

**Türkiye Garanti Bankası Anonim Şirketi**  
And Its Affiliates  
Consolidated Financial Statements  
31 March 2014  
With Report on Review of Interim  
Financial Information Thereon

29 April 2014

This report contains the "Independent Auditors' Report" comprising 1 page and; the "Consolidated Financial Statements and Their Explanatory Notes" comprising 82 pages.

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

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

## Report on Review of Interim Financial Information

### Introduction

We have reviewed the accompanying consolidated financial statements of Türkiye Garanti Bankası A.Ş. (“the Bank”) and its consolidated affiliates (together “the Group”), which comprise the consolidated statement of financial position as at March 31, 2014, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the three-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting Standards. Our responsibility is to express a conclusion on this interim financial information based on our review.

### Scope of Review

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

### Basis for Qualified Conclusion

As of the balance sheet date, the accompanying consolidated financial statements include a general reserve amounting to TL 435,000 thousands, TL 100,000 thousands of which was charged to the income statement as expense in the current period, provided by the Bank management in line with conservatism principle considering the circumstances which may arise from any changes in the economy or market conditions.

### Qualified Conclusion

Based on our review, with the exception of the matter described in the preceding paragraph, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not present fairly, in all material respects, the financial position of the Bank and its consolidated affiliates as at March 31, 2014, and of their financial performance and cash flows for the three-month period then ended in accordance with International Financial Reporting Standards.



DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MUŞAVİRLİK A.Ş.  
Member of **DELOITTE TOUCHE TOHMATSU LIMITED**

İstanbul, April 29, 2014

**Türkiye Garanti Bankası AŞ And Its Affiliates**  
**Consolidated Statement of Financial Position**  
**At 31 March 2014**

(Currency: Thousands of Turkish Lira (TL))

	<u>Notes</u>	<u>31 March 2014</u>	<u>31 December 2013</u>
<b>Assets</b>			
Cash and balances with central banks	4	4.981.790	6.849.292
Financial assets at fair value through profit or loss	5	751.358	538.145
Loans and advances to banks	6	11.041.455	11.639.668
Loans and advances to customers	7,23	134.341.731	131.315.161
Other assets	9	26.686.391	26.108.693
Investment securities	10,22,23	41.491.189	38.609.492
Investments in equity participations	11	42.267	41.788
Tangible assets, net	12	1.984.856	2.018.893
Goodwill, net	13	32.948	32.948
Deferred tax asset	20	589.151	581.695
<b>Total Assets</b>		<b><u>221.943.136</u></b>	<b><u>217.735.775</u></b>
<b>Liabilities</b>			
Deposits from banks	14	7.167.495	6.733.280
Deposits from customers	15	114.651.873	112.461.129
Obligations under repurchase agreements and money market fundings	16	15.869.719	16.007.738
Loans and advances from banks and other institutions	17	33.680.668	34.189.584
Bonds payable	18	11.191.630	10.835.298
Subordinated liabilities	19	145.780	147.491
Current tax liability	20	302.635	133.384
Deferred tax liability	20	391	673
Other liabilities, accrued expenses and provisions	21	14.550.343	13.752.029
<b>Total Liabilities</b>		<b><u>197.560.534</u></b>	<b><u>194.260.606</u></b>
<b>Equity attributable to owners of the bank</b>			
Share capital	22	5.146.371	5.146.371
Share premium	22	11.880	11.880
Unrealised gains on available-for-sale assets	10,22	(543.894)	(494.581)
Hedging reserve	22	(202.069)	(239.657)
Actuarial gain/(loss)	22	(1.458)	(1.458)
Translation reserve	22	337.783	357.132
Legal reserves	22	1.156.773	1.156.024
Retained earnings	22	18.306.450	17.376.633
		<b><u>24.211.836</u></b>	<b><u>23.312.344</u></b>
<b>Non-controlling interests</b>	22	<b><u>170.766</u></b>	<b><u>162.825</u></b>
<b>Total Equity</b>		<b><u>24.382.602</u></b>	<b><u>23.475.169</u></b>
<b>Total Liabilities and Equity</b>		<b><u>221.943.136</u></b>	<b><u>217.735.775</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 Three-Month Period Ended 31 March 2014**

(Currency: Thousands of Turkish Lira (TL))

	Notes	1 January 2014- 31 March 2014	1 January 2013- 31 March 2013
<b>Statement of Income:</b>			
<b>Interest income:-</b>			
Interest on loans		2.799.699	2.353.931
Interest on securities		960.135	1.012.272
Interest on lease business		84.540	67.303
Interest on deposits at banks		70.895	61.048
Others		15.599	12.145
		<u>3.930.868</u>	<u>3.506.699</u>
<b>Interest expense:-</b>			
Interest on saving, commercial and public deposits		(1.348.955)	(977.802)
Interest on borrowings, obligations under repurchase agreements and money market fundings		(608.776)	(409.506)
Interest on bonds payable		(175.917)	(93.219)
Interest on bank deposits		(50.705)	(34.736)
Interest on subordinated liabilities		(1.593)	(1.250)
Others		(4.594)	(6.599)
		<u>(2.190.540)</u>	<u>(1.523.112)</u>
<b>Net interest income before provisions for loans and other credit risks</b>		<b>1.740.328</b>	<b>1.983.587</b>
<b>Provisions for loans and other credit risks, net</b>	5,6,7,8,10, 21	<b>(221.879)</b>	<b>(285.988)</b>
<b>Net interest income after provisions for loans and other credit risks</b>		<b>1.518.449</b>	<b>1.697.599</b>
Fee and commission income		907.965	774.345
Fee and commission expense		(165.274)	(110.217)
<b>Net fee and commission income</b>	28	<b>742.691</b>	<b>664.128</b>
Foreign exchange gains, net		249.465	-
Premium income from insurance business		97.181	85.270
Gain on sale of assets		8.843	4.406
Trading gains, net	29	-	290.761
Other operating income		54.149	43.398
<b>Other operating income</b>		<b>409.638</b>	<b>423.835</b>
<b>Total operating Income</b>		<b>2.670.778</b>	<b>2.785.562</b>
Salaries and wages		(443.086)	(389.268)
Credit card rewards and promotion expenses		(141.250)	(92.326)
Employee benefits	21	(110.083)	(93.821)
Impairment losses, net	9,11,12,13,21	(103.731)	(159.428)
Trading losses, net	29	(80.200)	-
Depreciation and amortization	9, 12	(75.159)	(69.307)
Rent expenses		(67.982)	(56.427)
Taxes and duties other than on income		(49.422)	(33.201)
Communication expenses		(42.819)	(46.435)
Foreign exchange losses, net		-	(52.136)
Other operating expenses	30	(349.435)	(258.767)
<b>Total operating expenses</b>		<b>(1.463.167)</b>	<b>(1.251.116)</b>
<b>Income before tax</b>		<b>1.207.611</b>	<b>1.534.446</b>
Taxation charge	20	(268.737)	(337.724)
<b>Net income for the period</b>		<b>938.874</b>	<b>1.196.722</b>
<b>Other Comprehensive Income:</b>			
<i>(items that may be reclassified subsequently to statement of income)</i>			
Foreign currency translation differences for foreign operations	22	(44.037)	(12.830)
Fair value reserves (available-for-sale financial assets):			
Net change in fair values	22	(1.087)	(122.772)
Net amount transferred to income	22	(23.905)	(117.948)
Cash flow hedges:			
Effective portion of changes in fair value	22	34.815	-
Net amount transferred to income	22	-	-
Net investment hedge for foreign operations	22	2.773	-
<i>(items that cannot be reclassified subsequently to statement of income)</i>			
Actuarial gain (loss) related to employee benefits			
Effect of changes in actuarial assumptions	21	-	-
Change in measurement of plan liabilities arising from passage of time	21	-	-
<b>Other comprehensive income for the period, net of tax</b>		<b>(31.441)</b>	<b>(253.550)</b>
<b>Total Comprehensive Income for the Period</b>		<b>907.433</b>	<b>943.172</b>
<b>Net income attributable to:</b>			
Equity holders of the Bank		930.920	1.189.281
Non-controlling interests		7.954	7.441
		<u>938.874</u>	<u>1.196.722</u>
<b>Total comprehensive income attributable to:</b>			
Equity holders of the Bank		899.492	935.739
Non-controlling interests		7.941	7.433
		<u>907.433</u>	<u>943.172</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>0,222</b>	<b>0,283</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 Three-Month Period Ended 31 March 2014**

(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>Balances at 31 December 2012</b>	5,143,205	11,880	1,093,683	(55,377)	34,612	956,192	-	14,597,136	140,524	21,921,955
Sale of treasury shares	721	-	-	-	-	-	-	-	-	721
Foreign exchange difference on foreign currency legal reserves	-	-	-	-	-	(103)	-	-	-	(103)
Transfer to legal reserves	-	-	-	-	-	1,622	-	(1,622)	-	-
Net unrealised market value losses from available-for-sale portfolio	-	-	(122,764)	-	-	-	-	-	(8)	(122,772)
Net gains on available-for-sale assets transferred to income statement at disposal	-	-	(117,948)	-	-	-	-	-	-	(117,948)
Foreign currency translation differences for foreign operations	-	-	(12,976)	-	249	-	-	-	-	(12,727)
Net fair value gains from cash flow hedge	-	-	-	-	-	-	-	-	-	-
Net income for three-month period	-	-	-	-	-	-	-	1,189,281	7,441	1,196,722
<b>Balances at 31 March 2013</b>	5,144,026	11,880	839,995	(55,377)	34,861	957,711	-	15,784,795	147,957	22,865,848
Sale of treasury shares	2,345	-	-	-	-	-	-	-	-	2,345
Foreign exchange difference on foreign currency legal reserves	-	-	-	-	-	3,972	-	-	-	3,972
Transfer to legal reserves	-	-	-	-	-	194,311	-	(194,311)	-	-
Dividends paid	-	-	-	-	-	-	-	(596,471)	-	(596,471)
Net unrealised market value losses from available-for-sale portfolio	-	-	(991,334)	-	-	-	-	-	(22)	(991,356)
Net gains on available-for-sale assets transferred to income statement at disposal	-	-	(371,840)	-	-	-	-	-	-	(371,840)
Foreign currency translation differences for foreign operations	-	-	28,598	-	111,055	-	-	-	-	139,653
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 hedges	-	-	-	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 nine-month period	-	-	-	-	-	-	-	2,382,218	16,925	2,399,143
<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
Foreign exchange difference on foreign currency legal reserves	-	-	-	-	-	(354)	-	-	-	(354)
Transfer to legal reserves	-	-	-	-	-	1,103	-	(1,103)	-	-
Net unrealised market value losses from available-for-sale portfolio	-	-	(1,074)	-	-	-	-	-	(13)	(1,087)
Net gains on available-for-sale assets transferred to income statement at disposal	-	-	(23,905)	-	-	-	-	-	-	(23,905)
Foreign currency translation differences for foreign operations	-	-	(24,334)	-	(16,576)	-	-	-	-	(40,910)
Net fair value gains from cash flow hedge	-	-	-	34,815	-	-	-	-	-	34,815
Net investment hedge for foreign operations	-	-	-	2,773	(2,773)	-	-	-	-	-
Net income for three-month period	-	-	-	(202,069)	337,783	1,156,773	(1,458)	18,306,450	170,766	24,382,602
<b>Balances at 31 March 2014</b>	5,146,371	11,880	(543,894)	(202,069)	337,783	1,156,773	(1,458)	18,306,450	170,766	24,382,602

**Türkiye Garanti Bankası AŞ And Its Affiliates**  
**Consolidated Statement of Cash Flows**  
**For The Three-Month Period Ended 31 March 2014**

(Currency: Thousands of Turkish Lira (TL))

<b>Notes</b>	<b>1 January 2014- 31 March 2014</b>	<b>1 January 2013- 31 March 2013</b>
<b>Cash flows from operating activities:-</b>		
Interests and commissions received	3.922.781	3.215.580
Interests and commissions paid	(2.207.759)	(1.757.731)
Other operating activities, net	749.746	407.877
Cash payments to employees and suppliers	(1.026.812)	(819.944)
	<u>1.437.956</u>	<u>1.045.782</u>
<b>(Increase)/decrease in operating assets:-</b>		
Loans and advances to banks	1.008.284	(29.832)
Balances with central banks	(145.781)	(1.705.889)
Financial assets at fair value through profit or loss	(212.164)	(280.298)
Loans and advances to customers	(3.566.128)	(2.749.971)
Consumer loans	133.728	(1.622.541)
Other assets	(169.830)	(882.456)
<b>Increase/(decrease) in operating liabilities:-</b>		
Deposits from banks	431.982	20.517
Deposits from customers	2.131.834	7.012.376
Obligations under repurchase agreements and money market fundings	(131.714)	(2.273.939)
Other liabilities	191.537	46.213
<b>Net cash outflows from operating activities before taxes and duties paid</b>	<u><b>1.109.704</b></u>	<u><b>(1.420.038)</b></u>
<b>Income taxes and other duties paid</b>	<b>(148.684)</b>	<b>(345.379)</b>
<b>Net cash inflows from operating activities</b>	<u><b>961.020</b></u>	<u><b>(1.765.417)</b></u>
<b>Cash flows from investing activities:-</b>		
Net increase in investment securities	(2.735.997)	(1.141.541)
Interest received for investment securities	604.154	878.221
Dividends received	69	3.136
Proceeds from sale of tangible assets	40.063	28.024
Purchase of tangible assets	(65.339)	(110.527)
<b>Net cash inflows from investing activities</b>	<u><b>(2.157.050)</b></u>	<u><b>(342.687)</b></u>
<b>Cash flows from financing activities:-</b>		
Decrease in loans and advances from banks and other institutions, net	(616.897)	(5.636)
Increase in bonds payable, net	369.666	1.115.514
Decrease in subordinated liabilities, net	(285)	(32.505)
<b>Net cash flows from financing activities</b>	<u><b>(247.516)</b></u>	<u><b>1.077.373</b></u>
<b>Effect of exchange rate changes</b>	<b>(12.071)</b>	<b>55.566</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<u><b>(1.455.617)</b></u>	<u><b>(975.165)</b></u>
Cash and cash equivalents at the beginning of the period	<u>8.795.778</u>	<u>5.976.307</u>
<b>Cash and cash equivalents at the end of the period</b>	<u><b>7.340.161</b></u>	<u><b>5.001.142</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 three-month period ended 31 March 2014 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 901 domestic branches, eight foreign branches, three representative offices abroad and 83 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 22,047 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 March 2014, 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 29 April 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.

## **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 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 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 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 income. Goodwill is assessed for indication of impairment at least annually

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

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 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 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 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.

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

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, 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 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.

## **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 income, the effective portion of changes in the fair value of the derivative are recognized directly in other comprehensive income and presented in hedging reserve in equity. The amount recognized in other comprehensive income is removed and included in income in the same period as the hedged cash flows affect the 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 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 other comprehensive income and presented in the hedging reserve in equity remains there until the forecast transaction affects the income. If the forecast transaction is no longer expected to occur, then hedge accounting is discontinued and the balance in other comprehensive income is recognized immediately in 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 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.

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

### *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 income. The amount recognized in the shareholders' equity is removed and included in the income 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:

	<b>31 March 2014</b>	
	<b>Employer</b>	<b>Employee</b>
	<b>%</b>	<b>%</b>
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 income in periods before the year 2013. 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 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 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 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 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 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 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 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 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 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 IFRS10, 11, IAS27 Investment Entities
- 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

**Significant accounting policies (continued)**

**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 IAS19 Defined Benefit Plans: Employee Contributions
- Annual improvements to 2010-2012 Cycle - IFRS2, IFRS3, IFRS8, IFRS13, IAS16, IAS38 and IAS24
- Annual improvements to 2011-2013 Cycle - IFRS1, IFRS3, IFRS13, IAS40
- IFRS14 Regulatory Deferral Accounts

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## 1 Segment reporting

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

### 1.1 Geographical segments

The Bank and its affiliates operate principally in Turkey, but also have operations in the Netherlands, 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:

	<i>31 March 2014</i>				
	<i>Loans and Advances to Customers</i>	<i>Total Assets</i>	<i>Total Liabilities</i>	<i>Non-Cash Loans</i>	<i>Capital Expenditures</i>
Turkey	125,432,595	196,660,925	143,201,968	27,465,337	50,401
England	281,451	9,332,665	15,926,722	1,021,130	-
Romania	3,528,568	4,834,317	2,154,686	114,398	9,221
Netherlands	1,257,109	3,377,862	4,709,655	310,997	3,370
Russia	890,104	2,009,165	869,096	43,570	32
USA	354,061	1,851,279	5,365,942	1,405,184	-
Malta	750,639	864,166	461,039	4,230	5
Switzerland	587,258	600,156	5,880,682	1,861,568	-
Luxembourg	195,163	411,632	861,492	43,036	-
Germany	160,694	330,563	7,217,607	105,165	1,391
Spain	24,199	290,092	355,887	419,439	-
France	36,674	213,938	1,357,777	230,475	-
Singapore	160,567	160,567	55,984	46,447	-
Belgium	123,741	150,412	288,299	5,546	-
United Arabian Emirates	50,116	55,344	1,102,268	647,617	-
Ukraine	46,774	48,049	19,690	366	-
Azerbaijan	29,251	29,251	520,441	4,672	-
Italy	7,243	21,533	411,554	393,227	-
Ireland	9,123	12,582	232,861	552	-
Austria	11,173	11,221	331,559	129,919	-
Canada	3,122	7,124	536,670	106,222	-
Japan	-	3,327	89,959	213,467	-
Thailand	211	1,328	2,207,855	-	-
Others	401,895	665,638	3,400,841	705,548	-
	<u>134,341,731</u>	<u>221,943,136</u>	<u>197,560,534</u>	<u>35,278,112</u>	<u>64,420</u>



**1 Segment reporting (continued)**

31 December 2013

	<i>Loans and Advances to Customers</i>	<i>Total Assets</i>	<i>Total Liabilities</i>	<i>Non-Cash Loans</i>	<i>Capital Expenditures</i>
Turkey	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>

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

	<i>For the three-month period ended</i>	
	<i>31 March 2014</i>	<i>31 March 2013</i>
Turkey	776,980	1,046,566
Malta	58,151	28,234
Netherlands	53,025	83,883
Romania	32,892	22,539
Luxembourg	8,767	6,793
Others	9,059	8,707
	<u>938,874</u>	<u>1,196,722</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:

31 March 2014	Commercial, Corporate & SME Banking		Other Operations	Total Banking	Leasing	Insurance	Factoring	Other Financial		Combined	Eliminations	Total
	Retail Banking	Commercial, Corporate & SME Banking						Other Financial	Other Non-Financial			
Operating income	769,153	994,322	677,405	2,440,880	60,500	100,926	16,087	28,692	62,539	2,709,624	(38,846)	2,670,778
Operating expenses	(610,627)	(429,923)	(308,734)	(1,349,284)	(28,724)	(42,707)	(11,068)	(22,764)	(48,181)	(1,502,728)	39,561	(1,463,167)
Income from operations	158,526	564,399	368,671	1,091,596	31,776	58,219	5,019	5,928	14,358	1,206,896	715	1,207,611
Taxation charge	-	-	(245,829)	(245,829)	(6,497)	(11,634)	(1,425)	(1,439)	(2,102)	(268,926)	189	(268,737)
Net income for the period	158,526	564,399	122,842	845,767	25,279	46,585	3,594	4,489	12,256	937,970	904	938,874
Segment assets	43,831,150	86,853,422	78,377,156	209,061,728	3,952,971	5,734,700	1,712,282	674,624	112,783	221,249,088	(1,955,174)	219,293,914
Investments in equity participations	-	-	504,442	504,442	10,457	275	-	2,340	793	518,307	(476,040)	42,267
Other assets	-	-	2,090,418	2,090,418	51,923	27,030	15,941	17,392	344,517	2,547,221	59,734	2,606,955
Total assets	43,831,150	86,853,422	80,972,016	211,656,588	4,015,351	5,762,005	1,728,223	694,356	458,093	224,314,616	(2,371,480)	221,943,136
Segment liabilities	75,185,247	43,863,165	69,407,842	188,456,254	3,345,517	5,001,844	1,604,579	657,221	399,561	199,464,976	(1,904,442)	197,560,534
Total equity	-	-	23,200,334	23,200,334	669,834	760,161	123,644	37,135	58,532	24,849,640	(467,038)	24,382,602
Total liabilities and equity	75,185,247	43,863,165	92,608,176	211,656,588	4,015,351	5,762,005	1,728,223	694,356	458,093	224,314,616	(2,371,480)	221,943,136

**Türkiye Garanti Bankası AŞ and Its Affiliates**  
Notes to Consolidated Financial Statements  
As of and for the Three-Month Period Ended 31 March 2014  
(Currency: Thousands of Turkish Lira (TL))

**1 Segment reporting (continued)**

	<u>Retail Banking</u>	<u>Commercial Corporate &amp; SME Banking</u>	<u>Other Operations</u>	<u>Total Banking</u>	<u>Leasing</u>	<u>Insurance</u>	<u>Factoring</u>	<u>Other Financial</u>	<u>Other Non-Financial</u>	<u>Combined</u>	<u>Eliminations</u>	<u>Total</u>
<b>31 March 2013</b>												
Operating income	663,558	895,887	1,037,428	2,596,873	46,332	80,271	17,731	25,077	35,796	2,802,080	(16,518)	2,785,562
Operating expenses	(372,427)	(436,039)	(342,994)	(1,151,460)	(23,256)	(34,711)	(10,799)	(20,536)	(26,542)	(1,267,304)	16,188	(1,251,116)
Income from operations	291,131	459,848	694,434	1,445,413	23,076	45,560	6,932	4,541	9,254	1,534,776	(330)	1,534,446
Taxation charge	-	-	(319,164)	(319,164)	(5,440)	(9,234)	(1,386)	(622)	(1,878)	(337,724)	-	(337,724)
Net income for the period	291,131	459,848	375,270	1,126,249	17,636	36,326	5,546	3,919	7,376	1,197,052	(330)	1,196,722
<b>31 December 2013</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
Other assets	-	-	2,118,004	2,118,004	52,776	23,612	16,918	17,220	344,529	2,573,059	60,477	2,633,536
Total assets	43,999,115	84,840,284	79,090,756	207,930,155	3,927,385	5,315,158	2,057,728	698,961	450,927	220,380,314	(2,644,539)	217,735,775
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
Total liabilities and equity	72,977,804	43,815,998	91,136,353	207,930,155	3,927,385	5,315,158	2,057,728	698,961	450,927	220,380,314	(2,644,539)	217,735,775

## 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 March 2014 and 2013, included in the accompanying consolidated statements of cash flows are as follows:

	<i>31 March</i> <u>2014</u>	<i>31 March</i> <u>2013</u>
Cash at branches	1,553,295	1,036,034
Unrestricted balances with central banks	3,428,494	2,603,960
Placements at money markets	152,530	370
Loans and advances to banks with original maturity periods of less than three months	<u>2,205,841</u>	<u>1,360,778</u>
	<u>7,340,161</u>	<u>5,001,142</u>

## 3 Related party disclosures

For the purpose of this report, the shareholders jointly controlling the Bank namely Doğu 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

	<i>31 March</i> <u>2014</u>	<i>31 December</i> <u>2013</u>
<i>Statement of financial position</i>		
Investment securities	7,520	7,394
Loans and advances to banks	217,564	9,213
Loans and advances to customers	952,641	583,734
Miscellaneous receivables	2,326	2,117
Deposits from banks	114,911	49,455
Deposits from customers	470,820	611,962
Loans and advances from banks and other institutions	253,930	199,623
Miscellaneous payables	28,666	16,159
<i>Commitments and contingencies</i>		
Non-cash loans	979,014	773,926
Derivatives	8,300,971	9,092,999

### 3.2 Transactions

	<i>For the three-month period ended</i>	
	<i>31 March</i> <u>2014</u>	<i>31 March</i> <u>2013</u>
Interest, fee and commission income	13,741	9,134
Interest, fee and commission expenses	6,179	5,180
Other operating income	1,308	542
Other operating expenses	28,412	40,770

### 3 Related party disclosures (continued)

In the first quarter of 2014, interest rates applied to foreign currency receivables from and payables to related parties vary within the ranges of 3%-13% and 1%-9% (31 December 2013: 3%-9% and 1%-9%), respectively. The interest rates applied to TL receivables from and payables to related parties vary within the ranges of 1%-24% and 9%-13%, respectively (31 December 2013: 1%-20% and 6%-10%). 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 March 2014 (31 December 2013: nil).

Key management personnel compensation for the three-month period ended 31 March 2014 amounted TL 35,261 thousands (31 March 2013: TL 33,728 thousands) on a consolidated basis. Within this total, individual key management expenses of the Bank amounted TL 22,022 thousands (31 March 2013: TL 20,619 thousands) and of its affiliates amounted TL 13,239 thousands (31 March 2013: TL 13,109 thousands).

### 4 Cash and balances with central banks

	<i>31 March</i> <u>2014</u>	<i>31 December</i> <u>2013</u>
Cash at branches	1,553,295	1,667,501
Balances with central banks excluding reserve deposits	<u>3,428,495</u>	<u>5,181,791</u>
	<u>4,981,790</u>	<u>6,849,292</u>

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

	<i>31 March</i> <u>2014</u>				<i>31 December</i> <u>2013</u>
	<i>Face</i> <u>value</u>	<i>Carrying</i> <u>value</u>	<i>Interest rate</i> <u>range %</u>	<i>Latest</i> <u>maturity</u>	<i>Carrying</i> <u>value</u>
<i>Debt and other instruments held at fair value:</i>					
Gold	-	294,236	-	-	64,158
Investment fund	-	56,330	-	-	39,464
Government bonds indexed to CPI	37,404	54,984	1-9	2023	81,260
Government bonds in TL	53,085	51,490	5-11	2023	29,106
Bonds issued by financial institutions	42,428	42,780	7-16	2019	39,998
Bonds issued by corporations	15,904	16,024	8-18	2017	15,089
Discounted government bonds in TL	13,042	12,622	6-12	2015	4,476
Eurobonds	8,924	9,583	3-12	2045	34,253
Government bonds-floating (a)	5,507	<u>5,603</u>	7-10	2020	<u>19,369</u>
		543,652			327,173
<i>Loans held at fair value</i>		193,560			198,778
<i>Equity and other non-fixed income instruments:</i>					
Listed shares		<u>14,146</u>			<u>12,194</u>
Total financial assets at fair value through profit or loss		<u>751,358</u>			<u>538,145</u>

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

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

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 March 2014 amounting to TL 817 thousands (31 March 2013: TL 258 thousands).

As of 31 March 2014, financial assets at fair value through profit or loss amounting to TL 298,064 thousands are blocked against asset management operations and securitizations (31 December 2013: TL 280,860 thousands) (refer to Note 10).

There are no securities pledged under repurchase agreements with customers as of 31 March 2014 (31 December 2013: TL 2,732 thousands).

## 6 Loans and advances to banks

	31 March 2014			31 December 2013		
	TL	Foreign Currency	Total	TL	Foreign Currency	Total
<i>Loans and advances-demand</i>						
Domestic banks	1,194	1,020	2,214	3,675	719	4,394
Foreign banks	<u>67,500</u>	<u>2,837,778</u>	<u>2,905,278</u>	<u>127,202</u>	<u>2,498,552</u>	<u>2,625,754</u>
	<u>68,694</u>	<u>2,838,798</u>	<u>2,907,492</u>	<u>130,877</u>	<u>2,499,271</u>	<u>2,630,148</u>
<i>Loans and advances-time</i>						
Domestic banks	335,807	1,315,028	1,650,835	526,523	1,894,652	2,421,175
Foreign banks	<u>1,141,503</u>	<u>5,138,688</u>	<u>6,280,191</u>	<u>1,606,528</u>	<u>4,730,563</u>	<u>6,337,091</u>
	<u>1,477,310</u>	<u>6,453,716</u>	<u>7,931,026</u>	<u>2,133,051</u>	<u>6,625,215</u>	<u>8,758,266</u>
Placements at money markets	<u>9,565</u>	<u>142,965</u>	<u>152,530</u>	<u>8,231</u>	<u>190,800</u>	<u>199,031</u>
Income accrual on loans and advances to banks	<u>19,484</u>	<u>30,923</u>	<u>50,407</u>	<u>17,769</u>	<u>34,454</u>	<u>52,223</u>
Total loans and advances to banks	1,575,053	9,466,402	11,041,455	2,289,928	9,349,740	11,639,668
Less: allowance for uncollectibility	-	-	-	-	-	-
Net loans and advances to banks	<u>1,575,053</u>	<u>9,466,402</u>	<u>11,041,455</u>	<u>2,289,928</u>	<u>9,349,740</u>	<u>11,639,668</u>

As of 31 March 2014, majority of loans and advances-time are short-term with interest rates ranging between 1%-8% per annum for foreign currency time placements and 4%-13% per annum for TL time placements (31 December 2013: 1%-4% and 2%-10%, respectively).

As of 31 March 2014, loans and advances at domestic and foreign banks include blocked accounts of TL 7,002,950 thousands (31 December 2013: TL 7,448,996 thousands) held against securitizations, fundings and insurance business.

## 7 Loans and advances to customers

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

	<i>31 March</i> <u>2014</u>	<i>31 December</i> <u>2013</u>
Consumer loans	44,072,099	44,205,827
<i>Mortgage loans</i>	14,377,885	14,099,824
<i>Credit card receivables</i>	13,111,692	13,790,108
<i>Auto loans</i>	1,377,287	1,472,637
<i>General purpose and other consumer loans</i>	15,205,235	14,843,258
Energy	13,102,341	12,403,326
Service sector	12,347,931	10,150,903
Construction	7,805,627	8,000,008
Transportation and logistics	6,453,398	5,762,964
Food	5,405,645	5,201,218
Textile	5,112,159	5,096,942
Financial institutions	5,087,539	3,480,388
Metal and metal products	4,279,158	4,312,306
Tourism	3,634,411	3,552,135
Transportation vehicles and sub-industry	2,561,224	2,783,878
Chemistry and chemical products	2,548,110	2,407,818
Agriculture and stockbreeding	1,977,198	2,018,005
Durable consumption	1,425,774	1,378,566
Mining	1,367,118	1,314,187
Data processing	1,259,183	3,509,651
Stone, rock and related products	1,232,962	1,159,166
Machinery and equipment	1,108,048	1,220,351
Paper and paper products	880,479	827,833
Electronic, optical and medical equipment	626,314	619,731
Plastic products	523,434	450,024
Others	<u>5,189,785</u>	<u>4,844,562</u>
Total performing loans	127,999,937	124,699,789
Financial lease receivables, net of unearned income (Note 8)	3,643,208	3,558,657
Factoring receivables	1,681,619	1,974,663
Income accrual on loans, factoring and lease receivables	1,719,984	1,751,101
Non-performing loans, factoring and lease receivables	4,175,558	4,000,048
Allowance for probable losses from loans, factoring and lease receivables	<u>(4,878,575)</u>	<u>(4,669,097)</u>
Loans and advances to customers	<u>134,341,731</u>	<u>131,315,161</u>

As of 31 March 2014, interest rates on loans granted to customers range between 1%-28% (31 December 2013: 1%-28%) per annum for the foreign currency loans and 2%-32% (31 December 2013: 2%-26%) per annum for the TL loans.

## 7 Loans and advances to customers (continued)

The provision for probable losses is comprised of amounts for specifically identified as being impaired and non-performing loans and advances and a further portfolio-basis amount considered adequate to cover the residual inherent risk of loss present in the lending relationships presently performing in accordance with agreements made with borrowers. The amount of the portfolio basis allowance is TL 870,179 thousands (31 December 2013: TL 827,867 thousands). Movements in the allowance for probable losses on loans, factoring and lease receivables including the portfolio basis allowances, are as follows:

	<i>31 March</i> <u>2014</u>	<i>31 December</i> <u>2013</u>
Balance at the beginning of the period	4,669,097	3,413,019
Write-offs	(4,857)	(321,568)
Recoveries and reversals	(131,767)	(517,787)
Provision for the period	<u>346,102</u>	<u>2,095,433</u>
Balance at the end of the period	<u>4,878,575</u>	<u>4,669,097</u>

A part of non-performing receivables of the Bank amounting to TL 3,218 thousands was sold for a consideration of TL 700 thousands in the current period. Considering the related provision of TL 3,218 thousands made in the financial statements in the prior periods, a gain of TL 700 thousands is recognized under “gain on sale of assets”.

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

	<i>31 March</i> <u>2014</u>	<i>31 December</i> <u>2013</u>
Financial lease receivables, net of unearned income (Note 7)	3,643,208	3,558,657
Add: non-performing lease receivables	361,405	355,809
Less: allowance for probable losses on lease receivable	<u>(181,082)</u>	<u>(173,509)</u>
	<u>3,823,531</u>	<u>3,740,957</u>
Income accrual on lease receivables	<u>24,217</u>	<u>23,705</u>
<i>Analysis of net financial lease receivables</i>		
Due within 1 year	1,642,448	1,613,273
Due between 1 and 5 years	2,454,294	2,479,636
Due after 5 years	<u>295,042</u>	<u>178,940</u>
Financial lease receivables, gross	4,391,784	4,271,849
Unearned income	<u>(568,253)</u>	<u>(530,892)</u>
Financial lease receivables, net	<u>3,823,531</u>	<u>3,740,957</u>
<i>Analysis of net financial lease receivables</i>		
Due within 1 year	1,474,145	1,458,901
Due between 1 and 5 years	2,112,554	2,133,517
Due after 5 years	<u>236,832</u>	<u>148,539</u>
Financial lease receivables, net	<u>3,823,531</u>	<u>3,740,957</u>



## 9 Other assets

	<i>31 March</i>	<i>31 December</i>
	<u>2014</u>	<u>2013</u>
Reserve deposits at central banks	18,512,573	18,366,792
Insurance premium receivables	4,681,299	4,340,416
Derivative financial assets	2,008,621	1,784,679
Prepaid expenses, insurance claims and similar items	503,353	397,715
Miscellaneous receivables	481,919	383,724
Tangible assets held for sale	157,943	149,742
Investment property (*)	125,218	121,671
Prepaid taxes and taxes/funds to be refunded	36,817	37,950
Balances with clearing house	28,624	385,011
Others	150,024	140,993
	<u>26,686,391</u>	<u>26,108,693</u>

(\*) Depreciation expense for investment property amounts to TL 976 thousands as of 31 March 2014 (31 March 2013: TL 846 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 0.47% for RON reserves 0.38% for Euro reserves and 0.18% 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 March 2014, real estates held for sale have been impaired by TL 19,198 thousands (31 December 2013: TL 18,226 thousands).

As of 31 March 2014, the rights of repurchase on various tangible assets held for sale amounted to TL 20,482 thousands (31 December 2013: TL 27,725 thousands).

## 10 Investment securities

	31 March 2014				31 December 2013
	Face value	Carrying value	Interest rate range %	Latest maturity	Carrying value
<i>Debt and other instruments available-for-sale:</i>					
Government bonds at floating rates (a)	6,354,429	6,344,665	8-10	2020	7,130,126
Government bonds indexed to CPI (d)	4,740,714	5,892,522	1-9	2023	4,857,943
Government bonds in TL (d)	5,948,174	5,717,224	5-11	2023	5,640,990
Bonds issued by financial institutions (b)	3,063,541	3,038,678	1-14	2025	4,041,506
Eurobonds (c)	867,904	942,747	3-12	2041	1,094,389
Bonds issued by foreign governments	780,274	838,508	4-8	2028	1,101,364
Bonds issued by corporations (b)	605,325	597,781	2-15	2023	460,594
Discounted government bonds in TL	479,930	467,937	6-11	2014	459,301
Others		91,579			49,485
Total securities available-for-sale		23,931,641			24,835,698
<i>Debt and other instruments held-to-maturity:</i>					
Government bonds indexed to CPI (d)	7,516,682	8,556,964	1-5	2023	8,559,886
Government bonds in TL (d)	3,143,771	3,057,479	6-10	2023	3,000,881
Eurobonds (c)	2,659,600	2,929,930	6-12	2045	463,687
Bonds issued by financial institutions (b)	1,251,524	1,235,052	4-6	2020	180,142
Government bonds at floating rates (a)	887,744	906,146	9	2014	909,338
Discounted government bonds in TL	231,000	205,269	10-11	2014	205,269
Bonds issued by corporations (b)	17,668	15,698	4-9	2020	9,792
		16,906,538			13,328,995
Income accrual on held-to-maturity portfolio		653,010			444,799
Total securities held-to-maturity		17,559,548			13,773,794
Total investment securities		41,491,189			38,609,492

(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 (31 December 2013: US\$ 425,000,000) and a total carrying value of TL 903,316 thousands (31 December 2013: TL 913,660 thousands). The Bank reclassified these bonds from debt and other instruments available-for-sale to debt and other instruments held-to-maturity portfolio in the current period.

(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 2013, the Bank 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 2013.

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)

The impairment losses on the investment securities as of 31 March 2014 amounting to TL 27 thousands (31 March 2013: nil).

Government bonds and treasury bills include securities pledged under repurchase agreements with customers amounting to TL 17,892,625 thousands (31 December 2013: TL 17,853,584 thousands).

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

	<u>31 March 2014</u>		<u>31 December 2013</u>	
	<u>Face Value</u>	<u>Carrying value</u>	<u>Face Value</u>	<u>Carrying value</u>
Collateralized to foreign banks	23,034,182	24,965,520	16,008,354	17,545,074
Deposited at Borsa Istanbul	2,545,297	2,800,160	9,247,906	9,521,210
Deposited at central banks for repurchase transactions	2,371,720	2,581,693	2,399,566	2,542,392
Deposited at central banks for interbank transactions	436,202	592,717	432,476	574,656
Deposited at CBT for foreign currency money market transactions	198,950	229,595	75,000	105,782
Deposited at Clearing Bank (Takasbank)	48,696	47,368	139,003	137,193
Others		34,771		44,199
		<u>31,251,824</u>		<u>30,470,506</u>

## 11 Investments in equity participations

	<u>31 March 2014</u>		<u>31 December 2013</u>	
	<u>Carrying Value</u>	<u>Ownership %</u>	<u>Carrying Value</u>	<u>Ownership %</u>
İstanbul Takas ve Saklama Bankası AŞ	27,636	5.85	27,636	5.85
Others	14,631		14,152	
	<u>42,267</u>		<u>41,788</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 2013. 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.

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 March 2014 (31 March 2013: nil). The cumulative provisions for impairment losses on investments in equity participations amounted to TL 3,518 thousands as of 31 March 2014 (31 December 2013: TL 3,544 thousands).

## 12 Tangible assets

Movement in tangible assets from 1 January to 31 March 2014 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 March</u>
<i>Costs</i>					
Land and buildings	1,169,700	5,405	(2,838)	(5,417)	1,166,850
Furniture, fixture, equipments and motor vehicles	2,043,562	36,150	(5,123)	(152,934)	1,921,655
Leasehold improvements	<u>703,586</u>	<u>17,743</u>	<u>(321)</u>	<u>121,178</u>	<u>842,186</u>
	3,916,848	59,298	(8,282)	(37,173)	3,930,691
<i>Less: Accumulated depreciation</i>					
Buildings	315,376	6,310	(329)	(1,591)	319,766
Furniture, fixture, equipments and motor vehicles	1,163,660	43,918	(850)	(16,989)	1,189,739
Leasehold improvements	<u>494,411</u>	<u>23,955</u>	<u>(296)</u>	<u>(3,147)</u>	<u>514,923</u>
	1,973,447	74,183	(1,475)	(21,727)	2,024,428
<i>Construction in progress</i>	<u>127,163</u>	5,122	(1,067)	(1,826)	<u>129,392</u>
	2,070,564				2,035,655
<i>Impairment in value of tangible assets</i>	<u>(51,671)</u>				<u>(50,799)</u>
	<u>2,018,893</u>				<u>1,984,856</u>

(\*) Due to the reclassification of certain assets from furniture, fixture and equipments to leasehold improvements, the related costs are included in transfers column above in the current period.

## 12 Tangible assets (continued)

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>

Depreciation expense of tangible assets for the three-month period ended 31 March 2014 amounts to TL 74,183 thousands (31 March 2013: TL 68,461 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 March 2014, land and buildings at a total net book value before impairment of TL 440,658 thousands (31 December 2013: TL 412,621 thousands) have been impaired by TL 50,799 thousands (31 December 2013: TL 51,671 thousands).

## 13 Goodwill

As of 31 March 2014, 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>31 March 2014</u>	<u>31 December 2013</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:

	<i>31 March 2014</i>	<i>31 December 2013</i>
Payable on demand	1,168,371	1,188,346
Term deposits	<u>5,985,304</u>	<u>5,533,347</u>
	7,153,675	6,721,693
Expense accrual on deposits from banks	<u>13,820</u>	<u>11,587</u>
	<u>7,167,495</u>	<u>6,733,280</u>

Deposits from banks include both TL accounts amounting to TL 1,088,799 thousands (31 December 2013: TL 795,617 thousands) and foreign currency accounts amounting to TL 6,064,876 thousands (31 December 2013: TL 5,926,076 thousands) in total. As of 31 March 2014, interest rates applicable to TL bank deposits and foreign currency bank deposits vary within ranges of 7%-13% and 1%-9% (31 December 2013: 1%-9% and 1%-7%), respectively.

## 15 Deposits from customers

Deposits from customers comprise the following:

	<i>31 March 2014</i>			<i>31 December 2013</i>
	<u><i>Demand</i></u>	<u><i>Time</i></u>	<u><i>Total</i></u>	<u><i>Total</i></u>
Foreign currency	13,871,149	43,221,639	57,092,788	51,288,325
Saving	4,817,164	33,714,568	38,531,732	38,395,789
Commercial	4,679,366	8,944,397	13,623,763	16,575,767
Public and other	1,270,687	1,885,856	3,156,543	3,440,365
Gold and other precious metals	<u>1,574,352</u>	<u>146,145</u>	<u>1,720,497</u>	<u>2,293,243</u>
	26,212,718	87,912,605	114,125,323	111,993,489
Expense accrual on deposits from customers	<u>9,699</u>	<u>516,851</u>	<u>526,550</u>	<u>467,640</u>
	<u>26,222,417</u>	<u>88,429,456</u>	<u>114,651,873</u>	<u>112,461,129</u>

As of 31 March 2014, interest rates applicable to TL deposits and foreign currency deposits vary within the ranges of 3%-14% and 1%-12% (31 December 2013: 3%-11% and 1%-8%), respectively.

## 16 Obligations under repurchase agreements and money market fundings

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

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

	<i>31 March 2014</i>	<i>31 December 2013</i>
Obligations under repurchase agreements	15,863,732	16,003,560
Obligations on securities under reverse repurchase agreements	<u>5,987</u>	<u>4,178</u>
	<u>15,869,719</u>	<u>16,007,738</u>

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

Assets sold under repurchase agreements are further detailed as follows:

	<u>Carrying value</u>	<u>Fair value of underlying assets</u>	<u>Carrying amount of corresponding liabilities</u>	<u>Range of repurchase dates</u>	<u>Repurchase price</u>
<b><u>31 March 2014</u></b>					
Financial assets at fair value through profit or loss	-	-	-	-	-
Investment securities	<u>17,892,625</u>	<u>17,793,020</u>	<u>15,863,732</u>	Apr'14-Dec'16	<u>16,098,400</u>
	<u>17,892,625</u>	<u>17,793,020</u>	<u>15,863,732</u>		<u>16,098,400</u>
<b><u>31 December 2013</u></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>

The proceeds from the sale of securities under repurchase agreements are treated as liabilities and recorded as obligations under repurchase agreements. As of 31 March 2014, the maturities of the obligations varied from one day to 33 months and interest rates varied between 1%-13% (31 December 2013: 1%-9%). 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 35,333 thousands (31 December 2013: TL 41,638 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>31 March 2014</u>	<u>31 December 2013</u>
<b><u>Short-term borrowings</u></b>		
Domestic banks	1,317,171	1,199,932
Foreign banks	<u>9,657,768</u>	<u>9,776,962</u>
	10,974,939	10,976,894
<b><u>Long-term debts</u></b>		
Short-term portion	5,882,020	5,694,077
Medium and long-term portion	<u>16,517,401</u>	<u>17,320,286</u>
	22,399,421	23,014,363
Expense accrual on loans and advances from banks and other institutions	<u>306,308</u>	<u>198,327</u>
	<u>33,680,668</u>	<u>34,189,584</u>

As of 31 March 2014, loans and advances from banks and other institutions included various promissory notes amounting to TL 693,112 thousands in total with short-term maturities (31 December 2013: TL 685,593 thousands).

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

As of 31 March 2014, 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 3,150,626 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 2,584,626 thousands).

Long-term debts comprise the following:

	31 March 2014					31 December 2013
	Interest rate%	Latest maturity	Amount in original currency	Short term portion	Medium and long term portion	Medium and long term debts
DPR Securitisation-XVI	2	2034	US\$ 1 billions	-	2,114,884	2,120,000
Deutsche Bank AG-II	3	2019	US\$ 500 millions	-	1,057,500	1,060,000
DPR Securitisation-XIV	3	2026	US\$ 397 millions	-	839,738	848,000
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 154 millions	99,333	350,296	377,625
DPR Securitisation-VIII	1	2017	US\$ 196 millions	118,348	296,042	326,541
DPR Securitisation-XIII	2	2016	US\$ 187 millions	157,911	237,837	278,653
DPR Securitisation-XV	2	2018	EUR 134 millions	-	389,404	393,324
EIB I	1-4	2022	US\$ 177 millions	40,443	334,814	344,066
DPR Securitisation-XV	2	2018	US\$ 175 millions	-	370,125	371,000
EIB II	9	2019	TL 206 millions	-	206,250	206,250
DPR Securitisation-XII	2	2022	EUR 67 millions	21,819	174,797	180,298
DPR Securitisation-XII	1	2022	EUR 67 millions	21,819	174,797	180,298
DPR Securitisation-XII	2	2016	EUR 66 millions	73,215	120,176	121,570
OPIC	1	2019	US\$ 83 millions	29,822	144,666	152,640
DPR Securitisation-VI (*)	1	2016	US\$ 78 millions	96,631	69,078	111,028
EBRD-V	3	2017	US\$ 60 millions	18,129	108,771	109,029
DPR Securitisation-XIII	2	2016	EUR 42 millions	48,358	72,719	84,968
DPR Securitisation-VIII	1	2017	US\$ 56 millions	33,814	84,583	93,293
DPR Securitisation-VIII	1	2017	US\$ 56 millions	33,814	84,583	93,293
EBRD-IV	2	2017	EUR 34 millions	33,272	66,551	83,361
EFSE	3	2017	EUR 25 millions	15,036	59,726	72,678
EBRD-II	1-2	2025	US\$ 32 millions	28,784	39,353	39,393
KfW	2	2017	EUR 20 millions	9,714	48,592	48,687
EBRD-III	2	2015	EUR 11 millions	16,555	16,606	16,612
DPR Securitisation-VIII	1	2015	US\$ 10 millions	17,583	4,426	8,851
Others				<u>4,967,620</u>	<u>7,599,877</u>	<u>8,147,618</u>
				<u>5,882,020</u>	<u>16,517,401</u>	<u>17,320,286</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 March 2014, the credit risk change amounting to TL 120,424 thousands is recognized in the statement of income. (31 March 2013: nil)

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 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 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>	<i>Interest rate %</i>	<i>31 December</i>	
			<i>31 March 2014</i>	<i>2013</i>
			<i>Amount</i>	<i>Amount</i>
Bonds payable of TL 5,383 millions	2018	5.6-12.3	5,011,189	4,357,098
Bonds payable of US\$ 2,584 millions	2022	0.5-6.4	4,973,324	5,341,583
Bonds payable of AUD 175 millions	2018	5.6	341,786	330,543
Bonds payable of CHF 138 millions	2015	1.1-2.2	330,524	257,462
Bonds payable of EUR 65 millions	2023	2.1-5.2	188,370	188,714
Bonds payable of RON 150 millions	2018	6-6.3	97,193	97,184
Bonds payable of CZK 340 millions	2016	2.5	36,125	36,261
			10,978,511	10,608,845
Expense accrual on bonds payable			213,119	226,453
			<u>11,191,630</u>	<u>10,835,298</u>

The total face value of the bonds and bills issued by the Bank in domestic market reached to TL 3,898 millions as of 31 March 2014 (31 December 2013: TL 3,615 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%.

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 a Global Medium Term Notes (GMTN) program in order to issue bonds and other borrowing instruments in any currency with different series and maturities. In this regard, since May 2013 the Bank issues bills in US\$, EUR, CHF, RON, CZK and AUD with latest maturity in December 2023.

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 2014.

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.

## 18 Bonds payable (continued)

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 190,811 thousands (31 December 2013: TL 190,734 thousands) and foreign currency securities with a total face value of TL 478,890 thousands (31 December 2013: TL 278,581 thousands), and netted off such securities in the accompanying consolidated financial statements as of 31 March 2014.

The Bank classified certain securities amounting to RON 34,500 thousands as financial liability at fair value through profit/loss at the initial recognition. As of 31 March 2014, a positive credit risk change amounting to TL 165 thousands is recognized in the statement of income.

## 19 Subordinated liabilities

Subordinated liabilities comprise of the following:

	<u>31 March 2014</u>			<u>31 December</u>
	<u>Latest</u>	<u>Interest rate %</u>	<u>Amount</u>	<u>2013</u>
Subordinated debt of EUR 50 millions	2021	euribor+3.5	145,765	146,050
Expense accrual on subordinated liabilities			15	1,441
			<u>145,780</u>	<u>147,491</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

## **20 Taxation (continued)**

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.

### *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.

## **20 Taxation (continued)**

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.

### *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.

## 20 Taxation (continued)

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

#### *RUSSIA*

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

#### *ROMANIA*

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

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

	<i>31 March</i>		<i>31 March</i>	
	<u>2014</u>	<u>%</u>	<u>2013</u>	<u>%</u>
Taxes on income per statutory tax rate	241,522	20.00	306,889	20.00
Disallowable expenses	10,540	0.87	44,732	2.92
Income items exempt from tax or subject to different tax rates	14,767	1.22	4,579	0.30
Others	<u>1,908</u>	<u>0.16</u>	<u>(18,476)</u>	<u>(1.21)</u>
Taxation charge	<u>268,737</u>	<u>22.25</u>	<u>337,724</u>	<u>22.01</u>

## 20 Taxation (continued)

The taxation charge is comprised of the following:

	<i>For the three-month period ended</i>	
	<i>31 March</i>	<i>31 March</i>
	<i>2014</i>	<i>2013</i>
Current taxes	274,184	272,456
Deferred taxes	<u>(5,447)</u>	<u>65,268</u>
Taxation charge	<u>268,737</u>	<u>337,724</u>

The movement of current tax liability is as follows:

	<i>31 March</i>	<i>31 December</i>
	<i>2014</i>	<i>2013</i>
Balance at the beginning of the period	133,384	340,879
Current period taxation charge	274,184	662,003
Less: Advance taxes paid during the period	<u>(104,933)</u>	<u>(869,498)</u>
Current tax liability	<u>302,635</u>	<u>133,384</u>

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

Deferred tax assets and liabilities are as follows:

	<i>31 March</i>	<i>31 December</i>
	<i>2014</i>	<i>2013</i>
Total deferred tax assets	890,841	852,857
Off-setted amount	<u>(301,690)</u>	<u>(271,162)</u>
Deferred tax assets per financial statements	<u>589,151</u>	<u>581,695</u>
Total deferred tax liabilities	302,081	271,835
Off-setted amount	<u>(301,690)</u>	<u>(271,162)</u>
Deferred tax liabilities per financial statements	<u>391</u>	<u>673</u>
Net deferred tax assets	<u>588,760</u>	<u>581,022</u>

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

	<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><u>31 March 2014</u></b>					
Impairment losses on loans	390,277	14,759	214	-	405,250
Discount on loans and advances to customers	92,128	(2,618)	-	-	89,510
Reserve for employee severance indemnity	41,262	1,800	105	-	43,167
Short-term employee benefits	39,897	14,017	230	-	54,144
Tax losses carried forward	45,353	1,577	(55)	-	46,875
Valuation difference on financial assets and liabilities	(73,498)	(7,920)	(5)	8,511	(72,912)
Impairment of equity participations and tangible assets	11,428	(72)	(1)	-	11,355
Accruals on credit card rewards	10,688	625	-	-	11,313
Tax exemption for leasing business	1,202	-	-	-	1,202
Pro-rata basis depreciation expenses	(22,645)	(194)	(5,484)	-	(28,323)
Prepaid expenses and promotions	(4,152)	1,481	16	-	(2,655)
Others, net	49,082	(18,008)	(1,240)	-	29,834
Net deferred tax assets	<u>581,022</u>	<u>5,447</u>	<u>(6,220)</u>	<u>8,511</u>	<u>588,760</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>
<i>31 December 2013</i>					
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	16,100	21,274	2,667	9,041	49,082
Net deferred tax assets	<u>439,124</u>	<u>(249,746)</u>	<u>(1,349)</u>	<u>392,993</u>	<u>581,022</u>

### *Transfer pricing*

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

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

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

## 21 Other liabilities, accrued expenses and provisions

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

	<i>31 March</i>	<i>31 December</i>
	<u>2014</u>	<u>2013</u>
Blocked accounts against expenditures of card holders	4,789,924	4,933,987
Payables to insurance and reinsurance companies		
relating to insurance business	4,712,825	4,317,520
Derivative financial liabilities	2,020,945	1,617,809
Provision for general banking risks	435,000	335,000
Expense accruals	280,286	243,829
Short-term employee benefits	275,587	208,686
Miscellaneous payables	255,347	262,046
Provision for non-cash loans	239,198	237,711
Insurance business related provisions	235,844	239,423
Reserve for employee severance indemnity	216,023	206,353
Withholding taxes	196,779	237,408
Cash guarantees obtained	192,330	178,115
Transfer orders	185,057	157,548
Unearned income	80,710	77,042
Payables to suppliers relating to financial lease activities	63,719	78,158
Advances received	52,536	52,761
Cheques at clearing house	28,046	-
Blocked accounts	22,895	28,974
Others	<u>267,292</u>	<u>339,659</u>
	<u>14,550,343</u>	<u>13,752,029</u>

As of 31 March 2014, the other liabilities, accrued expenses and provision include a general provision amounting to TL 435,000 thousands (31 December 2013: TL 335,000 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.

### *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 and the fair value of the planned assets amounted to TL 1,754,955 thousands.

	<i><b>31 December</b></i> <u><b>2013</b></u>
Present value of funded obligations	
- Pension benefits transferable to SSF (obligation measured at the expected transfer amount)	(474,544)
- Medical benefits transferable to SSF (obligation measured at the expected transfer amount)	385,587
- General administrative expenses	<u>(26,165)</u>
	(115,122)
Fair value of plan assets	<u>1,754,955</u>
Asset surplus in the plan <sup>(*)</sup>	<u>1,639,833</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:

	<i><b>31 December</b></i> <u><b>2013</b></u>
Cash and due from banks	66,530
Securities	1,590,488
Land and buildings	97,520
Other	<u>417</u>
	<u>1,754,955</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:

	<b>31 December</b>
	<b><u>2013</u></b>
Present value of defined benefit obligations	
- Pension	(408,757)
- Health	(151,062)
Fair value of plan assets (*)	<u>1,639,833</u>
Asset surplus over present value of defined benefit obligation	<u>1,080,014</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. However, the Bank's management, acting prudently, did not consider the health premium surplus amounting to TL 385,587 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.

	<b>31 December</b>
	<b><u>2013</u></b>
Asset surplus over present value of defined benefit obligation	1,080,014
Net present value of medical benefits and health premiums transferable to SSF	<u>(385,587)</u>
Present value of asset surplus/(defined benefit obligation)	<u>694,427</u>

Expenses recognized regarding this benefit plan in the accompanying consolidated statement of income for the first quarter of 2014 and 2013 are as follows:

	<b>31 March</b>	<b>31 March</b>
	<b><u>2014</u></b>	<b><u>2013</u></b>
Total contribution payment	43,914	37,773
Provision for unfunded liability	-	-
	<u>43,914</u>	<u>37,773</u>

Principal actuarial assumptions used were as follows:

	<b>31 December</b>
	<b><u>2013</u></b>
	<b><u>%</u></b>
Discount rates (*)	9.60
Inflation rates (*)	6.20
Future real salary increase rates	1.5
Medical cost trend rates	40% above inflation
Future pension increase rates (*)	6.20

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

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.

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

The sensitivity analysis of defined benefit obligation of excess liabilities were as follow as of 31 December 2013:

<i>% change in defined benefit obligation</i>			
	<i>Pension Benefits</i>	<i>Medical Benefits</i>	<i>Overall</i>
<i>Assumption change</i>	<i>%</i>	<i>%</i>	<i>%</i>
Discount rate +1%	(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)

### *Short-term employee benefits*

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

	<i>31 March</i>	<i>31 December</i>
	<i>2014</i>	<i>2013</i>
Balance, beginning of the period	208,686	175,613
Payments	(50,122)	(388,692)
Provision for the period	<u>117,023</u>	<u>421,765</u>
Balance, end of the period	<u>275,587</u>	<u>208,686</u>

### *Insurance business related provisions*

Insurance business related provisions are detailed in the table below:

	<i>31 March</i>	<i>31 December</i>
	<i>2014</i>	<i>2013</i>
Reserve for unearned premiums, net	105,682	109,056
<i>Gross</i>	<i>130,445</i>	<i>129,646</i>
<i>Reinsurers' share</i>	<i>(24,763)</i>	<i>(20,590)</i>
Provision for claims, net	39,001	46,899
<i>Gross</i>	<i>52,177</i>	<i>60,441</i>
<i>Reinsurers' share</i>	<i>(13,176)</i>	<i>(13,542)</i>
Life mathematical reserves	<u>91,161</u>	<u>83,468</u>
	<u>235,844</u>	<u>239,423</u>

### *Reserve for employee severance indemnity*

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

	<i>31 March</i>	<i>31 December</i>
	<i>2014</i>	<i>2013</i>
Balance, beginning of the period	206,353	190,469
Reversals	(518)	(1,234)
Payments	(5,591)	(14,323)
Provision for the period	15,779	55,109
Actuarial gain/loss	-	(23,668)
Balance, end of the period	<u>216,023</u>	<u>206,353</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 3,438.22 and full TL 3,254.44 as of 31 March 2014 and 31 December 2013, respectively.

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

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

	<i>31 March</i> <i>2014<sup>(*)</sup></i>	<i>31 December</i> <i>2013<sup>(*)</sup></i>
	<u>%</u>	<u>%</u>
Discount rates	2.69-3.28	2.69-3.28
Interest rates	9.21-9.64	9.21-9.64
Expected rates of salary increases	6.16-7.73	6.16-7.73
Inflation rates	6.16-6.47	6.16-6.47

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

### *Provision for non-cash loans*

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

	<i>31 March</i> <i>2014</i>	<i>31 December</i> <i>2013</i>
Balance, beginning of the period	237,711	172,197
Provision for the period, net	<u>1,487</u>	<u>65,514</u>
Balance, end of the period	<u>239,198</u>	<u>237,711</u>

## 22 Equity

### *Share capital*

The authorized nominal share capital of the Bank amounted to TL 4,200,000 thousands as of 31 March 2014.

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

	<i>31 March</i> <i>2014</i>	<i>31 December</i> <i>2013</i>
Balance at the beginning of the period	(494,581)	1,093,683
Net unrealised (losses)/gains from changes in fair value	(12,295)	(1,381,907)
Related deferred and current income taxes	11,221	267,809
Net gains transferred to the statement of comprehensive income on disposal	(29,805)	(617,358)
Related deferred and current income taxes	5,900	127,570
Effect of movements in foreign exchange rates	<u>(24,334)</u>	<u>15,622</u>
Balance at the end of the period	<u>(543,894)</u>	<u>(494,581)</u>

### *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.

## 22 Equity (continued)

### *Translation reserve*

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations into the functional currency of the Bank which is TL 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 1,156,773 thousands (31 December 2013: TL 1,156,024 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.

### *Non-controlling interests*

As of 31 March 2014, net non-controlling interests amount to TL 170,766 thousands (31 December 2013: TL 162,825 thousands). Non-controlling interests are detailed as follows:

	<i>31 March</i>	<i>31 December</i>
	<u>2014</u>	<u>2013</u>
Capital	55,398	55,287
Retained earnings and other reserves	107,414	83,172
Net income for the period	<u>7,954</u>	<u>24,366</u>
	<u>170,766</u>	<u>162,825</u>

## 23 Fair value information

Fair value is 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.



## 23 Fair value information (continued)

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 135,047,955 thousands (31 December 2013: TL 131,957,440 thousands), whereas the carrying amount is TL 134,341,731 thousands (31 December 2013: TL 131,315,161 thousands) in the accompanying consolidated statement of financial position as of 31 March 2014.

Fair value of investment securities is TL 41,176,476 thousands (31 December 2013: TL 38,368,722 thousands), whereas the carrying amount is TL 41,491,189 thousands (31 December 2013: TL 38,609,492 thousands) in the accompanying consolidated statement of financial position as of 31 March 2014.

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

<b><u>31 March 2014</u></b>	<b><u>Level 1</u></b>	<b><u>Level 2</u></b>	<b><u>Level 3</u></b>	<b><u>Total</u></b>
Financial assets at fair value through profit or loss	535,568	215,780	10	751,358
Derivative financial assets	606	2,008,015	-	2,008,621
Debt and other instruments available-for-sale	<u>17,479,801</u>	<u>5,403,679</u>	<u>1,048,161</u>	<u>23,931,641</u>
Financial Assets at Fair Value	<u>18,015,975</u>	<u>7,627,474</u>	<u>1,048,171</u>	<u>26,691,620</u>
Loans and advances from banks and other institutions	-	2,199,531	-	2,199,531
Derivative financial liabilities	<u>197</u>	<u>2,020,748</u>	<u>-</u>	<u>2,020,945</u>
Financial Liabilities at Fair Value	<u>197</u>	<u>4,220,279</u>	<u>-</u>	<u>4,220,476</u>
<b><u>31 December 2013</u></b>	<b><u>Level 1</u></b>	<b><u>Level 2</u></b>	<b><u>Level 3</u></b>	<b><u>Total</u></b>
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>-</u>	<u>1,617,809</u>	<u>-</u>	<u>1,617,809</u>
Financial Liabilities at Fair Value	<u>-</u>	<u>3,701,947</u>	<u>-</u>	<u>3,701,947</u>

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

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

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

## 24 Commitments and contingencies

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

	<i><u>31 March</u></i> <i><u>2014</u></i>	<i><u>31 December</u></i> <i><u>2013</u></i>
Letters of guarantee	24,943,859	23,877,730
Letters of credit	9,573,419	9,584,333
Acceptance credits	681,097	638,089
Other guarantees and endorsements	<u>79,737</u>	<u>79,924</u>
	<u><u>35,278,112</u></u>	<u><u>34,180,076</u></u>

As of 31 March 2014;

- Commitment for unpaid capital of affiliated companies amounts to TL 7,791 thousands (31 December 2013: TL 7,806 thousands).
- Commitments for unused credit limits for credit cards, overdrafts, cheques and loans to customers, and commitments for “credit linked notes” amount to TL 40,887,210 thousands (31 December 2013: TL 40,614,981 thousands) in total.
- Commitments for the derivative transactions carried out on behalf of customers in the Turkish Derivatives Exchange amount to TL 353,893 thousands (31 December 2013: TL 293,139 thousands) in total.

As of 31 March 2014, the securities acquired under security borrowing transactions include shares with total market and carrying values of TL 32,685 thousands (31 December 2013: TL 12,927 thousands).

## 25 Derivative financial instruments

As of 31 March 2014, 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 88,775,458 thousands (31 December 2013: TL 85,480,706 thousands), over 88% 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>31 March 2014</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	-	493,500	-	-	1,381,852	1,875,352
<i>Purchases</i>	-	246,750	-	-	690,926	937,676
<i>Sales</i>	-	246,750	-	-	690,926	937,676
Interest rate swaps (*)	412	3,054	28	2,866	429,042	435,402
<i>Purchases</i>	412	1,688	-	2,103	274,875	279,078
<i>Sales</i>	-	1,366	28	763	154,167	156,324
Interest rate futures	-	89,836	-	-	-	89,836
<i>Purchases</i>	-	-	-	-	-	-
<i>Sales</i>	-	89,836	-	-	-	89,836
<b><i>Other Derivatives</i></b>						
Securities, shares and index options	8,760	19,626	9,328	7,300	-	45,014
<i>Purchases</i>	1,895	16,697	4,664	3,650	-	26,906
<i>Sales</i>	6,865	2,929	4,664	3,650	-	18,108
Other forward contracts	4,375	31,498	30,624	25,549	-	92,046
<i>Purchases</i>	4,375	29,311	30,624	25,549	-	89,859
<i>Sales</i>	-	2,187	-	-	-	2,187
Other future contracts	33,832	-	-	13,676	-	47,508
<i>Purchases</i>	23,857	-	-	13,676	-	37,533
<i>Sales</i>	9,975	-	-	-	-	9,975
Other swap contracts	2,408,108	32,491	55,199	56,290	3,172,500	5,724,588
<i>Purchases</i>	22,817	16,224	27,558	28,076	-	94,675
<i>Sales</i>	2,385,291	16,267	27,641	28,214	3,172,500	5,629,913
<b><i>Currency Derivatives</i></b>						
Spot exchange contracts	3,134,125	-	-	-	-	3,134,125
<i>Purchases</i>	1,823,843	-	-	-	-	1,823,843
<i>Sales</i>	1,310,282	-	-	-	-	1,310,282
Forward exchange contracts	4,528,369	3,446,377	1,615,068	1,523,776	595,323	11,708,913
<i>Purchases</i>	2,711,244	2,424,562	964,526	853,870	580,524	7,534,726
<i>Sales</i>	1,817,125	1,021,815	650,542	669,906	14,799	4,174,187
Currency/cross currency swaps	19,516,213	9,231,167	5,076,233	4,114,831	4,364,674	42,303,118
<i>Purchases</i>	11,999,598	5,091,456	3,452,088	2,716,657	1,619,538	24,879,337
<i>Sales</i>	7,516,615	4,139,711	1,624,145	1,398,174	2,745,136	17,423,781
Options	6,121,984	6,974,736	5,815,074	3,984,957	338,543	23,235,294
<i>Purchases</i>	3,553,375	3,094,466	3,072,305	1,701,914	294,771	11,716,831
<i>Sales</i>	2,568,609	3,880,270	2,742,769	2,283,043	43,772	11,518,463
Foreign currency futures	75,616	2,857	-	5,789	-	84,262
<i>Purchases</i>	75,616	2,857	-	5,789	-	84,262
<i>Sales</i>	-	-	-	-	-	-
Subtotal Purchases	20,217,032	10,924,011	7,551,765	5,351,284	3,460,634	47,504,726
Subtotal Sales	15,614,762	9,401,131	5,049,789	4,383,750	6,821,300	41,270,732
Total of Transactions	35,831,794	20,325,142	12,601,554	9,735,034	10,281,934	88,775,458

(\*) 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>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>	<i>Total</i>
<b><u>31 December 2013</u></b>						
<i>Interest Rate Derivatives</i>						
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>	-	-	-	-	-	-
<i>Other Derivatives</i>						
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
<i>Currency Derivatives</i>						
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	<u>33,492,964</u>	<u>16,645,240</u>	<u>15,350,619</u>	<u>11,638,062</u>	<u>8,353,821</u>	<u>85,480,706</u>

(\*) 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 first quarter of 2014 and the year 2013 are as follows:

<i>31 March 2014</i>				
	<u><i>First Maturity Bracket (Weekly)</i></u>		<u><i>Second Maturity Bracket (Monthly)</i></u>	
	<u><i>FC</i></u>	<u><i>FC + TL</i></u>	<u><i>FC</i></u>	<u><i>FC + TL</i></u>
Average (%)	173.95	132.64	120.53	104.92
<i>31 December 2013</i>				
	<u><i>First Maturity Bracket (Weekly)</i></u>		<u><i>Second Maturity Bracket (Monthly)</i></u>	
	<u><i>FC</i></u>	<u><i>FC + TL</i></u>	<u><i>FC</i></u>	<u><i>FC + TL</i></u>
Average (%)	156.07	136.67	104.26	103.75

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 March 2014					Total
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 year	
<b>MONETARY ASSETS</b>						
<b>Turkish Lira</b>						
Cash and balances with central banks	-	-	-	-	-	1,678,702
Financial assets at fair value through profit or loss	4,240	57,548	54,409	230,544	8,994	436,209
Loans and advances to banks	228,100	647,562	483,791	144,234	-	1,575,053
Loans and advances to customers	20,210,307	7,845,020	17,825,853	23,523,549	4,167,364	73,552,550
Derivative financial assets	480,651	321,397	475,973	298,677	8,080	1,584,778
Other assets	29,187	245,368	26,804	5,589	3,038	5,806,430
Investment securities	36,521	3,070,631	6,582,660	9,691,542	13,935,375	33,500,946
Deferred tax asset	-	-	-	-	-	548,576
Total Turkish Lira monetary assets	21,352,883	11,968,962	25,453,940	33,894,135	18,122,851	118,673,244
<b>Foreign Currency</b>						
Cash and balances with central banks	408,142	-	-	-	-	3,303,088
Financial assets at fair value through profit or loss	-	1	85	6,755	24,068	325,149
Loans and advances to banks	1,436,868	455,153	1,026,163	1,357,102	2,352,001	9,466,402
Loans and advances to customers	3,922,576	4,646,077	13,071,581	25,798,341	12,260,691	60,789,181
Derivative financial assets	45,612	39,743	14,127	162,727	161,634	423,843
Other assets	18,629,956	5,158	11,402	38,596	7	18,871,340
Investment securities	21,474	-	197,242	2,315,345	5,401,125	7,990,243
Deferred tax asset	-	-	-	-	-	40,575
Total foreign currency monetary assets	24,464,628	5,146,132	14,320,600	29,678,866	20,199,526	101,209,821
Total Monetary Assets	45,817,511	17,115,094	39,774,540	63,573,001	38,322,377	219,883,065
<b>MONETARY LIABILITIES</b>						
<b>Turkish Lira</b>						
Deposits	33,715,644	10,370,653	1,614,906	8,479	-	56,736,457
Obligations under repurchase agreements and money market fundings	9,709,375	50,226	409,042	-	-	10,168,643
Loans and advances from banks and other institutions	1,278,171	607,137	1,308,656	2,636,546	206,250	6,036,760
Bonds payable	830,297	1,669,761	1,836,821	692,421	-	5,029,300
Subordinated liabilities	-	-	-	-	-	-
Derivative financial liabilities	520,641	414,137	293,248	492,591	20,154	1,740,771
Other liabilities, accrued expenses and provisions	5,494,737	22,716	143,129	-	-	11,760,836
Total Turkish Lira monetary liabilities	51,548,865	13,134,630	5,605,802	3,830,037	226,404	91,472,767
<b>Foreign Currency</b>						
Deposits	27,227,450	11,223,278	8,608,829	1,643,572	15,666	65,082,911
Obligations under repurchase agreements and money market fundings	1,622,375	727,912	1,653,245	1,697,544	-	5,701,076
Loans and advances from banks and other institutions	674,060	4,416,230	8,782,314	8,085,815	5,685,489	27,643,908
Bonds payable	-	25,810	489,996	2,675,465	2,394,888	6,162,330
Subordinated liabilities	-	-	-	92,774	53,006	145,780
Derivative financial liabilities	23,916	34,985	32,398	113,229	75,646	280,174
Other liabilities, accrued expenses and provisions	168,033	125,448	21,921	1,199	-	380,501
Total foreign currency monetary liabilities	29,741,644	17,104,024	19,588,703	14,309,598	8,256,108	106,087,767
Total Monetary Liabilities	81,290,509	30,238,654	25,194,505	18,139,635	8,482,512	197,560,534

**Türkiye Garanti Bankası AŞ and Its Affiliates**

Notes to Consolidated Financial Statements

As of and for the Three-Month Period Ended 31 March 2014

(Currency: Thousands of Turkish Lira (TL))

Demand Accounts	31 December 2013						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	-	-	-	-	-	-	2.751.743
Financial assets at fair value through profit or loss	-	26.275	94.180	242.717	2.839	-	417.666
Loans and advances to banks	350.906	624.638	1.033.032	150.000	-	-	2.389.928
Loans and advances to customers	12.600.182	8.186.846	18.300.223	23.393.631	4.032.251	(746)	71.059.504
Derivative financial assets	-	301.712	715.517	206.313	5.633	-	1.553.879
Other assets	386.068	215.552	35.030	6.014	3.038	5.012.733	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
<b>Total Turkish Lira monetary assets</b>	<b>7.909.210</b>	<b>13.535.618</b>	<b>26.866.845</b>	<b>36.437.196</b>	<b>16.933.829</b>	<b>5.546.573</b>	<b>117.171.571</b>
<b>Turkish Lira</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	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	24.372	2.710.935	2.851.805	-	5.739.503
Deferred tax asset	-	-	-	-	-	47.109	47.109
<b>Total foreign currency monetary assets</b>	<b>6.777.433</b>	<b>24.056.911</b>	<b>14.543.484</b>	<b>30.334.918</b>	<b>17.275.952</b>	<b>1.086.420</b>	<b>98.470.575</b>
<b>Total Monetary Assets</b>	<b>14.686.643</b>	<b>37.592.529</b>	<b>41.410.329</b>	<b>66.772.114</b>	<b>34.209.781</b>	<b>6.632.993</b>	<b>215.642.146</b>
<b>MONETARY LIABILITIES</b>							
<b>Turkish Lira</b>							
Deposits	11.115.961	35.394.309	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	2.658.903	206.250	-	6.615.525
Bonds payable	-	393.859	682.826	893.526	-	-	4.377.494
Subordinated liabilities	-	-	-	-	-	-	-
Derivative financial liabilities	-	167.241	520.639	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
<b>Total Turkish Lira monetary liabilities</b>	<b>11.245.925</b>	<b>53.536.817</b>	<b>6.722.996</b>	<b>4.017.509</b>	<b>4.422.707</b>	<b>1.345.548</b>	<b>94.495.315</b>
<b>Foreign Currency</b>							
Deposits	15.964.010	23.076.242	8.385.836	1.721.416	17.438	-	59.677.644
Obligations under repurchase agreements and money market fundings	-	538.494	847.153	1.696.499	-	-	4.576.820
Loans and advances from banks and other institutions	-	434.750	11.226.741	8.809.663	5.659.218	-	27.574.059
Bonds payable	-	-	564.950	2.650.738	2.600.390	-	6.457.804
Subordinated liabilities	-	-	-	81.104	66.387	-	147.491
Derivative financial liabilities	-	17.907	64.759	146.585	93.112	-	343.819
Other liabilities, accrued expenses and provisions	531.690	165.745	111.536	1.255	55.748	100.462	987.654
<b>Total foreign currency monetary liabilities</b>	<b>16.495.700</b>	<b>24,233.138</b>	<b>21,110.647</b>	<b>15,107.260</b>	<b>8,492,293</b>	<b>100,462</b>	<b>99,765,291</b>
<b>Total Monetary Liabilities</b>	<b>27,741,625</b>	<b>77,769,955</b>	<b>27,833,643</b>	<b>19,124,769</b>	<b>12,915,000</b>	<b>1,446,010</b>	<b>194,260,606</b>

## 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.

31 March 2014

	<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	121,819,368	121,278,998	27,381,090	60,655,303	21,467,049	10,132,865	1,627,254	15,437
Obligations under repurchase agreements and money market fundings	15,869,719	15,834,386	-	11,311,995	777,358	2,054,828	1,690,205	-
Loans and advances from banks and other Institutions	33,680,668	33,374,360	-	1,873,629	4,947,283	10,036,035	10,709,199	5,808,214
Bonds payable	11,191,630	10,978,511	-	855,890	2,233,460	2,319,630	3,339,626	2,229,905
Subordinated liabilities	145,780	145,765	-	-	-	-	92,760	53,005
<b>Total Monetary Liabilities</b>	<b>182,707,165</b>	<b>181,612,020</b>	<b>27,381,090</b>	<b>74,696,817</b>	<b>29,425,150</b>	<b>24,543,358</b>	<b>17,459,044</b>	<b>8,106,561</b>

31 December 2013

	<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	147,491	146,050	-	-	-	-	79,664	66,386
<b>Total Monetary Liabilities</b>	<b>180,374,520</b>	<b>179,427,434</b>	<b>27,079,847</b>	<b>71,769,343</b>	<b>26,792,528</b>	<b>26,977,806</b>	<b>18,429,568</b>	<b>8,378,342</b>

### *Market risk*

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

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

**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.



## 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 first quarter of 2014 and the year of 2013:

	<i>31 March 2014</i>			
	<i>US\$</i> <i>%</i>	<i>EUR</i> <i>%</i>	<i>TL</i> <i>%</i>	<i>Other</i> <i>Currencies</i> <i>%</i>
<i>Assets</i>				
Loans and advances to banks	1-4	1-4	4-13	1-8
Debt and other fixed or floating income instruments	3-12	2-6	1-18	3-10
Loans and advances to customers	1-15	1-15	2-32	1-28
<i>Liabilities</i>				
<i>Deposits:</i>				
- Foreign currency deposits	1-12	1-7	-	1-8
- Bank deposits	1-3	1-3	7-13	2-9
- Saving deposits	-	-	5-12	-
- Commercial deposits	-	-	5-12	-
- Public and other deposits	-	-	11	-
Obligations under repurchase agreements and money market fundings	1	1	5-13	1-8
Loans and advances from banks and other institutions	1-5	1-6	10-14	1-8
Bonds payable	1-6	2-5	6-12	1-6
<i>31 December 2013</i>				
	<i>US\$</i> <i>%</i>	<i>EUR</i> <i>%</i>	<i>TL</i> <i>%</i>	<i>Other</i> <i>Currencies</i> <i>%</i>
<i>Assets</i>				
Loans and advances to banks	1-4	1-4	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>				
<i>Deposits:</i>				
- Foreign currency deposits	1-5	1-7	-	1-8
- 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

## 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 March 2014 and 31 December 2013, 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>31 March 2014</u>		<u>31 December 2013</u>	
		<u>Gains/Losses</u>	<u>Gains/Equity- Losses/Equity</u>	<u>Gains/Losses</u>	<u>Gains/Equity- Losses/Equity</u>
TL	(+) 500 bps	(3,006,645)	(11.89)%	(3,104,076)	(13.00)%
TL	(-) 400 bps	2,939,838	11.63%	3,041,950	12.74%
US\$	(+) 200 bps	(406,724)	(1.61)%	(37,444)	(0.16)%
US\$	(-) 200 bps	563,201	2.23%	6,990	0.03%
EUR	(+) 200 bps	(88,095)	(0.35)%	(112,317)	(0.47)%
EUR	(-) 200 bps	66,007	0.26%	89,257	0.37%
<b>Total (of negative shocks)</b>		<b>3,569,046</b>	<b>14.12%</b>	<b>3,138,197</b>	<b>13.14%</b>
<b>Total (of positive shocks)</b>		<b>(3,501,464)</b>	<b>(13.85)%</b>	<b>(3,253,837)</b>	<b>(13.62)%</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:

	<b>31 March 2014</b>			
	<u>US\$</u>	<u>EUR</u>	<u>Other Currencies</u>	<u>Total</u>
<i>Assets</i>				
Cash and balances with central banks	1,577,249	1,605,598	120,241	3,303,088
Financial assets at fair value				
through profit or loss	24,434	6,480	294,235	325,149
Loans and advances to banks	6,076,437	2,997,950	392,015	9,466,402
Loans and advances to customers	38,113,686	20,851,425	1,824,070	60,789,181
Other assets	8,245,077	7,005,994	4,044,112	19,295,183
Investment securities	6,594,365	1,156,471	239,407	7,990,243
Investments in equity participations	-	1,229	460	1,689
Tangible assets	131	69,853	110,008	179,992
Deferred tax asset	-	20,900	19,675	40,575
<b>Total Assets</b>	<u>60,631,379</u>	<u>33,715,900</u>	<u>7,044,223</u>	<u>101,391,502</u>
<i>Liabilities</i>				
Deposits	35,808,548	23,732,098	5,542,265	65,082,911
Obligations under repurchase agreements and money market fundings	5,133,318	184,099	383,659	5,701,076
Loans and advances from banks and other institutions	17,478,545	10,013,985	151,378	27,643,908
Current and deferred tax liability	-	19,379	109	19,488
Bonds payable	5,147,398	190,002	824,930	6,162,330
Subordinated liabilities	-	145,780	-	145,780
Other liabilities, accrued expenses and provisions	720,057	314,730	297,487	1,332,274
<b>Total Liabilities</b>	<u>64,287,866</u>	<u>34,600,073</u>	<u>7,199,828</u>	<u>106,087,767</u>
<b>Net Statement of Financial Position</b>	<u>(3,656,487)</u>	<u>(884,173)</u>	<u>(155,605)</u>	<u>(4,696,265)</u>
<b>Net Off Balance Sheet Position</b>	<u>3,843,829</u>	<u>1,331,852</u>	<u>1,753,684</u>	<u>6,929,365</u>
<b>Net Long/(Short) Position</b>	<u>187,342</u>	<u>447,679</u>	<u>1,598,079</u>	<u>2,233,100</u>

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

	<i>31 December 2013</i>			<i>Total</i>
	<i>US\$</i>	<i>EUR</i>	<i>Other Currencies</i>	
<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>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>

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

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

*Credit risk*

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

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

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

	<i>31 March</i>	<i>31 December</i>
	<i>2014</i>	<i>2013</i>
	<u>%</u>	<u>%</u>
Above Average	40	40
Average	54	54
Below Average	<u>6</u>	<u>6</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>31 March 2014</u>	<u>31 December 2013</u>
Individually impaired	4,175,558	4,000,048
Allowance for impairment	<u>(4,008,396)</u>	<u>(3,841,230)</u>
Carrying amount	<u>167,162</u>	<u>158,818</u>
Portfolio basis allowance	<u>(870,179)</u>	<u>(827,867)</u>
Past due but not impaired	<u>1,517,316</u>	<u>1,250,909</u>
Carrying amount	<u>1,517,316</u>	<u>1,250,909</u>
Neither past due nor impaired	129,151,444	126,139,587
Loans with renegotiated terms	<u>4,375,988</u>	<u>4,593,714</u>
Carrying amount	<u>133,527,432</u>	<u>130,733,301</u>
Total carrying amount	<u>134,341,731</u>	<u>131,315,161</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:

	<i>31 March</i>	<i>31 December</i>
	<u>2014</u>	<u>2013</u>
Consumer loans	1,617,572	1,506,318
Service sector	386,558	352,623
Transportation vehicles and sub-industries	309,550	313,784
Metal and metal products	252,957	266,069
Construction	246,790	236,731
Textile	220,258	217,243
Food	169,175	168,600
Tourism	159,610	155,534
Transportation and logistics	151,478	152,653
Agriculture and stockbreeding	113,181	100,548
Chemistry and chemical products	81,437	79,463
Durable consumption	68,243	64,598
Paper and paper products	26,905	25,537
Energy	25,638	25,939
Others	<u>346,206</u>	<u>334,408</u>
Total non-performing loans, factoring and lease receivables	<u>4,175,558</u>	<u>4,000,048</u>
	<i>31 March</i>	<i>31 December</i>
	<u>2014</u>	<u>2013</u>
Turkey	3,098,729	2,952,764
Romania	773,767	716,139
England	138,416	171,749
Ukraine	74,771	74,558
Russia	13,285	14,416
Others	<u>76,590</u>	<u>70,422</u>
Total non-performing loans, factoring and lease receivables	<u>4,175,558</u>	<u>4,000,048</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.

### *Renegotiated loans*

Loans are generally renegotiated either as part of the on-going banking relationship with a creditworthy customer or in response to a borrower's financial difficulties. In the latter case, renegotiation encompasses not only revisions to the terms of a loan such as a maturity extension, a payment moratorium, a concessionary rate of interest but also the restructuring of all or part of the exposure.

## 26 Financial risk management disclosures (continued)

### *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.

### *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 March 2014 or 31 December 2013.

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

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

	<i>31 March</i>	<i>31 December</i>
	<i>2014</i>	<i>2013</i>
Promissory notes	977,309	905,780
Mortgages	778,988	761,757
Pledge assets	437,118	434,048
Cash collateral	12,871	12,100
Unsecured	<u>1,969,272</u>	<u>1,886,363</u>
	<u>4,175,558</u>	<u>4,000,048</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.

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

### *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.

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, other comprehensive income, translation reserve and non-controlling interests after deductions for goodwill and certain cost items.
- Tier 2 capital, which includes qualifying subordinated liabilities and general provisions.

The BRSA also requires the banks to maintain prescribed ratios of minimum 6% and 4.5% of Tier 1 and Tier 2 capital, respectively, to total value at credit, market and operational risks starting from 1 January 2014.

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.

## 26 Financial risk management disclosures (continued)

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 but later revised in the Official Gazette no.28756 dated 5 September 2013. In calculation of capital adequacy ratio, the data prepared from accounting records in compliance with the current legislation are used. Such accounting data is included in the calculation of credit and market risks subsequent to their designation as “trading book” and “banking book” according to the Regulation. The items classified as trading book and the items deducted from the equity are not included in the calculation of credit risk. In the calculation of risk weighted assets, the assets subject to amortisation or impairment, are taken into account on a net basis after being reduced by the related amortisations and provisions.

In the calculation of the value at credit risk for the non-cash loans and commitments and the receivables from counterparties in such transactions are weighted after netting with specific provisions that are classified under liabilities and calculated based on the “Regulation on Identification of and Provision against Non-Performing Loans and Other Receivables”. The net amounts are then multiplied by the rates stated in the Article 5 of the Regulation, reduced as per 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 March 2014 and 31 December 2013 is as follows:

	<i>31 March 2014<sup>(*)</sup></i>	<i>31 December 2013</i>
Tier 1 capital	23,392,506	23,421,364
Tier 2 capital	2,236,735	1,859,358
Deductions from capital	<u>(328,209)</u>	<u>(132,725)</u>
Total regulatory capital	25,301,032	25,147,997
Value at credit, market and operational risks	187,113,673	183,508,895
<b>Capital ratios (%)</b>		
Total regulatory capital expressed as a percentage of total value at credit, market and operational risks	13.52	13.70
Total tier 1 capital expressed as a percentage of total value at credit, market and operational risks	12.50	12.76

<sup>(\*)</sup> Calculation of regulatory capital is changed effective from 1 January 2014 as per the Regulation on Equity of Banks published in the official Gazette no. 28756 dated 5 September 2013.

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

### **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.

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 405,874 thousands and USD 508,418,969 and for its bonds with a total face value of TL 1,923,000 thousands and USD 32,900,000 and fixed-rate coupons by designating interest rate swaps with the same face values and terms. Accordingly, in the current period, a gain of TL 2,725 thousands (31 March 2013: a loss of TL 549 thousands) and a loss of TL 73,937 thousands (31 March 2013: TL 1,575 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 85,500,000 with the same face value amount and conditions. Accordingly, a gain of TL 2,132 thousands (31 March 2013: -) 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 in the current period.

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 33,416



## 26 Financial risk management disclosures (continued)

thousands and TL 65,238 thousands (31 March 2013: -) resulting from cross currency and interest rate swap agreements were recognised under shareholders' equity.

One of the Bank's consolidated affiliates associated its contractual operational lease receivables (contractual future cash flows) denominated in EUR with its EUR denominated borrowings and applied cash flow hedge accounting. The foreign currency exposures in operational lease receivables are hedged and accordingly the effective portion of foreign currency gains/losses of non-derivative hedging instruments designated for hedges of future cash flows are recognised directly in equity and any ineffective portion is recognised immediately in income. As of 31 March 2014, TL 17,172 thousands (net of deferred taxes) was recognised under shareholders' equity as the hedging reserve (31 March 2013: -).

## 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>31 March</u> <u>2014</u>	<u>31 December</u> <u>2013</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	3.24	3.24
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.*

## 28 Net fee and commission income

	<i>For the three-month period ended</i>	
	<i>31 March</i>	<i>31 March</i>
	<u><i>2014</i></u>	<u><i>2013</i></u>
<i>Fee and commission income:</i>		
Credit cards fees	439,220	313,362
Retail banking	250,579	250,601
SME banking	92,073	105,911
Commercial banking	68,571	63,965
Corporate banking	2,873	9,603
Others	<u>54,649</u>	<u>30,903</u>
Total fee and commission income	<u>907,965</u>	<u>774,345</u>
<i>Fee and commission expense:</i>		
Credit cards fees	132,153	79,576
Retail banking	7,768	7,786
SME banking	1,561	2,697
Commercial banking	697	845
Corporate banking	99	273
Others	<u>22,996</u>	<u>19,040</u>
Total fee and commission expense	<u>165,274</u>	<u>110,217</u>
Net fee and commission income	<u>742,691</u>	<u>664,128</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:

	<i>31 March</i>	<i>31 March</i>
	<u><i>2014</i></u>	<u><i>2013</i></u>
Fixed/floating securities	36,330	160,111
Derivative transactions	<u>(116,530)</u>	<u>130,650</u>
Trading gains/(losses), net	<u>(80,200)</u>	<u>290,761</u>

## 30 Other operating expenses

	<i>For the three-month period ended</i>	
	<i>31 March</i>	<i>31 March</i>
	<u><i>2014</i></u>	<u><i>2013</i></u>
Saving deposits insurance fund	40,564	23,422
Computer usage expenses	25,942	23,294
Advertising expenses	23,245	29,006
Utility expenses	21,551	19,535
Claim loss from insurance business	14,960	10,127
Repair and maintenance expenses	11,740	7,614
Research and development expenses	8,942	4,622
Insurance related expenses	8,834	5,593
Stationary expenses	6,466	4,828
Others	<u>187,191</u>	<u>130,726</u>
	<u>349,435</u>	<u>258,767</u>

### **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 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*.

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

- 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.
- 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 events

- As per the decision made at the annual general assembly of shareholders of the Bank on 3 April 2014, the distribution of the net income of the year 2013, will be as follows;

<b>2013 INCOME DISTRIBUTION TABLE</b>	
<b>2013 Net Income</b>	<b>3,005,560</b>
A – I. Legal reserve (Turkish Commercial Code 519/1) at 5%	-
Undistributable funds	(34,046)
B – First dividend at 5% of the paid-in capital	(210,000)
C – Extraordinary reserves at 5% after above deductions	(139,778)
D – Second dividend to the shareholders	(215,000)
E – Extraordinary reserves	(2,385,236)
F – II. Legal reserve (Turkish Commercial Code 519/2)	(21,500)

**32 Significant events (continued)**

- On 10 March 2014, the extraordinary general meeting of shareholders approved the initiation in principle of the merger by acquisition process between Garanti Bank SA and Domenia Credit IFN SA. The merger will take place via the absorption by Garanti Bank SA, as acquiring company, of Domenia Credit IFN SA, as acquired company. Further to the completion of the merger process, the bank will continue its legal existence as a joint stock company and the bank's bylaws shall be accordingly amended.

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