

**Türkiye Garanti Bankası Anonim Şirketi**  
**And Its Affiliates**  
Consolidated Financial Statements  
As at and for the year ended  
31 December 2013  
With Independent Auditors' Report Thereon

30 January 2014

This report contains the "Independent Auditors' Report" comprising 2 pages and; the "Consolidated Financial Statements and Their Explanatory Notes" comprising 82 pages.

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

**Table of contents**

Independent Auditors' Report

Consolidated Statement of Financial Position

Consolidated Statement of Comprehensive Income

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes to Consolidated Financial Statements

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

## INDEPENDENT AUDITOR'S REPORT

### Report on the Financial Statements

We have audited 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 December 31, 2013, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

## Basis for Qualified Opinion

Subsequent to the reversal of TL 115,000 thousands in the current period, as of the balance sheet date, the accompanying consolidated financial statements include a general provision amounting to TL 335,000 thousands, 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.

## Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2013, and of its consolidated financial performance and its consolidated cash flows for the year 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**

İstanbul, January 30, 2014

**Türkiye Garanti Bankası AŞ And Its Affiliates**  
**Consolidated Statement of Financial Position**  
**At 31 December 2013**

(Currency: Thousands of Turkish Lira (TL))

	<u>Notes</u>	<u>31 December 2013</u>	<u>31 December 2012</u>
<b>Assets</b>			
Cash and balances with central banks	4	6,849,292	4,519,405
Financial assets at fair value through profit or loss	5	538,145	550,926
Loans and advances to banks	6	11,639,668	9,409,593
Loans and advances to customers	7,23	131,315,161	102,260,080
Other assets	9	26,108,693	18,728,613
Investment securities	10,22,23	38,609,492	39,861,281
Investments in equity participations	11	41,788	25,340
Tangible assets, net	12	2,018,893	1,643,451
Goodwill, net	13	32,948	32,948
Deferred tax asset	20	581,695	467,898
<b>Total Assets</b>		<b><u>217,735,775</u></b>	<b><u>177,499,535</u></b>
<b>Liabilities</b>			
Deposits from banks	14	6,733,280	5,583,786
Deposits from customers	15	112,461,129	92,191,501
Obligations under repurchase agreements and money market fundings	16	16,007,738	14,106,944
Loans and advances from banks and other institutions	17	34,189,584	25,879,355
Bonds payable	18	10,835,298	6,125,986
Subordinated liabilities	19	147,491	148,680
Current tax liability	20	133,384	340,879
Deferred tax liability	20	673	28,774
Other liabilities, accrued expenses and provisions	21	13,752,029	11,171,675
<b>Total Liabilities</b>		<b><u>194,260,606</u></b>	<b><u>155,577,580</u></b>
<b>Equity attributable to owners of the bank</b>			
Share capital	22	5,146,371	5,143,305
Share premium	22	11,880	11,880
Unrealised gains on available-for-sale assets	10,22	(494,581)	1,093,683
Hedging reserve	22	(239,657)	(55,377)
Actuarial gain/(loss)	22	(1,458)	-
Translation reserve	22	357,132	34,612
Legal reserves	22	1,156,024	956,192
Retained earnings	22	17,376,633	14,597,136
		<b><u>23,312,344</u></b>	<b><u>21,781,431</u></b>
<b>Non-controlling interests</b>	22	<b><u>162,825</u></b>	<b><u>140,524</u></b>
<b>Total Equity</b>		<b><u>23,475,169</u></b>	<b><u>21,921,955</u></b>
<b>Total Liabilities and Equity</b>		<b><u>217,735,775</u></b>	<b><u>177,499,535</u></b>
<b>Commitments and Contingencies</b>	24		

The notes on pages 5 to 82 are an integral part of these consolidated financial statements.

**Türkiye Garanti Bankası AŞ And Its Affiliates**  
**Consolidated Statement of Comprehensive Income**  
**For The Year Ended 31 December 2013**

(Currency: Thousands of Turkish Lira (TL))

	<u>Notes</u>	<u>2013</u>	<u>2012</u>
<b>Statement of Income:</b>			
<b>Interest income:-</b>			
Interest on loans		9,809,579	9,164,868
Interest on securities		3,527,487	4,005,815
Interest on lease business		289,234	239,758
Interest on deposits at banks		236,292	352,702
Others		50,116	63,090
		<u>13,912,708</u>	<u>13,826,233</u>
<b>Interest expense:-</b>			
Interest on saving, commercial and public deposits		(4,522,899)	(5,036,622)
Interest on borrowings, obligations under repurchase agreements and money market fundings		(1,605,374)	(1,872,825)
Interest on bonds payable		(486,571)	(321,472)
Interest on bank deposits		(147,692)	(164,573)
Interest on subordinated liabilities		(5,173)	(11,696)
Others		(26,194)	(11,584)
		<u>(6,793,903)</u>	<u>(7,418,772)</u>
<b>Net interest income before provisions for loans and other credit risks</b>		<b>7,118,805</b>	<b>6,407,461</b>
<b>Provisions for loans and other credit risks, net</b>	5,6,7,8,10, 21	<b>(1,519,617)</b>	<b>(1,202,379)</b>
<b>Net interest income after provisions for loans and other credit risks</b>		<b>5,599,188</b>	<b>5,205,082</b>
<b>Fee and commission income</b>		<b>3,204,777</b>	<b>2,580,467</b>
<b>Fee and commission expense</b>		<b>(537,734)</b>	<b>(507,718)</b>
<b>Net fee and commission income</b>	26	<b>2,667,043</b>	<b>2,072,749</b>
<b>Premium income from insurance business</b>		<b>350,715</b>	<b>299,617</b>
<b>Foreign exchange gains, net</b>		<b>338,414</b>	<b>435,055</b>
<b>Reversal of general provision</b>		<b>115,000</b>	<b>-</b>
<b>Gain on sale of assets</b>		<b>65,767</b>	<b>58,334</b>
<b>Trading gains, net</b>	29	<b>63,849</b>	<b>170,310</b>
<b>Other operating income</b>		<b>224,623</b>	<b>191,365</b>
<b>Other operating income</b>		<b>1,158,368</b>	<b>1,154,681</b>
<b>Total operating Income</b>		<b>9,424,599</b>	<b>8,432,512</b>
<b>Salaries and wages</b>		<b>(1,606,010)</b>	<b>(1,441,706)</b>
<b>Credit card rewards and promotion expenses</b>		<b>(501,692)</b>	<b>(427,893)</b>
<b>Employee benefits</b>	21	<b>(410,165)</b>	<b>(405,304)</b>
<b>Depreciation and amortization</b>	9, 12	<b>(285,315)</b>	<b>(258,233)</b>
<b>Rent expenses</b>		<b>(248,662)</b>	<b>(215,817)</b>
<b>Communication expenses</b>		<b>(183,069)</b>	<b>(171,892)</b>
<b>Taxes and duties other than on income</b>		<b>(180,044)</b>	<b>(145,607)</b>
<b>Impairment losses, net</b>	9,11,12,13,21	<b>(68,697)</b>	<b>(45,052)</b>
<b>Other operating expenses</b>	30	<b>(1,433,331)</b>	<b>(1,043,961)</b>
<b>Total operating expenses</b>		<b>(4,916,985)</b>	<b>(4,155,465)</b>
<b>Income before tax</b>		<b>4,507,614</b>	<b>4,277,047</b>
<b>Taxation charge</b>	20	<b>(911,749)</b>	<b>(887,330)</b>
<b>Net income for the period</b>		<b>3,595,865</b>	<b>3,389,717</b>
<b>Other Comprehensive Income:</b>			
<i>(items that may be reclassified subsequently to statement of income)</i>			
<b>Foreign currency translation differences for foreign operations</b>	22	<b>342,011</b>	<b>1,318</b>
<b>Fair value reserves (available-for-sale financial assets):</b>			
Net change in fair values	22	<b>(1,114,128)</b>	<b>986,360</b>
Net amount transferred to income	22	<b>(489,788)</b>	<b>8,753</b>
<b>Cash flow hedges:</b>			
Effective portion of changes in fair value	22	<b>26,936</b>	<b>-</b>
Net amount transferred to income	22	<b>-</b>	<b>389</b>
<b>Net investment hedge for foreign operations</b>	22	<b>(211,216)</b>	<b>-</b>
<i>(items that cannot be reclassified subsequently to statement of income)</i>			
<b>Actuarial gain (loss) related to employee benefits</b>			
Effect of changes in actuarial assumptions	21	<b>(1,413)</b>	<b>-</b>
Change in measurement of plan liabilities arising from passage of time	21	<b>-</b>	<b>-</b>
<b>Other comprehensive income for the period, net of tax</b>		<b>(1,447,598)</b>	<b>996,820</b>
<b>Total Comprehensive Income for the Period</b>		<b>2,148,267</b>	<b>4,386,537</b>
<b>Net income attributable to:</b>			
Equity holders of the Bank		<b>3,571,499</b>	<b>3,361,802</b>
Non-controlling interests		<b>24,366</b>	<b>27,915</b>
		<u><b>3,595,865</b></u>	<u><b>3,389,717</b></u>
<b>Total comprehensive income attributable to:</b>			
Equity holders of the Bank		<b>2,123,886</b>	<b>4,358,596</b>
Non-controlling interests		<b>24,381</b>	<b>27,941</b>
		<u><b>2,148,267</b></u>	<u><b>4,386,537</b></u>
<b>Weighted average number of shares with a face value of Kr 1 each</b>	22	<b>420 billions</b>	<b>420 billions</b>
<b>Basic and diluted earnings per share (full TL amount per TL 1 face value each)</b>		<b>0.850</b>	<b>0.800</b>

The notes on pages 5 to 82 are integral part of these consolidated financial statements.

**Türkiye Garanti Bankası AŞ And Its Affiliates**  
**Consolidated Statement of Changes in Equity**  
**For The Year Ended 31 December 2013**  
*(Currency: Thousands of Turkish Lira (TL))*

	Share Capital	Share Premium	Unrealised Gains/(Losses) on Available-for-Sale Assets	Hedging Reserve	Translation Reserve	Legal Reserves	Actuarial Gain/(Loss)	Retained Earnings	Non-Controlling Interests	Total Equity
<b>Reported balances at 31 December 2011</b>	5,145,012	11,880	92,778	(55,766)	38,995	757,480	-	12,046,917	112,583	18,149,879
Restatement of retained earnings	-	-	-	-	-	-	-	(12,754)	-	(12,754)
<b>Restated balances at 31 December 2011</b>	5,145,012	11,880	92,778	(55,766)	38,995	757,480	-	12,034,163	112,583	18,137,125
Acquisition of treasury shares	(1,707)	-	-	-	-	-	-	-	-	(1,707)
Foreign exchange difference on foreign currency legal reserves	-	-	-	-	-	(117)	-	-	-	(117)
Transfer to legal reserves	-	-	-	-	-	198,829	-	(198,829)	-	-
Dividends paid	-	-	-	-	-	-	-	(600,000)	-	(600,000)
Net unrealised market value gains from available-for-sale portfolio	-	-	986,334	-	-	-	-	-	26	986,360
Net losses on available-for-sale assets transferred to income statement at disposal	-	-	8,753	-	-	-	-	-	-	8,753
Foreign currency translation differences for foreign operations	-	-	5,818	-	(4,383)	-	-	-	-	1,435
Net fair value gains from cash flow hedges	-	-	-	389	-	-	-	-	-	389
Net income for the year	-	-	-	-	-	-	-	3,361,802	27,915	3,389,717
<b>Balances at 31 December 2012</b>	5,143,305	11,880	1,093,683	(55,377)	34,612	956,192	-	14,597,136	140,524	21,921,955
Sale of treasury shares	3,066	-	-	-	-	-	-	-	-	3,066
Foreign exchange difference on foreign currency legal reserves	-	-	-	-	-	3,869	-	-	-	3,869
Transfer to legal reserves	-	-	-	-	-	195,933	-	(195,933)	-	-
Dividends paid	-	-	-	-	-	-	-	(596,471)	-	(596,471)
Net unrealised market value losses from available-for-sale portfolio	-	-	(1,114,098)	-	-	-	-	-	(30)	(1,114,128)
Net gains on available-for-sale assets transferred to income statement at disposal	-	-	(489,788)	-	-	-	-	-	-	(489,788)
Foreign currency translation differences for foreign operations	-	-	15,622	-	111,304	-	-	-	-	126,926
Effect of change in minority shares	-	-	-	-	-	30	-	402	(1,007)	(575)
Dividend payments to minorities from retained earnings	-	-	-	-	-	-	-	-	(1,073)	(1,073)
Net fair value gains from cash flow hedge	-	-	-	26,936	-	-	-	-	-	26,936
Net investment hedge for foreign operations	-	-	-	(211,216)	211,216	-	-	-	-	-
Net change in actuarial gain/(loss) related to employee benefits	-	-	-	-	-	-	(1,458)	-	45	(1,413)
Net income for the year	-	-	-	-	-	-	-	3,571,499	24,366	3,595,865
<b>Balances at 31 December 2013</b>	5,146,371	11,880	(494,581)	(239,657)	357,132	1,156,024	(1,458)	17,376,633	162,825	23,475,169

The notes on pages 5 to 82 are an integral part of these consolidated financial statements.

**Türkiye Garanti Bankası AŞ And Its Affiliates**  
**Consolidated Statement of Cash Flows**  
**For The Year Ended 31 December 2013**

(Currency: Thousands of Turkish Lira (TL))

	<u>Notes</u>	<u>2013</u>	<u>2012</u>
<b>Cash flows from operating activities:-</b>			
Interests and commissions received		13,158,266	12,451,193
Interests and commissions paid		(7,252,872)	(7,985,474)
Other operating activities, net		(1,214)	1,204,709
Cash payments to employees and suppliers		(4,120,404)	(3,426,092)
		<u>1,783,776</u>	<u>2,612,556</u>
<b>(Increase)/decrease in operating assets:-</b>			
Loans and advances to banks		(1,741,971)	1,641,673
Balances with central banks		(4,875,015)	(6,352,361)
Financial assets at fair value through profit or loss		(5,225)	(122,266)
Loans and advances to customers		(20,294,177)	(5,759,965)
Consumer loans		(10,136,206)	(5,264,871)
Other assets		(1,251,591)	(866,573)
<b>Increase/(decrease) in operating liabilities:-</b>			
Deposits from banks		1,145,086	2,489,132
Deposits from customers		20,149,951	2,136,680
Obligations under repurchase agreements and money market fundings		1,874,688	2,378,164
Other liabilities		1,633,912	1,925,476
		<u>(11,716,772)</u>	<u>(5,182,355)</u>
<b>Net cash outflows from operating activities before taxes and duties paid</b>		<b>(11,716,772)</b>	<b>(5,182,355)</b>
<b>Income taxes and other duties paid</b>		<b>(1,061,914)</b>	<b>(1,236,951)</b>
		<u>(12,778,686)</u>	<u>(6,419,306)</u>
<b>Cash flows from investing activities:-</b>			
Net (increase) decrease in investment securities		(1,778,597)	(1,855,124)
Interest received for investment securities		4,557,669	3,479,146
Increase in investments in equity participations		(10,514)	20
Dividends received		5,667	2,865
Proceeds from sale of tangible assets		155,511	143,813
Purchase of tangible assets		(741,023)	(344,438)
		<u>2,188,713</u>	<u>1,426,282</u>
<b>Net cash inflows from investing activities</b>		<b>2,188,713</b>	<b>1,426,282</b>
<b>Cash flows from financing activities:-</b>			
Increase in loans and advances from banks and other institutions, net		8,426,527	1,533,211
Increase in bonds payable, net		4,664,090	2,340,771
Decrease in subordinated liabilities, net		(840)	(946,376)
Dividends paid		(597,544)	(600,000)
		<u>12,492,233</u>	<u>2,327,606</u>
<b>Net cash inflows from financing activities</b>		<b>12,492,233</b>	<b>2,327,606</b>
<b>Effect of exchange rate changes</b>		<b>917,211</b>	<b>(433,746)</b>
		<u>2,819,471</u>	<u>(3,099,164)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>2,819,471</b>	<b>(3,099,164)</b>
Cash and cash equivalents at the beginning of the period		<u>5,976,307</u>	<u>9,075,471</u>
<b>Cash and cash equivalents at the end of the period</b>	2	<u><b>8,795,778</b></u>	<u><b>5,976,307</b></u>

The notes on pages 5 to 82 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 year ended 31 December 2013 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 898 domestic branches, eight foreign branches, three representative offices abroad and 92 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 21,853 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 at 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 31 December 2013, 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 January 2014.

## **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 recognized 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 recognized in the financial statements are in Notes 7, 9, 10, 12, 13, 17, 18, 20, 21, 23, 24, 25 and 31.

### **(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 the entities controlled by the Bank. The control exists if and only if;

- when the Bank has the power over an affiliate which that power, directly or indirectly, give rights to govern the financial and operating policies of the entity so as to obtain benefits from its activities.
- exposure, or rights, to variable returns from its involvement with the affiliate.
- the ability to use its power over the affiliate to affect the amount of its returns.

The Bank reassesses its control power over its affiliates if there is an indication that there are changes to any of the three elements of control. 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.

**Türkiye Garanti Bankası AŞ and Its Affiliates**

Notes to Consolidated Financial Statements

As of and for the Year Ended 31 December 2013

(Currency: Thousands of Turkish Lira (TL))

**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	50	2	4	2
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 fair value, including transaction costs.

Subsequent to initial recognition all trading instruments and available-for-sale assets are measured at fair value.

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 the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is therefore measured with the 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 amortized costs. 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, the effective portion of changes in the fair value of the derivative are recognized directly in the other comprehensive income and presented in the hedging reserve in equity. The amount recognized 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.

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

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

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.

#### *Net investment hedge*

When a derivative or non-derivative financial liability is designated as a hedge of a net investment in a foreign operation, the effective portion of changes in the fair value of the hedging instrument is recognized directly in the shareholders' equity, in the foreign currency translation reserve. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in the income statement. The amount recognized in the shareholders' equity is removed and included in the income statement on disposal of the foreign operation.

The foreign currency risk arising from net investments in foreign operations are hedged with long-term foreign currency borrowings and currency translation differences arising from conversion of foreign investments and foreign currency borrowings into TL are accounted for translation reserve and hedging reserve, respectively, in equity.

#### *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.



**Significant accounting policies (continued)**

**(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 recognized 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).

**(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 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 Bank employees entitled to receive such benefits. 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>31 December 2013</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

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

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.

#### *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 were directly charged to the statement of income in prior periods. As per the revised IAS 19, the actuarial gains/losses are recognized under shareholders’ equity starting from 1 January 2013.

#### *(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. All actuarial gains and losses were recognized immediately in the statement of income in prior periods. As per the revised IAS 19, the actuarial gains/losses are recognized under shareholders’ equity starting from 1 January 2013.

#### *(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

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

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 recognized 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 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.

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

### **(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 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.

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

Other fees and commission income, including account servicing fees, investment management fees, sales commissions, placement fees and syndication fees, are recognized 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 recognized 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.

#### *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

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

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.

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) New standards and interpretations**

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

- Amendments to IAS1 Presentation of Items of Other Comprehensive Income
- Amendments to IAS1 Clarification of the Requirements for Comparative Information
- IFRS10 Consolidated Financial Statements
- IFRS11 Joint Arrangements
- IFRS12 Disclosure of Interest in Other Entities
- IFRS13 Fair Value Measurements
- IFRS7 Disclosures - Offsetting Financial Assets and Financial Liabilities and the related disclosures

**Significant accounting policies (continued)**

- IFRS10, IFRS11 and IFRS12 Consolidated Financial Statements, Joint Arrangements and Disclosures of Interests in Other Entities - Transition Guide
- IAS19 Employee Benefits (as revised in 2011)
- IAS27 Separate Financial Statements (as revised in 2011)
- IAS28 Investments in Associates and Joint Ventures (as revised in 2011)
- Amendments to IFRS - Annual Improvements to IFRSs 2009-2011 Cycle except for the amendment to IAS1

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

- IFRS9 Financial Instruments
- Amendments to IFRS9 and IFRS7 Mandatory Effective Date of IFRS 9 and Transition Disclosures
- Amendments to IAS32 Offsetting Financial Assets and Financial Liabilities
- Amendments to IAS36 Recoverable Amount Disclosures for Non-Financial Assets
- Amendments to IAS39 Novation of Derivatives and Continuation of Hedge Accounting
- IFRIC21 Levies
- Annual improvements to 2010-2012 Cycle - IFRS2, IFRS3, IFRS8, IFRS13, IAS16, IAS38 and IAS24
- Annual improvements to 2011-2013 Cycle - IFRS1, IFRS3, IFRS13, IAS40

**Index for the notes to the consolidated financial statements:**

***Note description***

---

1	Segment reporting
2	Cash and cash equivalents
3	Related party disclosures
4	Cash and balances with central banks
5	Financial assets at fair value through profit or loss
6	Loans and advances to banks
7	Loans and advances to customers
8	Financial lease receivables
9	Other assets
10	Investment securities
11	Investments in equity participations
12	Tangible assets
13	Goodwill
14	Deposits from banks
15	Deposits from customers
16	Obligations under repurchase agreements and money market fundings
17	Loans and advances from banks and other institutions
18	Bonds payable
19	Subordinated liabilities
20	Taxation
21	Other liabilities, accrued expenses and provisions
22	Equity
23	Fair value information
24	Commitments and contingencies
25	Derivative financial instruments
26	Financial risk management disclosures
27	Affiliates, associates and special purpose entities
28	Net fee and commission income
29	Trading gains/(losses)
30	Other operating expenses
31	Use of estimates and judgements
32	Significant event



## 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, Romania, Russia, Turkish Republic of Northern Cyprus, Malta, Luxembourg and Germany. Total geographic sector risk concentrations, both on and off balance sheet, are presented in the table below:

	<b>2013</b>				
	<i><u>Loans and Advances to Customers</u></i>	<i><u>Total Assets</u></i>	<i><u>Total Liabilities</u></i>	<i><u>Non-Cash Loans</u></i>	<i><u>Capital Expenditures</u></i>
Turkey	122,189,833	191,349,172	139,751,178	26,750,922	649,825
England	253,401	9,043,164	17,329,830	1,458,316	-
Romania	3,392,136	4,904,943	2,170,485	113,967	17,817
Netherlands	1,442,756	4,222,340	4,768,883	211,855	7,193
Russia	977,299	2,241,988	780,946	58,163	42
USA	397,601	2,167,067	4,555,062	1,151,318	-
Malta	713,433	833,565	433,053	4,240	5
Switzerland	644,184	651,823	6,117,427	1,681,193	-
Germany	146,936	368,767	7,441,459	119,827	5,091
Luxembourg	212,261	347,080	834,026	43,112	-
France	24,880	205,223	1,606,572	226,028	-
Italy	152,186	152,525	151,074	429,081	-
Belgium	114,632	145,177	290,665	5,098	-
Singapore	98,492	98,492	34,170	48,746	-
Spain	20,597	97,013	362,801	399,344	-
Ukraine	46,516	80,803	24,571	448	-
United Arabian Emirates	65,223	66,743	900,388	506,584	-
Azerbaijan	32,180	32,482	667,483	3,681	-
Ireland	233	19,139	173,749	553	-
Austria	6,275	6,452	316,878	109,205	-
Canada	3,155	5,755	431,123	767	-
Japan	-	3,656	109,236	218,638	-
Thailand	312	312	1,597,536	43,748	-
Others	380,640	692,094	3,412,011	595,242	-
	<u>131,315,161</u>	<u>217,735,775</u>	<u>194,260,606</u>	<u>34,180,076</u>	<u>679,973</u>

**1 Segment reporting (continued)**

	<b>2012</b>				
	<i><u>Loans and Advances to Customers</u></i>	<i><u>Total Assets</u></i>	<i><u>Total Liabilities</u></i>	<i><u>Non-Cash Loans</u></i>	<i><u>Capital Expenditures</u></i>
Turkey	95,306,657	155,312,300	110,515,235	18,503,654	343,963
England	210,089	6,652,332	13,189,776	1,140,813	-
Romania	2,609,856	5,348,358	1,422,267	110,819	9,281
Netherlands	1,261,144	2,664,105	4,291,717	239,206	2,853
Russia	637,553	1,722,205	566,716	117,055	646
USA	357,165	1,585,082	6,784,752	580,010	-
Germany	85,427	1,096,373	6,244,488	225,119	239
Malta	674,294	764,571	362,245	3,520	59
Switzerland	460,231	496,359	4,199,438	728,468	-
France	15,983	278,008	961,637	160,917	-
Spain	12,646	277,217	288,369	327,742	-
Luxembourg	115,193	272,175	698,051	30,061	933
Ukraine	68,795	185,787	355,511	61	-
Belgium	55,960	120,495	223,270	256	-
United Arab Emirates	64,874	67,120	500,193	280,472	-
Singapore	62,129	62,129	245,574	2,622	-
Azerbaijan	22,055	22,055	51,399	528	-
Ireland	5,175	18,660	972,087	26	-
Italy	4,620	6,263	158,686	372,833	-
Canada	3,574	5,987	323,619	637	-
Austria	3,203	3,430	151,291	70,025	-
Japan	61	2,685	551,200	188,411	-
Thailand	85	143	664	-	-
Others	223,311	535,696	2,519,395	698,051	-
	<u>102,260,080</u>	<u>177,499,535</u>	<u>155,577,580</u>	<u>23,781,306</u>	<u>357,974</u>

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

	<b>2013</b>	<b>2012</b>
Turkey	3,200,132	3,193,230
Netherlands	136,832	91,241
Malta	104,718	76,677
Romania	88,898	(26,116)
Luxembourg	34,299	26,844
Others	30,986	27,841
	<u>3,595,865</u>	<u>3,389,717</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:

<b>2013</b>	<b>Retail Banking</b>	<b>Commercial, Corporate &amp; SME Banking</b>	<b>Other Operations</b>	<b>Total Banking</b>	<b>Leasing</b>	<b>Insurance</b>	<b>Factoring</b>	<b>Other Financial</b>	<b>Other Non-Financial</b>	<b>Combined</b>	<b>Eliminations</b>	<b>Total</b>
Operating income	2,480,939	3,517,922	2,437,243	8,436,104	195,549	344,431	79,660	113,609	157,508	9,326,861	97,738	9,424,599
Operating expenses	(1,743,313)	(1,684,911)	(746,208)	(4,174,432)	(102,414)	(172,065)	(60,904)	(90,433)	(171,766)	(4,772,014)	(144,971)	(4,916,985)
<b>Income from operations</b>	<b>737,626</b>	<b>1,833,011</b>	<b>1,691,035</b>	<b>4,261,672</b>	<b>93,135</b>	<b>172,366</b>	<b>18,756</b>	<b>23,176</b>	<b>(14,258)</b>	<b>4,554,847</b>	<b>(47,233)</b>	<b>4,507,614</b>
Taxation charge	-	-	(854,489)	(854,489)	(18,661)	(35,031)	(3,780)	(4,789)	4,398	(912,152)	403	(911,749)
<b>Net income for the period</b>	<b>737,626</b>	<b>1,833,011</b>	<b>836,546</b>	<b>3,407,183</b>	<b>74,474</b>	<b>137,335</b>	<b>14,976</b>	<b>18,387</b>	<b>(9,660)</b>	<b>3,642,695</b>	<b>(46,830)</b>	<b>3,595,865</b>
Segment assets	43,999,115	84,840,284	76,472,213	205,311,612	3,864,609	5,291,271	2,040,810	679,394	105,631	217,293,327	(2,232,876)	215,060,451
Investments in equity participations	-	-	500,539	500,539	10,000	275	-	2,347	767	513,928	(472,140)	41,788
Unallocated assets	-	45,688	2,072,316	2,118,004	52,776	23,612	16,918	17,220	344,529	2,573,059	60,477	2,633,536
<b>Total assets</b>	<b>43,999,115</b>	<b>84,885,972</b>	<b>79,045,068</b>	<b>207,930,155</b>	<b>3,927,385</b>	<b>5,315,158</b>	<b>2,057,728</b>	<b>698,961</b>	<b>450,927</b>	<b>220,380,314</b>	<b>(2,644,539)</b>	<b>217,735,775</b>
Segment liabilities	72,977,804	43,815,998	68,759,978	185,553,780	3,282,694	4,601,490	1,937,678	666,285	399,786	196,441,713	(2,181,107)	194,260,606
Total equity	-	-	22,376,375	22,376,375	644,691	713,668	120,050	32,676	51,141	23,938,601	(463,432)	23,475,169
<b>Total liabilities and equity</b>	<b>72,977,804</b>	<b>43,815,998</b>	<b>91,136,353</b>	<b>207,930,155</b>	<b>3,927,385</b>	<b>5,315,158</b>	<b>2,057,728</b>	<b>698,961</b>	<b>450,927</b>	<b>220,380,314</b>	<b>(2,644,539)</b>	<b>217,735,775</b>

**Türkiye Garanti Bankası AŞ and Its Affiliates**  
Notes to Consolidated Financial Statements  
As of and for the Year Ended 31 December 2013  
(Currency: Thousands of Turkish Lira (TL))

**1 Segment reporting (continued)**

	<u>2012</u>	<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>
Operating income	1,874,186	3,464,936	2,416,374	7,755,496	238,412	328,680	62,913	83,246	44,708	8,513,455	(80,943)	8,432,512	
Operating expenses	(1,236,496)	(1,669,071)	(881,280)	(3,786,847)	(150,597)	(160,551)	(37,759)	(70,061)	(35,513)	(4,241,328)	85,863	(4,155,465)	
<b>Income from operations</b>	<b>637,690</b>	<b>1,795,865</b>	<b>1,535,094</b>	<b>3,968,649</b>	<b>87,815</b>	<b>168,129</b>	<b>25,154</b>	<b>13,185</b>	<b>9,195</b>	<b>4,272,127</b>	<b>4,920</b>	<b>4,277,047</b>	
Taxation charge	-	-	(820,892)	(820,892)	(22,182)	(34,152)	(5,158)	(2,985)	(1,961)	(887,330)	-	(887,330)	
<b>Net income for the period</b>	<b>637,690</b>	<b>1,795,865</b>	<b>714,202</b>	<b>3,147,757</b>	<b>65,633</b>	<b>133,977</b>	<b>19,996</b>	<b>10,200</b>	<b>7,234</b>	<b>3,384,797</b>	<b>4,920</b>	<b>3,389,717</b>	
Segment assets	34,253,386	66,640,318	66,373,266	167,266,970	3,055,073	4,208,120	1,943,729	539,771	35,865	177,049,528	(1,719,630)	175,329,898	
Investments in equity participations	-	-	507,097	507,097	-	275	-	1,676	737	509,785	(484,445)	25,340	
Unallocated assets	-	42,036	1,691,315	1,733,351	289,398	15,626	8,957	17,099	1,112	2,065,543	78,754	2,144,297	
<b>Total assets</b>	<b>34,253,386</b>	<b>66,682,354</b>	<b>68,571,678</b>	<b>169,507,418</b>	<b>3,344,471</b>	<b>4,224,021</b>	<b>1,952,686</b>	<b>558,546</b>	<b>37,714</b>	<b>179,624,856</b>	<b>(2,125,321)</b>	<b>177,499,535</b>	
Segment liabilities	62,139,441	33,701,467	52,708,616	148,549,524	2,756,130	3,647,765	1,847,691	427,892	6,693	157,235,695	(1,658,115)	155,577,580	
Total equity	-	-	20,957,894	20,957,894	588,341	576,256	104,995	130,654	31,021	22,389,161	(467,206)	21,921,955	
<b>Total liabilities and equity</b>	<b>62,139,441</b>	<b>33,701,467</b>	<b>73,666,510</b>	<b>169,507,418</b>	<b>3,344,471</b>	<b>4,224,021</b>	<b>1,952,686</b>	<b>558,546</b>	<b>37,714</b>	<b>179,624,856</b>	<b>(2,125,321)</b>	<b>177,499,535</b>	

## 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 31 December 2013 and 2012, included in the accompanying consolidated statements of cash flows are as follows:

	<u>2013</u>	<u>2012</u>
Cash at branches	1,667,501	1,260,740
Unrestricted balances with central banks	5,181,791	3,258,665
Placements at money markets	199,031	1,000
Loans and advances to banks with original maturity periods of less than three months	1,747,455	1,455,902
	<u>8,795,778</u>	<u>5,976,307</u>

## 3 Related party disclosures

For the purpose of this report, the shareholders jointly controlling the Bank namely Doğuş Holding AŞ and BBVA 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

	<u>2013</u>	<u>2012</u>
<i>Statement of financial position</i>		
Loans and advances to banks	9,213	262,263
Loans and advances to customers	583,734	442,320
Miscellaneous receivables	2,117	4,148
Deposits from customers	661,417	313,384
Loans and advances from banks and other institutions	199,623	37,136
Miscellaneous payables	16,159	20,897
Securities	7,394	-
<i>Commitments and contingencies</i>		
Non-cash loans	773,926	616,442
Derivatives	9,092,999	3,267,559

### 3.2 Transactions

	<u>2013</u>	<u>2012</u>
Interest, fee and commission income	41,620	41,025
Interest, fee and commission expense	26,491	29,715
Other operating income	2,671	11,726
Other operating expenses	154,485	104,587

In 2013, interest rates applied to foreign currency receivables from and payables to related parties vary within the ranges of 3%-9% and 1%-9% (2012: 1%-14% and 1%-11%), respectively. The interest rates applied to TL receivables from and payables to related parties vary within the ranges of 1%-20% and

### 3 Related party disclosures (continued)

6%-10%, respectively (2012: 1%-33% and 6%-12%). 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 31 December 2013 (2012: nil).

Key management personnel compensation for the year ended 31 December 2013 amounted TL 125,823 thousands (2012: TL 136,955 thousands) on a consolidated basis. Within this total, individual key management expenses of the Bank amounted TL 68,918 thousands (2012: TL 82,512 thousands) and of its affiliates amounted TL 56,905 thousands (2012: TL 54,443 thousands).

### 4 Cash and balances with central banks

	<u>2013</u>	<u>2012</u>
Cash at branches	1,667,501	1,260,740
Balances with central banks excluding reserve deposits	<u>5,181,791</u>	<u>3,258,665</u>
	<u>6,849,292</u>	<u>4,519,405</u>

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

	<u>2013</u>				<u>2012</u>
	<u>Face value</u>	<u>Carrying value</u>	<u>Interest rate range %</u>	<u>Latest maturity</u>	<u>Carrying value</u>
<i>Debt and other instruments held at fair value:</i>					
Government bonds indexed to CPI	56,614	81,260	1-9	2023	5,685
Gold	-	64,158	-	-	42,364
Bonds issued by financial institutions	39,038	39,998	7-14	2019	32,590
Investment fund	-	39,464	-	-	32,031
Eurobonds	31,802	34,253	3-12	2043	14,891
Government bonds in TL	29,812	29,106	5-11	2023	71,830
Government bonds-floating (a)	18,823	19,369	6-11	2020	8,973
Bonds issued by corporations	14,741	15,089	8-13	2016	17,084
Discounted government bonds in TL	4,656	4,476	5-10	2014	85,879
		327,173			311,327
<i>Loans held at fair value</i>		198,778			222,181
<i>Equity and other non-fixed income instruments:</i>					
Listed shares		12,194			17,418
Total financial assets at fair value through profit or loss		<u>538,145</u>			<u>550,926</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 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 31 December 2013 amounting to TL 890 thousands (2012: TL 7 thousands).

## 5 Financial assets at fair value through profit or loss (continued)

As of 31 December 2013, financial assets at fair value through profit or loss amounting to TL 280,860 thousands are blocked against asset management operations and securitizations (2012: TL 223,894 thousands) (refer to Note 10).

As of 31 December 2013, government bonds and treasury bills include securities pledged under repurchase agreements with customers amounting to TL 2,732 thousands (2012: TL 19,816 thousands).

## 6 Loans and advances to banks

	2013			2012		
	<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	3,675	719	4,394	553	1,125	1,678
Foreign banks	<u>127,202</u>	<u>2,498,552</u>	<u>2,625,754</u>	<u>146,350</u>	<u>1,511,329</u>	<u>1,657,679</u>
	<u>130,877</u>	<u>2,499,271</u>	<u>2,630,148</u>	<u>146,903</u>	<u>1,512,454</u>	<u>1,659,357</u>
<i>Loans and advances-time</i>						
Domestic banks	526,523	1,894,652	2,421,175	537,551	1,342,755	1,880,306
Foreign banks	<u>1,606,528</u>	<u>4,730,563</u>	<u>6,337,091</u>	<u>1,887,348</u>	<u>3,927,876</u>	<u>5,815,224</u>
	<u>2,133,051</u>	<u>6,625,215</u>	<u>8,758,266</u>	<u>2,424,899</u>	<u>5,270,631</u>	<u>7,695,530</u>
Placements at money markets	<u>8,231</u>	<u>190,800</u>	<u>199,031</u>	<u>1,000</u>	<u>-</u>	<u>1,000</u>
Income accrual on loans and advances to banks	<u>17,769</u>	<u>34,454</u>	<u>52,223</u>	<u>20,912</u>	<u>32,794</u>	<u>53,706</u>
Total loans and advances to banks	2,289,928	9,349,740	11,639,668	2,593,714	6,815,879	9,409,593
Less: allowance for uncollectibility	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net loans and advances to banks	<u>2,289,928</u>	<u>9,349,740</u>	<u>11,639,668</u>	<u>2,593,714</u>	<u>6,815,879</u>	<u>9,409,593</u>

As of 31 December 2013, majority of loans and advances-time are short-term with interest rates ranging between 1%-4% per annum for foreign currency time placements and 2%-10% per annum for TL time placements (2012: 1%-6% and 5%-13%, respectively).

As of 31 December 2013, loans and advances at domestic and foreign banks include blocked accounts of TL 7,448,996 thousands (2012: TL 5,756,057 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:

	<u>2013</u>	<u>2012</u>
Consumer loans	44,205,827	34,069,621
<i>Mortgage loans</i>	14,099,824	10,874,185
<i>Credit card receivables</i>	13,790,108	11,222,929
<i>Auto loans</i>	1,472,637	1,289,677
<i>General purpose and other consumer loans</i>	14,843,258	10,682,830
Energy	12,403,326	7,794,220
Service sector	10,150,903	8,914,845
Construction	8,000,008	6,460,719
Transportation and logistics	5,762,964	4,773,793
Food	5,201,218	4,044,540
Textile	5,096,942	3,704,404
Metal and metal products	4,312,306	3,471,713
Tourism	3,552,135	3,287,980
Data processing	3,509,651	1,921,479
Financial institutions	3,480,388	2,243,896
Transportation vehicles and sub-industry	2,783,878	2,726,962
Chemistry and chemical products	2,407,818	1,631,415
Agriculture and stockbreeding	2,018,005	2,069,407
Durable consumption	1,378,566	591,183
Mining	1,314,187	1,035,816
Machinery and equipment	1,220,351	994,576
Stone, rock and related products	1,159,166	1,092,384
Paper and paper products	827,833	356,272
Electronic, optical and medical equipment	619,731	1,229,589
Plastic products	450,024	565,871
Others	<u>4,844,562</u>	<u>3,936,486</u>
Total performing loans	124,699,789	96,917,171
Financial lease receivables, net of unearned income (Note 8)	3,558,657	2,677,055
Factoring receivables	1,974,663	1,813,595
Income accrual on loans, factoring and lease receivables	1,751,101	1,254,005
Non-performing loans, factoring and lease receivables	4,000,048	3,011,273
Allowance for probable losses from loans, factoring and lease receivables	<u>(4,669,097)</u>	<u>(3,413,019)</u>
Loans and advances to customers	<u>131,315,161</u>	<u>102,260,080</u>

As of 31 December 2013, interest rates on loans granted to customers range between 1%-28% (2012: 1%-53%) per annum for the foreign currency loans and 2%-26% (2012: 2%-23%) 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 827,867 thousands (2012: TL 591,698 thousands). Movements in the allowance for probable losses on loans, factoring and lease receivables including the portfolio basis allowances, are as follows:

	<u>2013</u>	<u>2012</u>
Balance at the beginning of the period	3,413,019	2,487,786
Write-offs	(321,568)	(208,557)
Recoveries and reversals	(517,787)	(222,912)
Provision for the period	<u>2,095,433</u>	<u>1,356,702</u>
Balance at the end of the period	<u>4,669,097</u>	<u>3,413,019</u>

A part of the non-performing loan portfolio of the Bank amounting to TL 310,301 thousands (2012: TL 200,564 thousands) and a part of its receivables written-off in prior periods in the amounting of TL 3,857 thousands, were sold to a local asset management company for a consideration of TL 58,400 thousands (2012: TL 32,600 thousands). A gain of TL 43,873 thousands was recognized under “gain on sale of assets” in the statement of income as of 31 December 2013 for this sale, considering the related provisions of TL 299,631 thousands in the consolidated financial statements (2012: TL 32,600 thousands). Also a part of non-performing receivables of the Bank’s consolidated affiliates amounting to TL 13,570 thousands (2012: TL 28,952 thousands) had been sold for a consideration of TL 485 thousands (2012: TL 1,343 thousands). A gain from this sale amounting to TL 452 thousands (2012: a loss of TL 1,128 thousands) was recognized under “gain on sale of assets” in the statement of income as of 31 December 2013.

## 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:

	<u>2013</u>	<u>2012</u>
Financial lease receivables, net of unearned income (Note 7)	3,558,657	2,677,055
Add: non-performing lease receivables	355,809	279,100
Less: allowance for probable losses on lease receivable	<u>(173,509)</u>	<u>(111,853)</u>
	<u>3,740,957</u>	<u>2,844,302</u>
Income accrual on lease receivables	<u>23,705</u>	<u>17,622</u>
<i>Analysis of net financial lease receivables</i>		
Due within 1 year	1,613,273	1,157,270
Due between 1 and 5 years	2,479,636	2,022,333
Due after 5 years	<u>178,940</u>	<u>108,236</u>
Financial lease receivables, gross	4,271,849	3,287,839
Unearned income	<u>(530,892)</u>	<u>(443,537)</u>
Financial lease receivables, net	<u>3,740,957</u>	<u>2,844,302</u>
<i>Analysis of net financial lease receivables</i>		
Due within 1 year	1,458,901	1,045,627
Due between 1 and 5 years	2,133,517	1,710,720
Due after 5 years	<u>148,539</u>	<u>87,955</u>
Financial lease receivables, net	<u>3,740,957</u>	<u>2,844,302</u>

## 9 Other assets

	<u>2013</u>	<u>2012</u>
Reserve deposits at central banks	18,366,792	13,491,777
Insurance premium receivables	4,340,416	3,410,797
Derivative financial assets	1,784,679	710,767
Prepaid expenses, insurance claims and similar items	397,715	305,460
Balances with clearing house	385,011	11,957
Miscellaneous receivables	383,724	332,145
Tangible assets held for sale	149,742	132,437
Investment property (*)	121,671	127,682
Prepaid taxes and taxes and funds to be refunded	37,950	86,358
Others	<u>140,993</u>	<u>119,233</u>
	<u>26,108,693</u>	<u>18,728,613</u>

(\*) Depreciation expense for investment property amounts to TL 3,767 thousands as of 31 December 2013 (2012: TL 4,068 thousands).

### *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 0.55% for RON reserves 0.36% for Euro reserves and 0.16% 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 rate is 4.25%.

### *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 31 December 2013, real estates held for sale have been impaired by TL 18,226 thousands (2012: TL 14,715 thousands).

As of 31 December 2013, the rights of repurchase on various tangible assets held for sale amounted to TL 27,725 thousands (2012: TL 5,313 thousands).

## 10 Investment securities

	2013				2012
	<u>Face value</u>	<u>Carrying value</u>	<u>Interest rate range %</u>	<u>Latest maturity</u>	<u>Carrying value</u>
<i>Debt and other instruments available-for-sale:</i>					
Government bonds at floating rates (a)	7,045,389	7,130,126	6-10	2020	8,111,245
Government bonds in TL (d)	5,856,789	5,640,990	5-11	2023	8,118,758
Government bonds indexed to CPI (d)	3,871,445	4,857,943	1-9	2023	13,018,710
Bonds issued by financial institutions (b)	4,058,407	4,041,506	1-11	2025	3,286,844
Bonds issued by foreign governments	1,015,934	1,101,364	2-11	2028	1,048,636
Eurobonds (c)	1,030,064	1,094,389	3-12	2041	304,793
Bonds issued by corporations (b)	462,796	460,594	2-13	2023	304,790
Discounted government bonds in TL	479,930	459,301	6-9	2014	4,270,780
Others		49,485			29,771
Total securities available-for-sale		24,835,698			38,494,327
<i>Debt and other instruments held-to-maturity:</i>					
Government bonds indexed to CPI (d)	7,516,682	8,559,886	1-5	2023	-
Government bonds in TL (d)	3,084,521	3,000,881	6-10	2023	102
Government bonds at floating rates (a)	887,744	909,338	10	2014	910,865
Eurobonds (c)	406,694	463,687	6-8	2038	441,641
Discounted government bonds in TL	231,000	205,269	10	2014	-
Bonds issued by financial institutions	191,066	180,142	4-6	2020	7,065
Bonds issued by corporations	10,816	9,792	4-9	2020	2,390
		13,328,995			1,362,063
Income accrual on held-to-maturity portfolio		444,799			4,891
Total securities held-to-maturity		13,773,794			1,366,954
Total investment securities		38,609,492			39,861,281

- (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 and financial institutions include credit linked notes with a total face value of US\$ 425,000,000 (2012: US\$ 426,111,240) and a total carrying value of TL 913,660 thousands (2012: TL 765,645 thousands).
- (c) As per the regulation on capital adequacy (Basel II) effective from 1 July 2012 in Turkey, the risk weight of securities in foreign currencies issued by the Turkish Treasury increased from 0% to 100%. Accordingly, in 2012, the Bank sold a part of its eurobonds with a total face value of US\$595,638,000 from its held-to-maturity portfolio and in the current period, reclassified a part of its eurobonds with a total face value of US\$ 248,209,999 to its available-for-sale portfolio as allowed by IAS 39 for the sale or reclassification of securities originally classified under the securities held-to-maturity in cases where the capital requirement increases due to regulatory changes.
- (d) The Bank reclassified certain securities issued by the Turkish Treasury, with a total face value of TL 8,965,094 thousands from financial assets available-for-sale portfolio to investments held-to-maturity portfolio in the current period.

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.

## 10 Investment securities (continued)

There are no impairment losses on the investment securities as of 31 December 2013 (2012: nil).

Government bonds and treasury bills include securities pledged under repurchase agreements with customers amounting to TL 17,853,584 thousands (2012: TL 15,395,832 thousands).

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

	2013		2012	
	Face Value	Carrying value	Face Value	Carrying value
Collateralized to foreign banks	16,008,354	17,545,074	13,086,713	14,775,087
Deposited at Borsa Istanbul	9,247,906	9,521,210	7,799,715	9,665,505
Deposited at central banks for repurchase transactions	2,399,566	2,542,392	1,637,828	1,908,053
Deposited at central banks for interbank transactions	432,476	574,656	1,237,438	1,321,927
Deposited at Clearing Bank (Takasbank)	139,003	137,193	180,967	220,588
Deposited at CBT for foreign currency money market transactions	75,000	105,782	100,000	101,032
Others		44,199		38,045
		<u>30,470,506</u>		<u>28,030,237</u>

## 11 Investments in equity participations

	2013		2012	
	Carrying Value	Ownership %	Carrying Value	Ownership %
İstanbul Takas ve Saklama Bankası AŞ	27,636	5.85	11,962	5.85
Others	14,152		13,378	
	<u>41,788</u>		<u>25,340</u>	

The shares in Vadeli İşlem ve Opsiyon Borsası A.Ş were replaced by the shares of Borsa İstanbul AŞ according to the article 138-6/b of the Capital Market Law no. 6362.

The legal name of İMKB Takasbank AŞ was changed as İstanbul Takas ve Saklama Bankası AŞ in the current period. The paid-in capital of İstanbul Takas ve Saklama Bankası AŞ was decided to be increased from TL 60,000 thousands to TL 420,000 thousands by TL 360,000 thousands of which TL 180,000 thousands was in cash, at the ordinary general meeting held on 29 March 2013. The Bank and its consolidated affiliate participated in this increase by TL 10,539 thousands in cash and also acquired bonus shares of TL 5,135 thousands. The ownership percentage remained the same.

The liquidations of Gelişen Bilgi Teknolojileri AŞ and Garanti Teknolojinet İletişim Hizmetleri ve Tic. AŞ were completed in 2012.

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 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.

İstanbul Takas ve Saklama Bankası 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.

There were no impairment losses charged to the statement of income for the investments in equity participations as of 31 December 2013 (2012: TL 445 thousands). The cumulative provisions for impairment losses on investments in equity participations amounted to TL 3,544 thousands as of 31 December 2013 (2012: TL 3,597 thousands).

## 12 Tangible assets

Movement in tangible assets from 1 January to 31 December 2013 is as follows:

	<u>1 January</u>	<u>Additions</u>	<u>Effects of Movement in Exchange Rates</u>	<u>Disposals and Transfers</u>	<u>31 December</u>
<i>Costs</i>					
Land and buildings	1,095,031	49,980	31,138	(6,449)	1,169,700
Furniture, fixture, equipments and motor vehicles	1,703,616	455,118	18,988	(134,160)	2,043,562
Leasehold improvements	<u>553,391</u>	<u>106,645</u>	<u>53,845</u>	<u>(10,295)</u>	<u>703,586</u>
	3,352,038	611,743	103,971	(150,904)	3,916,848
<i>Less: Accumulated depreciation</i>					
Buildings	290,910	24,544	2,966	(3,044)	315,376
Furniture, fixture, equipments and motor vehicles	1,069,779	163,137	10,650	(79,906)	1,163,660
Leasehold improvements	<u>372,987</u>	<u>93,867</u>	<u>36,705</u>	<u>(9,148)</u>	<u>494,411</u>
	1,733,676	281,548	50,321	(92,098)	1,973,447
<i>Construction in progress</i>	<u>76,503</u>	68,230	1,905	(19,475)	<u>127,163</u>
	1,694,865				2,070,564
<i>Impairment in value of tangible assets</i>	<u>(51,414)</u>				<u>(51,671)</u>
	<u>1,643,451</u>				<u>2,018,893</u>

## 12 Tangible assets (continued)

Movement in tangible assets from 1 January to 31 December 2012 is as follows:

	<u>1 January</u>	<u>Additions</u>	<u>Effects of Movement in Exchange Rates</u>	<u>Disposals and Transfers<sup>(*)</sup></u>	<u>31 December</u>
<i>Costs</i>					
Land and buildings	1,239,482	15,758	(3,265)	(156,944)	1,095,031
Furniture, fixture, equipments and motor vehicles	1,544,538	250,009	(4,775)	(86,156)	1,703,616
Leasehold improvements	<u>503,798</u>	<u>63,200</u>	<u>(4,319)</u>	<u>(9,288)</u>	<u>553,391</u>
	3,287,818	328,967	(12,359)	(252,388)	3,352,038
<i>Less: Accumulated depreciation</i>					
Buildings	294,919	23,157	(622)	(26,544)	290,910
Furniture, fixture, equipments and motor vehicles	971,403	141,804	(1,943)	(41,485)	1,069,779
Leasehold improvements	<u>295,707</u>	<u>89,204</u>	<u>(3,934)</u>	<u>(7,990)</u>	<u>372,987</u>
	1,562,029	254,165	(6,499)	(76,019)	1,733,676
<i>Construction in progress</i>	<u>52,938</u>	<u>29,007</u>	<u>(290)</u>	<u>(5,152)</u>	<u>76,503</u>
	1,778,727				1,694,865
<i>Impairment in value of tangible assets</i>	<u>(67,959)</u>				<u>(51,414)</u>
	<u>1,710,768</u>				<u>1,643,451</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 151,266 thousands and TL 25,555 thousands, respectively, are included in "disposals" column above as of 31 December 2012.

Depreciation expense of tangible assets for the year ended 31 December 2013 amounts to TL 281,548 thousands (2012: TL 254,165 thousands).

Assessments of the independent appraiser firms have been taken into consideration in the determination of the impairment losses provided for land and buildings. As of 31 December 2013, land and buildings at a total net book value before impairment of TL 412,621 thousands (2012: TL 396,884 thousands) have been impaired by TL 51,671 thousands (2012: TL 51,414 thousands).

## 13 Goodwill

As of 31 December 2013, 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>2013</u>	<u>2012</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	<u>34</u>	<u>34</u>
	32,948	32,948
Impairment of goodwill	<u>-</u>	<u>-</u>
	<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:

	<u>2013</u>	<u>2012</u>
Payable on demand	1,188,346	1,327,590
Term deposits	<u>5,533,347</u>	<u>4,249,017</u>
	6,721,693	5,576,607
Expense accrual on deposits from banks	<u>11,587</u>	<u>7,179</u>
	<u>6,733,280</u>	<u>5,583,786</u>

Deposits from banks include both TL accounts amounting to TL 795,617 thousands (2012: TL 1,035,164 thousands) and foreign currency accounts amounting to TL 5,926,076 thousands (2012: TL 4,541,443 thousands) in total. As of 31 December 2013, interest rates applicable to TL bank deposits and foreign currency bank deposits vary within ranges of 1%-9% and 1%-7% (2012: 3%-10% and 1%-7%), respectively.

## 15 Deposits from customers

Deposits from customers comprise the following:

	<u>2013</u>			<u>2012</u>
	<u>Demand</u>	<u>Time</u>	<u>Total</u>	<u>Total</u>
Foreign currency	13,012,378	38,275,947	51,288,325	40,792,184
Saving	4,855,425	33,540,364	38,395,789	33,299,340
Commercial	5,045,438	11,530,329	16,575,767	14,361,481
Public and other	839,803	2,600,562	3,440,365	1,015,527
Gold and other precious metals	<u>2,138,457</u>	<u>154,786</u>	<u>2,293,243</u>	<u>2,375,006</u>
	25,891,501	86,101,988	111,993,489	91,843,538
Expense accrual on deposits from customers	<u>118</u>	<u>467,522</u>	<u>467,640</u>	<u>347,963</u>
	<u>25,891,619</u>	<u>86,569,510</u>	<u>112,461,129</u>	<u>92,191,501</u>

As of 31 December 2013, interest rates applicable to TL deposits and foreign currency deposits vary within the ranges of 3%-11% and 1%-8% (2012: 4%-14% and 1%-11%), 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:

	<u>2013</u>	<u>2012</u>
Obligations under repurchase agreements	16,003,560	14,106,944
Obligations on securities under reverse repurchase agreements	<u>4,178</u>	<u>-</u>
	<u>16,007,738</u>	<u>14,106,944</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>2013</b>					
Financial assets at fair value through profit or loss	2,732	2,732	2,732	Jan'14	2,732
Investment securities	<u>17,853,588</u>	<u>17,741,099</u>	<u>16,000,828</u>	Jan'14-Jul'16	<u>16,153,020</u>
	<u>17,856,320</u>	<u>17,743,831</u>	<u>16,003,560</u>		<u>16,155,752</u>
<b>2012</b>					
Financial assets at fair value through profit or loss	19,816	19,816	19,257	Jan'13	19,257
Investment securities	<u>15,395,832</u>	<u>15,395,832</u>	<u>14,087,687</u>	Jan-Oct'13	<u>14,132,054</u>
	<u>15,415,648</u>	<u>15,415,648</u>	<u>14,106,944</u>		<u>14,151,311</u>

The proceeds from the sale of securities under repurchase agreements are treated as liabilities and recorded as obligations under repurchase agreements. As of 31 December 2013, the maturities of the obligations varied from one day to 31 months and interest rates varied between 1%-9% (2012: 1%-7%). 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 41,638 thousands (2012: TL 15,532 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>2013</u>	<u>2012</u>
<u>Short-term borrowings</u>		
Domestic banks	1,199,932	1,682,956
Foreign banks	<u>9,776,962</u>	<u>8,461,011</u>
	10,976,894	10,143,967
<u>Long-term debts</u>		
Short-term portion	5,694,077	4,086,653
Medium and long-term portion	<u>17,320,286</u>	<u>11,334,110</u>
	23,014,363	15,420,763
Expense accrual on loans and advances from banks and other institutions	<u>198,327</u>	<u>314,625</u>
	<u>34,189,584</u>	<u>25,879,355</u>

As of 31 December 2013, loans and advances from banks and other institutions included various promissory notes amounting to TL 685,593 thousands in total with short-term maturities (2012: TL 137,350 thousands).



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

As of 31 December 2013, 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\$ 431,287,500 and EUR 768,250,000 with rates of Libor + 1.00% and Euribor + 1.00% per annum with the participation of 47 banks from 20 countries (equivalent of TL 3,154,388 thousands), (ii) US\$ 291,500,000 and EUR 675,500,000 with rates of Libor + 0.75% and Euribor + 0.75% per annum with the participation of 35 banks from 17 countries (equivalent of TL 2,591,116 thousands).

Long-term debts comprise the following:

	2013					2012
	<i>Interest rate%</i>	<i>Latest maturity</i>	<i>Amount in original currency</i>	<i>Short term portion</i>	<i>Medium and long term portion</i>	<i>Medium and long term debts</i>
DPR Securitisation- XVI	2	2034	US\$ 1 billions	-	2,120,000	-
Deutsche Bank AG-II	3	2019	US\$ 500 millions	-	1,060,000	880,000
DPR Securitisation-XIV	3	2026	US\$ 400 millions	-	848,000	697,103
Deutsche Bank AG-III	9	2015	TL 750 millions	-	750,000	750,000
Deutsche Bank AG-I	11-13	2017	TL 701 millions	-	701,210	701,210
DPR Securitisation-IX	1	2018	EUR 164 millions	100,191	377,625	380,644
DPR Securitisation- VIII	1	2017	US\$ 210 millions	118,659	326,541	369,439
DPR Securitisation- XIII	2	2016	US\$ 206 millions	158,597	278,653	362,098
DPR Securitisation- XV	2	2018	EUR 135 millions	-	393,324	-
EIB I	1-4	2022	US\$ 181 millions	40,538	344,066	324,844
DPR Securitisation- XV	2	2018	US\$ 175 millions	-	371,000	-
DPR Securitisation-XII	2	2016	EUR 75 millions	96,945	121,570	173,218
EIB II	9	2019	TL 206 millions	-	206,250	-
DPR Securitisation- XII	1	2022	EUR 69 millions	21,861	180,298	161,047
DPR Securitisation- XII	2	2022	EUR 69 millions	21,861	180,298	161,047
DPR Securitisation- VI (*)	1	2016	US\$ 87 millions	73,811	111,028	153,167
OPIC	3	2019	US\$ 86 millions	29,680	152,640	151,360
DPR Securitisation- XIII	2	2016	EUR 46 millions	48,568	84,968	105,969
DPR Securitisation-VIII	1	2017	US\$ 60 millions	33,907	93,293	105,554
DPR Securitisation- VIII	1	2017	US\$ 60 millions	33,907	93,293	105,554
EBRD-V	3	2017	US\$ 60 millions	18,171	109,029	105,600
EBRD-IV	2	2017	EUR 40 millions	33,337	83,361	92,651
EFSE	3	2017	EUR 25 millions	-	72,678	58,793
EBRD-II	1-2	2025	US\$ 32 millions	28,861	39,393	56,539
KfW	2	2017	EUR 20 millions	9,733	48,687	-
DPR Securitisation-VII	1	2014	US\$ 17 millions	35,334	-	29,319
EBRD-III	2	2015	EUR 11 millions	16,588	16,612	26,343
DPR Securitisation-VIII	1	2015	US\$ 13 millions	17,649	8,851	22,000
EBRD-I	3	2014	EUR 7 millions	19,311	-	15,297
Others				<u>4,736,568</u>	<u>8,147,618</u>	<u>5,345,314</u>
				<u>5,694,077</u>	<u>17,320,286</u>	<u>11,334,110</u>

(\*) 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 December 2013, the Bank completed a securitization (the “DPR Securitization XVI”) transaction; US\$ 1 billions with a maturity of 21 years through its future cashflows under the DPR program. The Bank classified this securitization as financial liability at fair value through profit/loss at the initial recognition. As of 31 December 2013, the credit risk change amounting to TL 35,862 thousands is recognized in the statement of income.

In December 2013, the Bank signed a loan agreement with European Investment Bank (EIB) in amount of TL 206,250 thousands (equivalent of EUR 75 millions) with a maturity of six years for the financing of small and medium-sized enterprises.

In October 2013, the Bank completed a securitization (the DPR Securitization-XV) transaction, arranged by European Bank for Reconstruction and Development (EBRD), Wells Fargo Bank NA, Raiffeisen Bank International AG and Sumitomo Mitsui Banking Corporation in the amount of US\$ 175 millions and EUR 135 millions both with a maturity of five years.

In August 2013, the Bank signed a loan agreement with Kreditanstalt für Wiederaufbau (KfW) in the amount of EUR 20 millions with a maturity of four years for the financing of small and medium-sized enterprises.

In December 2012, one of the Bank’s consolidated affiliates signed a loan agreement with European Fund for Southeast Europe (EFSE) in the amount of EUR 25 millions with a maturity of five years for the financing of micro and small enterprises.

In November 2012, the Bank signed a loan agreement with EBRD (EBRD-V) in the amount of US\$ 60 millions with a maturity of five years for the financing of the women entrepreneurs.

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 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 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 July 2010, the Bank borrowed TL 750 millions (Deutsche Bank AG-III) from Deutsche Bank AG, London with a maturity of five years at 8.71% annual fixed-interest rate through a secured financing transaction. Accordingly, the Bank pledged TL 855 millions of government bonds to Deutsche Bank AG, London.

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

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 April 2009, the Bank borrowed US\$ 500 millions (Deutsche Bank AG-II) from Deutsche Bank AG, London with a maturity of ten years at 2.7% annual fixed-interest rate through a secured financing transaction. Accordingly, the Bank pledged US\$ 500 millions of cash collateral to Deutsche Bank AG, London at annual US\$ libor floating interest rate.

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.

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 (Deutsche Bank AG-I). 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.

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

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.

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:

	<i>Latest maturity</i>	<u>2013</u>		<u>2012</u>
		<i>Interest rate %</i>	<i>Amount</i>	<i>Amount</i>
Bonds payable of US\$ 2,662 millions	2022	0.3-6.4	5,341,583	3,733,908
Bonds payable of TL 4,901 millions	2018	5.6-10.1	4,357,098	2,210,847
Bonds payable of AUD 175 millions	2018	5.6	330,543	-
Bonds payable of CHF 108 millions	2015	1.1-1.8	257,462	-
Bonds payable of EUR 65 millions	2023	2-5.2	188,714	-
Bonds payable of RON 150 millions	2018	6-6.3	97,184	-
Bonds payable of CZK 340 millions	2016	2.5	36,261	-
			<u>10,608,845</u>	<u>5,944,755</u>
Expense accrual on bonds payable			<u>226,453</u>	<u>181,231</u>
			<u>10,835,298</u>	<u>6,125,986</u>

The total face value of the bonds and bills issued by the Bank in domestic market reached to TL 3,615 millions as of 31 December 2013 (2012: TL 2,093 millions). The issuances are authorized by the Turkish Capital Markets Board.

In December 2013, one of the Bank’s consolidated affiliates issued bills with a total face values of TL 236,486 thousands, a maturity date of 6 June 2014 and interest rate of 9.35%, and bills with a total face value of TL 60,000 thousands, a maturity date of 23 June 2014 and interest rate of 9.52%.

In December 2013, the Bank issued bills under the Global Medium Term Notes (GMTN) program with a total face value of US\$ 94,600 thousands and latest maturity of 20 June 2014, EUR 35,000 thousands with latest maturity of 18 December 2023 and RON 103,500 thousands with latest maturity of 8 October 2018.

In November 2013, the Bank issued bills under the Global Medium Term Notes (GMTN) program with a total face value of US\$ 44,200 thousands and latest maturity of 20 November 2014.

In October 2013, the Bank issued bills under the Global Medium Term Notes (GMTN) program with a total face value of US\$ 12,100 thousands and latest maturity of 16 April 2014, EUR 30,000 thousands with latest maturity of 31 October 2014, RON 46,500 thousands with a maturity of 8 October 2018 and CZK 340,000 thousands with a maturity of 6 October 2016.

In September 2013, the Bank issued bills under the Global Medium Terms Notes (GMTN) program with a total face value of US\$ 212,200 thousands and latest maturity of 25 September 2014. A portion of these bills amounting to US\$ 61,200 thousands redeemed in December 2013.

## **18 Bonds payable (continued)**

In August 2013, the the Bank issued bills under the Global Medium Terms Notes (GMTN) program with a total face value of US\$ 185,800 thousands and latest maturity of 15 September 2014. A portion of these bills amounting to US\$ 47,800 thousands redeemed in November 2013.

In July 2013, the the Bank issued bills under the Global Medium Terms Notes (GMTN) program with a total face value of US\$ 21,400 thousands and CHF 5,600 thousands with latest maturity of 31 July 2014.

In June 2013, the Bank issued bills under the Global Medium Term Notes (GMTN) program with a total face value of US\$ 230,300 thousands and latest maturity of 12 June 2014. A portion of these bills amounting to US\$ 77,600 thousands redeemed in September 2013, US\$ 21,700 thousands in November 2013 and US\$ 92,800 thousands in December 2013.

One of the Bank's consolidated affiliates issued fixed-rate notes with a total face value of TL 117,374 thousands, a maturity date of 21 November 2014 and interest rate of 6.78%, and bills with a total face value of TL 120,958 thousands, interest rate of 5.84% and a maturity of 150 days in May 2013 and 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 May 2012. This affiliate had also issued bills with a total face value of TL 75,501 thousands, interest rate of 6.71% and a maturity of 178 days in December 2012 and bills with a total face value of TL 125,000 thousands, interest rate of 9.06% and a maturity of 178 days in July 2012. These last two issuances redeemed in the first half of 2013 and the bills issued in May 2013 redeemed in October 2013.

In April 2013, the Bank established GMTN program in order to issue bonds or other borrowing instruments in any currency with different series and maturities. In this regard, in May 2013, the Bank issued bills with a total face value of US\$ 179,600 thousands and latest maturity of 16 May 2018, CHF 102,400 thousands with latest maturity of 27 May 2015 and AUD 175,000 thousands with latest maturity of 23 May 2018. A portion of these bills amounting to US\$ 72,100 thousands redeemed in August 2013 and a portion of US\$ 95,500 thousands redeemed in November 2013.

In April 2013, one of the Bank's consolidated affiliates issued TL 45,000 thousands, fixed-rate notes with a maturity date of 27 October 2014 and interest rate of 7.19%. This affiliate had also issued bills with a total face value of TL 50,000 thousands, interest rate of 7.57% and a maturity of 189 days in October 2012. These bills redeemed in April 2013.

In March 2013, the Bank issued TL 750 million 5-year fixed-rate notes with a maturity date of 7 March 2018 and a coupon rate of 7.375% in the international markets.

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 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 190,734 thousands (2012: TL 177,169 thousands) and foreign currency securities with a total face value of TL 278,581 thousands (2012: TL 22,869 thousands), and netted off such securities in the accompanying consolidated financial statements as of 31 December 2013.

## 18 Bonds payable (continued)

The Bank classified issued securities amounting to RON 34,500 thousands as financial liability at fair value through profit/loss at the initial recognition. As of 31 December 2013, the credit risk change amounting to TL 83 thousands is recognized in the statement of income.

## 19 Subordinated liabilities

Subordinated liabilities comprise of the following:

	2013			2012
	<i>Latest maturity</i>	<i>Interest rate %</i>	<i>Amount</i>	<i>Amount</i>
Subordinated debt of EUR 50 millions	2021	euribor+3.5	146,050	116,050
Subordinated deposits			-	30,840
			146,050	146,890
Expense accrual on subordinated liabilities			1,441	1,790
			<u>147,491</u>	<u>148,680</u>

On 23 February 2009, the Bank had obtained a 12-year subordinated loan of EUR 50 millions due in 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.

## 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.

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.

## **20 Taxation (continued)**

### *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 7% 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 8.25% 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 taxation provides relief for



## 20 Taxation (continued)

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:

	<u>2013</u>	<u>%</u>	<u>2012</u>	<u>%</u>
Taxes on income per statutory tax rate	901,523	20.00	855,409	20.00
Disallowable expenses	52,033	1.15	20,573	0.48
Income items exempt from tax or subject to different tax rates	(3,039)	(0.06)	2,693	0.06
Partial reversal of general provisions	(23,000)	(0.51)	-	-
Others	<u>(15,768)</u>	<u>(0.35)</u>	<u>8,655</u>	<u>0.21</u>
Taxation charge	<u>911,749</u>	<u>20.23</u>	<u>887,330</u>	<u>20.75</u>

The taxation charge is comprised of the following:

	<u>2013</u>	<u>2012</u>
Current taxes	662,003	1,302,085
Deferred taxes	<u>249,746</u>	<u>(414,755)</u>
Taxation charge	<u>911,749</u>	<u>887,330</u>

## 20 Taxation (continued)

The movement of current tax liability is as follows:

	<u>2013</u>	<u>2012</u>
Balance at the beginning of the period (*)	340,879	77,247
Current period taxation charge	662,003	1,302,085
Less: Corporate taxes paid during the period	<u>(869,498)</u>	<u>(1,038,453)</u>
Current tax liability	<u>133,384</u>	<u>340,879</u>

(\*) The tax effects of corrections made by the Bank for the calculation of SDIF premiums between the years 2007-2012 on the prior periods' consolidated financial statements amounted to TL 3,189 thousands as of 31 December 2011 and TL 3,941 thousands as of 31 December 2012.

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:

	<u>2013</u>	<u>2012</u>
Total deferred tax assets	852,857	587,088
Off-setted amount	<u>(271,162)</u>	<u>(119,190)</u>
Deferred tax assets per financial statements	<u>581,695</u>	<u>467,898</u>
Total deferred tax liabilities	271,833	147,964
Off-setted amount	<u>(271,160)</u>	<u>(119,190)</u>
Deferred tax liabilities per financial statements	<u>673</u>	<u>28,774</u>
Net deferred tax assets	<u>581,022</u>	<u>439,124</u>

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

	<u>Opening balance</u>	<u>Recognized in income statement</u>	<u>Effects of movement in exchange rates</u>	<u>Recognized in equity</u>	<u>Closing balance</u>
<b><u>2013</u></b>					
Impairment losses on loans	247,545	145,100	(2,368)	-	390,277
Discount on loans and advances to customers	77,647	14,481	-	-	92,128
Reserve for employee severance indemnity	38,139	7,853	-	(4,730)	41,262
Short-term employee benefits	33,876	5,806	215	-	39,897
Tax losses carried forward	28,094	10,617	6,642	-	45,353
Valuation difference on financial assets and liabilities	11,932	(466,200)	(7,912)	388,682	(73,498)
Impairment of equity participations and tangible assets	11,309	119	-	-	11,428
Accruals on credit card rewards	7,552	3,136	-	-	10,688
Tax exemption for leasing business	1,912	(710)	-	-	1,202
Pro-rata basis depreciation expenses	(21,354)	(698)	(593)	-	(22,645)
Prepaid expenses and promotions	(13,628)	9,476	-	-	(4,152)
Others, net	<u>16,100</u>	<u>21,274</u>	<u>2,667</u>	<u>9,041</u>	<u>49,082</u>
Net deferred tax assets	<u>439,124</u>	<u>(249,746)</u>	<u>(1,349)</u>	<u>392,993</u>	<u>581,022</u>

**20 Taxation (continued)**

	<i>Opening balance</i>	<i>Recognized in income statement</i>	<i>Effects of movement in exchange rates</i>	<i>Recognized in equity</i>	<i>Closing balance</i>
<b>2012</b>					
Impairment losses on loans	180,236	67,087	222	-	247,545
Discount on loans and advances to customers	38,623	39,024	-	-	77,647
Reserve for employee severance indemnity	26,253	11,886	-	-	38,139
Short-term employee benefits	30,851	3,108	(83)	-	33,876
Tax losses carried forward	24,245	5,479	(1,630)	-	28,094
Valuation difference on financial assets and liabilities	(58,146)	270,857	85	(200,864)	11,932
Impairment of equity participations and tangible assets	15,107	(3,798)	-	-	11,309
Accruals on credit card rewards	8,871	(1,319)	-	-	7,552
Tax exemption for leasing business	1,741	171	-	-	1,912
Pro-rata basis depreciation expenses	(12,581)	(8,773)	-	-	(21,354)
Prepaid expenses and promotions	(27,526)	13,898	-	-	(13,628)
Others, net	(909)	17,135	(126)	-	16,100
Net deferred tax assets	<u>226,765</u>	<u>414,755</u>	<u>(1,532)</u>	<u>(200,864)</u>	<u>439,124</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:

	<u>2013</u>	<u>2012</u>
Blocked accounts against expenditures of card holders	4,933,987	3,950,605
Payables to insurance and reinsurance companies		
relating to insurance business	4,317,520	3,382,905
Derivative financial liabilities	1,617,809	926,945
Provision for general banking risks	335,000	450,000
Miscellaneous payables	262,046	209,485
Expense accruals	243,829	143,071
Insurance business related provisions	239,423	221,009
Provision for non-cash loans	237,711	172,197
Withholding taxes	237,408	243,820
Short-term employee benefits	208,686	175,613
Reserve for employee severance indemnity	206,353	190,469
Cash guarantees obtained	178,115	289,670
Transfer orders	157,548	102,210
Payables to suppliers relating to financial lease activities	78,158	66,391
Unearned income	77,042	279,851
Advances received	52,761	43,934
Blocked accounts	28,974	38,722
Others (*)	339,659	284,778
	<u>13,752,029</u>	<u>11,171,675</u>

(\*) The effects of corrections on other provisions, made by the Bank for the calculation of SDIF premiums between the years 2007-2012 on the prior periods' consolidated financial statements, amounted to TL 19,702 thousands as of 31 December 2012.

As of 31 December 2013, the other liabilities, accrued expenses and provision include a general provision amounting to TL 335,000 thousands (2012: 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. TL 115,000 thousands of such provisions was reversed in 2013 through the statement of income.

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

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

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 exceeded the amount that would 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 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

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

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 16 December 2013 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 2013.

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 2013 the present value of funded obligations amounted to TL 115,122 thousands (2012: TL 111,230 thousands) and the fair value of the planned assets amounted to TL 1,754,955 thousands (2012: TL 1,479,105 thousands).

	<u>2013</u>	<u>2012</u>
Present value of funded obligations		
- Pension benefits transferable to SSF (obligation measured at the expected transfer amount)	(474,544)	(458,057)
- Medical benefits transferable to SSF (obligation measured at the expected transfer amount)	385,587	369,726
- General administrative expenses	<u>(26,165)</u>	<u>(22,899)</u>
	(115,122)	(111,230)
Fair value of plan assets	<u>1,754,955</u>	<u>1,479,105</u>
Asset surplus in the plan <sup>(*)</sup>	<u>1,639,833</u>	<u>1,367,875</u>

<sup>(\*)</sup> Asset surplus in this plan will be used to cover the excess benefits not transferable to SSF.

Plan assets consisted of the following:

	<u>2013</u>	<u>2012</u>
Cash and due from banks	66,530	475,500
Securities	1,590,488	905,686
Land and buildings	97,520	97,520
Other	417	399
	<u>1,754,955</u>	<u>1,479,105</u>

### 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.

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

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

	<u>2013</u>	<u>2012</u>
Present value of defined benefit obligations		
- Pension	(408,757)	(426,261)
- Health	(151,062)	(107,178)
Fair value of plan assets (*)	<u>1,639,833</u>	<u>1,367,875</u>
Asset surplus over present value of defined benefit obligation	<u>1,080,014</u>	<u>834,436</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 2013 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 1,080,014 thousands remains (2012: TL 834,436 thousands). However, the Bank's management, acting prudently, did not consider the health premium surplus amounting to TL 385,587 thousands (2012: TL 369,726 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 2013.

	<u>2013</u>	<u>2012</u>
Asset surplus over present value of defined benefit obligation	1,080,014	834,436
Net present value of medical benefits and health premiums transferable to SSF	<u>(385,587)</u>	<u>(369,726)</u>
Present value of asset surplus/(defined benefit obligation)	<u>694,427</u>	<u>464,710</u>

Expenses recognized regarding this benefit plan in the accompanying consolidated statement of income for the the years ended 31 December 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Total contribution payment	149,219	153,009
Provision for unfunded liability	-	-
	<u>149,219</u>	<u>153,009</u>

Principal actuarial assumptions used were as follows:

	<u>2013</u>	<u>2012</u>
	<u>%</u>	<u>%</u>
Discount rates (*)	9.60	6.97
Inflation rates (*)	6.20	4.67
Future real salary increase rates	1.5	1.5
Medical cost trend rates	40% above inflation	40% above inflation
Future pension increase rates (*)	6.20	4.67

(\*) 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:

<b>2013</b>			
<b>% change in defined benefit obligation</b>			
<b><i>Assumption change</i></b>	<b><i>Pension Benefits</i></b>	<b><i>Medical Benefits</i></b>	<b><i>Overall</i></b>
	<b>%</b>	<b>%</b>	<b>%</b>
Discount rate +1%	(13.1)	(15.7)	(13.8)
Discount rate -1%	16.5	20.6	17.6
Medical inflation +10% of CPI		11.9	3.2
Medical inflation -10% of CPI		(10.2)	(2.8)
<b>2012</b>			
<b>% change in defined benefit obligation</b>			
<b><i>Assumption change</i></b>	<b><i>Pension Benefits</i></b>	<b><i>Medical Benefits</i></b>	<b><i>Overall</i></b>
	<b>%</b>	<b>%</b>	<b>%</b>
Discount rate +1%	(15.1)	(16.0)	(15.3)
Discount rate -1%	16.8	20.9	17.7
Medical inflation +10% of CPI		8.7	1.7
Medical inflation -10% of CPI		(8.0)	(1.6)

### *Short-term employee benefits*

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

	<b><u>2013</u></b>	<b><u>2012</u></b>
Balance, beginning of the period	175,613	158,203
Payments	(388,692)	(262,435)
Provision for the period	<u>421,765</u>	<u>279,845</u>
Balance, end of the period	<u>208,686</u>	<u>175,613</u>

### *Insurance business related provisions*

Insurance business related provisions are detailed in the table below:

	<b><u>2013</u></b>	<b><u>2012</u></b>
Reserve for unearned premiums, net	109,056	93,527
<i>Gross</i>	129,646	113,368
<i>Reinsurers' share</i>	(20,590)	(19,841)
Provision for claims, net	46,899	42,202
<i>Gross</i>	60,441	55,368
<i>Reinsurers' share</i>	(13,542)	(13,166)
Life mathematical reserves	<u>83,468</u>	<u>85,280</u>
	<u>239,423</u>	<u>221,009</u>



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

### *Reserve for employee severance indemnity*

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

	<u>2013</u>	<u>2012</u>
Balance, beginning of the period	190,469	130,313
Reversals	(1,234)	(1,911)
Payments	(14,323)	(14,990)
Provision for the period	55,109	77,057
Actuarial gain/loss	<u>(23,668)</u>	-
Balance, end of the period	<u>206,353</u>	<u>190,469</u>

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 3,254.44 and full TL 3,033.98 as of 31 December 2013 and 2012, respectively.

The principal actuarial assumptions for the Bank and its consolidated affiliates are as follows:

	<u>2013<sup>(*)</sup></u>	<u>2012<sup>(*)</sup></u>
	<u>%</u>	<u>%</u>
Discount rates	2.69-3.28	2.18-3.28
Interest rates	9.21-9.64	6.95-7.49
Expected rates of salary increases	6.16-7.73	5.00-6.17
Inflation rates	6.16-6.47	4.67-5.00

(\*) 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:

	<u>2013</u>	<u>2012</u>
Balance, beginning of the period	172,197	128,043
Provision for the period, net	<u>65,514</u>	<u>44,154</u>
Balance, end of the period	<u>237,711</u>	<u>172,197</u>

## 22 Equity

### *Share capital*

The authorized nominal share capital of the Bank amounted to TL 4,200,000 thousands as of 31 December 2013.

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

	<u>2013</u>	<u>2012</u>
Balance at the beginning of the period	1,093,683	92,778
Net unrealised (losses)/gains from changes in fair value	(1,381,907)	1,221,042
Related deferred and current income taxes	267,809	(234,708)
Net gains transferred to the statement of comprehensive income on disposal	(617,358)	9,263
Related deferred and current income taxes	127,570	(510)
Effect of movements in foreign exchange rates	<u>15,622</u>	<u>5,818</u>
Balance at the end of the period	<u>(494,581)</u>	<u>1,093,683</u>

## 22 Equity (continued)

### *Hedging reserve*

The hedging reserve comprises the effective portions 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 26.4 for the details) and of the cumulative change in the net investment hedge performed in order to hedge the foreign currency risk arising from net investments in foreign operations with long-term foreign currency borrowings.

### *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 and of the cumulative change in the net investment hedge performed in order to hedge the foreign currency risk arising from net investments in foreign operations with long-term foreign currency borrowings.

### *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 1,156,024 thousands (2012: TL 956,192 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 30 April 2013, it was decided to distribute a dividend of TL 596,500 thousands to shareholders and to allocate TL 153,516 thousands and TL 38,650 thousands to the first and second legal reserves, respectively, from retained earnings.

### *Non-controlling interests*

As of 31 December 2013, net non-controlling interests amount to TL 162,825 thousands (2012: TL 140,524 thousands). Non-controlling interests are detailed as follows:

	<u>2013</u>	<u>2012</u>
Capital (*)	55,287	43,648
Retained earnings and other reserves	83,172	68,961
Net income for the period	<u>24,366</u>	<u>27,915</u>
	<u>162,825</u>	<u>140,524</u>

(\*) Due to acquisition of further shares or participating in capital increases of certain consolidated affiliates.

## 22 Equity (continued)

### *Restatement of prior years' consolidated financial statements*

The Bank made a correction for the calculation of SDIF premiums between the years 2007-2012 on its prior years' financial statements. The effects of such corrections made to the consolidated financial statements as of 31 December 2012 are as follows:

	<u>Total equity</u>	<u>Retained earnings</u>	<u>Net income</u>	<u>Current tax liability</u>	<u>Other liabilities, accrued expenses and provisions</u>
<i>As previously reported</i>	21,937,716	12,046,917	3,392,724	344,820	11,151,973
<i>Corrections</i>	<u>(15,761)</u>	<u>(12,754)</u>	<u>(3,007)</u>	<u>(3,941)</u>	<u>19,702</u>
<i>As restated</i>	<u>21,921,955</u>	<u>12,034,163</u>	<u>3,389,717</u>	<u>340,879</u>	<u>11,171,675</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, 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 131,957,440 thousands (2012: TL 101,630,975 thousands), whereas the carrying amount is TL 131,315,161 thousands (2012: TL 102,260,080 thousands) in the accompanying consolidated statement of financial position as of 31 December 2013.

Fair value of investment securities is TL 38,368,722 thousands (2012: TL 39,962,081 thousands), whereas the carrying amount is TL 38,609,492 thousands (2012: TL 39,861,281 thousands) in the accompanying consolidated statement of financial position as of 31 December 2013.

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

<u>2013</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets at fair value through profit or loss	312,651	198,949	26,545	538,145
Derivative financial assets	1,653	1,783,026	-	1,784,679
Debt and other instruments available-for-sale	<u>20,230,383</u>	<u>1,967,344</u>	<u>2,637,971</u>	<u>24,835,698</u>
Financial Assets at Fair Value	<u>20,544,687</u>	<u>3,949,319</u>	<u>2,664,516</u>	<u>27,158,522</u>
Loans and advances from banks and other institutions	-	2,084,138	-	2,084,138
Derivative financial liabilities	-	<u>1,617,809</u>	-	<u>1,617,809</u>
Financial Liabilities at Fair Value	-	<u>3,701,947</u>	-	<u>3,701,947</u>

## 23 Fair value information (continued)

<u>2012</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets at fair value through profit or loss	324,528	222,181	4,217	550,926
Derivative financial assets	5,776	704,991	-	710,767
Debt and other instruments available-for-sale	<u>36,233,273</u>	<u>14,983</u>	<u>2,246,071</u>	<u>38,494,327</u>
Financial Assets at Fair Value	<u>36,563,577</u>	<u>942,155</u>	<u>2,250,288</u>	<u>39,756,020</u>
Loans and advances from banks and other institutions	-	-	-	-
Derivative financial liabilities	-	<u>926,945</u>	-	<u>926,945</u>
Financial Liabilities at Fair Value	-	<u>926,945</u>	-	<u>926,945</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:

	<u>2013</u>	<u>2012</u>
Letters of guarantee	23,877,730	16,852,681
Letters of credit	9,584,333	6,141,429
Acceptance credits	638,089	720,896
Other guarantees and endorsements	<u>79,924</u>	<u>66,300</u>
	<u>34,180,076</u>	<u>23,781,306</u>

As of 31 December 2013;

- Commitment for unpaid capital of affiliated companies amounts to TL 7,806 thousands (2012: TL 7,944 thousands).

- Commitments for unused credit limits for credit cards, overdrafts, cheques and loans to customers, and commitments for "credit linked notes" amount to TL 40,614,981 thousands (2012: TL 27,955,379 thousands) in total.

- Commitments for the derivative transactions carried out on behalf of customers in the Turkish Derivatives Exchange amount to TL 293,139 thousands (2012: TL 443,318 thousands) in total.

As of 31 December 2013, the securities acquired under security borrowing transactions include shares with total market and carrying values of TL 12,927 thousands (2012: TL 20,499 thousands).

## 25 Derivative financial instruments

As of 31 December 2013, 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 85,480,706 thousands (2012: TL 53,725,410 thousands), approximately 90% of which are due within a year.

The following tables summarize the notional 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 income, except for contracts of cash flow hedges as stated above.

**25 Derivative financial instruments (continued)**

<b>2013</b>	<i>Notional amount with remaining life of</i>					<b>Total</b>
	<i>Up to 1 month</i>	<i>1 to 3 months</i>	<i>3 to 6 months</i>	<i>6 to 12 months</i>	<i>Over 1 year</i>	
<b><i>Interest Rate Derivatives</i></b>						
Interest rate options	-	-	494,666	-	1,384,554	1,879,220
<i>Purchases</i>	-	-	247,333	-	692,277	939,610
<i>Sales</i>	-	-	247,333	-	692,277	939,610
Interest rate swaps (*)	4,188	1,217	6,344	2,438	463,021	477,208
<i>Purchases</i>	1,286	1,217	3,884	1,958	313,472	321,817
<i>Sales</i>	2,902	-	2,460	480	149,549	155,391
Interest rate futures	-	-	-	-	-	-
<i>Purchases</i>	-	-	-	-	-	-
<i>Sales</i>	-	-	-	-	-	-
<b><i>Other Derivatives</i></b>						
Securities, shares and index options	9,431	6,643	17,862	-	-	33,936
<i>Purchases</i>	7,482	4,981	17,862	-	-	30,325
<i>Sales</i>	1,949	1,662	-	-	-	3,611
Other forward contracts	12,540	27,570	-	3,803	-	43,913
<i>Purchases</i>	-	23,929	-	3,803	-	27,732
<i>Sales</i>	12,540	3,641	-	-	-	16,181
Other future contracts	-	41,770	60,698	3,794	-	106,262
<i>Purchases</i>	-	-	-	-	-	-
<i>Sales</i>	-	41,770	60,698	3,794	-	106,262
Other swap contracts	3,902,923	66,998	54,431	92,267	2,159,986	6,276,605
<i>Purchases</i>	-	35,194	27,254	46,218	30,619	139,285
<i>Sales</i>	3,902,923	31,804	27,177	46,049	2,129,367	6,137,320
<b><i>Currency Derivatives</i></b>						
Spot exchange contracts	4,266,573	-	-	-	-	4,266,573
<i>Purchases</i>	3,643,250	-	-	-	-	3,643,250
<i>Sales</i>	623,323	-	-	-	-	623,323
Forward exchange contracts	3,227,390	1,923,066	2,842,443	1,261,705	437,094	9,691,698
<i>Purchases</i>	2,052,200	1,024,572	2,241,410	656,073	430,346	6,404,601
<i>Sales</i>	1,175,190	898,494	601,033	605,632	6,748	3,287,097
Currency/cross currency swaps	15,026,315	5,711,100	5,993,692	4,707,809	3,577,990	35,016,906
<i>Purchases</i>	6,821,779	4,229,173	2,748,873	3,174,756	991,389	17,965,970
<i>Sales</i>	8,204,536	1,481,927	3,244,819	1,533,053	2,586,601	17,050,936
Options	7,043,604	8,755,412	5,880,483	5,566,246	331,176	27,576,921
<i>Purchases</i>	4,987,795	5,285,176	2,668,754	2,794,390	291,932	16,028,047
<i>Sales</i>	2,055,809	3,470,236	3,211,729	2,771,856	39,244	11,548,874
Foreign currency futures	-	111,464	-	-	-	111,464
<i>Purchases</i>	-	111,464	-	-	-	111,464
<i>Sales</i>	-	-	-	-	-	-
Subtotal Purchases	17,513,792	10,715,706	7,955,370	6,677,198	2,750,035	45,612,101
Subtotal Sales	15,979,172	5,929,534	7,395,249	4,960,864	5,603,786	39,868,605
Total of Transactions	33,492,964	16,645,240	15,350,619	11,638,062	8,353,821	85,480,706

(\*) In case of interest rate swaps, the amounts presented in the table above are the marked-to-market values of such transactions.

**25 Derivative financial instruments (continued)**

	<i>Notional amount with remaining life of</i>					<i>Total</i>
	<i>Up to 1 month</i>	<i>1 to 3 months</i>	<i>3 to 6 months</i>	<i>6 to 12 months</i>	<i>Over 1 year</i>	
<b>2012</b>						
<i>Interest Rate Derivatives</i>						
Interest rate options	-	-	353,880	986,426	517,432	1,857,738
<i>Purchases</i>	-	-	176,940	493,213	258,716	928,869
<i>Sales</i>	-	-	176,940	493,213	258,716	928,869
Interest rate swaps (*)	119	7,970	2,396	7,765	699,426	717,676
<i>Purchases</i>	52	5,014	2,137	3,329	312,906	323,438
<i>Sales</i>	67	2,956	259	4,436	386,520	394,238
Interest rate futures	-	-	-	-	-	-
<i>Purchases</i>	-	-	-	-	-	-
<i>Sales</i>	-	-	-	-	-	-
<i>Other Derivatives</i>						
Securities, shares and index options	29,866	39,520	176,819	866	-	247,071
<i>Purchases</i>	14,910	18,000	85,799	433	-	119,142
<i>Sales</i>	14,956	21,520	91,020	433	-	127,929
Other forward contracts	26,235	13,442	15,316	18,976	3,690	77,659
<i>Purchases</i>	21,550	13,442	13,442	18,976	3,690	71,100
<i>Sales</i>	4,685	-	1,874	-	-	6,559
Other future contracts	-	52,461	83,737	36,108	-	172,306
<i>Purchases</i>	-	527	-	-	-	527
<i>Sales</i>	-	51,934	83,737	36,108	-	171,779
Other swap contracts	2,283,011	10,515	23,127	40,257	6,597	2,363,507
<i>Purchases</i>	404,392	6,601	11,730	10,669	3,309	436,701
<i>Sales</i>	1,878,619	3,914	11,397	29,588	3,288	1,926,806
<i>Currency Derivatives</i>						
Spot exchange contracts	2,930,700	-	-	-	-	2,930,700
<i>Purchases</i>	2,299,236	-	-	-	-	2,299,236
<i>Sales</i>	631,464	-	-	-	-	631,464
Forward exchange contracts	2,391,000	835,204	591,233	713,185	260,644	4,791,266
<i>Purchases</i>	1,433,434	483,772	451,958	320,583	146,384	2,836,131
<i>Sales</i>	957,566	351,432	139,275	392,602	114,260	1,955,135
Currency/cross currency swaps	14,272,959	1,765,819	1,431,553	3,618,580	1,275,828	22,364,739
<i>Purchases</i>	6,571,602	782,958	1,210,284	2,888,835	767,177	12,220,856
<i>Sales</i>	7,701,357	982,861	221,269	729,745	508,651	10,143,883
Options	9,241,601	3,276,394	2,819,884	2,324,436	512,713	18,175,028
<i>Purchases</i>	4,653,278	1,698,486	1,505,103	1,144,139	248,427	9,249,433
<i>Sales</i>	4,588,323	1,577,908	1,314,781	1,180,297	264,286	8,925,595
Foreign currency futures	-	27,720	-	-	-	27,720
<i>Purchases</i>	-	-	-	-	-	-
<i>Sales</i>	-	27,720	-	-	-	27,720
Subtotal Purchases	15,398,454	3,008,800	3,457,393	4,880,177	1,740,609	28,485,433
Subtotal Sales	15,777,037	3,020,245	2,040,552	2,866,422	1,535,721	25,239,977
Total of Transactions	31,175,491	6,029,045	5,497,945	7,746,599	3,276,330	53,725,410

(\*) In case of interest rate swaps, the amounts presented in the table above are the marked-to-market values of such transactions.

## **26 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 26.2 contains risk management information related to the trading portfolio and section 26.3 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 relevant articles of the Turkish Banking Law No. 5411 and 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.

## **26 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.

### **26.1 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 25. 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.



## **26 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.

### **26.2 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.

## **26 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 and trading portfolio management framework 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. The Bank takes the historical VaR results as the basis for the internal management of market risk and limit setting. 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, position, 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.

### **26.3 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.

## 26 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 years 2013 and 2012, are as follows:

	<b>2013</b>			
	<b><i>First Maturity Bracket (Weekly)</i></b>		<b><i>Second Maturity Bracket (Monthly)</i></b>	
	<b><i>FC</i></b>	<b><i>FC + TL</i></b>	<b><i>FC</i></b>	<b><i>FC + TL</i></b>
Average (%)	156.07	136.67	104.26	103.75
	<b>2012</b>			
	<b><i>First Maturity Bracket (Weekly)</i></b>		<b><i>Second Maturity Bracket (Monthly)</i></b>	
	<b><i>FC</i></b>	<b><i>FC + TL</i></b>	<b><i>FC</i></b>	<b><i>FC + TL</i></b>
Average (%)	131.56	139.73	98.80	104.67

The Bank's banking affiliate in the Netherlands is not 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	31 December 2013					Over 5 year	Undistributed	Total
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years				
<b>MONETARY ASSETS</b>								
<b>Turkish Lira</b>								
Cash and balances with central banks	2,751,743	-	-	-	-	-	-	2,751,743
Financial assets at fair value through profit or loss	51,655	26,275	94,180	242,717	2,839	-	-	417,666
Loans and advances to banks	131,352	624,638	1,033,032	150,000	-	-	-	2,289,928
Loans and advances to customers	4,547,117	8,186,846	18,300,223	23,393,631	4,032,223	(746)	-	71,059,504
Derivative financial assets	-	304,712	715,517	206,313	5,633	-	-	1,553,879
Other assets	386,068	215,552	35,030	6,014	3,038	-	-	5,694,276
Investment securities	41,275	767,799	6,688,052	12,438,521	12,890,068	-	-	32,869,989
Deferred tax asset	-	-	-	-	-	-	534,586	534,586
Total Turkish Lira monetary assets	7,909,210	13,535,618	26,866,845	36,437,196	16,933,829	-	5,546,573	117,171,571
<b>Foreign Currency</b>								
Cash and balances with central banks	3,148,225	949,324	-	-	-	-	-	4,097,549
Financial assets at fair value through profit or loss	64,158	24	348	8,142	47,807	-	-	120,479
Loans and advances to banks	2,499,443	1,163,625	468,374	1,369,068	2,358,506	-	-	9,349,740
Loans and advances to customers	899,709	3,522,173	3,893,493	26,112,310	11,957,237	1,011,845	-	60,255,657
Derivative financial assets	-	-	3,874	46,689	119,640	60,597	-	230,800
Other assets	157,684	18,413,847	4,996	10,922	14,823	27,466	-	18,629,738
Investment securities	8,214	7,918	136,259	2,710,935	2,851,805	-	-	5,739,503
Deferred tax asset	-	-	-	-	-	-	47,109	47,109
Total foreign currency monetary assets	6,777,433	24,056,911	14,543,484	30,334,918	17,275,952	1,086,420	-	98,470,575
Total Monetary Assets	14,686,643	37,592,529	41,410,329	66,772,114	34,209,781	6,632,993	-	215,642,146
<b>MONETARY LIABILITIES</b>								
<b>Turkish Lira</b>								
Deposits	11,115,961	35,394,309	11,005,642	1,992,783	8,067	3	-	59,516,765
Obligations under repurchase agreements and money market fundings	-	11,001,686	-	429,232	-	-	-	11,430,918
Loans and advances from banks and other institutions	-	1,210,675	1,245,145	1,294,552	2,658,903	206,250	-	6,615,525
Bonds payable	-	393,859	682,826	2,407,283	893,526	-	-	4,377,494
Subordinated liabilities	-	-	-	-	-	-	-	-
Derivative financial liabilities	-	167,241	129,097	457,013	-	-	-	1,273,990
Other liabilities, accrued expenses and provisions	129,964	5,369,047	141,103	78,507	-	4,216,454	1,345,548	11,280,623
Total Turkish Lira monetary liabilities	11,245,925	53,536,817	13,203,813	6,722,996	4,017,509	4,422,707	1,345,548	94,495,315
<b>Foreign Currency</b>								
Deposits	15,964,010	23,076,242	10,512,712	8,385,826	1,721,416	17,438	-	59,677,644
Obligations under repurchase agreements and money market fundings	-	538,494	1,494,674	847,153	1,696,499	-	-	4,576,820
Loans and advances from banks and other institutions	-	434,750	1,443,687	11,226,741	8,809,663	5,659,218	-	27,574,059
Bonds payable	-	-	641,726	564,950	2,650,738	2,600,390	-	6,457,804
Subordinated liabilities	-	-	-	-	81,104	66,387	-	147,491
Derivative financial liabilities	-	17,907	21,456	64,759	146,585	93,112	-	343,819
Other liabilities, accrued expenses and provisions	531,690	165,745	111,536	21,218	1,255	55,748	100,462	987,654
Total foreign currency monetary liabilities	16,495,700	24,233,138	14,225,791	21,110,647	15,107,260	8,492,293	100,462	99,765,291
Total Monetary Liabilities	27,741,625	77,769,955	27,429,604	19,124,769	12,915,000	1,446,010	-	194,260,606

	31 December 2012						Total
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 year	Undistributed	
<b>MONETARY ASSETS</b>							
<b>Turkish Lira</b>							
Cash and balances with central banks	1,293,951	-	-	-	-	-	1,293,951
Financial assets at fair value through profit or loss	49,449	8,570	119,139	288,273	3,527	-	468,958
Loans and advances to banks	147,454	105,866	443,760	1,552,401	-	-	2,593,714
Loans and advances to customers	109,081	5,976,928	6,687,622	22,819,808	6,480,786	(615,722)	57,116,015
Derivative financial assets	-	65,364	158,368	120,982	-	-	482,737
Other assets	15,408	19,909	37,386	4,682	3,007	-	4,345,940
Investment securities	24,986	946,729	15,342,237	14,701,464	4,827,307	-	35,842,723
Deferred tax asset	-	-	-	-	-	454,209	454,209
Total Turkish Lira monetary assets	1,640,329	7,123,366	22,788,512	39,487,610	11,314,627	3,860,781	102,598,247
<b>Foreign Currency</b>							
Cash and balances with central banks	2,427,030	798,424	-	-	-	-	3,225,454
Financial assets at fair value through profit or loss	42,364	3,205	-	7,590	28,809	-	81,968
Loans and advances to banks	1,512,499	694,613	367,196	1,218,096	1,926,664	-	6,815,879
Loans and advances to customers	33,382	2,146,486	3,624,936	15,658,271	15,547,496	213,979	45,144,065
Derivative financial assets	-	7,637	11,302	135,198	73,893	-	228,030
Other assets	131,317	13,486,173	14,407	19,319	1,691	12,449	13,671,906
Investment securities	4,784	28,577	64,157	2,655,838	1,265,200	-	4,018,558
Deferred tax asset	-	-	-	-	-	13,689	13,689
Total foreign currency monetary assets	4,151,376	17,128,903	4,034,896	19,694,312	18,843,753	240,117	73,199,549
Total Monetary Assets	5,791,705	33,511,925	11,158,262	59,181,922	30,158,380	4,100,898	175,797,796
<b>MONETARY LIABILITIES</b>							
<b>Turkish Lira</b>							
Deposits	8,475,791	34,997,327	6,094,658	328,695	2,812	-	49,899,283
Obligations under repurchase agreements and money market fundings	-	12,035,768	313	210,092	-	-	12,246,173
Loans and advances from banks and other institutions	-	2,001,033	375,903	210,309	3,004,375	-	5,591,620
Bonds payable	-	781,831	322,140	1,040,020	73,009	-	2,217,000
Subordinated liabilities	-	-	-	-	-	-	-
Derivative financial liabilities	-	181,053	27,062	58,419	345,505	-	612,039
Other liabilities, accrued expenses and provisions	143,431	4,537,274	336,430	65,042	3,288,153	1,472,151	9,874,004
Total Turkish Lira monetary liabilities	8,619,222	54,534,286	7,156,506	1,912,577	3,425,701	1,472,151	80,440,119
<b>Foreign Currency</b>							
Deposits	13,426,185	23,100,261	4,773,348	5,095,155	20,360	-	47,876,004
Obligations under repurchase agreements and money market fundings	-	588,163	569,400	703,208	-	-	1,860,771
Loans and advances from banks and other institutions	-	1,110,642	1,329,830	5,195,544	3,143,734	-	20,287,735
Bonds payable	-	-	-	1,591,824	2,317,162	-	3,908,986
Subordinated liabilities	-	-	-	70,864	77,816	-	148,680
Derivative financial liabilities	-	38,775	11,411	28,765	83,988	-	314,906
Other liabilities, accrued expenses and provisions	408,456	107,768	94,861	15,401	36,371	76,801	740,379
Total foreign currency monetary liabilities	13,834,641	24,945,609	6,778,850	15,350,514	8,471,615	76,801	75,137,461
Total Monetary Liabilities	22,453,863	79,479,895	13,935,356	11,897,316	8,967,584	1,548,952	155,577,580

## 26 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.

	<b>2013</b>							
	<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	119,194,409	118,715,182	27,079,847	58,229,840	21,401,123	10,280,107	1,707,048	17,217
Obligations under repurchase agreements and money market fundings	16,007,738	15,966,100	-	11,531,752	1,491,714	1,252,633	1,690,001	-
Loans and advances from banks and other Institutions	34,189,584	33,991,257	-	1,613,892	2,578,108	12,478,971	11,454,480	5,865,806
Bonds payable	10,835,298	10,608,845	-	393,859	1,321,583	2,966,095	3,498,375	2,428,933
Subordinated liabilities	<u>147,491</u>	<u>146,050</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>79,664</u>	<u>66,386</u>
Total Monetary Liabilities	<u>180,374,520</u>	<u>179,427,434</u>	<u>27,079,847</u>	<u>71,769,343</u>	<u>26,792,528</u>	<u>26,977,806</u>	<u>18,429,568</u>	<u>8,378,342</u>
	<b>2012</b>							
	<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	97,775,287	97,420,145	21,901,905	57,886,202	10,809,037	5,359,080	1,443,750	20,171
Obligations under repurchase agreements and money market fundings	14,106,944	14,091,412	-	12,616,799	563,513	911,100	-	-
Loans and advances from banks and other institutions	25,879,355	25,564,730	-	2,985,714	1,586,950	9,657,956	8,190,377	3,143,733
Bonds payable	6,125,986	5,944,755	-	777,335	322,140	1,039,170	1,648,458	2,157,652
Subordinated liabilities	<u>148,680</u>	<u>146,890</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>69,080</u>	<u>77,810</u>
Total Monetary Liabilities	<u>144,036,252</u>	<u>143,167,932</u>	<u>21,901,905</u>	<u>74,266,050</u>	<u>13,281,640</u>	<u>16,967,306</u>	<u>11,351,665</u>	<u>5,399,366</u>

### *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.

## **26 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:

	31 December 2013					Non-Interest Bearing	Total
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 year		
<b>MONETARY ASSETS</b>							
Cash and balances with central banks	1,427,481	-	-	-	-	5,421,811	6,849,292
Financial assets at fair value through profit or loss	15,627	42,721	100,124	226,400	47,967	105,306	538,145
Loans and advances to banks	3,132,426	3,049,460	2,509,896	265,638	-	2,682,248	11,639,668
Loans and advances to customers	29,245,841	12,208,137	18,200,535	43,533,286	27,015,775	1,111,587	131,315,161
Other assets	1,041,407	996	1,060	977	3,038	25,061,215	26,108,693
Investment securities	5,038,031	8,679,082	11,974,005	7,574,996	4,087,768	1,255,610	38,609,492
Deferred tax asset	-	-	-	-	-	581,695	581,695
Total Monetary Assets	39,900,813	23,980,396	32,785,620	51,601,297	31,154,548	36,219,472	215,642,146
<b>MONETARY LIABILITIES</b>							
Deposits	62,515,689	21,676,858	10,253,534	1,322,700	102	23,425,526	119,194,409
Obligations under repurchase agreements and money market fundings	11,531,754	1,491,714	1,252,633	1,690,001	-	41,636	16,007,738
Loans and advances from banks and other institutions	10,125,881	10,638,598	6,330,603	4,298,453	2,580,289	215,760	34,189,584
Bonds payable	1,127,130	1,578,864	2,905,083	2,568,833	2,428,933	226,455	10,835,298
Subordinated liabilities	-	-	146,050	-	-	1,441	147,491
Other liabilities, accrued expenses and provisions	-	-	-	-	-	13,886,086	13,886,086
Total Monetary Liabilities	83,300,454	35,386,034	20,887,903	9,879,987	5,009,324	37,796,904	194,260,606
	<b>31 December 2012</b>						
	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	1,252,769	-	-	-	-	3,266,636	4,519,405
Financial assets at fair value through profit or loss	16,408	38,018	121,396	249,684	28,755	96,665	550,926
Loans and advances to banks	2,394,244	2,246,035	2,374,820	681,431	-	1,713,063	9,409,593
Loans and advances to customers	21,533,915	12,439,890	16,312,957	34,040,887	17,046,225	886,206	102,260,080
Other assets	511,231	5	2,768	4,241	4,698	18,205,670	18,728,613
Investment securities	4,110,473	11,016,852	12,666,130	5,851,131	1,920,337	4,296,358	39,861,281
Deferred tax asset	-	-	-	-	-	467,898	467,898
Total Monetary Assets	29,819,040	25,740,800	31,478,071	40,827,374	19,000,015	28,932,496	175,797,796
<b>MONETARY LIABILITIES</b>							
Deposits	60,894,948	11,153,639	6,464,748	753,761	-	18,508,191	97,775,287
Obligations under repurchase agreements and money market fundings	12,616,797	563,513	911,100	-	-	15,534	14,106,944
Loans and advances from banks and other institutions	7,080,139	2,289,722	8,756,299	5,530,270	1,928,300	314,625	25,879,355
Bonds payable	1,305,344	322,140	1,111,363	1,048,258	2,157,650	181,231	6,125,986
Subordinated liabilities	7,061	1,252	137,634	943	-	1,790	148,680
Other liabilities, accrued expenses and provisions	-	-	-	-	-	11,541,328	11,541,328
Total Monetary Liabilities	81,904,289	14,330,266	17,361,144	7,333,232	4,085,950	30,562,699	155,577,580



## 26 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 years 2013 and 2012:

	<i>2013</i>			
	<i>US\$ %</i>	<i>EUR %</i>	<i>TL %</i>	<i>Other Currencies %</i>
<i>Assets</i>				
Loans and advances to banks	1-4	1-4	2-10	1-4
Debt and other fixed or floating income instruments	3-12	2-7	1-14	3-11
Loans and advances to customers	1-12	1-15	2-26	1-28
<i>Liabilities</i>				
Deposits:	1-5	1-7	-	1-8
- Foreign currency deposits				
- Bank deposits	1-3	1-3	3-9	1-7
- Saving deposits	-	-	5-9	-
- Commercial deposits	-	-	5-10	-
- Public and other deposits	-	-	9	-
Obligations under repurchase agreements and money market fundings	1-2	1	3-9	1-6
Loans and advances from banks and other institutions	1-6	1-5	9-15	1-7
Bonds payable	1-6	2-5	6-10	1-6
<i>2012</i>				
	<i>US\$ %</i>	<i>EUR %</i>	<i>TL %</i>	<i>Other Currencies %</i>
<i>Assets</i>				
Loans and advances to banks	1-6	1-5	5-13	1-6
Debt and other fixed or floating income instruments	2-12	3-7	4-21	3-10
Loans and advances to customers	1-14	1-14	6-23	1-53
<i>Liabilities</i>				
Deposits:				
- Foreign currency deposits	1-7	1-7	-	1-8
- Bank deposits	1-4	1-5	5-7	1-7
- Saving deposits	-	-	4-12	-
- Commercial deposits	-	-	4-12	-
- Public and other deposits	-	-	8	-
Obligations under repurchase agreements and money market fundings	1-2	1-5	4-6	6-7
Loans and advances from banks and other institutions	1-7	1-7	6-15	6-10
Bonds payable	3-5	-	7-9	-

## 26 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.

As of 31 December 2013 and 2012, the 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 are respectively as follows;

<u>Type of Currency</u>	<u>Shocks Applied (+/- basis points)</u>	<u>2013</u>		<u>2012</u>	
		<u>Gains/Losses</u>	<u>Gains/Equity-Losses/Equity</u>	<u>Gains/Losses</u>	<u>Gains/Equity-Losses/Equity</u>
TL	(+) 500 bps	(3,104,076)	(13.00)%	(2,820,578)	(13.00)%
TL	(-) 400 bps	3,041,950	12.74%	2,761,432	12.73%
US\$	(+) 200 bps	(37,444)	(0.16)%	14,983	0.07%
US\$	(-) 200 bps	6,990	0.03%	(62,230)	(0.29)%
EUR	(+) 200 bps	(112,317)	(0.47)%	(76,545)	(0.35)%
EUR	(-) 200 bps	89,257	0.37%	82,518	0.38%
<b>Total (of negative shocks)</b>		<b>3,138,197</b>	<b>13.14%</b>	<b>2,781,720</b>	<b>12.82%</b>
<b>Total (of positive shocks)</b>		<b>(3,253,837)</b>	<b>(13.62)%</b>	<b>(2,882,140)</b>	<b>(13.28)%</b>

## 26 Financial risk management disclosures (continued)

### Currency risk

The Bank and its affiliates are exposed to currency risk through transactions in foreign currencies and through its investment in foreign operations. The Bank and its affiliates' main foreign operations are in the Netherlands, Russia and Romania. The measurement currencies of its operations are Euro, US Dollars and Romanian Leu. 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, position 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 statement of income. 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:

	2013			<u>Total</u>
	<u>US\$</u>	<u>EUR</u>	<u>Other Currencies</u>	
<i>Assets</i>				
Cash and balances with central banks	1,551,262	2,422,652	123,635	4,097,549
Financial assets at fair value				
through profit or loss	48,489	7,831	64,159	120,479
Loans and advances to banks	6,219,757	3,037,685	92,298	9,349,740
Loans and advances to customers	37,674,246	20,756,200	1,825,211	60,255,657
Other assets	7,475,479	6,664,046	4,721,013	18,860,538
Investment securities	4,078,496	1,382,704	278,303	5,739,503
Investments in equity participations	-	1,234	3	1,237
Tangible assets	85	66,588	113,504	180,177
Deferred tax asset	-	26,979	20,130	47,109
<i>Total Assets</i>	<u>57,047,814</u>	<u>34,365,919</u>	<u>7,238,256</u>	<u>98,651,989</u>
<i>Liabilities</i>				
Deposits	30,691,300	22,985,813	6,000,531	59,677,644
Obligations under repurchase agreements and money market fundings	3,978,477	217,098	381,245	4,576,820
Loans and advances from banks and other institutions	17,419,205	10,040,803	114,051	27,574,059
Current and deferred tax liability	-	13,665	673	14,338
Bonds payable	5,536,521	189,159	732,124	6,457,804
Subordinated liabilities	-	147,491	-	147,491
Other liabilities, accrued expenses and provisions	653,820	318,221	345,094	1,317,135
<i>Total Liabilities</i>	<u>58,279,323</u>	<u>33,912,250</u>	<u>7,573,718</u>	<u>99,765,291</u>
<i>Net Statement of Financial Position</i>	<u>(1,231,509)</u>	<u>453,669</u>	<u>(335,462)</u>	<u>(1,113,302)</u>
<i>Net Off Balance Sheet Position</i>	<u>(1,562,910)</u>	<u>481,352</u>	<u>1,325,187</u>	<u>243,629</u>
<i>Net Long/(Short) Position</i>	<u>(2,794,419)</u>	<u>935,021</u>	<u>989,725</u>	<u>(869,673)</u>

## 26 Financial risk management disclosures (continued)

	2012			<i>Total</i>
	<i>US\$</i>	<i>EUR</i>	<i>Other Currencies</i>	
<i>Total Assets</i>	<u>42,235,281</u>	<u>25,756,577</u>	<u>5,351,435</u>	<u>73,343,293</u>
<i>Total Liabilities</i>	<u>44,109,751</u>	<u>26,136,329</u>	<u>4,891,381</u>	<u>75,137,461</u>
<i>Net Statement of Financial Position</i>	<u>(1,874,470)</u>	<u>(379,752)</u>	<u>460,054</u>	<u>(1,794,168)</u>
<i>Net Off Balance Sheet Position</i>	<u>1,895,756</u>	<u>(703,083)</u>	<u>71,638</u>	<u>1,264,311</u>
<i>Net Long/(Short) Position</i>	<u>21,286</u>	<u>(1,082,835)</u>	<u>531,692</u>	<u>(529,857)</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:

	2013	2012
	<u>%</u>	<u>%</u>
Above Average	40	40
Average	54	53
Below Average	<u>6</u>	<u>7</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.

## 26 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>2013</u>	<u>2012</u>
Individually impaired	4,000,048	3,011,273
Allowance for impairment	<u>(3,841,230)</u>	<u>(2,821,321)</u>
Carrying amount	<u>158,818</u>	<u>189,952</u>
Portfolio basis allowance	<u>(827,867)</u>	<u>(591,698)</u>
Past due but not impaired	<u>1,250,909</u>	<u>1,202,361</u>
Carrying amount	<u>1,250,909</u>	<u>1,202,361</u>
Neither past due nor impaired	126,139,587	98,426,477
Loans with renegotiated terms	<u>4,593,714</u>	<u>3,032,988</u>
Carrying amount	<u>130,733,301</u>	<u>101,459,465</u>
Total carrying amount	<u>131,315,161</u>	<u>102,260,080</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.

## 26 Financial risk management disclosures (continued)

An analysis of concentrations of non-performing loans and lease receivables is shown below:

	<u>2013</u>	<u>2012</u>
Consumer loans	1,506,318	1,291,139
Service sector	352,623	250,969
Transportation vehicles and sub-industries	313,784	257,708
Metal and metal products	266,069	133,963
Construction	236,731	146,259
Textile	217,243	203,002
Food	168,600	102,012
Tourism	155,534	33,731
Transportation and logistics	152,653	115,446
Agriculture and stockbreeding	100,548	82,242
Chemistry and chemical products	79,463	21,838
Durable consumption	64,598	37,419
Energy	25,939	22,152
Paper and paper products	25,537	35,996
Others	<u>334,408</u>	<u>277,397</u>
Total non-performing loans, factoring and lease receivables	<u>4,000,048</u>	<u>3,011,273</u>
	<u>2013</u>	<u>2012</u>
Turkey	2,952,764	2,450,769
Romania	716,139	387,830
England	171,749	49,778
Ukraine	74,558	66,778
Russia	14,416	5,731
Others	<u>70,422</u>	<u>50,387</u>
Total non-performing loans, factoring and lease receivables	<u>4,000,048</u>	<u>3,011,273</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.

## **26 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 31 December 2013 and 2012.

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:

	<u>2013</u>	<u>2012</u>
Promissory notes	905,780	632,459
Mortgages	761,757	676,546
Pledge assets	434,048	315,303
Cash collateral	12,100	10,978
Unsecured	<u>1,886,363</u>	<u>1,375,987</u>
	<u>4,000,048</u>	<u>3,011,273</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.

## **26 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 provisions 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 recognized 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



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

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 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 positions on consolidated basis as of 31 December 2013 and 2012, are as follows:

	<u>2013</u>	<u>2012</u>
Tier 1 capital	23,421,364	20,768,116
Tier 2 capital	1,859,358	1,984,805
Deductions from capital	<u>(132,725)</u>	<u>(169,359)</u>
Total regulatory capital	25,147,997	22,583,562
Value at credit, market and operational risks	183,508,895	133,948,547
<u>Capital ratios (%)</u>		
Total regulatory capital expressed as a percentage of total value at credit, market and operational risks	13.70	16.86
Total tier 1 capital expressed as a percentage of total value at credit, market and operational risks	12.76	15.50

### **26.4 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.

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

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

In this respect, the Bank applied fair value hedge accounting for the fixed rate eurobonds issued in 2011 with a total face value of USD 500,000,000, 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. In June 2012, the Bank ceased to apply hedge accounting and accordingly fair value calculations for these bonds. The accumulated fair value differences incurred starting from the date of hedge accounting up to the date on which it was ceased, are amortized as per the effective interest-rate method in compliance with IAS 39.

The Bank also applied fair value hedge accounting for its fixed-rate loans with a total principal of TL 141,690 thousands and for its bonds with a total face value of TL 1,323,000 thousands and fixed-rate coupons by designating interest rate swaps with the same face values and terms in the current period. Accordingly, in the current period the losses of TL 7,901 thousands and TL 59,998 thousands resulted from the related fair value calculations for the hedged loans and bonds, respectively, were accounted for under net trading gains in the statement of income.

In addition, the Bank also entered into cross currency swap agreements in order to hedge its fixed-rate bonds issued for a total principal value of AUD 175,000,000 and RON 115,500,000 with the same face value amount and conditions, and its borrowings for a total principal value of KWD 10,000,000 with the same notional amount and conditions, in the current period. Accordingly, gains of TL 4,000 thousands and TL 251 thousands resulting from the fair value changes of the securities issued and funds borrowed subject to hedge accounting, were accounted for under net trading gains in the statement of income.

The Bank also applied cash flow hedge accounting for the floating rate eurobonds issued in 2011 with a total face value of USD 300,000,000, maturity of 5 years and maturity date of 20 April 2016 by designating cross currency swaps with the same face value amount and conditions and for the collateralised borrowings amounting to TL 1,000,000 thousands by designating interest rate swaps with the same face value amount and conditions. Accordingly, in the current period TL 11,009 thousands and TL 38,044 thousands resulting from cross currency swap and interest rate swap agreements were recognised under shareholders' equity.

## 27 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>2013</u>	<u>2012</u>
Garanti Bank International NV	100.00	100.00
Garanti Holding BV	100.00	100.00
Garanti Bank Moscow	100.00	100.00
Garanti Portföy Yönetimi AŞ	100.00	100.00
Garanti Yatırım Menkul Kıymetler AŞ	100.00	100.00
Garanti Bilişim Teknolojisi ve Tic. AŞ	100.00	100.00
Garanti Filo Yönetimi Hizmetleri AŞ	100.00	100.00
G Netherlands BV	100.00	100.00
Garanti Bank SA	100.00	100.00
Motoractive IFN SA	100.00	100.00
Ralfi IFN SA	100.00	100.00
Domenia Credit IFN SA	100.00	100.00
Garanti Finansal Kiralama AŞ	99.96	99.96
Garanti Emeklilik ve Hayat AŞ	84.91	84.91
Garanti Faktoring Hizmetleri AŞ	81.84	81.84
Garanti Yatırım Ortaklığı AŞ <sup>(*)</sup>	3.24	0.21
Garanti Diversified Payment Rights Finance Company (a)	-	-
RPV Company (a)	-	-

(a) *Garanti Diversified Payment Rights Finance Company and RPV Company, are special purpose entities established for the Bank's securitization transactions, as explained in Note 17, and consolidated in the accompanying consolidated financial statements. The Bank or any of its affiliates does not have any shareholding interests in these companies.*

(\*) *Following the acquisition of some shares from other shareholders, the indirect interest of the Bank in the company increased from 0.21% as of 31 December 2012 to 3.24% in April 2013.*

## 28 Net fee and commission income

	<u>2013</u>	<u>2012</u>
<i>Fee and commission income:</i>		
Credit cards fees	1,435,242	1,381,179
Retail banking	964,701	499,062
SME banking	367,710	309,768
Commercial banking	253,468	232,008
Corporate banking	28,223	24,532
Others	<u>155,433</u>	<u>133,918</u>
Total fee and commission income	<u>3,204,777</u>	<u>2,580,467</u>
<i>Fee and commission expense:</i>		
Credit cards fees	405,321	373,177
Retail banking	39,264	32,401
SME banking	12,363	10,787
Commercial banking	4,648	3,412
Corporate banking	1,349	1,418
Others	<u>74,789</u>	<u>86,523</u>
Total fee and commission expense	<u>537,734</u>	<u>507,718</u>
Net fee and commission income	<u>2,667,043</u>	<u>2,072,749</u>

## 29 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:

	<u>2013</u>	<u>2012</u>
Fixed/floating securities	291,613	610,211
Derivative transactions	<u>(227,764)</u>	<u>(439,901)</u>
Trading gains, net	<u>63,849</u>	<u>170,310</u>

## 30 Other operating expenses

	<u>2013</u>	<u>2012</u>
Saving deposits insurance fund	131,177	98,976
Advertising expenses	124,622	115,304
Computer usage expenses	99,265	104,343
Utility expenses	80,700	68,832
Claim loss from insurance business	56,570	62,929
Repair and maintenance expenses	53,249	39,821
Research and development expenses	41,423	27,873
Insurance related expenses	32,069	24,563
Stationary expenses	26,100	30,168
Others (*)	<u>788,156</u>	<u>471,152</u>
	<u>1,433,331</u>	<u>1,043,961</u>

(\*) *As per the decision of the Turkish Competition Board dated 8 March 2013 and resulted from the investigation initiated based on its decision no. 11-55/1438-M dated 2 November 2011, an administrative fine amounting to TL 213,385 thousands was imposed against the economic group composed of Garanti Bankası AŞ, Garanti Ödeme Sistemleri AŞ and Garanti Konut Finansmanı Danışmanlık AŞ. In accordance with the Article 17 of the Law on Crime no. 5326, it was possible to pay ¼ of such administrative fine as TL 160,038 thousands. The reasoned decision of the Turkish Competition Board was notified as of the reporting date and the stated amount was paid in the current period and recognized under other operating expenses for the year 2013.*

## 31 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 26).

### *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

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

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*.
- 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 recognized in the Bank's consolidated statement of financial position.

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

- 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 recognized 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 derecognized from the Bank's consolidated statement of financial position.

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

#### Control over investments

As a bank, regardless of the nature of its involvement with an entity, is required to determine whether it is a parent by assessing whether it controls the entity, the Bank also reassesses whether or not it controls an investment when facts and circumstances indicate that there are changes to one or more of the following three elements of control:

- power over the investee;
- exposure, or rights, to variable returns from involvement with the investee; and
- the ability to use power over the investee to affect the amount of its returns.

### **32 Significant event**

At the annual general assembly of the Bank dated 30 April 2013, it was decided to distribute the net income of the year 2012 as follows:

<b>2012 PROFIT DISTRIBUTION TABLE</b>	
<b>2012 Net Income</b>	<b>3,070,325</b>
A – I. Legal reserve (Turkish Commercial Code 519/1) at 5%	(153,516)
Undistributable funds	(24,941)
B – First dividend at 5% of the paid-in capital	(210,000)
C – Extraordinary reserves at 5% after above deductions	(135,341)
D – Second dividend to the shareholders	(386,500)
E – Extraordinary reserves	(2,121,377)
F – II. Legal reserve (Turkish Commercial Code 519/2)	(38,650)

.....