

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

Consolidated Financial Statements

30 September 2015

With Report on Review of Interim

Financial Information Thereon

30 September 2015

This report contains the "Independent Auditors' Review Report" comprising 1 page and; the "Consolidated Financial Statements and Their Explanatory Notes" comprising 79 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

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## 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 September 30, 2015, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the nine-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting Standards. Our responsibility is to express a conclusion on this interim financial information based on our review.

### Scope of Review

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

### Basis for Qualified Conclusion

As of the balance sheet date, the accompanying consolidated financial statements include a general reserve amounting to TL 450,000 thousands, TL 35,000 thousand 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 September 30, 2015, and of their financial performance and cash flows for the nine-month period then ended in accordance with International Financial Reporting Standards.

*DRT Bağımsız Denetim ve SMMM A.Ş.*

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

Istanbul, October 27, 2015

**Türkiye Garanti Bankası AŞ And Its Affiliates**  
**Consolidated Statement of Financial Position**  
**At 30 September 2015**

(Currency: Thousands of Turkish Lira (TL))

|   | <u>Notes</u> | <u>30 September 2015</u>  | <u>31 December 2014</u>   |
|---|--------------|---------------------------|---------------------------|
| <b>Assets</b>   |              |                           |                           |
| Cash and balances with central banks                              | 4            | 13,301,941                | 6,596,475                 |
| Financial assets at fair value through profit or loss             | 5            | 846,005                   | 1,086,670                 |
| Loans and advances to banks                                       | 6            | 15,176,340                | 10,815,218                |
| Loans and advances to customers                                   | 7,23         | 177,417,651               | 148,081,415               |
| Other assets  | 9            | 33,892,358                | 29,835,924                |
| Investment securities   | 10,22,23     | 44,485,147                | 44,197,153                |
| Investments in equity participations                              | 11           | 41,391                    | 40,896                    |
| Tangible assets, net  | 12           | 2,463,073                 | 2,319,268                 |
| Goodwill, net   | 13           | 32,948                    | 32,948                    |
| Deferred tax asset  | 20           | 914,391                   | 901,126                   |
| <b>Total Assets</b>   |              | <b><u>288,571,245</u></b> | <b><u>243,907,093</u></b> |
| <b>Liabilities</b>  |              |                           |                           |
| Deposits from banks   | 14           | 9,136,327                 | 7,114,771                 |
| Deposits from customers   | 15           | 156,505,337               | 126,292,539               |
| Obligations under repurchase agreements and money market fundings | 16           | 14,610,555                | 12,021,165                |
| Loans and advances from banks and other institutions              | 17           | 40,465,681                | 38,218,041                |
| Bonds payable   | 18           | 16,294,588                | 14,438,356                |
| Subordinated liabilities  | 19           | 167,806                   | 140,766                   |
| Current tax liability   | 20           | 67,027                    | 450,209                   |
| Deferred tax liability  | 20           | 11,366                    | 17,463                    |
| Other liabilities, accrued expenses and provisions                | 21           | 22,264,323                | 17,958,155                |
| <b>Total Liabilities</b>  |              | <b><u>259,523,010</u></b> | <b><u>216,651,465</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/(losses) on available-for-sale assets            | 10,22        | (808,834)                 | 88,631                    |
| Hedging reserve   | 22           | (390,113)                 | (220,828)                 |
| Actuarial gain/(loss)   | 22           | (53,170)                  | (53,170)                  |
| Translation reserve   | 22           | 901,898                   | 367,064                   |
| Legal reserves  | 22           | 1,229,067                 | 1,182,824                 |
| Retained earnings   | 22           | 22,793,401                | 20,539,123                |
|   |              | <b><u>28,830,500</u></b>  | <b><u>27,061,895</u></b>  |
| <b>Non-controlling interests</b>                                  | 22           | <b><u>217,735</u></b>     | <b><u>193,733</u></b>     |
| <b>Total Equity</b>   |              | <b><u>29,048,235</u></b>  | <b><u>27,255,628</u></b>  |
| <b>Total Liabilities and Equity</b>                               |              | <b><u>288,571,245</u></b> | <b><u>243,907,093</u></b> |
| <b>Commitments and Contingencies</b>                              | 24           |                           |                           |

The notes on pages 5 to 79 are an integral part of these consolidated financial statements.

**Türkiye Garanti Bankası AŞ And Its Affiliates**  
**Consolidated Statement of Comprehensive Income**  
**For The Nine-Month Period Ended 30 September 2015**  
(Currency: Thousands of Turkish Lira (TL))

|   |                | 1 January 2015-<br>30 September 2015 | 1 July 2015-<br>30 September 2015 | 1 January 2014 -<br>30 September 2014 | 1 July 2014 -<br>30 September 2014 |
|---|----------------|--------------------------------------|-----------------------------------|---------------------------------------|------------------------------------|
| <b>Statement of Income:</b>   |                |                                      |                                   |                                       |                                    |
| Interest income:-   |                |                                      |                                   |                                       |                                    |
| Interest on loans   |                | 10,659,772                           | 3,826,917                         | 8,812,557                             | 3,088,259                          |
| Interest on securities  |                | 2,520,404                            | 667,746                           | 2,871,724                             | 818,628                            |
| Interest on lease business  |                | 293,241                              | 104,849                           | 264,412                               | 93,968                             |
| Interest on deposits at banks   |                | 198,694                              | 69,792                            | 198,205                               | 58,397                             |
| Others  |                | 52,610                               | 16,047                            | 46,870                                | 16,117                             |
|   |                | 13,724,721                           | 4,685,351                         | 12,193,768                            | 4,075,369                          |
| Interest expense:-  |                |                                      |                                   |                                       |                                    |
| Interest on saving, commercial and public deposits  |                | (4,155,355)                          | (1,430,564)                       | (3,885,122)                           | (1,222,110)                        |
| Interest on borrowings, obligations under repurchase agreements and money market fundings |                | (1,402,750)                          | (506,535)                         | (1,556,937)                           | (475,441)                          |
| Interest on bonds payable   |                | (707,512)                            | (261,059)                         | (620,746)                             | (236,156)                          |
| Interest on bank deposits   |                | (123,363)                            | (64,118)                          | (145,365)                             | (39,102)                           |
| Interest on subordinated liabilities  |                | (4,355)                              | (1,526)                           | (4,828)                               | (1,789)                            |
| Others  |                | (11,969)                             | (1,265)                           | (7,648)                               | (1,907)                            |
|   |                | (6,405,304)                          | (2,265,067)                       | (6,220,646)                           | (1,976,505)                        |
| <b>Net interest income before provisions for loans and other credit risks</b>             |                | <b>7,319,417</b>                     | <b>2,420,284</b>                  | <b>5,973,122</b>                      | <b>2,098,864</b>                   |
| <b>Provisions for loans and other credit risks, net</b>                                   | 5,6,7,8,10, 21 | <b>(1,184,531)</b>                   | <b>(435,490)</b>                  | <b>(1,064,291)</b>                    | <b>(555,170)</b>                   |
| <b>Net interest income after provisions for loans and other credit risks</b>              |                | <b>6,134,886</b>                     | <b>1,984,794</b>                  | <b>4,908,831</b>                      | <b>1,543,694</b>                   |
| Fee and commission income   |                | 2,704,227                            | 960,198                           | 2,797,853                             | 965,960                            |
| Fee and commission expense  |                | (686,307)                            | (257,589)                         | (588,309)                             | (217,992)                          |
| <b>Net fee and commission income</b>  | 28             | <b>2,017,920</b>                     | <b>702,609</b>                    | <b>2,209,544</b>                      | <b>747,968</b>                     |
| Foreign exchange gains, net   |                | 410,163                              | (346,039)                         | 592,794                               | 213,817                            |
| Premium income from insurance business  |                | 340,956                              | 120,397                           | 300,539                               | 102,863                            |
| Gain on sale of assets  |                | 68,838                               | 16,092                            | 84,702                                | 42,520                             |
| Other operating income  |                | 195,079                              | 55,691                            | 161,709                               | 59,961                             |
| <b>Other operating income</b>   |                | <b>1,015,036</b>                     | <b>(153,859)</b>                  | <b>1,139,744</b>                      | <b>419,161</b>                     |
| <b>Total operating income</b>   |                | <b>9,167,842</b>                     | <b>2,533,544</b>                  | <b>8,258,119</b>                      | <b>2,710,823</b>                   |
| Salaries and wages  |                | (1,522,157)                          | (536,311)                         | (1,373,542)                           | (469,131)                          |
| Trading losses, net   | 29             | (886,061)                            | 94,995                            | (522,485)                             | (141,817)                          |
| Credit card rewards and promotion expenses  |                | (582,307)                            | (224,304)                         | (439,701)                             | (160,468)                          |
| Employee benefits   | 21             | (431,614)                            | (170,821)                         | (357,178)                             | (124,832)                          |
| Depreciation and amortization   | 9, 12          | (256,449)                            | (87,107)                          | (223,499)                             | (76,741)                           |
| Rent expenses   |                | (248,544)                            | (87,979)                          | (214,401)                             | (75,511)                           |
| Taxes and duties other than on income   |                | (176,819)                            | (62,270)                          | (143,501)                             | (52,373)                           |
| Communication expenses  |                | (141,298)                            | (47,558)                          | (133,820)                             | (47,441)                           |
| Impairment losses, net (including general reserve, net)                                   | 9,11,12,13,21  | (34,925)                             | 4,490                             | (44,810)                              | 107,336                            |
| Other operating expenses  | 30             | (1,249,174)                          | (474,458)                         | (1,030,653)                           | (363,533)                          |
| <b>Total operating expenses</b>   |                | <b>(5,529,348)</b>                   | <b>(1,591,323)</b>                | <b>(4,483,590)</b>                    | <b>(1,404,511)</b>                 |
| <b>Income before tax</b>  |                | <b>3,638,494</b>                     | <b>942,221</b>                    | <b>3,774,529</b>                      | <b>1,306,312</b>                   |
| Taxation charge   | 20             | (750,216)                            | (208,179)                         | (789,603)                             | (249,464)                          |
| <b>Net income for the period</b>  |                | <b>2,888,278</b>                     | <b>734,042</b>                    | <b>2,984,926</b>                      | <b>1,056,848</b>                   |
| <b>Other Comprehensive Income:</b>  |                |                                      |                                   |                                       |                                    |
| (items that may be reclassified subsequently to statement of income)                      |                |                                      |                                   |                                       |                                    |
| Foreign currency translation differences for foreign operations                           | 22             | 527,458                              | 366,387                           | (96,664)                              | (47,932)                           |
| Fair value reserves (available-for-sale financial assets):                                |                |                                      |                                   |                                       |                                    |
| Net change in fair values   | 22             | (779,411)                            | (374,916)                         | 374,649                               | (191,706)                          |
| Net amount transferred to income  | 22             | (106,079)                            | (9,238)                           | (68,712)                              | (14,648)                           |
| Cash flow hedges:   |                |                                      |                                   |                                       |                                    |
| Effective portion of changes in fair value  | 22             | (36,109)                             | (62,950)                          | 46,180                                | 71,177                             |
| Net amount transferred to income  | 22             | 61,069                               | 36,958                            | -                                     | -                                  |
| Net investment hedge for foreign operations   | 22             | (194,245)                            | (105,785)                         | 32,543                                | 9,060                              |
| (items that cannot be reclassified subsequently to statement of income)                   |                |                                      |                                   |                                       |                                    |
| 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>(527,317)</b>                     | <b>(149,544)</b>                  | <b>287,996</b>                        | <b>(174,049)</b>                   |
| <b>Total Comprehensive Income for the Period</b>  |                | <b>2,360,961</b>                     | <b>584,498</b>                    | <b>3,272,922</b>                      | <b>882,799</b>                     |
| <b>Net income attributable to:</b>  |                |                                      |                                   |                                       |                                    |
| Equity holders of the Bank  |                | 2,862,912                            | 725,400                           | 2,960,603                             | 1,049,622                          |
| Non-controlling interests   |                | 25,366                               | 8,642                             | 24,323                                | 7,226                              |
|   |                | <b>2,888,278</b>                     | <b>734,042</b>                    | <b>2,984,926</b>                      | <b>1,056,848</b>                   |
| <b>Total comprehensive income attributable to:</b>  |                |                                      |                                   |                                       |                                    |
| Equity holders of the Bank  |                | 2,335,605                            | 575,847                           | 3,248,573                             | 875,564                            |
| Non-controlling interests   |                | 25,356                               | 8,651                             | 24,349                                | 7,235                              |
|   |                | <b>2,360,961</b>                     | <b>584,498</b>                    | <b>3,272,922</b>                      | <b>882,799</b>                     |
| <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>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>0.682</b>                         | <b>0.173</b>                      | <b>0.705</b>                          | <b>0.250</b>                       |

The notes on pages 5 to 79 are integral part of these consolidated financial statements.

**Türkiye Garanti Bankası AŞ And Its Affiliates**  
**Consolidated Statement of Changes in Equity**  
**For The Nine-Month Period Ended 30 September 2015**

(Currency: Thousands of Turkish Lira (TL))

|  | Share Capital    | Share Premium | Unrealised<br>Gains/(Losses) on<br>Available-for-Sale<br>Assets | Hedging<br>Reserve | Translation<br>Reserve | Legal Reserves   | Actuarial<br>Gain/(Loss) | Retained Earnings | Non-Controlling<br>Interests | Total<br>Equity   |
|--|------------------|---------------|---|--------------------|------------------------|------------------|--------------------------|-------------------|------------------------------|-------------------|
| <b>Balances at 31 December 2013</b>  | <b>5,146,371</b> | <b>11,880</b> | <b>(494,581)</b>  | <b>(239,657)</b>   | <b>554,878</b>         | <b>1,156,024</b> | <b>(1,458)</b>           | <b>17,178,887</b> | <b>162,825</b>               | <b>23,475,169</b> |
| Foreign exchange difference on foreign currency legal reserves                     | -                | -             | -   | -                  | -                      | (916)            | -                        | -                 | -                            | (916)             |
| Transfer to legal reserves   | -                | -             | -   | -                  | -                      | 29,267           | -                        | (29,267)          | -                            | -                 |
| Dividends paid   | -                | -             | -   | -                  | -                      | -                | -                        | (425,000)         | (185)                        | (425,185)         |
| Net unrealised market value gains from available-for-sale portfolio                | -                | -             | 374,625   | -                  | -                      | -                | -                        | -                 | 24                           | 374,649           |
| Net gains on available-for-sale assets transferred to income statement at disposal | -                | -             | (68,712)  | -                  | -                      | -                | -                        | -                 | -                            | (68,712)          |
| Foreign currency translation differences for foreign operations                    | -                | -             | (14,875)  | -                  | (48,330)               | -                | -                        | -                 | -                            | (63,205)          |
| Net fair value losses from cash flow hedges  | -                | -             | -   | 46,178             | -                      | -                | -                        | -                 | 2                            | 46,180            |
| Net investment hedge for foreign operations  | -                | -             | -   | 32,543             | (32,543)               | -                | -                        | -                 | -                            | -                 |
| Net income for nine-month period   | -                | -             | -   | -                  | -                      | -                | -                        | 2,960,603         | 24,323                       | 2,984,926         |
| <b>Balances at 30 September 2014</b>   | <b>5,146,371</b> | <b>11,880</b> | <b>(203,543)</b>  | <b>(160,936)</b>   | <b>474,005</b>         | <b>1,184,375</b> | <b>(1,458)</b>           | <b>19,685,223</b> | <b>186,989</b>               | <b>26,322,906</b> |
| Foreign exchange difference on foreign currency legal reserves                     | -                | -             | -   | -                  | -                      | (1,836)          | -                        | -                 | -                            | (1,836)           |
| Transfer to legal reserves   | -                | -             | -   | -                  | -                      | 285              | -                        | (285)             | -                            | -                 |
| Net unrealised market value gains from available-for-sale portfolio                | -                | -             | 267,652   | -                  | -                      | -                | -                        | -                 | -                            | 267,652           |
| Net gains on available-for-sale assets transferred to income statement at disposal | -                | -             | 14,296  | -                  | -                      | -                | -                        | -                 | -                            | 14,296            |
| Foreign currency translation differences for foreign operations                    | -                | -             | 10,226  | -                  | (84,040)               | -                | -                        | -                 | -                            | (73,814)          |
| Effect of change in minority shares  | -                | -             | -   | -                  | -                      | -                | -                        | -                 | (265)                        | (265)             |
| Net fair value losses from cash flow hedges  | -                | -             | -   | (82,793)           | -                      | -                | -                        | -                 | -                            | (82,793)          |
| Net investment hedge for foreign operations  | -                | -             | -   | 22,901             | (22,901)               | -                | -                        | -                 | -                            | -                 |
| Net change in actuarial gain/(loss) related to employee benefits                   | -                | -             | -   | -                  | -                      | -                | (51,712)                 | -                 | (145)                        | (51,857)          |
| Net income for three-month period  | -                | -             | -   | -                  | -                      | -                | -                        | 854,185           | 7,154                        | 861,339           |
| <b>Balances at 31 December 2014</b>  | <b>5,146,371</b> | <b>11,880</b> | <b>88,631</b>   | <b>(220,828)</b>   | <b>367,064</b>         | <b>1,182,824</b> | <b>(53,170)</b>          | <b>20,539,123</b> | <b>193,733</b>               | <b>27,255,628</b> |
| Foreign exchange difference on foreign currency legal reserves                     | -                | -             | -   | -                  | -                      | 4,609            | -                        | -                 | -                            | 4,609             |
| Transfer to legal reserves   | -                | -             | -   | -                  | -                      | 41,634           | -                        | (41,634)          | -                            | -                 |
| Dividends paid   | -                | -             | -   | -                  | -                      | -                | -                        | (567,000)         | (1,354)                      | (568,354)         |
| Net unrealised market value losses from available-for-sale portfolio               | -                | -             | (779,401)   | -                  | -                      | -                | -                        | -                 | (10)                         | (779,411)         |
| Net gains on available-for-sale assets transferred to income statement at disposal | -                | -             | (106,079)   | -                  | -                      | -                | -                        | -                 | -                            | (106,079)         |
| Foreign currency translation differences for foreign operations                    | -                | -             | (11,985)  | -                  | 253,085                | -                | -                        | -                 | -                            | 241,100           |
| Net fair value gains from cash flow hedges   | -                | -             | -   | 24,960             | -                      | -                | -                        | -                 | -                            | 24,960            |
| Net investment hedge for foreign operations  | -                | -             | -   | (194,245)          | 281,749                | -                | -                        | -                 | -                            | 87,504            |
| Net income for nine-month period   | -                | -             | -   | -                  | -                      | -                | -                        | 2,862,912         | 25,366                       | 2,888,278         |
| <b>Balances at 30 September 2015</b>   | <b>5,146,371</b> | <b>11,880</b> | <b>(808,834)</b>  | <b>(390,113)</b>   | <b>901,898</b>         | <b>1,229,067</b> | <b>(53,170)</b>          | <b>22,793,401</b> | <b>217,735</b>               | <b>29,048,235</b> |

**Türkiye Garanti Bankası AŞ And Its Affiliates**  
**Consolidated Statement of Cash Flows**  
**For The Nine-Month Period Ended 30 September 2015**

(Currency: Thousands of Turkish Lira (TL))

| <u>Notes</u>  | <b>1 January 2015-<br/>30 September 2015</b> | <b>1 January 2014-<br/>30 September 2014</b> |
|---|--|--|
| <b>Cash flows from operating activities:-</b>   |  |  |
| Interests and commissions received  | 13,760,645                                   | 12,005,935                                   |
| Interests and commissions paid  | (7,343,978)                                  | (6,542,584)                                  |
| Other operating activities, net   | (1,125,755)                                  | 907,157                                      |
| Cash payments to employees and suppliers  | (4,315,012)                                  | (3,255,142)                                  |
|   | <u>975,900</u>                               | <u>3,115,366</u>                             |
| <b>(Increase)/decrease in operating assets:-</b>  |  |  |
| Loans and advances to banks   | (3,018,756)                                  | 1,701,702                                    |
| Balances with central banks   | (630,425)                                    | (2,018,491)                                  |
| Financial assets at fair value through profit or loss                                     | 239,423                                      | (118,361)                                    |
| Loans and advances to customers   | (25,647,604)                                 | (12,090,687)                                 |
| Consumer loans  | (5,392,974)                                  | (2,813,580)                                  |
| Other assets  | (1,120,888)                                  | (999,328)                                    |
| <b>Increase/(decrease) in operating liabilities:-</b>                                     |  |  |
| Deposits from banks   | 2,034,188                                    | 1,966,362                                    |
| Deposits from customers   | 30,201,996                                   | 5,368,994                                    |
| Obligations under repurchase agreements and money market fundings                         | 2,588,544                                    | (1,058,449)                                  |
| Other liabilities   | 2,608,084                                    | 2,463,050                                    |
| <b>Net cash (outflows)/inflows from operating activities before taxes and duties paid</b> | <b><u>2,837,488</u></b>                      | <b><u>(4,483,422)</u></b>                    |
| <b>Income taxes and other duties paid</b>   | <b>(980,994)</b>                             | <b>(1,010,699)</b>                           |
| <b>Net cash (outflows)/inflows from operating activities</b>                              | <b><u>1,856,494</u></b>                      | <b><u>(5,494,121)</u></b>                    |
| <b>Cash flows from investing activities:-</b>   |  |  |
| Net increase in investment securities   | (1,081,310)                                  | (4,228,882)                                  |
| Interest received for investment securities   | 1,829,456                                    | 2,230,737                                    |
| Dividends received  | 5,387  | 2,066  |
| Proceeds from sale of tangible assets   | 169,165                                      | 156,077                                      |
| Purchase of tangible assets   | (421,506)                                    | (350,083)                                    |
| <b>Net cash inflows/(outflows) from investing activities</b>                              | <b><u>501,192</u></b>                        | <b><u>(2,190,085)</u></b>                    |
| <b>Cash flows from financing activities:-</b>   |  |  |
| Increase in loans and advances from banks and other institutions, net                     | 2,887,828                                    | 2,755,768                                    |
| Increase in bonds payable, net  | 1,810,198                                    | 4,067,455                                    |
| Decrease in subordinated liabilities, net   | 28,346                                       | -  |
| Dividends paid  | (568,354)                                    | (425,185)                                    |
| <b>Net cash outflows from financing activities</b>  | <b><u>4,158,018</u></b>                      | <b><u>6,398,038</u></b>                      |
| <b>Effect of exchange rate changes</b>  | <b><u>1,551,067</u></b>                      | <b><u>339,309</u></b>                        |
| <b>Net increase/(decrease) in cash and cash equivalents</b>                               | <b><u>8,066,771</u></b>                      | <b><u>(946,859)</u></b>                      |
| Cash and cash equivalents at the beginning of the period                                  | <u>10,004,218</u>                            | <u>8,795,778</u>                             |
| <b>Cash and cash equivalents at the end of the period</b>                                 | <b><u><u>18,070,989</u></u></b>              | <b><u><u>7,848,919</u></u></b>               |

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The notes on pages 5 to 79 are an integral part of these consolidated financial statements.

## **Overview of the Bank**

Türkiye Garanti Bankası AŞ (the Bank) is a bank domiciled in Turkey. The consolidated financial statements of the Bank as of and for the nine-month period ended 30 September 2015 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 928 domestic branches, nine foreign branches, three representative offices abroad and 70 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 23,171 employees. The Bank’s head office is located at Levent Nispetiye Mahallesi Aytar Caddesi 2 Beşiktaş 34340 Istanbul, Turkey.

### **(b) Ownership**

As of 30 September 2015, group of companies under Banco Bilbao Vizcaya Argentaria SA (“BBVA”) that currently owns 39.90% shares of the Bank, is named the BBVA Group (the Group) and it is the main shareholder.

On 22 March 2011, BBVA had 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. BBVA, purchasing 24.89% shares of the Bank, had joint control on the Bank’s management together with group of companies under Doğu Holding AŞ (the Doğu Group).

Subsequently, on 7 April 2011, BBVA had acquired 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%. Accordingly, BBVA and the Doğu Group had mutual control on the Bank’s management.

Finally, in accordance with the terms of the agreement between BBVA and the Doğu Group which was previously disclosed on 19 November 2014, the sale of shares representing 14.89% of the share capital of the Bank with a face value of TL 625,380 thousands and 62.538.000.000 shares by the Doğu Group to BBVA, has been completed on 27 July 2015. Following the acquisition, BBVA’s stake in the Bank has reached to 39.90%.

Accordingly, as of balance sheet date, the Doğu Group’s interest in the share capital of the Bank is at 10%.

## **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); Turkish Accounting Standards promulgated by the Public Oversight Accounting and Auditing Standards Authority; 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 27 October 2015.



## **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:

|                               | <i>30 September 2015</i> |                 |
|-------------------------------|--------------------------|-----------------|
|                               | <i>Employer</i>          | <i>Employee</i> |
|                               | <u>%</u>                 | <u>%</u>        |
| Pension contributions         | 15.5                     | 10.0            |
| Medical benefit contributions | 6.0                      | 5.0             |

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

*a) Pension and medical benefits transferable to SSF*

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



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

assumptions and mortality tables specified in the New Law, including a discount rate of 9.80%.

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

#### *b) Excess benefits not transferable to SSF*

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

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions were directly charged to 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 IAS19 Defined Benefit Plans: Employee Contributions
- Annual Improvements to 2010-2012 Cycle – IFRS2, IFRS3, IFRS8, IFRS13, IAS16 and IAS38, IAS24
- Annual Improvements to 2011-2013 Cycle – IFRS1, IFRS3, IFRS13, IAS40

**Significant accounting policies (continued)**

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

- IFRS9 Financial Instruments
- IFRS14 Regulatory Deferral Accounts
- Amendments to IFRS11 Accounting for Acquisition of Interests in Joint Operations
- Amendments to IAS16 and IAS38 Clarification of Acceptable Methods of Depreciation and Amortisation
- IFRS15 Revenue from Contracts with Customers
- Amendments to IAS27 Equity Method in Separate Financial Statements
- Amendments to IFRS10 and IAS28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Annual Improvements to 2012-2014 Cycle - IFRS5, IFRS7, IAS19, IAS34
- Amendments to IAS1 Disclosure Initiative
- Amendments to IFRS10, IFRS12 and IAS28 Investment Entities: Applying the Consolidation Exception

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

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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>30 September 2015</i>                       |                         |                              |                           |                                 |
|----------------------|--|-------------------------|------------------------------|---------------------------|---------------------------------|
|                      | <i>Loans and<br/>Advances to<br/>Customers</i> | <i>Total<br/>Assets</i> | <i>Total<br/>Liabilities</i> | <i>Non-Cash<br/>Loans</i> | <i>Capital<br/>Expenditures</i> |
| Turkey               | 164,087,008                                    | 256,503,727             | 189,048,070                  | 36,605,964                | 412,858                         |
| England              | 881,982  | 9,981,303               | 18,338,260                   | 1,418,919                 | -                               |
| Romania              | 4,679,110                                      | 5,768,293               | 2,882,058                    | 357,515                   | 7,103                           |
| Netherlands          | 1,388,632                                      | 4,440,549               | 6,925,326                    | 453,688                   | 1,101                           |
| USA                  | 387,561  | 2,114,571               | 6,563,972                    | 3,495,084                 | -                               |
| Malta                | 1,470,609                                      | 1,631,079               | 256,210                      | 25,425                    | -                               |
| Germany              | 477,774  | 1,609,356               | 8,366,898                    | 109,849                   | 408                             |
| Switzerland          | 1,012,816                                      | 1,132,956               | 7,527,974                    | 3,751,292                 | -                               |
| Russia               | 237,195  | 992,051                 | 401,748                      | 18,128                    | 36                              |
| Luxembourg           | 460,332  | 713,905                 | 2,785,573                    | 550                       | -                               |
| France               | 115,387  | 697,277                 | 2,077,837                    | 407,752                   | -                               |
| Cyprus               | 186,363  | 557,632                 | 909,864                      | 58,996                    | -                               |
| Italy                | 360,397  | 370,574                 | 901,545                      | 540,554                   | -                               |
| Belgium              | 257,420  | 299,433                 | 729,690                      | 4,715                     | -                               |
| United Arab Emirates | 231,929  | 241,468                 | 2,494,312                    | 1,077,505                 | -                               |
| Singapore            | 166,098  | 166,098                 | 168,611                      | 27,649                    | -                               |
| Spain                | 53,309   | 124,434                 | 485,443                      | 571,387                   | -                               |
| Azerbaijan           | 41,118   | 41,118                  | 918,771                      | 302                       | -                               |
| Austria              | 22,535   | 23,420                  | 557,290                      | 124,693                   | -                               |
| Ireland              | 5,967  | 20,394                  | 332,386                      | 631                       | -                               |
| Japan                | 4,739  | 8,684                   | 223,643                      | 254,428                   | -                               |
| Canada               | 3,813  | 7,481                   | 372,664                      | 658                       | -                               |
| Ukraine              | 5,005  | 5,045                   | 44,240                       | 61                        | -                               |
| Thailand             | -  | 88                      | 2,365,756                    | -                         | -                               |
| Qatar                | -  | -                       | 581,589                      | 604                       | -                               |
| Others               | 880,552  | 1,120,309               | 3,263,280                    | 634,869                   | -                               |
|                      | <u>177,417,651</u>                             | <u>288,571,245</u>      | <u>259,523,010</u>           | <u>49,941,218</u>         | <u>421,506</u>                  |



## 1 Segment reporting (continued)

|                         | <i>31 December 2014</i>                        |                         |                              |                           |                                 |
|-------------------------|--|-------------------------|------------------------------|---------------------------|---------------------------------|
|                         | <i>Loans and<br/>Advances to<br/>Customers</i> | <i>Total<br/>Assets</i> | <i>Total<br/>Liabilities</i> | <i>Non-Cash<br/>Loans</i> | <i>Capital<br/>Expenditures</i> |
| Turkey                  | 137,787,837                                    | 217,656,936             | 158,940,188                  | 29,431,501                | 656,269                         |
| England                 | 982,749  | 8,755,225               | 15,845,498                   | 584,503                   | -                               |
| Romania                 | 3,545,272                                      | 4,869,366               | 2,126,796                    | 149,077                   | 22,380                          |
| Netherlands             | 1,130,433                                      | 4,056,182               | 5,530,672                    | 366,224                   | 10,548                          |
| USA                     | 423,878  | 1,614,472               | 4,924,365                    | 1,672,804                 | -                               |
| Malta                   | 970,155  | 1,089,098               | 455,468                      | 8,169                     | -                               |
| Russia                  | 351,750  | 926,566                 | 582,485                      | 14,154                    | 38                              |
| Germany                 | 281,681  | 644,504                 | 6,934,142                    | 109,953                   | 2,000                           |
| Switzerland             | 493,390  | 557,844                 | 5,991,730                    | 2,175,879                 | -                               |
| France                  | 25,759   | 514,709                 | 1,525,733                    | 227,420                   | -                               |
| Spain                   | 47,206   | 501,297                 | 462,075                      | 469,429                   | -                               |
| Luxembourg              | 285,863  | 486,339                 | 2,040,526                    | 46,553                    | -                               |
| Italy                   | 248,786  | 249,814                 | 672,369                      | 401,683                   | -                               |
| United Arabian Emirates | 216,547  | 217,184                 | 1,728,440                    | 548,070                   | -                               |
| Cyprus                  | 190,588  | 216,381                 | 760,764                      | 305,759                   | -                               |
| Belgium                 | 138,285  | 173,861                 | 512,872                      | 4,844                     | -                               |
| Singapore               | 109,500  | 109,528                 | 38,074                       | 44,356                    | -                               |
| Austria                 | 35,628   | 35,728                  | 417,559                      | 98,735                    | -                               |
| Azerbaijan              | 21,816   | 22,018                  | 324,196                      | 1,408                     | -                               |
| Ireland                 | 1,007  | 10,523                  | 759,718                      | 529                       | -                               |
| Japan                   | 3,342  | 10,426                  | 186,735                      | 200,373                   | -                               |
| Canada                  | 2,957  | 5,407                   | 803,177                      | 436,402                   | -                               |
| Ukraine                 | 3,831  | 4,132                   | 32,949                       | 61                        | -                               |
| Thailand                | -  | 100                     | 1,877,002                    | 149                       | -                               |
| Qatar                   | -  | -                       | 474,513                      | 11,629                    | -                               |
| Others                  | 783,155  | 1,179,453               | 2,703,419                    | 419,533                   | -                               |
|                         | <u>148,081,415</u>                             | <u>243,907,093</u>      | <u>216,651,465</u>           | <u>37,729,197</u>         | <u>691,235</u>                  |

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

|             | <i>Nine-month<br/>period ended<br/>30 September 2015</i> | <i>Three-month<br/>period ended<br/>30 September 2015</i> | <i>Nine-month<br/>period ended<br/>30 September 2014</i> | <i>Three-month<br/>period ended<br/>30 September 2014</i> |
|-------------|--|---|--|---|
| Turkey      | 2,438,317  | 660,245   | 2,459,367  | 812,300   |
| Malta       | 322,746  | 37,499  | 274,601  | 164,142   |
| Romania     | 66,552   | 16,509  | 65,800   | 13,021  |
| Luxembourg  | 38,112   | 14,684  | 27,703   | 10,416  |
| Netherlands | 18,011   | (2,112)   | 131,756  | 48,777  |
| Others      | 4,540  | 7,217   | 25,699   | 8,192   |
|             | <u>2,888,278</u>   | <u>734,042</u>  | <u>2,984,926</u>   | <u>1,056,848</u>  |

**Türkiye Garanti Bankası AŞ and Its Affiliates**

Notes to Consolidated Financial Statements

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(Currency: Thousands of Turkish Lira (TL))

**1 Segment reporting (continued)**

**1.2 Business segments**

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

| <u>30 September 2015</u>             | <u>Retail<br/>Banking</u> | <u>Commercial,<br/>Corporate &amp;<br/>SME Banking</u> | <u>Other<br/>Operations</u> | <u>Total<br/>Banking</u>  | <u>Leasing</u>          | <u>Insurance</u>        | <u>Factoring</u>        | <u>Other<br/>Financial</u> | <u>Other Non-<br/>Financial</u> | <u>Combined</u>           | <u>Eliminations</u>       | <u>Total</u>              |
|--------------------------------------|---------------------------|--|-----------------------------|---------------------------|-------------------------|-------------------------|-------------------------|----------------------------|---------------------------------|---------------------------|---------------------------|---------------------------|
| Operating income                     | 3,365,505                 | 3,140,000  | 1,841,842                   | 8,347,347                 | 173,563                 | 351,238                 | 48,901                  | 109,860                    | 179,468                         | 9,210,377                 | (42,535)                  | 9,167,842                 |
| Operating expenses                   | <u>(3,481,290)</u>        | <u>(1,349,918)</u>                                     | <u>(263,806)</u>            | <u>(5,095,014)</u>        | <u>(50,444)</u>         | <u>(167,765)</u>        | <u>(26,975)</u>         | <u>(78,678)</u>            | <u>(149,315)</u>                | <u>(5,568,191)</u>        | <u>38,843</u>             | <u>(5,529,348)</u>        |
| <b>Income from operations</b>        | <b>(115,785)</b>          | <b>1,790,082</b>                                       | <b>1,578,036</b>            | <b>3,252,333</b>          | <b>123,119</b>          | <b>183,473</b>          | <b>21,926</b>           | <b>31,182</b>              | <b>30,153</b>                   | <b>3,642,186</b>          | <b>(3,692)</b>            | <b>3,638,494</b>          |
| Taxation charge                      | <u>-</u>                  | <u>-</u>   | <u>(669,891)</u>            | <u>(669,891)</u>          | <u>(24,510)</u>         | <u>(37,020)</u>         | <u>(4,403)</u>          | <u>(7,161)</u>             | <u>(7,334)</u>                  | <u>(750,319)</u>          | <u>103</u>                | <u>(750,216)</u>          |
| <b>Net income for the period</b>     | <b><u>(115,785)</u></b>   | <b><u>1,790,082</u></b>                                | <b><u>908,145</u></b>       | <b><u>2,582,442</u></b>   | <b><u>98,609</u></b>    | <b><u>146,453</u></b>   | <b><u>17,523</u></b>    | <b><u>24,021</u></b>       | <b><u>22,819</u></b>            | <b><u>2,891,867</u></b>   | <b><u>(3,589)</u></b>     | <b><u>2,888,278</u></b>   |
| Segment assets                       | 54,405,957                | 118,981,541  | 96,252,400                  | 269,639,898               | 5,315,196               | 8,397,598               | 2,889,391               | 426,745                    | 207,801                         | 286,876,629               | (1,757,187)               | 285,119,442               |
| Investments in equity participations | -                         | -  | 431,288                     | 431,288                   | 10,532                  | 275                     | -                       | 2,648                      | 112                             | 444,855                   | (403,464)                 | 41,391                    |
| Other assets                         | <u>-</u>                  | <u>-</u>   | <u>2,595,282</u>            | <u>2,595,282</u>          | <u>52,981</u>           | <u>35,962</u>           | <u>29,929</u>           | <u>17,495</u>              | <u>647,585</u>                  | <u>3,379,234</u>          | <u>31,178</u>             | <u>3,410,412</u>          |
| <b>Total assets</b>                  | <b><u>54,405,957</u></b>  | <b><u>118,981,541</u></b>                              | <b><u>99,278,970</u></b>    | <b><u>272,666,468</u></b> | <b><u>5,378,709</u></b> | <b><u>8,433,835</u></b> | <b><u>2,919,320</u></b> | <b><u>446,888</u></b>      | <b><u>855,498</u></b>           | <b><u>290,700,718</u></b> | <b><u>(2,129,473)</u></b> | <b><u>288,571,245</u></b> |
| Segment liabilities                  | 100,414,190               | 65,143,713   | 79,767,276                  | 245,325,179               | 4,533,818               | 7,402,801               | 2,761,414               | 422,090                    | 762,740                         | 261,208,042               | (1,685,032)               | 259,523,010               |
| Total equity                         | <u>-</u>                  | <u>-</u>   | <u>27,341,289</u>           | <u>27,341,289</u>         | <u>844,891</u>          | <u>1,031,034</u>        | <u>157,906</u>          | <u>24,798</u>              | <u>92,758</u>                   | <u>29,492,676</u>         | <u>(444,441)</u>          | <u>29,048,235</u>         |
| <b>Total liabilities and equity</b>  | <b><u>100,414,190</u></b> | <b><u>65,143,713</u></b>                               | <b><u>107,108,565</u></b>   | <b><u>272,666,468</u></b> | <b><u>5,378,709</u></b> | <b><u>8,433,835</u></b> | <b><u>2,919,320</u></b> | <b><u>446,888</u></b>      | <b><u>855,498</u></b>           | <b><u>290,700,718</u></b> | <b><u>(2,129,473)</u></b> | <b><u>288,571,245</u></b> |

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**1 Segment reporting (continued)**

|                                      | <i>Retail<br/>Banking</i> | <i>Commercial<br/>Corporate &amp;<br/>SME Banking</i> | <i>Other<br/>Operations</i> | <i>Total<br/>Banking</i>  | <i>Leasing</i>          | <i>Insurance</i>        | <i>Factoring</i>        | <i>Other<br/>Financial</i> | <i>Other Non-<br/>Financial</i> | <i>Combined</i>           | <i>Eliminations</i>       | <i>Total</i>              |
|--------------------------------------|---------------------------|---|-----------------------------|---------------------------|-------------------------|-------------------------|-------------------------|----------------------------|---------------------------------|---------------------------|---------------------------|---------------------------|
| <b><u>30 September 2014</u></b>      |                           |   |                             |                           |                         |                         |                         |                            |                                 |                           |                           |                           |
| Operating income                     | 3,126,958                 | 3,039,470   | 1,392,284                   | 7,558,712                 | 128,039                 | 297,226                 | 45,822                  | 96,355                     | 169,874                         | 8,296,028                 | (37,909)                  | 8,258,119                 |
| Operating expenses                   | (2,808,448)               | (1,455,384)   | 120,104                     | (4,143,728)               | (29,925)                | (130,525)               | (25,825)                | (65,521)                   | (113,148)                       | (4,508,672)               | 25,082                    | (4,483,590)               |
| <b>Income from operations</b>        | <b>318,510</b>            | <b>1,584,086</b>                                      | <b>1,512,388</b>            | <b>3,414,984</b>          | <b>98,114</b>           | <b>166,701</b>          | <b>19,997</b>           | <b>30,834</b>              | <b>56,726</b>                   | <b>3,787,356</b>          | <b>(12,827)</b>           | <b>3,774,529</b>          |
| Taxation charge                      | -                         | -   | (712,838)                   | (712,838)                 | (19,724)                | (33,485)                | (4,057)                 | (4,794)                    | (14,918)                        | (789,816)                 | 213                       | (789,603)                 |
| <b>Net income for the period</b>     | <b><u>318,510</u></b>     | <b><u>1,584,086</u></b>                               | <b><u>799,550</u></b>       | <b><u>2,702,146</u></b>   | <b><u>78,390</u></b>    | <b><u>133,216</u></b>   | <b><u>15,940</u></b>    | <b><u>26,040</u></b>       | <b><u>41,808</u></b>            | <b><u>2,997,540</u></b>   | <b><u>(12,614)</u></b>    | <b><u>2,984,926</u></b>   |
| <b><u>31 December 2014</u></b>       |                           |   |                             |                           |                         |                         |                         |                            |                                 |                           |                           |                           |
| Segment assets                       | 48,782,409                | 96,413,221  | 82,157,426                  | 227,353,056               | 4,358,022               | 7,330,031               | 2,970,570               | 347,906                    | 149,041                         | 242,508,626               | (1,895,771)               | 240,612,855               |
| Investments in equity participations | -                         | -   | 431,287                     | 431,287                   | 10,435                  | 275                     | -                       | 2,251                      | 112                             | 444,360                   | (403,464)                 | 40,896                    |
| Other assets                         | -                         | -   | 2,567,512                   | 2,567,512                 | 47,106                  | 32,997                  | 17,668                  | 19,830                     | 538,529                         | 3,223,642                 | 29,700                    | 3,253,342                 |
| <b>Total assets</b>                  | <b><u>48,782,409</u></b>  | <b><u>96,413,221</u></b>                              | <b><u>85,156,225</u></b>    | <b><u>230,351,855</u></b> | <b><u>4,415,563</u></b> | <b><u>7,363,303</u></b> | <b><u>2,988,238</u></b> | <b><u>369,987</u></b>      | <b><u>687,682</u></b>           | <b><u>246,176,628</u></b> | <b><u>(2,269,535)</u></b> | <b><u>243,907,093</u></b> |
| Segment liabilities                  | 83,063,109                | 50,532,953  | 70,954,877                  | 204,550,939               | 3,679,430               | 6,478,713               | 2,847,871               | 349,291                    | 570,994                         | 218,477,238               | (1,825,773)               | 216,651,465               |
| Total equity                         | -                         | -   | 25,800,916                  | 25,800,916                | 736,133                 | 884,590                 | 140,367                 | 20,696                     | 116,688                         | 27,699,390                | (443,762)                 | 27,255,628                |
| <b>Total liabilities and equity</b>  | <b><u>83,063,109</u></b>  | <b><u>50,532,953</u></b>                              | <b><u>96,755,793</u></b>    | <b><u>230,351,855</u></b> | <b><u>4,415,563</u></b> | <b><u>7,363,303</u></b> | <b><u>2,988,238</u></b> | <b><u>369,987</u></b>      | <b><u>687,682</u></b>           | <b><u>246,176,628</u></b> | <b><u>(2,269,535)</u></b> | <b><u>243,907,093</u></b> |

## 2 Cash and cash equivalents

Cash and cash equivalents include cash balances on hand, due from banks with original maturity periods of less than three months and other cash items. Cash and cash equivalents as of 30 September 2015 and 2014, included in the accompanying consolidated statements of cash flows are as follows:

|  | <i>30 September</i><br><u>2015</u> | <i>30 September</i><br><u>2014</u> |
|--|------------------------------------|------------------------------------|
| Cash at branches   | 2,318,650                          | 1,732,060                          |
| Unrestricted balances with central banks   | 10,983,291                         | 3,059,842                          |
| Placements at money markets  | 152,064                            | 17,607                             |
| Loans and advances to banks with original maturity periods of less than three months | <u>4,616,984</u>                   | <u>3,039,410</u>                   |
|  | <u>18,070,989</u>                  | <u>7,848,919</u>                   |

## 3 Related party disclosures

For the purpose of this report, the shareholders either controlling or has a significant influence over the Bank, BBVA and Doğu Holding AŞ, respectively, and all their subsidiaries, and their ultimate owners, directors and executive officers and the Bank's unconsolidated affiliates are referred to as related parties. During the course of the business, the Bank has made placements with and granted loans to related parties and also received deposits from them at various terms. The Bank had the following balances outstanding from and transactions with related parties:

### 3.1 Outstanding balances

|  | <i>30 September</i><br><u>2015</u> | <i>31 December</i><br><u>2014</u> |
|--|------------------------------------|-----------------------------------|
| <i>Statement of financial position</i>               |                                    |                                   |
| Loans and advances to banks                          | 19,655                             | 399,113                           |
| Loans and advances to customers                      | 2,324,684                          | 1,639,935                         |
| Miscellaneous receivables                            | 1,097                              | 1,671                             |
| Deposits from banks                                  | 320,432                            | 608,312                           |
| Deposits from customers                              | 1,691,187                          | 402,949                           |
| Loans and advances from banks and other institutions | 20,192                             | 188,146                           |
| Miscellaneous payables                               | 21,466                             | 30,966                            |
| <i>Commitments and contingencies</i>                 |                                    |                                   |
| Non-cash loans                                       | 1,199,319                          | 1,020,331                         |
| Derivatives  | 14,029,165                         | 10,830,950                        |

### 3.2 Transactions

|  | <i>Nine-month<br/>period ended<br/>30 September 2015</i> | <i>Three-month<br/>period ended<br/>30 September 2015</i> | <i>Nine-month<br/>period ended<br/>30 September 2014</i> | <i>Three-month<br/>period ended<br/>30 September 2014</i> |
|--|--|---|--|---|
| Interest, fee and commission income              | 96,919   | 40,386  | 67,534   | 38,584  |
| Interest, fee and commission expenses            | 20,119   | 12,032  | 16,113   | 4,124   |
| Trading and foreign exchange gains/(losses), net | (8,598)  | (38,187)  | 5,565  | 12,599  |
| Other operating income                           | 8,193  | 575   | 2,071  | 201   |
| Other operating expenses                         | 41,076   | 8,171   | 58,130   | 32,357  |

### 3 Related party disclosures (continued)

In the first nine-months of 2015, interest rates applied to foreign currency receivables from and payables to related parties vary within the ranges of 2%-9% and 1%-2% (31 December 2014: 1%-13% and 1%-2%), respectively. The interest rates applied to TL receivables from and payables to related parties vary within the ranges of 10%-20% and 5%-13%, respectively (31 December 2014: 1%-24% and 8%-13%). Various commission rates are applied to transactions involving guarantees and commitments. The pricing in transactions with the related parties is set on an arms-length basis.

No impairment losses or specific allowances have been recorded against balances outstanding during the period with related parties as of 30 September 2015 (31 December 2014: nil).

Key management personnel compensation for the nine-month period ended 30 September 2015 amounted TL 145,141 thousands (30 September 2014: TL 102,338 thousands) on a consolidated basis. Within this total, individual key management expenses of the Bank amounted TL 94,196 thousands (30 September 2014: TL 66,359 thousands) and of its affiliates amounted TL 50,945 thousands (30 September 2014: TL 35,979 thousands).

### 4 Cash and balances with central banks

|  | <i>30 September</i><br><i>2015</i> | <i>31 December</i><br><i>2014</i> |
|--|------------------------------------|-----------------------------------|
| Cash at branches                                       | 2,318,650                          | 1,798,443                         |
| Balances with central banks excluding reserve deposits | <u>10,983,291</u>                  | <u>4,798,032</u>                  |
|  | <u>13,301,941</u>                  | <u>6,596,475</u>                  |

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

|   | <i>30 September</i><br><i>2015</i> |                                 |  |                                  | <i>31 December</i><br><i>2014</i> |
|---|------------------------------------|---------------------------------|--|----------------------------------|-----------------------------------|
|   | <i>Face</i><br><i>value</i>        | <i>Carrying</i><br><i>value</i> | <i>Interest rate</i><br><i>range %</i> | <i>Latest</i><br><i>maturity</i> | <i>Carrying</i><br><i>value</i>   |
| <i>Debt and other instruments held at fair value:</i>       |                                    |                                 |  |                                  |                                   |
| Gold  | -                                  | 472,466                         | -                                      | -                                | 695,861                           |
| Government bonds in TL                                      | 48,614                             | 47,937                          | 6-11                                   | 2025                             | 36,563                            |
| Bonds issued by financial institutions                      | 40,948                             | 42,271                          | 4-14                                   | 2020                             | 44,111                            |
| Investment fund   | -                                  | 39,373                          | -                                      | -                                | 33,415                            |
| Eurobonds   | 12,818                             | 13,389                          | 3-12                                   | 2045                             | 8,111                             |
| Bonds issued by corporations                                | 7,627                              | 7,733                           | 11-15                                  | 2017                             | 20,880                            |
| Government bonds-floating (a)                               | 7,343                              | 7,441                           | 8-11                                   | 2020                             | 26,812                            |
| Government bonds indexed to CPI                             | 4,129                              | 5,760                           | 1-4                                    | 2025                             | 14,942                            |
| Discounted government bonds in TL                           | 4,229                              | <u>4,197</u>                    | 2-10                                   | 2025                             | <u>2,130</u>                      |
|   |                                    | 640,567                         |  |                                  | 882,825                           |
| <i>Loans held at fair value</i>                             |                                    | 196,270                         |  |                                  | 201,385                           |
| <i>Equity and other non-fixed income instruments:</i>       |                                    |                                 |  |                                  |                                   |
| Listed shares   |                                    | <u>9,168</u>                    |  |                                  | <u>2,460</u>                      |
| Total financial assets at fair value through profit or loss |                                    | <u>846,005</u>                  |  |                                  | <u>1,086,670</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 30 September 2015 amounting to TL 12 thousands (30 September 2014: TL 69 thousands).

As of 30 September 2015, financial assets at fair value through profit or loss amounting to TL 10,936 thousands are blocked against asset management operations and securitizations (31 December 2014: TL 275,998 thousands) (refer to Note 10).

As of 30 September 2015, government bonds and treasury bills include securities pledged under repurchase agreements with customers amounting to TL 9,128 thousands (31 December 2014: TL 3,639 thousands).

## 6 Loans and advances to banks

|  | <u>30 September 2015</u> |                             |                   | <u>31 December 2014</u> |                             |                   |
|--|--------------------------|-----------------------------|-------------------|-------------------------|-----------------------------|-------------------|
|  | <u>TL</u>                | <u>Foreign<br/>Currency</u> | <u>Total</u>      | <u>TL</u>               | <u>Foreign<br/>Currency</u> | <u>Total</u>      |
| <i>Loans and advances-demand</i>                 |                          |                             |                   |                         |                             |                   |
| Domestic banks                                   | 1,360                    | 3,837                       | 5,197             | 4,874                   | 731                         | 5,605             |
| Foreign banks                                    | <u>5,992</u>             | <u>5,489,154</u>            | <u>5,495,146</u>  | <u>46,516</u>           | <u>2,716,504</u>            | <u>2,763,020</u>  |
|  | <u>7,352</u>             | <u>5,492,991</u>            | <u>5,500,343</u>  | <u>51,390</u>           | <u>2,717,235</u>            | <u>2,768,625</u>  |
| <i>Loans and advances-time</i>                   |                          |                             |                   |                         |                             |                   |
| Domestic banks                                   | 728,486                  | 1,452,927                   | 2,181,413         | 1,584,623               | 1,373,413                   | 2,958,036         |
| Foreign banks                                    | <u>7,227</u>             | <u>7,302,212</u>            | <u>7,309,439</u>  | <u>159,738</u>          | <u>4,766,644</u>            | <u>4,926,382</u>  |
|  | <u>735,713</u>           | <u>8,755,139</u>            | <u>9,490,852</u>  | <u>1,744,361</u>        | <u>6,140,057</u>            | <u>7,884,418</u>  |
| Placements at money markets                      | <u>21,530</u>            | <u>130,534</u>              | <u>152,064</u>    | <u>25,684</u>           | <u>84,466</u>               | <u>110,150</u>    |
| Income accrual on loans<br>and advances to banks | <u>12,514</u>            | <u>20,567</u>               | <u>33,081</u>     | <u>20,492</u>           | <u>31,533</u>               | <u>52,025</u>     |
| Total loans and advances to banks                | 777,109                  | 14,399,231                  | 15,176,340        | 1,841,927               | 8,973,291                   | 10,815,218        |
| Less: allowance for<br>uncollectibility          | -                        | -                           | -                 | -                       | -                           | -                 |
| Net loans and advances to banks                  | <u>777,109</u>           | <u>14,399,231</u>           | <u>15,176,340</u> | <u>1,841,927</u>        | <u>8,973,291</u>            | <u>10,815,218</u> |

As of 30 September 2015, majority of loans and advances-time are short-term with interest rates ranging between 1%-11% per annum for foreign currency time placements and 1%-15% per annum for TL time placements (31 December 2014: 1%-6% and 1%-13%, respectively).

As of 30 September 2015, loans and advances at domestic and foreign banks include blocked accounts of TL 8,958,090 (31 December 2014: TL 6,111,319 thousands) held against securitizations, fundings and insurance business.

## 7 Loans and advances to customers

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

|   | <i>30 September</i><br><u>2015</u> | <i>31 December</i><br><u>2014</u> |
|---|------------------------------------|-----------------------------------|
| Consumer loans  | 53,431,193                         | 48,038,219                        |
| <i>Mortgage loans</i>   | 18,815,037                         | 15,907,643                        |
| <i>Credit card receivables</i>  | 14,658,674                         | 13,424,359                        |
| <i>Auto loans</i>   | 1,431,403                          | 1,356,310                         |
| <i>General purpose and other consumer loans</i>                           | 18,526,079                         | 17,349,907                        |
| Energy  | 20,443,275                         | 16,237,323                        |
| Service sector  | 13,625,857                         | 10,638,343                        |
| Construction  | 8,572,951                          | 6,495,423                         |
| Financial institutions  | 7,414,500                          | 5,954,668                         |
| Food  | 7,102,392                          | 5,696,340                         |
| Transportation vehicles and sub-industry                                  | 6,865,251                          | 4,792,766                         |
| Textile   | 6,730,204                          | 5,829,731                         |
| Transportation and logistics  | 6,107,536                          | 4,826,086                         |
| Metal and metal products  | 5,655,524                          | 5,657,688                         |
| Tourism   | 4,880,611                          | 4,229,025                         |
| Data processing   | 4,477,954                          | 3,532,173                         |
| Chemistry and chemical products   | 3,499,354                          | 2,584,425                         |
| Durable consumption   | 2,252,935                          | 1,669,800                         |
| Agriculture and stockbreeding   | 2,163,272                          | 2,279,105                         |
| Machinery and equipment   | 1,876,733                          | 1,384,884                         |
| Stone, rock and related products  | 1,712,506                          | 1,445,217                         |
| Mining  | 1,508,877                          | 1,268,218                         |
| Paper and paper products  | 1,142,348                          | 899,896                           |
| Electronic, optical and medical equipment                                 | 981,517                            | 718,611                           |
| Plastic products  | 792,524                            | 524,275                           |
| Others  | <u>6,686,827</u>                   | <u>5,527,370</u>                  |
| Total performing loans  | 167,924,141                        | 140,229,586                       |
| Financial lease receivables, net of unearned income (Note 8)              | 4,999,035                          | 3,979,924                         |
| Factoring receivables   | 2,825,732                          | 2,929,216                         |
| Income accrual on loans, factoring and lease receivables                  | 2,829,686                          | 1,851,447                         |
| Non-performing loans, factoring and lease receivables                     | 5,456,716                          | 4,749,142                         |
| Allowance for probable losses from loans, factoring and lease receivables | <u>(6,617,659)</u>                 | <u>(5,657,900)</u>                |
| Loans and advances to customers   | <u>177,417,651</u>                 | <u>148,081,415</u>                |

As of 30 September 2015, interest rates on loans granted to customers range between 1%-28% (31 December 2014: 1%-28%) per annum for the foreign currency loans and 1%-30% (31 December 2014: 1%-33%) 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 1,433,597 thousands (31 December 2014: TL 1,086,171 thousands). Movements in the allowance for probable losses on loans, factoring and lease receivables including the portfolio basis allowances, are as follows:

|  | <i>30 September</i><br><u>2015</u> | <i>31 December</i><br><u>2014</u> |
|--|------------------------------------|-----------------------------------|
| Balance at the beginning of the period | 5,657,900                          | 4,669,097                         |
| Write-offs                             | (386,480)                          | (547,716)                         |
| Recoveries and reversals               | (671,389)                          | (634,132)                         |
| Provision for the period               | <u>2,017,628</u>                   | <u>2,170,651</u>                  |
| Balance at the end of the period       | <u>6,617,659</u>                   | <u>5,657,900</u>                  |

A part of non-performing receivables of the Bank and its consolidated affiliates amounting to TL 190,861 thousands (31 December 2014: TL 292,490 thousands) was sold for a consideration of TL 34,568 thousands in the current period (31 December 2014: TL 57,105 thousands). Considering the related provision of TL 181,383 thousands (31 December 2014: TL 284,693 thousands) made in the financial statements in the prior periods, a gain of TL 25,067 thousands (31 December 2014: TL 49,225 thousands) is recognized under “gains on sale of assets” in the statement of income. The revenues earned from subsequent collections of the sold receivables in prior period, amounting to TL 1,767 thousands is also recognized under “gains on sale of assets” in the income statement.

In 2014, a part of non-performing financial lease receivables of a consolidated affiliate of the Bank amounting to TL 47,492 thousands was sold for a consideration of TL 42 thousands. Including the related subsequent collections, a total gain from this sale amounting to TL 185 thousands, as the whole lease receivables had been provided against in the accompanying consolidated financial statements in prior periods, is recognized under “gains on sale of assets” in the statement of income. The revenues earned from subsequent collections of these receivables, amounting to TL 103 thousands is also recognized in the statement of income under gain on sale of assets in the current period. The future collections, if any, are to be recognized in the statement of income in the future periods.

## 8 Financial lease receivables

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

|  | <i>30 September</i><br><u>2015</u> | <i>31 December</i><br><u>2014</u> |
|--|------------------------------------|-----------------------------------|
| Financial lease receivables, net of unearned income (Note 7) | 4,999,035                          | 3,979,924                         |
| Add: non-performing lease receivables                        | 341,572                            | 306,613                           |
| Less: allowance for probable losses on lease receivable      | <u>(174,882)</u>                   | <u>(163,299)</u>                  |
|  | <u>5,165,725</u>                   | <u>4,123,238</u>                  |
| Income accrual on lease receivables                          | <u>27,840</u>                      | <u>24,684</u>                     |
| <i>Analysis of net financial lease receivables</i>           |                                    |                                   |
| Due within 1 year  | 2,225,346                          | 1,815,838                         |
| Due between 1 and 5 years                                    | 3,267,962                          | 2,683,237                         |
| Due after 5 years  | <u>375,437</u>                     | <u>256,348</u>                    |
| Financial lease receivables, gross                           | 5,868,745                          | 4,755,423                         |
| Unearned income  | <u>(703,020)</u>                   | <u>(632,185)</u>                  |
| Financial lease receivables, net                             | <u>5,165,725</u>                   | <u>4,123,238</u>                  |
| <i>Analysis of net financial lease receivables</i>           |                                    |                                   |
| Due within 1 year  | 1,917,932                          | 1,542,277                         |
| Due between 1 and 5 years                                    | 2,896,210                          | 2,343,642                         |
| Due after 5 years  | <u>351,583</u>                     | <u>237,319</u>                    |
| Financial lease receivables, net                             | <u>5,165,725</u>                   | <u>4,123,238</u>                  |



## 9 Other assets

|  | <i>30 September</i> | <i>31 December</i> |
|--|---------------------|--------------------|
|  | <u>2015</u>         | <u>2014</u>        |
| Reserve deposits at central banks                    | 21,208,623          | 20,557,930         |
| Insurance premium receivables                        | 7,050,864           | 6,172,626          |
| Derivative financial assets                          | 3,639,116           | 1,621,325          |
| Prepaid expenses, insurance claims and similar items | 486,082             | 412,282            |
| Option premium receivables                           | 416,600             | 156,661            |
| Tangible assets held for sale                        | 318,340             | 178,207            |
| Miscellaneous receivables                            | 307,451             | 328,874            |
| Prepaid taxes and taxes/funds to be refunded         | 138,445             | 51,678             |
| Investment property (*)                              | 117,384             | 120,258            |
| Balances with clearing house                         | 16,347              | 100,149            |
| Others   | 193,106             | 135,934            |
|  | <u>33,892,358</u>   | <u>29,835,924</u>  |

(\*) Depreciation expense for investment property amounts to TL 2,874 thousands as of 30 September 2015 (30 September 2014: TL 2,734 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. Turkish Lira reserve deposits earn interest monthly starting from November 2014, and quarterly starting from 2015, to be paid by Central Bank of Turkey on the first business day following the end of March, June, September and December.

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 8% for RON denominated liabilities with a remaining maturity less than 2 years and 14% 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 0.18% for RON reserves 0.13% for Euro reserves and 0.07% 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 30 September 2015, real estates held for sale have been impaired by TL 23,091 thousands (31 December 2014: TL 22,303 thousands).

As of 30 September 2015, the rights of repurchase on various tangible assets held for sale amounted to TL 179,917 thousands (31 December 2014: TL 26,361 thousands).

## 10 Investment securities

|   | 30 September<br>2015 |                   |                          |                    | 31 December<br>2014 |
|---|----------------------|-------------------|--------------------------|--------------------|---------------------|
|   | Face<br>value        | Carrying<br>value | Interest rate<br>range % | Latest<br>maturity | Carrying<br>value   |
| <i>Debt and other instruments available-for-sale:</i> |                      |                   |                          |                    |                     |
| Government bonds at floating rates (a)                | 6,090,826            | 6,000,571         | 8-11                     | 2020               | 6,052,824           |
| Government bonds indexed to CPI                       | 4,561,639            | 5,318,180         | 1-4                      | 2025               | 5,258,773           |
| Discounted government bonds in TL                     | 3,649,613            | 3,597,718         | 2-10                     | 2025               | 2,957,358           |
| Bonds issued by financial institutions (b)            | 3,429,446            | 3,370,693         | 1-16                     | 2029               | 3,185,196           |
| Government bonds in TL                                | 2,831,916            | 2,597,914         | 6-11                     | 2023               | 3,231,567           |
| Bonds issued by foreign governments                   | 1,070,129            | 1,154,524         | 1-14                     | 2028               | 1,129,157           |
| Bonds issued by corporations (b)                      | 796,037              | 760,138           | 1-15                     | 2027               | 745,523             |
| Eurobonds (d)   | 312,682              | 288,220           | 3-12                     | 2041               | 871,296             |
| Others  |                      | 97,427            |                          |                    | 98,417              |
| Total securities available-for-sale                   |                      | 23,185,385        |                          |                    | 23,530,111          |
| <i>Debt and other instruments held-to-maturity:</i>   |                      |                   |                          |                    |                     |
| Government bonds indexed to CPI                       | 6,677,313            | 7,298,498         | 1-4                      | 2024               | 9,106,525           |
| Eurobonds (d)   | 5,047,150            | 5,914,972         | 6-12                     | 2040               | 4,557,883           |
| Bonds issued by financial institutions (b)            | 3,470,065            | 3,409,591         | 4-7                      | 2022               | 2,516,479           |
| Government bonds in TL                                | 3,084,421            | 2,998,498         | 6-10                     | 2023               | 2,998,590           |
| Bonds issued by corporations (b)(c)                   | 154,908              | 151,641           | 4-8                      | 2021               | 116,317             |
| Bonds issued by foreign governments                   | 44,175               | 44,175            | 1                        | 2015               | -                   |
| Discounted government bonds in TL                     |                      | -                 |                          |                    | 14,354              |
|   |                      | 19,817,375        |                          |                    | 19,310,148          |
| Income accrual on held-to-maturity portfolio          |                      | 1,482,387         |                          |                    | 1,356,894           |
| Total securities held-to-maturity                     |                      | 21,299,762        |                          |                    | 20,667,042          |
| Total investment securities                           |                      | 44,485,147        |                          |                    | 44,197,153          |

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

(b) In the prior period, the Bank reclassified private sector bonds with "credit linked notes" with a total face value of USD 425,000,000 from financial assets available-for-sale portfolio to investments held-to-maturity portfolio.

(c) The Bank sold a part of its credit linked notes with a total face value of US\$ 300,000,000 before maturity as per the exceptions set out in IAS39 for the sale or reclassification of securities originally classified under debt and other instruments held-to maturity.

(d) As per the regulation on capital adequacy (Basel II) effective from 1 July 2012, the risk weight of securities in foreign currencies issued by the Turkish Treasury increased from 0% to 100%. As allowed by the relevant accounting standards (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, and as per the letter of the Public Oversight, Accounting and Auditing Standards Authority no. 602 dated 20 February 2013, in the prior period the Bank reclassified its eurobonds with a total face value of USD 248,209,999 to its available-for-sale portfolio.

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

There are no impairment losses on the investment securities as of 30 September 2015 (30 September 2014: nil).

Government bonds and treasury bills include securities pledged under repurchase agreements with customers amounting to TL 14,615,256 thousands (31 December 2014: TL 12,874,827 thousands).

## 10 Investment securities (continued)

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

|   | <u>30 September 2015</u> |                       | <u>31 December 2014</u> |                       |
|---|--------------------------|-----------------------|-------------------------|-----------------------|
|   | <u>Face Value</u>        | <u>Carrying value</u> | <u>Face Value</u>       | <u>Carrying value</u> |
| Collateralized to foreign banks                                 | 11,729,422               | 13,207,158            | 19,881,314              | 22,627,017            |
| Deposited at Borsa İstanbul                                     | 6,655,641                | 6,943,666             | 400,000                 | 404,817               |
| Deposited at central banks for repurchase transactions          | 2,636,911                | 2,842,649             | 1,971,471               | 2,156,548             |
| Deposited at central banks for interbank transactions           | 2,568,838                | 2,791,857             | 651,756                 | 695,783               |
| Deposited at Clearing Bank (Takasbank)                          | 191,966                  | 199,641               | 188,050                 | 206,695               |
| Deposited at CBT for foreign currency money market transactions | 79,800                   | 124,216               | 79,500                  | 118,584               |
| Others  |                          | 19,787                |                         | 19,343                |
|   |                          | <u>26,128,974</u>     |                         | <u>26,228,787</u>     |

## 11 Investments in equity participations

|                                      | <u>30 September 2015</u> |                    | <u>31 December 2014</u> |                    |
|--------------------------------------|--------------------------|--------------------|-------------------------|--------------------|
|                                      | <u>Carrying Value</u>    | <u>Ownership %</u> | <u>Carrying Value</u>   | <u>Ownership %</u> |
| İstanbul Takas ve Saklama Bankası AŞ | 27,636                   | 5.25               | 27,636                  | 5.25               |
| Others                               | 13,755                   |                    | 13,260                  |                    |
|                                      | <u>41,391</u>            |                    | <u>40,896</u>           |                    |

The paid-in capital of Garanti Ödeme Sistemleri AŞ was decided to be increased from TL 350 thousands to TL 6,000 thousands at the board of directors meeting held on 13 December 2014. The ownership percentage of the Bank remained the same.

At the Bank's board of directors meeting held on 6 September 2014, it was decided to buy the shares of Garanti Hizmet Yönetimi AŞ and Garanti Ödeme Sistemleri AŞ, included in others above, for a consideration of TL 145 thousands and TL 7 thousands, respectively. The ownership percentage for Garanti Hizmet Yönetimi AŞ increased from 93.40% to 96.40%, and for Garanti Ödeme Sistemleri AŞ from 99.92% to 99.96%.

The board of directors of one of the Bank's consolidated affiliates decided to sell its shares in Garanti Turizm Yatırım ve Ortaklığı AŞ for a consideration of TL 4,028 thousands on 17 September 2014. The sale took place in October 2014.

The shares in Vadeli İşlem ve Opsiyon Borsası AŞ 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, included in others above, 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 are no impairment losses on investments in equity participations as of 30 September 2015 (30 September 2014: nil). The cumulative provisions for impairment losses on investments in equity participations amounted to TL 85 thousands as of 30 September 2015 (31 December 2014: TL 85 thousands).

## 12 Tangible assets

Movement in tangible assets from 1 January to 30 September 2015 is as follows:

|  | <u>1 January</u> | <u>Additions</u> | <u>Effects of<br/>Movement in<br/>Exchange Rates</u> | <u>Disposals<br/>and<br/>Transfer</u> | <u>30 September</u> |
|--|------------------|------------------|--|---------------------------------------|---------------------|
| <i>Costs</i>   |                  |                  |  |                                       |                     |
| Land and buildings                                   | 1,180,589        | 13,384           | 18,126   | (11,547)                              | 1,200,552           |
| Furniture, fixture, equipments<br>and motor vehicles | 2,191,693        | 264,494          | 23,530   | (113,955)                             | 2,365,762           |
| Leasehold improvements                               | <u>921,624</u>   | <u>69,429</u>    | <u>24,043</u>  | <u>(6,875)</u>                        | <u>1,008,221</u>    |
|  | 4,293,906        | 347,307          | 65,699   | (132,377)                             | 4,574,535           |
| <i>Less: Accumulated depreciation</i>                |                  |                  |  |                                       |                     |
| Buildings  | 335,922          | 19,172           | 3,485  | (4,749)                               | 353,830             |
| Furniture, fixture, equipments<br>and motor vehicles | 1,211,735        | 152,972          | 13,022   | (60,751)                              | 1,316,978           |
| Leasehold improvements                               | <u>579,140</u>   | <u>81,431</u>    | <u>16,691</u>  | <u>(6,449)</u>                        | <u>670,813</u>      |
|  | 2,126,797        | 253,575          | 33,198   | (71,949)                              | 2,341,621           |
| <i>Construction in progress</i>                      | <u>203,630</u>   | 74,199           | 1,512  | (256)                                 | <u>279,085</u>      |
|  | 2,370,739        |                  |  |                                       | 2,511,999           |
| <i>Impairment in value of tangible assets</i>        | <u>(51,471)</u>  |                  |  |                                       | <u>(48,926)</u>     |
|  | <u>2,319,268</u> |                  |  |                                       | <u>2,463,073</u>    |

## 12 Tangible assets (continued)

Movement in tangible assets from 1 January to 31 December 2014 is as follows:

|  | <u>1 January</u> | <u>Additions</u> | <u>Effects of<br/>Movement in<br/>Exchange Rates</u> | <u>Disposals<br/>and<br/>Transfers<sup>(*)</sup></u> | <u>31 December</u> |
|--|------------------|------------------|--|--|--------------------|
| <i>Costs</i>   |                  |                  |  |  |                    |
| Land and buildings                                   | 1,169,700        | 26,266           | (17,094)   | 1,717  | 1,180,589          |
| Furniture, fixture, equipments<br>and motor vehicles | 2,043,562        | 468,364          | (10,924)   | (309,309)  | 2,191,693          |
| Leasehold improvements                               | <u>703,586</u>   | <u>107,277</u>   | <u>(6,176)</u>                                       | <u>116,937</u>                                       | <u>921,624</u>     |
|  | 3,916,848        | 601,907          | (34,194)   | (190,655)  | 4,293,906          |
| <i>Less: Accumulated depreciation</i>                |                  |                  |  |  |                    |
| Buildings  | 315,376          | 25,138           | (2,005)  | (2,587)  | 335,922            |
| Furniture, fixture, equipments<br>and motor vehicles | 1,163,660        | 179,097          | (4,017)  | (127,005)  | 1,211,735          |
| Leasehold improvements                               | <u>494,411</u>   | <u>99,325</u>    | <u>(4,344)</u>                                       | <u>(10,252)</u>                                      | <u>579,140</u>     |
|  | 1,973,447        | 303,560          | (10,366)   | (139,844)  | 2,126,797          |
| <i>Construction in progress</i>                      | <u>127,163</u>   | 89,328           | (5,448)  | (7,413)  | <u>203,630</u>     |
|  | 2,070,564        |                  |  |  | 2,370,739          |
| <i>Impairment in value of tangible assets</i>        | <u>(51,671)</u>  |                  |  |  | <u>(51,471)</u>    |
|  | <u>2,018,893</u> |                  |  |  | <u>2,319,268</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.

Depreciation expense of tangible assets for the nine-month period ended 30 September 2015 amounts to TL 253,575 thousands (30 September 2014: TL 220,765 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 30 September 2015, land and buildings at a total net book value before impairment of TL 430,403 thousands (31 December 2014: TL 422,257 thousands) have been impaired by TL 48,926 thousands (31 December 2014: TL 51,471 thousands).

## 13 Goodwill

As of 30 September 2015, 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 the fair values of the net assets of these consolidated entities at the dates of their acquisition as follows:

|                                     | <u>30 September<br/>2015</u> | <u>31 December<br/>2014</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>30 September</i><br><u>2015</u> | <i>31 December</i><br><u>2014</u> |
|--|------------------------------------|-----------------------------------|
| Payable on demand                      | 2,017,700                          | 1,906,709                         |
| Term deposits                          | <u>7,110,423</u>                   | <u>5,187,226</u>                  |
|  | 9,128,123                          | 7,093,935                         |
| Expense accrual on deposits from banks | <u>8,204</u>                       | <u>20,836</u>                     |
|  | <u>9,136,327</u>                   | <u>7,114,771</u>                  |

Deposits from banks include both TL accounts amounting to TL 2,961,730 thousands (31 December 2014: TL 952,537 thousands) and foreign currency accounts amounting to TL 6,166,393 thousands (31 December 2014: TL 6,141,398 thousands) in total. As of 30 September 2015, interest rates applicable to TL bank deposits and foreign currency bank deposits vary within ranges of 7%-12% and 1%-11% (31 December 2014: 6%-13% and 1%-21%), respectively.

## 15 Deposits from customers

Deposits from customers comprise the following:

|   | <i>30 September</i><br><u>2015</u> |                    |                    | <i>31 December</i><br><u>2014</u> |
|---|------------------------------------|--------------------|--------------------|-----------------------------------|
|   | <u>Demand</u>                      | <u>Time</u>        | <u>Total</u>       | <u>Total</u>                      |
| Foreign currency                              | 22,257,228                         | 67,323,791         | 89,581,019         | 63,527,819                        |
| Saving  | 7,296,456                          | 38,305,188         | 45,601,644         | 42,799,928                        |
| Commercial                                    | 5,828,608                          | 9,640,644          | 15,469,252         | 14,733,331                        |
| Public and other                              | 2,228,517                          | 1,903,701          | 4,132,218          | 3,070,608                         |
| Gold and other precious metals                | <u>1,053,301</u>                   | <u>120,949</u>     | <u>1,174,250</u>   | <u>1,624,701</u>                  |
|   | 38,664,110                         | 117,294,273        | 155,958,383        | 125,756,387                       |
| Expense accrual<br>on deposits from customers | <u>23,819</u>                      | <u>523,135</u>     | <u>546,954</u>     | <u>536,152</u>                    |
|   | <u>38,687,929</u>                  | <u>117,817,408</u> | <u>156,505,337</u> | <u>126,292,539</u>                |

As of 30 September 2015, interest rates applicable to TL deposits and foreign currency deposits vary within the ranges of 1%-13% and 1%-12% (31 December 2014: 3%-12% and 1%-17%), respectively.

## 16 Obligations under repurchase agreements and money market fundings

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

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

|  | <i>30 September</i><br><u>2015</u> | <i>31 December</i><br><u>2014</u> |
|--|------------------------------------|-----------------------------------|
| Obligations under repurchase agreements                          | 14,323,765                         | 12,021,165                        |
| Money market fundings  | 269,286                            | -                                 |
| Obligations on securities under reverse<br>repurchase agreements | <u>17,504</u>                      | <u>-</u>                          |
|  | <u>14,610,555</u>                  | <u>12,021,165</u>                 |

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

Assets sold under repurchase agreements are further detailed as follows:

|   | <u>Carrying value</u> | <u>Fair value of underlying assets</u> | <u>Carrying amount of corresponding liabilities</u> | <u>Range of repurchase dates</u> | <u>Repurchase price</u> |
|---|-----------------------|--|---|----------------------------------|-------------------------|
| <b><u>30 September 2015</u></b>                       |                       |  |   |                                  |                         |
| Financial assets at fair value through profit or loss | 9,128                 | 9,128                                  | 10,742  | Oct'15                           | 10,742                  |
| Investment securities                                 | <u>14,615,256</u>     | <u>14,455,496</u>                      | <u>14,313,023</u>                                   | Oct'15-Sep'18                    | <u>14,465,985</u>       |
|   | <u>14,624,384</u>     | <u>14,464,624</u>                      | <u>14,323,765</u>                                   |                                  | <u>14,476,727</u>       |
| <b><u>31 December 2014</u></b>                        |                       |  |   |                                  |                         |
| Financial assets at fair value through profit or loss | 3,639                 | 3,639                                  | 3,651   | Jan'15                           | 3,651                   |
| Investment securities                                 | <u>12,874,827</u>     | <u>13,436,794</u>                      | <u>12,017,514</u>                                   | Jan'15-Sep'18                    | <u>12,158,542</u>       |
|   | <u>12,878,466</u>     | <u>13,440,433</u>                      | <u>12,021,165</u>                                   |                                  | <u>12,162,193</u>       |

The proceeds from the sale of securities under repurchase agreements are treated as liabilities and recorded as obligations under repurchase agreements. As of 30 September 2015, the maturities of the obligations varied from one day to 36 months and interest rates varied between 1%-14% (31 December 2014: 1%-18%). 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 24,859 thousands (31 December 2014: TL 24,013 thousands) is included in the carrying amount of corresponding liabilities.

## 17 Loans and advances from banks and other institutions

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

|   | <u>30 September 2015</u> | <u>31 December 2014</u> |
|---|--------------------------|-------------------------|
| <b><u>Short-term borrowings</u></b>                                     |                          |                         |
| Domestic banks  | 1,288,632                | 1,832,315               |
| Foreign banks   | <u>13,071,060</u>        | <u>11,087,263</u>       |
|   | <u>14,359,692</u>        | <u>12,919,578</u>       |
| <b><u>Long-term debts</u></b>   |                          |                         |
| Short-term portion  | 5,247,868                | 7,080,489               |
| Medium and long-term portion  | <u>20,604,535</u>        | <u>17,668,279</u>       |
|   | <u>25,852,403</u>        | <u>24,748,768</u>       |
| Expense accrual on loans and advances from banks and other institutions | <u>253,586</u>           | <u>549,695</u>          |
|   | <u>40,465,681</u>        | <u>38,218,041</u>       |

As of 30 September 2015, loans and advances from banks and other institutions included various promissory notes amounting to TL 1,104,039 thousands in total with short-term maturities (31 December 2014: TL 538,742 thousands).

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

As of 30 September 2015, 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\$ 364,500,000 and EUR 913,500,000 with rates of Libor + 0.80% and Euribor + 0.80% per annum with the participation of 45 banks from 16 countries (equivalent of TL 4,154,517 thousands), (ii) US\$ 318,750,000 and EUR 785,000,000 with rates of Libor + 0.90% and Euribor + 0.90% per annum with the participation of 39 banks from 18 countries (equivalent of TL 3,590,372 thousands).

Long-term debts comprise the following:

|                           | <u>30 September 2015</u> |                        |                                    |                           |                                     | <u>31 December 2014</u>           |
|---------------------------|--------------------------|------------------------|------------------------------------|---------------------------|-------------------------------------|-----------------------------------|
|                           | <u>Interest rate%</u>    | <u>Latest maturity</u> | <u>Amount in original currency</u> | <u>Short term portion</u> | <u>Medium and long term portion</u> | <u>Medium and long term debts</u> |
| DPR Securitisation-XVI    | 3                        | 2034                   | US\$ 1 billions                    | -                         | 3,005,000                           | 2,305,000                         |
| DPR Securitisation-XVII   | 3                        | 2034                   | US\$ 550 millions                  | -                         | 1,652,750                           | 1,267,750                         |
| Deutsche Bank AG-II       | 3                        | 2019                   | US\$ 500 millions                  | -                         | 1,502,500                           | 1,152,500                         |
| DPR Securitisation-XVIII  | 2-3                      | 2019                   | US\$ 500 millions                  | -                         | 1,502,135                           | 1,152,450                         |
| DPR Securitisation-XIV    | 3                        | 2026                   | US\$ 398 millions                  | -                         | 1,196,504                           | 916,123                           |
| Deutsche Bank AG-I        | 11-13                    | 2017                   | TL 568 millions                    | -                         | 568,150                             | 701,210                           |
| DPR Securitisation-XV     | 2                        | 2018                   | US\$ 175 millions                  | 175,292                   | 350,583                             | 369,760                           |
| DPR Securitisation-XV     | 2                        | 2018                   | EUR 135 millions                   | 151,011                   | 302,022                             | 345,126                           |
| EIB I                     | 1-4                      | 2022                   | US\$ 147 millions                  | 66,971                    | 375,340                             | 322,671                           |
| DPR Securitisation-IX     | 1                        | 2018                   | EUR 103 millions                   | 115,203                   | 230,554                             | 255,881                           |
| DPR Securitisation-VIII   | 1                        | 2017                   | US\$ 112 millions                  | 168,259                   | 168,264                             | 225,837                           |
| DPR Securitisation-XIX    | 2                        | 2027                   | US\$ 99 millions                   | -                         | 297,652                             | -                                 |
| DPR Securitisation-XIX    | 2                        | 2020                   | US\$ 89 millions                   | -                         | 267,945                             | -                                 |
| DPR Securitisation-XIII   | 2                        | 2016                   | US\$ 75 millions                   | 225,096                   | -                                   | 129,468                           |
| EIB III                   | 10                       | 2020                   | TL 219 millions                    | -                         | 218,513                             | 218,513                           |
| EIB II                    | 9                        | 2019                   | TL 206 millions                    | -                         | 206,250                             | 206,250                           |
| DPR Securitisation-XII    | 2                        | 2022                   | EUR 56 millions                    | 25,116                    | 163,781                             | 151,768                           |
| DPR Securitisation-XII    | 1                        | 2022                   | EUR 56 millions                    | 25,116                    | 163,781                             | 151,768                           |
| OPIC                      | 3                        | 2019                   | US\$ 61 millions                   | 43,272                    | 140,634                             | 132,768                           |
| EBRD-V                    | 3                        | 2017                   | US\$ 43 millions                   | 51,514                    | 77,271                              | 79,029                            |
| DPR Securitisation-VIII   | 1                        | 2017                   | US\$ 32 millions                   | 48,064                    | 48,067                              | 64,497                            |
| DPR Securitisation-VIII   | 1                        | 2017                   | US\$ 32 millions                   | 48,034                    | 48,044                              | 64,470                            |
| DPR Securitisation-VI (*) | 1                        | 2016                   | US\$ 26 millions                   | 78,422                    | -                                   | 40,069                            |
| EIB IV                    | 9                        | 2019                   | TL 69 millions                     | -                         | 69,065                              | 69,183                            |
| EBRD-IV                   | 2                        | 2017                   | EUR 17 millions                    | 38,308                    | 19,161                              | 47,775                            |
| DPR Securitisation-XIII   | 2                        | 2016                   | EUR 17 millions                    | 55,930                    | -                                   | 34,829                            |
| DPR Securitisation-XII    | 2                        | 2016                   | EUR 17 millions                    | 55,813                    | -                                   | 23,228                            |
| EFSE                      | 4                        | 2017                   | EUR 15 millions                    | 33,927                    | 17,106                              | 42,311                            |
| KfW                       | 1                        | 2017                   | EUR 13 millions                    | 22,376                    | 22,376                              | 27,895                            |
| EBRD-II                   | 1                        | 2025                   | US\$ 12 millions                   | -                         | 36,038                              | 27,210                            |
| Others                    |                          |                        |                                    | <u>3,820,144</u>          | <u>7,955,049</u>                    | <u>7,142,940</u>                  |
|                           |                          |                        |                                    | <u>5,247,868</u>          | <u>20,604,535</u>                   | <u>17,668,279</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 July 2015, the Bank completed a securitisation (“the DPR Securitisation XIX”) transaction; US\$ 100 millions with a maturity of 12 years, and US\$ 90 millions with a maturity of 5 years through its future cashflows under the DPR program.

In December 2014, the Bank signed a loan agreement with European Investment Bank (EIB) (EIB IV) in amount of TL 69,183 thousands (equivalent of EUR 25 millions) with a maturity of five years for the financing of small and medium sized enterprises.

In July 2014, the Bank signed a loan agreement with European Investment Bank (EIB) (EIB III) in amount of TL 218,513 thousands (equivalent of EUR 75 millions) with a maturity of six years for the financing of small and medium-sized enterprises.

In May 2014, the Bank completed a securitization (the “DPR Securitization XVIII”) transaction; US\$ 500 millions with a maturity of five years through its future cashflows under the DPR program.

In April 2014, the Bank completed a securitization (the “DPR Securitization XVII”) transaction; US\$ 550 millions with a maturity of 20 years through its future cashflows under the DPR program.

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 its DPR Securitizations XVI, XVII and XVIII as financial liability at fair value through profit/loss at the initial recognition. As of 30 September 2015, the positive credit risk change amounting to TL 633,455 thousands is recognized in the statement of income (30 September 2014: TL 225,338 thousands).

In December 2013, the Bank signed a loan agreement with European Investment Bank (EIB) (EIB II) 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.

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

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

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

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

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

In 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:

|                                      | <u>30 September 2015</u> |                        |                   | <u>31 December 2014</u> |
|--------------------------------------|--------------------------|------------------------|-------------------|-------------------------|
|                                      | <u>Latest maturity</u>   | <u>Interest rate %</u> | <u>Amount</u>     | <u>Amount</u>           |
| Bonds payable of US\$ 3,072 millions | 2022                     | 0.7-6.4                | 8,542,401         | 6,846,289               |
| Bonds payable of TL 4,795 millions   | 2018                     | 7.5-11.6               | 4,494,086         | 4,808,378               |
| Bonds payable of EUR 573 millions    | 2027                     | 1.7-5.2                | 1,912,012         | 1,648,681               |
| Bonds payable of AUD 175 millions    | 2018                     | 5.6                    | 368,466           | 329,043                 |
| Bonds payable of RON 450 millions    | 2019                     | 5.5-6.3                | 339,725           | 277,905                 |
| Bonds payable of JPY 7,200 millions  | 2017                     | 0.8-1.3                | 180,626           | 69,206                  |
| Bonds payable of CZK 763 millions    | 2016                     | 1.1-2.4                | 94,215            | 76,765                  |
| Bonds payable of CHF 6 millions      | 2015                     | 0.3                    | 18,454            | 83,520                  |
|                                      |                          |                        | <u>15,949,985</u> | <u>14,139,787</u>       |
| Expense accrual on bonds payable     |                          |                        | <u>344,603</u>    | <u>298,569</u>          |
|                                      |                          |                        | <u>16,294,588</u> | <u>14,438,356</u>       |

The total face value of the bonds and bills issued by the Bank in domestic market amounted to TL 2,957 millions as of 30 September 2015 (31 December 2014: TL 3,407 millions). The issuances are authorized by the Turkish Capital Markets Board.

The Bank's consolidated affiliates issue short-term bills with total outstanding face value amounting to TL 1,088,335 thousands and latest maturity date of March 2016.

In July 2014, the Bank issued EUR 500 millions, fixed-rate notes with a maturity date of 8 July 2019 and a coupon rate of 3.375% in the international markets.

In June 2014, one of the Bank's consolidated affiliates issued fixed-rate notes with a total face value of RON 300,000 thousands, a maturity date of 15 May 2019 and a coupon rate of 5.47%.

In April 2014, the Bank issued US\$ 750 million, fixed rate notes with a maturity date of 17 October 2019 and a coupon rate of 4.75% in the international markets.

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, JPY and AUD with latest maturity in April 2027.

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 an interest rate of 7.19%. This affiliate had also issued bills with a total face value of TL 50,000 thousands, an interest rate of 7.57% and a maturity of 189 days in October 2012. These bills redeemed in April and October 2014, respectively.

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

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

In April 2011, the Bank issued US\$ 500 million 10-year fixed-rate notes with a maturity date of 20 April 2021 and a 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 127,602 thousands (31 December 2014: TL 237,044 thousands) and foreign currency securities with a total face value of TL 660,289 thousands (31 December 2014: TL 506,477 thousands), and netted off such securities in the accompanying consolidated financial statements as of 30 September 2015.

## 18 Bonds payable (continued)

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 30 September 2015, the accumulated negative credit risk change and the negative credit risk change recognised in the statement of income amounted to TL 2,931 thousands and TL 194 thousands, respectively (31 December 2014: TL 2,558 thousands and 30 September 2014: TL 827 thousands). The carrying value of the related financial liability amounted to TL 29,460 thousands (31 December 2014: TL 24,495 thousands), and the related current period loss amounted to TL 465 thousands (30 September 2014: TL 417 thousands).

## 19 Subordinated liabilities

Subordinated liabilities comprise of the following:

|   | <u>30 September 2015</u> |                        |                | <u>31 December 2014</u> |
|---|--------------------------|------------------------|----------------|-------------------------|
|   | <u>Latest maturity</u>   | <u>Interest rate %</u> | <u>Amount</u>  | <u>Amount</u>           |
| Subordinated debt of EUR 50 millions        | 2021                     | euribor+3.5            | 167,790        | 139,444                 |
| Expense accrual on subordinated liabilities |                          |                        | 16             | 1,322                   |
|   |                          |                        | <u>167,806</u> | <u>140,766</u>          |

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

## 20 Taxation

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

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

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

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

## **20 Taxation (continued)**

### *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 7.50% of taxable income. The tax returns do not include any tax amounts to be paid. The tax calculations are done by the tax office and the amounts to be paid are declared to corporates through official letters called Note. The amounts and the payment dates of prepaid taxes are determined and declared by the tax office at the beginning of the taxation period. The corporations whose head offices are outside Luxembourg, are allowed to transfer the rest of their net income after tax following the allocation of 5% of it for legal reserves, to their head offices.

### *Tax applications for foreign affiliates*

#### *THE NETHERLANDS*

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

## 20 Taxation (continued)

months following the end of the tax year to which they relate, unless the company applies for an extension (normally an additional nine months). Tax returns are open for five years from the date of final assessment of the tax return during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings. The corporate income tax rate for the Germany branch is 30%.

### *RUSSIA*

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

### *ROMANIA*

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

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

|   | <i>30 September</i> |              | <i>30 September</i> |              |
|---|---------------------|--------------|---------------------|--------------|
|   | <u>2015</u>         | <u>%</u>     | <u>2014</u>         | <u>%</u>     |
| Taxes on income per statutory tax rate                            | 727,699             | 20.00        | 754,906             | 20.00        |
| Disallowable expenses   | 53,643              | 1.47         | 24,064              | 0.64         |
| Income items exempt from tax<br>or subject to different tax rates | (2,861)             | (0.08)       | 13,821              | 0.37         |
| General reserve   | 7,000               | 0.19         | 13,000              | 0.34         |
| Others  | (35,265)            | (0.96)       | (16,188)            | (0.43)       |
| Taxation charge   | <u>750,216</u>      | <u>20.62</u> | <u>789,603</u>      | <u>20.92</u> |

The taxation charge is comprised of the following:

|                 | <i>For the nine-month period ended</i> |                     |
|-----------------|--|---------------------|
|                 | <i>30 September</i>                    | <i>30 September</i> |
|                 | <u>2015</u>                            | <u>2014</u>         |
| Current taxes   | 429,632                                | 1,007,482           |
| Deferred taxes  | <u>320,584</u>                         | <u>(217,879)</u>    |
| Taxation charge | <u>750,216</u>                         | <u>789,603</u>      |

The movement of current tax liability is as follows:

|  | <i>30 September</i> | <i>31 December</i> |
|--|---------------------|--------------------|
|  | <u>2015</u>         | <u>2014</u>        |
| Balance at the beginning of the period     | 450,209             | 133,384            |
| Current period taxation charge             | 429,632             | 1,451,754          |
| Less: Advance taxes paid during the period | (812,814)           | (1,134,929)        |
| Current tax liability                      | <u>67,027</u>       | <u>450,209</u>     |

## 20 Taxation (continued)

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:

|   | <b>30 September</b>   | <b>31 December</b>    |
|---|-----------------------|-----------------------|
|   | <b><u>2015</u></b>    | <b><u>2014</u></b>    |
| Total deferred tax assets                         | 1,216,692             | 1,022,397             |
| Off-setted amount                                 | <u>(302,301)</u>      | <u>(121,271)</u>      |
| Deferred tax assets per financial statements      | <u>914,391</u>        | <u>901,126</u>        |
| Total deferred tax liabilities                    | 313,667               | 138,734               |
| Off-setted amount                                 | <u>(302,301)</u>      | <u>(121,271)</u>      |
| Deferred tax liabilities per financial statements | <u>11,366</u>         | <u>17,463</u>         |
| Net deferred tax assets                           | <u><u>903,025</u></u> | <u><u>883,663</u></u> |

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

|  | <b><u>Opening</u></b> | <b><u>Recognized in</u></b> | <b><u>Effects of</u></b>     | <b><u>Recognized</u></b> | <b><u>Closing</u></b> |
|--|-----------------------|-----------------------------|------------------------------|--------------------------|-----------------------|
|  | <b><u>balance</u></b> | <b><u>income</u></b>        | <b><u>movement in</u></b>    | <b><u>in equity</u></b>  | <b><u>balance</u></b> |
|  |                       | <b><u>statement</u></b>     | <b><u>exchange rates</u></b> |                          |                       |
| <b><u>30 September 2015</u></b>                          |                       |                             |                              |                          |                       |
| Impairment losses on loans                               | 488,751               | 96,396                      | 316                          | -                        | 585,463               |
| Discount on loans and advances to customers              | 71,386                | 12,355                      | -                            | -                        | 83,741                |
| Reserve for employee severance indemnity                 | 49,772                | 7,922                       | -                            | -                        | 57,694                |
| Short-term employee benefits                             | 51,699                | 14,225                      | 184                          | -                        | 66,108                |
| Tax losses carried forward                               | 44,863                | (2,749)                     | 6,611                        | -                        | 48,725                |
| Valuation difference on financial assets and liabilities | 134,383               | (412,231)                   | (2,768)                      | 335,917                  | 55,301                |
| Impairment of equity participations and tangible assets  | 11,944                | (605)                       | -                            | -                        | 11,339                |
| Accruals on credit card rewards                          | 16,487                | 1,228                       | -                            | -                        | 17,715                |
| Tax exemption for leasing business                       | 1,202                 | (1,202)                     | -                            | -                        | -                     |
| Pro-rata basis depreciation expenses                     | (41,254)              | (6,543)                     | 294                          | -                        | (47,503)              |
| Prepaid expenses and promotions                          | (17)                  | 16                          | -                            | -                        | (1)                   |
| Others, net  | <u>54,447</u>         | <u>(29,396)</u>             | <u>(608)</u>                 | <u>-</u>                 | <u>24,443</u>         |
| Net deferred tax assets                                  | <u><u>883,663</u></u> | <u><u>(320,584)</u></u>     | <u><u>4,029</u></u>          | <u><u>335,917</u></u>    | <u><u>903,025</u></u> |

|  | <b><u>Opening</u></b> | <b><u>Recognized in</u></b> | <b><u>Effects of</u></b>     | <b><u>Recognized</u></b> | <b><u>Closing</u></b> |
|--|-----------------------|-----------------------------|------------------------------|--------------------------|-----------------------|
|  | <b><u>balance</u></b> | <b><u>income</u></b>        | <b><u>movement in</u></b>    | <b><u>in equity</u></b>  | <b><u>balance</u></b> |
|  |                       | <b><u>statement</u></b>     | <b><u>exchange rates</u></b> |                          |                       |
| <b><u>31 December 2014</u></b>                           |                       |                             |                              |                          |                       |
| Impairment losses on loans                               | 390,277               | 84,391                      | 14,083                       | -                        | 488,751               |
| Discount on loans and advances to customers              | 92,128                | (20,742)                    | -                            | -                        | 71,386                |
| Reserve for employee severance indemnity                 | 41,262                | 5,755                       | (3,871)                      | 6,626                    | 49,772                |
| Short-term employee benefits                             | 39,897                | 11,648                      | 154                          | -                        | 51,699                |
| Tax losses carried forward                               | 45,353                | 1,437                       | (1,927)                      | -                        | 44,863                |
| Valuation difference on financial assets and liabilities | (73,498)              | 334,277                     | (2,455)                      | (123,941)                | 134,383               |
| Impairment of equity participations and tangible assets  | 11,428                | 516                         | -                            | -                        | 11,944                |
| Accruals on credit card rewards                          | 10,688                | 5,799                       | -                            | -                        | 16,487                |
| Tax exemption for leasing business                       | 1,202                 | -                           | -                            | -                        | 1,202                 |
| Pro-rata basis depreciation expenses                     | (22,645)              | (19,251)                    | 642                          | -                        | (41,254)              |
| Prepaid expenses and promotions                          | (4,152)               | 4,135                       | -                            | -                        | (17)                  |
| Others, net  | <u>49,082</u>         | <u>8,496</u>                | <u>(9,364)</u>               | <u>6,233</u>             | <u>54,447</u>         |
| Net deferred tax assets                                  | <u><u>581,022</u></u> | <u><u>416,461</u></u>       | <u><u>(2,738)</u></u>        | <u><u>(111,082)</u></u>  | <u><u>883,663</u></u> |

## 20 Taxation (continued)

### *Transfer pricing*

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

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

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

## 21 Other liabilities, accrued expenses and provisions

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

|  | <i>30 September</i><br><u>2015</u> | <i>31 December</i><br><u>2014</u> |
|--|------------------------------------|-----------------------------------|
| Payables to insurance and reinsurance companies              |                                    |                                   |
| relating to insurance business                               | 7,074,496                          | 6,184,548                         |
| Blocked accounts against expenditures of card holders        | 6,849,643                          | 5,931,183                         |
| Derivative financial liabilities                             | 4,034,078                          | 2,380,828                         |
| Expense accruals   | 496,707                            | 362,253                           |
| Option premium payables                                      | 456,781                            | 162,977                           |
| General reserve  | 450,000                            | 415,000                           |
| Short-term employee benefits                                 | 347,065                            | 283,112                           |
| Reserve for employee severance indemnity                     | 308,173                            | 268,544                           |
| Withholding taxes  | 271,110                            | 260,407                           |
| Cheques at clearing house                                    | 270,877                            | -                                 |
| Transfer orders  | 265,144                            | 223,992                           |
| Insurance business related provisions                        | 254,501                            | 239,155                           |
| Provision for non-cash loans                                 | 235,192                            | 249,272                           |
| Cash guarantees obtained                                     | 229,796                            | 190,685                           |
| Miscellaneous payables                                       | 131,067                            | 79,945                            |
| Advances received  | 100,460                            | 59,831                            |
| Unearned income  | 96,522                             | 76,046                            |
| Payables to suppliers relating to financial lease activities | 81,789                             | 109,702                           |
| Blocked accounts   | 31,435                             | 59,853                            |
| Others   | <u>279,487</u>                     | <u>420,822</u>                    |
|  | <u>22,264,323</u>                  | <u>17,958,155</u>                 |

As of 30 September 2015, other liabilities, accrued expenses and provision include a general reserve amounting to TL 450,000 thousands (31 December 2014: TL 415,000 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 general reserve.



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

### *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.

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

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

New Law has been accepted by the Turkish Parliament and the New Law has been enacted at 8 May 2008 following its publication 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 no. 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 no. 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 no. 20. At the meeting of the Constitutional Court on 30 March 2011, it was decided that the Article no. 73 and the first paragraph of the provisional Article no. 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.

Before the completion of two-years period set by the Council of Ministers on 14 March 2011 as explained above, as per the Article no. 51 of the law no. 6645, published in the Official Gazette no. 29335 dated 23 April 2015, the Article no. 20 of the law no. 5510 was amended giving the Council of Ministers the authority to determine the date of transfer without defining any timeline.

The Bank obtained an actuarial report dated 22 December 2014 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 2014.

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 2014, the present value of funded obligations amounted to TL 45,480 thousands and the fair value of the planned assets amounted to TL 2,132,357 thousands.

|  | <b><i>31 December</i></b><br><b><u>2014</u></b> |
|--|---|
| Present value of funded obligations  |   |
| - Pension benefits transferable to SSF (obligation measured at the expected transfer amount) | (528,752)                                       |
| - Medical benefits transferable to SSF (obligation measured at the expected transfer amount) | 512,562   |
| - General administrative expenses  | <u>(29,290)</u><br>(45,480)                     |
| Fair value of plan assets  | <u>2,132,357</u>                                |
| Asset surplus in the plan (*)  | <u>2,086,877</u>                                |

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

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

Plan assets consisted of the following:

|                         | <i>31 December</i> |
|-------------------------|--------------------|
|                         | <u>2014</u>        |
| Cash and due from banks | 44,647             |
| Securities              | 1,990,415          |
| Land and buildings      | 96,845             |
| Other                   | 450                |
|                         | <u>2,132,357</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.

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

|  | <i>31 December</i> |
|--|--------------------|
|  | <u>2014</u>        |
| Present value of defined benefit obligations                   |                    |
| - Pension  | (538,185)          |
| - Health   | (261,389)          |
| Fair value of plan assets (*)                                  | <u>2,086,877</u>   |
| Asset surplus over present value of defined benefit obligation | <u>1,287,303</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 2014 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 1,287,303 thousands remains. However, the Bank's management, acting prudently, did not consider the health premium surplus amounting to TL 512,562 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 2014.

|   | <i>31 December</i> |
|---|--------------------|
|   | <u>2014</u>        |
| Asset surplus over present value of defined benefit obligation                | 1,287,303          |
| Net present value of medical benefits and health premiums transferable to SSF | <u>(512,562)</u>   |
| Present value of asset surplus/(defined benefit obligation)                   | <u>774,741</u>     |

Expenses recognized regarding this benefit plan in the accompanying consolidated statement of income for the first nine-months of 2015 and 2014 are as follows:

|                                  | <i>30 September</i> | <i>30 September</i> |
|----------------------------------|---------------------|---------------------|
|                                  | <u>2015</u>         | <u>2014</u>         |
| Total contribution payment       | 168,561             | 147,523             |
| Provision for unfunded liability | -                   | -                   |
|                                  | <u>168,561</u>      | <u>147,523</u>      |

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

Principal actuarial assumptions used were as follows:

|                                   | <b>31 December</b>     |
|-----------------------------------|------------------------|
|                                   | <b>2014</b>            |
|                                   | <u>%</u>               |
| Discount rates (*)                | 8.80                   |
| Inflation rates (*)               | 6.10                   |
| Future real salary increase rates | 1.5                    |
| Medical cost trend rates          | 40% above<br>inflation |
| Future pension increase rates (*) | 6.10                   |

(\*) 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.

The sensitivity analysis of defined benefit obligation of excess liabilities were as follow as of 31 December 2014:

| <b>% change in defined benefit obligation</b> |                         |                         |                |
|---|-------------------------|-------------------------|----------------|
|   | <b>Pension Benefits</b> | <b>Medical Benefits</b> | <b>Overall</b> |
| <u>Assumption change</u>                      | <u>%</u>                | <u>%</u>                | <u>%</u>       |
| Discount rate +1%                             | (14.8)                  | (17.5)                  | (15.7)         |
| Discount rate -1%                             | 18.6                    | 23.6                    | 20.2           |
| Medical inflation +10% of CPI                 |                         | 13.5                    | 4.4            |
| Medical inflation -10% of CPI                 |                         | (11.2)                  | (3.7)          |

### *Short-term employee benefits*

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

|                                  | <b>30 September</b> | <b>31 December</b> |
|----------------------------------|---------------------|--------------------|
|                                  | <b>2015</b>         | <b>2014</b>        |
| Balance, beginning of the period | 283,112             | 208,686            |
| Payments                         | (187,492)           | (455,503)          |
| Provision for the period, net    | <u>251,445</u>      | <u>529,929</u>     |
| Balance, end of the period       | <u>347,065</u>      | <u>283,112</u>     |

### *Insurance business related provisions*

Insurance business related provisions are detailed in the table below:

|                                    | <b>30 September</b> | <b>31 December</b> |
|------------------------------------|---------------------|--------------------|
|                                    | <b>2015</b>         | <b>2014</b>        |
| Reserve for unearned premiums, net | 97,233              | 100,011            |
| <i>Gross</i>                       | 121,904             | 124,378            |
| <i>Reinsurers' share</i>           | (24,671)            | (24,367)           |
| Provision for claims, net          | 24,574              | 33,087             |
| <i>Gross</i>                       | 33,843              | 44,325             |
| <i>Reinsurers' share</i>           | (9,269)             | (11,238)           |
| Life mathematical reserves         | <u>132,694</u>      | <u>106,057</u>     |
|                                    | <u>254,501</u>      | <u>239,155</u>     |

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

### *Reserve for employee severance indemnity*

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

|                                  | <b>30 September</b> | <b>31 December</b> |
|----------------------------------|---------------------|--------------------|
|                                  | <b><u>2015</u></b>  | <b><u>2014</u></b> |
| Balance, beginning of the period | 268,544             | 206,353            |
| Reversals                        | -                   | (463)              |
| Payments                         | (15,251)            | (9,100)            |
| Provision for the period         | 54,880              | 38,618             |
| Actuarial gain/loss              | -                   | 33,136             |
| Balance, end of the period       | <u>308,173</u>      | <u>268,544</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 3,828.37 and full TL 3,438.22 as of 30 September 2015 and 31 December 2014, respectively.

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

|                                    | <b>30 September</b>       | <b>31 December</b>        |
|------------------------------------|---------------------------|---------------------------|
|                                    | <b>2015<sup>(*)</sup></b> | <b>2014<sup>(*)</sup></b> |
|                                    | <b>%</b>                  | <b>%</b>                  |
| Discount rates                     | 2.36                      | 2.36                      |
| Interest rates                     | 8.60                      | 8.60                      |
| Expected rates of salary increases | 7.60                      | 7.60                      |
| Inflation rates                    | 6.10                      | 6.10                      |

(\*) 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:

|  | <b>30 September</b> | <b>31 December</b> |
|--|---------------------|--------------------|
|  | <b><u>2015</u></b>  | <b><u>2014</u></b> |
| Balance, beginning of the period         | 249,272             | 237,711            |
| (Reversal)/provision for the period, net | (14,080)            | 11,561             |
| Balance, end of the period               | <u>235,192</u>      | <u>249,272</u>     |

## 22 Equity

### *Share capital*

The authorized nominal share capital of the Bank amounted to TL 4,200,000 thousands as of 30 September 2015.

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

|  | <b>30 September</b> | <b>31 December</b> |
|--|---------------------|--------------------|
|  | <b><u>2015</u></b>  | <b><u>2014</u></b> |
| Balance at the beginning of the period                                     | 88,631              | (494,581)          |
| Net unrealised (losses)/gains from changes in fair value                   | (956,064)           | 792,738            |
| Related deferred and current income taxes                                  | 176,663             | (150,461)          |
| Net gains transferred to the statement of comprehensive income on disposal | (134,291)           | (71,943)           |
| Related deferred and current income taxes                                  | 28,212              | 17,527             |
| Effect of movements in foreign exchange rates                              | (11,985)            | (4,649)            |
| Balance at the end of the period   | <u>(808,834)</u>    | <u>88,631</u>      |

## 22 Equity (continued)

### *Hedging reserve*

The hedging reserve comprises the effective portions of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred (see Note 26.4 for the details) and of the cumulative change in the net investment hedge performed in order to hedge the foreign currency risk arising from net investments in foreign operations with long-term foreign currency borrowings.

### *Translation reserve*

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations into the functional currency of the Bank which is TL and of the cumulative change in the net investment hedge performed in order to hedge the foreign currency risk arising from net investments in foreign operations with long-term foreign currency borrowings.

### *Legal reserves*

As per the decisions made at the annual general assemblies of the Bank and its affiliates, 5% of the prior year's net income is allocated to legal reserves. The reserves include legal reserves amounting to TL 1,229,067 thousands (31 December 2014: TL 1,182,824 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 30 September 2015, net non-controlling interests amount to TL 217,735 thousands (31 December 2014: TL 193,733 thousands). Non-controlling interests are detailed as follows:

|                                      | <b>30 September</b> | <b>31 December</b> |
|--------------------------------------|---------------------|--------------------|
|                                      | <b><u>2015</u></b>  | <b><u>2014</u></b> |
| Capital                              | 55,219              | 55,219             |
| Retained earnings and other reserves | 137,150             | 107,037            |
| Net income for the period            | <u>25,366</u>       | <u>31,477</u>      |
|                                      | <u>217,735</u>      | <u>193,733</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.

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 178,365,503 thousands (31 December 2014: TL 148,960,587 thousands), whereas the carrying amount is TL 177,417,651 thousands (31 December 2014: TL 148,081,415 thousands) in the accompanying consolidated statement of financial position as of 30 September 2015.

Fair value of investment securities is TL 44,143,675 thousands (31 December 2014: TL 45,450,308 thousands), whereas the carrying amount is TL 44,485,147 thousands (31 December 2014: TL 44,197,153 thousands) in the accompanying consolidated statement of financial position as of 30 September 2015.

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

| <b><u>30 September 2015</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 | 605,405               | 240,600               | -                     | 846,005             |
| Derivative financial assets                           | 846                   | 3,638,270             | -                     | 3,639,116           |
| Debt and other instruments available-for-sale         | <u>13,616,025</u>     | <u>8,978,155</u>      | <u>591,205</u>        | <u>23,185,385</u>   |
| Financial Assets at Fair Value                        | <u>14,222,276</u>     | <u>12,857,025</u>     | <u>591,205</u>        | <u>27,670,506</u>   |
| Loans and advances from banks and other institutions  | -                     | 5,665,921             | -                     | 5,665,921           |
| Derivative financial liabilities                      | <u>424</u>            | <u>4,033,654</u>      | -                     | <u>4,034,078</u>    |
| Financial Liabilities at Fair Value                   | <u>424</u>            | <u>9,699,575</u>      | -                     | <u>9,699,999</u>    |
| <br>  |                       |                       |                       |                     |
| <b><u>31 December 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 | 862,517               | 224,153               | -                     | 1,086,670           |
| Derivative financial assets                           | 18                    | 1,621,307             | -                     | 1,621,325           |
| Debt and other instruments available-for-sale         | <u>18,825,696</u>     | <u>3,646,995</u>      | <u>1,057,420</u>      | <u>23,530,111</u>   |
| Financial Assets at Fair Value                        | <u>19,688,231</u>     | <u>5,492,455</u>      | <u>1,057,420</u>      | <u>26,238,106</u>   |
| Loans and advances from banks and other institutions  | -                     | 4,899,376             | -                     | 4,899,376           |
| Derivative financial liabilities                      | <u>699</u>            | <u>2,380,129</u>      | -                     | <u>2,380,828</u>    |
| Financial Liabilities at Fair Value                   | <u>699</u>            | <u>7,279,505</u>      | -                     | <u>7,280,204</u>    |

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

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

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

## 24 Commitments and contingencies

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

|                                   | <i>30 September</i><br><u>2015</u> | <i>31 December</i><br><u>2014</u> |
|-----------------------------------|------------------------------------|-----------------------------------|
| Letters of guarantee              | 33,971,263                         | 27,518,573                        |
| Letters of credit                 | 14,068,995                         | 9,308,035                         |
| Acceptance credits                | 1,788,070                          | 815,887                           |
| Other guarantees and endorsements | <u>112,890</u>                     | <u>86,702</u>                     |
|                                   | <u>49,941,218</u>                  | <u>37,729,197</u>                 |

As of 30 September 2015;

- Commitment for unpaid capital of affiliated companies amounts to TL 6,452 thousands (31 December 2014: TL 6,059 thousands).
- Commitments for unused credit limits and promotions of credit cards, cheques and loans to customers, commitments for loan granting and other irrevocable commitments amount to TL 44,497,727 thousands (31 December 2014: TL 42,301,547 thousands) in total.
- Commitments for the derivative transactions carried out on behalf of customers in the Turkish Derivatives Exchange amount to TL 995,060 thousands (31 December 2014: TL 461,580 thousands) in total.

As of 30 September 2015, the securities acquired under security borrowing transactions include shares with total market and carrying values of TL 42,370 thousands (31 December 2014: TL 63,557 thousands).

## 25 Derivative financial instruments

As of 30 September 2015, 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 132,433,254 thousands (31 December 2014: TL 96,974,214 thousands), approximately 78% 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>30 September 2015</b>                | <i>Notional amount with remaining life of</i> |                             |                             |                              |                           | <b>Total</b> |
|---|---|-----------------------------|-----------------------------|------------------------------|---------------------------|--------------|
|   | <b><i>Up to 1 month</i></b>                   | <b><i>1 to 3 months</i></b> | <b><i>3 to 6 months</i></b> | <b><i>6 to 12 months</i></b> | <b><i>Over 1 year</i></b> |              |
| <b><i>Interest Rate Derivatives</i></b> |   |                             |                             |                              |                           |              |
| Interest rate options                   | -   | 1,174,530                   | -                           | 117,454                      | 5,388,373                 | 6,680,357    |
| <i>Purchases</i>                        | -   | 587,265                     | -                           | 58,727                       | 2,694,187                 | 3,340,179    |
| <i>Sales</i>                            | -   | 587,265                     | -                           | 58,727                       | 2,694,186                 | 3,340,178    |
| Interest rate swaps (*)                 | 230   | 273                         | 9,351                       | 33,497                       | 1,049,661                 | 1,093,012    |
| <i>Purchases</i>                        | 140   | 144                         | 9,351                       | 33,497                       | 541,355                   | 584,487      |
| <i>Sales</i>                            | 90  | 129                         | -                           | -                            | 508,306                   | 508,525      |
| Interest rate futures                   | -   | 12,020                      | -                           | -                            | -                         | 12,020       |
| <i>Purchases</i>                        | -   | -                           | -                           | -                            | -                         | -            |
| <i>Sales</i>                            | -   | 12,020                      | -                           | -                            | -                         | 12,020       |
| <b><i>Other Derivatives</i></b>         |   |                             |                             |                              |                           |              |
| Securities, shares and index options    | 36,934  | -                           | 21,688                      | -                            | 47,928                    | 106,550      |
| <i>Purchases</i>                        | 36,710  | -                           | 10,844                      | -                            | 23,964                    | 71,518       |
| <i>Sales</i>                            | 224   | -                           | 10,844                      | -                            | 23,964                    | 35,032       |
| Other forward contracts                 | 113,570                                       | 341,007                     | 371,979                     | 423,547                      | 156,493                   | 1,406,596    |
| <i>Purchases</i>                        | 113,570                                       | 335,572                     | 326,755                     | 309,106                      | 78,230                    | 1,163,233    |
| <i>Sales</i>                            | -   | 5,435                       | 45,224                      | 114,441                      | 78,263                    | 243,363      |
| Other future contracts                  | 8,676   | 66,474                      | -                           | -                            | -                         | 75,150       |
| <i>Purchases</i>                        | 166   | -                           | -                           | -                            | -                         | 166          |
| <i>Sales</i>                            | 8,510   | 66,474                      | -                           | -                            | -                         | 74,984       |
| Other swap contracts                    | 755,558                                       | -                           | -                           | -                            | 11,007,429                | 11,762,987   |
| <i>Purchases</i>                        | 749,285                                       | -                           | -                           | -                            | 4,958,250                 | 5,707,535    |
| <i>Sales</i>                            | 6,273   | -                           | -                           | -                            | 6,049,179                 | 6,055,452    |
| <b><i>Currency Derivatives</i></b>      |   |                             |                             |                              |                           |              |
| Spot exchange contracts                 | 2,549,808                                     | -                           | -                           | -                            | -                         | 2,549,808    |
| <i>Purchases</i>                        | 735,913                                       | -                           | -                           | -                            | -                         | 735,913      |
| <i>Sales</i>                            | 1,813,895                                     | -                           | -                           | -                            | -                         | 1,813,895    |
| Forward exchange contracts              | 9,867,828                                     | 4,571,740                   | 2,583,503                   | 2,168,731                    | 1,520,919                 | 20,712,721   |
| <i>Purchases</i>                        | 6,029,621                                     | 2,562,583                   | 1,303,884                   | 1,287,481                    | 875,863                   | 12,059,432   |
| <i>Sales</i>                            | 3,838,207                                     | 2,009,157                   | 1,279,619                   | 881,250                      | 645,056                   | 8,653,289    |
| Currency/cross currency swaps           | 25,325,346                                    | 4,791,122                   | 6,449,732                   | 7,266,026                    | 5,917,448                 | 49,749,674   |
| <i>Purchases</i>                        | 14,726,634                                    | 2,611,385                   | 3,651,210                   | 4,893,544                    | 4,102,967                 | 29,985,740   |
| <i>Sales</i>                            | 10,598,712                                    | 2,179,737                   | 2,798,522                   | 2,372,482                    | 1,814,481                 | 19,763,934   |
| Options                                 | 6,579,892                                     | 9,803,772                   | 7,561,207                   | 10,105,666                   | 4,133,335                 | 38,183,872   |
| <i>Purchases</i>                        | 2,610,558                                     | 2,573,436                   | 4,703,087                   | 6,833,932                    | 2,388,152                 | 19,109,165   |
| <i>Sales</i>                            | 3,969,334                                     | 7,230,336                   | 2,858,120                   | 3,271,734                    | 1,745,183                 | 19,074,707   |
| Foreign currency futures                | 92,159  | 7,677                       | -                           | -                            | 671                       | 100,507      |
| <i>Purchases</i>                        | 86,655  | 7,677                       | -                           | -                            | 671                       | 95,003       |
| <i>Sales</i>                            | 5,504   | -                           | -                           | -                            | -                         | 5,504        |
| Subtotal Purchases                      | 25,089,252                                    | 8,678,062                   | 10,005,131                  | 13,416,287                   | 15,663,639                | 72,852,371   |
| Subtotal Sales                          | 20,240,749                                    | 12,090,553                  | 6,992,329                   | 6,698,634                    | 13,558,618                | 59,580,883   |
| Total of Transactions                   | 45,330,001                                    | 20,768,615                  | 16,997,460                  | 20,114,921                   | 29,222,257                | 132,433,254  |

(\*) 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)**

| <b><u>31 December 2014</u></b>          | <b><i>Notional amount with remaining life of</i></b> |                             |                             |                              |                           | <b><u>Total</u></b> |
|---|--|-----------------------------|-----------------------------|------------------------------|---------------------------|---------------------|
|   | <b><u>Up to 1 month</u></b>                          | <b><u>1 to 3 months</u></b> | <b><u>3 to 6 months</u></b> | <b><u>6 to 12 months</u></b> | <b><u>Over 1 year</u></b> |                     |
| <b><u>Interest Rate Derivatives</u></b> |  |                             |                             |                              |                           |                     |
| Interest rate options                   | -  | -                           | -                           | 1,204,804                    | 2,112,592                 | 3,317,396           |
| <i>Purchases</i>                        | -  | -                           | -                           | 602,402                      | 1,056,296                 | 1,658,698           |
| <i>Sales</i>                            | -  | -                           | -                           | 602,402                      | 1,056,296                 | 1,658,698           |
| Interest rate swaps (*)                 | 247  | 1,259                       | 6,482                       | 6,533                        | 555,048                   | 569,569             |
| <i>Purchases</i>                        | 126  | 1,259                       | 1,164                       | 5,584                        | 223,759                   | 231,892             |
| <i>Sales</i>                            | 121  | -                           | 5,318                       | 949                          | 331,289                   | 337,677             |
| Interest rate futures                   | -  | 92,200                      | -                           | -                            | -                         | 92,200              |
| <i>Purchases</i>                        | -  | -                           | -                           | -                            | -                         | -                   |
| <i>Sales</i>                            | -  | 92,200                      | -                           | -                            | -                         | 92,200              |
| <b><u>Other Derivatives</u></b>         |  |                             |                             |                              |                           |                     |
| Securities, shares and index options    | 15,856   | 12,326                      | -                           | -                            | 9,188                     | 37,370              |
| <i>Purchases</i>                        | 12,410   | 8,014                       | -                           | -                            | 4,594                     | 25,018              |
| <i>Sales</i>                            | 3,446  | 4,312                       | -                           | -                            | 4,594                     | 12,352              |
| Other forward contracts                 | 44,764   | 100,416                     | 90,689                      | 64,637                       | -                         | 300,506             |
| <i>Purchases</i>                        | 42,359   | 95,851                      | 83,296                      | 58,157                       | -                         | 279,663             |
| <i>Sales</i>                            | 2,405  | 4,565                       | 7,393                       | 6,480                        | -                         | 20,843              |
| Other future contracts                  | -  | 2,979                       | -                           | -                            | -                         | 2,979               |
| <i>Purchases</i>                        | -  | 642                         | -                           | -                            | -                         | 642                 |
| <i>Sales</i>                            | -  | 2,337                       | -                           | -                            | -                         | 2,337               |
| Other swap contracts                    | 106,010  | 24,399                      | -                           | -                            | 4,610,000                 | 4,740,409           |
| <i>Purchases</i>                        | 95,363   | 13,735                      | -                           | -                            | -                         | 109,098             |
| <i>Sales</i>                            | 10,647   | 10,664                      | -                           | -                            | 4,610,000                 | 4,631,311           |
| <b><u>Currency Derivatives</u></b>      |  |                             |                             |                              |                           |                     |
| Spot exchange contracts                 | 2,720,159  | -                           | -                           | -                            | -                         | 2,720,159           |
| <i>Purchases</i>                        | 175,533  | -                           | -                           | -                            | -                         | 175,533             |
| <i>Sales</i>                            | 2,544,626  | -                           | -                           | -                            | -                         | 2,544,626           |
| Forward exchange contracts              | 4,114,417  | 1,688,906                   | 2,014,411                   | 2,591,328                    | 738,151                   | 11,147,213          |
| <i>Purchases</i>                        | 2,538,119  | 972,688                     | 814,175                     | 1,009,598                    | 453,975                   | 5,788,555           |
| <i>Sales</i>                            | 1,576,298  | 716,218                     | 1,200,236                   | 1,581,730                    | 284,176                   | 5,358,658           |
| Currency/cross currency swaps           | 25,963,352   | 7,053,840                   | 6,693,029                   | 4,498,403                    | 6,218,478                 | 50,427,102          |
| <i>Purchases</i>                        | 18,892,229   | 5,532,931                   | 5,518,512                   | 3,231,737                    | 3,839,562                 | 37,014,971          |
| <i>Sales</i>                            | 7,071,123  | 1,520,909                   | 1,174,517                   | 1,266,666                    | 2,378,916                 | 13,412,131          |
| Options                                 | 5,424,843  | 5,998,809                   | 5,335,079                   | 5,291,791                    | 1,549,690                 | 23,600,212          |
| <i>Purchases</i>                        | 2,349,747  | 2,322,071                   | 2,714,358                   | 2,754,788                    | 825,429                   | 10,966,393          |
| <i>Sales</i>                            | 3,075,096  | 3,676,738                   | 2,620,721                   | 2,537,003                    | 724,261                   | 12,633,819          |
| Foreign currency futures                | -  | 19,099                      | -                           | -                            | -                         | 19,099              |
| <i>Purchases</i>                        | -  | 19,099                      | -                           | -                            | -                         | 19,099              |
| <i>Sales</i>                            | -  | -                           | -                           | -                            | -                         | -                   |
| Subtotal Purchases                      | 24,105,886   | 8,966,290                   | 9,131,505                   | 7,662,266                    | 6,403,615                 | 56,269,562          |
| Subtotal Sales                          | 14,283,762   | 6,027,943                   | 5,008,185                   | 5,995,230                    | 9,389,532                 | 40,704,652          |
| Total of Transactions                   | <u>38,389,648</u>                                    | <u>14,994,233</u>           | <u>14,139,690</u>           | <u>13,657,496</u>            | <u>15,793,147</u>         | <u>96,974,214</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 fulfil 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. “Regulation on Liquidity Coverage Ratio of Banks” published on 21 March 2014, requires the banks to meet minimum 40% liquidity ratio for foreign currency assets/liabilities and minimum 60% total liquidity ratio of total assets/liabilities for the year 2015, and increase those ratios by 10 points each year from the beginning of the year 2016 to the beginning of the year 2019.

The Bank’s banking affiliate in the Netherlands is subject to liquidity coverage ratio requirements as per the rules of Capital Requirement Regulation. In addition, the Dutch Central Bank applies a national liquidity regulation, where the bank is required to have a positive liquidity gap in stress test scenario.

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.

**Türkiye Garanti Bankası AŞ and Its Affiliates**

Notes to Consolidated Financial Statements

As of and for the Nine-Month Period Ended 30 September 2015

(Currency: Thousands of Turkish Lira (TL))

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:

|   | <b>30 September 2015</b>   |                          |                          |                           |                         |                        |                      |              |
|---|----------------------------|--------------------------|--------------------------|---------------------------|-------------------------|------------------------|----------------------|--------------|
|   | <i>Demand<br/>Accounts</i> | <i>Up to<br/>1 month</i> | <i>1 to 3<br/>months</i> | <i>3 to 12<br/>months</i> | <i>1 to 5<br/>years</i> | <i>Over<br/>5 year</i> | <i>Undistributed</i> | <i>Total</i> |
| <b>MONETARY ASSETS</b>  |                            |                          |                          |                           |                         |                        |                      |              |
| <b>Turkish Lira</b>   |                            |                          |                          |                           |                         |                        |                      |              |
| Cash and balances with central banks                              | 1,871,982                  | -                        | -                        | -                         | -                       | -                      | -                    | 1,871,982    |
| Financial assets at fair value through profit or loss             | 48,538                     | 3,206                    | 1,288                    | 46,235                    | 214,185                 | 10,912                 | -                    | 324,364      |
| Loans and advances to banks                                       | 5,821                      | 399,463                  | 172,161                  | 198,720                   | 944                     | -                      | -                    | 777,109      |
| Loans and advances to customers                                   | 185,539                    | 25,396,167               | 9,655,165                | 23,342,613                | 28,716,956              | 6,226,113              | 238,088              | 93,760,641   |
| Derivative financial assets                                       | -                          | 531,322                  | 535,290                  | 1,136,351                 | 805,157                 | 215,665                | -                    | 3,223,785    |
| Other assets  | 26,696                     | 320,506                  | 24,317                   | 32,340                    | 9,174                   | 3,098                  | 7,968,645            | 8,384,776    |
| Investment securities   | 33,913                     | 33,019                   | 16,896                   | 3,910,456                 | 11,625,969              | 14,353,984             | -                    | 29,974,237   |
| Deferred tax asset  | -                          | -                        | -                        | -                         | -                       | -                      | 849,945              | 849,945      |
| Total Turkish Lira monetary assets                                | 2,172,489                  | 26,683,683               | 10,405,117               | 28,666,715                | 41,372,385              | 20,809,772             | 9,056,678            | 139,166,839  |
| <b>Foreign Currency</b>   |                            |                          |                          |                           |                         |                        |                      |              |
| Cash and balances with central banks                              | 10,285,160                 | 1,144,799                | -                        | -                         | -                       | -                      | -                    | 11,429,959   |
| Financial assets at fair value through profit or loss             | 472,466                    | 607                      | -                        | 401                       | 42,654                  | 5,513                  | -                    | 521,641      |
| Loans and advances to banks                                       | 5,495,724                  | 2,924,844                | 640,010                  | 708,210                   | 4,630,443               | -                      | -                    | 14,399,231   |
| Loans and advances to customers                                   | 154,766                    | 6,282,598                | 6,600,033                | 20,047,535                | 33,261,072              | 16,009,830             | 1,301,176            | 83,657,010   |
| Derivative financial assets                                       | -                          | 21,851                   | 8,296                    | 27,923                    | 141,075                 | 216,186                | -                    | 415,331      |
| Other assets  | 192,809                    | 21,561,448               | 23,095                   | 15,672                    | 28,757                  | 303                    | 46,382               | 21,868,466   |
| Investment securities   | 63,513                     | 62,871                   | -                        | 333,555                   | 4,370,875               | 9,680,096              | -                    | 14,510,910   |
| Deferred tax asset  | -                          | -                        | -                        | -                         | -                       | -                      | 64,446               | 64,446       |
| Total foreign currency monetary assets                            | 16,664,438                 | 31,999,018               | 7,271,434                | 21,133,296                | 42,474,876              | 25,911,928             | 1,412,004            | 146,866,994  |
| Total Monetary Assets   | 18,836,927                 | 58,682,701               | 17,676,551               | 49,800,011                | 83,847,261              | 46,721,700             | 10,468,682           | 286,033,833  |
| <b>MONETARY LIABILITIES</b>                                       |                            |                          |                          |                           |                         |                        |                      |              |
| <b>Turkish Lira</b>   |                            |                          |                          |                           |                         |                        |                      |              |
| Deposits  | 15,951,066                 | 41,164,968               | 9,899,271                | 1,462,574                 | 11,221                  | -                      | -                    | 68,489,100   |
| Obligations under repurchase agreements and money market fundings | -                          | 11,232,546               | 30,010                   | -                         | -                       | -                      | -                    | 11,262,556   |
| Loans and advances from banks and other institutions              | -                          | 917,042                  | 76,919                   | 912,550                   | 1,773,723               | -                      | -                    | 3,680,234    |
| Bonds payable   | -                          | 302,678                  | 1,538,677                | 1,976,433                 | 708,248                 | -                      | -                    | 4,526,036    |
| Subordinated liabilities  | -                          | -                        | -                        | -                         | -                       | -                      | -                    | -            |
| Derivative financial liabilities                                  | -                          | 643,198                  | 351,341                  | 1,381,841                 | 807,493                 | -                      | -                    | 3,183,873    |
| Other liabilities, accrued expenses and provisions                | 439,630                    | 7,415,637                | 107,109                  | 18,443                    | 1,325                   | -                      | 8,516,894            | 16,499,038   |
| Total Turkish Lira monetary liabilities                           | 16,390,696                 | 61,676,069               | 12,003,327               | 5,751,841                 | 3,302,010               | -                      | 8,516,894            | 107,640,837  |
| <b>Foreign Currency</b>   |                            |                          |                          |                           |                         |                        |                      |              |
| Deposits  | 24,755,160                 | 40,859,443               | 16,146,602               | 13,606,395                | 1,767,358               | 17,606                 | -                    | 97,152,564   |
| Obligations under repurchase agreements and money market fundings | -                          | 513,341                  | 4,300                    | 2,369,891                 | 460,467                 | -                      | -                    | 3,347,999    |
| Loans and advances from banks and other institutions              | -                          | 1,088,118                | 6,061,660                | 10,794,491                | 13,345,061              | 5,496,117              | -                    | 36,785,447   |
| Bonds payable   | -                          | 193,612                  | 307,553                  | 1,092,502                 | 6,752,057               | 3,422,828              | -                    | 11,768,552   |
| Subordinated liabilities  | -                          | -                        | -                        | 15,254                    | 122,045                 | 30,507                 | -                    | 167,806      |
| Derivative financial liabilities                                  | -                          | 24,308                   | 456                      | 38,206                    | 275,831                 | 511,404                | -                    | 850,205      |
| Other liabilities, accrued expenses and provisions                | 1,147,225                  | 337,572                  | 210,822                  | 17,369                    | 1,059                   | 612                    | 94,941               | 1,809,600    |
| Total foreign currency monetary liabilities                       | 25,902,385                 | 43,016,394               | 22,731,393               | 27,934,108                | 22,723,878              | 9,479,074              | 94,941               | 151,882,173  |
| Total Monetary Liabilities  | 42,293,081                 | 104,692,463              | 34,734,720               | 33,685,949                | 26,025,888              | 9,479,074              | 8,611,835            | 259,523,010  |



**Türkiye Garanti Bankası AŞ and Its Affiliates**

Notes to Consolidated Financial Statements

As of and for the Nine-Month Period Ended 30 September 2015

(Currency: Thousands of Turkish Lira (TL))

|   | <b>31 December 2014</b>    |                          |                          |                           |                         |                        |                      |                    |
|---|----------------------------|--------------------------|--------------------------|---------------------------|-------------------------|------------------------|----------------------|--------------------|
|   | <i>Demand<br/>Accounts</i> | <i>Up to<br/>1 month</i> | <i>1 to 3<br/>months</i> | <i>3 to 12<br/>months</i> | <i>1 to 5<br/>years</i> | <i>Over<br/>5 year</i> | <i>Undistributed</i> | <i>Total</i>       |
| <b>MONETARY ASSETS</b>  |                            |                          |                          |                           |                         |                        |                      |                    |
| <b><u>Turkish Lira</u></b>  |                            |                          |                          |                           |                         |                        |                      |                    |
| Cash and balances with central banks                              | 1,759,194                  | -                        | -                        | -                         | -                       | -                      | -                    | 1,759,194          |
| Financial assets at fair value through profit or loss             | 35,878                     | 11,625                   | 5,176                    | 21,471                    | 271,684                 | 14,212                 | -                    | 360,046            |
| Loans and advances to banks                                       | 51,750                     | 1,180,721                | 174,624                  | 433,878                   | 954                     | -                      | -                    | 1,841,927          |
| Loans and advances to customers                                   | 156,362                    | 23,015,343               | 9,427,749                | 18,844,055                | 26,395,709              | 4,754,853              | (238,716)            | 82,355,355         |
| Derivative financial assets                                       | -                          | 391,792                  | 141,914                  | 326,132                   | 226,645                 | 20,044                 | -                    | 1,106,527          |
| Other assets  | 39,656                     | 349,539                  | 22,522                   | 23,654                    | 7,213                   | 3,071                  | 6,835,198            | 7,280,853          |
| Investment securities   | 34,676                     | 628,072                  | 2,583,727                | 1,463,896                 | 9,719,861               | 18,234,122             | -                    | 32,664,354         |
| Deferred tax asset  | -                          | -                        | -                        | -                         | -                       | -                      | 858,159              | 858,159            |
| <b>Total Turkish Lira monetary assets</b>                         | <b>2,077,516</b>           | <b>25,577,092</b>        | <b>12,355,712</b>        | <b>21,113,086</b>         | <b>36,622,066</b>       | <b>23,026,302</b>      | <b>7,454,641</b>     | <b>128,226,415</b> |
| <br>  |                            |                          |                          |                           |                         |                        |                      |                    |
| Cash and balances with central banks                              | 4,837,281                  | -                        | -                        | -                         | -                       | -                      | -                    | 4,837,281          |
| Financial assets at fair value through profit or loss             | 695,864                    | -                        | 47                       | -                         | 29,097                  | 1,616                  | -                    | 726,624            |
| Loans and advances to banks                                       | 2,704,925                  | 1,155,671                | 434,355                  | 1,044,510                 | 3,605,915               | 27,915                 | -                    | 8,973,291          |
| Loans and advances to customers                                   | 42,531                     | 4,911,975                | 4,710,006                | 15,380,146                | 27,034,293              | 12,559,431             | 1,087,678            | 65,726,060         |
| Derivative financial assets                                       | -                          | -                        | 5,124                    | 10,822                    | 124,716                 | 374,136                | -                    | 514,798            |
| Other assets  | 139,618                    | 20,728,060               | 3,878                    | 9,399                     | 21,053                  | 235                    | 31,503               | 20,933,746         |
| Investment securities   | 63,742                     | 23,090                   | 78,764                   | 18,595                    | 3,052,225               | 8,296,383              | -                    | 11,532,799         |
| Deferred tax asset  | -                          | -                        | -                        | -                         | -                       | -                      | 42,967               | 42,967             |
| <b>Total foreign currency monetary assets</b>                     | <b>8,483,961</b>           | <b>26,818,796</b>        | <b>5,232,174</b>         | <b>16,463,472</b>         | <b>33,867,299</b>       | <b>21,259,716</b>      | <b>1,162,148</b>     | <b>113,287,566</b> |
| <b>Total Monetary Assets</b>                                      | <b>10,561,477</b>          | <b>52,395,888</b>        | <b>17,587,886</b>        | <b>37,576,558</b>         | <b>70,489,365</b>       | <b>44,286,018</b>      | <b>8,616,789</b>     | <b>241,513,981</b> |
| <br>  |                            |                          |                          |                           |                         |                        |                      |                    |
| <b>MONETARY LIABILITIES</b>                                       |                            |                          |                          |                           |                         |                        |                      |                    |
| <b><u>Turkish Lira</u></b>  |                            |                          |                          |                           |                         |                        |                      |                    |
| Deposits  | 12,994,483                 | 34,163,889               | 13,212,174               | 1,524,109                 | 8,063                   | -                      | -                    | 61,902,718         |
| Obligations under repurchase agreements and money market fundings | -                          | 4,233,917                | 666,880                  | -                         | -                       | -                      | -                    | 4,900,797          |
| Loans and advances from banks and other institutions              | -                          | 1,997,996                | 730,356                  | 1,021,530                 | 776,037                 | 1,332,971              | -                    | 5,858,890          |
| Bonds payable   | -                          | 698,977                  | 1,410,220                | 2,017,764                 | 716,823                 | -                      | -                    | 4,843,784          |
| Subordinated liabilities  | -                          | -                        | -                        | -                         | -                       | -                      | -                    | -                  |
| Derivative financial liabilities                                  | -                          | 493,833                  | 217,446                  | 728,349                   | 537,092                 | 118,662                | -                    | 2,095,382          |
| Other liabilities, accrued expenses and provisions                | 81,302                     | 6,535,090                | 550,978                  | 12,533                    | -                       | -                      | 7,644,201            | 14,824,104         |
| <b>Total Turkish Lira monetary liabilities</b>                    | <b>13,075,785</b>          | <b>48,123,702</b>        | <b>16,788,054</b>        | <b>5,304,285</b>          | <b>2,038,015</b>        | <b>1,451,633</b>       | <b>7,644,201</b>     | <b>94,425,675</b>  |
| <br>  |                            |                          |                          |                           |                         |                        |                      |                    |
| <b><u>Foreign Currency</u></b>                                    |                            |                          |                          |                           |                         |                        |                      |                    |
| Deposits  | 18,889,260                 | 26,489,595               | 15,066,110               | 9,648,577                 | 1,398,108               | 12,942                 | -                    | 71,504,592         |
| Obligations under repurchase agreements and money market fundings | -                          | 4,389,538                | 653,114                  | 18,987                    | 2,058,729               | -                      | -                    | 7,120,368          |
| Loans and advances from banks and other institutions              | -                          | 1,239,160                | 1,889,741                | 13,387,859                | 12,232,216              | 3,610,175              | -                    | 32,359,151         |
| Bonds payable   | -                          | 209,859                  | 139,267                  | 540,330                   | 6,051,592               | 2,653,524              | -                    | 9,594,572          |
| Subordinated liabilities  | -                          | -                        | -                        | -                         | 102,736                 | 38,030                 | -                    | 140,766            |
| Derivative financial liabilities                                  | -                          | 6,051                    | 10,226                   | 28,273                    | 126,980                 | 113,916                | -                    | 285,446            |
| Other liabilities, accrued expenses and provisions                | 694,726                    | 206,378                  | 153,979                  | 14,174                    | 888                     | 407                    | 150,343              | 1,220,895          |
| <b>Total foreign currency monetary liabilities</b>                | <b>19,583,986</b>          | <b>32,540,581</b>        | <b>17,912,437</b>        | <b>23,638,200</b>         | <b>21,971,249</b>       | <b>6,428,994</b>       | <b>150,343</b>       | <b>122,225,790</b> |
| <b>Total Monetary Liabilities</b>                                 | <b>32,659,771</b>          | <b>80,664,283</b>        | <b>34,700,491</b>        | <b>28,942,485</b>         | <b>24,009,264</b>       | <b>7,880,627</b>       | <b>7,794,544</b>     | <b>216,651,465</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.

#### *30 September 2015*

|   | <i>Carrying Value</i> | <i>Nominal Principal</i> |                   |                      |                      |                       |                     |                     |
|---|-----------------------|--------------------------|-------------------|----------------------|----------------------|-----------------------|---------------------|---------------------|
|   |                       | <i>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  | 165,641,664           | 165,086,506              | 40,681,810        | 81,736,880           | 25,945,049           | 14,942,856            | 1,762,461           | 17,450              |
| Obligations under repurchase agreements and money market fundings | 14,610,555            | 14,585,696               | -                 | 11,734,496           | 34,174               | 2,359,657             | 457,369             | -                   |
| Loans and advances from banks and other Institutions              | 40,465,681            | 40,212,095               | -                 | 1,918,375            | 6,056,988            | 11,632,197            | 15,113,171          | 5,491,364           |
| Bonds payable   | 16,294,588            | 15,949,985               | -                 | 481,798              | 1,833,055            | 3,054,209             | 7,355,925           | 3,224,998           |
| Subordinated liabilities  | 167,806               | 167,790                  | -                 | -                    | -                    | 15,254                | 122,029             | 30,507              |
| Total Monetary Liabilities  | <u>237,180,294</u>    | <u>236,002,072</u>       | <u>40,681,810</u> | <u>95,871,549</u>    | <u>33,869,266</u>    | <u>32,004,173</u>     | <u>24,810,955</u>   | <u>8,764,319</u>    |

#### *31 December 2014*

|   | <i>Carrying Value</i> | <i>Nominal Principal</i> |                   |                      |                      |                       |                     |                     |
|---|-----------------------|--------------------------|-------------------|----------------------|----------------------|-----------------------|---------------------|---------------------|
|   |                       | <i>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  | 133,407,310           | 132,850,322              | 31,853,148        | 60,407,617           | 28,111,202           | 11,078,634            | 1,386,956           | 12,765              |
| Obligations under repurchase agreements and money market fundings | 12,021,165            | 11,997,152               | -                 | 8,614,318            | 1,312,907            | 18,973                | 2,050,954           | -                   |
| Loans and advances from banks and other institutions              | 38,218,041            | 37,668,346               | -                 | 3,125,461            | 2,519,971            | 14,354,635            | 12,999,103          | 4,669,176           |
| Bonds payable   | 14,438,356            | 14,139,787               | -                 | 901,321              | 1,544,778            | 2,546,650             | 6,658,192           | 2,488,846           |
| Subordinated liabilities  | 140,766               | 139,444                  | -                 | -                    | -                    | -                     | 101,414             | 38,030              |
| Total Monetary Liabilities  | <u>198,225,638</u>    | <u>196,795,051</u>       | <u>31,853,148</u> | <u>73,048,717</u>    | <u>33,488,858</u>    | <u>27,998,892</u>     | <u>23,196,619</u>   | <u>7,208,817</u>    |

### *Market risk*

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

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

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

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

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

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

**Türkiye Garanti Bankası AŞ and Its Affiliates**

Notes to Consolidated Financial Statements

As of and for the Nine-Month Period Ended 30 September 2015

(Currency: Thousands of Turkish Lira (TL))

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

|   | <b>30 September 2015</b> |                          |                           |                         |                        |                                 |                    |
|---|--------------------------|--------------------------|---------------------------|-------------------------|------------------------|---------------------------------|--------------------|
|   | <i>Up to<br/>1 month</i> | <i>1 to 3<br/>months</i> | <i>3 to 12<br/>months</i> | <i>1 to 5<br/>years</i> | <i>Over<br/>5 year</i> | <i>Non-Interest<br/>Bearing</i> | <i>Total</i>       |
| <b>MONETARY ASSETS</b>  |                          |                          |                           |                         |                        |                                 |                    |
| Cash and balances with central banks                              | 2,174,353                | -                        | -                         | -                       | -                      | 11,127,588                      | 13,301,941         |
| Financial assets at fair value through profit or loss             | 13,705                   | 9,104                    | 249,986                   | 40,950                  | 13,858                 | 518,402                         | 846,005            |
| Loans and advances to banks                                       | 5,081,915                | 2,466,414                | 2,210,930                 | 6,002                   | -                      | 5,411,079                       | 15,176,340         |
| Loans and advances to customers                                   | 42,465,809               | 26,282,266               | 50,794,444                | 44,165,448              | 11,971,564             | 1,738,120                       | 177,417,651        |
| Other assets  | 444,207                  | -                        | -                         | -                       | 3,098                  | 33,445,053                      | 33,892,358         |
| Investment securities   | 3,298,471                | 9,456,250                | 9,886,593                 | 8,763,307               | 10,948,127             | 2,132,399                       | 44,485,147         |
| Deferred tax asset  | -                        | -                        | -                         | -                       | -                      | 914,391                         | 914,391            |
| <b>Total Monetary Assets</b>                                      | <b>53,478,460</b>        | <b>38,214,034</b>        | <b>63,141,953</b>         | <b>52,975,707</b>       | <b>22,936,647</b>      | <b>55,287,032</b>               | <b>286,033,833</b> |
| <b>MONETARY LIABILITIES</b>                                       |                          |                          |                           |                         |                        |                                 |                    |
| Deposits  | 87,427,039               | 25,997,081               | 15,129,033                | 1,490,207               | 6,530                  | 35,591,774                      | 165,641,664        |
| Obligations under repurchase agreements and money market fundings | 11,734,496               | 34,174                   | 2,359,657                 | 457,369                 | -                      | 24,859                          | 14,610,555         |
| Loans and advances from banks and other institutions              | 16,002,071               | 14,669,514               | 3,223,203                 | 6,151,587               | 169,023                | 250,283                         | 40,465,681         |
| Bonds payable   | 1,455,329                | 1,914,191                | 2,137,684                 | 7,217,782               | 3,224,998              | 344,604                         | 16,294,588         |
| Subordinated liabilities  | -                        | -                        | 167,790                   | -                       | -                      | 16                              | 167,806            |
| Other liabilities, accrued expenses and provisions                | -                        | -                        | -                         | -                       | -                      | 22,342,716                      | 22,342,716         |
| <b>Total Monetary Liabilities</b>                                 | <b>116,618,935</b>       | <b>42,614,960</b>        | <b>23,017,367</b>         | <b>15,316,945</b>       | <b>3,400,551</b>       | <b>58,554,252</b>               | <b>259,523,010</b> |
|   | <b>31 December 2014</b>  |                          |                           |                         |                        |                                 |                    |
|   | <i>Up to<br/>1 month</i> | <i>1 to 3<br/>months</i> | <i>3 to 12<br/>months</i> | <i>1 to 5<br/>years</i> | <i>Over<br/>5 year</i> | <i>Non-Interest<br/>Bearing</i> | <i>Total</i>       |
| <b>MONETARY ASSETS</b>  |                          |                          |                           |                         |                        |                                 |                    |
| Cash and balances with central banks                              | 1,681,280                | -                        | -                         | -                       | -                      | 4,915,195                       | 6,596,475          |
| Financial assets at fair value through profit or loss             | 27,958                   | 55,950                   | 215,328                   | 49,500                  | 3,017                  | 734,917                         | 1,086,670          |
| Loans and advances to banks                                       | 3,628,535                | 1,846,847                | 2,523,694                 | 8,099                   | -                      | 2,808,043                       | 10,815,218         |
| Loans and advances to customers                                   | 38,169,499               | 20,991,387               | 39,519,863                | 40,391,156              | 8,029,735              | 979,775                         | 148,081,415        |
| Other assets  | 818,936                  | 25,769                   | 25,602                    | -                       | 3,071                  | 28,962,546                      | 29,835,924         |
| Investment securities   | 2,003,778                | 12,030,875               | 10,689,587                | 7,122,231               | 9,578,556              | 2,772,126                       | 44,197,153         |
| Deferred tax asset  | -                        | -                        | -                         | -                       | -                      | 901,126                         | 901,126            |
| <b>Total Monetary Assets</b>                                      | <b>46,329,986</b>        | <b>34,950,828</b>        | <b>52,974,074</b>         | <b>47,570,986</b>       | <b>17,614,379</b>      | <b>42,073,728</b>               | <b>241,513,981</b> |
| <b>MONETARY LIABILITIES</b>                                       |                          |                          |                           |                         |                        |                                 |                    |
| Deposits  | 64,904,497               | 28,413,890               | 10,811,944                | 1,343,164               | 3,907                  | 27,929,908                      | 133,407,310        |
| Obligations under repurchase agreements and money market fundings | 8,614,319                | 1,312,906                | 18,973                    | 2,050,954               | -                      | 24,013                          | 12,021,165         |
| Loans and advances from banks and other institutions              | 13,695,400               | 14,053,836               | 5,284,459                 | 4,259,195               | 375,456                | 549,695                         | 38,218,041         |
| Bonds payable   | 1,661,600                | 1,614,249                | 2,493,319                 | 5,881,773               | 2,488,846              | 298,569                         | 14,438,356         |
| Subordinated liabilities  | -                        | -                        | 139,444                   | -                       | -                      | 1,322                           | 140,766            |
| Other liabilities, accrued expenses and provisions                | -                        | -                        | -                         | -                       | -                      | 18,425,827                      | 18,425,827         |
| <b>Total Monetary Liabilities</b>                                 | <b>88,875,816</b>        | <b>45,394,881</b>        | <b>18,748,139</b>         | <b>13,535,086</b>       | <b>2,868,209</b>       | <b>47,229,334</b>               | <b>216,651,465</b> |

## 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 nine-months of 2015 and the year of 2014:

|  | <i>30 September 2015</i> |                  |                 |                                   |
|--|--------------------------|------------------|-----------------|-----------------------------------|
|  | <i>US\$<br/>%</i>        | <i>EUR<br/>%</i> | <i>TL<br/>%</i> | <i>Other<br/>Currencies<br/>%</i> |
| <i>Assets</i>  |                          |                  |                 |                                   |
| Loans and advances to banks  | 1-4                      | 1-3              | 1-15            | 1-11                              |
| Debt and other fixed or floating<br>income instruments               | 1-12                     | 1-6              | 1-14            | 3-16                              |
| Loans and advances to customers                                      | 1-12                     | 1-14             | 1-30            | 1-28                              |
| <i>Liabilities</i>   |                          |                  |                 |                                   |
| Deposits:  |                          |                  |                 |                                   |
| - Foreign currency deposits  | 1-4                      | 1-7              | -               | 1-12                              |
| - Bank deposits  | 1-2                      | 1-2              | 7-12            | 1-11                              |
| - Saving deposits  | -                        | -                | 8-11            | -                                 |
| - Commercial deposits  | -                        | -                | 7-12            | -                                 |
| - Public and other deposits  | -                        | -                | 11              | -                                 |
| Obligations under repurchase agreements<br>and money market fundings | 1-2                      | 1                | 4-14            | 1-12                              |
| Loans and advances from banks and<br>other institutions              | 1-5                      | 1-5              | 1-14            | 1-11                              |
| Bonds payable  | 1-6                      | 2-5              | 8-12            | 1-6                               |
| <i>31 December 2014</i>  |                          |                  |                 |                                   |
|  | <i>US\$<br/>%</i>        | <i>EUR<br/>%</i> | <i>TL<br/>%</i> | <i>Other<br/>Currencies<br/>%</i> |
| <i>Assets</i>  |                          |                  |                 |                                   |
| Loans and advances to banks  | 1-6                      | 1-6              | 1-13            | 1                                 |
| Debt and other fixed or floating<br>income instruments               | 3-12                     | 1-6              | 5-15            | 3-13                              |
| Loans and advances to customers                                      | 1-15                     | 1-15             | 1-33            | 1-28                              |
| <i>Liabilities</i>   |                          |                  |                 |                                   |
| Deposits:  |                          |                  |                 |                                   |
| - Foreign currency deposits  | 1-10                     | 1-7              | -               | 1-7                               |
| - Bank deposits  | 1-2                      | 1-2              | 6-13            | 1-21                              |
| - Saving deposits  | -                        | -                | 7-11            | -                                 |
| - Commercial deposits  | -                        | -                | 7-11            | -                                 |
| - Public and other deposits  | -                        | -                | 10              | -                                 |
| Obligations under repurchase agreements<br>and money market fundings | 1-2                      | 1                | 4-8             | 1-18                              |
| Loans and advances from banks and<br>other institutions              | 1-4                      | 1-6              | 1-15            | 1-18                              |
| Bonds payable  | 1-6                      | 1-5              | 6-12            | 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 the 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 30 September 2015 and 31 December 2014, 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<br/>(+/- basis points)</u> | <u>30 September 2015</u> |  | <u>31 December 2014</u> |  |
|-----------------------------------|--|--------------------------|--|-------------------------|--|
|                                   |  | <u>Gains/Losses</u>      | <u>Gains/Equity-<br/>Losses/Equity</u> | <u>Gains/Losses</u>     | <u>Gains/Equity-<br/>Losses/Equity</u> |
| TL                                | (+) 500 bps                                  | (3,208,773)              | (10.46)%                               | (3,213,578)             | (11.43)%                               |
| TL                                | (-) 400 bps                                  | 3,105,669                | 10.13%                                 | 3,139,075               | 11.16%                                 |
| US\$                              | (+) 200 bps                                  | (731,106)                | (2.38)%                                | (730,443)               | (2.60)%                                |
| US\$                              | (-) 200 bps                                  | 984,508                  | 3.21%                                  | 977,780                 | 3.48%                                  |
| EUR                               | (+) 200 bps                                  | 53,238                   | 0.17%                                  | 54,777                  | 0.19%                                  |
| EUR                               | (-) 200 bps                                  | (23,571)                 | (0.08)%                                | (82,307)                | (0.29)%                                |
| <b>Total (of negative shocks)</b> |  | <b>4,066,606</b>         | <b>13.26%</b>                          | <b>4,034,548</b>        | <b>14.35%</b>                          |
| <b>Total (of positive shocks)</b> |  | <b>(3,886,641)</b>       | <b>(12.67)%</b>                        | <b>(3,889,244)</b>      | <b>(13.84)%</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:

|   | <i>30 September 2015</i> |                    |                         | <i>Total</i>       |
|---|--------------------------|--------------------|-------------------------|--------------------|
|   | <i>US\$</i>              | <i>EUR</i>         | <i>Other Currencies</i> |                    |
| <i>Assets</i>   |                          |                    |                         |                    |
| Cash and balances with central banks                              | 8,421,644                | 2,635,882          | 372,433                 | 11,429,959         |
| Financial assets at fair value                                    |                          |                    |                         |                    |
| through profit or loss  | 41,383                   | 7,792              | 472,466                 | 521,641            |
| Loans and advances to banks                                       | 11,706,814               | 2,433,643          | 258,774                 | 14,399,231         |
| Loans and advances to customers                                   | 50,706,867               | 30,552,360         | 2,397,783               | 83,657,010         |
| Other assets  | 13,715,410               | 3,988,616          | 4,579,771               | 22,283,797         |
| Investment securities   | 12,522,279               | 1,799,070          | 189,561                 | 14,510,910         |
| Investments in equity participations                              | -                        | 808                | 535                     | 1,343              |
| Tangible assets   | 199                      | 79,048             | 103,525                 | 182,772            |
| Deferred tax asset  | -                        | 45,456             | 18,990                  | 64,446             |
| <i>Total Assets</i>   | <u>97,114,596</u>        | <u>41,542,675</u>  | <u>8,393,838</u>        | <u>147,051,109</u> |
| <i>Liabilities</i>  |                          |                    |                         |                    |
| Deposits  | 58,007,511               | 33,287,511         | 5,857,542               | 97,152,564         |
| Obligations under repurchase agreements and money market fundings | 2,822,606                | 201,452            | 323,941                 | 3,347,999          |
| Loans and advances from banks and other institutions              | 24,449,112               | 12,091,460         | 244,875                 | 36,785,447         |
| Current and deferred tax liability                                | -                        | 30,878             | -                       | 30,878             |
| Bonds payable   | 8,798,892                | 1,928,334          | 1,041,326               | 11,768,552         |
| Subordinated liabilities  | -                        | 167,806            | -                       | 167,806            |
| Other liabilities, accrued expenses and provisions                | 1,866,381                | 379,350            | 383,196                 | 2,628,927          |
| <i>Total Liabilities</i>  | <u>95,944,502</u>        | <u>48,086,791</u>  | <u>7,850,880</u>        | <u>151,882,173</u> |
| <i>Net Statement of Financial Position</i>                        | <u>1,170,094</u>         | <u>(6,544,116)</u> | <u>542,958</u>          | <u>(4,831,064)</u> |
| <i>Net Off Balance Sheet Position</i>                             | <u>(3,869,062)</u>       | <u>6,314,798</u>   | <u>312,520</u>          | <u>2,758,256</u>   |
| <i>Net Long/(Short) Position</i>                                  | <u>(2,698,968)</u>       | <u>(229,318)</u>   | <u>855,478</u>          | <u>(2,072,808)</u> |

## 26 Financial risk management disclosures (continued)

|  | <i>31 December 2014</i> |                    |                         |                    |
|--|-------------------------|--------------------|-------------------------|--------------------|
|  | <u>US\$</u>             | <u>EUR</u>         | <u>Other Currencies</u> | <u>Total</u>       |
| <i>Total Assets</i>                        | <u>75,516,183</u>       | <u>30,319,708</u>  | <u>7,613,490</u>        | <u>113,449,381</u> |
| <i>Total Liabilities</i>                   | <u>76,239,885</u>       | <u>38,296,627</u>  | <u>7,689,278</u>        | <u>122,225,790</u> |
| <i>Net Statement of Financial Position</i> | <u>(723,702)</u>        | <u>(7,976,919)</u> | <u>(75,788)</u>         | <u>(8,776,409)</u> |
| <i>Net Off Balance Sheet Position</i>      | <u>(1,445,463)</u>      | <u>6,329,304</u>   | <u>1,129,268</u>        | <u>6,013,109</u>   |
| <i>Net Long/(Short) Position</i>           | <u>(2,169,165)</u>      | <u>(1,647,615)</u> | <u>1,053,480</u>        | <u>(2,763,300)</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 small-size enterprises is presented below:

|               | <i>30 September</i> | <i>31 December</i> |
|---------------|---------------------|--------------------|
|               | <u>2015</u>         | <u>2014</u>        |
|               | <u>%</u>            | <u>%</u>           |
| Above Average | 41                  | 40                 |
| Average       | 49                  | 54                 |
| Below Average | <u>10</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<br/>to customers</i> |                             |
|--|--|-----------------------------|
|  | <i>30 September<br/>2015</i>               | <i>31 December<br/>2014</i> |
| Individually impaired                  | 5,456,716                                  | 4,749,142                   |
| Allowance for impairment               | <u>(5,184,062)</u>                         | <u>(4,571,729)</u>          |
| Carrying amount                        | <u>272,654</u>                             | <u>177,413</u>              |
| Portfolio basis allowance              | <u>(1,433,597)</u>                         | <u>(1,086,171)</u>          |
| Loans under follow-up but not impaired | <u>2,442,026</u>                           | <u>2,022,502</u>            |
| Carrying amount                        | <u>2,442,026</u>                           | <u>2,022,502</u>            |
| Neither past due nor impaired          | 168,847,656                                | 142,883,075                 |
| Loans with renegotiated terms          | <u>7,288,912</u>                           | <u>4,084,596</u>            |
| Carrying amount                        | <u>176,136,568</u>                         | <u>146,967,671</u>          |
| Total carrying amount                  | <u>177,417,651</u>                         | <u>148,081,415</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>30 September</i> | <i>31 December</i> |
|---|---------------------|--------------------|
|   | <u>2015</u>         | <u>2014</u>        |
| Consumer loans  | 2,418,446           | 1,941,131          |
| Metal and metal products                                    | 330,566             | 269,625            |
| Service sector  | 317,098             | 268,683            |
| Construction  | 305,223             | 245,853            |
| Textile   | 289,543             | 247,191            |
| Transportation vehicles and sub-industries                  | 241,766             | 291,413            |
| Food  | 231,567             | 190,539            |
| Agriculture and stockbreeding                               | 202,490             | 112,200            |
| Tourism   | 140,061             | 134,630            |
| Transportation and logistics                                | 112,370             | 110,233            |
| Chemistry and chemical products                             | 102,218             | 255,039            |
| Energy  | 91,791              | 52,930             |
| Paper and paper products                                    | 86,375              | 127,768            |
| Durable consumption   | 83,105              | 78,631             |
| Others  | <u>504,097</u>      | <u>423,276</u>     |
| Total non-performing loans, factoring and lease receivables | <u>5,456,716</u>    | <u>4,749,142</u>   |

|   | <i>30 September</i> | <i>31 December</i> |
|---|---------------------|--------------------|
|   | <u>2015</u>         | <u>2014</u>        |
| Turkey  | 4,100,452           | 3,592,167          |
| Romania   | 776,451             | 717,186            |
| England   | 163,160             | 175,802            |
| Cyprus  | 116,157             | 91,512             |
| Belize  | 58,280              | 44,715             |
| Russia  | 34,055              | 22,320             |
| Ukraine   | 19,970              | 15,314             |
| Others  | <u>188,191</u>      | <u>90,126</u>      |
| Total non-performing loans, factoring and lease receivables | <u>5,456,716</u>    | <u>4,749,142</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.

### *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.

## 26 Financial risk management disclosures (continued)

### *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 30 September 2015 or 31 December 2014.

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

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

|                  | <i>30 September</i> | <i>31 December</i> |
|------------------|---------------------|--------------------|
|                  | <u>2015</u>         | <u>2014</u>        |
| Mortgages        | 974,844             | 987,270            |
| Promissory notes | 549,289             | 543,729            |
| Pledge assets    | 514,099             | 494,411            |
| Cash collateral  | 18,065              | 15,223             |
| Unsecured        | <u>3,400,419</u>    | <u>2,708,509</u>   |
|                  | <u>5,456,716</u>    | <u>4,749,142</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.

### *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.

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

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 23 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.

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. The Bank’s process of internal capital requirements is assessed under the regulation on the “Internal Systems and Internal Capital Adequacy Assessment Processes of Banks” published in the Official Gazette no. 29057 dated 11 July 2014. 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

## 26 Financial risk management disclosures (continued)

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 30 September 2015 and 31 December 2014, are as follows:

|   | <i>30 September</i> | <i>31 December</i> |
|---|---------------------|--------------------|
|   | <u>2015</u>         | <u>2014</u>        |
| Tier 1 capital  | 28,188,307          | 25,882,218         |
| Tier 2 capital  | 2,856,832           | 2,401,373          |
| Deductions from capital   | <u>(1,072,397)</u>  | <u>(187,314)</u>   |
| Total regulatory capital  | 29,972,742          | 28,096,277         |
| Value at credit, market and operational risks   | 244,026,725         | 202,673,112        |
| <u>Capital ratios (%)</u>   |                     |                    |
| Total regulatory capital expressed as a percentage of total value at credit, market and operational risks | 12.28               | 13.86              |
| Total tier 1 capital expressed as a percentage of total value at credit, market and operational risks     | 11.55               | 12.77              |

### 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

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

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 238,616 thousands and USD 1,085,413,492 and for its bonds with a total face value of TL 1,325,000 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 113,103 thousands (30 September 2014: TL 16,531 thousands) and a loss of TL 57,422 thousands (30 September 2014: TL 35,837 thousands) resulted from the related fair value calculations for the hedged loans and bonds, respectively, were accounted for under net trading gains/(losses) 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, RON 85,500,000 and CZK 423,000,000 with the same face value amount and conditions. Accordingly, a loss of TL 16,797 thousands (30 September 2014: TL 4,845 thousands) resulted from the fair value changes of the securities issued and funds borrowed subject to hedge accounting, were accounted for under net trading gains/(losses) in the statement of income.

The Bank also applied cash flow hedge accounting for its eurobonds with a total face value of USD 310,000,000, funds borrowed amounting to USD 99,783,786 and EUR 47,368,422, securitization borrowings amounting to USD 175,000,000 and EUR 216,157,898 by designating cross currency swaps with the same face value amount and conditions, and for the collateralised borrowings amounting to TL 850,000 thousands and commercial loans amounting to USD 500,000,000 by designating interest rate swaps with the same face value amount and conditions. Accordingly, in the current period, a gain of TL 93,893 thousands and a loss of TL 12,121 thousands (30 September 2014: gains of TL 66,911 thousands and TL 34,773 thousands) 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 other foreign currency borrowings converted to EUR currency through swap transactions 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 30 September 2015, a negative amount of TL 46,755 thousands (net of deferred taxes) was recognised under shareholders' equity as the hedging reserve (30 September 2014: TL 8,231 thousands).

## 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:

|  | <b>30 September</b> | <b>31 December</b> |
|--|---------------------|--------------------|
|  | <b>2015</b>         | <b>2014</b>        |
| <b><i>Consolidated entities</i></b>                    |                     |                    |
| 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             |
| Garanti Finansal Kiralama AŞ                           | 100.00              | 100.00             |
| Garanti Emeklilik ve Hayat AŞ                          | 84.91               | 84.91              |
| Garanti Faktoring Hizmetleri AŞ                        | 81.84               | 81.84              |
| Garanti Yatırım Ortaklığı AŞ                           | 3.30                | 3.30               |
| 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 do not have any shareholding interests in these companies.*

## 28 Net fee and commission income

|                                    | <i>Nine-month<br/>period ended</i> | <i>Three-month<br/>period ended</i> | <i>Nine-month<br/>period ended</i> | <i>Three-month<br/>period ended</i> |
|------------------------------------|------------------------------------|-------------------------------------|------------------------------------|-------------------------------------|
|                                    | <b>30 September 2015</b>           | <b>30 September 2015</b>            | <b>30 September 2014</b>           | <b>30 September 2014</b>            |
| <i>Fee and commission income:*</i> |                                    |                                     |                                    |                                     |
| Credit cards fees                  | 1,362,299                          | 494,352                             | 1,281,943                          | 333,464                             |
| Retail banking                     | 433,810                            | 170,714                             | 693,367                            | 244,790                             |
| SME banking                        | 330,815                            | 115,052                             | 314,375                            | 141,839                             |
| Commercial banking                 | 305,517                            | 89,573                              | 312,840                            | 181,994                             |
| Corporate banking                  | 102,265                            | 41,310                              | 111,747                            | 54,450                              |
| Others                             | <u>169,521</u>                     | <u>49,197</u>                       | <u>83,581</u>                      | <u>9,423</u>                        |
| Total fee and commission income    | <u>2,704,227</u>                   | <u>960,198</u>                      | <u>2,797,853</u>                   | <u>965,960</u>                      |
| <i>Fee and commission expense:</i> |                                    |                                     |                                    |                                     |
| Credit cards fees                  | 552,874                            | 208,175                             | 474,696                            | 176,142                             |
| Retail banking                     | 23,700                             | 7,879                               | 21,012                             | 6,381                               |
| Commercial banking                 | 2,530                              | 885                                 | 2,568                              | 1,249                               |
| SME banking                        | 2,505                              | 905                                 | 3,610                              | 855                                 |
| Corporate banking                  | 141                                | 52                                  | 184                                | 22                                  |
| Others                             | <u>104,557</u>                     | <u>39,693</u>                       | <u>86,239</u>                      | <u>33,343</u>                       |
| Total fee and commission expense   | <u>686,307</u>                     | <u>257,589</u>                      | <u>588,309</u>                     | <u>217,992</u>                      |
| Net fee and commission income      | <u>2,017,920</u>                   | <u>702,609</u>                      | <u>2,209,544</u>                   | <u>747,968</u>                      |

(\*) *Includes cancellations/repayments, by the Bank in the current period, of fees and commissions income recognized in prior years in the amount of TL 199,828 thousands (30 September 2014: TL 74,910 thousands) as per the decision of the Turkish Competition Board or the related courts.*

## 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>Nine-month<br/>period ended<br/>30 September 2015</i> | <i>Three-month<br/>period ended<br/>30 September 2015</i> | <i>Nine-month<br/>period ended<br/>30 September 2014</i> | <i>Three-month<br/>period ended<br/>30 September 2014</i> |
|-----------------------------|--|---|--|---|
| Fixed/floating securities   | 804,023  | 499,628   | 83,694   | 287,829   |
| Derivative transactions     | (1,690,084)  | (404,633)   | (606,179)  | (429,646)   |
| Trading gains/(losses), net | <u>(886,061)</u>   | <u>94,995</u>   | <u>(522,485)</u>   | <u>(141,817)</u>  |

## 30 Other operating expenses

|                                      | <i>Nine-month<br/>period ended<br/>30 September 2015</i> | <i>Three-month<br/>period ended<br/>30 September 2015</i> | <i>Nine-month<br/>period ended<br/>30 September 2014</i> | <i>Three-month<br/>period ended<br/>30 September 2014</i> |
|--------------------------------------|--|---|--|---|
| Saving deposits insurance fund       | 145,324  | 50,889  | 125,393  | 43,262  |
| Computer usage expenses              | 110,072  | 41,032  | 85,268   | 30,995  |
| Advertising expenses                 | 86,186   | 27,404  | 76,996   | 27,746  |
| Utility expenses                     | 67,316   | 20,101  | 58,537   | 21,675  |
| Claim losses from insurance business | 61,839   | 25,727  | 47,152   | 17,146  |
| Repair and maintenance expenses      | 60,182   | 33,041  | 39,976   | 13,871  |
| Insurance related expenses           | 38,223   | 16,187  | 28,150   | 10,608  |
| Research and development expenses    | 21,010   | 10,507  | 31,452   | 11,640  |
| Stationary expenses                  | 20,568   | 7,672   | 18,781   | 6,295   |
| Others (*)                           | <u>638,454</u>   | <u>241,898</u>  | <u>518,948</u>   | <u>180,295</u>  |
|                                      | <u>1,249,174</u>   | <u>474,458</u>  | <u>1,030,653</u>   | <u>363,533</u>  |

(\*) Includes lawsuit, execution and other legal expenses beared by the Bank in the current period, of fees and commissions income recognized in prior years but reimbursed, in the amount of TL 37,097 thousands (30 September 2014: TL 22,858 thousands), as per the decision of the Turkish Competition Board or the related courts.

According to the Custom and Trade Ministry inspectors audit report, The Bank notified with an administrative fee amounting to TL 110,110 thousands. In accordance with the Article 17/6 of the Law on Crime no.5326, saving all the cancellation legal rights, the Bank paid the administrative fee of TL 82,583 thousands with ¼ prepayment discount on 31 August 2015.

## 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.



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

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

#### Determining fair values

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

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

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

#### Financial asset and liability classification

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

- In classifying financial assets or liabilities as "trading", the Bank has determined that it meets the description of trading assets and liabilities set out in accounting policy (h) *Financial instruments*.
- In designating financial assets or liabilities at fair value through profit or loss, the Bank has determined that it has met one of the criteria for this designation set out in accounting policy (h) *Financial instruments*.
- In classifying financial assets as held-to-maturity, the Bank has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by accounting policy (h) *Financial instruments*.

#### Securitizations

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

- When the Bank, in substance, controls the entity to which financial assets have been transferred, the entity is included in these consolidated financial statements and the transferred assets are recognized in the Bank's consolidated statement of financial position.
- 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.

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

#### Control over investments

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

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

### **32 Significant event**

As per the decision made at the annual general assembly of shareholders of the Bank on 9 April 2015, the statutory net income of 2014 was distributed as follows;

| <b>2014 INCOME DISTRIBUTION TABLE</b>                      |                  |
|--|------------------|
| <b>2014 Net Income</b>                                     | <b>3,200,248</b> |
| A – I. Legal reserve (Turkish Commercial Code 519/1) at 5% | -                |
| Undistributable funds                                      | 31,946           |
| B – First dividend at 5% of the paid-in capital            | 210,000          |
| C – Extraordinary reserves at 5% after above deductions    | 149,512          |
| D – Second dividend to the shareholders                    | 357,000          |
| E – Extraordinary reserves                                 | 2,416,090        |
| F – II. Legal reserve (Turkish Commercial Code 519/2)      | 35,700           |

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