



**Türkiye Garanti Bankası Anonim Şirketi**  
**And Its Affiliates**  
Consolidated Financial Statements  
For the nine month period ended  
30 September 2017  
With Independent Auditors' Report on  
Review of Consolidated Interim  
Financial Information

Akis Bağımsız Denetim ve Serbest Muhasebeci  
Mali Müşavirlik Anonim Şirketi

8 November 2017

This report contains 2 pages of independent auditors' report on review of consolidated interim financial information and 78 pages of consolidated interim financial statements and their explanatory notes.

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And Its Affiliates Table of Contents**

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## Independent Auditors' Report on Review of Consolidated Interim Financial Statements

To the Board of Directors of Türkiye Garanti Bankası Anonim Şirketi,

### *Introduction*

We have reviewed the accompanying consolidated statement of financial position of Türkiye Garanti Bankası Anonim Şirketi ("the Bank") and its subsidiaries (together "the Group") as at 30 September 2017, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the nine month period then ended, and notes comprising significant accounting policies and other explanatory information ("the consolidated interim financial statements"). Management is responsible for the preparation and fair presentation of these consolidated interim financial statements in accordance with IAS 34 'Interim Financial Reporting'. Our responsibility is to express a conclusion on these consolidated interim financial statements based on our review.

### *Scope of Review*

We conducted our review in accordance with the International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial statements 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*

The accompanying consolidated interim financial information as at 30 September 2017 include a general reserve of total TL 950,000 thousands, of which TL 650,000 thousands had been recognized as expense in the current period, and TL 300,000 thousands had been recognized as expense in prior periods, which is provided by the Bank management for the possible effects of the negative circumstances which may arise in the economy or market conditions.

#### *Qualified Conclusion*

Based on our review, except for the effects of the matter described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial statements do not present fairly, in all material respects, the consolidated financial position of Türkiye Garanti Bankası AŞ and its subsidiaries as at 30 September 2017, and its consolidated financial performance and its consolidated cash flows for the nine month period then ended, in accordance with IAS 34 "Interim Financial Reporting".

#### *Other Matter*

The consolidated financial statements of the Bank as at and for the year ended 31 December 2016 and as at and for the nine month period ended 30 September 2016 were audited and reviewed by another auditor who expressed a qualified opinion and a qualified conclusion due to the general reserve provided by the Bank on 20 February 2017 and 24 October 2016 respectively.

Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.  
A member firm of KPMG International Cooperative

Murat Alsan  
Partner

8 November 2017  
İstanbul, Turkey

**Türkiye Garanti Bankası AŞ And Its Affiliates**  
**Consolidated Statement of Financial Position**  
**At 30 September 2017**

(Currency: Thousands of Turkish Lira (TL))

	<u>Notes</u>	<u>30 September 2017</u>	<u>31 December 2016</u>
<b>Assets</b>			
Cash and balances with central banks	4	15,390,518	11,601,263
Financial assets at fair value through profit or loss	5	577,505	1,086,299
Loans and advances to banks	6	11,561,276	15,281,197
Loans and advances to customers	7,23	224,595,811	205,988,793
Other assets	9	30,239,187	21,127,788
Investment securities	10,22,23	47,725,275	47,092,951
Investments in equity participations	11	40,388	39,954
Tangible and intangible assets	12	5,573,898	5,210,737
Goodwill, net	13	32,948	32,948
Deferred tax asset	20	880,066	856,597
<b>Total Assets</b>		<b><u>336,616,872</u></b>	<b><u>308,318,527</u></b>
<b>Liabilities</b>			
Deposits from banks	14	4,194,368	4,487,946
Deposits from customers	15	190,961,316	174,155,645
Obligations under repurchase agreements and money market fundings	16	18,505,682	11,230,193
Loans and advances from banks and other institutions	17	42,757,908	47,327,944
Bonds payable	18	19,347,705	17,846,340
Subordinated liabilities	19	2,715,786	-
Current tax liability	20	453,355	120,542
Deferred tax liability	20	25,102	23,315
Other liabilities, accrued expenses and provisions	21	16,838,946	16,688,646
<b>Total Liabilities</b>		<b><u>295,800,168</u></b>	<b><u>271,880,571</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	(190,632)	(543,775)
Hedging reserve	22	(604,783)	(426,418)
Actuarial gain/(loss)	22	(104,510)	(104,510)
Revaluation surplus on tangible assets	22	1,512,278	1,511,483
Translation reserve	22	1,538,136	1,149,369
Legal reserves	22	1,388,866	1,275,230
Retained earnings	22	31,811,921	28,150,518
		<b><u>40,509,527</u></b>	<b><u>36,170,148</u></b>
<b>Non-controlling interests</b>	22	<b><u>307,177</u></b>	<b><u>267,808</u></b>
<b>Total Equity</b>		<b><u>40,816,704</u></b>	<b><u>36,437,956</u></b>
<b>Total Liabilities and Equity</b>		<b><u>336,616,872</u></b>	<b><u>308,318,527</u></b>
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The notes on pages 5 to 78 are an integral part of these consolidated financial statements.

**Türkiye Garanti Bankası AŞ And Its Affiliates**  
**Consolidated Statement of Profit or Loss and Other Comprehensive Income**  
**For The Nine-Month Period Ended 30 September 2017**  
*(Currency: Thousands of Turkish Lira (TL))*

<u>Notes</u>	<u>1 January 2017- 30 September 2017</u>	<u>1 July 2017- 30 September 2017</u>	<u>1 January 2016- 30 September 2016</u>	<u>1 July 2016- 30 September 2016</u>
<b>Statement of Income:</b>				
Interest income:-				
Interest on loans	16,204,215	5,736,848	13,048,811	4,555,684
Interest on securities	3,042,373	1,099,390	2,871,579	963,614
Interest on deposits at banks	526,188	213,020	343,856	108,713
Interest on lease business	326,681	109,238	323,937	126,382
Others	81,525	25,423	61,534	20,989
	<u>20,180,982</u>	<u>7,183,919</u>	<u>16,649,717</u>	<u>5,775,382</u>
Interest expense:-				
Interest on saving, commercial and public deposits	(5,885,843)	(2,194,941)	(4,987,643)	(1,652,695)
Interest on borrowings, obligations under repurchase agreements, money market and swap fundings	(3,534,747)	(1,297,779)	(2,578,373)	(726,325)
Interest on bonds payable	(1,040,669)	(385,583)	(809,567)	(282,847)
Interest on bank deposits	(109,602)	(25,817)	(252,458)	(144,577)
Interest on subordinated liabilities	(57,636)	(40,813)	(1,953)	(515)
Others	(16,458)	(2,509)	(16,962)	(2,153)
	<u>(10,644,955)</u>	<u>(3,947,442)</u>	<u>(8,646,956)</u>	<u>(2,809,112)</u>
<b>Net interest income before provisions for loans and other credit risks</b>	<b>9,536,027</b>	<b>3,236,477</b>	<b>8,002,761</b>	<b>2,966,270</b>
<b>Provisions for loans and other credit risks, net</b>	<b>5,67,8,10, 21</b> <u>(356,479)</u>	<b>43,475</b>	<b>(1,430,451)</b>	<b>(600,981)</b>
<b>Net interest income after provisions for loans and other credit risks</b>	<b>9,179,548</b>	<b>3,279,952</b>	<b>6,572,310</b>	<b>2,365,289</b>
Fee and commission income	3,725,838	1,350,816	3,113,662	1,075,126
Fee and commission expense	(917,904)	(349,124)	(772,595)	(266,952)
<b>Net fee and commission income</b>	<b>28</b> <u>2,807,934</u>	<b>1,001,692</b>	<b>2,341,067</b>	<b>808,174</b>
Premium income from insurance business	499,528	173,924	406,652	136,215
Foreign exchange gains, net	243,099	(174,628)	-	(365,084)
Gain on sale of assets	108,887	25,257	405,609	23,507
Trading gains, net	-	-	283,959	446,527
Other operating income	219,541	83,620	119,448	32,606
<b>Other operating income</b>	<b>30</b> <u>1,071,055</u>	<b>108,173</b>	<b>1,215,668</b>	<b>273,771</b>
<b>Total operating income</b>	<b>13,058,537</b>	<b>4,389,817</b>	<b>10,129,045</b>	<b>3,447,234</b>
Salaries and wages	(1,725,725)	(612,530)	(1,504,385)	(532,052)
Impairment losses, net	(840,461)	(384,232)	(147,595)	(127,912)
Employee benefits	(770,868)	(229,677)	(699,702)	(224,268)
Credit card rewards and promotion expenses	(689,798)	(240,784)	(511,285)	(204,457)
Rent expenses	(314,169)	(105,663)	(283,074)	(97,267)
Depreciation and amortization	(308,041)	(103,158)	(255,596)	(87,844)
Taxes and duties other than on income	(202,820)	(44,029)	(222,076)	(36,334)
Trading losses, net	(201,030)	238,939	-	-
Communication expenses	(159,074)	(50,517)	(152,267)	(51,217)
Foreign exchange losses, net	-	-	(231)	(231)
Other operating expenses	(1,321,466)	(453,391)	(1,162,393)	(382,626)
<b>Total operating expenses</b>	<b>6,533,452</b>	<b>(1,985,042)</b>	<b>(4,938,604)</b>	<b>(1,744,208)</b>
<b>Income before tax</b>	<b>6,525,085</b>	<b>2,404,775</b>	<b>5,190,441</b>	<b>1,703,026</b>
Taxation charge	(1,462,102)	(560,623)	(1,027,211)	(366,017)
<b>Net income for the period</b>	<b>5,062,983</b>	<b>1,844,152</b>	<b>4,163,230</b>	<b>1,337,009</b>
<b>Other Comprehensive Income:</b>				
<i>(items that may be reclassified subsequently to statement of income)</i>				
Foreign currency translation differences for foreign operations, net of tax	397,325	144,430	133,509	120,146
Fair value reserves (available-for-sale financial assets), net of tax:				
Net change in fair values	333,639	(152,940)	413,739	(4,983)
Net amount transferred to income	14,628	10,649	(214,746)	24,136
Cash flow hedges, net of tax:				
Effective portion of changes in fair value	(26,763)	(339)	(32,310)	25,712
Net amount transferred to income	(17,965)	(3,703)	(80,657)	(16,468)
Net investment hedge for foreign operations, net of tax	(133,599)	(51,169)	(50,620)	(42,306)
Revaluation surplus on tangible assets, net of tax	-	-	(31,878)	(31,878)
<i>(items that cannot be reclassified subsequently to statement of income)</i>				
Actuarial gain/(loss) related to employee benefits, net of tax				
Effect of changes in actuarial assumptions	-	-	-	-
Change in measurement of plan liabilities arising from passage of time	-	-	-	-
<b>Other comprehensive income for the period, net of tax</b>	<b>567,265</b>	<b>(53,072)</b>	<b>137,037</b>	<b>74,359</b>
<b>Total Comprehensive Income for the Period</b>	<b>5,630,248</b>	<b>1,791,080</b>	<b>4,300,267</b>	<b>1,411,368</b>
<b>Net income attributable to:</b>				
Equity holders of the Bank	5,022,122	1,830,389	4,130,722	1,327,119
Non-controlling interests	40,861	13,763	32,508	9,890
	<u>5,062,983</u>	<u>1,844,152</u>	<u>4,163,230</u>	<u>1,337,009</u>
<b>Total comprehensive income attributable to:</b>				
Equity holders of the Bank	5,589,379	1,777,317	4,267,773	1,401,492
Non-controlling interests	40,869	13,763	32,494	9,876
	<u>5,630,248</u>	<u>1,791,080</u>	<u>4,300,267</u>	<u>1,411,368</u>
<b>Weighted average number of shares with a face value of Kr 1 each</b>	<b>22</b> <u>420 billions</u>	<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>1.196</b>	<b>0.436</b>	<b>0.984</b>	<b>0.316</b>

The notes on pages 5 to 78 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 2017

(Currency: Thousands of Turkish Lira (TL))

	Share Capital	Share Premium	Unrealised Gains/(Losses) on Available-for-Sale Assets	Hedging Reserve	Translation Reserve	Legal Reserves	Actuarial Gain/(Loss)	Revaluation Surplus on Tangible Assets	Retained Earnings	Non-Controlling Interests	Total Equity
<b>Balances at 31 December 2015</b>	<b>5,146,371</b>	<b>11,880</b>	<b>(283,792)</b>	<b>(241,097)</b>	<b>696,557</b>	<b>1,229,498</b>	<b>(76,718)</b>	<b>1,590,481</b>	<b>23,705,893</b>	<b>226,617</b>	<b>32,005,690</b>
Foreign exchange difference on foreign currency legal reserves	-	-	-	-	-	2,185	-	-	-	-	2,185
Transfer to legal reserves	-	-	-	-	-	42,629	-	-	(42,629)	-	-
Dividends paid	-	-	-	-	-	-	-	-	(567,000)	(1,210)	(568,210)
Net unrealised market value gains/(losses) from available-for-sale portfolio	-	-	413,753	-	-	-	-	-	-	(14)	413,739
Net gains on available-for-sale assets transferred to income statement at disposal	-	-	(214,746)	-	-	-	-	-	-	-	(214,746)
Foreign currency translation differences for foreign operations	-	-	(47,810)	(112)	178,480	-	-	766	-	-	131,324
Revaluation surplus on tangible and intangible assets	-	-	-	-	-	-	-	(31,878)	-	-	(31,878)
Net fair value losses from cash flow hedges	-	-	-	(112,967)	-	-	-	-	-	-	(112,967)
Net investment hedge for foreign operations	-	-	-	(50,620)	-	-	-	-	-	-	(50,620)
Changes resulted from disposal of assets	-	-	-	-	-	-	-	(8,303)	8,303	-	-
Net income for nine-month period	-	-	-	-	-	-	-	-	4,130,722	32,508	4,163,230
<b>Balances at 30 September 2016</b>	<b>5,146,371</b>	<b>11,880</b>	<b>(132,595)</b>	<b>(404,796)</b>	<b>875,037</b>	<b>1,274,312</b>	<b>(76,718)</b>	<b>1,551,066</b>	<b>27,235,289</b>	<b>257,901</b>	<b>35,737,747</b>
<b>Balances at 31 December 2016</b>	<b>5,146,371</b>	<b>11,880</b>	<b>(543,775)</b>	<b>(426,418)</b>	<b>1,149,369</b>	<b>1,275,230</b>	<b>(104,510)</b>	<b>1,511,483</b>	<b>28,150,518</b>	<b>267,808</b>	<b>36,437,956</b>
Foreign exchange difference on foreign currency legal reserves	-	-	-	-	-	2,917	-	-	-	-	2,917
Transfer to legal reserves	-	-	-	-	-	110,719	-	-	(110,719)	-	-
Dividends paid	-	-	-	-	-	-	-	-	(1,250,000)	(1,500)	(1,251,500)
Net unrealised market value gains/(losses) from available-for-sale portfolio	-	-	333,631	-	-	-	-	-	-	8	333,639
Net losses on available-for-sale assets transferred to income statement at disposal	-	-	14,628	-	-	-	-	-	-	-	14,628
Foreign currency translation differences for foreign operations	-	-	4,884	(38)	388,767	-	-	795	-	-	394,408
Net fair value losses from cash flow hedges	-	-	-	(44,728)	-	-	-	-	-	-	(44,728)
Net investment hedge for foreign operations	-	-	-	(133,599)	-	-	-	-	-	-	(133,599)
Net income for nine-month period	-	-	-	-	-	-	-	-	5,022,122	40,861	5,062,983
<b>Balances at 30 September 2017</b>	<b>5,146,371</b>	<b>11,880</b>	<b>(190,632)</b>	<b>(604,783)</b>	<b>1,538,136</b>	<b>1,388,866</b>	<b>(104,510)</b>	<b>1,512,278</b>	<b>31,811,921</b>	<b>307,177</b>	<b>40,816,704</b>

**Türkiye Garanti Bankası AŞ And Its Affiliates**  
**Consolidated Statement of Cash Flows**  
**For The Nine-Month Period Ended 30 September 2017**

(Currency: Thousands of Turkish Lira (TL))

<u>Notes</u>	<u>1 January 2017- 30 September 2017</u>	<u>1 January 2016- 30 September 2016</u>
<b>Cash flows from operating activities:-</b>		
Interests and commissions received	20,136,528	16,459,281
Interests and commissions paid	(11,401,440)	(9,415,360)
Other operating activities, net	2,032,485	1,592,627
Cash payments to employees and suppliers	(4,811,372)	(4,248,039)
	<u>5,956,201</u>	<u>4,388,509</u>
<b>(Increase)/decrease in operating assets:-</b>		
Loans and advances to banks	(1,129,742)	(8,087,205)
Balances with central banks	(10,004,918)	5,971,167
Financial assets at fair value through profit or loss	494,431	(427,467)
Loans and advances to customers other than consumer loans	(13,629,941)	(11,538,203)
Consumer loans	(6,016,295)	(4,963,477)
Other assets	(241,002)	(225,896)
<b>Increase/(decrease) in operating liabilities:-</b>		
Deposits from banks	(292,396)	(4,148,684)
Deposits from customers	16,711,347	15,156,480
Obligations under repurchase agreements and money market fundings	7,271,994	2,115,923
Other liabilities	591,455	1,060,649
	<u>(288,866)</u>	<u>(698,204)</u>
<b>Net cash inflows/(outflows) from operating activities before taxes and duties paid</b>	<b>(288,866)</b>	<b>(698,204)</b>
<b>Income taxes and other duties paid</b>	<b>(1,377,871)</b>	<b>(1,374,183)</b>
	<u>(1,666,737)</u>	<u>(2,072,387)</u>
<b>Net cash outflows from operating activities</b>	<b>(1,666,737)</b>	<b>(2,072,387)</b>
<b>Cash flows from investing activities:-</b>		
Net decrease in investment securities	776,346	2,826,517
Interest received for investment securities	2,050,112	1,668,601
Increase in investments in equity participations	(29)	-
Dividends received	7,558	9,062
Proceeds from sale of tangible and intangible assets	381,523	255,124
Purchase of tangible and intangible assets	(847,033)	(901,109)
	<u>2,368,477</u>	<u>3,858,195</u>
<b>Net cash inflows from investing activities</b>	<b>2,368,477</b>	<b>3,858,195</b>
<b>Cash flows from financing activities:-</b>		
Decrease in loans and advances from banks and other institutions, net	(4,941,078)	(545,736)
Increase/(decrease) in bonds payable, net	1,494,657	(349,090)
Increase/(decrease) in subordinated liabilities, net	2,658,150	(158,355)
Dividends paid	(1,251,500)	(568,210)
	<u>(2,039,771)</u>	<u>(1,621,391)</u>
<b>Net cash outflows from financing activities</b>	<b>(2,039,771)</b>	<b>(1,621,391)</b>
<b>Effect of exchange rate changes</b>	<b>177,785</b>	<b>273,324</b>
	<u>(1,160,246)</u>	<u>437,741</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(1,160,246)</b>	<b>437,741</b>
Cash and cash equivalents at the beginning of the period	15,698,078	11,756,386
	<u>14,537,832</u>	<u>12,194,127</u>
<b>Cash and cash equivalents at the end of the period</b>	<b>14,537,832</b>	<b>12,194,127</b>

The notes on pages 5 to 78 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 2017 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 896 domestic branches, eight foreign branches, three representative offices abroad and 46 offices. In addition to its branches, the Bank has 100% ownership in two banks each of which is located in Amsterdam and Bucharest. The Bank and its affiliates in total have 22,923 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 2017, group of companies under Banco Bilbao Vizcaya Argentaria SA (“BBVA”) that currently owns 49.85% 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.

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% and BBVA became the main shareholder. The Bank has moved to “Foreign Deposit Banks” category from “Private Deposit Bank” category by the Banking Regulation and Supervision Agency (the “BRSA”).

On 21 February 2017, BBVA had agreed with the Doğu Group to acquire 41.790.000.000 shares at a nominal value of TL 417,900 thousands representing 9.95% ownership and on 22 March 2017 in accordance with the terms of the agreement share transfer had been finalized. After the share transfer BBVA’s interest in the share capital of the Bank is at 49.85%.

Accordingly, as of balance sheet date, the Doğu Group’s interest in the share capital of the Bank is at 0.05%.

## **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 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.

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

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 26 October 2017.

#### **(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, 19, 20, 21, 23, 24, 25 and 32.

#### **(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)**

### *Structured entities*

Structured 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. Structured entities are consolidated when the substance of the relationship between the Bank and the structured entity indicates that the structured 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 and intangible assets and related depreciation**

### *Owned assets*

The costs of the tangible and intangible assets acquired before 31 December 2005 are restated for the effects of inflation in TL units current at 31 December 2005 pursuant to IAS 29. Such assets acquired after this date are recorded at their historical costs. Accordingly, they are carried at costs, less accumulated depreciation and impairment losses (refer to accounting policy (s)). As of 1 November 2015, changing the existing accounting policy, it has been decided to apply revaluation model for properties recorded under tangible and intangible assets instead of cost model in accordance with IAS 16. Accordingly, for all real estates registered in the ledger, a valuation study was performed by independent expertise firms.

### *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 depreciation (see below) and impairment losses (refer to accounting policy (s)). Lease

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

liabilities are reduced through repayments of principal, while the finance charge component of the lease payment is charged directly to income.

#### *Internally generated softwares*

As per IAS 38, internally-generated softwares should be recognised as assets if they meet the below listed criterias:

- The technical feasibility of completing the asset so that it will be available for use,
- Availability of the intention to complete and use the asset,
- The ability to use the asset,
- Clarity in probable future economic benefits to be generated from the asset,
- The availability of adequate technical, financial and other resources to complete the development phase and to start using the asset,
- The availability to measure reliably the expenditure attributable to the asset during the development phase.

The directly attributable development costs of asset are included in the the cost of such assets, however the research costs are recognised as expense as incurred.

#### *Subsequent expenditure*

Expenditures incurred to replace a component of a tangible and intangible 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 such assets. All other expenditures are reflected as expense in the statement of profit or loss and other comprehensive income as incurred.

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

#### *Depreciation*

The estimated useful lives and depreciation rates of tangible and intangible assets are as follows. Depreciation method in use was not changed in the current period.

<i>Tangible and intangible assets</i>	<i>Estimated useful lives (years)</i>	<i>Depreciation Rates (%)</i>
Buildings	50	2
Vaults	50	2
Motor vehicles	5-7	15-20
Other tangible and intangible assets	4-20	5-25

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

#### *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. As of 1 November 2015, changing the existing accounting policy, it has been decided to apply fair value model for investment properties instead of cost model in accordance with the IAS 40. Accordingly, for all the investment properties registered in the ledger, a valuation study was performed by independent expertise firms. Fair value changes in investment properties were accounted retrospectively in the statement of profit or loss and other comprehensive income for the period they occurred.

Investment properties under fair value model are not depreciated.

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

### **(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 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.

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

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

All non-trading financial liabilities, loans and receivables and held-to-maturity assets are measured at amortized cost less impairment losses. Amortized cost is calculated based 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. 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.

### **(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.



**Significant accounting policies (continued)**

**(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 2017</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 20, therefore reflect the actuarial assumptions and mortality tables specified in the New Law, including a discount rate of 9.80%.

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

*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

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

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 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

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

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 profit or loss and other comprehensive income are determined by dividing net income by the weighted average number of shares outstanding during the period attributable to the shareholders of the Bank. In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("Bonus Shares") to existing shareholders from retained earnings. Additionally, considering the fact that the increase in the number of shares issued by way of bonus shares in fact does not require any cash injection by the shareholders; the number of issued shares outstanding before such bonus share issuances is adjusted for the proportionate change in the number of issued shares outstanding as if the event had occurred at the beginning of the earliest period reported.

#### **(s) Impairment**

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

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

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

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

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 under investment securities 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.

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.

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

### *Insurance business*

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

*Unearned premium reserve:* Unearned premiums are those proportions of the premiums written in a period that relate to the period of risk subsequent to the date of the statement of financial position for all short-term insurance policies. In accordance with the incumbent legislation on the computation of insurance contract liabilities, unearned premium reserve set aside for unexpired risks as at the dates of the statements of financial position, has been computed on a daily pro-rata basis. The change in the provision for unearned premium is recognized in 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 received from its customers to fund a return that is based on the investment profile that the customer selected on origination of the instrument. These services comprise the activity of trading financial assets in order to reproduce the contractual services. In all cases, these services comprise an indeterminate number of acts over the life of the individual contracts.

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

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

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

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

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

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

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (disposal group) is available for immediate sale in its present condition.

Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

#### **(v) Segment reporting**

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

#### **(w) New standards and interpretations**

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

- Amendments to IFRS 10 and IAS 28 *Sale of Contribution of Assets between an Investor and its Associate or Joint Venture*<sup>(1)</sup>
  - Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealized Losses*<sup>(1)</sup>
  - Amendments to IAS 7 *Disclosure Initiative*<sup>(1)</sup>
  - Annual Improvements to IFRS Standards 2014–2016 Cycle *IFRS 12*<sup>(1)</sup>
- <sup>(1)</sup> Effective for annual periods beginning on or after 1 January 2017

##### **New and revised IFRSs in issue but not yet effective or not early adopted**

- IFRS 9 *Financial Instruments*<sup>(1)</sup>
- IFRS 15 *Revenue from Contracts with Customers*<sup>(1)</sup>
- IFRS 16 *Leases*<sup>(2)</sup>
- Amendments to IFRS 15 *Revenue from Contracts with Customers*<sup>(1)</sup>
- Amendments to IFRS 9 *Prepayment Features with Negative Compensation*<sup>(2)</sup>
- Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures*<sup>(2)</sup>
- Amendments to IFRS 2 *Classification and Measurement of Share-Based Payment Transactions*<sup>(1)</sup>
- Amendments to IFRS 4 Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts*<sup>(1)</sup>
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*<sup>(1)</sup>
- Amendments to IAS 40 *Transfers of Investment Property*<sup>(1)</sup>
- Annual Improvements to IFRS Standards 2014–2016 Cycle *IFRS 1*<sup>(1)</sup>, *IAS 28*<sup>(1)</sup>
- IFRIC 23 *Uncertainty Over Income Tax Treatments*<sup>(2)</sup>
- IFRS 17 *Insurance Contracts*<sup>(3)</sup>

<sup>(1)</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>(2)</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>(3)</sup> Effective for annual periods beginning on or after 1 January 2021

The Bank evaluates the effects of these standards, amendments and improvements on the consolidated financial statements.

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

	<b>30 September 2017</b>				
	<b><i>Loans and Advances to Customers</i></b>	<b><i>Total Assets</i></b>	<b><i>Total Liabilities</i></b>	<b><i>Non-Cash Loans</i></b>	<b><i>Capital Expenditures</i></b>
Turkey	206,570,817	303,575,483	227,560,325	41,524,328	895,917
Romania	6,781,741	8,370,702	5,880,921	489,980	9,051
England	869,117	6,843,473	13,214,233	306,991	-
Netherlands	2,752,052	5,928,568	7,239,613	199,771	5,485
Germany	1,019,592	1,827,206	11,079,340	207,963	395
Cyprus	662,783	1,498,217	1,450,419	77,538	-
USA	497,852	1,385,287	5,179,267	2,895,133	-
Malta	1,097,966	1,378,419	306,151	120,307	-
Switzerland	1,240,018	1,286,440	4,695,485	3,855,142	-
France	254,439	622,749	4,525,592	359,460	-
United Arabian Emirates	554,038	567,525	3,001,984	1,175,842	-
Belgium	346,956	388,947	881,884	33,442	-
Sweden	380,799	384,312	154,384	27,042	-
Singapore	223,574	313,031	71,658	244,035	-
Austria	297,502	300,218	366,568	16,330	-
Luxembourg	142,537	271,205	1,856,724	19	-
China	106,580	248,189	1,079,230	77,273	-
Russia	41,945	165,569	118,094	11	-
Japan	75	164,938	17,053	319,821	-
Spain	30,491	126,464	258,644	332,360	-
Italy	114,667	119,444	839,893	489,500	-
Ireland	71,779	71,787	393,329	1,523	-
Canada	3,566	9,669	669,506	-	-
Ukraine	7,003	7,016	60,986	4,722	-
Azerbaijan	6,116	6,140	1,771,532	5,426	-
Thailand	15	634	319,208	183	-
Qatar	201	202	342,409	924	-
Others	521,590	755,038	2,465,736	1,117,188	-
	<u>224,595,811</u>	<u>336,616,872</u>	<u>295,800,168</u>	<u>53,882,254</u>	<u>910,848</u>



**1 Segment reporting (continued)**

	<i>31 December 2016</i>				
	<i>Loans and Advances to Customers</i>	<i>Total Assets</i>	<i>Total Liabilities</i>	<i>Non-Cash Loans</i>	<i>Capital Expenditures</i>
Turkey	189,903,700	272,835,455	203,383,060	40,801,567	1,315,715
England	1,062,951	9,072,767	16,311,937	314,631	-
Romania	5,587,859	7,080,229	4,388,663	399,047	20,774
Netherlands	2,521,119	5,616,057	5,659,752	170,359	10,519
Germany	766,360	2,341,780	10,730,002	216,529	1,072
Spain	34,950	1,765,445	580,290	319,132	-
Malta	1,386,700	1,514,767	395,215	110,940	-
USA	427,222	1,308,818	5,858,653	3,556,659	-
Switzerland	1,238,938	1,305,863	6,068,590	5,211,579	-
Cyprus	624,418	1,147,855	994,053	62,213	-
Luxembourg	295,254	879,344	1,804,529	597	-
Singapore	198,102	586,273	667,495	697,513	-
Belgium	304,809	381,992	742,087	28,220	-
France	103,956	369,404	2,149,448	314,079	-
Sweden	337,157	343,924	107,080	123,767	-
Russia	10,175	227,648	137,497	6,707	-
United Arab Emirates	200,373	211,182	3,309,970	1,657,662	-
Austria	141,621	143,541	334,312	15,398	-
Italy	26,780	52,572	738,325	470,828	-
Ireland	52,078	52,087	405,469	10,178	-
China	16,081	16,472	912,480	311,129	-
Canada	6,191	10,530	680,685	101	-
Japan	156	7,645	67,303	474,618	-
Ukraine	7,401	7,552	81,170	29,994	-
Azerbaijan	4,946	4,967	1,418,411	289	-
Thailand	20	208	433,228	-	-
Qatar	59	59	41,007	4,675	-
Others	729,417	1,034,091	3,479,860	777,069	-
	<u>205,988,793</u>	<u>308,318,527</u>	<u>271,880,571</u>	<u>56,085,480</u>	<u>1,348,080</u>

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

	<i>Nine-month period ended 30 September 2017</i>	<i>Three-month period ended 30 September 2017</i>	<i>Nine-month period ended 30 September 2016</i>	<i>Three-month period ended 30 September 2016</i>
Turkey	4,431,401	1,623,554	3,858,060	1,202,874
Malta	365,295	150,832	213,387	87,178
Romania	114,606	28,843	15,479	15,774
Netherlands	95,172	24,033	26,611	16,567
Luxembourg	17,050	-	30,902	8,174
Others	39,459	16,890	18,791	6,442
	<u>5,062,983</u>	<u>1,844,152</u>	<u>4,163,230</u>	<u>1,337,009</u>

**Türkiye Garanti Bankası AŞ and Its Affiliates**

Notes to Consolidated Financial Statements

As of and for the Nine-Month Period Ended 30 September 2017

(Currency: Thousands of Turkish Lira (TL))

**Segment reporting (continued)**

**1.2 Business segments**

The segments are identified on the basis used by the Group's top management to allocate resources and evaluate performance, in accordance with IFRS 8 "Operating Segments". The Board reviews discrete financial information for each of its segments, including measures of operating results, assets and liabilities. 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 2017</u>	<u>Retail Banking</u>	<u>Commercial, Corporate &amp; SME Banking</u>	<u>Other Operations</u>	<u>Total Banking</u>	<u>Leasing</u>	<u>Insurance</u>	<u>Factoring</u>	<u>Other Financial</u>	<u>Other Non- Financial</u>	<u>Combined</u>	<u>Eliminations</u>	<u>Total</u>
Operating income	5,020,308	5,203,234	1,668,548	11,892,090	157,154	540,439	93,498	238,442	211,991	13,133,614	(75,077)	13,058,537
Operating expenses	(2,568,166)	(1,650,358)	(1,655,095)	(5,873,619)	(78,071)	(243,630)	(66,188)	(162,750)	(176,886)	(6,601,144)	67,692	(6,533,452)
<b>Income from operations</b>	<b>2,452,142</b>	<b>3,552,876</b>	<b>13,453</b>	<b>6,018,471</b>	<b>79,083</b>	<b>296,809</b>	<b>27,310</b>	<b>75,692</b>	<b>35,105</b>	<b>6,532,470</b>	<b>(7,385)</b>	<b>6,525,085</b>
Taxation charge	-	-	(1,359,922)	(1,359,922)	(14,732)	(59,301)	(5,993)	(16,398)	(6,464)	(1,462,810)	708	(1,462,102)
<b>Net income for the period</b>	<b>2,452,142</b>	<b>3,552,876</b>	<b>(1,346,469)</b>	<b>4,658,549</b>	<b>64,351</b>	<b>237,508</b>	<b>21,317</b>	<b>59,294</b>	<b>28,641</b>	<b>5,069,660</b>	<b>(6,677)</b>	<b>5,062,983</b>
Segment assets	67,613,765	154,000,092	99,274,071	320,887,928	5,958,054	2,013,431	2,598,953	777,658	254,440	332,490,464	(2,400,892)	330,089,572
Investments in equity participations	-	-	429,672	429,672	10,637	304	-	3,226	7	443,846	(403,458)	40,388
Other assets	-	-	5,034,962	5,034,962	47,850	48,921	25,724	25,399	1,311,220	6,494,076	(7,164)	6,486,912
<b>Total assets</b>	<b>67,613,765</b>	<b>154,000,092</b>	<b>104,738,705</b>	<b>326,352,562</b>	<b>6,016,541</b>	<b>2,062,656</b>	<b>2,624,677</b>	<b>806,283</b>	<b>1,565,667</b>	<b>339,428,386</b>	<b>(2,811,514)</b>	<b>336,616,872</b>
Segment liabilities	124,281,186	78,212,393	85,548,985	288,042,564	4,933,838	499,965	2,417,907	715,585	1,442,293	298,052,152	(2,251,984)	295,800,168
Total equity	-	-	38,309,998	38,309,998	1,082,703	1,562,691	206,770	90,698	123,374	41,376,234	(559,530)	40,816,704
<b>Total liabilities and equity</b>	<b>124,281,186</b>	<b>78,212,393</b>	<b>123,858,983</b>	<b>326,352,562</b>	<b>6,016,541</b>	<b>2,062,656</b>	<b>2,624,677</b>	<b>806,283</b>	<b>1,565,667</b>	<b>339,428,386</b>	<b>(2,811,514)</b>	<b>336,616,872</b>

**Türkiye Garanti Bankası AŞ and Its Affiliates**

Notes to Consolidated Financial Statements

As of and for the Nine-Month Period Ended 30 September 2017

(Currency: Thousands of Turkish Lira (TL))

**1 Segment reporting (continued)**

	<i>Retail Banking</i>	<i>Commercial Corporate &amp; SME Banking</i>	<i>Other Operations</i>	<i>Total Banking</i>	<i>Leasing</i>	<i>Insurance</i>	<i>Factoring</i>	<i>Other Financial</i>	<i>Other Non- Financial</i>	<i>Combined</i>	<i>Eliminations</i>	<i>Total</i>
<b><u>30 September 2016</u></b>												
Operating income	3,848,285	2,937,876	2,404,134	9,190,295	185,856	434,836	52,533	209,219	98,777	10,171,516	(42,471)	10,129,045
Operating expenses	(2,675,640)	(1,382,132)	(422,405)	(4,480,177)	(57,746)	(201,570)	(31,517)	(133,100)	(69,084)	(4,973,194)	34,590	(4,938,604)
<b>Income from operations</b>	<b>1,172,645</b>	<b>1,555,744</b>	<b>1,981,729</b>	<b>4,710,118</b>	<b>128,110</b>	<b>233,266</b>	<b>21,016</b>	<b>76,119</b>	<b>29,693</b>	<b>5,198,322</b>	<b>(7,881)</b>	<b>5,190,441</b>
Taxation charge	-	-	(922,941)	(922,941)	(25,173)	(46,655)	(5,911)	(8,750)	(17,986)	(1,027,416)	205	(1,027,211)
<b>Net income for the period</b>	<b><u>1,172,645</u></b>	<b><u>1,555,744</u></b>	<b><u>1,058,788</u></b>	<b><u>3,787,177</u></b>	<b><u>102,937</u></b>	<b><u>186,611</u></b>	<b><u>15,105</u></b>	<b><u>67,369</u></b>	<b><u>11,707</u></b>	<b><u>4,170,906</u></b>	<b><u>(7,676)</u></b>	<b><u>4,163,230</u></b>
<b><u>31 December 2016</u></b>												
Segment assets	61,499,413	141,811,307	89,426,253	292,736,973	5,931,010	1,687,029	2,869,394	553,427	234,537	304,012,370	(1,834,079)	302,178,291
Investments in equity participations	-	-	429,672	429,672	10,571	275	-	2,887	7	443,412	(403,458)	39,954
Other assets	-	-	4,917,497	4,917,497	61,885	42,713	30,058	25,797	1,028,414	6,106,364	(6,082)	6,100,282
<b>Total assets</b>	<b><u>61,499,413</u></b>	<b><u>141,811,307</u></b>	<b><u>94,773,422</u></b>	<b><u>298,084,142</u></b>	<b><u>6,003,466</u></b>	<b><u>1,730,017</u></b>	<b><u>2,899,452</u></b>	<b><u>582,111</u></b>	<b><u>1,262,958</u></b>	<b><u>310,562,146</u></b>	<b><u>(2,243,619)</u></b>	<b><u>308,318,527</u></b>
Segment liabilities	116,243,213	67,955,273	79,576,742	263,775,228	4,995,037	404,887	2,713,999	536,950	1,140,884	273,566,985	(1,686,414)	271,880,571
Total equity	-	-	34,308,914	34,308,914	1,008,429	1,325,130	185,453	45,161	122,074	36,995,161	(557,205)	36,437,956
<b>Total liabilities and equity</b>	<b><u>116,243,213</u></b>	<b><u>67,955,273</u></b>	<b><u>113,885,656</u></b>	<b><u>298,084,142</u></b>	<b><u>6,003,466</u></b>	<b><u>1,730,017</u></b>	<b><u>2,899,452</u></b>	<b><u>582,111</u></b>	<b><u>1,262,958</u></b>	<b><u>310,562,146</u></b>	<b><u>(2,243,619)</u></b>	<b><u>308,318,527</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 2017 and 2016, included in the accompanying consolidated statements of cash flows are as follows:

	<b>30 September</b> <b><u>2017</u></b>	<b>30 September</b> <b><u>2016</u></b>
Cash at branches	2,113,777	2,200,992
Unrestricted balances with central banks	7,371,986	5,368,607
Placements at money markets	7,310	318,680
Loans and advances to banks with original maturity periods of less than three months	<u>5,044,759</u>	<u>4,305,848</u>
	<u>14,537,832</u>	<u>12,194,127</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

	<b>30 September</b> <b><u>2017</u></b>	<b>31 December</b> <b><u>2016</u></b>
<i>Statement of financial position</i>		
Loans and advances to banks	19,999	1,660,715
Loans and advances to customers	2,625,162	2,328,769
Miscellaneous receivables	1,169	949
Deposits from banks	178,490	445,557
Deposits from customers	1,006,849	654,701
Miscellaneous payables	106,097	147,667
<i>Commitments and contingencies</i>		
Non-cash loans	1,109,076	1,052,365
Derivatives	22,933,649	14,653,818

### 3.2 Transactions

	<i>Nine-month period ended <u>30 September 2017</u></i>	<i>Three-month period ended <u>30 September 2017</u></i>	<i>Nine-month period ended <u>30 September 2016</u></i>	<i>Three-month period ended <u>30 September 2016</u></i>
Interest, fee and commission income	143,534	54,054	103,016	25,989
Interest, fee and commission expenses	25,396	9,736	5,191	1,177
Trading and foreign exchange gains/(losses), net	10,007	15,730	(478,969)	(333,444)
Other operating income	9,324	3,866	12,043	2,501
Other operating expenses	52,633	19,479	41,528	13,161

### 3 Related party disclosures (continued)

In the first nine-months of 2017, interest rates applied to foreign currency receivables from and payables to related parties vary within the ranges of 1%-10% and 1%-4% (31 December 2016: 1%-10% and 1%-3%), respectively. The interest rates applied to TL receivables from and payables to related parties vary within the ranges of 11%-17% and 5%-14%, respectively (31 December 2016: 11%-20% and 7%-11%). 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 2017 (30 September 2016: nil).

Key management personnel compensation for the nine-month period ended 30 September 2017 amounted TL 101,716 thousands (30 September 2016: TL 115,034 thousands) on a consolidated basis. Within this total, individual key management expenses of the Bank amounted TL 71,516 thousands (30 September 2016: TL 72,493 thousands) and of its affiliates amounted TL 30,200 thousands (30 September 2016: TL 42,541 thousands).

### 4 Cash and balances with central banks

	<i>30 September</i> <u>2017</u>	<i>31 December</i> <u>2016</u>
Cash at branches	2,113,777	2,205,903
Balances with central banks excluding reserve deposits	<u>13,276,741</u>	<u>9,395,360</u>
	<u>15,390,518</u>	<u>11,601,263</u>

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

	<i>30 September</i> <u>2017</u>				<i>31 December</i> <u>2016</u>
	<i>Face</i> <u>value</u>	<i>Carrying</i> <u>value</u>	<i>Interest rate</i> <u>range %</u>	<i>Latest</i> <u>maturity</u>	<i>Carrying</i> <u>value</u>
<i>Debt and other instruments held at fair value:</i>					
Gold	-	384,867	-	-	876,298
Government bonds in TL	49,142	49,564	3-12	2027	40,827
Eurobonds	34,182	35,688	3-12	2047	29,492
Bonds issued by corporations	27,390	28,277	4-15	2021	5,509
Government bonds indexed to CPI	15,730	21,592	1-4	2025	4,725
Investment fund	-	16,063	-	-	44,753
Bonds issued by financial institutions	7,314	7,550	6-14	2022	23,775
Government bonds-floating (a)	35	35	11	2020	23,024
Discounted government bonds in TL	28	<u>24</u>	10-12	2018	<u>4,677</u>
		543,660			1,053,080
<i>Equity and other non-fixed income instruments:</i>					
Listed shares		<u>33,845</u>			<u>33,219</u>
Total financial assets at fair value through profit or loss		<u>577,505</u>			<u>1,086,299</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 profit or loss and other comprehensive income as interest on securities. Gains and losses arising from trading of financial assets at fair value through profit or loss are recorded in net trading gains/(losses).

The impairment losses for the financial assets at fair value through profit or loss as of 30 September 2017 amounting to TL 358 thousands (30 September 2016: nil).

As of 30 September 2017, financial assets at fair value through profit or loss amounting to TL 15,396 thousands are blocked against asset management operations and securitizations (31 December 2016: TL 13,777 thousands) (refer to Note 10).

As of 30 September 2017, there are TL 11,939 thousands of securities pledged under repurchase agreements with customers (31 December 2016: TL 3,983 thousands).

## 6 Loans and advances to banks

	<u>30 September 2017</u>			<u>31 December 2016</u>		
	<u>TL</u>	<u>Foreign Currency</u>	<u>Total</u>	<u>TL</u>	<u>Foreign Currency</u>	<u>Total</u>
<i>Loans and advances-demand</i>						
Domestic banks	5,632	6,212	11,844	2,635	5,074	7,709
Foreign banks	<u>2,001</u>	<u>4,059,396</u>	<u>4,061,397</u>	<u>8,354</u>	<u>4,699,323</u>	<u>4,707,677</u>
	<u>7,633</u>	<u>4,065,608</u>	<u>4,073,241</u>	<u>10,989</u>	<u>4,704,397</u>	<u>4,715,386</u>
<i>Loans and advances-time</i>						
Domestic banks	1,097,609	1,549,786	2,647,395	874,764	1,113,205	1,987,969
Foreign banks	<u>80,186</u>	<u>4,704,590</u>	<u>4,784,776</u>	<u>356,822</u>	<u>7,796,179</u>	<u>8,153,001</u>
	<u>1,177,795</u>	<u>6,254,376</u>	<u>7,432,171</u>	<u>1,231,586</u>	<u>8,909,384</u>	<u>10,140,970</u>
Placements at money markets	<u>7,310</u>	-	<u>7,310</u>	<u>22,170</u>	<u>351,690</u>	<u>373,860</u>
Income accrual on loans and advances to banks	<u>26,843</u>	<u>21,711</u>	<u>48,554</u>	<u>17,043</u>	<u>33,938</u>	<u>50,981</u>
Total loans and advances to banks	1,219,581	10,341,695	11,561,276	1,281,788	13,999,409	15,281,197
Less: allowance for uncollectibility	-	-	-	-	-	-
Net loans and advances to banks	<u>1,219,581</u>	<u>10,341,695</u>	<u>11,561,276</u>	<u>1,281,788</u>	<u>13,999,409</u>	<u>15,281,197</u>

As of 30 September 2017, majority of loans and advances-time are short-term with interest rates ranging between (0.36) %-7% per annum for foreign currency time placements and 1%-17% per annum for TL time placements (31 December 2016: (0.35)%-5% and 1%-16%, respectively).

As of 30 September 2017, loans and advances at domestic and foreign banks include blocked accounts of TL 5,548,929 thousands (31 December 2016: TL 7,786,414 thousands) held against securitizations, fundings and insurance business.

## 7 Loans and advances to customers

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

	<i>30 September</i> <u>2017</u>	<i>31 December</i> <u>2016</u>
Consumer loans	66,949,294	60,932,999
<i>Mortgage loans</i>	24,178,265	22,544,347
<i>Credit card receivables</i>	17,633,097	16,125,229
<i>Auto loans</i>	2,156,632	2,176,872
<i>General purpose and other consumer loans</i>	22,981,300	20,086,551
Energy	24,913,132	23,686,229
Service sector	12,832,808	16,221,852
Construction	11,895,080	10,319,625
Food	10,233,248	8,409,563
Textile	10,024,876	8,122,466
Transportation and logistics	9,186,736	9,217,292
Financial institutions	8,695,667	8,534,641
Transportation vehicles and sub-industry	7,025,012	6,227,605
Metal and metal products	6,712,481	6,283,548
Tourism	5,685,682	5,451,790
Data processing	5,397,941	4,948,330
Chemistry and chemical products	4,688,083	4,182,785
Agriculture and stockbreeding	3,449,975	2,557,898
Durable consumption	2,987,873	2,524,186
Machinery and equipment	2,878,573	2,345,946
Stone, rock and related products	2,349,904	2,101,354
Mining	2,344,710	2,326,281
Paper and paper products	1,538,044	1,422,039
Electronic, optical and medical equipment	1,406,827	1,257,451
Plastic products	926,938	869,299
Others	<u>12,251,790</u>	<u>8,150,586</u>
Total performing loans	214,374,674	196,093,765
Financial lease receivables, net of unearned income (Note 8)	5,406,969	5,339,815
Factoring receivables	2,517,967	2,806,998
Income accrual on loans, factoring and lease receivables	3,519,789	3,084,374
Non-performing loans, factoring and lease receivables	6,937,560	6,910,833
Allowance for probable losses from loans, factoring and lease receivables	<u>(8,161,148)</u>	<u>(8,246,992)</u>
Loans and advances to customers	<u>224,595,811</u>	<u>205,988,793</u>

As of 30 September 2017, interest rates on loans granted to customers range between 1%-31% (31 December 2016: 1%-31%) per annum for the foreign currency loans and 1%-30% (31 December 2016: 1%-27%) 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 2,849,604 thousands (31 December 2016: TL 3,036,025 thousands). Movements in the allowance for probable losses on loans, factoring and lease receivables including the portfolio basis allowances, are as follows:

	<i>30 September</i> <u>2017</u>	<i>31 December</i> <u>2016</u>
Balance at the beginning of the period	8,246,992	7,216,509
Debt sales and write-offs	(561,324)	(1,676,257)
Recoveries and reversals	(991,602)	(1,127,778)
Provision for the period	<u>1,467,082</u>	<u>3,834,518</u>
Balance at the end of the period	<u>8,161,148</u>	<u>8,246,992</u>

A part of non-performing receivables of the Bank and its consolidated affiliates amounting to TL 645,722 thousands (31 December 2016: TL 1,310,763 thousands) was sold for a consideration of TL 47,548 thousands in the current period (31 December 2016: TL 129,836 thousands). Considering the related provision of TL 644,383 thousands (31 December 2016: TL 1,258,978 thousands) made in the financial statements in the prior periods, a gain of TL 46,209 thousands (31 December 2016: TL 78,025 thousands) is recognized under “gains on sale of assets” in the statement of profit or loss and other comprehensive income. The revenues earned from subsequent collections of the sold receivables in prior period, amounting to TL 491 thousands (31 December 2016: TL 89 thousands) is recognized in the statement of profit or loss and other comprehensive income under “gains on sale of assets” in the current period.

## 8 Financial lease receivables

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

	<i>30 September</i> <u>2017</u>	<i>31 December</i> <u>2016</u>
Financial lease receivables, net of unearned income (Note 7)	5,406,969	5,339,815
Add: non-performing lease receivables	496,028	713,985
Less: allowance for probable losses on lease receivable	<u>(184,416)</u>	<u>(299,302)</u>
	<u>5,718,581</u>	<u>5,754,498</u>
Income accrual on lease receivables	<u>30,400</u>	<u>28,920</u>
<i>Analysis of net financial lease receivables</i>		
Due within 1 year	2,574,679	2,676,972
Due between 1 and 5 years	3,457,187	3,420,644
Due after 5 years	<u>366,183</u>	<u>362,229</u>
Financial lease receivables, gross	6,398,049	6,459,845
Unearned income	<u>(679,468)</u>	<u>(705,347)</u>
Financial lease receivables, net	<u>5,718,581</u>	<u>5,754,498</u>
<i>Analysis of net financial lease receivables</i>		
Due within 1 year	2,275,707	2,365,722
Due between 1 and 5 years	3,098,686	3,048,521
Due after 5 years	<u>344,188</u>	<u>340,255</u>
Financial lease receivables, net	<u>5,718,581</u>	<u>5,754,498</u>



## 9 Other assets

	<i>30 September</i> <u>2017</u>	<i>31 December</i> <u>2016</u>
Reserve deposits at central banks	23,829,516	13,837,352
Derivative financial assets	3,107,470	4,280,427
Tangible assets held for sale	817,630	605,015
Prepaid expenses, insurance claims and similar items	763,956	520,091
Balances with clearing house	389,030	217,752
Miscellaneous receivables	373,281	401,743
Investment properties	327,993	320,426
Prepaid taxes and taxes/funds to be refunded	121,882	107,652
Option premium receivables	114,289	294,267
Insurance premium receivables	63,593	76,719
Others	<u>330,547</u>	<u>466,344</u>
	<u>30,239,187</u>	<u>21,127,788</u>

### *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. US\$ reserve deposits also earn interest starting from May 2015. The interest rates are calculated by Central Bank of Turkey according to market conditions.

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% both for RON denominated liabilities with a remaining maturity less than 2 years and 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 0.08% for RON reserves 0.03% for Euro reserves and 0.08% for US\$ reserves.

### *Tangible assets held for sale*

A tangible asset (or a disposal group) classified as tangible asset held for sale is measured at lower of carrying value or fair value less costs to sell. An asset (or a disposal group) is regarded as tangible asset held for sale only when the sale is highly probable and the asset (disposal group) is available for immediate sale in its present condition. For a highly probable sale, there must be a valid plan prepared by the management for the sale of asset including identification of possible buyers and completion of sale process. Furthermore, the asset should be actively marketed at a price consistent with its fair value.

Impairment losses provided on real estates held for sale were determined based on the appraisals of independent appraisal firms. As of 30 September 2017, real estates held for sale have been impaired by TL 34,110 thousands (31 December 2016: TL 35,458 thousands).

## 9 Other assets (continued)

As of 30 September 2017, the rights of repurchase on various tangible assets held for sale amounted to TL 471,356 thousands (31 December 2016: TL 359,660 thousands).

### Investment properties

Movements in investment properties are as follows:

	<b>30 September 2017</b>	<b>31 December 2016</b>
Balance at the beginning of the period	320,426	307,095
Additions	7,567	231,273
Transfers to tangible assets	-	(212,495)
Disposals	-	(10,888)
Fair value changes	-	2,678
Effects of movement in exchange rates	-	2,763
Balance at the end of the period	<u>327,993</u>	<u>320,426</u>

The investment properties are held for operational leasing purposes.

## 10 Investment securities

	<b>30 September 2017</b>				<b>31 December 2016</b>
	<b>Face value</b>	<b>Carrying value</b>	<b>Interest rate range %</b>	<b>Latest maturity</b>	<b>Carrying value</b>
<i>Debt and other instruments available-for-sale:</i>					
Government bonds indexed to CPI (a)	6,497,620	9,076,757	1-4	2027	7,755,182
Government bonds in TL	7,467,034	7,649,122	3-11	2027	6,292,374
Government bonds at floating rates (b)	3,456,641	3,450,140	11	2020	3,486,266
Bonds issued by foreign governments	1,470,794	1,635,019	1-5	2028	1,425,545
Bonds issued by financial institutions	1,354,677	1,419,065	1-17	2027	3,002,066
Eurobonds	603,799	620,613	3-12	2041	722,603
Bonds issued by corporations	572,349	592,833	1-16	2028	945,009
Others		<u>256,240</u>			<u>354,210</u>
Total securities available-for-sale		24,699,789			23,983,255
<i>Debt and other instruments held-to-maturity:</i>					
Government bonds indexed to CPI (a)	6,677,313	7,298,497	1-4	2024	7,298,497
Eurobonds	5,952,782	6,864,562	6-12	2040	6,909,117
Bonds issued by financial institutions	3,641,093	3,566,334	4-7	2022	3,617,908
Government bonds in TL	2,167,805	2,082,542	6-10	2023	2,521,608
Bonds issued by corporations	182,704	178,850	4-8	2021	177,276
Bonds issued by foreign governments		-			<u>159,317</u>
		19,990,785			20,683,723
Income accrual on held-to-maturity portfolio		<u>3,034,701</u>			<u>2,425,973</u>
Total securities held-to-maturity		23,025,486			23,109,696
Total investment securities		<u>47,725,275</u>			<u>47,092,951</u>

(a) The inflation expectation for the CPI-indexed bonds was revised from 7% to 9% in May 2017. Since then, the impact of this change has been reflected in the accompanying consolidated financial statements equally on a monthly basis until the end of 2017.

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

## 10 Investment securities (continued)

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 2017 (31 December 2016: nil).

Government bonds and treasury bills include securities pledged under repurchase agreements with customers amounting to TL 7,064,392 thousands (31 December 2016: TL 8,109,910 thousands).

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

	<u>30 September 2017</u>		<u>31 December 2016</u>	
	<u>Face Value</u>	<u>Carrying value</u>	<u>Face Value</u>	<u>Carrying value</u>
Deposited at central banks for interbank transactions	5,781,014	6,828,466	3,374,800	3,841,962
Deposited at central banks for repurchase transactions	4,822,130	5,490,790	4,393,998	5,105,955
Collateralized to foreign banks	3,929,370	4,182,437	7,154,445	7,817,583
Deposited at Borsa İstanbul	1,931,204	2,067,615	3,085,641	4,163,509
Deposited at CBT for foreign currency money market transactions	1,201,949	1,522,835	75,000	128,539
Deposited at Clearing Bank (Takasbank)	191,592	194,843	176,992	181,858
Others		19,403		21,803
		<u>20,306,389</u>		<u>21,261,209</u>

## 11 Investments in equity participations

	<u>30 September 2017</u>		<u>31 December 2016</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	<u>12,752</u>		<u>12,318</u>	
	<u>40,388</u>		<u>39,954</u>	

Starting from 31 December 2016, the investments in Garanti Kültür AŞ, Garanti Konut Finansmanı Danışmanlık Hiz. AŞ and Garanti Ödeme Sistemleri AŞ, previously accounted under investment in equity participations, are consolidated in the accompanying consolidated financial statements.

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)

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 2017 (31 December 2016: nil). The cumulative provisions for impairment losses on investments in equity participations amounted to TL 85 thousands as of 30 September 2017 (31 December 2016: TL 85 thousands).

## 12 Tangible and intangible assets

Movement in tangible and intangible assets from 1 January to 30 September 2017 is as follows:

	<u>1 January</u>	<u>Additions</u>	<u>Effects of Movement in Exchange Rates</u>	<u>Revaluation Surplus</u>	<u>Disposals and Transfer</u>	<u>30 September</u>
<i>Costs</i>						
Land and buildings	2,627,993	10,143	10,883	-	500	2,649,519
Furniture, fixture, equipments and motor vehicles	3,189,351	631,199	17,287	-	(285,384)	3,552,453
Leasehold improvements and softwares	<u>1,244,803</u>	<u>113,361</u>	<u>17,306</u>	-	<u>(12,454)</u>	<u>1,363,016</u>
	7,062,147	754,703	45,476	-	(297,338)	7,564,988
<i>Less: Accumulated depreciation</i>						
Buildings	58,867	21,991	494	-	(1,468)	79,884
Furniture, fixture, equipments and motor vehicles	1,412,189	235,700	9,956	-	(93,178)	1,564,667
Leasehold improvements and softwares	<u>809,928</u>	<u>111,693</u>	<u>12,890</u>	-	<u>(14,979)</u>	<u>919,532</u>
	2,280,984	369,384	23,340	-	(109,625)	2,564,083
<i>Construction in progress</i>	<u>485,825</u>	156,145	-	-	(17,778)	<u>624,192</u>
	5,266,988					5,625,097
<i>Impairment in value of tangible and intangible assets</i>	<u>(56,251)</u>					<u>(51,199)</u>
	<u>5,210,737</u>					<u>5,573,898</u>

Movement in tangible and intangible assets from 1 January to 31 December 2016 is as follows:

	<u>1 January</u>	<u>Additions</u>	<u>Effects of Movement in Exchange Rates</u>	<u>Revaluation Surplus</u>	<u>Disposals and Transfer</u>	<u>31 December</u>
<i>Costs</i>						
Land and buildings	2,444,444	21,406	18,754	(46,963)	190,352	2,627,993
Furniture, fixture, equipments and motor vehicles	2,593,173	942,268	22,185	-	(368,275)	3,189,351
Leasehold improvements and softwares	<u>1,045,159</u>	<u>208,791</u>	<u>20,186</u>	-	<u>(29,333)</u>	<u>1,244,803</u>
	6,082,776	1,172,465	61,125	(46,963)	(207,256)	7,062,147
<i>Less: Accumulated depreciation</i>						
Buildings	4,978	22,253	572	(3,742)	34,806	58,867
Furniture, fixture, equipments and motor vehicles	1,333,702	263,828	13,705	-	(199,046)	1,412,189
Leasehold improvements and softwares	<u>683,349</u>	<u>128,118</u>	<u>15,194</u>	-	<u>(16,733)</u>	<u>809,928</u>
	2,022,029	414,199	29,471	(3,742)	(180,973)	2,280,984
<i>Construction in progress</i>	<u>371,562</u>	175,615	121	-	(61,473)	<u>485,825</u>
	4,432,309					5,266,988
<i>Impairment in value of tangible and intangible assets</i>	<u>(56,131)</u>					<u>(56,251)</u>
	<u>4,376,178</u>					<u>5,210,737</u>

## 12 Tangible and intangible assets (continued)

Depreciation expenses of tangible assets for the nine-month period ended 30 September 2017 amounted to TL 308,041 thousands (30 September 2016: TL 301,756 thousands) excluding the depreciation expenses of fleet business as disclosed in Note 30. As of 30 September 2017, TL 61,343 thousands (30 September 2016: TL 56,414 thousands) of depreciation expenses of Garanti Fleet is netted-off with the net sales of the company.

As of 30 September 2017, the revaluation model effect, net of deferred tax, for real estates under tangible and intangible assets amounting to TL 1,512,278 thousands was accounted under shareholders' equity (31 December 2016: TL 1,511,483 thousands).

As of 30 September 2017, the net carrying value of real estates under cost model instead of revaluation model is TL 1,761,034 thousands (31 December 2016: TL 1,806,314 thousands).

As of 30 September 2017, TL 56,336 thousands (31 December 2016: TL 56,251 thousands) was provisioned and TL 5,137 thousands was reversed (31 December 2016: nil) for land and buildings as per the valuation study performed in accordance with IAS 36.

## 13 Goodwill

As of 30 September 2017, goodwill arises from the direct acquisitions of Garanti Yatırım Menkul Kıymetler AŞ, Garanti Finansal Kiralama AŞ, Garanti Emeklilik ve Hayat AŞ and Garanti Faktoring 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:

	<i>30 September</i>	<i>31 December</i>
	<u>2017</u>	<u>2016</u>
Garanti Yatırım Menkul Kıymetler AŞ	20,984	20,984
Garanti Faktoring 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>	<i>31 December</i>
	<u>2017</u>	<u>2016</u>
Payable on demand	2,863,927	2,912,443
Term deposits	<u>1,324,527</u>	<u>1,568,407</u>
	4,188,454	4,480,850
Expense accrual on deposits from banks	<u>5,914</u>	<u>7,096</u>
	<u>4,194,368</u>	<u>4,487,946</u>

Deposits from banks include both TL accounts amounting to TL 1,124,007 thousands (31 December 2016: TL 758,213 thousands) and foreign currency accounts amounting to TL 3,064,447 thousands (31 December 2016: TL 3,722,637 thousands) in total. As of 30 September 2017, interest rates applicable to TL bank deposits and foreign currency bank deposits vary within ranges of 7%-14% and 1%-3% (31 December 2016: 7%-12% and 1%-2%), respectively.

## 15 Deposits from customers

Deposits from customers comprise the following:

	<b>30 September 2017</b>			<b>31 December 2016</b>
	<u><i>Demand</i></u>	<u><i>Time</i></u>	<u><i>Total</i></u>	<u><i>Total</i></u>
Foreign currency	27,939,991	75,851,764	103,791,755	96,627,871
Saving	10,476,575	45,720,764	56,197,339	53,533,781
Commercial	8,980,930	14,370,574	23,351,504	18,339,903
Public and other	997,902	3,836,215	4,834,117	2,990,907
Gold and other precious metals	<u>1,680,469</u>	<u>374,511</u>	<u>2,054,980</u>	<u>2,025,886</u>
	50,075,867	140,153,828	190,229,695	173,518,348
Expense accrual on deposits from customers	<u>10,297</u>	<u>721,324</u>	<u>731,621</u>	<u>637,297</u>
	<u>50,086,164</u>	<u>140,875,152</u>	<u>190,961,316</u>	<u>174,155,645</u>

As of 30 September 2017, interest rates applicable to TL deposits and foreign currency deposits vary within the ranges of 1%-15% and 1%-10% (31 December 2016: 1%-15% and 1%-8%), respectively.

## 16 Obligations under repurchase agreements and money market fundings

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

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

	<b>30 September 2017</b>	<b>31 December 2016</b>
Money market fundings	12,207,768	3,416,372
Obligations under repurchase agreements	6,291,736	7,798,317
Obligations on securities under reverse repurchase agreements	<u>6,178</u>	<u>15,504</u>
	<u>18,505,682</u>	<u>11,230,193</u>

Assets sold under repurchase agreements are further detailed as follows:

	<u><i>Carrying value</i></u>	<u><i>Fair value of underlying assets</i></u>	<u><i>Carrying amount of corresponding liabilities</i></u>	<u><i>Range of repurchase dates</i></u>	<u><i>Repurchase price</i></u>
<b><u>30 September 2017</u></b>					
Financial assets at fair value through profit or loss	11,939	11,939	14,494	Oct'17	14,494
Investment securities	<u>7,064,392</u>	<u>7,239,997</u>	<u>6,277,242</u>	Oct'17-Feb'25	<u>6,286,561</u>
	<u>7,076,331</u>	<u>7,251,936</u>	<u>6,291,736</u>		<u>6,301,055</u>
<b><u>31 December 2016</u></b>					
Financial assets at fair value through profit or loss	3,983	3,983	4,029	Jan'17	4,029
Investment securities	<u>8,109,910</u>	<u>8,126,208</u>	<u>7,794,288</u>	Jan'17-Feb'25	<u>7,809,192</u>
	<u>8,113,893</u>	<u>8,130,191</u>	<u>7,798,317</u>		<u>7,813,221</u>

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

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 2017, the maturities of the obligations varied from one day to 89 months and interest rates varied between 1%-14% (31 December 2016: 2%-11%). In general the carrying values of such assets are more than the corresponding liabilities due to the margins set between the parties, since such funding is raised against assets collateralized.

Expense accrual on obligations under repurchase agreements and money market fundings amounting to TL 14,027 thousands (31 December 2016: TL 10,532 thousands) is included in the carrying amount of corresponding liabilities.

## 17 Loans and advances from banks and other institutions

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

	<i>30 September</i>	<i>31 December</i>
	<u>2017</u>	<u>2016</u>
<u>Short-term borrowings</u>		
Domestic banks	1,242,682	3,322,932
Foreign banks	<u>13,656,189</u>	<u>13,634,202</u>
	14,898,871	16,957,134
<u>Long-term debts</u>		
Short-term portion	5,525,584	7,462,893
Medium and long-term portion	<u>22,048,349</u>	<u>22,623,249</u>
	27,573,933	30,086,142
Expense accrual on loans and advances from banks and other institutions	<u>285,104</u>	<u>284,668</u>
	<u>42,757,908</u>	<u>47,327,944</u>

As of 30 September 2017, loans and advances from banks and other institutions included various promissory notes amounting to TL 756,696 thousands in total with short-term maturities (31 December 2016: TL 950,938 thousands).

As of 30 September 2017, 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\$ 468,000,000 and EUR 805,500,000 with rates of Libor + 1.15% and Euribor + 1.05% per annum with the participation of 38 banks from 16 countries (equivalent of TL 5,030,670 thousands), (ii) US\$ 626,000,000 and EUR 615,500,000 with rates of Libor + 0.8% and Euribor + 0.7% per annum with the participation of 34 banks from 15 countries (equivalent of TL 4,795,275 thousands).

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

Long-term debts comprise the following:

	30 September 2017					31 December 2016
	Interest rate%	Latest maturity	Amount in original currency	Short term portion	Medium and long term portion	Medium and long term debts
DPR Future Flow Transaction-XVI	3	2034	US\$ 1 billions	-	3,544,200	3,513,000
DPR Future Flow Transaction-XVII	4	2034	US\$ 550 millions	-	1,949,310	1,932,150
Deutsche Bank AG-II	3	2019	US\$ 500 millions	-	1,772,100	1,756,500
DPR Future Flow Transaction-XVIII	3-4	2019	US\$ 500 millions	1,133,857	637,734	1,474,879
DPR Future Flow Transaction-XIV	4	2026	US\$ 359 millions	141,258	1,130,179	1,224,705
Bilateral Loan I	3	2017	US\$ 145 millions	513,909	-	-
ING DIBA	2	2018	US\$ 161 millions	352,781	262,792	216,667
Syndicated Loan	3	2018	US\$ 150 millions	-	530,035	524,198
DPR Future Flow Transaction-XX	3	2021	US\$ 150 millions	-	528,442	526,950
Proparco	2	2028	EUR 100 millions	-	416,336	370,200
DPR Future Flow Transaction-XXI	1	2021	EUR 90 millions	-	376,758	-
EIB I	2-4	2022	US\$ 99 millions	78,988	273,512	335,375
DPR Future Flow Transaction-XIX	3	2027	US\$ 98 millions	34,298	308,748	331,206
DPR Future Flow Transaction-XIX	3	2020	US\$ 82 millions	106,326	184,673	261,676
EIB V	3	2023	US\$ 79 millions	-	279,983	-
DPR Future Flow Transaction-XXI	1	2021	EUR 63 millions	-	261,638	-
EIB III	9	2020	TL 219 millions	-	218,513	218,513
DPR Future Flow Transaction-XX	3	2021	US\$ 60 millions	-	210,881	210,780
DPR Future Flow Transaction-XV	3	2018	US\$ 58 millions	206,745	-	153,694
EIB II	9	2019	TL 206 millions	-	206,250	206,250
DPR Future Flow Transaction-XV	2	2018	EUR 45 millions	188,379	-	124,943
Bilateral Loan II	3	2019	US\$ 50 millions	-	177,210	175,650
DPR Future Flow Transaction-XX	3	2021	US\$ 50 millions	-	175,734	175,650
DPR Future Flow Transaction-XX	3	2021	US\$ 50 millions	-	175,734	175,650
DPR Future Flow Transaction-XX	1	2021	EUR 50 millions	-	175,453	185,100
DPR Future Flow Transaction-XII	1	2022	EUR 41 millions	31,330	141,648	146,044
DPR Future Flow Transaction-XII	1	2022	EUR 41 millions	31,330	141,648	146,044
EFSE	3	2022	EUR 39 millions	23,957	140,745	-
DPR Future Flow Transaction-IX	1	2018	EUR 34 millions	144,024	-	95,523
OPIC	4	2019	US\$ 32 millions	51,036	63,796	101,174
EIB IV	9	2019	TL 69 millions	-	68,942	69,100
EBRD-II	1	2025	US\$ 11 millions	5,004	35,025	37,196
EBRD-V	4	2017	US\$ 9 millions	30,379	-	-
Others				<u>2,451,983</u>	<u>7,660,330</u>	<u>7,934,432</u>
				<u>5,525,584</u>	<u>22,048,349</u>	<u>22,623,249</u>

In March 2017, the Bank signed a loan agreement with European Investment Bank (EIB) in the amount of US\$ 79 millions with a maturity of six years for small and medium-sized enterprises.

In January 2017, the Bank completed a DPR Future Flow Transaction (“the DPR Future Flow Transaction XXI”); EUR 153 millions with a maturity of five years through its future cash flows under the DPR program.

In December 2016, the Bank completed a DPR Future Flow Transaction (“the DPR Future Flow Transaction XX”); US\$ 310 millions with a maturity of five years and EUR 50 millions with a maturity of 5 years through its future cash flows under the DPR program.

In October 2016, the Bank secured a loan from Proparco in the amount of EUR 100 millions with a maturity of 12 years for the financing of renewable energy and energy efficiency project.

In June 2016, the Bank secured a loan from international credit markets (Bilateral Loan II) in the amount of US\$ 50 millions with a maturity of three years and one week.



## **Türkiye Garanti Bankası AŞ and Its Affiliates**

Notes to Consolidated Financial Statements

As of and for the Nine-Month Period Ended 30 September 2017

(Currency: Thousands of Turkish Lira (TL))

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

In December 2014, one of the Bank's consolidated affiliates signed a loan agreement with ING Bank (ING DIBA), in the amount of US\$ 125 millions in two equal tranches of one year (Tranche A) and two years (Tranche B) for the refinancing of trade finance loan portfolio. In December 2015, Tranche A of the secured facility was extended for 2 years and increased from US\$ 62.5 millions to US\$ 100 millions bringing the outstanding loan amount to US\$ 162.5 millions at that time.

In November 2015, the Bank secured a loan from international credit markets (Bilateral Loan I) in the amount of US\$ 190 millions with a maturity of two years and one week.

In September 2015, the Bank signed a syndicated loan agreement with 1098 days maturity in the amount of US\$ 150 millions with a rate of Libor + 1.85%.

In July 2015, the Bank completed a DPR Future Flow Transaction ("the DPR Future Flow Transaction 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 69,100 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 DPR Future Flow Transaction (the "DPR Future Flow Transaction XVIII"); US\$ 500 millions with a maturity of five years through its future cashflows under the DPR program.

In April 2014, the Bank completed a DPR Future Flow Transaction (the "DPR Future Flow Transaction XVII"); US\$ 550 millions with a maturity of 20 years through its future cashflows under the DPR program.

In December 2013, the Bank completed a DPR Future Flow Transaction (the "DPR Future Flow Transaction XVI"); US\$ 1 billions with a maturity of 21 years through its future cashflows under the DPR program.

The Bank classified its DPR Future Flow Transactions XVI, XVII and XVIII as financial liability at fair value through profit/loss at the initial recognition. As of 30 September 2017, the negative credit risk change amounting to TL 401,889 thousands is recognized in the statement of profit or loss and other comprehensive income (31 December 2016: a positive credit risk change amounted to TL 314,843 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 DPR Future Flow Transaction (the DPR Future Flow Transaction-XV), 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 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 DPR Future Flow Transaction (the "DPR Future Flow Transaction-XIV) 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.

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

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

In 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-years 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 DPR Future Flow Transaction (the “DPR Future Flow Transaction-IX”) by issuance of certificates; a tranche of EUR 200 millions with ten years maturity from EIB.

The DPR Future Flow Transaction 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 2017</u>			<u>31 December 2016</u>
	<u>Latest maturity</u>	<u>Interest rate %</u>	<u>Amount</u>	<u>Amount</u>
Bonds payable of US\$ 2,580 millions	2023	0.7-6.4	8,393,131	8,449,805
Bonds payable of TL 5,963 millions	2022	7.5-14.4	7,376,355	5,930,561
Bonds payable of EUR 562 millions	2027	0.5-5.2	2,348,402	2,160,087
Bonds payable of AUD 175 millions	2018	5.6	485,457	443,378
Bonds payable of RON 420 millions	2019	5.5-6.3	381,488	340,905
Bonds payable in JPY			-	165,440
			<u>18,984,833</u>	<u>17,490,176</u>
Expense accrual on bonds payable			<u>362,872</u>	<u>356,164</u>
			<u>19,347,705</u>	<u>17,846,340</u>

## 18 Bonds payable (continued)

The total face value of the bonds and bills issued by the Bank in domestic market amounted to TL 3,346 millions as of 30 September 2017 (31 December 2016: TL 4,096 millions). The issuances are authorized by the Turkish Capital Markets Board.

As of 30 September 2017, the short-term bills issued by the Bank's consolidated affiliates amounted to a total outstanding face value TL 1,025 millions with a latest maturity date in March 2019.

In August 2017, the Bank issued a covered bond with a face value of TL 313 millions (equivalent of EUR 75 millions) with a maturity of five years under the Residential Mortgage Covered Bond program.

In June 2017, the Bank issued a covered bond with a face value of TL 529 millions (equivalent of US\$ 150 millions) with a maturity of five years under the Residential Mortgage Covered Bond program.

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 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 millions, fixed rate notes with a maturity date of 17 October 2019 and a coupon rate of 4.75% in 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 March 2013, the Bank issued TL 750 millions of 5-year fixed-rate notes with a maturity date of 7 March 2018 and a coupon rate of 7.375% in international markets.

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

In April 2011, the Bank issued US\$ 500 millions of 10-year fixed-rate notes with a maturity date of 20 April 2021 and a coupon rate of 6.25% in 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 109,194 thousands (31 December 2016: TL 107,896 thousands) and foreign currency securities with a total face value of TL 770,510 thousands (31 December 2016: TL 764,060 thousands), and netted off such securities in the accompanying consolidated financial statements as of 30 September 2017.

The Bank classified certain securities amounting to RON 34,500,000 as financial liability at fair value through profit/loss at the initial recognition. As of 30 September 2017, the accumulated negative credit risk change, and the positive credit risk change recognised in the statement of profit or loss and other comprehensive income amounted to TL 1,245 thousands and TL 1,307 thousands, respectively. The carrying value of the related financial liability amounted to TL 34,473 thousands and the related current period gain amounted to TL 1,511 thousands, respectively.

## 19 Subordinated liabilities

Subordinated liabilities comprised of the following as of 30 September 2017 (31 December 2016: nil):

	<i>Latest</i> <u>maturity</u>	<u>Interest rate %</u>	<u>Amount</u>
Subordinated debt of US\$ 750 millions	2027	6.125	2,658,150
Expense accrual on subordinated liabilities			<u>57,636</u>
			<u>2,715,786</u>

On 23 May 2017, the Bank had obtained a 10-year subordinated loan of US\$ 750 millions due in May 2027 with its first Basel III complaint Tier 2 issuance from international capital markets, with a coupon rate of 6.125%.

## **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.

### *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 subject 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 taxes payable is calculated by the obligating firm and the calculation is shown at the tax declaration form that is due till the following year's September and the payment is done till this date.

#### *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

## 20 Taxation (continued)

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 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%.

#### *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>2017</u>	<u>%</u>	<u>2016</u>	<u>%</u>
Taxes on income per statutory tax rate	1,305,017	20.00	1,038,088	20.00
Disallowable expenses	20,890	0.32	14,879	0.29
Income items exempt from tax or subject to different tax rates	(1,502)	(0.02)	(29,386)	(0.57)
General reserve	130,000	1.99	8,400	0.16
Others	<u>7,697</u>	<u>0.12</u>	<u>(4,770)</u>	<u>(0.09)</u>
Taxation charge	<u>1,462,102</u>	<u>22.41</u>	<u>1,027,211</u>	<u>19.79</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>2017</u>	<u>2016</u>
Current taxes	1,513,537	900,522
Deferred taxes	<u>(51,435)</u>	<u>126,689</u>
Taxation charge	<u>1,462,102</u>	<u>1,027,211</u>

## 20 Taxation (continued)

The movement of current tax liability is as follows:

	<b>30 September</b>	<b>31 December</b>
	<b><u>2017</u></b>	<b><u>2016</u></b>
Balance at the beginning of the period	120,542	376,779
Current period taxation charge	1,513,537	1,035,553
Less: Advance taxes paid during the period	<u>(1,180,724)</u>	<u>(1,291,790)</u>
Current tax liability	<u>453,355</u>	<u>120,542</u>

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

Deferred tax assets and liabilities are as follows:

	<b>30 September</b>	<b>31 December</b>
	<b><u>2017</u></b>	<b><u>2016</u></b>
Total deferred tax assets	1,103,905	1,132,096
Off-setted amount	<u>(223,839)</u>	<u>(275,499)</u>
Deferred tax assets per financial statements	<u>880,066</u>	<u>856,597</u>
Total deferred tax liabilities	248,941	298,814
Off-setted amount	<u>(223,839)</u>	<u>(275,499)</u>
Deferred tax liabilities per financial statements	<u>25,102</u>	<u>23,315</u>
Net deferred tax assets	<u>854,964</u>	<u>833,282</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 2017</u></b>					
Impairment losses on loans	682,761	(59,044)	112	-	623,829
Discount on loans and advances to customers	94,556	(12,063)	-	-	82,493
Reserve for employee severance indemnity	69,570	11,417	-	-	80,987
Short-term employee benefits	73,121	17,871	51	-	91,043
Tax losses carried forward	40,367	11,643	1,274	-	53,284
Valuation difference on financial assets and liabilities	(192,606)	190,721	3,258	(30,097)	(28,724)
Revaluation surplus on real estates	(25,315)	-	(318)	36	(25,597)
Impairment of equity participations, tangible and intangible assets	15,127	(984)	-	-	14,143
Accruals on credit card rewards	18,867	3,214	-	-	22,081
Pro-rata basis depreciation expenses	(81,949)	(6,502)	9	-	(88,442)
Others, net	<u>138,783</u>	<u>(104,838)</u>	<u>361</u>	<u>(4,439)</u>	<u>29,867</u>
Net deferred tax assets	<u>833,282</u>	<u>51,435</u>	<u>4,747</u>	<u>(34,500)</u>	<u>854,964</u>

## 20 Taxation (continued)

	<i>Opening balance</i>	<i>Recognized in income statement</i>	<i>Effects of movement in exchange rates</i>	<i>Recognized in equity</i>	<i>Closing balance</i>
<i>31 December 2016</i>					
Impairment losses on loans	599,828	82,798	135	-	682,761
Discount on loans and advances to customers	81,090	13,466	-	-	94,556
Reserve for employee severance indemnity	58,303	8,973	651	1,643	69,570
Short-term employee benefits	49,743	22,272	1,106	-	73,121
Tax losses carried forward	43,601	1,921	(5,155)	-	40,367
Valuation difference on financial assets and liabilities	98,117	(375,200)	8,292	76,185	(192,606)
Revaluation surplus on real estates	(27,620)	1,242	669	394	(25,315)
Impairment of equity participations, tangible and intangible assets	14,361	766	-	-	15,127
Accruals on credit card rewards	17,362	1,505	-	-	18,867
Pro-rata basis depreciation expenses	(58,726)	(24,451)	1,228	-	(81,949)
Others, net	<u>117,981</u>	<u>14,752</u>	<u>702</u>	<u>5,348</u>	<u>138,783</u>
Net deferred tax assets	<u>994,040</u>	<u>(251,956)</u>	<u>7,628</u>	<u>83,570</u>	<u>833,282</u>

### *Transfer pricing*

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

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

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

## 21 Other liabilities, accrued expenses and provisions

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

	<i>30 September</i> <u>2017</u>	<i>31 December</i> <u>2016</u>
Blocked accounts against expenditures of card holders	9,098,241	7,874,527
Derivative financial liabilities	2,530,176	4,059,527
General reserve	950,000	300,000
Miscellaneous payables	622,084	563,375
Short-term employee benefits	466,894	380,459
Reserve for employee severance indemnity	424,600	367,583
Expense accruals	365,030	544,883
Insurance business related provisions	362,154	306,765
Withholding taxes	335,768	364,508
Transfer orders	253,487	197,715
Provision for non-cash loans	158,545	212,084
Advances received	151,317	115,060
Option premium payables	150,538	336,606
Payables to suppliers relating to financial lease activities	115,069	93,167
Unearned income	106,112	127,050
Blocked accounts	39,834	58,399
Payables to insurance and reinsurance companies relating to insurance business	38,478	32,606
Cash guarantees obtained	13,348	11,731
Cheques at clearing house	11,503	25,270
Others <sup>(*)</sup>	<u>645,768</u>	<u>717,331</u>
	<u>16,838,946</u>	<u>16,688,646</u>

(\*) In the current period, a provision of EUR 33 millions is provided for the ongoing lawsuit against the Bank in Paris, which was disclosed in the Public Disclosure Platform on 20 September 2017.

As of 30 September 2017, other liabilities, accrued expenses and provision include a general reserve amounting to TL 950,000 thousands (31 December 2016: TL 300,000 thousands) provided by the Bank in line with conservatism principle considering the circumstances which may arise from any changes in economy or market conditions.

### *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.



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

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

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

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

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

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

The Bank obtained an actuarial report dated 5 December 2016 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 2016.

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 2016, the present value of funded obligations amounted to TL 278,188 thousands and the fair value of the planned assets amounted to TL 3,050,930 thousands.

	<b><i>31 December</i></b> <b><u>2016</u></b>
Present value of funded obligations	
- Pension benefits transferable to SSF (obligation measured at the expected transfer amount)	(770,448)
- Medical benefits transferable to SSF (obligation measured at the expected transfer amount)	531,665
- General administrative expenses	<u>(39,405)</u>
	(278,188)
Fair value of plan assets	<u>3,050,930</u>
Asset surplus in the plan (*)	<u>2,772,742</u>

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

Plan assets consisted of the following:

	<b><i>31 December</i></b> <b><u>2016</u></b>
Cash and due from banks	332,000
Securities	2,621,555
Land and buildings	96,845
Other	<u>530</u>
	<u>3,050,930</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:

	<b><i>31 December</i></b> <b><u>2016</u></b>
Present value of defined benefit obligations	
- Pension	(662,751)
- Health	(627,139)
Fair value of plan assets (*)	<u>2,772,742</u>
Asset surplus over present value of defined benefit obligation	<u>1,482,852</u>

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

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

As per the actuarial calculation performed as of 31 December 2016 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 1,482,852 thousands remains. However, the Bank's management, acting prudently, did not consider the health premium surplus amounting to TL 531,665 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 2016.

	<b>31 December</b>
	<b><u>2016</u></b>
Asset surplus over present value of defined benefit obligation	1,482,852
Net present value of medical benefits and health premiums transferable to SSF	<u>(531,665)</u>
Present value of asset surplus/(defined benefit obligation)	<u>951,187</u>

Expenses recognized regarding this benefit plan in the accompanying consolidated statement of profit or loss and other comprehensive income for the first nine-months of 2017 and 2016 are as follows:

	<b>30 September</b>	<b>30 September</b>
	<b><u>2017</u></b>	<b><u>2016</u></b>
Total contribution payment	225,954	203,716
Provision for unfunded liability	<u>-</u>	<u>-</u>
	<u>225,954</u>	<u>203,716</u>

Principal actuarial assumptions used were as follows:

	<b>31 December</b>
	<b><u>2016</u></b>
	<b><u>%</u></b>
Discount rates (*)	11.50
Inflation rates (*)	7.80
Future real salary increase rates	1.5
Medical cost trend rates	40% above inflation
Future pension increase rates (*)	7.80

(\*) 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 2016:

<b><u>Assumption change</u></b>	<b><u>% change in defined benefit obligation</u></b>		
	<b><u>Pension Benefits</u></b>	<b><u>Medical Benefits</u></b>	<b><u>Overall</u></b>
	<b><u>%</u></b>	<b><u>%</u></b>	<b><u>%</u></b>
Discount rate +1%	(13.4)	(16.9)	(15.1)
Discount rate -1%	17.1	22.5	19.7
Medical inflation +10% of CPI		16.9	8.2
Medical inflation -10% of CPI		(13.6)	(6.6)

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

### *Short-term employee benefits*

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

	<i>30 September</i>	<i>31 December</i>
	<u>2017</u>	<u>2016</u>
Balance, beginning of the period	380,459	263,691
Payments	(193,612)	(203,941)
Provision for the period, net	<u>280,047</u>	<u>320,709</u>
Balance, end of the period	<u>466,894</u>	<u>380,459</u>

### *Insurance business related provisions*

Insurance business related provisions are detailed in the table below:

	<i>30 September</i>	<i>31 December</i>
	<u>2017</u>	<u>2016</u>
Reserve for unearned premiums, net	77,319	80,521
<i>Gross</i>	103,957	105,930
<i>Reinsurers' share</i>	(26,638)	(25,409)
Provision for claims, net	26,490	27,085
<i>Gross</i>	36,210	37,195
<i>Reinsurers' share</i>	(9,720)	(10,110)
Life mathematical reserves	<u>258,345</u>	<u>199,159</u>
	<u>362,154</u>	<u>306,765</u>

### *Reserve for employee severance indemnity*

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

	<i>30 September</i>	<i>31 December</i>
	<u>2017</u>	<u>2016</u>
Balance, beginning of the period	367,583	311,132
Payments	(40,034)	(33,806)
Provision for the period	97,051	82,224
Actuarial gain/loss	-	8,033
Balance, end of the period	<u>424,600</u>	<u>367,583</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 4,732.48 and full TL 4,297.21 as of 30 September 2017 and 31 December 2016, respectively.

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

	<i>30 September</i>	<i>31 December</i>
	<u>2017 (*)</u>	<u>2016 (*)</u>
	<u>%</u>	<u>%</u>
Discount rates	3.43	3.43
Interest rates	11.50	11.50
Expected rates of salary increases	9.30	9.30
Inflation rates	7.80	7.80

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

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

### *Provision for non-cash loans*

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

	<i>30 September</i>	<i>31 December</i>
	<u>2017</u>	<u>2016</u>
Balance, beginning of the period	212,084	254,221
(Reversal)/provision for the period, net	<u>(53,539)</u>	<u>(42,137)</u>
Balance, end of the period	<u>158,545</u>	<u>212,084</u>

## 22 Equity

### *Share capital*

The authorized nominal share capital of the Bank amounted to TL 4,200,000 thousands as of 30 September 2017.

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

	<i>30 September</i>	<i>31 December</i>
	<u>2017</u>	<u>2016</u>
Balance at the beginning of the period	(543,775)	(283,792)
Net unrealised (losses)/gains from changes in fair value	406,316	(17,923)
Related deferred and current income taxes	(72,685)	11,169
Net gains transferred to the statement of comprehensive income on disposal	18,428	(234,710)
Related deferred and current income taxes	(3,800)	20,295
Changes resulted from disposal of assets	-	2,296
Effect of movements in foreign exchange rates	<u>4,884</u>	<u>(41,110)</u>
Balance at the end of the period	<u>(190,632)</u>	<u>(543,775)</u>

### *Hedging reserve*

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

### *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 1,388,866 thousands (31 December 2016: TL 1,275,230 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.

## 22 Equity (continued)

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 2017, net non-controlling interests amount to TL 307,177 thousands (31 December 2016: TL 267,808 thousands). Non-controlling interests are detailed as follows:

	<i>30 September</i>	<i>31 December</i>
	<u>2017</u>	<u>2016</u>
Capital	55,219	55,219
Retained earnings and other reserves	211,097	170,266
Net income for the period	<u>40,861</u>	<u>42,323</u>
	<u>307,177</u>	<u>267,808</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 226,440,335 thousands (31 December 2016: TL 207,597,264 thousands), whereas the carrying amount is TL 224,595,811 thousands (31 December 2016: TL 205,988,793 thousands) in the accompanying consolidated statement of financial position as of 30 September 2017.

Fair value of investment securities is TL 48,232,977 thousands (31 December 2016: TL 46,782,564 thousands), whereas the carrying amount is TL 47,725,275 thousands (31 December 2016: TL 47,092,951 thousands) in the accompanying consolidated statement of financial position as of 30 September 2017.

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

<u>30 September 2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets at fair value through profit or loss	577,474	31	-	577,505
Derivative financial assets	2,736	3,104,734	-	3,107,470
Debt and other instruments available-for-sale	<u>20,366,883</u>	<u>3,770,890</u>	<u>562,016</u>	<u>24,699,789</u>
Financial Assets at Fair Value	<u>20,947,093</u>	<u>6,875,655</u>	<u>562,016</u>	<u>28,384,764</u>
Loans and advances from banks and other institutions	-	7,048,150	-	7,048,150
Derivative financial liabilities	<u>887</u>	<u>2,529,289</u>	-	<u>2,530,176</u>
Financial Liabilities at Fair Value	<u>887</u>	<u>9,577,439</u>	-	<u>9,578,326</u>

## 23 Fair value information (continued)

<u>31 December 2016</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets at fair value through profit or loss	1,086,299	-	-	1,086,299
Derivative financial assets	12,449	4,267,978	-	4,280,427
Debt and other instruments available-for-sale	<u>23,120,443</u>	<u>246,183</u>	<u>616,629</u>	<u>23,983,255</u>
Financial Assets at Fair Value	<u>24,219,191</u>	<u>4,514,161</u>	<u>616,629</u>	<u>29,349,981</u>
Loans and advances from banks and other institutions	-	1,763,177	-	1,763,177
Derivative financial liabilities	<u>977</u>	<u>4,058,550</u>	-	<u>4,059,527</u>
Financial Liabilities at Fair Value	<u>977</u>	<u>5,821,727</u>	-	<u>5,822,704</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)

Fair value measurement of financial instruments is disclosed under significant accounting policies (h).

## 24 Commitments and contingencies

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

	<u>30 September</u> <u>2017</u>	<u>31 December</u> <u>2016</u>
Letters of guarantee	38,606,468	38,012,713
Letters of credit	13,623,905	15,754,367
Acceptance credits	1,487,690	2,127,334
Other guarantees and endorsements	<u>164,191</u>	<u>191,066</u>
	<u>53,882,254</u>	<u>56,085,480</u>

As of 30 September 2017;

- Commitment for unpaid capital of affiliated companies amounts to TL 5,955 thousands (31 December 2016: TL 5,266 thousands).
- Commitments for unused credit limits and promotions of credit cards, cheques and loans to customers, commitments for loan granting and other revocable and irrevocable commitments amount to TL 48,562,959 thousands (31 December 2016: TL 45,790,059 thousands) in total.
- Commitments for the derivative transactions carried out on behalf of customers in the Turkish Derivatives Exchange amount to TL 1,416,834 thousands (31 December 2016: TL 1,249,188 thousands) in total.

As of 30 September 2017, the securities acquired under security borrowing transactions include shares with total market and carrying values of TL 26,950 thousands (31 December 2016: TL 21,136 thousands).

## 25 Derivative financial instruments

As of 30 September 2017, 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 181,709,626 thousands (31 December 2016: TL 148,281,594 thousands), approximately 86% 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 profit or loss and other comprehensive income, except for contracts of cash flow hedges as stated above.

## 25 Derivative financial instruments (continued)

<b>30 September 2017</b>	<i>Notional amount with remaining life of</i>					<b>Total</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 swaps (*)	3,205	8,179	2,411	5,544	735,468	754,807
Purchases	2,041	4,281	878	3,972	456,016	467,188
Sales	1,164	3,898	1,533	1,572	279,452	287,619
Interest rate options	-	-	-	2,318,182	7,458,320	9,776,502
Purchases	-	-	-	1,159,091	3,729,160	4,888,251
Sales	-	-	-	1,159,091	3,729,160	4,888,251
Interest rate futures	-	14,177	-	-	-	14,177
Purchases	-	-	-	-	-	-
Sales	-	14,177	-	-	-	14,177
<b><u>Other Derivatives</u></b>						
Securities, shares and index options	37,096	24,312	23,332	-	-	84,740
Purchases	21,970	23,951	19,773	-	-	65,694
Sales	15,126	361	3,559	-	-	19,046
Other forward contracts	22,604	29,896	8,707	18,047	-	79,254
Purchases	22,604	29,896	7,263	8,979	-	68,742
Sales	-	-	1,444	9,068	-	10,512
Other future contracts	14,461	3,707	1,041	-	-	19,209
Purchases	4,592	-	1,036	-	-	5,628
Sales	9,869	3,707	5	-	-	13,581
Other swap contracts	56,879	144,120	75,266	11,188	13,084,144	13,371,597
Purchases	-	24,809	13,114	-	5,989,697	6,027,620
Sales	56,879	119,311	62,152	11,188	7,094,447	7,343,977
<b><u>Currency Derivatives</u></b>						
Spot exchange contracts	11,420,989	-	-	-	-	11,420,989
Purchases	3,153,886	-	-	-	-	3,153,886
Sales	8,267,103	-	-	-	-	8,267,103
Forward exchange contracts	11,623,123	2,576,707	2,034,080	940,289	630,707	17,804,906
Purchases	6,979,725	1,270,623	812,392	379,619	113,473	9,555,832
Sales	4,643,398	1,306,084	1,221,688	560,670	517,234	8,249,074
Currency/cross currency swaps	45,983,794	34,621,129	16,900,381	11,781,366	3,057,674	112,344,344
Purchases	34,055,240	25,464,242	8,487,996	3,700,713	1,577,046	73,285,237
Sales	11,928,554	9,156,887	8,412,385	8,080,653	1,480,628	39,059,107
Options	5,997,685	4,098,941	1,931,644	3,698,539	224,054	15,950,863
Purchases	3,268,141	2,024,746	958,498	2,173,793	15,645	8,440,823
Sales	2,729,544	2,074,195	973,146	1,524,746	208,409	7,510,040
Foreign currency futures	27,820	59,331	1,087	-	-	88,238
Purchases	6,450	55,013	-	-	-	61,463
Sales	21,370	4,318	1,087	-	-	26,775
Subtotal Purchases	47,514,649	28,897,561	10,300,950	7,426,167	11,881,037	106,020,364
Subtotal Sales	27,673,007	12,682,938	10,676,999	11,346,988	13,309,330	75,689,262
Total of Transactions	20,841,642	16,214,623	2,623,951	1,079,179	1,571,707	30,339,606

(\*) 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>31 December 2016</b>	<i>Notional amount with remaining life of</i>					<b>Total</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 swaps (*)	-	1,191	6,127	44,626	795,325	847,269
Purchases	-	59	6,019	22,886	485,419	514,383
Sales	-	1,132	108	21,740	309,906	332,886
Interest rate options	-	-	-	-	5,927,914	5,927,914
Purchases	-	-	-	-	2,963,957	2,963,957
Sales	-	-	-	-	2,963,957	2,963,957
Interest rate futures	-	100,121	-	-	-	100,121
Purchases	-	-	-	-	-	-
Sales	-	100,121	-	-	-	100,121
<b><u>Other Derivatives</u></b>						
Securities, shares and index options	79,184	40,929	263	-	-	120,376
Purchases	47,421	39,989	263	-	-	87,673
Sales	31,763	940	-	-	-	32,703
Other forward contracts	52,988	212,855	44,895	24,043	-	334,781
Purchases	52,908	111,517	32,505	14,924	-	211,854
Sales	80	101,338	12,390	9,119	-	122,927
Other future contracts	2,020	66,656	-	-	-	68,676
Purchases	408	5,363	-	-	-	5,771
Sales	1,612	61,293	-	-	-	62,905
Other swap contracts	4,839	250,808	99,214	227,408	12,960,978	13,543,247
Purchases	-	29,861	-	24,591	5,895,867	5,950,319
Sales	4,839	220,947	99,214	202,817	7,065,111	7,592,928
<b><u>Currency Derivatives</u></b>						
Spot exchange contracts	1,969,748	-	-	-	-	1,969,748
Purchases	294,003	-	-	-	-	294,003
Sales	1,675,745	-	-	-	-	1,675,745
Forward exchange contracts	7,738,793	2,613,124	1,574,515	1,470,544	696,184	14,093,160
Purchases	5,106,618	1,593,224	701,898	690,088	217,116	8,308,944
Sales	2,632,175	1,019,900	872,617	780,456	479,068	5,784,216
Currency/cross currency swaps	43,087,215	17,974,209	8,455,242	10,442,133	4,940,627	84,899,426
Purchases	27,977,896	8,024,250	3,906,757	4,951,434	2,871,580	47,731,917
Sales	15,109,319	9,949,959	4,548,485	5,490,699	2,069,047	37,167,509
Options	9,143,943	5,918,609	4,666,252	5,409,206	1,143,233	26,281,243
Purchases	3,917,730	3,254,974	2,422,159	2,443,607	763,176	12,801,646
Sales	5,226,213	2,663,635	2,244,093	2,965,599	380,057	13,479,597
Foreign currency futures	-	86,912	4,333	4,388	-	95,633
Purchases	-	17,565	4,333	4,388	-	26,286
Sales	-	69,347	-	-	-	69,347
Subtotal Purchases	37,396,984	13,076,802	7,073,934	8,151,918	13,197,115	78,896,753
Subtotal Sales	24,681,746	14,188,612	7,776,907	9,470,430	13,267,146	69,384,841
Total of Transactions	62,078,730	27,265,414	14,850,841	17,622,348	26,464,261	148,281,594

(\*) 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.

The top management is responsible of managing, developing the risk management strategies, policies and application principles approved by the board of directors, reporting of major risks that the Bank is facing to the board of directors, assessment of internal control, internal audit and risk reports of departments and either eliminating risks, deficiencies or defects identified in these departments or taking the necessary precautions to prevent those, and participating in determination of risk limits.

The risk management activities are structured under the responsibility of the Bank's board of directors. Risk Committee, with its all members from board of directors, supervises corporate risk management policy and practices, manages the various risks present in the Bank activities, as well as capital adequacy, planning and liquidity adequacy. The risks such as corporate risk management policy and application review, capital adequacy, planning and liquidity coverage are at the responsibility of risk management composed of the members of board. 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, independent from the departments having operational activities; Internal Control, Risk Management, 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 and Internal Capital Adequacy Assessment Process of Banks published in the Official Gazette dated 11 July 2014, the Bank periodically reviews the current written policies and implementation procedures regarding management of each risk encountered in its activities. The Bank also conducts internal capital adequacy assessment process (ICAAP) within the scope of the same regulation on both consolidated and bank-only basis. The main target of this process is to maintain the Bank's capital adequacy, considering the Bank's strategies, credit growth expectations, assets and liabilities structure, future funding sources and liquidity, dividend policy and possible fluctuations in capital requirement due to economic cycle, by being compatible with its risk profile and risk appetite.

In this scope, possible internal capital requirement is assessed as of every year-end for following three years, in line with current capital structure, in the frame of the Bank's activities and risks exposed, and the Bank's future target and strategies. This assessment includes market, credit, operational risks, which are directly related with regulatory capital adequacy ratio, and also interest rate risk in banking book, liquidity risk, regulation risk, concentration risk, strategic risk, and country and transfer risk.

## **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 24. Derivative financial instruments used include swaps, futures, forwards, options and other similar types of contracts whose value changes in response to changes in interest rates, foreign exchange rates and gold prices. Derivatives are individually negotiated over-the-counter contracts. A description of the main types of derivative instruments used is set out below:

#### *Swaps*

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

## **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 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.

Liquidity Risk is managed by Asset and Liability Management Department (ALMD) and Asset and Liability Committee (ALCO) in line with risk management policies and risk appetite approved by the board of directors in order to take the necessary measures in a timely and correct manner against possible liquidity shortages that may result from market conditions and balance sheet structure. Under stressed conditions, liquidity risk is managed within the Contingency Funding Plan framework.

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

The board of directors reviews the liquidity risk management strategy, policy and practices, and approves the liquidity strategy and policies within the framework of risk management strategy and policies, ensures the effective of practice of policies and integrations with Bank's risk management strategy. It determines the basic metrics in liquidity risk measurement and monitoring. It establishes risk appetite of the Bank in liquidity risk management and identifies the risk limits in accordance with the risk appetite and reviews it regularly.

ALCO takes necessary decisions which will be executed by related departments by assessing the liquidity risk that the Bank is exposed to and considering the Bank's strategy and conditions of competition and pursues the implementations.

ALMD, performs daily liquidity management by ensuring compliance with regulatory and internal liquidity limits and monitoring related early warning indicators in case of probable liquidity squeezes. The medium and long term liquidity and funding management is performed by ALMD in accordance with ALCO decisions.

Risk Management Department defines the Bank's liquidity risk, measures and monitors the risks with liquidity risk measurement methods that are in compliance with international standards, presents measurement results periodically to related departments, committees and senior management. Risk Management Department coordinates related parties in order to ensure compliance of risk management process in accordance with the Bank's risk profile, operation environment and strategic plan with regulations. Risk Management Department analyses, develops and revises relevant liquidity risk measurement methods and models in accordance with changing market conditions and the Bank's structure. Risk Management Department reviews assumptions and parameters used in liquidity risk analysis.

The liquidity risk analysis and the important early warning signals are reported monthly to related senior management. Additionally, analysis and monitored internal ratios related to liquidity risk are presented in ALCO report. Internal liquidity metrics are monitored with limit and alert levels approved by the board of directors and reported regularly to related parties.

Decentralized management approach is adopted in the Bank's liquidity management. Each subsidiary controlled by the Bank performs daily, medium and long term liquidity management independently from the Bank by the authorities in each subsidiary responsible for managing liquidity risk. In addition, within the scope of consolidated risk management, liquidity and funding risk of each subsidiary in control are monitored via the liquidity risk management methods identified by the Bank by considering the operations, risk profile and regulations of the related subsidiary. Also, in increasing market volatility and liquidity deficit environments, cash flows of especially financial subsidiaries are monitored with the Bank's cash flow on a consolidated basis.

The Bank's funding management is carried out in compliance with the ALCO decisions. Funding and placement strategies are developed by assessing liquidity of the Bank.

In liquidity risk management actions that will be taken and procedures are determined by considering normal economic conditions and stress conditions.

Diversification of assets and liabilities is assured so as to be able to continuously meet the obligations, also taking into account the relevant currencies. Funding sources are monitored actively during identification of concentration risk related to funding. The Bank's funding base of customer deposits, interbank and other borrowing transactions are diversified in order to prevent the concentration of a particular funding source. Factors that could trigger the sudden and significant run off in funds or impair the accessibility of the funding sources are analyzed. Additionally, securities which are eligible as collateral at CBRT issued by Republic of Turkey Treasury and have active secondary market are comprised in the Bank's assets.

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

In the context of TL and foreign currencies liquidity management, the cash flows regarding assets and liabilities are monitored and the required liquidity in future periods is forecasted. In cash flow analysis, stress is applied to items that affect the liquidity by volume and rate of change from a liquidity management point of view.

Liquidity risk exposed by the Bank is managed by establishing risk appetite, risk mitigation according to the liquidity and funding policies (diversification of funding sources, holding high quality liquid assets reserve) and effective control environment and closely monitoring by limits. For those risks that cannot be reduced, the adoption of the current level of risk, reduction or termination of the activities that cause the risk is considered.

In liquidity risk stress testing framework, the level of the Bank's ability to cover cash outflows in liquidity crisis scenario based on the Bank's current cash flow structure, by high quality liquid assets is calculated. Scenario analysis are performed by assessing changing balance sheet structure, liquidity requirements and market conditions.

The results of liquidity risk stress testing are taken into consideration in the assessment of liquidity adequacy and identification of strategy, policy and procedures regarding liquidity risk and contingency funding plan is prepared within this framework.

There exists "Liquidity Risk Management Contingency Funding Plan" in the Bank including mechanisms to prevent increase in liquidity risk during normal and liquidity crisis scenarios for different conditions and levels. Available liquidity sources are determined by considering the liquidity squeezes. Within the framework of this plan, the Bank monitors liquidity risk in terms of early warning indicators, stress levels determined according to probable scenarios and severity of the crisis and possible actions that can be taken in each stress level. In determination of the stress level in the plan, early warning indicators are taken into consideration.

The table below presents the last three months' consolidated liquidity ratios in accordance with the BRSA regulations:

<b>Period</b>	<b>TL+FC</b>	<b>FC</b>
31 July 2017	147.32%	169.36%
31 August 2017	152.38%	161.20%
30 September 2017	144.60%	142.08%

### *Exposure to liquidity risk*

Liquidity Coverage Ratio (LCR), aims for the banks having the ability to cover 30 days of liquidity needs with their own cash and high quality liquid assets that are easy to convert to cash during liquidity shortages in the markets. With that perspective and according to "Regulation for Banks' Liquidity Coverage Ratio Calculations" terms LCR ratio is calculated by having high quality liquid assets divided by net cash outflows. After a transition period that will end by 1 January 2019, in both bank-only and consolidated basis, LCR ratio should be at least 80% for foreign currency and 100% for total.

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 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 2017

(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:

	<i>30 September 2017</i>							
	<i>Demand</i>	<i>Up to</i>	<i>1 to 3</i>	<i>3 to 12</i>	<i>1 to 5</i>	<i>Over</i>	<i>Undistributed</i>	<i>Total</i>
	<i>Accounts</i>	<i>1 month</i>	<i>months</i>	<i>months</i>	<i>years</i>	<i>5 year</i>		
<b>MONETARY ASSETS</b>								
<b><u>Turkish Lira</u></b>								
Cash and balances with central banks	1,526,245	5,904,755	-	-	-	-	-	7,431,000
Financial assets at fair value through profit or loss	49,907	20,301	819	12,278	38,279	31,670	-	153,254
Loans and advances to banks	7,788	561,380	20,675	564,699	65,039	-	-	1,219,581
Loans and advances to customers	214,733	28,796,940	15,299,922	34,511,734	46,469,461	7,773,452	558,583	133,624,825
Derivative financial assets	-	675,899	508,837	921,126	336,297	154,596	-	2,596,755
Other assets	428,382	544,408	25,210	37,483	63,724	-	1,943,103	3,042,310
Investment securities	37,676	79,108	446,852	3,608,025	15,459,821	13,746,203	-	33,377,685
Deferred tax asset	-	-	-	-	-	-	866,428	866,428
Total Turkish Lira monetary assets	2,264,731	36,582,791	16,302,315	39,655,345	62,432,621	21,705,921	3,368,114	182,311,838
<b><u>Foreign Currency</u></b>								
Cash and balances with central banks	7,959,518	-	-	-	-	-	-	7,959,518
Financial assets at fair value through profit or loss	384,868	-	-	-	-	39,383	-	424,251
Loans and advances to banks	4,069,836	1,359,691	250,615	861,863	3,291,751	507,939	-	10,341,695
Loans and advances to customers	395,725	6,497,145	6,300,445	20,085,659	40,277,731	15,939,176	1,475,105	90,970,986
Derivative financial assets	-	-	29,673	142,855	-	338,187	-	510,715
Other assets	341,183	23,614,859	5,248	19,645	50,925	18,286	39,261	24,089,407
Investment securities	218,562	-	-	81,873	4,293,091	9,754,064	-	14,347,590
Deferred tax asset	-	-	-	-	-	-	13,638	13,638
Total foreign currency monetary assets	13,369,692	31,471,695	6,585,981	21,191,895	47,913,498	26,597,035	1,528,004	148,657,800
Total Monetary Assets	15,634,423	68,054,486	22,888,296	60,847,240	110,346,119	48,302,956	4,896,118	330,969,638
<b>MONETARY LIABILITIES</b>								
<b><u>Turkish Lira</u></b>								
Deposits	20,868,150	52,010,578	10,385,682	2,734,418	16,568	-	-	86,015,396
Obligations under repurchase agreements and money market fundings	97	7,718,830	192,796	12,751	-	-	-	7,924,474
Loans and advances from banks and other institutions	-	449,941	88,674	385,676	515,395	-	-	1,439,686
Bonds payable	-	1,972,483	1,889,999	2,436,104	1,160,624	-	-	7,459,210
Subordinated liabilities	-	-	-	-	-	-	-	-
Derivative financial liabilities	-	450,739	416,466	1,127,759	111,329	2,427	-	2,108,720
Other liabilities, accrued expenses and provisions	405,633	9,877,994	574,279	45,231	2,116	-	2,485,982	13,391,235
Total Turkish Lira monetary liabilities	21,273,880	72,480,565	13,547,896	6,741,939	1,806,032	2,427	2,485,982	118,338,721
<b><u>Foreign Currency</u></b>								
Deposits	32,081,941	50,985,801	11,633,919	12,610,045	1,806,554	22,028	-	109,140,288
Obligations under repurchase agreements and money market fundings	-	8,472,199	1,516,608	-	544,206	48,195	-	10,581,208
Loans and advances from banks and other institutions	-	1,918,039	6,776,148	11,009,262	13,942,151	7,672,622	-	41,318,222
Bonds payable	-	-	73,557	754,283	9,094,032	1,966,623	-	11,888,495
Subordinated liabilities	-	-	-	-	-	2,715,786	-	2,715,786
Derivative financial liabilities	-	12,068	28,847	29,641	118,255	232,645	-	421,456
Other liabilities, accrued expenses and provisions	453,138	429,122	178,335	71,419	594	1,655	261,729	1,395,992
Total foreign currency monetary liabilities	32,535,079	61,817,229	20,207,414	24,474,650	25,505,792	12,659,554	261,729	177,461,447
Total Monetary Liabilities	53,808,959	134,297,794	33,755,310	31,216,589	27,311,824	12,661,981	2,747,711	295,800,168



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(Currency: Thousands of Turkish Lira (TL))

	<b>31 December 2016</b>							
	<i>Demand Accounts</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 year</i>	<i>Undistributed</i>	<i>Total</i>
<b>MONETARY ASSETS</b>								
<b><u>Turkish Lira</u></b>								
Cash and balances with central banks	6,643,742	-	-	-	-	-	-	6,643,742
Financial assets at fair value through profit or loss	77,971	4,900	10,818	5,556	45,915	12,481	-	157,641
Loans and advances to banks	10,820	741,001	144,448	384,187	1,332	-	-	1,281,788
Loans and advances to customers	195,607	27,582,736	12,189,593	28,812,844	36,513,964	7,738,412	425,010	113,458,166
Derivative financial assets	-	1,003,306	717,669	1,252,424	589,910	145,263	-	3,708,572
Other assets	243,947	593,132	22,468	31,831	12,361	2,305	1,501,691	2,407,735
Investment securities	40,794	33,016	483,269	413,542	14,758,348	14,907,242	-	30,636,211
Deferred tax asset	-	-	-	-	-	-	821,376	821,376
<b>Total Turkish Lira monetary assets</b>	<b>7,212,881</b>	<b>29,958,091</b>	<b>13,568,265</b>	<b>30,900,384</b>	<b>51,921,830</b>	<b>22,805,703</b>	<b>2,748,077</b>	<b>159,115,231</b>
<b><u>Foreign Currency</u></b>								
Cash and balances with central banks	2,484,584	2,472,937	-	-	-	-	-	4,957,521
Financial assets at fair value through profit or loss	876,298	-	715	153	16,728	34,764	-	928,658
Loans and advances to banks	4,708,507	2,266,466	1,566,687	1,866,083	3,591,666	-	-	13,999,409
Loans and advances to customers	223,927	7,172,393	5,897,211	21,631,225	39,570,670	16,817,869	1,217,332	92,530,627
Derivative financial assets	-	-	49,591	71,675	142,866	307,723	-	571,855
Other assets	180,089	14,121,009	19,509	20,615	44,922	16,231	37,251	14,439,626
Investment securities	177,828	129,790	3,073	266,623	5,591,586	10,287,840	-	16,456,740
Deferred tax asset	-	-	-	-	-	-	35,221	35,221
<b>Total foreign currency monetary assets</b>	<b>8,651,233</b>	<b>26,162,595</b>	<b>7,536,786</b>	<b>23,856,374</b>	<b>48,958,438</b>	<b>27,464,427</b>	<b>1,289,804</b>	<b>143,919,657</b>
<b>Total Monetary Assets</b>	<b>15,864,114</b>	<b>56,120,686</b>	<b>21,105,051</b>	<b>54,756,758</b>	<b>100,880,268</b>	<b>50,270,130</b>	<b>4,037,881</b>	<b>303,034,888</b>
<b>MONETARY LIABILITIES</b>								
<b><u>Turkish Lira</u></b>								
Deposits	19,004,321	46,208,272	8,925,332	1,835,536	6,436	-	-	75,979,897
Obligations under repurchase agreements and money market fundings	-	10,496,625	207,400	-	-	-	-	10,704,025
Loans and advances from banks and other institutions	-	904,046	527,574	1,247,920	546,550	-	-	3,226,090
Bonds payable	-	563,901	1,689,471	2,784,758	934,208	-	-	5,972,338
Subordinated liabilities	-	-	-	-	-	-	-	-
Derivative financial liabilities	-	790,117	706,280	1,069,600	603,875	17,963	-	3,187,835
Other liabilities, accrued expenses and provisions	292,630	8,604,765	351,803	13,130	-	-	1,924,873	11,187,201
<b>Total Turkish Lira monetary liabilities</b>	<b>19,296,951</b>	<b>67,567,726</b>	<b>12,407,860</b>	<b>6,950,944</b>	<b>2,091,069</b>	<b>17,963</b>	<b>1,924,873</b>	<b>110,257,386</b>
<b><u>Foreign Currency</u></b>								
Deposits	27,729,059	47,119,181	13,949,113	12,106,372	1,737,770	22,199	-	102,663,694
Obligations under repurchase agreements and money market fundings	87	-	-	218,895	259,140	48,046	-	526,168
Loans and advances from banks and other institutions	-	1,354,751	1,543,145	19,071,656	15,652,938	6,479,364	-	44,101,854
Bonds payable	-	85,933	-	2,369,284	7,288,795	2,129,990	-	11,874,002
Subordinated liabilities	-	-	-	-	-	-	-	-
Derivative financial liabilities	-	14,385	25,503	102,553	85,068	644,183	-	871,692
Other liabilities, accrued expenses and provisions	904,082	312,061	111,385	55,893	815	3,848	197,691	1,585,775
<b>Total foreign currency monetary liabilities</b>	<b>28,633,228</b>	<b>48,886,311</b>	<b>15,629,146</b>	<b>33,924,653</b>	<b>25,024,526</b>	<b>9,327,630</b>	<b>197,691</b>	<b>161,623,185</b>
<b>Total Monetary Liabilities</b>	<b>47,930,179</b>	<b>116,454,037</b>	<b>28,037,006</b>	<b>40,875,597</b>	<b>27,115,595</b>	<b>9,345,593</b>	<b>2,122,564</b>	<b>271,880,571</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.

<b>30 September 2017</b>								
	<b>Carrying Value</b>	<b>Nominal Principal Outflows</b>	<b>Demand</b>	<b>Up to 1 Month</b>	<b>1 to 3 Months</b>	<b>3 to 12 Months</b>	<b>1 to 5 Years</b>	<b>Over 5 Years</b>
Deposits	195,155,684	194,418,149	52,939,792	102,610,812	21,866,191	15,166,402	1,813,057	21,895
Obligations under repurchase agreements and money market fundings	18,505,682	18,491,655	97	16,177,827	1,708,824	12,700	544,206	48,001
Loans and advances from banks and other institutions	42,757,908	42,472,804	-	2,276,245	6,781,574	11,366,636	14,421,607	7,626,742
Bonds payable	19,347,705	18,984,833	-	1,959,607	1,936,188	3,157,527	9,972,009	1,959,502
Subordinated liabilities	<u>2,715,786</u>	<u>2,658,150</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,658,150</u>
Total Monetary Liabilities	<u>278,482,765</u>	<u>277,025,591</u>	<u>52,939,889</u>	<u>123,024,491</u>	<u>32,292,777</u>	<u>29,703,265</u>	<u>26,750,879</u>	<u>12,314,290</u>
<b>31 December 2016</b>								
	<b>Carrying Value</b>	<b>Nominal Principal Outflows</b>	<b>Demand</b>	<b>Up to 1 Month</b>	<b>1 to 3 Months</b>	<b>3 to 12 Months</b>	<b>1 to 5 Years</b>	<b>Over 5 Years</b>
Deposits	178,643,591	177,999,198	46,709,976	93,007,155	22,744,658	13,787,977	1,727,342	22,090
Obligations under repurchase agreements and money market fundings	11,230,193	11,219,661	87	10,487,138	207,000	218,765	259,140	47,531
Loans and advances from banks and other institutions	47,327,944	47,043,276	-	2,160,935	1,982,642	20,276,452	16,182,710	6,440,537
Bonds payable	17,846,340	17,490,176	-	641,159	1,683,472	5,112,095	7,955,147	2,098,303
Subordinated liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Monetary Liabilities	<u>255,048,068</u>	<u>253,752,311</u>	<u>46,710,063</u>	<u>106,296,38</u>	<u>26,617,772</u>	<u>39,395,289</u>	<u>26,124,339</u>	<u>8,608,461</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.

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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 2017</b>						
	<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 year</i>	<i>Non-Interest Bearing</i>	<i>Total</i>
<b>MONETARY ASSETS</b>							
Cash and balances with central banks	5,781,386	-	-	-	-	9,609,132	15,390,518
Financial assets at fair value through profit or loss	109	3,600	36,121	57,790	43,477	436,408	577,505
Loans and advances to banks	3,867,353	2,350,390	1,286,398	128,232	-	3,928,903	11,561,276
Loans and advances to customers	50,366,820	36,617,311	59,046,361	63,490,020	12,595,811	2,479,488	224,595,811
Other assets	14,831,293	-	-	19,986	-	15,387,908	30,239,187
Investment securities	4,779,673	6,820,641	14,016,048	6,121,824	10,591,049	5,396,040	47,725,275
Deferred tax asset	-	-	-	-	-	880,066	880,066
<b>Total Monetary Assets</b>	<b>79,626,634</b>	<b>45,791,942</b>	<b>74,384,928</b>	<b>69,817,852</b>	<b>23,230,337</b>	<b>38,117,945</b>	<b>330,969,638</b>
<b>MONETARY LIABILITIES</b>							
Deposits	109,334,933	21,877,737	15,230,869	1,737,120	14,767	46,960,258	195,155,684
Obligations under repurchase agreements and money market fundings	16,177,827	1,708,824	12,700	544,206	48,001	14,124	18,505,682
Loans and advances from banks and other institutions	14,546,986	18,664,982	3,359,716	5,518,910	320,012	347,302	42,757,908
Bonds payable	1,995,048	2,102,766	2,990,950	9,936,567	1,959,502	362,872	19,347,705
Subordinated liabilities	-	-	-	-	2,658,150	57,636	2,715,786
Other liabilities, accrued expenses and provisions	-	-	-	-	-	17,317,403	17,317,403
<b>Total Monetary Liabilities</b>	<b>142,054,794</b>	<b>44,354,309</b>	<b>21,594,235</b>	<b>17,736,803</b>	<b>5,000,432</b>	<b>65,059,595</b>	<b>295,800,168</b>
	<b>31 December 2016</b>						
	<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 year</i>	<i>Non-Interest Bearing</i>	<i>Total</i>
<b>MONETARY ASSETS</b>							
Cash and balances with central banks	9,353,481	-	-	-	-	2,247,782	11,601,263
Financial assets at fair value through profit or loss	8,122	29,640	5,728	43,336	44,354	955,119	1,086,299
Loans and advances to banks	4,905,102	2,398,325	3,118,568	24,279	222,120	4,612,803	15,281,197
Loans and advances to customers	50,606,890	26,654,682	61,102,024	52,927,243	12,770,423	1,927,531	205,988,793
Other assets	10,737,488	730	8,448	16,494	2,306	10,362,322	21,127,788
Investment securities	3,112,637	7,756,567	11,185,254	9,285,204	11,810,425	3,942,864	47,092,951
Deferred tax asset	-	-	-	-	-	856,597	856,597
<b>Total Monetary Assets</b>	<b>78,723,720</b>	<b>36,839,944</b>	<b>75,420,022</b>	<b>62,296,556</b>	<b>24,849,628</b>	<b>24,905,018</b>	<b>303,034,888</b>
<b>MONETARY LIABILITIES</b>							
Deposits	99,424,998	22,758,896	13,862,911	1,640,164	13,467	40,943,155	178,643,591
Obligations under repurchase agreements and money market fundings	10,487,138	207,000	218,766	259,140	47,531	10,618	11,230,193
Loans and advances from banks and other institutions	14,591,446	17,544,924	9,181,554	5,517,061	178,429	314,530	47,327,944
Bonds payable	676,288	1,760,757	5,112,095	7,842,731	2,098,305	356,164	17,846,340
Subordinated liabilities	-	-	-	-	-	-	-
Other liabilities, accrued expenses and provisions	-	-	-	-	-	16,832,503	16,832,503
<b>Total Monetary Liabilities</b>	<b>125,179,870</b>	<b>42,271,577</b>	<b>28,375,326</b>	<b>15,259,096</b>	<b>2,337,732</b>	<b>58,456,970</b>	<b>271,880,571</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 2017 and the year 2016:

	<i>30 September 2017</i>			
	<i>US\$</i> <i>%</i>	<i>EUR</i> <i>%</i>	<i>TL</i> <i>%</i>	<i>Other</i> <i>Currencies</i> <i>%</i>
<i>Assets</i>				
Loans and advances to banks	1-4	1-2	1-15	1-2
Debt and other fixed or floating income instruments	3-12	1-5	1-17	-
Loans and advances to customers	1-11	1-11	1-30	1-31
<i>Liabilities</i>				
Deposits:				
- Foreign currency deposits	1-3	1-6	-	1-5
- Bank deposits	1-3	1-2	7-14	1
- Saving deposits	-	-	7-12	-
- Commercial deposits	-	-	9-15	-
- Public and other deposits	-	-	12	-
Obligations under repurchase agreements and money market fundings	1-3	-	7-14	-
Loans and advances from banks and other institutions	1-5	1-4	8-17	1-4
Bonds payable	6	4	8-14	1-5
	<i>31 December 2016</i>			
	<i>US\$</i> <i>%</i>	<i>EUR</i> <i>%</i>	<i>TL</i> <i>%</i>	<i>Other</i> <i>Currencies</i> <i>%</i>
<i>Assets</i>				
Loans and advances to banks	1-4	1-2	1-16	1
Debt and other fixed or floating income instruments	3-12	1-5	7-15	10
Loans and advances to customers	1-11	1-13	1-27	1-31
<i>Liabilities</i>				
Deposits:				
- Foreign currency deposits	1-2	1-7	-	1-5
- Bank deposits	1-2	1-2	1-11	1-2
- Saving deposits	-	-	7-10	-
- Commercial deposits	-	-	7-15	-
- Public and other deposits	-	-	11	-
Obligations under repurchase agreements and money market fundings	2-3	-	5-11	-
Loans and advances from banks and other institutions	1-5	1-5	10-25	1-4
Bonds payable	5	3	1-11	1-5

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

### *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 and Romania. The measurement currencies of its operations are Euro 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 profit or loss and other comprehensive income. These exposures comprise the monetary assets and monetary liabilities that are not denominated in the measurement currency of the Bank involved.

## 26 Financial risk management disclosures (continued)

These exposures are as follows:

	<b>30 September 2017</b>			
	<u>US\$</u>	<u>EUR</u>	<u>Other Currencies</u>	<u>Total</u>
<i>Assets</i>				
Cash and balances with central banks	4,044,933	3,718,356	196,229	7,959,518
Financial assets at fair value				
through profit or loss	37,907	1,477	384,867	424,251
Loans and advances to banks	4,750,207	4,636,242	955,246	10,341,695
Loans and advances to customers	45,181,424	41,309,598	4,479,964	90,970,986
Other assets	14,596,272	3,808,967	6,194,883	24,600,122
Investment securities	11,694,899	2,652,691	-	14,347,590
Investments in equity participations	-	1,389	641	2,030
Tangible and intangible assets	256	111,836	76,719	188,811
Deferred tax asset	-	-	13,638	13,638
<b>Total Assets</b>	<b>80,305,898</b>	<b>56,240,556</b>	<b>12,302,187</b>	<b>148,848,641</b>
<i>Liabilities</i>				
Deposits	64,478,278	35,112,059	9,549,951	109,140,288
Obligations under repurchase agreements and money market fundings	5,951,024	4,630,087	97	10,581,208
Loans and advances from banks and other institutions	26,773,676	14,424,035	120,511	41,318,222
Bonds payable	8,623,738	2,368,730	896,027	11,888,495
Subordinated liabilities	2,715,786	-	-	2,715,786
Current and deferred tax liability	-	20,775	641	21,416
Other liabilities, accrued expenses and provisions	1,057,340	547,031	191,661	1,796,032
<b>Total Liabilities</b>	<b>109,599,842</b>	<b>57,102,717</b>	<b>10,758,888</b>	<b>177,461,447</b>
<b>Net Statement of Financial Position</b>	<b>(29,293,944)</b>	<b>(862,161)</b>	<b>1,543,299</b>	<b>(28,612,806)</b>
<b>Net Off Balance Sheet Position</b>	<b>27,423,246</b>	<b>2,390,570</b>	<b>(559,102)</b>	<b>29,254,714</b>
<b>Net Long/(Short) Position</b>	<b>(1,870,698)</b>	<b>1,528,409</b>	<b>984,197</b>	<b>641,908</b>
<b>31 December 2016</b>				
	<u>US\$</u>	<u>EUR</u>	<u>Other Currencies</u>	<u>Total</u>
<b>Total Assets</b>	<b>83,286,819</b>	<b>54,716,194</b>	<b>6,096,911</b>	<b>144,099,924</b>
<b>Total Liabilities</b>	<b>101,691,723</b>	<b>50,843,358</b>	<b>9,088,104</b>	<b>161,623,185</b>
<b>Net Statement of Financial Position</b>	<b>(18,404,904)</b>	<b>3,872,836</b>	<b>(2,991,193)</b>	<b>(17,523,261)</b>
<b>Net Off Balance Sheet Position</b>	<b>18,158,120</b>	<b>(3,599,702)</b>	<b>3,500,310</b>	<b>18,058,728</b>
<b>Net Long/(Short) Position</b>	<b>(246,784)</b>	<b>273,134</b>	<b>509,117</b>	<b>535,467</b>

For the purposes of the evaluation of the table above, the figures represent the TL equivalent of the related hard currencies. The effective exchange rates at the balance sheet date announced by the Bank in TL are 3.5442 for US dollars and 4.1862 for Euro.

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.

## 26 Financial risk management disclosures (continued)

### *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>
	<i>2017</i>	<i>2016</i>
	<u>%</u>	<u>%</u>
Above Average	41	40
Average	46	48
Below Average	<u>13</u>	<u>12</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.

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.



## 26 Financial risk management disclosures (continued)

### *Exposure to credit risk*

	<i>Loans and advances to customers</i>	
	<i>30 September 2017</i>	<i>31 December 2016</i>
Individually impaired	6,937,560	6,910,833
Allowance for impairment	(5,311,544)	(5,210,967)
Carrying amount	<u>1,626,016</u>	<u>1,699,866</u>
Portfolio basis allowance	(2,849,604)	(3,036,025)
Loans past due but not impaired and loans under follow-up	10,338,645	8,286,780
Carrying amount	<u>10,338,645</u>	<u>8,286,780</u>
Neither past due nor impaired	206,853,315	189,191,150
Loans with renegotiated terms	8,627,439	9,847,022
Carrying amount	<u>215,480,754</u>	<u>199,038,172</u>
Total carrying amount	<u>224,595,811</u>	<u>205,988,793</u>

### *Impaired loans*

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

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

The Bank and its affiliates monitor concentrations of credit risk by sector and by geographic location.

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

	<i>30 September 2017</i>	<i>31 December 2016</i>
Consumer loans	2,844,580	2,677,827
Transportation and logistics	524,343	508,102
Construction	508,393	540,481
Service sector	369,717	412,915
Transportation vehicles and sub-industries	346,990	358,314
Textile	282,262	256,196
Energy	268,282	268,805
Food	250,079	274,702
Agriculture and stockbreeding	191,824	218,944
Metal and metal products	190,142	221,210
Tourism	164,622	151,142
Chemistry and chemical products	108,953	105,505
Durable consumption	105,585	79,754
Paper and paper products	92,632	99,307
Others	<u>689,156</u>	<u>737,629</u>
Total non-performing loans, factoring and lease receivables	<u>6,937,560</u>	<u>6,910,833</u>

## 26 Financial risk management disclosures (continued)

	<i>30 September</i>	<i>31 December</i>
	<u>2017</u>	<u>2016</u>
Turkey	5,707,840	5,699,489
Romania	648,376	642,856
Malta	304,189	265,859
Switzerland	89,239	105,596
England	81,064	79,118
Cyprus	24,660	26,029
Ukraine	23,611	23,398
Others	<u>58,581</u>	<u>68,488</u>
Total non-performing loans, factoring and lease receivables	<u>6,937,560</u>	<u>6,910,833</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.

### *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 2017 or 31 December 2016.

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

## 26 Financial risk management disclosures (continued)

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>2017</u>	<u>2016</u>
Mortgages	1,753,565	1,724,097
Pledge assets	498,720	514,220
Promissory notes	519,114	489,012
Cash collateral	3,897	3,750
Unsecured	<u>4,162,264</u>	<u>4,179,754</u>
	<u>6,937,560</u>	<u>6,910,833</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.

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.

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

- 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 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.

## 26 Financial risk management disclosures (continued)

The Bank's and its affiliates' regulatory capital positions on consolidated basis as of 30 September 2017 and 31 December 2016, are as follows:

	<i>30 September</i>	<i>31 December</i>
	<u>2017</u>	<u>2016</u>
Tier 1 capital	39,149,960	35,120,258
Tier 2 capital	5,536,819	2,889,903
Deductions from capital	<u>(32,807)</u>	<u>(93,350)</u>
Total regulatory capital	44,653,972	37,916,811
Value at credit, market and operational risks	261,732,998	258,425,540
<u>Capital ratios (%)</u>		
Total regulatory capital expressed as a percentage of total value at credit, market and operational risks	17.06	14.67
Total tier 1 capital expressed as a percentage of total value at credit, market and operational risks	14.96	13.59

### 26.4 Hedging

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

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

In this respect, the Bank applied fair value hedge accounting for the fixed rate eurobonds issued in 2011 with a total face value of US\$ 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 2,544,232 thousands, US\$ 983,934,642 and EUR 147,303,760, for its fixed-rate loans with a total principal of RON 215,939,842, for its bonds with a total face value of TL 600,000 thousands and US\$ 59,900,000 and fixed-rate coupons by designating interest rate swaps and cross currency swaps with the same face values and terms. Accordingly, in the current period, gains of TL 1,783 thousands and TL 4,971 thousands (30 September 2016: TL 194,800 thousands and TL 52,396 thousands resulting from outstanding transactions at that date) resulted from the related fair value calculations for the hedged loans and bonds were accounted for under trading income/losses in the statement of profit or loss and other comprehensive income, respectively.

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

In addition; the Bank also entered into cross currency swap agreements in order to hedge its fixed-rate bonds issued for a total principal value of AUD 175,000,000 and RON 85,500,000 with the same face values and terms. Accordingly, in the current period, a loss of TL 5,920 thousands (30 September 2016: TL 15,716 thousands resulting from outstanding transactions at that date) resulted from the fair value changes of the securities issued and funds borrowed subject to hedge accounting were accounted for under trading income/losses in the statement of profit or loss and other comprehensive income.

The Bank applied cash flow hedge accounting for its funds borrowed amounting to US\$ 67,852,973 and EUR 36,842,105 securitization borrowings amounting to US\$ 58,333,333 and EUR 117,168,418 and commitments amounting to US\$ 31,107,183 by designating cross currency swaps with the same face values and terms, and eurobonds with a total nominal value of US\$ 10,000,000, the collateralised borrowings amounting to US\$ 250,000,000, borrowings amounting to US\$ 650,000,000, securitizations amounting to US\$ 767,560,976 and EUR 90,000,000 and deposits amounting to TL 50,000 thousands, US\$ 955,000,000 and EUR 139,789,474 by designating interest rate swaps with the same face values and terms. Accordingly, in the current period, gains of TL 36,016 thousands and TL 27,441 thousands (30 September 2016: a gain of TL 18,461 thousands and a loss of TL 68,137 thousands resulting from outstanding transactions at that date) 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 2017, a negative amount of TL 100,079 thousands (net of deferred taxes) was recognised under shareholders' equity as the hedging reserve (30 September 2016: TL 32,069 thousands).

One of the Bank's consolidated affiliate enters into interest rate swap agreements in order to hedge the change in fair values of its fixed rate financial instruments due to fluctuations in market interest rates. In this respect, the affiliate applied fair value hedge accounting for fixed rate eurobonds with a total face value of US\$ 71,912,014 and EUR 137,000,000 by designating interest rate swaps with the same face values and terms. Accordingly, in the current period, a net loss of TL 1,046 thousands (30 September 2016: a net gain of TL 18,206 thousands) resulting from the related fair value calculations for the hedged bonds were accounted for under trading income/losses in the statement of profit or loss and other comprehensive income.

One of the Bank's consolidated affiliate enters into interest rate agreements in order to hedge the change in cash flows of floating rate financial instruments due to fluctuations in market interest rates. In this respect, the affiliate applied cash flow hedge accounting for its funds borrowed amounting to US\$ 249,807,000 by designating interest rate swaps with the same face values and terms. Accordingly, in the current period, a net loss of TL 227 thousands (30 September 2016: TL 500 thousands) resulting from interest rate swap agreements were recognised under shareholders' equity.

One of the Bank's consolidated affiliate enters into foreign currency derivative contracts to hedge the foreign currency risk of its expected future cash flows. In this respect, the affiliate applied cash flow hedge accounting for its loans granted in Turkish Lira by designating swaps with the same face value amount and similar terms; TL 737,590,000 thousands sell and EUR 171,429,087 buy, RON 90,000,000 sell and EUR 19,447,206 buy, US\$ 117,000,000 sell and EUR 107,785,791 buy, ZAR 46,663,945 sell and EUR 2,997,986 buy. Accordingly, in the current period, a net gain of TL 1,241 thousands (30 September 2016: a net loss of TL 2,891 thousands) resulting from currency derivative contracts were recognized under shareholder's equity.

## 27 Affiliates, associates and structured entities

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

<u>Consolidated entities</u>	<u>30 September 2017</u>	<u>31 December 2016</u>
Garanti Bank International NV	100.00	100.00
Garanti Holding BV	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 Kültür AŞ	100.00	100.00
Garanti Konut Finansmanı Danışmanlık Hiz. AŞ	100.00	100.00
Garanti Ödeme Sistemleri AŞ	99.96	99.96
Garanti Hizmet Yönetimi AŞ	96.40	96.40
Garanti Emeklilik ve Hayat AŞ	84.91	84.91
Garanti Faktoring 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 structured 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

	<u>Nine-month period ended 30 September 2017</u>	<u>Three-month period ended 30 September 2017</u>	<u>Nine-month period ended 30 September 2016</u>	<u>Three-month period ended 30 September 2016</u>
<i>Fee and commission income:</i> <sup>(*)</sup>				
Credit cards fees	2,240,331	836,866	1,936,991	663,863
Retail banking	324,223	111,179	255,614	129,983
SME banking	309,489	115,357	258,216	73,089
Commercial banking	254,832	90,090	207,871	69,031
Brokerage activities related fees	188,262	62,890	126,114	38,674
Corporate banking	115,209	35,281	98,180	34,026
Insurance business fees	93,080	30,018	76,251	24,314
Others	200,412	69,135	154,425	42,146
Total fee and commission income	<u>3,725,838</u>	<u>1,350,816</u>	<u>3,113,662</u>	<u>1,075,126</u>
<i>Fee and commission expense:</i>				
Credit cards fees	786,984	303,187	643,946	223,444
Retail banking	20,027	6,906	23,656	13,639
Commercial banking	11,653	4,865	7,460	3,008
Insurance business fees	4,013	1,913	3,279	1,182
SME banking	2,648	552	2,185	1,353
Corporate banking	552	-	287	151
Others	92,027	31,701	91,782	24,175
Total fee and commission expense	<u>917,904</u>	<u>349,124</u>	<u>772,595</u>	<u>266,952</u>
Net fee and commission income	<u>2,807,934</u>	<u>1,001,692</u>	<u>2,341,067</u>	<u>808,174</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 25,970 thousands (30 September 2016: TL 95,642 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 period ended 30 September 2017</i>	<i>Three-month period ended 30 September 2017</i>	<i>Nine-month period ended 30 September 2016</i>	<i>Three-month period ended 30 September 2016</i>
Fixed/floating securities	(328,039)	(4,949)	218,948	107,093
Derivative transactions	<u>127,009</u>	<u>243,888</u>	<u>65,011</u>	<u>339,434</u>
Trading gains/(losses), net	<u>(201,030)</u>	<u>238,939</u>	<u>283,959</u>	<u>446,527</u>

## 30 Other operating income

	<i>Nine-month period ended 30 September 2017</i>	<i>Three-month period ended 30 September 2017</i>	<i>Nine-month period ended 30 September 2016</i>	<i>Three-month period ended 30 September 2016</i>
<i>Other operating income:</i>				
Net sales from Garanti Fleet <sup>(*)</sup>	74,652	33,941	36,529	11,510
Net sales from other non-financial subsidiaries	56,256	21,941	-	-
Net sales from Garanti Technology	29,234	9,601	29,437	5,709
Dividend income	7,559	221	9,066	4
Cheque booklet charge	7,200	2,452	6,340	2,053
Rent income from real estate (including investment property)	5,090	1,550	8,530	2,710
Others	<u>39,550</u>	<u>13,914</u>	<u>29,546</u>	<u>10,620</u>
Total operating income	<u>219,541</u>	<u>83,620</u>	<u>119,448</u>	<u>32,606</u>

<sup>(\*)</sup> Depreciation expenses of the fleet portfolio are netted-off with the net sales of Garanti Fleet;

	<i>Nine-month period ended 30 September 2017</i>	<i>Three-month period ended 30 September 2017</i>	<i>Nine-month period ended 30 September 2016</i>	<i>Three-month period ended 30 September 2016</i>
Net sales	<u>135,995</u>	<u>56,589</u>	<u>82,689</u>	<u>27,528</u>
Less: Depreciation	<u>(61,343)</u>	<u>(22,648)</u>	<u>(46,160)</u>	<u>(16,018)</u>
Net sales after depreciation	<u>74,652</u>	<u>33,941</u>	<u>36,529</u>	<u>11,510</u>

## 31 Other operating expenses

	<i>Nine-month period ended 30 September 2017</i>	<i>Three-month period ended 30 September 2017</i>	<i>Nine-month period ended 30 September 2016</i>	<i>Three-month period ended 30 September 2016</i>
Saving deposits insurance fund	201,002	47,728	171,015	57,187
Computer usage expenses	177,968	61,451	141,162	49,165
Advertising expenses	158,969	58,248	126,742	38,950
Claim losses from insurance business	123,487	48,550	94,834	31,737
Utility expenses	87,658	31,211	76,774	27,620
Repair and maintenance expenses	47,332	16,904	45,987	15,853
Research and development expenses	40,484	14,906	25,655	8,590
Stationary expenses	21,614	7,378	19,874	5,960
Insurance related expenses	18,801	7,025	14,872	5,827
Others <sup>(*)</sup>	<u>444,151</u>	<u>159,990</u>	<u>445,478</u>	<u>141,737</u>
	<u>1,321,466</u>	<u>453,391</u>	<u>1,162,393</u>	<u>382,626</u>

<sup>(\*)</sup> Includes lawsuit, execution and other legal expenses borne by the Bank in the current period, of fees and commissions income recognized in prior years but reimbursed, in the amount of TL 21,666 thousands (30 September 2016: TL 46,393 thousands), as per the decision of the Turkish Competition Board or the related courts.



## **32 Use of estimates and judgements**

Management discussed with the Audit Committee the development, selection and disclosure of the Bank's critical accounting policies and estimates, and the application of these policies and estimates. These disclosures supplement the commentary on financial risk management (see Note 26).

### *Key sources of estimation uncertainty*

#### Allowances for credit losses

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

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

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

#### Determining fair values

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

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

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

#### Financial asset and liability classification

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

- In classifying financial assets or liabilities as "trading", the Bank has determined that it meets the description of trading assets and liabilities set out in accounting policy (h) *Financial instruments*.
- 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*.

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

#### Securitizations

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

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

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

#### Control over investments

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

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

### **33 Significant event**

As per the decision made at the annual general assembly of shareholders of the Bank on 30 March 2017, the statutory net income of 2016 was distributed as follows;

<b>2016 INCOME DISTRIBUTION TABLE</b>	
<b>2016 Net Income</b>	<b>5,070,549</b>
A – I. Legal reserve (Turkish Commercial Code 519/1) at 5%	-
Undistributable funds	(227,611)
B – First dividend at 5% of the paid-in capital	(210,000)
C – Extraordinary reserves at 5% after above deductions	(243,028)
D – Second dividend to the shareholders	(1,040,000)
E – Extraordinary reserves	(3,245,910)
F – II. Legal reserve (Turkish Commercial Code 519/2)	(104,000)

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