 December 2011		
	<u>TL</u>	<u>Foreign Currency</u>	<u>Total</u>	<u>TL</u>	<u>Foreign Currency</u>	<u>Total</u>
<i>Loans and advances-demand</i>						
Domestic banks	597	222	819	694	3,288	3,982
Foreign banks	<u>127,405</u>	<u>1,385,037</u>	<u>1,512,442</u>	<u>136,375</u>	<u>2,486,877</u>	<u>2,623,252</u>
	<u>128,002</u>	<u>1,385,259</u>	<u>1,513,261</u>	<u>137,069</u>	<u>2,490,165</u>	<u>2,627,234</u>
<i>Loans and advances-time</i>						
Domestic banks	685,311	1,382,543	2,067,854	461,519	1,248,282	1,709,801
Foreign banks	<u>1,927,049</u>	<u>4,114,768</u>	<u>6,041,817</u>	<u>1,914,629</u>	<u>8,927,842</u>	<u>10,842,471</u>
	<u>2,612,360</u>	<u>5,497,311</u>	<u>8,109,671</u>	<u>2,376,148</u>	<u>10,176,124</u>	<u>12,552,272</u>
Placements at money markets	<u>450</u>	<u>-</u>	<u>450</u>	<u>6,800</u>	<u>-</u>	<u>6,800</u>
Income accrual on loans and advances to banks	<u>45,315</u>	<u>33,850</u>	<u>79,165</u>	<u>20,302</u>	<u>26,106</u>	<u>46,408</u>
Total loans and advances to banks	2,786,127	6,916,420	9,702,547	2,540,319	12,692,395	15,232,714
Less: allowance for uncollectibility	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net loans and advances to banks	<u>2,786,127</u>	<u>6,916,420</u>	<u>9,702,547</u>	<u>2,540,319</u>	<u>12,692,395</u>	<u>15,232,714</u>

As of 30 September 2012, majority of loans and advances-time are short-term with interest rates ranging between 1%-7% per annum for foreign currency time placements and 5%-13% per annum for TL time placements (31 December 2011: 1%-15% and 5%-13%, respectively).

As of 30 September 2012, loans and advances at domestic and foreign banks include blocked accounts of TL 5,843,897 thousands (31 December 2011: TL 7,982,224 thousands) held against securitizations, fundings and insurance business.

## 7 Loans and advances to customers

Outstanding loans and advances to customers are divided between economic sectors and loan types as follows:

	<i>30 September</i> <u>2012</u>	<i>31 December</i> <u>2011</u>
Consumer loans	32,567,840	28,804,750
<i>Credit card receivables</i>	<i>10,822,054</i>	<i>9,455,308</i>
<i>Mortgage loans</i>	<i>10,393,033</i>	<i>9,426,631</i>
<i>Auto loans</i>	<i>1,209,223</i>	<i>1,100,089</i>
<i>General purpose and other consumer loans</i>	<i>10,143,530</i>	<i>8,822,722</i>
Service sector	9,566,773	8,840,305
Energy	7,392,436	6,686,124
Construction	6,274,674	5,712,675
Transportation and logistics	4,590,652	4,294,677
Food	3,868,080	4,634,551
Textile	3,662,301	3,480,649
Tourism	3,304,253	2,466,146
Metal and metal products	3,282,276	3,911,535
Transportation vehicles and sub-industry	2,673,891	2,917,806
Financial institutions	2,246,877	2,150,904
Agriculture and stockbreeding	1,980,842	1,829,093
Data processing	1,736,857	2,260,765
Chemistry and chemical products	1,424,016	1,373,571
Stone, rock and related products	1,159,756	1,106,460
Mining	1,148,012	1,195,394
Electronic, optical and medical equipment	1,104,134	757,366
Machinery and equipment	1,010,112	856,329
Durable consumption	754,861	1,159,667
Paper and paper products	588,552	413,251
Plastic products	359,680	509,628
Others	<u>3,822,540</u>	<u>2,568,649</u>
Total performing loans	94,519,415	87,930,295
Financial lease receivables, net of unearned income (Note 8)	2,572,309	2,478,834
Factoring receivables	1,374,949	1,247,327
Income accrual on loans and lease receivables	1,317,042	1,275,883
Non-performing loans, factoring and lease receivables	2,624,774	2,209,227
Allowance for probable losses from loans, factoring and lease receivables	<u>(2,900,050)</u>	<u>(2,487,786)</u>
Loans and advances to customers	<u>99,508,439</u>	<u>92,653,780</u>

As of 30 September 2012, interest rates on loans granted to customers range between 1%-53% (31 December 2011: 1%-53%) per annum for the foreign currency loans and 2%-30% (31 December 2011: 1%-26%) per annum for the TL loans.



## 7 Loans and advances to customers (continued)

The provision for probable losses is comprised of amounts for specifically identified as being impaired and non-performing loans and advances and a further portfolio-basis amount considered adequate to cover the residual inherent risk of loss present in the lending relationships presently performing in accordance with agreements made with borrowers. The amount of the portfolio basis allowance is TL 552,356 thousands (31 December 2011: TL 395,561 thousands). Movements in the allowance for probable losses on loans, factoring and lease receivables including the portfolio basis allowances, are as follows:

	<i>30 September</i> <u>2012</u>	<i>31 December</i> <u>2011</u>
Balance at the beginning of the period	2,487,786	2,457,953
Write-offs	(196,235)	(230,780)
Recoveries and reversals	(150,971)	(502,734)
Provision for the period	<u>759,470</u>	<u>763,347</u>
Balance at the end of the period	<u>2,900,050</u>	<u>2,487,786</u>

A part of non-performing receivables of the Bank's consolidated affiliates amounting to TL 17,530 thousands (31 December 2011: TL 20,584 thousands) was sold for a consideration of TL 1,116 thousands (31 December 2011: TL 1,124 thousands). A loss from this sale amounting to TL 1,303 thousands is recognized under "gain on sale of assets" in the accompanying income statement as of 30 September 2012 (for the year 2011: an income of TL 282 thousands)

A part of the non-performing loan portfolio of the Bank amounting to TL 200,564 thousands (31 December 2011: TL 483,876 thousands) had been sold to a local asset management company for a consideration of TL 32,600 thousands (31 December 2011: TL 53,925 thousands) and the sale price had been fully recognized as income under "gain on sale of assets" in the accompanying income statement for the nine-month period ended 30 September 2012 (30 September 2011: an income of TL 53,925 thousands).

## 8 Financial lease receivables

The financial leases typically run for a period of one to five years, with transfer of ownership of the leased asset at the end of the lease term. Interest is charged over the period of the lease. The receivables are secured by way of the underlying assets. Loans and advances to customers include the following financial lease receivables:

	<i>30 September</i> <u>2012</u>	<i>31 December</i> <u>2011</u>
Financial lease receivables, net of unearned income (Note 7)	2,572,309	2,478,834
Add: non-performing lease receivables	306,273	260,248
Less: allowance for probable losses on lease receivable	<u>(107,133)</u>	<u>(93,359)</u>
	<u>2,771,449</u>	<u>2,645,723</u>
Income accrual on lease receivables	<u>17,712</u>	<u>14,442</u>
<i>Analysis of net financial lease receivables</i>		
Due within 1 year	1,112,650	1,028,492
Due between 1 and 5 years	1,966,805	1,804,549
Due after 5 years	<u>123,679</u>	<u>219,384</u>
Financial lease receivables, gross	3,203,134	3,052,425
Unearned income	<u>(431,685)</u>	<u>(406,702)</u>
Financial lease receivables, net	<u>2,771,449</u>	<u>2,645,723</u>
<i>Analysis of net financial lease receivables</i>		
Due within 1 year	1,004,900	879,993
Due between 1 and 5 years	1,666,039	1,575,718
Due after 5 years	<u>100,510</u>	<u>190,012</u>
Financial lease receivables, net	<u>2,771,449</u>	<u>2,645,723</u>

## 9 Other assets

	<i>30 September</i>	<i>31 December</i>
	<u>2012</u>	<u>2011</u>
Reserve deposits at central banks	12,144,650	7,139,416
Insurance premium receivables	3,183,005	2,413,890
Accrued gains on derivatives	874,279	1,055,322
Clearing house	391,027	159,160
Prepaid expenses, insurance claims and similar items	330,849	283,380
Miscellaneous receivables	324,245	324,284
Investment property (*)	128,790	-
Tangible assets held for sale	124,766	127,656
Prepaid taxes and taxes and funds to be refunded	94,682	115,635
Others	159,158	103,242
	<u>17,755,451</u>	<u>11,721,985</u>

(\*) Depreciation expense for investment property amounts to TL 2,993 thousands as of 30 September 2012.

### *Reserve deposits at central banks*

Reserve deposits at the Central Bank of Turkey are kept as minimum reserve requirement. These funds are not available for the daily business of the Bank and its affiliates. As required by the Turkish Banking Law, these reserve deposits are calculated on the basis of liabilities in TL, foreign currencies and gold taken at the rates determined by the Central Bank of Turkey. The reserve deposits do not earn interest.

The reserve deposits at the Central Bank of the Netherlands, as required by the Dutch Banking Law, are calculated as 1% on all customer deposits with an original maturity less than 2 years and 1% on bank deposits of non-EU banks with an original maturity less than 2 years. The reserve deposits are not required to be kept under blocked accounts in the Netherlands, therefore, such balances are classified under "cash and balances with central banks" in Note 4.

The banks operating in Romania are obliged to keep minimum reserve requirements in accounts held with Romanian Central Bank (NBR). The reserve requirements are to be held in RON for RON liabilities and in Euro or US\$ for foreign currency liabilities. Currently, in line with stipulations of related legislation in force, the rates for reserve requirements are 15% for RON denominated liabilities with a remaining maturity less than 2 years and 20% for foreign currency denominated liabilities with a remaining maturity less than 2 years excluding Romanian banks' fundings. The interest rates paid by the NBR to banks for reserve requirements are subject of permanent update, currently the rates are 0.94% for RON reserves, 0.63% for Euro reserves and 0.26% for US\$ reserves.

The reserve deposits at the Central Bank of Russia are not available for the daily business, as required by the Russian Banking Law, these reserve deposits are calculated on the basis of RUB and foreign currency liabilities taken at the rates determined by the Central Bank of Russia. In accordance with the current legislation, the reserve deposit rates for RUB and foreign currency liabilities legal entities-nonresidents, including banks-nonresident (RUB and foreign currency liabilities) are 5.5%, individuals (RUB and foreign currency liabilities) and other liabilities are 4.0%.

### *Tangible assets held for sale*

The tangible assets held for sale are comprised of foreclosed real estates acquired by the Bank against its impaired receivables and are intended to be sold shortly. Such assets are required to be disposed of within three years following their acquisitions per the Turkish Banking Law. This three year period can be extended by a legal permission from the regulators. In case of real estates held for sale, this requirement is valid only if the legal limit on the size of the real estate portfolio that a bank can maintain is exceeded. Currently, as the Bank is within this legal limit, it is not subject to the above requirement.

## 9 Other assets (continued)

Impairment losses provided on real estates held for sale were determined based on the appraisals of independent appraisal firms. As of 30 September 2012, real estates held for sale have been impaired by TL 13,846 thousands (31 December 2011: TL 11,982 thousands).

As of 30 September 2012, the rights of repurchase on various tangible assets held for sale amounted to TL 4,382 thousands (31 December 2011: TL 6,273 thousands).

## 10 Investment securities

	30 September 2012				31 December 2011
	Face value	Carrying value	Interest rate range %	Latest maturity	Carrying value
<i>Debt and other instruments available-for-sale:</i>					
Government bonds indexed to CPI	8,946,444	12,425,646	3-25	2022	11,128,147
Government bonds at floating rates (a)	7,896,057	8,142,881	9-12	2018	6,678,750
Government bonds in TL	7,208,424	7,470,973	8-16	2022	4,726,353
Discounted government bonds in TL	4,370,259	4,187,495	7-11	2013	3,704,782
Bonds issued by financial institutions	3,125,177	3,255,673	1-11	2022	1,019,593
Bonds issued by foreign governments	838,056	885,308	4-11	2018	886,002
Eurobonds	243,499	276,786	5-12	2034	338,562
Bonds issued by corporations (b)	207,434	213,666	4-11	2022	2,647,282
Others		28,012			25,389
Total securities available-for-sale		36,886,440			31,154,860
<i>Debt and other instruments held-to-maturity:</i>					
Government bonds at floating rates (a)	887,744	910,865	11	2014	916,647
Eurobonds (c)	439,828	442,987	7-8	2034	1,578,712
Bonds issued by financial institutions	7,065	7,065	5	2013	-
Bonds issued by corporations	1,000	895	12	2013	-
Government bonds in TL		-			2,026,372
		1,361,812			4,521,731
Income accrual on held-to-maturity portfolio		11,530			264,799
Total securities held-to-maturity		1,373,342			4,786,530
Total investment securities		38,259,782			35,941,390

(a) The interest rates applied on these securities are floating quarterly based on interest rates of government bond bids of the government.

(b) Bonds issued by corporations include credit linked notes with a total face value of US\$ 426,111,240 (31 December 2011: US\$ 428,333,333) and a total carrying value of TL 759,020 thousands (31 December 2011: TL 810,571 thousands).

(c) As per the legislation on capital adequacy (Basel II) effective from 1 July 2012, the risk weighting of securities in foreign currencies issued by the Turkish Treasury increased from 0% to 100%. Accordingly, in the current period, the Bank sold a part of its Eurobonds with a total face value of US\$595,638,000 from its held-to-maturity portfolio as per the exception granted by IAS 39 for the sale of securities originally classified under the securities held-to-maturity in cases where the regulatory capital requirement increases.

Interest income from debt and other fixed or floating instruments is reflected in interest on securities, whereas, gains and losses arising from changes in the fair values of available-for-sale assets are deferred as a separate component of equity.

There are no impairment losses on the investment securities as of 30 September 2012 (30 September 2011: TL 67 thousands).

The sale of shares in Visa and Mastercard resulted an income of TL 79,595 thousands in the accompanying income statement as of 30 September 2011.

Government bonds and treasury bills include securities pledged under repurchase agreements with customers amounting to TL 9,274,712 thousands (31 December 2011: TL 12,578,072 thousands).

## 10 Investment securities (continued)

The following table summarizes securities that were deposited as collateral with respect to various banking, insurance and asset management transactions:

	<u>30 September 2012</u>		<u>31 December 2011</u>	
	<u>Face Value</u>	<u>Carrying value (*)</u>	<u>Face Value</u>	<u>Carrying value (*)</u>
Collateralized to foreign banks	13,746,828	14,901,154	11,160,702	11,897,388
Deposited at Istanbul Stock Exchange	2,287,720	3,218,013	6,316,085	7,062,295
Deposited at central banks for repurchase transactions	1,497,582	1,736,699	2,899,219	3,377,536
Deposited at central banks for interbank transactions	1,237,384	1,319,233	1,763,273	1,929,076
Deposited at Clearing Bank (Takasbank)	150,240	187,585	158,241	195,744
Deposited at CBT for foreign currency money market transactions	100,000	102,108	100,000	100,994
Others		<u>29,204</u>		<u>31,027</u>
		<u>21,493,996</u>		<u>24,594,060</u>

(\*) Securities deposited as collateral with respect to various transactions contains securities borrowed under security borrowing agreements amounting to TL 646,886 thousands as of 31 December 2011 (30 September 2012: nil).

## 11 Investments in equity participations

	<u>30 September 2012</u>		<u>31 December 2011</u>	
	<u>Carrying Value</u>	<u>Ownership %</u>	<u>Carrying Value</u>	<u>Ownership %</u>
IMKB Takasbank AŞ	11,962	5.83	11,962	5.83
Others	<u>13,106</u>		<u>12,631</u>	
	<u>25,068</u>		<u>24,593</u>	

The liquidations of Trifoi Investment SRL and Garanti Broker Asigurari BRL were completed in May and September 2011, respectively.

80% shares of a previously consolidated affiliate, Garanti Sigorta AŞ, owned by the Bank was sold to Eureka BV on 21 June 2007. After the sale, the remaining 20% was reclassified as investments in equity participations and accounted for under the equity method of accounting. On 1 October 2007, the legal name of the company changed as Eureka Sigorta AŞ. In the second quarter of 2011, as per the same shareholders' agreement dated 21 June 2007 between the Bank and Eureka BV, the Bank and its affiliates sold their remaining 20% shares of Eureka Sigorta AŞ with a nominal value of TL 12,000 thousands to Eureka BV for EUR 70 millions. A gain of TL 92,784 thousands is recognized under "gain on sale of assets" related to this sale in the accompanying income statement as of 30 September 2011.

At the Bank's board of directors meeting held on 3 June 2009, it was decided to participate in the capital increase of Kredi Garanti Fonu AŞ by TL 4,000 thousands and to subscribe for future capital increases up to TL 4,000 thousands in restructuring of the company to build a three-shareholders structure including the Turkish Union of Chambers and Commodity Exchanges (TOBB), the Small and Medium Size Enterprises Development Organization (KOSGEB) and the banks. As per this decision, the Bank has paid TL 2,000 thousands of its capital commitment of TL 4,000 thousands on 15 October 2009 for the capital increase of Kredi Garanti Fonu AŞ decided on 11 September 2009. The remaining balance was paid in two tranches in July 2011 and September 2012, by TL 1,000 thousands each.

## 11 Investments in equity participations (continued)

Others include “Garanti Konut Finansmanı Danışmanlık Hizmetleri AŞ” which was established as per the decision made during the board of directors meeting of the Bank on 15 September 2007 to provide consultancy and outsourcing services to banks, housing finance and mortgage finance companies. Its legal registration process was completed on 3 October 2007. The Bank owns 100% of the company shares. The share capital of the company amounting TL 750 is fully paid. This company is not consolidated in the accompanying consolidated financial statements as currently it does not have material operations compared to the consolidated performance of the Bank and its affiliates, instead it is recorded under investments in equity participations in “others” above and valued at cost.

IMKB Takasbank AŞ and other equity participations do not have a quoted market price in an active market and other methods of reasonably estimating their values would be inappropriate and impracticable, accordingly they are stated at cost, restated for the effects of inflation in TL units current at 31 December 2005.

Impairment losses charged to the statement of income for the investments in equity participations is TL 445 thousands as of 30 September 2012 (30 September 2011: nil). The cumulative provisions for such impairment losses amounted to TL 3,597 thousands as of 30 September 2012 (31 December 2011: TL 3,152 thousands).

## 12 Tangible assets

Movement in tangible assets from 1 January to 30 September 2012 is as follows:

	<u>1 January</u>	<u>Additions</u>	<u>Effects of Movement in Exchange Rates</u>	<u>Disposals<sup>(*)</sup></u>	<u>30 September</u>
<i>Costs</i>					
Land and buildings	1,239,482	6,883	(4,685)	(161,204)	1,080,476
Furniture, fixture, equipments and motor vehicles	1,544,538	124,920	(7,138)	(55,800)	1,606,520
Leasehold improvements	<u>503,798</u>	<u>33,973</u>	<u>(6,412)</u>	<u>(8,342)</u>	<u>523,017</u>
	3,287,818	165,776	(18,235)	(225,346)	3,210,013
<i>Less: Accumulated depreciation</i>					
Buildings	294,919	17,957	(995)	(25,683)	286,198
Furniture, fixture, equipments and motor vehicles	971,403	106,057	(3,846)	(30,134)	1,043,480
Leasehold improvements	<u>295,707</u>	<u>67,536</u>	<u>(4,704)</u>	<u>(6,580)</u>	<u>351,959</u>
	1,562,029	191,550	(9,545)	(62,397)	1,681,637
<i>Construction in progress</i>	<u>52,938</u>	12,456	(419)	-	<u>64,975</u>
	1,778,727				1,593,351
<i>Impairment in value of tangible assets</i>	<u>(67,959)</u>				<u>(61,445)</u>
	<u>1,710,768</u>				<u>1,531,906</u>

(\*) Due to the reclassification of certain buildings from tangible assets to investment property in other assets, the related costs and accumulated depreciations amounting to TL 157,466 thousands and TL 25,683 thousands, respectively, are included in “disposals” column above as of 30 September 2012.

## 12 Tangible assets (continued)

Movement in tangible assets from 1 January to 31 December 2011 is as follows:

	<u>1 January</u>	<u>Additions</u>	<u>Effects of Movement in Exchange Rates</u>	<u>Disposals</u>	<u>31 December</u>
<i>Costs</i>					
Land and buildings	1,213,337	36,382	10,936	(21,173)	1,239,482
Furniture, fixture, equipments and motor vehicles	1,425,817	251,811	17,612	(150,702)	1,544,538
Leasehold improvements	408,498	100,931	11,146	(16,777)	503,798
	<u>3,047,652</u>	<u>389,124</u>	<u>39,694</u>	<u>(188,652)</u>	<u>3,287,818</u>
<i>Less: Accumulated depreciation</i>					
Buildings	270,625	26,296	478	(2,480)	294,919
Furniture, fixture, equipments and motor vehicles	931,459	119,443	5,362	(84,861)	971,403
Leasehold improvements	211,670	88,180	3,565	(7,708)	295,707
	<u>1,413,754</u>	<u>233,919</u>	<u>9,405</u>	<u>(95,049)</u>	<u>1,562,029</u>
<i>Construction in progress</i>	39,395	17,812	2,334	(6,603)	52,938
	<u>1,673,293</u>				<u>1,778,727</u>
<i>Impairment in value of tangible assets</i>	(88,633)				(67,959)
	<u>1,584,660</u>				<u>1,710,768</u>

Depreciation expense for the nine-month period ended 30 September 2012 amounts to TL 191,550 thousands (30 September 2011: TL 173,192 thousands).

Assessment of the independent appraiser firms have been taken into consideration in the determination of the impairment losses provided for land and buildings. As of 30 September 2012, land and buildings at a total net book value before impairment of TL 344,652 thousands (31 December 2011: TL 422,815 thousands) have been impaired by TL 58,811 thousands (31 December 2011: TL 67,959 thousands).

## 13 Goodwill

As of 30 September 2012, goodwill arises from the direct acquisitions of Garanti Yatırım Menkul Kıymetler AŞ, Garanti Finansal Kiralama AŞ, Garanti Emeklilik ve Hayat AŞ and Garanti Faktoring Hizmetleri AŞ consisting of the excesses of the total acquisition costs over fair values of the net assets of these consolidated entities at the dates of their acquisition as follows:

	<u>30 September 2012</u>	<u>31 December 2011</u>
Garanti Yatırım Menkul Kıymetler AŞ	20,984	20,984
Garanti Faktoring Hizmetleri AŞ	6,697	6,697
Garanti Finansal Kiralama AŞ	5,233	5,233
Garanti Emeklilik ve Hayat AŞ	34	34
	<u>32,948</u>	<u>32,948</u>
Impairment of goodwill	-	-
	<u>32,948</u>	<u>32,948</u>

Impairment losses when necessary are provided for decrease in the net asset value of the consolidated entities by assessing their internal and external resources.

## 14 Deposits from banks

Deposits from banks comprise the following:

	<i>30 September</i> <u>2012</u>	<i>31 December</i> <u>2011</u>
Payable on demand	843,125	827,375
Term deposits	<u>3,913,368</u>	<u>2,260,100</u>
	4,756,493	3,087,475
Expense accrual on deposits from banks	<u>8,832</u>	<u>9,335</u>
	<u>4,765,325</u>	<u>3,096,810</u>

Deposits from banks include both TL accounts amounting TL 1,080,477 thousands (31 December 2011: TL 673,380 thousands) and foreign currency accounts amounting TL 3,676,016 thousands (31 December 2011: TL 2,414,095 thousands) in total. As of 30 September 2012, interest rates applicable to TL bank deposits and foreign currency bank deposits vary within ranges of 4%-15% and 1%-9% (31 December 2011: 6%-13% and 1%-8%), respectively.

## 15 Deposits from customers

Deposits from customers comprise the following:

	<i>30 September</i> <u>2012</u>			<i>31 December</i> <u>2011</u>
	<u><i>Demand</i></u>	<u><i>Time</i></u>	<u><i>Total</i></u>	<u><i>Total</i></u>
Foreign currency	9,320,615	31,044,038	40,364,653	40,418,155
Saving	3,487,995	30,609,048	34,097,043	30,269,601
Commercial	4,293,738	12,820,873	17,114,611	15,730,611
Public and other	<u>2,621,922</u>	<u>304,380</u>	<u>2,926,302</u>	<u>3,288,491</u>
	19,724,270	74,778,339	94,502,609	89,706,858
Expense accrual on deposits from customers	<u>31,523</u>	<u>421,098</u>	<u>452,621</u>	<u>432,136</u>
	<u>19,755,793</u>	<u>75,199,437</u>	<u>94,955,230</u>	<u>90,138,994</u>

As of 30 September 2012, interest rates applicable to TL deposits and foreign currency deposits vary within the ranges of 4%-12% and 1%-12% (31 December 2011: 6%-13% and 1%-8%), respectively.

## 16 Obligations under repurchase agreements and money market fundings

The Bank and its affiliates raise funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates.

Obligations under repurchase agreements and money market fundings comprise the following:

	<i>30 September</i> <u>2012</u>	<i>31 December</i> <u>2011</u>
Obligations under repurchase agreements	8,093,807	11,738,157
Money market fundings	-	-
	<u>8,093,807</u>	<u>11,738,157</u>

## 16 Obligations under repurchase agreements and money market fundings (continued)

Assets sold under repurchase agreements are further detailed as follows:

	<u>Carrying value</u>	<u>Fair value of underlying assets</u>	<u>Carrying amount of corresponding liabilities</u>	<u>Range of repurchase dates</u>	<u>Repurchase price</u>
<b><u>30 September 2012</u></b>					
Financial assets at fair value through profit or loss	5,013	5,013	5,052	Oct'12	5,052
Investment securities	<u>9,274,712</u>	<u>9,274,712</u>	<u>8,088,755</u>	Oct'12-Oct'13	<u>8,125,901</u>
	<u>9,279,725</u>	<u>9,279,725</u>	<u>8,093,807</u>		<u>8,130,953</u>
<b><u>31 December 2011</u></b>					
Financial assets at fair value through profit or loss	2,036	2,036	2,010	Jan'12	2,010
Investment securities	<u>12,578,072</u>	<u>12,585,355</u>	<u>11,736,147</u>	Jan'12-May'14	<u>11,832,096</u>
	<u>12,580,108</u>	<u>12,587,391</u>	<u>11,738,157</u>		<u>11,834,106</u>

The proceeds from the sale of securities under repurchase agreements are treated as liabilities and recorded as obligations under repurchase agreements. As of 30 September 2012, the maturities of the obligations varied from one day to 13 months and interest rates varied between 1%-10% (31 December 2011: 1%-13%). In general the carrying values of such assets are more than the corresponding liabilities due to the margins set between the parties, since such funding is raised against assets collateralized.

Expense accrual on obligations under repurchase agreements and money market fundings amounting to TL 14,732 thousands (31 December 2011: TL 24,909 thousands) is included in the carrying amount of corresponding liabilities.

## 17 Loans and advances from banks and other institutions

Loans and advances from banks and other institutions comprise the following:

	<u>30 September 2012</u>	<u>31 December 2011</u>
<b><u>Short-term borrowings</u></b>		
Domestic banks	1,302,751	1,443,306
Foreign banks	<u>8,270,721</u>	<u>7,817,633</u>
	9,573,472	9,260,939
<b><u>Long-term debts</u></b>		
Short-term portion	4,258,677	2,933,163
Medium and long-term portion	<u>11,439,548</u>	<u>11,837,417</u>
	15,698,225	14,770,580
Expense accrual on loans and advances from banks and other institutions	<u>283,527</u>	<u>294,030</u>
	<u>25,555,224</u>	<u>24,325,549</u>

As of 30 September 2012, loans and advances from banks and other institutions included various promissory notes amounting to TL 226,719 thousands in total with latest maturity by 2013 (31 December 2011: TL 441,188 thousands with latest maturity by 2012).



## 17 Loans and advances from banks and other institutions (continued)

As of 30 September 2012, short-term borrowings included two one-year-syndicated-loan facilities to be utilized for general trade finance purposes including export and import contracts in two tranches of (i) US\$ 307,250,000 and EUR 768,113,250 with rates of Libor + 1.45% and Euribor + 1.45% per annum with the participation of 48 banks from 20 countries (equivalent of TL 2,295,438 thousands), (ii) US\$ 233,587,500 and EUR 576,250,000 with the rates of Libor + 1% and Euribor + 1% per annum with the participation of 30 banks from 16 countries (equivalent of TL 1,727,537 thousands).

Long-term debts comprise the following:

	30 September 2012					31 December 2011
	Interest rate%	Latest maturity	Amount in original currency	Short term portion	Medium and long term portion	Medium and long term debts
DPR Securitisation-XIV	3	2026	US\$ 400 millions	-	708,800	-
Deutsche Bank AG	11-13	2017	TL 701 millions	-	701,210	701,210
DPR Securitisation-VIII	1	2017	US\$ 280 millions	99,186	396,755	495,883
DPR Securitisation-XIII	2	2016	US\$ 225 millions	-	398,505	419,349
DPR Securitisation-IX	2	2018	EUR 169 millions	9,118	376,134	406,829
EIB I	1-4	2022	US\$ 208 millions	33,891	334,206	379,973
DPR Securitisation-VI <sup>(*)</sup>	1	2016	US\$ 131 millions	61,730	169,772	227,421
DPR Securitisation-XII	2	2016	EUR 100 millions	37,993	189,967	242,160
OPIC	3	2019	US\$ 100 millions	18,606	158,594	186,500
DPR Securitisation-V <sup>(*)</sup>	1	2013	US\$ 98 millions	141,971	31,374	131,982
DPR Securitisation-XII	2	2022	EUR 75 millions	8,531	162,439	181,620
DPR Securitisation-XII	2	2022	EUR 75 millions	8,531	162,439	181,620
DPR Securitisation-IV	1	2013	US\$ 95 millions	140,253	27,903	117,358
DPR Securitisation-VIII	1	2017	US\$ 80 millions	28,339	113,359	141,681
DPR Securitisation-VIII	1	2017	US\$ 80 millions	28,339	113,359	141,681
DPR Securitisation-XIII	2	2016	EUR 50 millions	-	113,980	121,080
EBRD-II	1-3	2025	US\$ 53 millions	24,157	69,623	85,982
EBRD-IV	2	2017	EUR 40 millions	-	91,184	-
DPR Securitisation-VII	1	2014	US\$ 38 millions	29,515	36,898	62,134
EBRD-I	3	2014	EUR 22 millions	26,247	22,842	32,354
EBRD-III	3	2015	EUR 20 millions	13,025	32,566	41,513
DPR Securitisation-VIII	1	2015	US\$ 23 millions	14,754	25,823	38,829
EIB II	1	2012	EUR 100 millions	230,850	-	-
DPR Securitisation-VI	1	2013	US\$ 90 millions	155,572	-	111,864
DPR Securitisation-III	1	2013	US\$ 41 millions	73,006	-	51,241
Others				<u>3,075,063</u>	<u>7,001,816</u>	<u>7,337,153</u>
				<u>4,258,677</u>	<u>11,439,548</u>	<u>11,837,417</u>

<sup>(\*)</sup> On 9 May 2009, the Bank completed a securitization (the "DPR Securitisation-X") transaction by issuance of certificates; a tranche of US\$ 225 millions with a maturity of four years to refinance the debt of US\$ 250 millions obtained in November 2005, as explained in subsequent paragraphs below, on an unwrapped basis with no cash effect on the consolidated financial statements.

<sup>(\*\*)</sup> On 8 September 2010, the Bank completed a securitization (the "DPR Securitisation-XI") transaction by issuance of certificates; a tranche of US\$ 214.5 millions with a maturity of six years to refinance the debt of US\$ 225 millions obtained in May 2006, as explained in subsequent paragraphs below, on an unwrapped basis with no cash effect on the consolidated financial statements.

## **17 Loans and advances from banks and other institutions (continued)**

In August 2012, the Bank completed a securitization (the “DPR Securitization-XIV”) transaction by issuance of certificates, a tranche of US\$ 400 millions with 14 years maturity, granted directly by Overseas Private Investment Corporation (OPIC) to finance credit needs of SMEs across Turkey.

In December 2011, the Bank signed a credit agreement with European Bank for Reconstruction and Development (EBRD) (EBRD-IV) for a loan in the amount of EUR 40 millions with a maturity of five years for financing of small and medium size enterprises in agribusiness.

In June 2011, the Bank completed a securitization (the “DPR Securitization-XIII”) transaction, arranged by SMBC Nikko Securities America Inc., WestLB AG and Wells Fargo Securities LLC in the amount of US\$ 225 millions with a maturity of five years and by Standard Chartered Bank in the amount of EUR 50 millions with five years maturity.

In December 2010, the Bank completed a securitization (the “DPR Securitization-XII”) transaction, with the involvement of European Investment Bank (EIB) in the amount of EUR 75 millions with 12 years maturity, by EBRD in the amount of EUR 75 millions with 12 years maturity, by West LB in the amount of EUR 100 millions with five years maturity.

In September 2010, the Bank signed a loan agreement with EBRD (EBRD-III) in the amount of EUR 50 millions which consists of 2 tranches for the financing of SMEs. The first tranche in the amount of EUR 20 millions with a maturity of five years has been financed by EBRD while the second tranche in the amount of EUR 30 millions with one year maturity by Standard Chartered Bank.

In June 2010, the Bank drew a second loan tranche worth of US\$ 60,050,000 (equivalent of EUR 50 millions) with a maturity of 12 years, within the EUR 150,000,000 framework agreement signed with EIB (EIB I) on 25 November 2009. The fund will be used for the financing of the investment and working capital needs of SMEs located in Turkey. In December 2009, the Bank had been granted another funding by EIB again for the financing of SME loans in the amount of US\$ 147,680,000 (equivalent of EUR 100 millions) with a maturity of 12 years.

In May 2010, the Bank signed a credit agreement with EBRD (EBRD-II) for a loan in the amount of US\$ 60 millions which consists of two tranches. The loan, which is funded directly by EBRD with the 5-year tranche of US\$ 48 millions and by the Clean Technology Fund which is established by the International Bank for Reconstruction and Development (the World Bank) in consultation with other international financial institutions, developed and developing countries and development partners, with the 15-year tranche of US\$ 12 millions, will be utilized for the financing of the energy efficiency needs of the small sized enterprises.

In December 2009, the Bank signed a credit agreement with OPIC for a facility for the financing of SMEs in the amount of US\$ 100 millions with a maturity of ten years.

In November 2009, the Bank signed a credit agreement with EBRD (EBRD-I) for a facility of EUR 50 millions. The facility, which is comprised of 3 tranches, will be on lent to small-sized enterprises. EUR 23.4 millions of the facility is funded from EBRD's own sources and has a maturity of five year while EUR 14.5 millions of the facility is funded by the Netherlands Development Finance Company (FMO) with a maturity of three years. EUR 12.1 millions of the facility is provided by a group of 6 banks from 4 countries with a maturity of one year.

In August 2008, the Bank completed a securitization (the “DPR Securitization-IX”) transaction by issuance of certificates; a tranche of EUR 200 millions with ten years maturity from EIB.

## **17 Loans and advances from banks and other institutions (continued)**

In December 2007, one of the Bank's consolidated affiliates signed a loan agreement with EIB (EIB II) in the amount of EUR 100 millions with a maturity of five years.

In June 2007, the Bank completed a securitization (the "DPR Securitization-VIII") transaction by issuance of certificates; three tranches of US\$ 550 millions with ten years maturity wrapped by Ambac Assurance Corp., Financial Guaranty Insurance Corp. and XL Capital Assurance and a tranche of US\$ 50 millions with eight years maturity and no financial guarantee.

In January 2007, the Bank borrowed TL 435 millions from Deutsche Bank AG, London with a maturity of ten years at 12.93% annual fixed interest rate through a secured financing transaction. Accordingly, the Bank pledged US\$ 300 millions of cash collateral to Deutsche Bank AG, London. Subsequently, the Bank has entered into two more secured financing transactions with the same counterparty under the same collateral conditions and borrowed in total TL 266 millions in two separate transactions on 28 June and 3 July 2007 with maturity of ten years for each and pledged US\$ 100 millions of cash collateral for each. The funding costs are 11.30% and 11.35%, respectively. The cash collaterals earn annually US\$ libor floating interest rate.

In December 2006, the Bank completed a securitization (the "DPR Securitization-VII") transaction by issuance of certificates: US\$ 400 millions tranche with a maturity of ten years and US\$ 100 millions tranche with a maturity of eight years. Both of the series were issued on an unwrapped basis.

In May 2006, the Bank completed a securitization (the "DPR Securitization-VI") transaction by issuance of certificates: Euro 300 millions with a guarantee issued by MBIA Insurance Corp. with maturity of five years, US\$ 300 millions with no financial guarantee and a maturity of seven years and US\$ 225 millions with a guarantee issued by Ambac Assurance Corp. with maturity of ten years.

In November 2005, the Bank completed a securitization (the "DPR Securitization-V") transaction by issuance of certificate: US\$ 150 millions with a guarantee issued by CIFG Inc. with a maturity of seven years, US\$ 250 millions with a guarantee issued by XL Capital Assurance with a maturity of eight years and US\$ 125 millions with no financial guarantee and a maturity of eight years. The XL Capital Assurance wrapped tranche was refinanced by the issuance of unwrapped notes in April 2009, with the maturity profile of the new series being kept identical to the refinanced series.

In September 2005, the Bank completed a securitization (the "DPR Securitisation-IV") transaction by issuance of certificate: US\$ 150 millions with a guarantee issued by Financial Guaranty Insurance Corp. with a final maturity of seven years, US\$ 150 millions with a guarantee issued by Financial Security Assurance with a final maturity of eight years, US\$ 165 millions with a financial guarantee issued by Assured Guaranty Corp. with a final maturity of eight years, US\$ 110 millions with a financial guarantee issued by Radian Asset Assurance Inc. with a final maturity of seven years, US\$ 25 millions with no financial guarantee and a final maturity of 7 years.

In May 2005, the Bank completed a securitization (the "DPR Securitisation-III") transaction by issuance of certificate: US\$ 300 millions with a guarantee issued by MBIA Insurance Corp., a final maturity of eight years.

The DPR securitization is a way of securitizing the Bank's payment orders created via SWIFT MT 103 or similar payment orders in terms of US Dollar, Euro and GBP accepted as derived primarily from the Bank's trade finance and other corporate businesses and paid through foreign depository banks.

## 18 Bonds payable

Bonds payable comprise of the following:

	<u>30 September 2012</u>			<u>31 December 2011</u>
	<u>Latest maturity</u>	<u>Interest rate %</u>	<u>Amount</u>	<u>Amount</u>
Bonds payable of TL 2,173 millions	2013	7.9-10.33	2,024,710	2,044,236
Bonds payable of US\$ 750 millions	2022	5.25	1,316,288	-
Bonds payable of US\$ 600 millions	2017	4.00	1,054,938	-
Bonds payable of US\$ 500 millions	2021	6.25	878,743	924,305
Bonds payable of US\$ 300 millions	2016	3 month libor+2.5	526,335	541,800
Bonds payable of TL 125 millions	2013	9.06	116,729	-
Bonds payable of TL 77 millions	2014	10.99	72,201	-
Bonds payable of TL 100 millions			-	93,643
			5,989,944	3,603,984
Expense accrual on bonds payable			169,866	138,072
			<u>6,159,810</u>	<u>3,742,056</u>

The total face value of the bills issued by the Bank in domestic market reached to TL 2,173 millions as of 30 September 2012. The issuances are authorized by the Turkish Capital Markets Board.

In September 2012, the Bank issued US\$ 750 million 10-year fixed-rate notes with a maturity date of 13 September 2022 and a coupon rate of 5.25% and US\$ 600 million 5-year fixed-rate notes with a maturity date of 13 September 2017 and a coupon rate of 4.00% in the international markets.

In July 2012, one of the Bank's consolidated affiliates issued bills with a total face value of TL 125,000 thousands, interest rate of 9.06% and a maturity of 178 days.

In May 2012, one of the Bank's consolidated affiliates issued two-year-floating-rate notes with a total face value of TL 77,201 thousands, a maturity date of 8 May 2014 and a coupon rate of 11.30% in domestic market.

In August 2011, one of the Bank's consolidated affiliates issued bills with a total face value of TL 100,000 thousands, interest rate of 8.75% and a maturity 179 days. Such bills matured in January 2012.

In April 2011, the Bank issued US\$ 500 million 10-year fixed-rate notes with a maturity date of 20 April 2021 and coupon rate of 6.25% and US\$ 300 million 5-year floating-rate notes with a maturity date of 20 April 2016 and a coupon rate of 3-month libor + 2.50% in the international markets.

The Bank and/or its consolidated affiliates repurchased some of the Group's own Turkish Lira securities with a total face value of TL 138,733 thousands (31 December 2011: TL 410,950 thousands) and foreign currency securities with a total face value of TL 5,289 thousands (31 December 2011: TL 18,716 thousands), and netted off such securities in the accompanying consolidated financial statements as of 30 September 2012.

## 19 Subordinated liabilities

Subordinated liabilities comprise of the following:

	30 September 2012			31 December 2011
	<i>Latest maturity</i>	<i>Interest rate %</i>	<i>Amount</i>	<i>Amount</i>
Subordinated debt of EUR 50 millions	2021	euribor+3.5	113,980	121,080
Subordinated deposits	2021	4.42-7	30,313	39,734
Subordinated debt of US\$ 500 millions			-	932,452
			144,293	1,093,266
Expense accrual on subordinated liabilities			453	28,824
			<u>144,746</u>	<u>1,122,090</u>

As of 30 September 2012, subordinated deposits obtained by one of the Bank's consolidated affiliates amounted approximately to EUR 13 millions (equivalent of TL 30,313 thousands) (31 December 2011: EUR 16 millions, equivalent of TL 39,734 thousands).

On 23 February 2009, the Bank had obtained a 12-year subordinated loan of EUR 50 millions due March 2021 from Proparco (Societe de Promotion et de Participation pour la Cooperation Economique SA) a company of the French Development Agency Group, with an interest of Euribor+3.5% and a repayment option for the Bank at the end of the seventh year.

On 5 February 2007, the Bank had obtained a 10-year subordinated fixed-rate notes of US\$ 500 millions due in February 2017 with a repayment option for the Bank at the end of the fifth year. The Bank repaid this debt benefiting from its early repayment option on 6 February 2012 following the necessary permissions received from the BRSA.

## 20 Taxation

In Turkey, corporate income tax is levied at the rate of 20% on the statutory corporate income tax base, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes.

Dividends paid to the resident institutions and the institutions working through local offices or representatives in Turkey are not subject to withholding tax. As per the decisions no. 2009/14593 and 2009/14594 of the Council of Ministers published in the Official Gazette no. 27130 dated 3 February 2009, certain duty rates included in the articles no. 15 and 30 of the new Corporate Tax Law no. 5520 are revised. Accordingly, the withholding tax rate on the dividend payments other than the ones paid to the nonresident institutions generating income in Turkey through their operations or permanent representatives and the resident institutions, is 15%. In applying the withholding tax rates on dividend payments to the nonresident institutions and the individuals, the withholding tax rates covered in the related Double Tax Treaty Agreements are taken into account. Appropriation of the retained earnings to capital is not considered as profit distribution and therefore is not subject to withholding tax.

Under the Turkish taxation system, tax losses can be carried forward to offset against future taxable income for up to five years. Tax losses cannot be carried back to offset profits from prior years. There is no procedure for a final and definite agreement on tax assessments. Companies file their tax returns within four months following the end of the accounting year to which they relate. Tax returns and accounting records are open for five years from the beginning of the year that follows the date of filing during which time the tax authorities have the right to audit the tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

## 20 Taxation (continued)

In Turkey, the tax legislation does not permit a parent company and its affiliates to file a consolidated tax return. Therefore, the taxation charge, as reflected in the accompanying consolidated financial statements, represents the total amount of the taxation charge of each affiliate.

### *Investment allowance*

The Temporary Article 69 added to the Income Tax Law no.193 with the Law no.5479, which became effective starting from 1 January 2006, upon being promulgated in the Official Gazette no.26133 dated 8 April 2006, stating that taxpayers can deduct the amount of the investment allowance exemption which they are entitled to according to legislative provisions effective at 31 December 2005 (including rulings on the tax rate) only from the taxable income of 2006, 2007 and 2008. Accordingly, the investment incentive allowance practice was ended as of 1 January 2006. At this perspective, an investment allowance which cannot be deducted partially or fully in three years time was not allowed to be carried forward to the following years and became unavailable as of 31 December 2008. On the other side, the Article 19 of the Income Tax Law was annulled and the investment allowance practice was ended as of 1 January 2006 with effectiveness of the Article 2 and the Article 15 of the Law no.5479 and the investment allowance rights on the investment expenditures incurred during the period of 1 January 2006 and 8 April 2006 became unavailable.

However, on 15 October 2009, the Turkish Constitutional Court decided to cancel the clause no.2 of the Article 15 of the Law no.5479 and the expressions of "2006, 2007, 2008" in the Temporary Article 69 related to investment allowance mentioned above that enables effectiveness of the Law as of 1 January 2006 rather than 8 April 2006, since it is against the Constitution. Accordingly, the time limitations for the carried forward investment allowances that were entitled to in the previous period of mentioned date and the limitations related with the investments expenditures incurred between the issuance date of the Law promulgated and 1 January 2006 were eliminated. According to the decision of Turkish Constitutional Court, cancellation related with the investment allowance became effective with promulgation of the decision on the Official Gazette and the decision of the Turkish Constitutional Court was promulgated in the Official Gazette no.27456 dated 8 January 2010. The expression of "only for the years 2006, 2007 and 2008" in the temporary article no. 69 of the Income Tax Law no. 193 that was cancelled by the decision no.2009/144 of the Turkish Constitutional Court published in the Official Gazette dated 8 January 2010 is revised by the Article 5 of the Law no. 6009 effective with the promulgation on the Official Gazette no.27659 dated 1 August 2010. As per the new regulation, the investment allowances that cannot be benefited and transferred to future periods due to insufficient income level of the relevant year, can be used without any year limitation, however the investment allowance amount to be considered in the determination of taxable income, will not exceed 25% of the income of the relevant year. In addition to this, it is also agreed that the corporate tax rate for the companies to benefit from investment allowance will be the current applicable tax rate (20%) instead of 30%. However, the statement of "However the investment allowance amount to be considered in the determination of taxable income, will not exceed 25% of the relevant income" in the temporary article no.69 of the Law no.6009 has been cancelled by the decision of the Constitutional Court, as this statement is decided to be against the Constitution, dated 9 February 2012, E:2010/93, K:2012/9 (decision for abolishing) as announced in the Official Gazette no.28208, on 18 February 2012.

According to the decision mentioned above, the investment allowances carried forward to the year 2006 due to the lack of taxable income and the investment allowances earned through the investments started before 1 January 2006 and continued after that date constituting economic and technical integrity will be used not only in 2006, 2007 and 2008, but also in the following years. In addition, 40% of investment expenditures that are realized between 1 January 2006 and 8 April 2006, within the context of the Article 19 of the Income Tax Law will have the right for investment allowance exemption.

## **20 Taxation (continued)**

### *Tax applications for foreign branches*

#### *NORTHERN CYPRUS*

According to the Corporate Tax Law of the Turkish Republic of Northern Cyprus no.41/1976 as amended, the corporate earnings (including foreign corporations) are subject to a 10% corporate tax and 15% income tax. This tax is calculated based on the income that the taxpayers earn in an accounting period. Tax base is determined by modifying accounting income for certain exclusions and allowances for tax purposes. The corporations cannot benefit from the rights of offsetting losses, investment incentives and amortisation unless they prepare and have certified their statements of financial position, statements of comprehensive income and accounting records used for tax calculations by an auditor authorized by the Ministry of Finance. In cases where it is revealed that the earnings of a corporation were not subject to taxation in prior years or the tax paid on such earnings are understated, additional taxes can be charged in the next 12 years following that the related taxation period. The corporate tax returns are filed in the tax administration office in April after following the end of the accounting year to which they relate. The corporate taxes are paid in two equal installments in May and October.

#### *MALTA*

The corporate earnings are subjected to a 35% corporate tax. This rate is determined by modifying accounting income for certain exclusions and allowances for tax purposes. The earnings of the foreign corporations' branches in Malta are also subject to the same tax rate that the resident corporations in Malta are subject to. The earnings of such branches that are transferred to their head offices are not subject to an additional tax. The prepaid taxes are paid in April, August and December in the related years. The prepayments can be deducted from the annual corporate tax calculated for the whole year earnings. The excess part of the corporate tax that is not covered by such prepayments is paid to the tax office in September.

#### *LUXEMBOURG*

The corporate earnings are subject to a 21% corporate tax. This rate is determined by modifying accounting income for certain exclusions and allowances for tax purposes. An additional 5% of the calculated corporate income tax is paid as a contribution to unemployment insurance fund. 3% of the taxable income is paid as municipality tax addition to corporate tax, the municipalities have the right to increase this rate up to 200-350%. The municipality commerce tax, which the Bank's Luxembourg branch subject to currently is applied as 9% of taxable income. The tax returns do not include any tax amounts to be paid. The tax calculations are done by the tax office and the amounts to be paid are declared to corporates through official letters called Note. The amounts and the payment dates of prepaid taxes are determined and declared by the tax office at the beginning of the taxation period. The corporations whose head offices are outside Luxembourg, are allowed to transfer the rest of their net income after tax following the allocation of 5% of it for legal reserves, to their head offices.

### *Tax applications for foreign affiliates*

#### *THE NETHERLANDS*

In the Netherlands, corporate income tax is levied at the rate of 20% for tax profits up to EUR 200,000 and 25% for the excess part over this amount on the worldwide income of resident companies, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes for the related year. A unilateral decree for the avoidance of double

## 20 Taxation (continued)

taxation provides relief for resident companies from Dutch tax on income, such as foreign business profits derived through a permanent establishment abroad, if no tax treaty applies. There is an additional dividend tax of 5% computed only on the amounts of dividend distribution at the time of such payments. Under the Dutch taxation system, tax losses can be carried forward for nine years to offset against future taxable income. Tax losses can be carried back to one prior year. Companies must file their tax returns within nine months following the end of the tax year to which they relate, unless the company applies for an extension (normally an additional nine months). Tax returns are open for five years from the date of final assessment of the tax return during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings. The corporate income tax rate for the Germany branch is 30%.

### *RUSSIA*

The applicable corporate tax rate in Russia is 20% (2% federal and 18% regional). The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open for a longer period.

### *ROMANIA*

The applicable corporate tax rate in Romania is 16%. The taxation system in Romania is continuously developing and is subject to varying interpretations and constant changes, which may become rarely retroactive. In Romania, tax periods remain open for tax audits for seven years. Tax losses can be carried forward to offset against future taxable income for seven years.

The total provision for taxes on income is different than the amount computed by applying the Turkish statutory tax rate to income before provision for taxes as shown in the following reconciliation:

	<i>30 September</i>		<i>30 September</i>	
	<u>2012</u>	<u>%</u>	<u>2011</u>	<u>%</u>
Taxes on income per statutory tax rate	657,029	20.00	622,405	20.00
Provision for general banking risks	16,400	0.50	18,000	0.58
Disallowable expenses	11,156	0.34	12,035	0.39
Income items exempt from tax or subject to different tax rates	(16,994)	(0.52)	(20,092)	(0.65)
Others	<u>17,226</u>	<u>0.53</u>	<u>3,433</u>	<u>0.11</u>
Taxation charge	<u>684,817</u>	<u>20.85</u>	<u>635,781</u>	<u>20.43</u>



## 20 Taxation (continued)

The taxation charge is comprised of the following:

	<i>For the nine-month period ended</i> <i>30 September</i> <u>2012</u>	<i>30 September</i> <u>2011</u>
Current taxes	971,697	392,755
Deferred taxes	(286,880)	243,026
Taxation charge	<u>684,817</u>	<u>635,781</u>

The movement of current tax liability is as follows:

	<i>30 September</i> <u>2012</u>	<i>31 December</i> <u>2011</u>
Balance at the beginning of the period	80,437	298,222
Current period taxation charge	971,697	482,355
Current taxes recognised under equity	-	26,599
Less: Corporate taxes paid during the period	(692,513)	(726,739)
Current tax liability	<u>359,621</u>	<u>80,437</u>

In accordance with the related regulation for prepaid taxes on income, such advance payments during the year are being deducted from the final tax liability for the period. Accordingly, the taxation charge on income is not equal to the final tax liability appearing on the statement of financial position.

Deferred tax assets and liabilities are as follows:

	<i>30 September</i> <u>2012</u>	<i>31 December</i> <u>2011</u>
Total deferred tax assets	392,199	233,752
Total deferred tax liabilities	<u>19,389</u>	<u>6,987</u>
Net deferred tax assets	<u>372,810</u>	<u>226,765</u>

Movements in deferred tax assets and liabilities are detailed in the table below:

	<i>Opening</i> <i>balance</i>	<i>Recognized in</i> <i>income</i> <i>statement</i>	<i>Effects of</i> <i>movement in</i> <i>exchange rates</i>	<i>Recognized</i> <i>in equity</i>	<i>Closing</i> <i>balance</i>
<b><u>30 September 2012</u></b>					
Impairment losses on loans	180,236	32,204	336	-	212,776
Discount on miscellaneous receivables	38,623	31,667	-	-	70,290
Short-term employee benefits	30,851	24,847	(71)	-	55,627
Reserve for employee severance indemnity	26,253	3,239	-	-	29,492
Tax losses carried forward	24,245	3,430	-	-	27,675
Impairment of equity participations and tangible assets	15,107	(1,461)	-	-	13,646
Accruals on credit card rewards	8,871	643	-	-	9,514
Tax exemption for leasing business	1,741	(481)	-	-	1,260
Valuation difference on financial assets and liabilities	(58,146)	184,907	(223)	(138,530)	(11,992)
Pro-rata basis depreciation expenses	(12,581)	(3,540)	-	-	(16,121)
Prepaid expenses and promotions	(27,526)	1,589	-	-	(25,937)
Others, net	(909)	9,836	(2,251)	(96)	6,580
Net deferred tax assets	<u>226,765</u>	<u>286,880</u>	<u>(2,209)</u>	<u>(138,626)</u>	<u>372,810</u>

## 20 Taxation (continued)

	<i>Opening balance</i>	<i>Recognized in income statement</i>	<i>Recognized in equity</i>	<i>Closing balance</i>
<b><i>31 December 2011</i></b>				
Impairment losses on loans	121,301	58,935	-	180,236
Discount on miscellaneous receivables	27,386	11,237	-	38,623
Short-term employee benefits	38,958	(8,107)	-	30,851
Reserve for employee severance indemnity	20,538	5,715	-	26,253
Tax losses carried forward	13,400	10,845	-	24,245
Impairment of equity participations and tangible assets	17,589	(2,482)	-	15,107
Accruals on credit card rewards	9,298	(427)	-	8,871
Tax exemption for leasing business	11,959	(10,218)	-	1,741
Pro-rata basis depreciation expenses	(13,847)	1,266	-	(12,581)
Prepaid expenses and promotions	(15,634)	(11,892)	-	(27,526)
Valuation difference on financial assets and liabilities	47,864	(446,399)	340,389	(58,146)
Others, net	(354)	(282)	(273)	(909)
Net deferred tax assets	<u>278,458</u>	<u>(391,809)</u>	<u>340,116</u>	<u>226,765</u>

### *Transfer pricing*

The article no.13 of the Corporate Tax Law describes the issue of transfer pricing under the title of “Disguised Profit Distribution by Way of Transfer Pricing”. “The General Communiqué on Disguised Profit Distribution by Way of Transfer Pricing” published at 18 November 2007, explains the application related issues on this topic.

According to this communiqué, if the taxpayers conduct transactions like purchase and sale of goods or services with the related parties where the prices are not determined according to the arm’s length principle, then it will be concluded that there is a disguised profit distribution by way of transfer pricing. Such disguised profit distributions will not be deducted from the corporate tax base for tax purposes.

As stated in the “7.1 Annual Documentation” section of this communiqué, the taxpayers are required to fill out the “Transfer Pricing, Controlled Foreign Entities and Thin Capitalization” form for the purchase and sale of goods or services conducted with their related parties in a taxation period, attach these forms to their corporate tax returns and submit to the tax offices.

## 21 Other liabilities, accrued expenses and provisions

The principal components of other liabilities, accrued expenses and provisions are as follows:

	<i>30 September</i>	<i>31 December</i>
	<u>2012</u>	<u>2011</u>
Blocked accounts against expenditures of card holders	3,797,887	3,305,990
Payables to insurance and reinsurance companies		
relating to insurance business	3,120,568	2,372,713
Accrued losses on derivatives	987,918	1,214,263
Provision for general banking risks	532,000	450,000
Blocked accounts	487,898	68,858
Short-term employee benefits	280,717	158,203
Unearned income	245,008	88,176
Insurance business related provisions	217,806	159,487
Cash guarantees obtained	213,977	5,491
Withholding taxes	167,857	211,849
Transfer orders	153,143	177,005
Miscellaneous payables	150,773	146,633
Reserve for employee severance indemnity	147,499	130,313
Expense accruals	112,897	71,807
Provision for non-cash loans	100,832	128,043
Payables to suppliers relating to financial lease activities	65,842	117,591
Others	<u>203,660</u>	<u>193,640</u>
	<u>10,986,282</u>	<u>9,000,062</u>

As of 30 September 2012, the other liabilities, accrued expenses and provision include a general provision amounting to TL 532,000 thousands (31 December 2011: TL 450,000 thousands) provided by the Bank in line with conservatism principle considering the circumstances which may arise from any changes in economy or market conditions under the name of provision for general banking risks. The increase in such provisions amounting to TL 82,000 thousands in the first nine months of 2012, was due to the latest adverse developments in the marine sector for the credit risks of customers operating in this sector and recorded as expense in the current period.

*Recognized liability for defined benefit obligations*

### *(i) Defined benefit plan*

As a result of the changes in legislation described below, the Bank will transfer a substantial portion of its pension liability under the Plan to SSF. This transfer, which will be a settlement of the Bank's obligation in respect of the pension and medical benefits transferable to SSF, was originally set to be within three years from the enactment of the New Law in May 2008, however, has been postponed for two years as per the decision of the Council of Ministers published on 9 April 2011 as further explained below. The actual date of the transfer has not been specified yet. However, in the financial statements for the year ended 31 December 2007, the Bank has modified the accounting required by IAS 19 *Employee Benefits* as the Bank believes that it is more appropriate to measure the obligation, in respect of the benefits that will be transferred to SSF, at the expected transfer amount prior to the date on which the transfer and settlement will occur. The expected transfer amount is calculated based on the methodology and actuarial assumptions (discount rate and mortality tables) prescribed in the New Law. As such, this calculation measures the liability to

## **21 Other liabilities, accrued expenses and provisions (continued)**

be transferred at the expected settlement amount i.e., the expected value of the payment to be made to SSF to assume that obligation.

The obligation with respect to excess benefits is accounted for as a defined benefit plan under IAS 19.

### **a) Pension and medical benefits transferable to SSF**

As per the provisional Article no.23 of the Turkish Banking Law no.5411 as approved by the Turkish Parliament on 19 October 2005, pension funds which are in essence similar to foundations are required to be transferred directly to SSF within a period of three years. In accordance with the Banking Law, the actuarial calculation of the liability (if any) on the transfer should be performed regarding the methodology and parameters determined by the commission established by Ministry of Labor and Social Security. Accordingly, the Bank calculated the pension benefits transferable to SSF in accordance with the Decree published by the Council of Ministers in the Official Gazette no. 26377 dated 15 December 2006 (“Decree”) for the purpose of determining the principles and procedures to be applied during the transfer of funds. However the said Article was vetoed by the President and at 2 November 2005 the President initiated a lawsuit before the Turkish Constitutional Court in order to rescind certain paragraphs of the provisional article no.23.

The Bank obtained an actuarial report regarding its obligations at 31 December 2006. This report, which was dated 12 February 2007, is from an actuary, who is registered with the Undersecretariat of the Treasury regarding this Fund in accordance with the Decree. Based on this Decree, the actuarial statement of financial position of the Fund has been prepared using a discount rate of 10.24% and the CSO 1980 mortality table. Based on the actuarial report, the assets of the plan exceed the amount that will be required to be paid to transfer the obligation at 31 December 2006. In accordance with the existing legislation at 31 December 2006, the pension and medical benefits within the social security limits were subject to transfer and the banks were not required to provide any excess social rights and payments.

On 22 March 2007, the Turkish Constitutional Court reached a verdict with regards to the suspension of the execution of the first paragraph of provisional article no.23 of the Turkish Banking Law, which requires the transfer of pension funds to SSF, until the decision regarding the cancellation thereof is published in the Official Gazette. The Constitutional Court stated in its reasoned ruling published in the Official Gazette numbered 26731, dated 15 December 2007 that the reason behind this cancellation was the possible loss of antecedent rights of the members of pension funds. Following the publication of the verdict, the Grand National Assembly of Republic of Turkey (“Turkish Parliament”) worked on the new legal arrangements by taking the cancellation reasoning into account. At 17 April 2008, the New Law has been accepted by the Turkish Parliament and the New Law has been enacted at 8 May 2008 following its publishment in the Official Gazette no 26870. In accordance with the New Law, members of the funds established in accordance with the Social Security Law should be transferred to SSF within three years following its enactment date. The transfers are to take place within the three-year period starting from 1 January 2008. Subsequently, the transfer of the contributors and the persons receiving monthly or regular income and their right-holders from such funds established for employees of the banks, insurance and reinsurance companies, trade chambers, stock markets and unions that are part of these organizations subject to the provisional article 20 of the Social Security Law no.506 to the SSF, has been postponed for two years. The decision was made by the Council of Ministers on 14 March 2011 and published in the Official Gazette no. 27900 dated 9 April 2011 as per the decision of the Council of Ministers, numbered 2011/1559, and as per the letter no. 150 of the Ministry of

## 21 Other liabilities, accrued expenses and provisions (continued)

Labor and Social Security dated 24 February 2011 and according to the provisional article 20 of the Social Security and Public Health Insurance Law no.5510.

On 19 June 2008, the main opposition party Cumhuriyet Halk Partisi (“CHP”) applied to the Constitutional Court for the cancellation of various articles of the Law including the first paragraph of the provisional Article 20. At the meeting of the Constitutional Court on 30 March 2011, it was decided that the article 73 and the first paragraph of the provisional Article 20 added to the law no. 5510 are not contradictory to the Constitutional Law, and accordingly the dismissal of the cancellation request was denied with the majority of votes.

The Bank obtained an actuarial report dated 11 January 2012 from an independent actuary reflecting the principles and procedures on determining the application of transfer transactions in accordance with the New Law. The actuarial statement of financial position of the Fund has been prepared using a discount rate of 9.80% and the CSO 1980 mortality table, and the assets of the plan exceed the amount that would be required to be paid to transfer the obligation at 31 December 2011.

The Bank’s obligation in respect of the pension and medical benefits transferable to SSF has been determined as the value of the payment that would need to be made to SSF to settle the obligation at the date of the statement of financial position in accordance with the related article of the New Law.

The pension disclosures set out below therefore reflect the methodology and actuarial assumptions specified in the New Law. This calculation measures the benefit obligation at the expected transfer amount i.e., the estimated amount the Bank will pay to SSF to assume this portion of the obligation.

The pension benefits are calculated annually, as per the calculation as of 31 December 2011 the present value of funded obligations amounted to TL 90,768 thousands and the fair value of the planned assets amounted to TL 1,233,840 thousands.

	<i>31 December</i> <u>2011</u>
Present value of funded obligations	
- Pension benefits transferable to SSF (obligation measured at the expected transfer amount)	(376,357)
- Medical benefits transferable to SSF (obligation measured at the expected transfer amount)	305,628
- General administrative expenses	<u>(20,039)</u>
	(90,768)
Fair value of plan assets	<u>1,233,840</u>
Asset surplus in the plan <sup>(*)</sup>	<u>1,143,072</u>

<sup>(\*)</sup> Asset surplus in this plan will be used as plan assets of the excess benefit plan.

Plan assets consisted of the following:

	<i>31 December</i> <u>2011</u>
Cash and due from banks	34,964
Securities	1,091,882
Land and buildings	97,750
Other	<u>9,244</u>
	<u>1,233,840</u>

## 21 Other liabilities, accrued expenses and provisions (continued)

### b) Excess benefits not transferable to SSF

The other social rights and payments representing benefits in excess of social security limits are not subject to transfer to SSF. Therefore these excess benefits are accounted for as an ongoing defined benefit plan.

Asset surplus/(shortage) on present value of defined benefit obligation was as follows:

	<i>31 December</i>
	<u>2011</u>
Present value of defined benefit obligations	
- Pension	(264,514)
- Health	(137,859)
Fair value of plan assets (*)	<u>1,143,072</u>
Asset surplus over present value of defined benefit obligation	<u>740,699</u>

(\*) *Plan assets are composed of asset surplus in the plan explained in paragraph a).*

As per the actuarial calculation performed as of 31 December 2011 as detailed above, the asset surplus over the fair value of the plan assets to be used for the payment of the obligations also fully covered the benefits not transferable and still a surplus of TL 740,699 thousands remains. However, the Bank's management, acting prudently, did not consider the health premium surplus amounting to TL 305,628 thousands as stated above and resulted from the present value of medical benefits and health premiums transferable to SSF. However, despite this treatment there was no excess obligation that needed to be provided against as of 31 December 2011.

	<i>31 December</i>
	<u>2011</u>
Asset surplus over present value of defined benefit obligation	740,699
Net present value of medical benefits and health premiums transferable to SSF	<u>(305,628)</u>
Present value of asset surplus/(defined benefit obligation)	<u>435,071</u>

Expenses recognized in the statement of income regarding this benefit plan in the accompanying consolidated statements of comprehensive income for the nine-month period ended 30 September 2012 and 2011 are as follows:

	<i>30 September</i>	<i>30 September</i>
	<u>2012</u>	<u>2011</u>
Total contribution payment	111,364	101,245
Provision for unfunded liability	<u>-</u>	<u>-</u>
	<u>111,364</u>	<u>101,245</u>

Principal actuarial assumptions used were as follows:

	<i>31 December</i>
	<u>2011</u>
	<u>%</u>
Discount rates (*)	9.52
Inflation rates (*)	5.06
Future real salary increase rates	1.5
Medical cost trend rates	40% above inflation
Future pension increase rates (*)	5.06

(\*) The above mentioned rates are effective rates, whereas the rates applied for the calculation differ according to the employees' years in service.

## 21 Other liabilities, accrued expenses and provisions (continued)

Assumptions regarding future mortality are based on published statistics and mortality tables. The average life expectancy of an individual retiring at age 60 is 17 for males, and at age 58 for females is 23.

The sensitivity analysis of defined benefit obligation of excess liabilities were as follows as of 31 December 2011:

<i>% change in defined benefit obligation</i>			
	<i>Pension Benefits</i>	<i>Medical Benefits</i>	<i>Overall</i>
<i>Assumption change</i>	<i>%</i>	<i>%</i>	<i>%</i>
Discount rate +1%	(11.9)	(13.7)	(12.5)
Discount rate -1%	14.9	17.4	15.8
Medical inflation +10% of CPI		8.0	2.7
Medical inflation -10% of CPI		(7.3)	(2.5)

### *Short-term employee benefits*

Movement in the provision for short-term employee benefits are as follows:

	<i>30 September</i>	<i>31 December</i>
	<i>2012</i>	<i>2011</i>
Balance, beginning of the period	158,203	190,508
Payments	(162,601)	(314,949)
Provision for the period	<u>285,115</u>	<u>282,644</u>
Balance, end of the period	<u>280,717</u>	<u>158,203</u>

### *Insurance business related provisions*

Insurance business related provisions are detailed in the table below:

	<i>30 September</i>	<i>31 December</i>
	<i>2012</i>	<i>2011</i>
Reserve for unearned premiums, net	96,875	57,681
<i>Gross</i>	119,280	106,071
<i>Reinsurers' share</i>	(22,405)	(48,390)
Provision for claims, net	37,466	16,770
<i>Gross</i>	48,813	25,179
<i>Reinsurers' share</i>	(11,347)	(8,409)
Life mathematical reserves	<u>83,465</u>	<u>85,036</u>
	<u>217,806</u>	<u>159,487</u>

### *Reserve for employee severance indemnity*

Movement in the reserve for employee severance indemnity is as follows:

	<i>30 September</i>	<i>31 December</i>
	<i>2012</i>	<i>2011</i>
Balance, beginning of the period	130,313	105,425
Reversals and payments	(14,508)	(14,583)
Provision for the period	<u>31,694</u>	<u>39,471</u>
Balance, end of the period	<u>147,499</u>	<u>130,313</u>

## 21 Other liabilities, accrued expenses and provisions (continued)

The computation of the liabilities is based upon the retirement pay ceiling announced by the government. The ceiling amounts applicable for each year of employment are full TL 3,033.98 and full TL 2,731.85 as of 30 September 2012 and 31 December 2011, respectively.

The principal actuarial assumptions are as follows:

	<i>30 September</i> <i>2012<sup>(*)</sup></i>	<i>31 December</i> <i>2011<sup>(*)</sup></i>
	<i>%</i>	<i>%</i>
Discount rates	4.25	4.25
Interest rates	9.52	9.52
Expected rates of salary increases	6.56	6.56
Inflation rates	5.06	5.06

(\*) The above mentioned rates are effective rates, whereas the rates applied for the calculation differ according to the employees' years in service.

### *Provision for non-cash loans*

Movement in the provision for non-cash loans are as follows:

	<i>30 September</i> <i>2012</i>	<i>31 December</i> <i>2011</i>
Balance, beginning of the period	128,043	111,493
Provision for the period, net	<u>(27,211)</u>	<u>16,550</u>
Balance, end of the period	<u>100,832</u>	<u>128,043</u>

## 22 Equity

### *Share capital*

The authorized nominal share capital of the Bank amounted to TL 4,200,000 thousands as of 30 September 2012. However, the shares acquired by one of the Bank's consolidated affiliates with a total nominal value of TL 3,171 thousands as of 30 September 2012, are deducted from the share capital in the accompanying consolidated statement of financial position for presentation purposes.

*Unrealised gains from changes in fair value of available-for-sale assets are detailed as follows:*

	<i>30 September</i> <i>2012</i>	<i>31 December</i> <i>2011</i>
Balance at the beginning of the period	92,778	1,627,351
Net unrealised (losses)/gains from changes in fair value	973,189	(1,535,178)
Related deferred and current income taxes	(185,119)	286,680
Net gains transferred to the statement of comprehensive income on disposal	(54,784)	(358,486)
Related deferred and current income taxes	12,814	72,411
Effect of movements in foreign exchange rates*	<u>(287)</u>	<u>-</u>
Balance at the end of the period	<u>838,591</u>	<u>92,778</u>

\*foreign exchange rate effect is included in other movements in the prior period.

### *Hedging reserve*

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred (see Note 25.4 for the details).



## 22 Equity (continued)

### *Translation reserve*

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations into the functional currency of the Bank which is TL.

### *Legal reserves*

As per the decisions made at the annual general assemblies of the Bank and its affiliates, 5% of the prior year's net income is allocated to legal reserves. The reserves include legal reserves amounting to TL 956,002 thousands (31 December 2011: TL 757,480 thousands) in total.

For the Bank and its Turkish affiliates, the legal reserves are generated by annual appropriations amounting to 5% of the statutory income until such reserves reach 20% of paid-in share capital (first legal reserves). Without limit, a further 10% of dividend distributions in excess of 5% of paid-in share capital appropriated to generate the legal reserves (second legal reserves). The legal reserves are restricted and are not available for distribution as dividends unless they exceed 50% of the share capital.

The Bank's affiliate in Russia allocates legal reserves upto 15% of its authorized capital. To achieve required level, the affiliate annually allocates 5% of its statutory net income. The reserves of the Russian affiliate is intended to cover losses, repayment of bonds, repurchase of shares if no other asset is available, and cannot be used for any other purposes.

The Bank's affiliates in Romania also allocate legal reserves in accordance with the requirements of statutory laws and regulations applicable for each entity. According to the relevant legislation, legal reserves include annual allocations of 5% of the statutory income before tax. According to the relevant legislation, the legal reserve cannot exceed 20% of the share capital.

The Bank's affiliate in the Netherlands is not subject to any legal reserve requirements.

At the annual general assembly meeting of the Bank held on 12 April 2012, it was decided to distribute a dividend of TL 600,000 thousands to shareholders and to allocate TL 153,529 thousands and TL 39,000 thousands to the first and second legal reserves, respectively, from retained earnings.

### *Non-controlling interests*

As of 30 September 2012, net non-controlling interests amount to TL 134,573 thousands (31 December 2011: TL 112,583 thousands). Non-controlling interests are detailed as follows:

	<i>30 September</i>	<i>31 December</i>
	<u>2012</u>	<u>2011</u>
Capital	43,648	43,648
Retained earnings and other reserves	68,947	49,505
Net income for the period	<u>21,978</u>	<u>19,430</u>
	<u>134,573</u>	<u>112,583</u>

## 23 Fair value information

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation and best evidenced by a quoted market price.

The estimated fair values of financial instruments have been determined using available market information by the Bank, and where it exists, appropriate valuation methodologies. However,

## 23 Fair value information (continued)

judgment is necessary required to interpret market data to determine the estimated fair value. While management uses available market information in estimating the fair values of financial instruments, the market information may not be fully reflective of the value that could be realized in the current circumstances.

Management has estimated that the fair value of certain financial assets and liabilities are not materially different than their recorded values except for those of loans and advances to customers and investment securities. These financial assets and liabilities include loans and advances to banks, obligations under repurchase agreements and money market fundings, loans and advances from banks and other institutions, and other short-term assets and liabilities that are of a contractual nature. Management believes that the carrying amount of these particular financial assets and liabilities approximates their fair value, partially due to the fact that it is practice to renegotiate interest rates to reflect current market conditions.

Fair value of loans and advances to customers is TL 98,128,971 thousands (31 December 2011: TL 91,951,558 thousands), whereas the carrying amount is TL 99,508,439 thousands (31 December 2011: TL 92,653,780 thousands) in the accompanying consolidated statement of financial position as of 30 September 2012.

Fair value of investment securities is TL 38,354,038 thousands (31 December 2011: TL 36,174,665 thousands), whereas the carrying amount is TL 38,259,782 thousands (31 December 2011: TL 35,941,390 thousands) in the accompanying consolidated statement of financial position as of 30 September 2012.

The table below analyses financial instruments carried at fair value, by valuation method:

<i><b>30 September 2012</b></i>	<i><b>Level 1</b></i>	<i><b>Level 2</b></i>	<i><b>Level 3</b></i>	<i><b>Total</b></i>
Financial assets at fair value through profit or loss	921,394	219,288	5,393	1,146,075
Accrued gains on derivatives	1,726	872,553	-	874,279
Debt and other instruments available-for-sale	29,480,002	5,053,666	2,352,772	36,886,440
Financial Assets at Fair Value	<u>30,403,122</u>	<u>6,145,507</u>	<u>2,358,165</u>	<u>38,906,794</u>
Accrued losses on derivatives	2,951	984,967	-	987,918
Financial Liabilities at Fair Value	<u>2,951</u>	<u>984,967</u>	<u>-</u>	<u>987,918</u>
<i><b>31 December 2011</b></i>	<i><b>Level 1</b></i>	<i><b>Level 2</b></i>	<i><b>Level 3</b></i>	<i><b>Total</b></i>
Financial assets at fair value through profit or loss	381,391	203	37,677	419,271
Accrued gains on derivatives	4,962	1,050,360	-	1,055,322
Debt and other instruments available-for-sale	25,339,162	2	5,815,696	31,154,860
Financial Assets at Fair Value	<u>25,725,515</u>	<u>1,050,565</u>	<u>5,853,373</u>	<u>32,629,453</u>
Accrued losses on derivatives	95	1,214,168	-	1,214,263
Financial Liabilities at Fair Value	<u>95</u>	<u>1,214,168</u>	<u>-</u>	<u>1,214,263</u>

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

## 24 Commitments and contingencies

In the ordinary course of business, the Bank and its affiliates undertake various commitments and incur certain contingent liabilities that are not presented in the accompanying consolidated financial statements, including letters of guarantee, acceptance credits and letters of credit. Commitments and contingent liabilities comprise the following:

	<i>30 September</i>	<i>31 December</i>
	<u>2012</u>	<u>2011</u>
Letters of guarantee	15,960,040	15,420,399
Letters of credit	6,086,360	6,231,224
Acceptance credits	733,177	515,550
Other guarantees and endorsements	<u>66,723</u>	<u>70,236</u>
	<u>22,846,300</u>	<u>22,237,409</u>

As of 30 September 2012, commitment for unpaid capital of affiliated companies amounts to TL 7,802 thousands (31 December 2011: TL 11,407 thousands).

As of 30 September 2012, commitments for unused credit limits for credit cards, overdrafts, cheques and loans to customers, and commitments for "credit linked notes" amount approximately to TL 28,547,761 thousands (31 December 2011: TL 27,495,547 thousands) in total.

As of 30 September 2012, commitments for the derivative transactions carried out on behalf of customers in the Turkish Derivatives Exchange amount to TL 594,991 thousands (31 December 2011: TL 364,278 thousands) in total.

As of 30 September 2012, the securities acquired under security borrowing transactions include shares with a total market value of TL 9,898 thousands (31 December 2011: EUR 235,360,684 of eurobonds and TL 15,043 thousands of shares) and a total carrying value of TL 9,898 thousands (31 December 2011: TL 737,814 thousands) (31 December 2011: with a latest maturity of July 2028 for eurobonds).

As of 30 September 2012, commitment for purchase and sale of foreign currencies under spot, forwards, swaps, future rate agreements, options and forward agreements for gold trading amounts to TL 56,946,191 thousands (31 December 2011: TL 43,880,483 thousands), approximately 94% of which are due within a year.

The breakdown of outstanding commitments arising from derivatives is presented as follows:

	<u>30 September 2012</u>		<u>31 December 2011</u>	
	<u>Purchases</u>	<u>Sales</u>	<u>Purchases</u>	<u>Sales</u>
Forward contacts for customer dealing activities	1,473,641	825,602	1,990,012	1,350,635
Currency swaps for customer dealing activities	1,221,260	398,521	1,341,241	1,568,451
Options for customer dealing activities	5,207,238	2,611,638	2,678,396	1,327,300
Forward contracts for hedging purposes	1,400,856	1,188,246	891,316	727,222
Currency swaps for hedging purposes	12,579,639	12,092,318	5,296,854	12,232,786
Interest rate swaps and other swap contracts	274,714	1,032,479	208,311	273,197
Currency, interest rate and other options	5,150,447	7,481,461	6,381,186	5,732,878
Currency, interest rate and other futures	83,341	65,560	5,406	59,602
Forward contracts for precious metal trading	256,293	271,129	46,297	250,752
Spot exchange contracts	<u>1,855,494</u>	<u>1,476,314</u>	<u>612,097</u>	<u>906,544</u>
	<u>29,502,923</u>	<u>27,443,268</u>	<u>19,451,116</u>	<u>24,429,367</u>

## **24 Commitments and contingencies (continued)**

The following tables summarize the contractual amounts of the forward, swap, futures and options contracts, with details of remaining periods to maturity. Foreign currency amounts are translated at rates ruling at the date of the statement of financial position. Monetary items denominated in foreign currencies are economically hedged using foreign currency derivative contracts. All gains and losses on foreign currency contracts are recognized in the statement of comprehensive income, except for contracts of cash flow hedges as stated above.

**24 Commitments and contingencies (continued)**

<u>30 September 2012</u>	<i>Notional amount with remaining life of</i>					<u>Total</u>
	<u>Up to 1 month</u>	<u>1 to 3 months</u>	<u>3 to 6 months</u>	<u>6 to 12 months</u>	<u>Over 1 year</u>	
<u>Interest Rate Derivatives</u>						
Interest rate options	-	-	-	319,480	1,490,008	1,809,488
<i>Purchases</i>	-	-	-	159,740	745,004	904,744
<i>Sales</i>	-	-	-	159,740	745,004	904,744
Interest rate swaps	54,629	120,320	42,735	15,898	224,321	457,903
<i>Purchases</i>	28,007	62,851	24,859	7,267	111,306	234,290
<i>Sales</i>	26,622	57,469	17,876	8,631	113,015	223,613
Interest rate futures	-	10,103	-	-	-	10,103
<i>Purchases</i>	-	4,787	-	-	-	4,787
<i>Sales</i>	-	5,316	-	-	-	5,316
<u>Other Derivatives</u>						
Securities, shares and index options	9,925	57,456	3,214	100,204	-	170,799
<i>Purchases</i>	1,494	37,259	1,607	51,453	-	91,813
<i>Sales</i>	8,431	20,197	1,607	48,751	-	78,986
Other forward contracts	488,969	20,033	9,210	9,210	-	527,422
<i>Purchases</i>	217,840	20,033	9,210	9,210	-	256,293
<i>Sales</i>	271,129	-	-	-	-	271,129
Other future contracts	20,392	35,064	6,139	12,279	-	73,874
<i>Purchases</i>	-	13,630	-	-	-	13,630
<i>Sales</i>	20,392	21,434	6,139	12,279	-	60,244
Other swap contracts	782,701	28,223	2,686	31,617	4,063	849,290
<i>Purchases</i>	4,856	24,445	2,686	8,437	-	40,424
<i>Sales</i>	777,845	3,778	-	23,180	4,063	808,866
<u>Currency Derivatives</u>						
Spot exchange contracts	3,331,808	-	-	-	-	3,331,808
<i>Purchases</i>	1,855,494	-	-	-	-	1,855,494
<i>Sales</i>	1,476,314	-	-	-	-	1,476,314
Forward exchange contracts	2,414,176	1,222,723	552,551	463,885	235,010	4,888,345
<i>Purchases</i>	1,442,431	726,502	284,271	269,495	151,798	2,874,497
<i>Sales</i>	971,745	496,221	268,280	194,390	83,212	2,013,848
Currency/cross currency swaps	15,398,961	3,833,278	3,015,121	2,764,560	1,279,818	26,291,738
<i>Purchases</i>	6,352,733	2,065,261	2,470,725	2,143,852	768,328	13,800,899
<i>Sales</i>	9,046,228	1,768,017	544,396	620,708	511,490	12,490,839
Options	6,816,520	4,751,983	3,677,617	2,892,389	331,988	18,470,497
<i>Purchases</i>	3,672,261	2,328,498	1,717,563	1,469,767	173,039	9,361,128
<i>Sales</i>	3,144,259	2,423,485	1,960,054	1,422,622	158,949	9,109,369
Foreign currency futures	-	64,924	-	-	-	64,924
<i>Purchases</i>	-	64,924	-	-	-	64,924
<i>Sales</i>	-	-	-	-	-	-
Subtotal Purchases	13,575,116	5,348,190	4,510,921	4,119,221	1,949,475	29,502,923
Subtotal Sales	15,742,965	4,795,917	2,798,352	2,490,301	1,615,733	27,443,268
Total of Transactions	<u>29,318,081</u>	<u>10,144,107</u>	<u>7,309,273</u>	<u>6,609,522</u>	<u>3,565,208</u>	<u>56,946,191</u>

**24 Commitments and contingencies (continued)**

<u>31 December 2011</u>	<i>Notional amount with remaining life of</i>					<u>Total</u>
	<u>Up to 1 month</u>	<u>1 to 3 months</u>	<u>3 to 6 months</u>	<u>6 to 12 months</u>	<u>Over 1 year</u>	
<i>Interest Rate Derivatives</i>						
Interest rate options	-	-	-	-	888,861	888,861
<i>Purchases</i>	-	-	-	-	888,861	888,861
<i>Sales</i>	-	-	-	-	-	-
Interest rate swaps	51,711	127,736	78,439	19,559	204,063	481,508
<i>Purchases</i>	30,105	34,183	38,420	8,449	97,154	208,311
<i>Sales</i>	21,606	93,553	40,019	11,110	106,909	273,197
Interest rate futures	-	500	-	-	-	500
<i>Purchases</i>	-	62	-	-	-	62
<i>Sales</i>	-	438	-	-	-	438
<i>Other Derivatives</i>						
Securities, shares and index options	60,788	45,826	25,867	37,418	11,230	181,129
<i>Purchases</i>	52,218	26,417	21,834	28,686	5,615	134,770
<i>Sales</i>	8,570	19,409	4,033	8,732	5,615	46,359
Other forward contracts	229,716	56,251	10,612	470	-	297,049
<i>Purchases</i>	31,830	13,512	955	-	-	46,297
<i>Sales</i>	197,886	42,739	9,657	470	-	250,752
<i>Currency Derivatives</i>						
Spot exchange contracts	1,518,641	-	-	-	-	1,518,641
<i>Purchases</i>	612,097	-	-	-	-	612,097
<i>Sales</i>	906,544	-	-	-	-	906,544
Forward exchange contracts	2,451,311	752,281	591,031	904,599	259,963	4,959,185
<i>Purchases</i>	1,333,883	521,522	486,379	362,207	177,337	2,881,328
<i>Sales</i>	1,117,428	230,759	104,652	542,392	82,626	2,077,857
Currency/cross currency swaps	6,136,716	7,117,523	3,150,508	2,675,009	1,359,576	20,439,332
<i>Purchases</i>	2,274,967	841,223	1,411,994	1,728,528	381,383	6,638,095
<i>Sales</i>	3,861,749	6,276,300	1,738,514	946,481	978,193	13,801,237
Options	4,021,097	2,812,858	3,317,677	4,266,782	631,356	15,049,770
<i>Purchases</i>	2,292,627	1,398,283	1,892,654	2,137,104	315,283	8,035,951
<i>Sales</i>	1,728,470	1,414,575	1,425,023	2,129,678	316,073	7,013,819
Foreign currency futures	-	64,508	-	-	-	64,508
<i>Purchases</i>	-	5,344	-	-	-	5,344
<i>Sales</i>	-	59,164	-	-	-	59,164
Subtotal Purchases	6,627,727	2,840,546	3,852,236	4,264,974	1,865,633	19,451,116
Subtotal Sales	7,842,253	8,136,937	3,321,898	3,638,863	1,489,416	24,429,367
Total of Transactions	14,469,980	10,977,483	7,174,134	7,903,837	3,355,049	43,880,483

## **25 Financial risk management disclosures**

This section provides details of the Bank and its affiliates' exposure to risk and describes the methods used by management to control risk. The most important types of financial risk to which the Bank and its affiliates are exposed, are credit risk, liquidity risk, market risk and operational risk.

The nature of the risks and the approach to managing risk differs fundamentally between the trading and non-trading portfolios; section 25.2 contains risk management information related to the trading portfolio and section 25.3 deals with the non-trading portfolio.

### ***Risk management framework***

The Bank's Risk Management Strategy is established as part of a maintainable long term, value adding growth strategy. This strategy involves optimal allocation of economic capital to business lines considering the risk-return balance by measuring risks with the methods in compliance with its activities and national regulations and international standards.

The Bank determines the necessary approaches in order to update, revise, apply and manage its policies set for the proper assessment and management of risks considering changes in conditions.

It is the ultimate responsibility of the top management to apply and improve risk management strategies, policies and procedures that are approved by the board of directors, to inform the board of directors about the important risks the Bank is exposed to, to assess internal control, internal audit and risk reports with regard to the Bank's departments and to eliminate the risks, deficiencies or defects identified in these departments or to take the necessary precautionary actions to prevent those risks, deficiencies and defects, to participate in the determination of risk limits.

The risk management activities are structured under the responsibility of the Bank's board of directors. The top management is responsible to the board of directors for monitoring and managing of risks. Besides, the following departments participate in monitoring of risks coordinately, independent from executive functions; Internal Control, Risk Management, Fraud, Compliance and Internal Audit.

The risks are evaluated on a continuously developing structure that is managed by internationally accepted applications and in compliance with the Bank's policies and procedures and the international and local regulations.

The risks are also managed through risk mitigations using hedging transactions beside measurement, limitation and capital allocation techniques. The data of the Bank and the market are regularly monitored for better risk monitoring and management. As part of limitation of risks, internal limits are also set beside the legal limits. The possible changes in economic conditions and the risks that can be faced under extraordinary conditions are taken into consideration.

In order to ensure the compliance with the rules altered pursuant to the Articles 23, 29 and 31 of the Turkish Banking Law No. 5411 and the Articles 20, 36, 40, 60 and 71 of Regulation on Internal Systems of Banks published in the Official Gazette dated 28 June 2012, the Bank periodically reviews the current written policies and implementation procedures regarding management of each risk encountered in its activities.

The Bank purchased an integrated software system to place better risk management and Basel II applications in order to support and improve risk management activities. The Basel II application has become mandatory for all the banks operating in Turkey effective from 1 July 2012.

## **25 Financial risk management disclosures (continued)**

### *Audit Committee*

The audit committee consists of two members of the board of directors who do not have any executive functions. The audit committee, which was established to assist the board of directors in its auditing and supervising activities, is responsible for:

- Monitoring the effectiveness and adequacy of the Bank's internal control, risk management and internal audit systems, operation of these systems and accounting and reporting systems in accordance with applicable regulations and the integrity of resulting information;
- Performing the preliminary studies required for the election of independent audit firms and regularly monitoring their activities;
- Ensuring that the internal audit functions of consolidated organizations are performed in a consolidated and coordinated manner.

### *Liquidity Risk Management Committee*

- Determining the excess liquidity that the Bank holds in foreign currencies;
- Periodically monitoring the liquidity report and early-warning signals;
- Determining the stress level of the Bank; monitoring internal and external factors that might affect the Bank's liquidity in case of a liquidity crisis;
- Ensuring that the action plan aligned with the Contingency Funding Plan is properly implemented;
- Determining measures required by the Bank's customer confidence, cost of funding and key liquidity increasing strategies, and ensuring internal communication and coordination with regard to the implementation of committee decisions.

### *Other Committees*

Market, credit and operational sub-risk committees have been established in order to facilitate exchange of information and views with the relevant units of the Bank and to promote the use of risk management and internal audit systems within the Bank.

### **25.1 Derivative financial instruments**

The Bank and its affiliates enter into a variety of derivative financial instruments for hedging and risk management purposes. This note describes the derivatives used. Further details of the objectives and strategies in the use of derivatives are set out in the sections of this note on non-trading activities. Details of the nature and terms of derivative instruments outstanding at the dates of the statements of financial position are set out in Note 24. Derivative financial instruments used include swaps, futures, forwards, options and other similar types of contracts whose value changes in response to changes in interest rates, foreign exchange rates and gold prices. Derivatives are individually negotiated over-the-counter contracts. A description of the main types of derivative instruments used is set out below:

#### *Swaps*

Swaps are over-the-counter agreements to exchange future cash flows based upon agreed notional amounts. Most commonly used swaps are currency swaps. The Bank and its affiliates are subject to credit risk arising from the respective counterparties' failure to perform. Market risk arises from the possibility of unfavorable movements in market rates relative to the contractual rates of the contract.



## **25 Financial risk management disclosures (continued)**

### *Futures and forwards*

Futures and forward contracts are commitments to either purchase or sell a designated financial instrument, currency, commodity or an index at a specified future date for a specified price and may be settled in cash or another financial asset. Futures are standardized exchange-traded contracts whereas forwards are individually traded over-the-counter contracts. Initial margin requirements for futures are met in cash or other instruments, and changes in the future contract values are settled daily. Therefore credit risk is limited to the net positive change in the market value for a single day. Futures contracts have little credit risk because the counterparties are clearing houses. Forward contracts result in credit exposure to the counterparty. Futures and forward contracts both result in exposure to market risk based on changes in market prices relative to contracted amounts.

### *Options*

Options are derivative financial instruments that give the buyer, in exchange for a premium payment, the right, but not the obligation, to either purchase from (call option) or sell (put option) to the writer a specified underlying at a specified price on or before a specified date. The Bank enters into foreign exchange, bond, equity index, interest rate options, not only vanilla options but also exotic options. Foreign currency options provide protection against rising or falling currency rates. The Bank as a buyer of over-the-counter options is subject to market risk and credit risk since the counterparty is obliged to make payments under the terms of the contract if the Bank exercises the option. As the writer of over-the-counter options, the Bank is subject to market risk only since it is obliged to make payments if the option is exercised.

### **25.2 Trading activities**

The Bank and its affiliates maintain active trading positions in non-derivative financial instruments. Most of the trading activities are customer driven. In anticipation of customer demand, an inventory of capital market instruments is carried and access to market liquidity is maintained by quoting bid and offer prices to and trading with other market makers. Positions are also taken in the interest rate, foreign exchange, debt and equity markets based on expectations of future market conditions. These activities constitute the proprietary trading business and enable the Bank and its affiliates to provide customers with capital market products at competitive prices. As trading strategies depend on both market-making and proprietary positions, given the relationships between instruments and markets, those are managed in concert to maximize net trading income. Trading activities are managed by type of risk involved and on the basis of the categories of trading instruments held.

#### *Counterparty credit risk*

The Bank and its affiliates' counterparty credit exposure at the date of the statement of financial position from financial instruments held or issued for trading purposes is represented by the fair value of instruments with a positive fair value at that date, as recorded on the statement of financial position. Notional amounts disclosed in the notes to the financial statements do not represent the amounts to be exchanged by the parties to derivatives and do not measure the exposure to credit or market risks. The amounts to be exchanged are based on the terms of the derivatives.

The risk that counterparties to trading instruments might default on their obligations is monitored on an ongoing basis. In monitoring credit risk exposure, consideration is given to trading instruments with a positive fair value and to the volatility of the fair value of trading instruments. To manage the level of credit risk, the Bank and its affiliates deal with counterparties of good credit standing, enter into master netting agreements whenever possible, and when appropriate, obtain collateral. Master netting agreements provide for the net settlement of contracts with the same counterparty in the event of default.

## **25 Financial risk management disclosures (continued)**

### *Market risk*

Market Risk is defined as the losses that the trading portfolio of the Bank may incur due to the risks caused by market price changes (interest rate, equities, foreign exchange and commodity prices), the correlations between market prices and the uncertainty in the volatility levels.

All trading instruments are subject to market risk. The instruments are recognized at fair value, and all changes in market conditions directly affect net trading income.

The Bank and its affiliates manage its use of trading instruments in response to changing market conditions.

The board of directors monitors the effectiveness of risk management systems through audit committee, related other committees and top management, and in the light of various risk reports and the assessments made by the audit committee.

The risk policies and application procedures have been approved by the board of directors and regularly revisited. The market risk is also managed by risk mitigations through hedging transactions beside measuring the risks in compliance with the international standards, limiting such risk and allocating capital accordingly.

Market risks arising from trading portfolios are measured by the Bank as per “standard” and “value at risk (VaR)” methods. The measurements as per the standard method are performed on a monthly basis, and taken into consideration in the calculation of capital adequacy. Whereas, the measurements as per VaR method are performed on a daily basis. VaR is calculated using three different methods, namely historical simulation, monte carlo simulation and parametric methods. The Bank takes the historical VaR results as the basis for the internal management of market risk and limit setting. The calculations made according to other two methods are used for comparison and monitoring purposes. In the VaR calculation, one year historical market data set is used, and 99% confidence interval and one-day holding period (10 days for regulatory capital calculation) are taken into account. In order to test the reliability of the VaR model, back tests are performed. Stress tests and scenario analysis are also applied in order to reflect the effects of prospective severe market fluctuations in the VaR calculations. Beside the VaR limits, the limits on transaction, trader, desk, stop-loss approved by the board of directors for trading portfolio are also applied for limiting the market risk.

The capital requirement for general market risk and specific risks is calculated using the standard method defined by the “Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks” as set out by the BRSA and reported monthly on a bank-only basis and quarterly on a consolidated basis.

### **25.3 Non-trading activities**

Below is a discussion of the various risks the Bank and its affiliates are exposed to as a result of its non-trading activities and the approach taken to manage those risks.

#### *Liquidity risk*

Liquidity risk is defined as the risk that the Bank may not be able to fulfill its payment obligations in a timely manner due to the lack of available cash or cash inflows in quality and in quantity to cover the cash outflows in a complete and timely manner due to imbalances in the cash flows of the Bank and its affiliates.

## 25 Financial risk management disclosures (continued)

In order to manage the liquidity risk, the Bank and its financial affiliates diversify their funding sources considering their short and long term liquidity requirements, through instruments such as customer deposits, repurchase transactions, bond issuances and foreign borrowings. Besides, in order to secure the maturity match between the assets and liabilities, the strategies for maturity extension of funding, exist. The liquidity needs in different currencies are managed through transactions such as currency swaps. In order to meet the cash outflow requirements during crises periods, high-liquid asset reserves are maintained.

In the context of Turkish Lira and foreign currencies liquidity management, the Bank monitors the cash flows regarding assets and liabilities and forecast the required liquidity in future periods. By monitoring stress conditions, necessary measures shall be taken in line with liquidity needs.

There exists a contingency funding plan that includes the mechanisms to prevent a liquidity risk increase under ordinary operations and liquidity crisis scenarios under various conditions and levels of stress. Available liquid sources are determined by considering the liquidity crisis. As per this plan, the liquidity risk is monitored through possible actions and scenarios at various stress levels of liquidity risks and early warning signals.

### *Exposure to liquidity risk*

The calculation method used to measure the banks compliance with the liquidity limit is set by the BRSA. Currently, this calculation is performed on a bank only basis. In November 2006, the BRSA issued a new communiqué on the measurement of liquidity adequacy of banks. The legislation requires the banks to meet minimum 80% liquidity ratio of foreign currency assets/liabilities and minimum 100% liquidity ratio of total assets/liabilities on a weekly and monthly basis effective from June 2007 on a bank-only basis. The Bank's liquidity ratios for the first nine months of 2012 and the year 2011 are as follows:

<b>30 September 2012</b>				
	<u>First Maturity Bracket (Weekly)</u>		<u>Second Maturity Bracket (Monthly)</u>	
	<u>FC</u>	<u>FC + TL</u>	<u>FC</u>	<u>FC + TL</u>
Average (%)	129.89	139.08	98.72	104.29

  

<b>31 December 2011</b>				
	<u>First Maturity Bracket (Weekly)</u>		<u>Second Maturity Bracket (Monthly)</u>	
	<u>FC</u>	<u>FC + TL</u>	<u>FC</u>	<u>FC + TL</u>
Average (%)	135.89	148.57	94.32	109.14

The Bank's banking affiliate in the Netherlands is subject to a similar liquidity measurement, however the Dutch Central Bank requires the bank to have a positive liquidity gap, i.e. the liquidity gap should be greater than zero.

The Bank's banking affiliate in Russia is subject to three levels of liquidity requirement; instant liquidity of minimum 15%, current liquidity of minimum 50% and long-term liquidity of maximum 120%.

The Bank's banking affiliate in Romania calculates the liquidity ratio as a ratio of effective liquidity in local currency equivalent to necessary liquidity in local currency equivalent for several individual time buckets (<1 month, 1-3 months, 3-6 months, 6-12 months, >1 year) and each ratio for each bucket should be >1.

The following table provides an analysis of monetary assets and monetary liabilities of the consolidated entities into relevant maturity groupings based on the remaining periods to repayment:

Demand Accounts	30 September 2012					Total
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 year	
<b>MONETARY ASSETS</b>						
<b>Turkish Lira</b>						
Cash and balances with central banks	-	-	-	-	-	1,059,351
Financial assets at fair value through profit or loss	8,064	7,532	61,000	903,987	4,477	1,033,334
Loans and advances to banks	427,921	230,811	195,345	1,802,333	-	2,786,127
Loans and advances to customers	15,020,526	6,312,844	6,869,590	21,478,493	5,972,386	55,275,225
Accrued gains on derivatives	128,906	174,099	143,332	110,581	1,916	558,834
Other assets	370,321	17,547	38,502	3,853	2,993	4,541,629
Investment securities	288,435	43,300	12,236,140	17,412,438	4,906,409	34,621,602
Deferred tax asset	-	-	-	-	377,063	377,063
Total Turkish Lira monetary assets	15,873,852	6,786,133	19,543,909	41,711,685	10,888,181	100,253,165
<b>Foreign Currency</b>						
Cash and balances with central banks	346,208	-	-	-	-	2,507,076
Financial assets at fair value through profit or loss	7	-	2,044	10,458	6,507	112,741
Loans and advances to banks	1,045,937	480,386	922,547	1,153,226	1,928,870	6,916,420
Loans and advances to customers	2,043,758	3,363,733	7,750,472	15,477,892	15,343,525	44,233,214
Accrued gains on derivatives	67,977	8,586	21,462	50,477	166,943	315,445
Other assets	147,690	7,373	6,614	17,742	3,919	12,339,543
Investment securities	4,700	2,995	90,160	2,588,489	909,380	3,638,180
Deferred tax asset	-	-	-	-	15,136	15,136
Total foreign currency monetary assets	15,677,263	3,863,073	8,793,299	19,298,284	18,359,144	70,077,755
Total Monetary Assets	31,551,115	10,649,206	28,337,208	61,009,969	29,247,325	170,330,920
<b>MONETARY LIABILITIES</b>						
<b>Turkish Lira</b>						
Deposits	36,693,781	7,078,683	1,032,035	3,087	-	53,315,012
Obligations under repurchase agreements and money market fundings	6,123,075	210,157	-	-	-	6,333,232
Loans and advances from banks and other institutions	973,216	53,545	1,089,199	3,002,856	-	5,118,816
Bonds payable	894,408	886,930	361,703	75,155	-	2,218,196
Subordinated liabilities	-	-	-	-	-	-
Accrued losses on derivatives	141,198	68,208	124,403	297,351	1,385	632,545
Other liabilities, accrued expenses and provisions	4,129,501	357,087	176,242	-	-	9,735,477
Total Turkish Lira monetary liabilities	48,955,179	8,654,610	2,783,582	3,378,449	1,385	77,353,278
<b>Foreign Currency</b>						
Deposits	22,374,301	5,218,739	5,240,279	1,459,171	21,391	46,405,543
Obligations under repurchase agreements and money market fundings	308,708	148,252	1,058,303	245,312	-	1,760,575
Loans and advances from banks and other institutions	701,857	2,853,678	8,437,023	5,221,715	3,222,135	20,436,408
Bonds payable	-	-	-	1,591,743	2,349,871	3,941,614
Subordinated liabilities	-	24	34	66,491	78,197	144,746
Accrued losses on derivatives	50,313	16,094	49,318	68,247	171,401	355,373
Other liabilities, accrued expenses and provisions	136,305	77,331	27,724	3,917	185	641,897
Total foreign currency monetary liabilities	23,571,484	8,314,118	14,812,681	8,656,596	5,843,180	73,686,156
Total Monetary Liabilities	72,526,663	16,968,728	17,596,263	12,035,045	5,844,565	151,039,434

Demand accounts	31 December 2011					Total
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 year	
<b>MONETARY ASSETS</b>						
<b>Turkish Lira</b>						
Cash and balances with central banks	-	-	-	-	-	-
Financial assets at fair value through profit or loss	20,329	32,988	52,100	139,037	8,488	1,589,478
Loans and advances to banks	236,087	56,350	305,180	1,805,433	-	290,982
Loans and advances to customers	12,450,879	5,512,141	7,004,294	18,515,422	5,072,307	2,540,319
Accrued gains on derivatives	101,194	147,271	197,182	46,030	126,359	48,248,964
Other assets	306,343	17,652	36,203	2,991	-	618,036
Investment securities	169,430	2,195,202	775,981	25,212,463	2,078,800	3,361,234
Deferred tax asset	-	-	-	-	-	30,455,558
	-	-	-	-	-	200,663
<b>Total Turkish Lira monetary assets</b>	<b>13,284,262</b>	<b>7,961,604</b>	<b>8,370,941</b>	<b>45,721,376</b>	<b>7,285,954</b>	<b>87,305,234</b>
<b>Foreign Currency</b>						
Cash and balances with central banks	-	-	-	-	-	-
Financial assets at fair value through profit or loss	2,889	-	2,447	26,588	15,976	1,840,342
Loans and advances to banks	5,169,654	531,310	1,282,337	327,283	2,891,831	128,289
Loans and advances to customers	2,437,836	4,545,309	7,236,533	14,313,012	15,720,810	12,692,395
Accrued gains on derivatives	0	110,758	91,146	31,862	142,420	44,404,816
Other assets	1,877	31	608	6,509	8,747	437,286
Investment securities	1,706	2	141,245	2,480,332	2,862,546	7,305,429
Deferred tax asset	-	-	-	-	-	5,485,832
	-	-	-	-	-	33,089
<b>Total foreign currency monetary assets</b>	<b>14,929,433</b>	<b>5,187,408</b>	<b>8,754,316</b>	<b>17,185,586</b>	<b>21,642,330</b>	<b>72,327,477</b>
<b>Total Monetary Assets</b>	<b>28,213,695</b>	<b>13,149,012</b>	<b>17,125,256</b>	<b>62,906,962</b>	<b>28,928,285</b>	<b>159,632,712</b>
<b>MONETARY LIABILITIES</b>						
<b>Turkish Lira</b>						
Deposits	32,719,479	6,561,056	1,153,350	4,371	-	47,647,670
Obligations under repurchase agreements	8,340,331	299	-	-	-	8,340,630
Loans and advances from banks	1,342,748	161,805	344,868	3,064,505	701,210	5,615,138
Bonds payable	767,193	-	1,371,442	-	-	2,138,635
Subordinated liabilities	-	-	-	-	-	-
Accrued losses on derivatives	111,391	87,881	374,408	268,945	49,766	892,391
Other liabilities, accrued expenses and provisions	3,477,192	15,288	461,237	44,352	-	7,411,019
	-	-	-	-	-	-
<b>Total Turkish Lira monetary liabilities</b>	<b>46,758,333</b>	<b>6,826,330</b>	<b>3,705,305</b>	<b>3,382,175</b>	<b>750,976</b>	<b>72,045,483</b>
<b>Foreign Currency</b>						
Deposits	20,284,190	5,549,404	4,951,675	1,515,089	167,413	45,588,134
Obligations under repurchase agreements	988,014	1,214,846	-	1,194,667	-	3,397,527
Loans and advances from banks	798,821	1,182,034	8,657,443	5,205,886	2,866,228	18,710,411
Bonds payable	-	-	-	562,616	1,040,805	1,603,421
Subordinated liabilities	-	264	4,692	16,408	1,097,870	1,122,090
Accrued losses on derivatives	-	47,614	19,171	67,741	89,593	321,872
Other liabilities, accrued expenses and provisions	152,985	141,669	5,887	3,046	336	462,204
	-	-	-	-	-	-
<b>Total foreign currency monetary liabilities</b>	<b>22,271,887</b>	<b>8,109,981</b>	<b>13,717,449</b>	<b>8,565,452</b>	<b>5,262,245</b>	<b>71,205,659</b>
<b>Total Monetary Liabilities</b>	<b>69,030,221</b>	<b>14,936,311</b>	<b>17,422,755</b>	<b>11,947,627</b>	<b>6,013,221</b>	<b>143,251,142</b>

## 25 Financial risk management disclosures (continued)

### *Contractual maturity analysis of liabilities according to remaining maturities*

The remaining maturities table of the contractual liabilities includes the undiscounted future cash outflows for the principal amounts of the Bank and its financial affiliates' financial liabilities as per their earliest likely contractual maturities.

30 September 2012

	<i>Carrying Value</i>	<i>Nominal Principal Outflows</i>	<i>Demand</i>	<i>Up to 1 Month</i>	<i>1 to 3 Months</i>	<i>3 to 12 Months</i>	<i>1 to 5 Years</i>	<i>Over 5 Years</i>
Deposits	99,720,555	99,259,102	20,567,395	58,825,383	12,216,681	6,184,632	1,443,804	21,207
Obligations under repurchase agreements and money market fundings	8,093,807	8,079,075	-	6,424,875	357,003	1,052,661	244,536	-
Loans and advances from banks and other Institutions	25,555,224	25,271,697	-	1,619,525	2,859,492	9,353,131	8,217,414	3,222,135
Bonds payable	6,159,810	5,989,944	-	894,407	886,930	360,102	1,658,742	2,189,763
Subordinated liabilities	144,746	144,293	-	-	23	-	66,250	78,020
<b>Total Monetary Liabilities</b>	<b>139,674,142</b>	<b>138,744,111</b>	<b>20,567,395</b>	<b>67,764,190</b>	<b>16,320,129</b>	<b>16,950,526</b>	<b>11,630,746</b>	<b>5,511,125</b>

31 December 2011

	<i>Carrying Value</i>	<i>Nominal Principal Outflows</i>	<i>Demand</i>	<i>Up to 1 Month</i>	<i>1 to 3 Months</i>	<i>3 to 12 Months</i>	<i>1 to 5 Years</i>	<i>Over 5 Years</i>
Deposits	93,235,804	92,794,344	20,329,653	52,758,129	12,020,957	6,020,817	1,497,668	167,120
Obligations under repurchase agreements and money market fundings	11,738,157	11,713,248	-	9,311,695	1,211,683	-	1,189,870	-
Loans and advances from banks and other institutions	24,325,549	24,031,519	-	2,001,104	1,239,850	8,953,148	8,269,981	3,567,436
Bonds payable	3,742,056	3,603,984	-	766,437	-	1,371,442	559,500	906,605
Subordinated liabilities	1,122,090	1,093,266	-	253	2,747	4,557	16,041	1,069,668
<b>Total Monetary Liabilities</b>	<b>134,163,656</b>	<b>133,236,361</b>	<b>20,329,653</b>	<b>64,837,618</b>	<b>14,475,237</b>	<b>16,349,964</b>	<b>11,533,060</b>	<b>5,710,829</b>

### *Market risk*

*Interest rate risk:* The Bank and its affiliates' operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets (including investments) and interest-bearing liabilities mature or reprice at different times or in differing amounts. In the case of floating rate assets and liabilities, the Bank and its affiliates are also exposed to basis risk, which is the difference in repricing characteristics of the various floating rate indices, such as the deposit rate and libor and different types of interest. Treasury activities are aimed at optimizing net interest income, given market interest rate levels consistent with the Bank's business strategies.

In general, as common in current economic environment, the consolidated financial statements are liability sensitive because its interest-earning assets have a longer duration and reprice slightly less frequently than interest-bearing liabilities. This means that in rising interest rate environments, margins earned will narrow as liabilities reprice. However, the actual effect will depend on a number of factors, including the extent to which repayments are made earlier or later than the contracted dates and variations in interest rate sensitivity within repricing periods and among currencies.

**25 Financial risk management disclosures (continued)**

Interest rate derivatives are primarily used to bridge the mismatch in the repricing of assets and liabilities. This is done in accordance with the guidelines established by the Bank's asset-liability management committee.

Some assets have no defined maturities or interest rate sensitivities and are not readily matched with specific liabilities. Those assets are funded through liability pools based on the assets' estimated maturities and repricing characteristics.

Part of the Bank's return on financial instruments is obtained from controlled mismatching of the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates on which the instruments mature.

The following table provides an analysis of interest rate sensitivity of monetary assets and liabilities of the consolidated entities into relevant maturity groupings:

	30 September 2012						
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 year	Non-Interest Bearing	Total
<b>MONETARY ASSETS</b>							
Cash and balances with central banks	616,003	-	-	-	-	2,950,424	3,566,427
Financial assets at fair value through profit or loss	44,313	15,735	72,018	850,951	9,789	153,269	1,146,075
Loans and advances to banks	2,754,568	2,592,119	1,819,303	939,741	4,559	1,592,257	9,702,547
Loans and advances to customers	21,615,749	8,413,448	19,619,632	32,875,240	15,846,300	1,138,070	99,508,439
Other assets	550,222	4,826	-	4,754	6,912	17,188,737	17,755,451
Investment securities	14,622,723	3,298,737	6,987,211	8,196,219	1,739,061	3,415,831	38,259,782
Deferred tax asset	-	-	-	-	-	392,199	392,199
<b>Total Monetary Assets</b>	<b>40,203,578</b>	<b>14,324,865</b>	<b>28,498,164</b>	<b>42,866,905</b>	<b>17,606,621</b>	<b>26,830,787</b>	<b>170,330,920</b>
<b>MONETARY LIABILITIES</b>							
Deposits	61,410,527	12,026,713	7,293,764	982,129	56	18,007,366	99,720,555
Obligations under repurchase agreements and money market fundings	6,424,874	357,003	1,052,661	244,537	-	14,732	8,093,807
Loans and advances from banks and other institutions	5,135,953	3,350,521	8,635,013	5,517,130	2,633,080	283,527	25,555,224
Bonds payable	1,426,008	959,131	359,498	-	3,244,704	170,469	6,159,810
Subordinated liabilities	7,275	1,215	134,649	915	239	453	144,746
Other liabilities, accrued expenses and provisions	-	-	-	-	-	11,365,292	11,365,292
<b>Total Monetary Liabilities</b>	<b>74,404,637</b>	<b>16,694,583</b>	<b>17,475,585</b>	<b>6,744,711</b>	<b>5,878,079</b>	<b>29,841,839</b>	<b>151,039,434</b>
	31 December 2011						
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 year	Non-Interest Bearing	Total
<b>MONETARY ASSETS</b>							
Cash and balances with central banks	1,405,601	-	-	-	-	2,024,219	3,429,820
Financial assets at fair value through profit or loss	98,638	14,693	53,510	106,149	23,363	122,918	419,271
Loans and advances to banks	7,903,452	1,972,303	2,161,962	526,256	-	2,668,741	15,232,714
Loans and advances to customers	17,881,761	12,949,259	16,526,752	27,707,580	16,523,181	1,065,247	92,653,780
Other assets	508,095	1,000	2,498	7,473	9,118	11,193,801	11,721,985
Investment securities	13,139,258	5,380,444	2,690,137	9,735,846	2,423,625	2,572,080	35,941,390
Deferred tax asset	-	-	-	-	-	233,752	233,752
<b>Total Monetary Assets</b>	<b>40,936,805</b>	<b>20,317,699</b>	<b>21,434,859</b>	<b>38,083,304</b>	<b>18,979,287</b>	<b>19,880,758</b>	<b>159,632,712</b>
<b>MONETARY LIABILITIES</b>							
Deposits	54,794,936	12,057,944	6,605,528	1,988,842	139,209	17,649,345	93,235,804
Obligations under repurchase agreements and money market fundings	9,311,696	1,211,683	-	1,189,870	-	24,908	11,738,157
Loans and advances from banks and other institutions	11,458,672	1,770,579	3,464,085	3,495,556	3,842,625	294,032	24,325,549
Bonds payable	1,325,937	-	1,371,442	-	906,605	138,072	3,742,056
Subordinated liabilities	11,466	2,168	980,885	26,099	72,648	28,824	1,122,090
Other liabilities, accrued expenses and provisions	-	-	-	-	-	9,087,486	9,087,486
<b>Total Monetary Liabilities</b>	<b>76,902,707</b>	<b>15,042,374</b>	<b>12,421,940</b>	<b>6,700,367</b>	<b>4,961,087</b>	<b>27,222,667</b>	<b>143,251,142</b>



## 25 Financial risk management disclosures (continued)

The following table indicates the effective interest rates by major currencies for the major components of the consolidated statement of financial position for the first nine-months of 2012 and the year of 2011:

	<i>30 September 2012</i>			
	<i>US\$</i> <i>%</i>	<i>EUR</i> <i>%</i>	<i>TL</i> <i>%</i>	<i>Other</i> <i>Currencies</i> <i>%</i>
<i>Assets</i>				
Loans and advances to banks	1-7	1-6	5-13	1-6
Debt and other fixed or floating income instruments	2-12	3-8	5-21	7-11
Loans and advances to customers	1-14	1-14	7-30	1-53
<i>Liabilities</i>				
<i>Deposits:</i>				
- Foreign currency deposits	1-12	1-7	-	4-7
- Bank deposits	1-7	2-5	5-9	5-7
- Saving deposits	-	-	4-12	-
- Commercial deposits	-	-	4-12	-
- Public and other deposits	-	-	9	-
Obligations under repurchase agreements and money market fundings	1-2	1	6-7	5-7
Loans and advances from banks and other institutions	1-7	1-7	7-15	9-10
Bonds payable	3-6	-	9-11	-
<i>31 December 2011</i>				
	<i>US\$</i> <i>%</i>	<i>EUR</i> <i>%</i>	<i>TL</i> <i>%</i>	<i>Other</i> <i>Currencies</i> <i>%</i>
<i>Assets</i>				
Loans and advances to banks	1-4	1-6	6-13	1-6
Debt and other fixed or floating income instruments	2-11	3-8	6-21	7-11
Loans and advances to customers	1-19	2-14	9-26	1-53
<i>Liabilities</i>				
<i>Deposits:</i>				
- Foreign currency deposits	1-7	1-8	-	1-8
- Bank deposits	1-4	1-5	5-10	1-7
- Saving deposits	-	-	6-11	-
- Commercial deposits	-	-	6-11	-
- Public and other deposits	-	-	10	-
Obligations under repurchase agreements and money market fundings	1-3	1-2	5-11	6
Loans and advances from banks and other institutions	2-5	1-4	9-14	-
Bonds payable	6	-	8	-

## 25 Financial risk management disclosures (continued)

Interest rate risk in the banking book is evaluated considering the repricing risk, yield curve risk, basis risk and optionality, measured in compliance with the international standards and managed by risk mitigation through limits and hedging.

The interest rate sensitivity of assets, liabilities and off balance-sheet items are evaluated at the weekly Asset-Liability Committee meetings considering also the market developments.

The measurement process of interest rate risk resulting from banking book, is established and managed by the Bank on a bank-only basis to include the interest rate positions defined as banking book and to consider the relevant repricing and maturity data.

Duration gaps, gaps by maturity buckets and sensitivity analysis are used in monitoring of repricing risk resulting from maturity mismatch. The duration gap and sensitivity analysis are carried out every two weeks period.

In the duration gap analysis, the present values of interest-rate-sensitive asset and liability items are calculated using yield curves developed from market interest rates. In case of instruments with no maturities assigned, the maturity is determined as per interest rate fixing periods and customer behaviors. Such results are supported by sensitivity and scenario analysis applied periodically for possible instabilities in the markets.

The interest rate risk resulted from banking book is measured legally as per the "Regulation on Measurement and Evaluation of Interest Rate Risk Resulted from Banking Book as per Standard Shock Method" published in the Official Gazette no.28034 dated 23 August 2011, and the legal limit as per this measurement is monitored and reported monthly. The capital level is maintained considering the interest rate risk resulted from the banking book.

The interest rate risk on the interest-rate-sensitive financial instruments of the trading portfolio is evaluated as part of the market risk.

Economic value differences resulted from interest rate instabilities calculated on a bank-only basis for the banking book according to the relevant legislation as per the standard shock method is follows;

<u>Type of Currency</u>	<u>Shocks Applied (+/- basis points)</u>	<u>Gains/Losses</u>	<u>Gains/Equity- Losses/Equity</u>
TL	(+) 500 bps	(2,581,243)	(12.37)%
TL	(-) 400 bps	2,505,128	12.00%
US\$	(+) 200 bps	(821)	0.00%
US\$	(-) 200 bps	(35,024)	(0.17)%
EUR	(+) 200 bps	(43,570)	(0.21)%
EUR	(-) 200 bps	48,119	0.23%
<b>Total (of negative shocks)</b>		<b>2,518,222</b>	<b>12.35%</b>
<b>Total (of positive shocks)</b>		<b>(2,625,633)</b>	<b>(12.88)%</b>

### *Currency risk*

The Bank and its affiliates are exposed to currency risk through transactions in foreign currencies and through its investment in foreign operations.

## 25 Financial risk management disclosures (continued)

The Bank and its affiliates' main foreign operations are in the Netherlands and Russia. The measurement currencies of its operations are Euro and US Dollars. As the currency in which the Bank presents its consolidated financial statements is TL, the consolidated financial statements are affected by currency exchange rate fluctuations against TL.

The Bank finances a significant proportion of its net investment in foreign operations with borrowings in the same currencies as the relevant measurement currencies to mitigate its currency risk. Currency swaps are also used to match the currency of some of its other borrowings to the measurement currencies involved.

The foreign currency exchange risk of the Bank is managed through transaction, trader, desk and stop-loss limits approved by the board of directors for the trading portfolio beside the foreign currency net position standard ratio and the VaR limit.

The Bank and its affiliates' transactional exposures give rise to foreign currency gains and losses that are recognized in the income statement. These exposures comprise the monetary assets and monetary liabilities that are not denominated in the measurement currency of the Bank involved. These exposures are as follows:

	<i>30 September 2012</i>			<i>Total</i>
	<i>US\$</i>	<i>EUR</i>	<i>Other Currencies</i>	
<i>Assets</i>				
Cash and balances with central banks	172,106	2,251,908	83,062	2,507,076
Financial assets at fair value				
through profit or loss	11,877	7,139	93,725	112,741
Loans and advances to banks	4,574,256	2,289,958	52,206	6,916,420
Loans and advances to customers	28,614,728	14,065,748	1,552,738	44,233,214
Other assets	3,010,699	6,645,565	2,998,724	12,654,988
Investment securities	2,068,207	1,324,133	245,840	3,638,180
Investments in equity participations	-	625	2	627
Tangible assets	73	49,713	93,732	143,518
Deferred tax asset	-	746	14,390	15,136
<i>Total Assets</i>	<u>38,451,946</u>	<u>26,635,535</u>	<u>5,134,419</u>	<u>70,221,900</u>
<i>Liabilities</i>				
Deposits	25,180,823	17,106,467	4,118,253	46,405,543
Obligations under repurchase agreements and money market fundings	1,451,865	139,546	169,164	1,760,575
Loans and advances from banks and other institutions	12,562,575	7,844,594	29,239	20,436,408
Current and deferred tax liability	-	23,706	536	24,242
Bonds payable	3,941,614	-	-	3,941,614
Subordinated liabilities	-	144,746	-	144,746
Other liabilities, accrued expenses and provisions	368,753	327,883	276,392	973,028
<i>Total Liabilities</i>	<u>43,505,630</u>	<u>25,586,942</u>	<u>4,593,584</u>	<u>73,686,156</u>
<i>Net Statement of Financial Position</i>	<u>(5,053,684)</u>	<u>1,048,593</u>	<u>540,835</u>	<u>(3,464,256)</u>
<i>Net Off Balance Sheet Position</i>	<u>5,024,451</u>	<u>(2,145,821)</u>	<u>4,226</u>	<u>2,882,856</u>
<i>Net Long/(Short) Position</i>	<u>(29,233)</u>	<u>(1,097,228)</u>	<u>545,061</u>	<u>(581,400)</u>

**25 Financial risk management disclosures (continued)**

	<i>31 December 2011</i>			
	<u>US\$</u>	<u>EUR</u>	<u>Other Currencies</u>	<u>Total</u>
<i>Total Assets</i>	<u>40,449,832</u>	<u>27,399,585</u>	<u>4,635,688</u>	<u>72,485,105</u>
<i>Total Liabilities</i>	<u>40,191,399</u>	<u>26,227,614</u>	<u>4,786,646</u>	<u>71,205,659</u>
<i>Net Statement of Financial Position</i>	<u>258,433</u>	<u>1,171,971</u>	<u>(150,958)</u>	<u>1,279,446</u>
<i>Net Off Balance Sheet Position</i>	<u>(550,664)</u>	<u>(1,739,955)</u>	<u>701,885</u>	<u>(1,588,734)</u>
<i>Net Long/(Short) Position</i>	<u>(292,231)</u>	<u>(567,984)</u>	<u>550,927</u>	<u>(309,288)</u>

For the purposes of the evaluation of the table above, the figures represent the TL equivalent of the related hard currencies.

The short positions in the statement of financial position shown in the table above are hedged by currency swaps, forward contracts and other derivatives entered into to manage these currency exposures. In respect of monetary assets and liabilities in foreign currencies that are not economically hedged, the Bank and its affiliates ensure that their net exposures are kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate.

*Credit risk*

The Bank and its affiliates are subject to credit risk through the trading, lending, hedging and investing activities and the guarantees issued for their customers as well as in cases where they act as intermediaries on behalf of customers or other third parties.

The Bank and its affiliates' primary exposures to credit risk arise through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of these assets on the statement of financial position. The Bank developed a statistical-based internal risk rating model for its credit portfolio of corporate/commercial/medium-size companies. This internal risk rating model has been in use for customer credibility assessment since 2003 and is currently being reviewed and updated. Risk rating has become a requirement for loan applications, and ratings are used both to determine credit authorization limits and in credit assessment process.

The concentration table of the cash and non-cash loans for the Bank according to the risk rating system for its customers defined as corporate, commercial and medium-size enterprises is presented below.

	<i>30 September</i>	<i>31 December</i>
	<u>2012</u>	<u>2011</u>
	<u>%</u>	<u>%</u>
Above Average	41	46
Average	52	49
Below Average	<u>7</u>	<u>5</u>
	100	100

Concentrations based on industries and groups are also monitored. Application scorecards are used during loan granting process for retail and credit card portfolios. Behavioural scorecards are also used for these portfolios.

## 25 Financial risk management disclosures (continued)

The Bank and its affiliates are exposed to credit risk on various other financial assets, including derivative instruments used for hedging and debt investments. The current credit exposure in respect of these instruments is equal to the carrying amount of these assets in the statement of financial position. In addition, the Bank and its affiliates are exposed to off balance sheet credit risk through guarantees issued (Note 24).

The risk that counterparties to both derivative and other instruments might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, the Bank and its affiliates deal with counterparties of good credit standing, enter into master netting agreements whenever possible, and when appropriate, obtain collateral.

Concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for groups of counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

### *Exposure to credit risk*

	<i>Loans and advances to customers</i>	
	<u>30 September 2012</u>	<u>31 December 2011</u>
Individually impaired	2,624,774	2,209,227
Allowance for impairment	(2,347,694)	(2,092,225)
Carrying amount	<u>277,080</u>	<u>117,002</u>
Collectively impaired	-	-
Allowance for impairment	(552,356)	(395,561)
Carrying amount	<u>(552,356)</u>	<u>(395,561)</u>
Past due but not impaired	<u>1,293,372</u>	<u>909,183</u>
Carrying amount	<u>1,293,372</u>	<u>909,183</u>
Neither past due nor impaired	95,791,131	89,828,624
Loans with renegotiated terms	<u>2,699,212</u>	<u>2,194,532</u>
Carrying amount	<u>98,490,343</u>	<u>92,023,156</u>
Total carrying amount	<u>99,508,439</u>	<u>92,653,780</u>

### *Impaired loans*

Impaired loans are loans for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreement due to lack of assets, high debtness ratio, insufficient working capital and/or equity of the customer.

### *Sectoral and geographical concentration of impaired loans*

The Bank and its affiliates monitor concentrations of credit risk by sector and by geographic location. An analysis of concentrations of non-performing loans and lease receivables is shown below:

**25 Financial risk management disclosures (continued)**

	<i>30 September</i>	<i>31 December</i>
	<u>2012</u>	<u>2011</u>
Consumer loans	1,175,032	1,073,266
Textile	193,725	174,380
Service sector	170,516	101,554
Metal and metal products	135,147	132,712
Construction	133,966	88,651
Transportation and logistics	128,308	37,554
Transportation vehicles and sub-industries	114,448	93,806
Food	87,128	74,642
Agriculture and stockbreeding	74,764	77,577
Energy	46,989	39,086
Tourism	32,552	26,411
Durable consumption	32,032	29,129
Paper and paper products	30,542	31,083
Chemistry and chemical products	22,838	15,243
Others	<u>246,787</u>	<u>214,133</u>
Total non-performing loans, factoring and lease receivables	<u>2,624,774</u>	<u>2,209,227</u>
	<i>30 September</i>	<i>31 December</i>
	<u>2012</u>	<u>2011</u>
Turkey	2,160,024	1,790,926
Romania	341,006	297,640
Ukraine	69,625	69,728
Russia	17,959	25,044
Brasil	7,560	8,924
Switzerland	6,648	7,057
Netherlands	5,961	6,739
Others	<u>15,991</u>	<u>3,169</u>
Total non-performing loans, factoring and lease receivables	<u>2,624,774</u>	<u>2,209,227</u>

*Past due but not impaired loans*

These are loans where contractual interest or principal payments are past due but the Bank believes that individual impairment is not appropriate on the basis of the level of collateral available and the customer's current activities, assets and financial position.

*Allowances for impairment*

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a portfolio-basis loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

*Write-off policy*

The Bank writes off a receivable balance (and any related allowances for impairment losses) when it is determined that the receivable is uncollectible based on the evidence of insolvency issued by the Court. In cases where any possible collections are negligible comparing to the prospective expenses and costs, such receivables are written off by the decision of the board of directors.

## 25 Financial risk management disclosures (continued)

### *Collateral policy*

The Bank's policy is to require suitable collateral to be provided by certain customers prior to the disbursement of approved loans. The Bank and its affiliates currently hold collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets and guarantees. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at 30 September 2012 and 31 December 2011.

As part of its statutory capital adequacy calculations, and as per the legislation revised accounting to the Basel II requirements and effective from 1 July 2012, the Bank applies credit risk mitigation according to the comprehensive method that includes risk mitigation calculations considering the volatility-adjusted values of financial collaterals in compliance with the relevant local legislation. In the credit risk mitigation, cash and cash equivalent items and high-credit-quality debt instruments are used. The volatility adjustments regarding the receivables, collaterals and currency mismatch of the collaterals are made as per the standard volatility-adjustment approach defined in the relevant regulation. In cases where there are maturity mismatches resulted from shorter remaining life of collateral than of receivables, the value of collateral is considered as the volatility-adjusted value.

The fair value of collateral held against non-performing loans and receivables, is presented below, as per the collateral type, up to the outstanding total amount of exposures:

	<i>30 September</i>	<i>31 December</i>
	<u>2012</u>	<u>2011</u>
Mortgages	621,380	369,277
Promissory notes	520,444	279,247
Pledge assets	190,606	170,967
Cash collateral	10,160	1,040
Unsecured	<u>1,282,184</u>	<u>1,388,696</u>
	<u>2,624,774</u>	<u>2,209,227</u>

The amounts reflected in the tables above represent the maximum accounting loss that would be recognized at the date of the statement of financial position if counterparties failed completely to perform as contracted and any collateral or security proved to be of no value. The amounts, therefore, greatly exceed expected losses, which are included in the allowance for uncollectibility.

### *Operational risks*

Operational risk expresses the probability of loss that may arise from the overlook of faults and inconsistency with the established rules due to the deficiencies in the Bank and its affiliates' internal controls, manner of the management and the personnel that are not in coherence with time and conditions, deficiencies in the bank management, faults and problems in information technology systems and disasters such as earthquake, fire, flood or terror attacks.

The operational risk items in the Bank are determined in accordance with the definition of operational risk by considering the whole processes, products and departments. The control areas are set for operational risks within the Bank and all operational risks are followed by assigning the risks to these control areas. In this context, appropriate monitoring methodology is developed for each control area that covers all operational risks and control frequencies are determined.

## **25 Financial risk management disclosures (continued)**

Currently, the value at operational risk is calculated according to the basic indicator approach as per the Article 14 of “Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks” as pronounced by the BRSA.

The annual gross income is defined as net interest income plus net non-interest income reduced by realised gains/losses from the sale of securities available-for-sale and held-to-maturity, non-recurring gains and income derived from insurance claims. The result is added to risk weighted assets in the capital adequacy calculation.

### *Capital management – regulatory capital*

The BRSA sets and monitors capital requirements for the Bank as a whole. The parent company and individual banking operations are directly supervised by their local regulators. In implementing current capital requirements, the BRSA requires the banks to maintain a prescribed ratio of minimum 8% of total capital to total value at credit, market and operational risks. The Bank and its affiliates’ consolidated regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes paid-in capital, share premium, legal reserves, retained earnings, translation reserve and non-controlling interests after deductions for goodwill and certain cost items.
- Tier 2 capital, which includes qualifying subordinated liabilities, general impairment allowances and the element of the fair value reserve relating to unrealised gain/(loss) on assets classified as available-for-sale.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The Bank’s policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders’ return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. There have been no material changes in the Bank’s management of capital during the period.

Starting from 1 July 2012, the capital adequacy ratio is calculated within the scope of the “Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (the “Regulation”)”, “Regulation on Credit Risk Mitigation Techniques” and “Regulation on Calculation of Risk Weighted Amounts for Securitisations” published in the Official Gazette no.28337 dated 28 June 2012 and the “Regulation on Equities of Banks” published in the Official Gazette no.26333 dated 1 November 2006. In calculation of capital adequacy ratio, the data prepared from accounting records in compliance with the current legislation are used. Such accounting data is included in the calculation of credit and market risks subsequent to their designation as “trading book” and “banking book” according to the Regulation. The items classified as trading book and the items deducted from the equity are not included in the calculation of credit risk. In the calculation of risk weighted assets, the assets subject to amortisation or impairment, are taken into account on a net basis after being reduced by the related amortisations and provisions.

In the calculation of the value at credit risk for the non-cash loans and commitments and the receivables from counterparties in such transactions are weighted after netting with specific provisions that are classified under liabilities and calculated based on the “Regulation on Identification of and Provision against Non-Performing Loans and Other Receivables”. The net amounts are then multiplied by the rates stated in the Article 5 of the Regulation, reduced as per



## 25 Financial risk management disclosures (continued)

the “Regulation on Credit Risk Mitigation Techniques” and then included in the relevant exposure category defined in the article 6 of the Regulation and weighted as per Appendix-1 of the Regulation.

In the calculation of the value at credit risk for the derivative financial instruments and the credit derivatives classified in banking book, the receivables from counterparties are multiplied by the rates stated in the Appendix-2 of the Regulation, reduced as per the “Regulation on Credit Risk Mitigation Techniques” and then included in the relevant exposure category defined in the article 6 of the Regulation and weighted as per Appendix-1 of the Regulation.

As per the article 5 of the Regulation, the “counterparty credit risk” is calculated for repurchase transactions, securities and commodities borrowing agreements.

The Bank’s and its affiliates’ regulatory capital position on a consolidated basis as of 30 September 2012 is as follows:

	<i>30 September</i>
	<u>2012</u>
Tier 1 capital	20,118,465
Tier 2 capital	1,721,790
Deductions from capital	<u>(46,275)</u>
Total regulatory capital	<u>21,793,980</u>
Value at credit, market and operational risks	<u>133,098,684</u>
<u>Capital adequacy ratios (%)</u>	
Total regulatory capital expressed as a percentage of total value at credit, market and operational risks	16.37
Total tier 1 capital expressed as a percentage of total value at credit, market and operational risks	15.12

The prior period’s capital adequacy ratio is not presented above as the calculation base has changed to Basel II starting from 1 July 2012 as stated above. The capital ratios as per the previous legislation were 15.76% and 14.12%, respectively, as of 31 December 2011.

### 25.4 Hedging

Due to the Bank and its affiliates’ overall interest rate risk position and funding structure, its risk management policies require that it should minimize its exposure to changes in foreign currency rates and manage interest rate, credit risk and market price risk exposure within certain guidelines. Derivative financial instruments are used to manage the potential earnings impact of interest rate and foreign currency movements. Several types of derivative financial instrument are used for this purpose, including interest rate swaps and currency swaps, options, financial futures, forward contracts and other derivatives. The purpose of the hedging activities is to protect the Bank and its affiliates from the risk that the net cash inflows will be adversely affected by changes in interest or exchange rates, credit ratings or market prices. The Bank and its affiliates enter into transactions to ensure that it is economically hedged in accordance with risk management policies. In the accompanying consolidated financial statements, hedge accounting is applied for the cases where hedge accounting relationship is evidenced.

The Bank enters into various interest rate swap transactions in order to hedge its certain cash flow and fair value exposures on floating/fixed rate assets and liabilities, through converting its floating/fixed rate income/payments into fixed/floating rate income/payments.

## 25 Financial risk management disclosures (continued)

The following table includes certain characteristics of outstanding swap transaction held for cash flow hedging purposes as of 30 September 2012:

<i>Notional amount</i>	<i>Fixed payer rate (%)</i>	<i>Floating payer rate (%)</i>	<i>Fixed payment frequency</i>	<i>Maturity</i>
US\$ 6.9 millions	3.35	3-month libor + 0.40	Quarterly	2012

The Bank has applied fair value hedge accounting for the fixed rate eurobonds issued in 2011 with a total face value of US\$ 500 millions, maturity of 10 years and maturity date of 20 April 2021 which were priced at 6.375% originally and had a coupon rate of 6.25%, by designating interest rate swaps with the same face value amount and conditions. On 5 June 2012, the Bank ceased to apply hedge accounting and accordingly fair value calculations for these bonds. The accumulated fair value incurred starting from the date of hedge accounting up to the date on which it was ceased, is amortized.

## 26 Affiliates, associates and special purpose entities

The table below sets out the consolidated affiliates, associates and special purpose entities of the Bank and its shareholding interests in these entities:

<u>Consolidated entities</u>	<u>Shareholding Interest (%)</u>
Garanti Bank International NV	100.00
Garanti Holding BV (formerly, named D Netherlands Holding BV)	100.00
Garanti Bank Moscow	100.00
Garanti Portföy Yönetimi AŞ	100.00
Garanti Yatırım Menkul Kıymetler AŞ	100.00
Garanti Bilişim Teknolojisi ve Tic. AŞ	100.00
Garanti Filo Yönetimi Hizmetleri AŞ	100.00
G Netherlands BV (formerly, named Doğuş GE BV)	100.00
Garanti Bank SA	100.00
Motoractive IFN SA	100.00
Ralfi IFN SA	100.00
Domenia Credit IFN SA	100.00
Garanti Finansal Kiralama AŞ(**)	99.96
Garanti Emeklilik ve Hayat AŞ	84.91
Garanti Faktoring Hizmetleri AŞ	81.84
Garanti Yatırım Ortaklığı AŞ	0.21
Garanti Diversified Payment Rights Finance Company (a)	-

(a) *Garanti Diversified Payment Rights Finance Company, a special purpose entity established for the Bank's securitization transactions, that are explained in Note 17, is consolidated in the accompanying consolidated financial statements. The Bank or any of its affiliates does not have any shareholding interests in this company.*

*T2 Capital Finance Company, a special purpose entity established for the subordinated debt granted to the Bank, again not an affiliate of the Bank or any of its affiliates, is excluded from the consolidation scope following the repayment of this debt as per the Bank's early repayment option on 6 February 2012.*

(\*) *The Bank purchased 5.86% of the paid-in capital of Garanti Finansal Kiralama AŞ at a total face value of TL 4,278 thousands from Garanti Faktoring Hizmetleri AŞ for a consideration of TL 34,574 thousands on 5 December 2011.*

## 27 Net fee and commission income

	<i>Nine-month period ended 30 September 2012</i>	<i>Three-month period ended 30 September 2012</i>	<i>Nine-month period ended 30 September 2011</i>	<i>Three-month period ended 30 September 2011</i>
<i>Fee and commission income:</i>				
Credit cards fees	1,063,832	350,689	823,361	273,720
Retail banking	368,982	148,722	472,571	170,613
SME banking	231,393	88,863	263,363	92,962
Commercial banking	163,979	57,129	161,139	55,915
Corporate banking	20,310	7,141	31,086	10,859
Others	<u>122,245</u>	<u>38,304</u>	<u>163,052</u>	<u>56,146</u>
Total fee and commission income	<u>1,970,741</u>	<u>690,848</u>	<u>1,914,572</u>	<u>660,215</u>
<i>Fee and commission expense:</i>				
Credit cards fees	293,136	104,346	222,633	85,677
Retail banking	23,054	8,095	9,171	3,459
SME banking	7,950	2,467	1,358	596
Commercial banking	2,513	736	387	163
Corporate banking	1,123	336	341	223
Others	<u>62,116</u>	<u>27,050</u>	<u>50,163</u>	<u>13,680</u>
Total fee and commission expense	<u>389,892</u>	<u>143,030</u>	<u>284,053</u>	<u>103,798</u>
Net fee and commission income	<u>1,580,849</u>	<u>547,818</u>	<u>1,630,519</u>	<u>556,417</u>

## 28 Trading gains/(losses)

Gains and losses from derivative financial instruments and changes in fair value of other trading instruments are reflected in net trading gains/(losses) including the effective portion of fair value hedges, whereas, gains and losses arising from changes in the effective portion of the fair value of cash flow hedges are reflected as a separate component of equity. Net gains/(losses) from trading of financial assets is detailed in the table below:

	<i>Nine-month period ended 30 September 2012</i>	<i>Three-month period ended 30 September 2012</i>	<i>Nine-month period ended 30 September 2011</i>	<i>Three-month period ended 30 September 2011</i>
Fixed/floating securities	594,525	484,629	334,967	87,169
Derivative transactions	(278,315)	(15,503)	58,807	(63,874)
Trading gains, net	<u>316,210</u>	<u>469,126</u>	<u>393,774</u>	<u>23,295</u>

## 29 Other operating expenses

	<i>Nine-month period ended 30 September 2012</i>	<i>Three-month period ended 30 September 2012</i>	<i>Nine-month period ended 30 September 2011</i>	<i>Three-month period ended 30 September 2011</i>
Advertising expenses	79,885	27,231	65,622	28,834
Saving deposits insurance fund premiums	76,995	25,985	60,869	21,137
Computer usage expenses	74,668	28,876	66,460	27,631
Utility expenses	45,980	18,060	43,120	15,992
Claim losses from insurance business	45,962	23,146	35,367	14,398
Repair and maintenance expenses	25,414	10,451	23,443	8,721
Research and development expenses	17,822	522	19,738	9,418
Insurance related expenses	17,119	5,955	15,342	5,465
Stationary expenses	15,700	4,966	14,748	5,142
Others	<u>334,425</u>	<u>121,378</u>	<u>320,159</u>	<u>103,609</u>
	<u>733,970</u>	<u>266,570</u>	<u>664,868</u>	<u>240,347</u>

### **30 Use of estimates and judgements**

Management discussed with the Audit Committee the development, selection and disclosure of the Bank's critical accounting policies and estimates, and the application of these policies and estimates. These disclosures supplement the commentary on financial risk management (see Note 25).

#### *Key sources of estimation uncertainty*

##### Allowances for credit losses

Assets accounted for at amortized cost are evaluated for impairment on a basis described in Note 7.

The specific counterparty component of the total allowances for impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgement about a counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the credit risk function.

Portfolio-basis assessed impairment allowances cover credit losses inherent in portfolios of claims with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot yet be identified. A component of portfolio-basis assessed allowances relates to country risks. In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the specific allowances depends on the estimated future cash flows for specific counterparties and the assumptions and inputs to the impairment used in determining collective allowances.

##### Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in significant accounting policies section and Note 23. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

#### *Critical accounting judgements in applying the Bank's accounting policies*

Critical accounting judgements made in applying the Bank's accounting policies include:

##### Financial asset and liability classification

The Bank and its affiliates' accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances:

- In classifying financial assets or liabilities as "trading", the Bank has determined that it meets the description of trading assets and liabilities set out in accounting policy (h) *Financial instruments*.
- In designating financial assets or liabilities at fair value through profit or loss, the Bank has determined that it has met one of the criteria for this designation set out in accounting policy (h) *Financial instruments*.

### **30 Use of estimates and judgements (continued)**

- In classifying financial assets as held-to-maturity, the Bank has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by accounting policy (*h*) *Financial instruments*.

#### Securitizations

In applying its policies on securitised financial assets, the Bank has considered both the degree of transfer of risks and rewards on assets transferred to another entity and the degree of control exercised by the Bank over the other entity:

- When the Bank, in substance, controls the entity to which financial assets have been transferred, the entity is included in these consolidated financial statements and the transferred assets are recognised in the Bank's consolidated statement of financial position.
- When the Bank has transferred financial assets to another entity, but has not transferred substantially all of the risk and rewards relating to the transferred assets, the assets are recognised in the Bank's consolidated statement of financial position.
- When the Bank transfers substantially all the risks and rewards relating to the transferred assets to an entity that it does not control, the assets have been derecognised from the Bank's consolidated statement of financial position.

Details of the Bank's securitization activities are given in Note 17.

### **31 Subsequent events**

The Bank's representative office in Moscow has ceased to operate effective from 1 October 2012 following the permission of the related authorities in this country.

At the board of directors' meeting of the Bank held on 11 October 2012, the following resolutions were passed;

- Increasing the paid-in capital of Garanti Holding BV operating in the Netherlands by EUR 20,000,000; and
- Granting a secondary subordinated loan amounting to EUR 10,000,000 to Garanti Bank SA (a subsidiary of Garanti Holding BV) operating in Romania.

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